

BOARD
OF PUBLIC
ACCOUNT.

WORK ORDER REQUEST FORM

NO 8435

KEYWORDS: Sunset

ASSIGNED TO Cook

Boards and Commissions

REQUEST FOR: BILL RESOLUTION RESEARCH OTHER

SUBJECT Board of Public Accountancy

REQUESTED FOR Senate Commerce BY Bob Aaron EXT. 3834

* DELIVER TO Attn: Christian Basler/Senate Commerce TAKEN BY Cook

INSTRUCTIONS, EXPLANATIONS Senate duplicate of WO 8375 relating to sunset report recommendations on Board of Public Accountancy.

OBTAIN

SPECIAL DRAFTING INSTRUCTIONS ATTACHED

AUTHORIZED TO CONFER WITH _____

RETURN _____

TO REQUESTER

APPROVED: BGB Director, Legal Services

Director, Research

REVIEWED _____

IN 4/1 DUE _____

TYPED - Draft _____ DATE _____

Final _____ DATE _____

PROOFED _____ DELIVERED _____

SPECIAL INSTRUCTIONS TO TYPIST/PROOFREADER

DRAFT

FINAL

How shoplifting is draining the economy

Bank robbers have been grabbing headlines since the days of Jesse James. Last year they made off with nearly \$25 million in cash and negotiable securities. But that is all small potatoes compared with a less glamorous but far more costly crime that is draining upwards of \$8 billion a year from U.S. merchants—and which no one has been able to do much about so far.

The crime is shoplifting, and, according to experts, it contributes to productivity losses, saps the vitality of many retail businesses, and redistributes a significant amount of wealth from stores to thieves and fences—which adds up to higher costs for most consumer goods. Merchandise losses and extra security costs, in fact, add an average of 2% to 3% to everything sold by major department stores and grocery and drug chains, speeding up an already overheated inflationary spiral.

In fact, shoplifting appears to be growing faster than most segments of the economy, including the inflation rate. For as prices rise, many consumers are taking out their frustration and anger on the person along the business chain who is closest at hand: the retail merchant. And as such pilferage gains increasing acceptance among many Americans, it is accelerating the growth of a subterranean economy in the U.S., which some economists claim reached a mind-numbing \$195 billion in 1977—or about 10% of the recorded gross national product (BW—Mar. 13, 1978).

Even the Internal Revenue Service has belatedly acknowledged the existence of an underground economy where some \$100 billion worth of income from legal sources goes unreported—as well as \$35 billion from drug peddling, illegal gambling, and prostitution on which no income tax is paid. So far, the IRS has been unable to estimate the tax loss from such white-collar crimes as shoplifting.

Bankruptcies. For the bigger retailers, all this has become an unpleasant fact of doing business. But for smaller merchants, who can afford neither the losses nor the security to keep them in line, shoplifting can mean financial ruin. According to some estimates, one out of three small-business bankruptcies are the direct result of thefts by employees and customers.

Unlike many other social scientists, economists view such crimes as shoplifting as rational acts in which the thief carefully weighs the personal costs and benefits involved. And according to econ-

omist William E. Cobb of the West Virginia College of Graduate Studies, who spent a year talking to fences and surveying shoppers in metropolitan Washington, all the benefits are on the side of the shoplifter. Cobb found that the average veteran shoplifter in 1971 was walking off with more than \$30,000 worth of merchandise annually. At 1979 prices, a skilled shoplifter could thus be clearing \$53,000 a year. "I'd say that's a pretty good occupation," says Cobb, who

Losses add at least 2% to the prices of most goods. Productivity feels the pinch

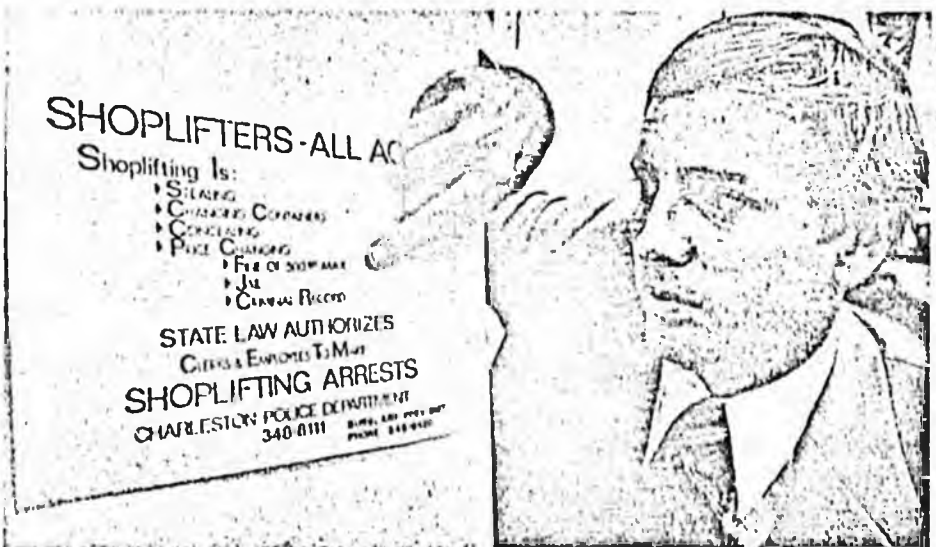
also found that only 1 out of 1,250 shoplifters ever sees the inside of a jail cell. And for those who do, almost none ends up behind bars for the act of shoplifting alone. Instead, they are sentenced for such crimes as illegally possessing drugs or weapons when caught by the store detective.

In fact, a good part of the reason why the benefits are all on the side of the shoplifter is that judges are reluctant to imprison them. Many companies in turn, are reluctant to spend time and money

experts on economic growth and an associate director of the Commerce Dept.'s Bureau of Economic Analysis, says that retail crime takes a significant slice out of U.S. productivity. Extra security means that stores are using money to pay guards and buy electronic equipment that could be spent on adding more consumer goods to the economy. "You are basically adding lots of people and no output," he maintains. And theft means that goods purchased as inventory have disappeared from the store's books and thus, in a sense, from the nation's measurable output.

Compounded losses. Moreover, fences traditionally purchase stolen merchandise for about 25% of its actual value and resell it illegally to stores that are willing to ask few questions in order to buy something at discount. Thus a very real part of the value of the nation's output has been destroyed.

Professional shoplifters often compound the loss still further by returning their stolen goods for a 100% refund to the very stores from which they were taken. And the toll can be even higher—many thousands of times the actual value of the merchandise—because



Economist Cobb: Stores have to get tough on shoplifters by prosecuting all thefts.

prosecuting shoplifters when the courts put them right back on the street. But Cobb and most security experts stress that stores must become tough on thieves. Evidence shows that amateurs, once nabbed, are discouraged from shoplifting again, and that even repeat shoplifters are deterred by being fingerprinted and formally arrested.

But shoplifters prey not just on stores but on the economy as a whole. Edward F. Denison, one of the nation's foremost

many professional thieves shoplift not to walk off with the store's wares but with an eye to a civil lawsuit for false arrest. Says James J. Kerin, former security director at Macy's New York and now president of security consultant Kerin, Duffy & Heberer Inc.: "There's no question that a professional shoplifter can kill you [financially]."

As shoplifting has increased, so has the number of professionals living off it. In 1977 police in New York and other

major U. S. cities reported that members of organized gangs were each netting as much as \$1,000 a day stealing better men's and women's clothes. According to Glen R. Dornfeld, who recently retired as security director at Minneapolis-based Dayton's department stores, the professionals today are far more brazen and more violent than any he has ever seen.

Made to order. At Southern California's Von's Grocery Co., C. R. Gresswell, the chain's loss prevention manager, says that he is seeing both more professional shoplifters and more of them carrying weapons. In fact, grocery stores are finding themselves even bigger prey to organized rings, where such easily resold items as meat, cigarettes, and liquor are often shoplifted to order for fences or well-to-do clients.

Economists stress that the only real solution is to change the actual—as well as the perceived—costs of such thefts. West Virginia's Cobb says that stores should redirect the amount they are currently spending on fancy electronic equipment and put their dollars to work in the following areas:

■ Prosecuting all shoplifters they catch. Instead, most stores ask apprehended thieves to return the stolen goods and sign a statement admitting the crime

and agreeing not to set foot in the store again.

■ Advertising the fact that both uniformed and plainclothes detectives are on the watch for potential shoplifters. The idea, Cobb says, is to give thieves the feeling that they can never be sure when they are being observed.

■ Mounting dummy cameras and large signs promising dire consequences to

Skilled shoplifters can clear \$50,000 a year. Few ever see a jail cell

shoplifters who are caught—even though such threats may not be valid.

