

HB 259

"An Act relating to auditing of municipalities; and providing for an effective date."

COMMITTEE REPORT

3/4/75

HOUSE

*Rules*

Mr. Speaker:

Date

3-14-75

The Committee on 10 C&RA has had HB 259

under consideration. A Majority of the members of the Committee

( ) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

( ) recommends it BE REPLACED WITH CS FOR \_\_\_\_\_ AND THAT

CS FOR \_\_\_\_\_ DO PASS

( ) "and" recommends it BE REFERRED TO THE \_\_\_\_\_

COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

<u><i>William C. ...</i></u>	<u><i>...</i></u>	_____
<u><i>Fleeman</i></u>	_____	_____
<u><i>Frank H. ...</i></u>	_____	_____

Members NOT concurring in the Majority report:

<u><i>Tom ...</i></u>	recommends: <u><i>NO REC</i></u>
<u><i>...</i></u>	recommends: <u><i>NO REC</i></u>
_____	recommends:
_____	recommends:
_____	recommends:

\_\_\_\_\_  
Chairman

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Community & Regional  
Affairs Committee

To: Arneri HOUSE BILL No. 259

SENATE BILL No. \_\_\_\_\_

PAGE: 1

LINE: 12, 13

On page 1, line 12, delete the words "may be required to provide".

House Committee on  
COMMUNITY & REGIONAL AFFAIRS

Meeting Minutes  
March 14, 1975

Meeting was called to order for discussion of HB 259 and HB 136. Present were:

Rep. Sam Cotten, Chairman      Rep. Oral Freeman  
Rep. Kathryn Ostrosky      Rep. Mike Hershberger  
Rep. Glenn Hackney      Rep. Al Ose  
Rep. Larry Davis  
Barbara Englert Thomas, Staff  
Andrea Guernsey, Staff  
Rep. Jim Duncan, Sponsor, HB 259  
Don Berry, Municipal League  
Senator Joe Orsini  
Pat Poland, Local Government Specialist

- 1175 - Duncan stated that a CPA is often too expensive for small municipalities. The bill would allow them another option.
- 1192 - Cotten asked about the language, was it definitive enough? Duncan said there was no licensing requirement for accountants.
- 1210 - Rep. Ostrosky commented it was just another word for skilled bookkeeper.
- 1216 - Hershberger doesn't think there'd be a problem because it would be obvious in a small community who is qualified to do the work.
- 1222 - Another change Duncan wanted to make was to delete "may be required to provide" on line 12 and 13. Sam agrees. He wonders if they should add the word practising on line 15 in order to qualify the accountants. Duncan thinks it would be too restrictive, doesn't want it.
- 1246 - Hackney wants to know if they're going to hear from the CPA's about this bill.
- 1251 - Chairman Cotten asks Mr. Poland for the Dept. of C&RA's thoughts. He said Rep. Duncan had expressed the same thoughts. He said the bill wouldn't change the existing situation because CPA's are not required as it is right now..
- 1273 - Duncan doesn't think the CPA's would be adverse to it.
- 1296 - Ose gives example of Haines.
- 1307 - Duncan talks about public accountants. NO requirement now for CPA to do audit.
- 1332 - Ose says opening up to anyone with bookkeeping knowledge.
- 1337 - Cotten asked what are the qualifications for public accounting. There is an exam, Duncan says, but it is more stringent to be a CPA.
- 1368 - Freeman makes motion to amend by deleting "may be required to provide" on line 12 and pass the bill out.

Bill was amended and signed by 5 members due pass.

- 1309 - HB 136
- 1400 - Senator Orsini makes further comments.
- 1411 - Chairman Cotten gives a summary of the bill to Mike Hershberger who was absent at yesterday's meeting.

Committee discussion continues to end of side 1.

Meeting adjourned at 10:00 until 11:00.

HB 290, 291

Chairman cotten asked for the consensus of the Committee on these two bills. The members wanted them left in Committee until next year.

HB 377

Freeman doesn't see any reason for the bill. The rest of the Committee concurs. DEAD.

SB 125

This is the same one as HB 172 passed out earlier. Hershberger suggests leaving this one in committee and letting HB 172 go through the stages. Let a representative have this one. Rest of the members concur.

HB 293

The Chairman received a telegram from Kodiak who are opposed to this bill. Freeman said that the Anchorage city and borough are interested. Want to wait for more testimony on this one.

HB 259

Hackney wants to study for the rest of the session. Cotten said the sponsor doesn't want to see it again. Dead for now.

HB 218  
SB 209

Cotten said there was a constitutional problme with these bills. Dead for now.

HB 322, 359

Hackney wants rep. Specking to come. Also Chenoweth. These bills will be taken up tomorrow.

ADJOURN

Meeting was adjourned at 10:00.

736 "G" STREET  
ANCHORAGE, ALASKA

April 7, 1975

Hon. Samuel R. Cotten, Chairman  
Committee on Community and Regional Affairs  
Alaska House of Representatives  
Pouch V, State Capitol  
Juneau, Alaska 99801

Reference: HB 259; SB 238

Dear Sir:

The bills referenced above will, if enacted, have the effect of a dis-service to the second class cities and their populations by allowing their elected officials to appoint as "independent accountants" persons who are not required to achieve the technical and professional status mandatory under existing statutes. The law, regulations and appointed board which combine to administer public accountancy in Alaska have been developed over the years to protect the public from the practice of public accountancy by persons who may hold themselves out to be qualified, but whose potential clients cannot judge such qualifications. One of the greatest services legislators give to their constituents is protection against misrepresentation by pseudo-professionals who have just enough knowledge to be dangerous. You would not consider allowing the practice of medicine, law, engineering, architecture or other professions by persons whose only credentials are self-endowed.

The relatively unsophisticated small communities in the state have enough problems without exposing them to inexperienced auditing and accounting advice. The goal of Alaska should be to find ways to raise and maintain high standards. All of us must help to attain that end. Please call me collect if you feel there are contrary arguments that I am not aware of.

Sincerely,



W. H. Scott

WHS:LDS

975 AMR 26 PM 7 34

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PMS REP SAMIAL COTTEN

POUCH V

JUNEAU

HONORABLE SAMUAL COTTEN

I AM OPPOSED TO THE ADOPTION OF HOUSE BILL 259 AND SENATE BILL 238.

I FEEL THAT MUNICIPALITIES SHOULD BE AUDITED BY CERTIFIED PUBLIC ACCOUNTANTS. MUNICIPAL ACCOUNTING REQUIRES EXPERTISE AND EDUCATION IN THE FUNDAMENTALS OF MUNICIPAL ACCOUNTING.

IN ADDITION I FEEL THAT THESE BILL VIOLATE AS 8.04.560.

RICH BALWIN CITY ATTORNEY CITY OF KENAI

TELETYPE  
ACE ALASKA COMMUNICATIONS, INC.  
PHONE 908-6440  
JUNEAU, ALASKA 99801

*No Reply*

575 MAR 25 PM 6 51

20028 NL KENAI ALASKA 54 03-26 410P ADT

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POUCH V

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IN ADDITION I FEEL THAT THESE BILLS VIOLATE AS 8.04.560.

JOHN F OCONNOR C P A LICENSE 298

TELEPHONE

BOA ALASKA  
JUNEAU, ALASKA 99801

HB 259

J. SHELBY STASTNY  
730 "I" STREET • ANCHORAGE ALASKA 99501

April 2, 1975

Representative Willard Bowman  
Chairman, House Rules Committee  
Pouch V  
Juneau, Alaska 99801

Re: HB259

Dear Representative Bowman:

It has recently come to my attention that the above bill has cleared the House Community & Regional Affairs Committee and is currently being considered by your committee. In my opinion, this bill should not be referred to the floor of the House for the following reasons:

1. The bill effectively allows people who have not demonstrated ability in the area of financial reporting to "audit" the financial transactions of certain municipalities in the State. Since those who are currently permitted to perform this function are licensed by the Dept. of Commerce, this bill should at least be referred to the Commerce Committee for consideration of licensing problems.
2. The bill permits audits of certain municipalities by "independent accountants". Title 8 of the Alaska Statutes prescribes qualification to be met by public accountants and certified public accountants, but does not designate, or even mention, qualification necessary to be an "independent accountant". Passage of this bill would leave the State without a requirement that those auditing the financial records of these municipalities exhibit any expertise at all in the area which they are auditing. This does not seem to be in the best interests of the people of the State.