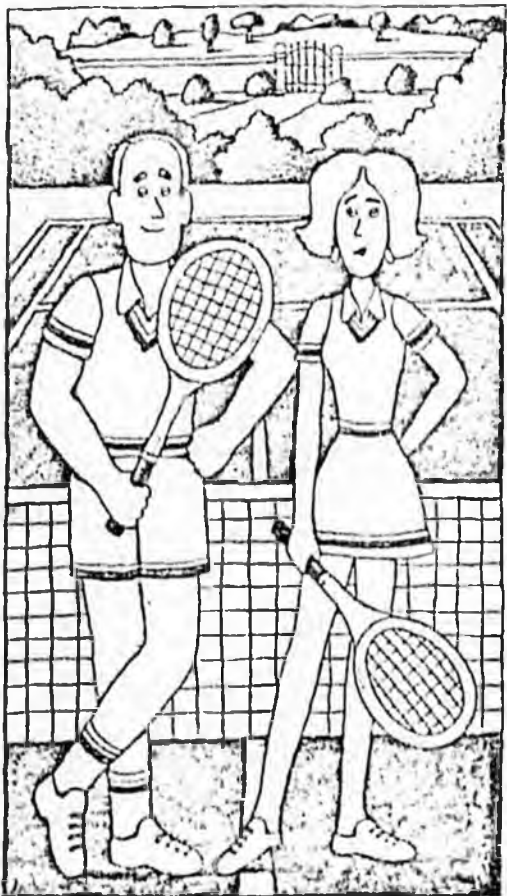
■ Hiring actors to pose as shoplifters and periodically staging fake, calm arrests, so that potential thieves get the idea that their misdeeds will be detected. Cobb points out that such ploys have been effective in reducing thefts by employees at major retail chains.

Dallas-based Zale Corp. claims quite a bit of success using some of these methods, plus some more traditional ones. The company has started a special program to train employees in spotting common shoplifting tricks, has installed a network of closed-circuit cameras, and is busy redesigning its 1,723 stores to eliminate any blind spots where thieves

could go to hide merchandise under their clothes or in dummy gift boxes. But most important, says Harry D. Johnson, vice-president for loss prevention, Zale now has a company-wide policy of prosecuting all shoplifters. "Everything has to be done," he says, "to make it difficult for the shoplifter to operate in private."

The big dilemma with all programs aimed at discouraging shoplifters, of course, is that they tend to discourage legitimate shoppers as well. With uniformed guards, ominous-sounding posters, and all kinds of electronic spy equipment around, "people begin to think they are in an armed camp," warns Leonard F. Smith, executive director of the American Management Assn.'s Crimes Against Business Project. Thus, retail stores—particularly those with a wealthier clientele—are constantly faced with the trade-off of more surveillance and less theft or less surveillance and more sales.

But far more significant than this trade-off is the one affecting the cost-benefit ratio for shoplifting itself. Unless repeat shoplifters are treated more like house burglars or bank robbers, and unless the courts and society stop dismissing shoplifting as penny-ante stuff, the toll on inflation and U.S. productivity will just keep mounting. ■



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STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 3, 1980

SUBJECT: A bill continuing the existence of the
Board of Public Accountancy
(Work Order No. 8435)

TO: Senate Commerce Committee
Attn: Christian Basler, A.A.

FROM: Tamara Brandt Cook *TBC*
Legislative Counsel

Here is the bill you requested continuing the existence of the Board of Public Accountancy. The House Commerce Committee considered this board for "sunset" review in House Journal Supplement No. 29. The committee recommended that the changes suggested in the Performance Review of the Board of Public Accountancy dated October 1, 1979 be made, and that, with these changes, the Board be continued.

I have attempted to incorporate the recommendations of this report into the enclosed act. However, several of the changes recommended cannot be appropriately or adequately dealt with in a bill which deals specifically with the Board of Public Accountancy. I suggest that the following recommended changes be incorporated into another bill dealing with the Department of Commerce and Economic Development, rather than with any one particular board.

(1) Recommendation No. 2 suggests that board members be appointed in a timely fashion. I have amended a provision in the enclosed act to require that members of the Board of Public Accountancy be appointed within 60 days of a vacancy; however, a section requiring the governor to make board appointments is currently in the chapter dealing with the department as a whole, and this could be amended to affirmatively require that appointments of all the board members be made within 60 days or within some other reasonable period of time.

(2) Recommendation No. 4 suggests that the board be required to tape record its meetings and that the department be required to keep these tapes on file as public records for 2 years. In the enclosed bill, I have provided that the board shall tape record its meetings and turn these tapes over to the department; however, a statute requiring the department to maintain the tapes for 2 years is probably in order.

(3) Recommendation No. 7 is addressed specifically to problems with record keeping procedures which exist in the Department of Commerce and Economic Development. Requirements as to how the department shall maintain and update records for all boards ought to be contained in a bill specifically directed at the department.

(4) Recommendation No. 8 is also addressed specifically towards the department. It recommends that the department handle investigations in a more comprehensive, efficient and timely manner. In the enclosed act, I provided that the department will handle investigations for the board of public accountancy; but any requirement dealing with how the department will perform this function ought to be incorporated into legislation directed specifically at the department, rather than at this particular board.

If it is your desire that recommended changes to the Department of Commerce and Economic Development be made as a condition to continuing the existence of the Board of Public Accountancy, the effective date of the enclosed act ought to be tied to the effective date of a bill incorporating the recommended changes to the department. If I can be of any assistance in this matter, please contact me.

TBC:jdn

Enclosure

STATE OF ALASKA



BOARD OF PUBLIC ACCOUNTANCY
STATUTES
AND
REGULATIONS

PRINTED: SEPTEMBER 1979

Alaska Statutes

Title 8. Business and Professions.

Chapter

01. Centralized Licensing (§§ 08.01.010 — 08.01.110)
02. Miscellaneous Provisions (§§ 08.02.010 — 08.02.020)
03. Termination, Continuation and Reestablishment of Regulatory Boards (§ 08.03.010)
04. Accountancy Act of 1960 (§§ 08.04.010 — 08.04.690)
08. Alaska Integrated Bar Act (§§ 08.08.010 — 08.08.250)
12. Barbers (§§ 08.12.010 — 08.12.280)
16. Basic Sciences (Repealed)
18. Construction Contractors (§§ 08.18.011 — 08.18.171)
20. Chiropractors (§§ 08.20.010 — 08.20.220)
24. Collection Agencies (§§ 08.24.011 — 08.24.380)
28. Cosmetologists and Hairdressers (§§ 08.28.010 — 08.28.320)
32. Dental Hygienists (§§ 08.32.010 — 08.32.190)
36. Dentistry (§§ 08.36.010 — 08.36.360)
40. Electrical Administrators (§§ 08.40.005 — 08.40.200)
42. Morticians (§§ 08.42.010 — 08.42.130)
44. Embalmers (Repealed)
48. Architects, Engineers and Land Surveyors (§§ 08.48.011 — 08.48.351)
52. Explosives Handlers (§§ 08.52.010 — 08.52.080)
54. Guides (§§ 08.54.010 — 08.54.240)
56. Hotels and Boardinghouses (§§ 08.56.010 — 08.56.070)
60. Junk Dealers and Metal Scrappers (§§ 08.60.010 — 08.60.100)
62. Marine Pilots (§§ 08.62.010 — 08.62.200)
64. Medicine (§§ 08.64.010 — 08.64.380)
66. Motor Vehicle Dealers (§§ 08.66.010 — 08.66.090)
68. Nursing (§§ 08.68.010 — 08.68.410)
70. Nursing Home Administrators (§§ 08.70.010 — 08.70.190)
71. Dispensing Opticians (§§ 08.71.010 — 08.71.240)
72. Optometry Law (§§ 08.72.010 — 08.72.310)
76. Pawnbrokers and Secondhand Dealers (§§ 08.76.010 — 08.76.030)
80. Pharmacy Act (§§ 08.80.010 — 08.80.490)
84. Physical Therapists Practice Act (§§ 08.84.010 — 08.84.200)
86. Psychologists and Psychological Associates (§§ 08.86.010 — 08.86.230)
88. Real Estate Brokers and Salesmen (§§ 08.88.011 — 08.88.431)
92. Concert Promoters (§§ 08.92.010 — 08.92.090)
98. Veterinarians (§§ 08.98.010 — 08.98.250)
99. Board of Welding Examiners (§§ 08.99.010 — 08.99.120)

A PERFORMANCE REVIEW
OF THE
ALASKA STATE BOARD OF
PUBLIC ACCOUNTANCY

Conducted By
R.W. Pavitt and Associates, Inc.