J. SHELBY STASTNY  
730 "I" STREET • ANCHORAGE ALASKA 99501

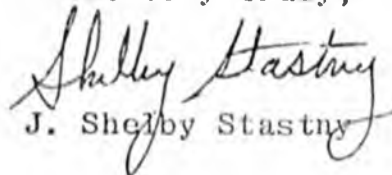
Representative Willard Bowman -2-

April 2, 1975

3. In most cases, the current wording of Section 29-48-220 does not place undue hardship on any municipality in the State and provides the citizens of the municipality with a safeguard that the financial affairs will at least be reviewed on an annual basis by a person who has demonstrated knowledge and abilities in the financial reporting area through the State licensing system. It would be a step backwards to remove that safeguard.

Please feel free to contact me if I can provide further information regarding this bill.

Yours very truly,

  
J. Shelby Stastny

JSS:sd

cc: All Members of the  
Alaska House of Representatives

HB 259

# ALASKA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 675  
ANCHORAGE, ALASKA 99501

March 28, 1975

The Honorable Patrick Rodey, Senator  
State of Alaska  
Pouch V, State Capitol  
Juneau, Alaska 99801

Dear Senator Rodey:

I had hoped to appear before the Senate Committee of Community and Regional Affairs, of which you are chairman and present testimony in opposition to SB 238. As you know the hearings on this bill were scheduled for 3:00 P.M. March 27, 1975 but due to bad weather Alaska Airlines was unable to land in Juneau, therefore I was unable to appear.

I have devoted a large portion of my professional life to the accounting and auditing problems of municipal government. I feel very strongly that the passage of SB 238 or a similar bill such as HB 259 would be contrary to the public interest as any opinion audit work performed by individuals other than public accountants or certified public accountants is unacceptable in support of any bond issue current or future issued by the local government.

Opinion audit work on all Federal program monies is required to be performed by public accountants or certified public accountants.

Quotes from the following authoritative sources will support the above statements:

1. Quote from Governmental Accounting, Auditing, and Financial Reporting, published in 1968 by the National Committee on Governmental Accounting of the Municipal Finance Officers Association; Page 128

"To conform with the longstanding recommendations of this Committee, such post-audits should be performed by certified public accountants or, in the states which have them, by registered municipal accountants."<sup>2</sup>

When post-audits are made by independent public accountants, several matters of importance arise which must be properly handled if optimum results are to be achieved from the audit. First and foremost is the fact that all auditors should be selected only on the basis of professional competence and experience. This will not only mean that the auditor should be a certified public accountant authorized to practice in the jurisdiction being audited, but that he should have appropriate experience in the audit of governmental units and a demonstrated high level of attainment in such a professional practice."

# ALASKA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 675  
ANCHORAGE, ALAS. \*A 99501

Senator Rodey  
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2. Quote from Audit Guide and Standards for Revenue Sharing Recipients, published in 1973 by the Department of Treasury, Office of Revenue Sharing, Appendix B § 51.2(h).  
"Independent public accountants" means independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States."
3. Quote from Standards for Audit of Governmental Organizations, Programs, Activities and Functions; published in 1972 by the Controller General of the United States; United States General Accounting Office; Appendix I.