A PERFORMANCE REVIEW
OF THE
ALASKA STATE BOARD OF
PUBLIC ACCOUNTANCY

Conducted By
R.W. Pavitt and Associates, Inc.
and
Homan-McDowell Associates

October 1, 1979

Commissioner, Department of
Commerce and Economic Development

Charles Webber

Deputy Commissioner, Department of
Commerce and Economic Development

Bertram L. Wagnon

Members of the Alaska State
Board of Public Accountancy

President	Charlotte H. Stuart
Member	James Dieringer
Member	L. Pete Hogan
Member	Vernon R. Johnson
Member	Roxanne Kemp
Member	Vacant
Member	Vacant

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU, ALASKA 99811

November 2, 1979

Members of the
Legislative Budget and Audit Committee:

In accordance with the intent of Title 24 and 44 of the Alaska Statutes, the Division of Legislative Audit was mandated to perform a "Sunset" review of the Alaska State Board of Public Accountancy.

As many staff members of the Division hold Certified Public Accountant certificates, and are subjected to regulation by that Board, the Division lacked the apparent independence necessary to perform the review.

The Division contracted with R.W. Pavitt and Associates, Inc. and Homan-McDowell Associates (joint venture) to perform this review. Both firms are reputable management consultant businesses that have been in operation for several years.

Due to legal ramifications surrounding the confidentiality of investigative records maintained in the Division of Occupational Licensing, the Division of Legislative Audit excluded the investigative effort from the contractor's audit scope and performed the review of confidential records at the direction of the contractor. Except for the investigative aspects of this report, the content represents only the findings and conclusions of the contractor.

We feel this report discharges our responsibility, mandated under Title 24 and 44. The report is submitted for your review.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

R. W. PAVITT AND ASSOCIATES, INC.
AND
HOMAN-McDOWELL ASSOCIATES

September 28, 1979

Legislative Audit Division
State of Alaska
Pouch W
Juneau, Alaska 99811

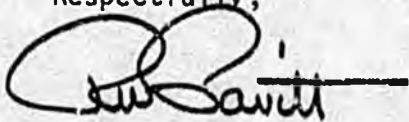
Attention: Merle R. Jenson, Deputy Legislative Auditor

Dear Mr. Jenson:

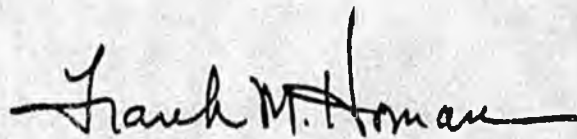
In accordance with the Contract for Services between the Legislative Audit Division and our firm, we have completed a performance review of the Alaska State Board of Public Accountancy using guidelines and standards established in Alaska Statutes for such "sunset" audits.

The report, entitled A PERFORMANCE REVIEW OF THE ALASKA STATE BOARD OF PUBLIC ACCOUNTANCY, is hereby submitted.

Respectfully,



R. W. Pavitt, AICP
President
R. W. Pavitt and Associates, Inc.



Frank M. Homan
Partner
Homan-McDowell Associates

A PERFORMANCE REVIEW OF THE ALASKA STATE BOARD OF PUBLIC ACCOUNTANCY

TABLE OF CONTENTS

	<u>Page</u>
PURPOSE AND SCOPE OF THE REVIEW	- 1 -
ORGANIZATION AND FUNCTION	- 2 -
REPORT CONCLUSION	- 4 -
FINDINGS AND RECOMMENDATIONS	- 7 -
ANALYSIS OF PUBLIC NEED	- 16 -
 <u>Appendices:</u>	
APPENDIX A - REVENUES COMPARED WITH EXPENDITURES.	- 20 -
APPENDIX B - INVESTIGATION STATISTICS	- 22 -
APPENDIX C - STATISTICAL INFORMATION	- 29 -
APPENDIX D - SURVEY QUESTIONNAIRE SENT TO ACCOUNTANTS	- 33 -
 <u>Responses:</u>	
Office of the Governor-Internal Auditor	44
Alaska State Board of Accountancy	45(a)
Department of Commerce and Economic Development.	46(a)

PURPOSE AND SCOPE OF THE REVIEW

Purpose

In accordance with the intent of Alaska Statutes 24.20.271(1) and 44.66.050 (Sunset legislation), a review of the Board of Public Accountancy was conducted to examine Board activities, operations, policies and accomplishments. The purpose of the review is to determine if the Board has operated in a fair, effective, efficient and economical manner in the performance of its statutory functions, duties and responsibilities.

As required by AS 44.66.050, this report shall be considered during the legislative oversight procedure in determining whether the Board of Public Accountancy should be continued or reestablished. The law currently specifies that this Board will terminate on June 30, 1980, but will continue until June 30, 1981 for the purpose of concluding its affairs.

Scope

The major areas studied were the Board's operations, policies, procedures and its examination, licensing, administration, complaint and affirmative action responsibilities. Our review consisted of research, analysis and evaluation of the following:

- (1) Applicable Alaska Statutes and Alaska Administrative Code regulations;
- (2) Observation of the Board during its August 1 and 2, 1979 meeting in Fairbanks;
- (3) Interviews with Board members;
- (4) Records and documents of the Board and the Division of Occupational Licensing, Alaska Department of Commerce and Economic Development;
- (5) Licensing requirements of other states;
- (6) Survey questionnaires sent to 222 resident State licensed accountants;

(7) Interviews conducted with personnel of:

Division of Occupational Licensing
Consumer Affairs Agency (Department of Law)
Human Rights Commission (Office of the Governor)
Office of the Ombudsman
Division of Equal Employment Opportunity (Dept. of Admin.)
Division of Budget and Management (Office of the Governor)
Legislative Finance Division

(8) Complaints filed with:

Division of Occupational Licensing
Consumer Affairs Agency
Human Rights Commission
Division of Equal Employment Opportunity
Office of the Ombudsman

Constraints

This review was constrained by the following limiting factors:

- (1) The Board has not established and reported financial and program plans as required by AS 37.07.050, nor has it developed and reported performance information with respect to its effectiveness and accomplishments as required by AS 37.07.090.
- (2) The Division of Occupational Licensing (hereafter DOL) has not adequately organized or maintained statistics and files relating to the Board to effectively carry out its administrative responsibilities.

ORGANIZATION AND FUNCTION

Although regulation of the profession of public accountancy in Alaska dates back to 1949, the Alaska State Board of Public Accountancy was established by the First Alaska Legislature when it adopted the Accountancy Act of 1960 (AS 08.04). An amendment to the Act in 1976 added two public members to the Board, bringing its total membership to seven. (Chapter 258 SLA 1976).

The Accountancy Act of 1960 establishes the Alaska State Board of Public Accountancy and assigns to the Board the following major responsibilities:

1. the promulgation and amendment of rules to "establish and maintain a high standard of integrity and dignity in the profession of public accountancy" (AS 08.04.080)
2. granting of certificates of "Certified Public Accountant" to persons meeting the specified requirements (AS 08.04.100)
3. administering the Uniform CPA examination prepared and graded by the Board of Examiners of the American Institute of Certified Public Accountants (AS 08.04.130)
4. consideration of the qualifications of applicants holding certificates in other states or foreign countries (AS 08.04.220)
5. registration of partnerships and corporations engaged in the practice of public accountancy (AS 08.04.240)
6. granting of licenses as "Public Accountant" to persons meeting the specified requirements (AS 08.04.270)
7. prescribing requirements for continuing education as a prerequisite to renewal of permits to practice (AS 08.04.425)
8. consideration of revocation or suspension of a certificate or license for a cause specified in the Act (AS 08.04.450)
9. consideration of reinstatement of a revoked or suspended certificate or license (AS 08.04.490)
10. consideration of application to the appropriate court for an order enjoining certain unlawful acts (AS 08.04.630)

Except for the exemptions specified in AS 08.04.570, the Accountancy Act of 1960 prohibits the practice of public accountancy by any individual, firm, partnership or corporation not holding a currently valid certificate, license and/or permit to practice in the State of Alaska. (AS 08.04.500 et seq.)

REPORT CONCLUSION

Policy Issues

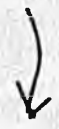
This review contains policy issues raised as a result of our evaluation of various Board practices. Policy decisions affecting these practices are not within the scope of this review, but will require legislative consideration. In debating these issues, the legislative oversight committees should consider the findings and alternatives presented in this report in reaching their decisions.

Report Conclusion

In our opinion, the Alaska State Board of Public Accountancy should be continued. Protection of the public interest is a basic tenet of society and an important responsibility of state government. We believe that state regulation and licensing of the profession of public accountancy is necessary and desirable for the continued protection of the citizens of Alaska.

SB CONTINUED

That conclusion is supported by the following rationale:



- Financial statements, audited and attested by certified public accountants are relied on by many persons required to make judgments on important financial and business transactions. Users of such financial statements cannot reasonably be expected to investigate the individual qualifications and competency of every accountant who performs the attest function.
- State licensing and regulation protects the public from incompetent and fraudulent practitioners.
- State licensing and regulation assures the public that only individuals who have proven themselves skilled and knowledgeable of technical accounting principles and procedures may perform the attest (or audit) function.

- The public interest is advanced when individuals, financial institutions, businesses and government agencies are able to identify and rely on public accountants who have demonstrated professional skill and competence.

Fifty four jurisdictions in the United States including all fifty states, Guam, Puerto Rico, the Virgin Islands and the District of Columbia require that a person must pass the Uniform CPA Examination in order to qualify for a CPA license. Every jurisdiction has found it in the public interest to pass laws regulating public accountancy, and each has established a board of accountancy to administer and enforce the law.

A review of these laws indicates that the experience, educational, age, citizenship and residency requirements vary somewhat from one jurisdiction to another. The requirements of the Alaska Accountancy Act of 1960, as amended, appear reasonable and prudent when reviewed along with the accountancy laws of other jurisdictions.

The Alaska Statute governing public accountancy is clearly designed to set apart those who have met certain qualifications for a license and to restrict the use of the titles of "Certified Public Accountant" and "Public Accountant" to those who have so qualified. The policies and practices of the Alaska State Board of Public Accountancy observed in the conduct of this review appear to be consistent with that objective.

While this report concludes that the Board should continue to regulate the profession of public accountancy and to license practitioners, certain changes need to be implemented in order for the board to more effectively serve the public. *

The statutory make-up of the Board should be reviewed and amended to provide better representation of the accounting profession and the general public (see Recommendation No. 1).

Appointments should be made in a timely manner to assure that the Board has its full complement of qualified members (see Recommendation No. 2).

The licensing of new applicants as Public Accountants (PA) should be discontinued (see Recommendation No. 3).

Electronic recordings of all Board meetings should be required, and the tapes maintained for two years (see Recommendation No. 4).

The Board should consider and adopt a formal statement of its goals, objectives and policies; and should prepare an annual report of its activities (see Recommendation No. 5).

The statute setting forth qualifications for public members of boards (AS 08.01.025) should be clarified (see Recommendation No. 6)

The Division of Occupational Licensing should establish, implement and maintain improved statistical record-keeping methods and procedures (see Recommendation No. 7).

The Division of Occupational Licensing should handle investigations of complaints related to public accountancy in a more comprehensive, efficient and timely manner (see Recommendation No. 8).

*

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

- * The qualifications and conditions of Board membership (AS 08.04.020) should be amended to specify five certified public accountants or public accountants, and two public members.

6-19-79
 Certified

The statutory structure of the Board presently specifies that "three members shall be certified public accountants, two members shall be public members in accordance with AS 08.01.025, and the remaining members shall be public accountants." (emphasis added)

As of September, 1979, DOL reported the valid individual license count to include 495 certified public accountants (CPA) and only eight public accountants (PA).

It is noted that two of the eight PA's are current Board members who are also CPA's of long standing in Alaska. Board minutes indicate that these persons sought and received their PA licenses for the sole purpose of meeting the statutory requirement that the Board must include two PA's in its membership. Other than these cases (which occurred only after all Alaska PA's had declined invitations to serve on the Board), no new PA license has been issued for many years.

Because there are so few PA's in Alaska, it has become increasingly difficult to fill Board vacancies in this category. While the active PA's currently make up less than 1% of the professional accountants in Alaska, the statute as presently written requires that they constitute 40% of the professional representation on the Board.

Recommendation No. 2

* The Board of Public Accountancy should be brought to its full complement of seven members, and maintained at that strength by means of timely appointments of qualified professional and public members.

Keep at membership 7

Implementation of Alaska's public disclosure law occasioned the resignation of many persons who, because of the confidential nature of their professional relationships, were unwilling to divulge the identity of their clients. The Board of Public Accountancy was no exception, and for a time in the mid-1970s, ceased to function as a duly constituted board.

The combination of resignations, membership requirements (addressed in Recommendation No. 1), slow appointment procedures, and the statutory addition of two public members, created a lack of continuity that has made it difficult for the Board to operate at peak efficiency. The Board is currently two members short of its full complement of seven members.

now 2 short.

Board minutes examined indicate that meetings typically extend over a full two day period, and require many hours of diligent concentration and substantial travel of the members. The charge to "establish and maintain a high standard of integrity and dignity in the profession of public accountancy" is taken seriously by the Board. The State as well as the people of Alaska benefit from the many hours of unpaid and dedicated service contributed by members of the Board.

The Board of Public Accountancy is missing valuable input from the accounting profession and the public by not having a full complement of members. We recommend that the Office of the Governor expeditiously appoint qualified new members to the two vacant Board seats, and continue to make appointments or reappointments to this Board in a timely manner.

Gov. for 2 new members

Recommendation No. 3

* Without affecting the rights and privileges of presently-licensed Public Accountants, the Accountancy Law should be amended to discontinue the licensing of new applicants as Public Accountants.

*PA's - only
CPA's
Licensing*

In litigation involving state regulation of public accountancy, courts throughout the United States have held that only the auditing or attest function (the expression of an independent opinion on the fairness with which a financial statement presents a financial position in conformity with generally accepted accounting principles) is imbued with sufficient public interest to justify regulation by legislation.

Alaska's Accountancy Law establishes two classes of accountants, certified public accountants (CPA) and public accountants (PA). The experience and educational requirements for achieving PA status are substantially less stringent than those for certification as a CPA. Yet, the attest function can be performed by either class of accountant.

Of the 54 jurisdictions regulating public accountancy in the U.S., only 10 (including Alaska) continue to license PA's to perform the attest function under requirements lower than those applicable to certified public accountants. 40 jurisdictions either license only CPA's, or continue to license present PA's as a "dying class". The remaining four boards license PA's on a continuing basis, but do not permit them the attest function. The Comptroller General of the U.S. has established a policy for the General Accounting Office (GAO) which limits qualifications to audit federal programs to CPA's and those PA's who were licensed as of December 31, 1975.

Licensing two classes of professionals on the basis of different standards to perform identical services is neither logical nor does it serve the public interest. Without affecting the status of the five presently active PA's, the statute should be reviewed with the objective of discontinuing the licensing of new applicants as Public Accountants.

Recommendation No. 4

- * Electronic recordings should be made of all Board meetings, and the tapes retained by DOL for two years.

Although the Board is required to "keep a record of its proceedings" (AS 08.04.070.(d)), neither the Statutes nor the Alaska Administrative Code requires that Board meetings be recorded.

The practice has been to tape record Board meetings and for DOL personnel to prepare summary minutes from notes and the tapes. The written minutes are considered by the Board at its following meeting, corrections and amendments made, and the minutes adopted.

Following acceptance of the minutes of a meeting, the tapes have been re-used or destroyed.

Turnover in Board membership and DOL personnel make such an informal system of record-keeping less than desirable in light of the highly technical and quasi-legal matters with which the Board regularly deals.

Our review of Board meeting minutes for the past five years indicates that the quality and detail of the written and approved minutes varies substantially according to the familiarity of the Licensing Examiner assigned to the Board with its duties, responsibilities, terminology and subject matter. Maintenance of recorded tapes from which transcriptions can be made regarding details of subject matter not covered in the summary minutes would be of value to the Board in the case of defending a particular action, and would lessen concerns regarding the quality or completeness of the written minutes.

Recommendation No. 5

* The Board should adopt a formal statement of goals, objectives and policies; and should prepare an annual report of its activities.

Under sunset legislation, the Board will have the burden of demonstrating a public need for its continued operation. The Board will be expected to develop and adopt formal goals, objectives, policies and programs which provide quantifiable measures. Without identifiable and measurable objectives, neither the Legislature, the Executive branch nor the Board itself can effectively evaluate performance.

Comments required for implementation!

The Annual Report of the Board of Public Accountancy should include:

1. The Board's purpose and goal;
2. Objectives and program for the year;
3. Statistics related to Board operations; (number of applicants, pass/fail rate, certificates issued, complaints processed, etc.)
4. Significant developments or Board concerns;
5. Amendments offered to Regulations or Statutes;
6. Board member participation and appointment status;
7. Receipts and disbursements related to Board operations.

The following recommendation is addressed to the legislative committee responsible for reviewing the performance of the Board of Public Accountancy.

Comments

Recommendation No. 6

Proposed by the Board

AS 08.01.025 should be amended to state more clearly legislative intent with respect to the qualifications of public members of boards.

- Sec. 08.01.025. Public member. No public member of a board may:
- (1) be engaged in the occupation which the board regulates;
 - (2) be associated by legal contract with a member of the occupation which the board regulates except as a consumer of the services provided by a practitioner of the occupation; or
 - (3) have a direct financial interest in the occupation which the board regulates. (ch 258 SLA 1976)

(over the line)

In a letter dated February 13, 1979, Governor Hammond asked the Legislature to confirm a public member of the Board of Public Accountancy appointed by him to a three year term in July, 1978. The Legislature confirmed the appointment on April 11, 1979.