" QUALIFICATIONS OF INDEPENDENT AUDITORS  
ENGAGED BY GOVERNMENTAL ORGANIZATIONS

When outside auditors are employed for assignments requiring the expression of an opinion on financial reports of governmental organizations, only fully qualified public accountants should be employed. The type of qualifications, as stated by the Comptroller General, deemed necessary for financial audits of governmental organizations and programs is quoted below:

'Such audits shall be conducted \*\*\*by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States: Except that independent public accountants licensed to practice by such regulatory authority after December 31, 1970, and persons who although not so certified or licensed, meet, in the opinion of the Secretary, standards of education and experience representative of the highest prescribed by the licensing authorities of the several States which provide for the continuing licensing of public accountants and which are prescribed by the Secretary in appropriate regulations may perform such audits until December 31, 1975; provided, that if the Secretary deems it necessary in the public interest, he may prescribe by regulation higher standards than those required for the practice of public accountancy by the regulatory authorities of the States.'<sup>1</sup>

<sup>1</sup>Letter (B-148114, Sept. 15, 1970) from the Comptroller General to heads of Federal departments and agencies. The reference to "Secretary" means the head of the department executing the instrument in which the quotation appears."

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ANCHORAGE, ALASKA 99501

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Note that only certified public accountants will qualify to conduct audits under these standards after December 31, 1975.

4. Quote from Requirements for Approved Projects published in 1969 by the Office of Audits U.S. Department of Commerce Economic Development Administration, Exhibit CC.

"C. Audits by Independent Public Accountants

1. The term "Independent Public Accountant" as used herein means an independent certified public accountant or independent licensed public accountant, certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The word "independent" is used in the same sense as prescribed by the American Institute of Certified Public Accountants in Rule 1.01 of Article 1 of the Code of Professional Ethics, as amended March 4, 1965."

I have attached a resume of my personal professional qualifications in order that you may independently evaluate the basis from which I speak.

Again I believe that the passage of either SB 238 or HB 259 would be a great disservice to the municipal governments of Alaska and the citizens which they represent.

Very truly yours,

ALASKA SOCIETY OF C.P.A.'s

Vernon R. Johnson  
President-Elect

VERNON R. JOHNSON

Current position: Audit Manager, Peat, Marwick, Mitchell & Co.,  
736 G Street, Anchorage, Alaska 99501

Professional background:

I have lived and practiced accounting in Fairbanks for 4½ years and in Anchorage for 5 years. Prior to living in Alaska I practiced accounting in San Francisco, California and conducted Grand Jury audits on San Mateo and Marin Counties. I am a C.P.A. in both Alaska and California.

Municipal audits in Alaska for which I have had full responsibility or acted as expert consultant are as follows:

1. Greater Anchorage Area Borough and Anchorage Borough School District
2. City of Anchorage
3. City of Dillingham and Dillingham School District
4. City of Bethel
5. Nome Public Schools
6. City of Kotzebue
7. City of Fairbanks and Fairbanks Municipal Utility System
8. Fairbanks North Star Borough and School District
9. Kodiak Island Borough and Kodiak Public Schools
10. Greater Sitka Borough
11. City of Wrangell
12. City of Petersburg
13. Ketchikan Gateway Borough

I have taught principles of accounting for three semesters for the University of Alaska and governmental accounting during the spring semester of 1974 for the Senior Division of the University of Alaska, Anchorage.

In addition to this I have recently written a chapter on unique auditing requirements of municipal governments for inclusion in an audit guide which will set audit standards for the 107 U.S. offices of Peat, Marwick, Mitchell & Co. I also reviewed and edited other chapters contained in this manual.

I am a charter member of the Municipal Finance Officers Association of Alaska and the Alaska School Business Officials Association and I have presented various programs to these organizations. I have been active in the Alaska Municipal League since 1966 and have had responsibility for the audit of the League for the past two years.

I am a member of the American Institute of Certified Public Accountants, the California Society of C.P.A.'s and the Alaska Society of C.P.A.'s. I have been a member of the Board of Directors of the Alaska Society of C.P.A.'s for the past three years and am currently President-Elect of that group.

# ALASKA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 675  
ANCHORAGE, ALASKA 99501

TO: MEMBERS OF THE ALASKA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

I have appended copies of HB 259 and its companion bill S 238 introduced in the current legislature and a copy of the statute as it presently reads. Also enclosed is a list of individuals comprising the Community and Regional Affairs committees of the House and Senate. I urge each of you to contact members of the committees and other legislators to prevent passage of this legislation.

It appears the bills accomplish two changes:

1. They would eliminate the requirement that second class cities either provide an audit or statement of annual income and expenditures; and
2. They introduce a new group of accountants designated as independent accountants.

The law, as presently in effect, allows second class cities the option of providing an audit or statement of annual income and expenditures. There is no requirement that the statement of income and expenditures be audited. It recognizes the impracticality of requiring audits of all second class cities and provides the option of a minimal reporting requirement. The proposed legislation appears not to be in the best interest of the public in that it eliminates this minimal required fiscal reporting by second class cities.

The second proposed change to the law expands the reference to public accountants to "either an independent accountant, a public accountant or a certified public accountant". This change is intended to give statutory recognition to a third class of accountants and is objectionable and opposed to the public interest for a number of reasons. Primary among those reasons is the total lack of control over any unqualified individual who may wish to designate himself as an "independent accountant" and give the impression of expertise when in fact no such expertise exists. Further, the proposed change appears to be in violation of Sec. 08.04.560 which states:

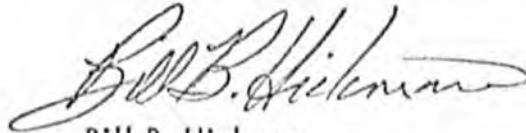
"No person may sign or affix his name or any trade or assumed name used by him to any accounting or financial statement, or opinion or report on any accounting or financial statement with any wording indicating that he is a certified public accountant or public accountant or with any wording indicating that he has expert knowledge in accounting or auditing, unless he holds a live permit and his offices in this state for the practice of public accounting are maintained and registered as required by §§350-380 of this chapter. (§ 15(7) ch 187 SLA 1960)."

Municipal auditing and accounting are rather complex activities governed by local, state, and federal laws and accounting principles peculiar to local governments. The importance of high standards of accountability has increased in recent years as acceptance of state and federal funds carries with it the responsibility to demonstrate compliance with various use restrictions. At a time when most states are moving toward more stringent regulation of individuals representing themselves as accountants to the public, the State of Alaska is ill advised to drop all such regulations as it applies to Municipal auditing.

The Board of Directors has reviewed the proposed legislation and is on record in opposition to it. Your assistance will be appreciated.

Very truly yours,

ALASKA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS



Bill B. Hickman  
President

*Note - This legislation has cleared the house committee and is expected to reach the floor in 7-10 days. A strong and unified effort will be required to defeat it.*



THOMAS, HEAD & GREISEN  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
717 K STREET, SUITE 202  
ANCHORAGE, ALASKA 99501  
TELEPHONE 272-1571

March 28, 1975

Ted Smith  
Pouch V  
State Capitol  
Juneau, Alaska 99801

Re: HB259 and SB238

Dear Ted:

I thought you would be interested in the reactions of the CPA's to the above referenced bills. My own reaction in addition to Bill Hickman's is that I would personally prefer that the municipalities in question not be required to have an audit at all unless actually needed to comply with some grant program, etc. I would rather see the State develop an internal audit staff which could assist such people.

Our boat is still in Juneau and looks like we are going to have to come down and get it. If you know of anybody heading north and would like to pull a 21 foot boat up for us, let me know. We would be glad to pay for the service. If you know of anybody drop me a line.

Sincerely,



Pat Head

HPH:sa

SCRA  
4/1/75

Thurs SSIB 605

Fr. 123270

UNRA

State (cont'd) of ...

Various ...

1. ...

2. ...

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Hearings

HB 259

3/13/75

Rep. Duncan

3/14/75

CRA

Ak Municipal League

Notified

Present

Testified

X

X

X

X

X

X

X

X