The person appointed and confirmed as a public member of the Board of Public Accountancy is employed by a CPA firm on a full-time basis in a secretarial capacity.

The question of whether being an employee of a professional practitioner constitutes having a "direct financial interest" in the regulated occupation is not within the scope of this review. Assuming that the legislative committee of reference was made aware of the nominee's employment and yet opted to recommend confirmation, one must assume that no conflict was seen by the Legislature in the matter.

Two respondents to the survey questionnaire (see Appendix D) questioned the propriety of public members being employed by a regulated CPA firm.

Simplification of the legal language contained in Sec. 08.01.025 would, we believe, be in the best interests of the Governor, the Legislature and all professional licensing boards by clearly and unequivocally stating

who may and who may not be appointed and confirmed as public members to these boards.

H.B. The preceding finding and recommendation is not intended to be in any way critical of the Board member involved who, from all records and our personal observation, has been a diligent, sincere and dedicated member of the Board of Public Accountancy.

The following recommendations are addressed to the Division of Occupational Licensing (DOL), and should be read in conjunction with "A Performance Review of the Division of Occupational Licensing, Department of Commerce and Economic Development" October 30, 1978.

Recommendation No. 7

- * DOL should develop improved statistical record-keeping methods and procedures.

In our review of the Board of Public Accountancy, DOL personnel were found to be helpful, courteous and cooperative in providing information with respect to the Board's operations and procedures. The essential statistics, records and files relating to the administration of the Board's affairs, however, were found to be confusing, difficult to retrieve, and deficient in systematic organization. Inaccurate input of data into the computer in the past has further complicated an already confused statistical picture.

The roster of licensed individuals and firms printed in May, 1978 (Directory of Public Accountancy) along with supplements printed May, 1978; October, 1978; January, 1979 and April, 1979 contains numerous errors and redundancies. The identification numbers assigned to individuals (CPA's and PA's), partnerships, resident and non-resident corporations are all preceded with the "alpha" designation AA or II, indicating active or inactive status. This inefficient system produces, for example, the issuance of No. AA 0048 to an active resident corporation in Anchorage as well as to an individual CPA in Juneau who has no connection with that corporation.

*You D.O.C.
STATS, RECORDS-KEEPING*

Statistics on renewals, deaths, lapsed licenses, licensed individuals leaving Alaska, etc. are difficult to retrieve, as is information on geographic distribution of certificate holders, pass/fail rate and other data regarding the Board's area of responsibility.

No systematic record appears to exist regarding annual work-load of the Board or the License Examiner assigned to the Board. Such data as number of applicants for examination, record of applicants sitting for parts of the exam previously failed, License Examiner time devoted to processing applicant files, breakdown of receipts by fee types, number of applicants certified by reciprocity with other states or nations, etc. once organized and established, is simple to maintain, and is extremely helpful in the preparation of Board and Division annual reports and budget requests, as well as providing the Board with information useful in establishing its needs and priorities.

Recommendation No. 8

* DOL should handle investigations in a more comprehensive, efficient and timely manner.

Board minutes back to 1975 indicate a high level of frustration with the performance of DOL's investigative unit with respect to the investigation of complaints submitted regarding the field of public accountability.

Investigative files have been closed on matters that have never been brought to the attention of the Board. Reports of cases pending and matters under investigation are promised at nearly every meeting to be presented "at the next Board meeting", but no such comprehensive investigative report has yet been forthcoming.

As independent contractors, we were not privy to the confidential files of the DOL investigative unit. Consequently, the statistical

data contained in Appendix B was developed by personnel of the Legislative Audit Division.

From Board minutes, the statistical summary of investigative activity and interviews with Board members, public accountants, DOL personnel and others, we conclude that DOL's investigative performance is a weak link in the State of Alaska's chain of public protection from abuses in the field of public accountancy. *

*

ANALYSIS OF PUBLIC NEED

The following analysis of Board activities relates to the public need factors defined in AS 44.66.050(c). This analysis addresses those areas we were able to cover within the scope of our review.

- I. The extent to which the board, commission or agency has operated in the public interest.
 1. The Board of Public Accountancy has established criteria and composed regulations setting forth the standards which an individual must satisfy in order to practice public accountancy in Alaska.
 2. The Board has established regulations requiring evidence of continuing professional education (CPE) as a condition of license renewal.
 3. The Board has held an average of three meetings per year for the past four years, and conducts examinations twice a year in Anchorage, Fairbanks and Juneau.

- II. The extent to which the operation of the board, commission or agency program has been impeded or enhanced by existing statutes, procedures and practices which it has adopted, and any other matter, including budgetary, resource, and personnel matters.
 1. The Division of Occupational Licensing (DOL) has not maintained adequate statistics, records and files for Board use (see Recommendation No. 7)
 2. Investigations of complaints regarding public accountancy matters have not been conducted in a timely manner by the investigative unit of DOL (see Appendix B, Recommendation No. 8 and the DOL Performance Audit Report).

III. The extent to which the board, commission or agency has recommended statutory changes which are generally of benefit to the public interest.

1. The Board recommended amendments to AS 08.04.020 and AS 08.04.420 as well as deletion of AS 08.04.260. None of these recommended statutory revisions has yet been enacted. *

IV. The extent to which the board, commission or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service which it has provided.

1. Individuals who contact Board members or the Licensing Examiner who wish to present information, ask questions or register complaints are invited and encouraged to attend Board meetings.

V. The extent to which the board, commission or agency has encouraged public participation in the making of its regulations and decisions.

1. Board meetings are held at least three times annually, and are advertised in a timely manner by DOL in Anchorage, Fairbanks and Juneau newspapers.
2. In accordance with the Administrative Procedures Act, the Board has invited interested persons and groups to offer testimony in regard to proposed changes in regulations, and has held advertised public hearings to receive testimony.

VI. The efficiency with which public inquiries or complaints regarding the activities of the board, commission or agency filed with it, with the department to which the board or commission is administratively assigned, or with the office of the ombudsman have been processed and resolved.

1. In the past four years, one complaint concerning the Board's activities was filed with the Ombudsman's Office. The case involved a delay in granting a certificate by reciprocity, and was expeditiously resolved to the Ombudsman's satisfaction

2. No complaints regarding the Board's practices or activities have been recorded by the Division of Occupational Licensing, the Human Rights Commission or the Equal Employment Opportunity Office.

VII. The extent to which a board or commission which regulates entry into an occupation or profession has presented qualified applicants to serve the public.

1. Complaints against licensed accountants are indications of the quality of practice in the State. In the past five years, only seven complaints were filed with DOL charging licensed professionals with unethical, incompetent or unprofessional conduct.
2. The Board has proposed and adopted regulations and standards with respect to acceptable experience necessary for certification.
3. The Board has proposed and adopted regulations for continuing professional education (CPE) as a requisite for license renewal.
4. The Board exercises diligence to assure that only those individuals who fully comply with the requirements of the statute and regulations are certificated to practice public accountancy.
5. The Board has instituted a "critique program" to assist applicants in meeting the high standards of the profession.

VIII. The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission or agency to its own activities and the area of activity or interest.

1. The application forms for examination and certification do not inquire as to race or sex, nor do they require photos.
2. No evidence has been presented that the Board has discriminated against anyone on the basis of age, race or sex.

Recommendation No. 2

The Board of Public Accountancy should be brought to its full complement of seven members, and maintained at that strength by means of timely appointments of qualified professional and public members.

Implementation of Alaska's public disclosure law occasioned the resignation of many persons who, because of the confidential nature of their professional relationships, were unwilling to divulge the identity of their clients. The Board of Public Accountancy was no exception, and for a time in the mid-1970s, ceased to function as a duly constituted board.

The combination of resignations, membership requirements (addressed in Recommendation No. 1), slow appointment procedures, and the statutory addition of two public members, created a lack of continuity that has made it difficult for the Board to operate at peak efficiency. The Board is currently two members short of its full complement of seven members.

Board minutes examined indicate that meetings typically extend over a full two day period, and require many hours of diligent concentration and substantial travel of the members. The charge to "establish and maintain a high standard of integrity and dignity in the profession of public accountancy" is taken seriously by the Board. The State as well as the people of Alaska benefit from the many hours of unpaid and dedicated service contributed by members of the Board.

The Board of Public Accountancy is missing valuable input from the accounting profession and the public by not having a full complement of members. We recommend that the Office of the Governor expeditiously appoint qualified new members to the two vacant Board seats, and continue to make appointments or reappointments to this Board in a timely manner.

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Without affecting the rights and privileges of presently-licensed Public Accountants, the Accountancy Law should be amended to discontinue the licensing of new applicants as Public Accountants.

In litigation involving state regulation of public accountancy, courts throughout the United States have held that only the auditing or attest function (the expression of an independent opinion on the fairness with which a financial statement presents a financial position in conformity with generally accepted accounting principles) is imbued with sufficient public interest to justify regulation by legislation.

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Investigative files have been closed on matters that have never been brought to the attention of the Board. Reports of cases pending and matters under investigation are promised at nearly every meeting to be presented "at the next Board meeting", but no such comprehensive investigative report has yet been forthcoming.

As independent contractors, we were not privy to the confidential files of the DOL investigative unit. Consequently, the statistical

data contained in Appendix B was developed by personnel of the Legislative Audit Division.

From Board minutes, the statistical summary of investigative activity and interviews with Board members, public accountants, DOL personnel and others, we conclude that DOL's investigative performance is a weak link in the State of Alaska's chain of public protection from abuses in the field of public accountancy.

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2. The Board has established regulations requiring evidence of continuing professional education (CPE) as a condition of license renewal.
3. The Board has held an average of three meetings per year for the past four years, and conducts examinations twice a year in Anchorage, Fairbanks and Juneau.

II. The extent to which the operation of the board, commission or agency program has been impeded or enhanced by existing statutes, procedures and practices which it has adopted, and any other matter, including budgetary, resource, and personnel matters.

1. The Division of Occupational Licensing (DOL) has not maintained adequate statistics, records and files for Board use (see Recommendation No. 7)
2. Investigations of complaints regarding public accountancy matters have not been conducted in a timely manner by the investigative unit of DOL (see Appendix B, Recommendation No. 8 and the DOL Performance Audit Report).

III. The extent to which the board, commission or agency has recommended statutory changes which are generally of benefit to the public interest.

1. The Board recommended amendments to AS 08.04.020 and AS 08.04.420 as well as deletion of AS 08.04.260. None of these recommended statutory revisions has yet been enacted.

IV. The extent to which the board, commission or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service which it has provided.

1. Individuals who contact Board members or the Licensing Examiner who wish to present information, ask questions or register complaints are invited and encouraged to attend Board meetings.

V. The extent to which the board, commission or agency has encouraged public participation in the making of its regulations and decisions.

1. Board meetings are held at least three times annually, and are advertised in a timely manner by DOL in Anchorage, Fairbanks and Juneau newspapers.
2. In accordance with the Administrative Procedures Act, the Board has invited interested persons and groups to offer testimony in regard to proposed changes in regulations, and has held advertised public hearings to receive testimony.

VI. The efficiency with which public inquiries or complaints regarding the activities of the board, commission or agency filed with it, with the department to which the board or commission is administratively assigned, or with the office of the ombudsman have been processed and resolved.

1. In the past four years, one complaint concerning the Board's activities was filed with the Ombudsman's Office. The case involved a delay in granting a certificate by reciprocity, and was expeditiously resolved to the Ombudsman's satisfaction

2. No complaints regarding the Board's practices or activities have been recorded by the Division of Occupational Licensing, the Human Rights Commission or the Equal Employment Opportunity Office.

VII. The extent to which a board or commission which regulates entry into an occupation or profession has presented qualified applicants to serve the public.

1. Complaints against licensed accountants are indications of the quality of practice in the State. In the past five years, only seven complaints were filed with DOL charging licensed professionals with unethical, incompetent or unprofessional conduct.
2. The Board has proposed and adopted regulations and standards with respect to acceptable experience necessary for certification.
3. The Board has proposed and adopted regulations for continuing professional education (CPE) as a requisite for license renewal.
4. The Board exercises diligence to assure that only those individuals who fully comply with the requirements of the statute and regulations are certificated to practice public accountancy.
5. The Board has instituted a "critique program" to assist applicants in meeting the high standards of the profession.

VIII. The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission or agency to its own activities and the area of activity or interest.

1. The application forms for examination and certification do not inquire as to race or sex, nor do they require photos.
2. No evidence has been presented that the Board has discriminated against anyone on the basis of age, race or sex.

IX. The extent to which statutory, regulatory, budgeting or other changes are necessary to enable the agency, board or commission to better serve the interests of the public and to comply with the factors enumerated in this subsection.

Please refer to the previous section, Findings and Recommendations.

*

APPENDIX A

BOARD OF PUBLIC ACCOUNTANCY

REVENUE COMPARED WITH EXPENDITURES

Fiscal Years 1969 - 1979
(Unaudited)

<u>Fiscal Year</u>	<u>Revenue</u> ^{1/}	<u>Expenditures</u>	<u>Difference</u>
1969	\$ 2,131	\$ 2,289	\$- 158
1970	8,865	3,584	+ 5,281
1971	5,605	4,565	+ 1,040
1972	9,605	7,029	+ 2,576
1973	4,585	5,766	- 1,181
1974	14,115	6,108	+ 8,007
1975	6,710	8,388	- 1,678
1976	20,777 ^{2/}	8,243	+12,534
1977	15,135	11,961	+ 3,174
1978	38,700	15,115	+23,585
1979	21,186	19,922	+ 1,264

Note 1

Renewal registration fees are collected once every two years and cause revenues collected in the first year to be significantly greater than revenues collected in the next year.

Note 2

Fees were increased in 1976 and have not been increased since that time. Current fees are presented in Schedule 1.

Note 3

Expenditures include those made by Board members such as travel, per diem and some general support services such as telephone, postage, and examination expenses. They do not include that portion of the D.O.L. administrative expense allocated to the Board of Public Accountancy or of expenditures of other departments such as Department of Law, that may be assisting the Board and D.O.L.

Source: Alaska Division of Occupational Licensing and Annual Reports of the Department of Commerce and Economic Development.

SCHEDULE 1

STATE BOARD OF PUBLIC ACCOUNTANCY

VARIOUS FEES:

Uniform CPA Examination - \$50.00 each sitting (fee is not prorated by number of parts taken)

Licensing and Certification Fees - (fees are the same for original certification and for biennial renewals)

Active CPA or PA	-	\$ 60.00
Inactive CPA or PA	-	\$ 20.00
Resident Partnership	-	\$ 60.00
Resident Corporation	-	\$ 60.00
Non-Res Partnership	-	\$200.00
Non-Res Corporation	-	\$200.00
Non-Res Permit (Individual)	-	\$200.00

Registration of Office	-	No Fee
PA Partnerships, Change in Partners	-	\$5.00

* All delinquent renewal fees (60 days past deadline) are subject to a \$10.00 penalty fee.

Duplicate license fee	-	\$ 2.00
Duplicate certificate fee	-	\$10.00

APPENDIX B

INVESTIGATION STATISTICS

N.B. -- The scope of this Performance Review required that an analysis be made of complaints received by D.O.L. regarding public accountancy, and the disposition of any investigations conducted. Because the files maintained by the Investigative Section of D.O.L. are considered confidential in nature, the contractor was not allowed access. It was necessary for the contractor to seek assistance from Division of Legislative Audit personnel who have the authority to review confidential files of the various agencies. Personnel from the Division of Legislative Audit prepared a statistical analysis of the complaints received without divulging any confidential information on specific individuals. That analysis is included in this report and forms the basis for conclusions regarding the investigative unit.

The letter on the following page indicates the information requested from the Division of Legislative Audit by the contractor.

In response to this letter, the contractor was supplied the following report from the Division of Legislative Audit:

* * * * *

DEPARTMENT OF COMMERCE - OCCUPATIONAL LICENSING
State Board of Accountancy - Complaints/Investigations
Purpose, Scope & Conclusion - F.Y. 1980

Purpose

To provide R.W. Pavitt & Associates, Inc., and Homan-McDowell Associates with statistical information regarding complaints and investigations filed with the Department of Commerce and Economic Development, State Board of Accountancy.

R. W. PAVITT AND ASSOCIATES, INC.
AND
HOMAN-McDOWELL ASSOCIATES

- 23 -

August 8, 1979

Legislative Audit Division
State of Alaska
Pouch W
Juneau, Alaska 99811

Attention: Merle R. Jenson, Deputy Legislative Auditor

Dear Mr. Jenson:

We have reached a point in the conduct of the Performance Review of the Alaska State Board of Public Accountancy where information is needed with respect to complaints and investigations regarding the practice of public accountancy.


As you know, we do not have access to confidential files, and the available statistical information on investigations is not in a format that is of use to us in our review.

We request your assistance, therefore, in providing us with the following information pertaining to the responsibilities of the Board of Public Accountancy:

1. Number of complaints, 1975-present, by year.
2. Source of complaint...(member of public, Consumer Protection Agency, Board, board member, licensee, etc.)
3. Nature of complaint...(unlicensed practitioner, incompetent performance, overcharging for services, fraudulent or unlawful practices, criminal activity, etc.)
4. Action taken on complaint...(date received by DOL, investigative assignment, time devoted to investigation, etc.)
5. Disposition of complaint...(reported to Board, referred to AG's Office, investigation continued, investigation dropped [reason], investigation closed)

To be of maximum value in the development of review findings, this information should be received no later than August 31, 1979.

Yours truly,



R. W. Pavitt, AICP
President

RWP/bp

Scope

We will review the complaint files provided to us by the Department of Commerce and Economic Development for the period beginning 1975 to present.

Summary of Field Work

Following are statistics compiled from the case files provided to the auditor by the Investigative Unit of the Department of Commerce and Economic Development:

Case files reviewed	38
Duplicate files	<u>(3)</u>
Total Cases	<u>35</u>

Source of Complaints

Public	15
Consumer Protection Board	0
Licensee	5
Other (& unknown)	2
Total	<u>13</u>
	<u>35</u>

Nature of Complaint

Unlicensed	14
Incompetent	5
Overcharged	3
Fraud	2
Criminal Activity	6
Other (& unknown)	8
Total	<u>38</u>

Disposition of Complaints

<u>Reported to Board</u>	<u>6</u>
Pending next Board Meeting	20
<u>Referred to A.G.</u>	2
<u>Investigation Cont.</u>	10
<u>Investigation Closed</u>	<u>25</u>

There are three investigators who work on complaints for the whole Department. Two of these are in Anchorage and one is in Juneau.

Once a complaint is filed ideally a control card is established. The original and fourth copy are kept in Juneau and the duplicate and tripliate are sent to Anchorage. Ideally, copies of complaints for the Anchorage/Juneau area are sent within one week to the appropriate investigator.

Prior to July 1978 all complaints were either kept in alphabetical order or in the licensee's file.

In September 1978 an inventory was taken of those complaints. Old cases were renumbered beginning with 5,000. However, because there are numerous licensee files, it is believed that not all complaints were included in this inventory. Thus, the exact number of complaint files provided for review is questionable.

Numerous cases were closed because of age after the inventory was taken. Additionally, if any cases were marked closed and no documentation existed in the file, it could be because an investigator called from Anchorage informing the Juneau office that the case was investigated and closed.

When cases are assigned the information is placed on the control card.

Information Source: DC&ED, Occ. Lic., Dick Long, Chief Investigator and Sue O'Brien, Adm. Support Tech I.

Comments

The following conditions existed:

1. Cases marked "closed" with the closure dated 9/78 still, one year later, had not gone before the Board.

- 2. The "unknown" listed cases are the result of lack of documentation in the file to extract such information; and
- 3. The files contained duplicate copies of documents and/or undecipherable notes on scraps of paper. Dick Long, Chief Investigator was on annual leave during the testing and thus was not available for comments or explanation.

Furthermore we were informed that the possibility existed that additional complaints had been filed other than what we were provided. We were informed that these complaints were in the licensee's file if they existed.

* * * END * * *

The preceding concludes the Division of Legislative Audit report. The following comments are those of the contractor:

A review of Alaska State Board of Accountancy minutes for the past two years shows the continuing difficulty of the Board in acquiring adequate information regarding complaints and investigations.

<u>Date of Board Meeting</u>	<u>Remarks Regarding Investigations and Complaints</u>
September 23, 1977	"The board would like a detailed report from Richard Long, Violations Officer, of the pending investigations on file for the next meeting."
October 17, 1977	No Report
December 2, 1977	No Report
March 17-18, 1978	No Report
August 21, 1978	No Report

September 28-29, 1978

Report by Richard Long, Violations Officer on five cases. Don Hestak, D.O.L. Director "reported that 23 of the 33 pending cases involving the Public Accountancy Board were in the process of being closed. The Board will be asked to approve these actions at a future meeting."

November 30-December 1, 1978

No Report

January 12, 1979

No Report

March 23-24, 1979

"Frank Moore reported on the division's investigations and reports of violations regarding public accounts." "He reported on cases pending and informed the board that there were no cases ready for closure at this time."

August 1-2, 1979

No Report

Further analysis of the information furnished by the Legislative Research Division shows that the 38 cases found in the investigative files of D.O.L. represented cases opened in the following years.

<u>Year</u>	<u>No. Cases Opened</u>
1973	1
1974	0
1975	2
1976	18
1977	3
1978	4
1979	10
Total	38

This seems to be in conflict with a September 12, 1978 letter from the Chief Investigator of D.O.L. to the Division of Legislative Audit which states that (1) there were three complaints filed between July 1, 1977 and June 30, 1978; (2) there was one complaint closed between July 1, 1977 and June 30, 1979; and (3) there were fourteen total number of cases in the file.

Three main problems are evident in this analysis, (1) there is a lack of proper procedure and documentation involving the investigation of complaints and (2) there is a lack of follow-through on closing out cases that have been investigated and presenting them to the Board of Public Accountancy, and (3) complaint cases are not handled in a timely manner since more than half are older than four years.

APPENDIX C

BOARD OF PUBLIC ACCOUNTANCY

STATISTICAL INFORMATION

SCHEDULE 1

Certificates Issued by Year by Type

<u>Fiscal Year</u>	<u>Number Issued</u>	<u>By Examination</u>	<u>By Reciprocity</u>
1961	16	4	12
1963	10	7	3
1965	12	6	6
1967	15	7	8
1969	18	9	9
1970	4	3	1
1971	48	20	28
1972	25	14	11
1973	37	20	17
1974	27	16	11
1975	37	11	26
1976	37	9	28
1977	66	33	33
1978	67	36	31
1979	79	46	33

Note 1

As of August 1979 there were 629 CPA certificates issued.

Source: Files of Licensing Examiner, Division of Occupational Licensing.

ALASKA CANDIDATES: CPA Test Results

CPA Examination Statistics for
November 1977, May 1978, November 1978, May 1979

	<u>May 1979</u>		<u>November 1978</u>		<u>May 1978</u>		<u>November 1977</u>	
	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
Total sitting	141	100%	120	100%	116	100%	112	100%
Total sitting first time	39		27		37		30	
Total taking all four parts	72		54		53		57	
Passed all four parts	6		1		4		1	
Completed test	23		20		20		18	
Total	<u>29</u>	21%	<u>21</u>	17.5	<u>24</u>	21	<u>19</u>	17
<u>Conditioned</u>								
First time	7		7		9		8	
Repeat of all four	8		9		4		5	
First time taking less than four parts	2		1		1		1	
Repeat, taking less than four parts	4		3		2		4	
Total	<u>21</u>	15%	<u>20</u>	17	<u>16</u>	13	<u>18</u>	16
Added parts to prior conditioning	<u>12</u>	8%	<u>10</u>	8	<u>10</u>	9	<u>8</u>	7
<u>Failed</u>								
First time	22		19		17		20	
Repeat all four	29		28		19		23	
First time-taking less than four parts	5		2		6		1	
Repeat-taking less than four parts	13		6		4		2	
To add parts to a prior condition	10		14		20		21	
Total	<u>79</u>	56%	<u>69</u>	57.5	<u>66</u>	57	<u>67</u>	60
Total	<u>141</u>	<u>100%</u>	<u>120</u>	<u>100%</u>	<u>116</u>	<u>100%</u>	<u>112</u>	<u>100%</u>

ALASKA: CPA Test Results

	<u>May 1979</u>	<u>November 1978</u>	<u>May 1978</u>	<u>November 1977</u>
Auditing:	Pass	23	25	22
	Fail	77	73	67
	Total	<u>108</u>	<u>96</u>	<u>87</u>
Theory:	Pass	40	18	22
	Fail	68	69	56
	Total	<u>108</u>	<u>87</u>	<u>78</u>
Practice:	Pass	24	20	23
	Fail	71	60	47
	Total	<u>95</u>	<u>80</u>	<u>70</u>
Law:	Pass	33	24	29
	Fail	76	69	63
	Total	<u>109</u>	<u>93</u>	<u>92</u>

(%) Percentage of students who passed.

Note 1

For more detailed statistics for the years 1973-1978 see: A Profile of Alaskan Certified Public Accounting Candidates, by Charlotte Stuart.

Source: Statistics compiled by Charlotte Stuart, Board of Public Accountancy President

SCHEDULE 3

CURRENT CERTIFICATES AND LICENSES

<u>Individual CPA Certificates</u>	
Active	395
Inactive	97
 <u>Chartered Accountants</u>	
(United Kingdom)	2 ^{1/}
 <u>Individual PA Licenses</u>	
Active	7 ^{2/}
Inactive	1
 <u>Resident Partnerships</u>	
Active	27
 <u>Non-Resident Partnerships</u>	
Active	10
 <u>Corporations</u>	
Active	16

Note 1

Includes one who also holds a CPA Certificate.

Note 2

Includes two who also hold a CPA Certificate.

Source: Division of Occupational Licensing, Department of Commerce and Economic Development. September 1979.

APPENDIX D

SURVEY QUESTIONNAIRE SENT TO ACCOUNTANTS

A questionnaire and explanatory letter was sent to a randomly-selected "universe" of resident active and inactive CPA's and PA's. 222 questionnaires were mailed with the expectation that approximately 200 would reach the intended recipients. (We assumed that about 10% would prove undeliverable by reason of poor address, moved, left Alaska, died, etc.)

The questionnaires were mailed from Juneau on August 22, 1979. As of September 21, we had received 123 completed responses, and 22 were returned as undeliverable by the Post Office. Assuming that 200 questionnaires reached their destination, our actual response rate was a remarkable 61.5%, indicating that professional accountants in Alaska take the possible effects of "Sunset" on their profession quite seriously.

Of the 123 respondents, 84 (or 68%) indicated that they are in the public practice of accountancy; 19 (16%) practice private accounting; 10 (8%) are governmental accountants; 3 (2%) teach accounting, while 7 (6%) are employed outside the accounting profession. Geographic breakdown of the respondents was as follows:

<u>LOCATION</u>	<u>NUMBER OF RESPONDENTS</u>	<u>% OF TOTAL RESPONSE</u>
Anchorage	90	73.4 %
Fairbanks	9	7.3
Juneau	9	7.3
Ketchikan	2	1.6
Kenai	2	1.6
Soldotna	2	1.6
Kodiak	2	1.6
Bethel	1	.8
Gustavus	1	.8
Valdez	1	.8
Wasilla	1	.8
Unknown (no postmark)	3	2.4
	<u>123</u>	<u>100.0 %</u>

Only 6 respondents (4.8%) feel that State regulation of public accountancy is unnecessary, while 97.5% feel that Alaska should continue to license accountants.

91.8% disagreed with the statement that "Public Accountants (PA's) should be permitted to perform the audit (attest) function" (see Recommendation No. 3 in the FINDINGS AND RECOMMENDATIONS section of this report).

66.6 % of the respondents feel that the education and experience requirements for licensing in Alaska are "just about right". 15.4% think they are too low while 13.8% believe them to be too high. (4% expressed no opinion).

A surprising 76.4% agreed with the requirement for continuing professional education as a requisite for license renewal, while 20.3% don't feel it is necessary. 55.3% believe that an "open-book" ethics exam should be a condition of licensure, while 31.7% oppose such an action.

41 (33.3%) of the respondents accepted the invitation to make additional comments on subjects concerning the present method of regulating public accountancy in Alaska. Comments offered ranged from the penning of a few critical lines to a typewritten two-page letter accompanying the completed questionnaire. All of the completed questionnaires along with the added comments have been submitted with the working papers of this report to the Legislative Audit Division, where they are presently filed.

The comments are grouped and summarized as follows:

comments on the Board

- the Board is necessary and should be continued. (4 comments)
- all CPA's on the Board should be in public practice (3 comments)

Only 6 respondents (4.8%) feel that State regulation of public accountancy is unnecessary, while 97.5% feel that Alaska should continue to license accountants.

91.8% disagreed with the statement that "Public Accountants (PA's) should be permitted to perform the audit (attest) function" (see Recommendation No. 3 in the FINDINGS AND RECOMMENDATIONS section of this report).

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The comments are grouped and summarized as follows:

comments on the Board

- the Board is necessary and should be continued. (4 comments)
- all CPA's on the Board should be in public practice (3 comments)

- DOL is inefficient.
- Policing of profession is almost non-existent. (2 comments)
- Investigation of complaints needs more attention. (2 comments)
- Proposed ethics exam should be "closed-book", and made part of the Uniform CPA examination.

The following pages include the explanatory letter sent out with the questionnaires, and the questionnaire itself, tabulated totally, with breakdowns of each responsorial group following:

- Page - 37 - letter accompanying survey questionnaires
- Page - 38 - tabulation of all responses
- Page - 39 - tabulation of responses from accountants in public practice
- Page - 40 - tabulation of responses from accountants in private practice
- Page - 41 - tabulation of responses from accountants in governmental accounting
- Page - 42 - tabulation of responses from accountants engaged in the teaching of accountancy
- Page - 43 - tabulation of responses from accountants engaged in employment outside the accounting profession

R. W. PAVITT AND ASSOCIATES, INC.
AND
HOMAN-McDOWELL ASSOCIATES

- 37 -

August 22, 1979

Dear Alaskan Accountant:

Under the State's "Sunset Law" (AS 44.66), the Alaska State Board of Public Accountancy will terminate on June 30, 1980 unless the Legislature takes positive action to continue it beyond that date.

The Legislative Audit Division, which is charged by law with conducting in-depth performance reviews of each board, commission or agency named in the sunset legislation, has determined that in the case of the Board of Public Accountancy, independence and objectivity would be better served by contracting the review to a qualified management consulting firm than by performing the audit in-house. R. W. Pavitt and Associates, Inc. and Homan-McDowell Associates have been selected to conduct the review, and must complete the report by October 1, 1979.

Our major effort in this study has been to seek answers to several questions that we feel are basic to the issue (which the Legislature must face) of continuing the Board or allowing it to terminate:

- (1) Is State regulation of public accountancy in the public interest?
- (2) Do the statutes and regulations presently in force in Alaska assure the public of competent and qualified practitioners?
- (3) Does the Alaska State Board of Public Accountancy (as presently constituted) provide the most appropriate and effective method of regulating these professional services?

In connection with our review, we request that you take a few minutes to complete the enclosed questionnaire and mail it back. Our "universe" for the recipients of the questionnaire consists of the roster of resident active and inactive Certified Public Accountants and Public Accountants, and the "sample" used amounts to 33.3% (every 3rd name) of that roster.

Your response to the questionnaire will be anonymous, and we hope that you will feel free to add any comments you may have regarding the present method of regulating public accountancy in Alaska.

In order to be tabulated, questionnaires must be received no later than September 10, 1979. Thank you for your cooperation in this matter.

Sincerely,

Bob Pavitt

R. W. Pavitt, AICP
President
R. W. PAVITT & ASSOCIATES, INC.

Frank M. Homan

Frank M. Homan
Partner
HOMAN-McDOWELL ASSOCIATES

QUESTIONNAIRE - BPA _____ - 38 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>120</u>	<u>2</u>	<u>1</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>40</u>	<u>79</u>	<u>4</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>9</u>	<u>113</u>	<u>1</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>80</u>	<u>14</u>	<u>29</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>18</u>	<u>25</u>	<u>80</u>
6. The current license renewal fees are too high.	<u>19</u>	<u>83</u>	<u>21</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>83</u>	<u>20</u>	<u>20</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>17</u>	<u> </u>	<u> </u>
(b) just about right	<u>82</u>	<u> </u>	<u>5</u>
(c) too low	<u>19</u>	<u> </u>	<u> </u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>94</u>	<u>25</u>	<u>1</u>
10. An "open-book" ethics examination should be required before licensure.	<u>68</u>	<u>39</u>	<u>16</u>
11. State regulation of public accountancy is unnecessary.	<u>6</u>	<u>113</u>	<u>4</u>

I am presently engaged:

in the public practice of accounting	<u>84</u>
in the private practice of accounting	<u>19</u>
in governmental accounting	<u>10</u>
in the teaching of accountancy	<u>3</u>
outside of the accounting profession	<u>7</u>

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP

QUESTIONNAIRE - BPA - 39 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>82</u>	<u>1</u>	<u>1</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>24</u>	<u>59</u>	<u>1</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>7</u>	<u>77</u>	<u>-</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>59</u>	<u>8</u>	<u>17</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>10</u>	<u>20</u>	<u>54</u>
6. The current license renewal fees are too high.	<u>9</u>	<u>63</u>	<u>12</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>60</u>	<u>15</u>	<u>9</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>13</u>	<u>---</u>	<u>---</u>
(b) just about right	<u>56</u>	<u>---</u>	<u>1</u>
(c) too low	<u>14</u>	<u>---</u>	<u>---</u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>70</u>	<u>14</u>	<u>-</u>
10. An "open-book" ethics examination should be required before licensure.	<u>50</u>	<u>24</u>	<u>10</u>
11. State regulation of public accountancy is unnecessary.	<u>3</u>	<u>78</u>	<u>3</u>

I am presently engaged:

in the public practice of accounting 84
in the private practice of accounting ---
in governmental accounting ---
in the teaching of accountancy ---
outside of the accounting profession ---

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP

QUESTIONNAIRE - BPA - 40 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>19</u>	<u>-</u>	<u>-</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>10</u>	<u>9</u>	<u>-</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>1</u>	<u>18</u>	<u>-</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>10</u>	<u>1</u>	<u>8</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>5</u>	<u>1</u>	<u>13</u>
6. The current license renewal fees are too high.	<u>4</u>	<u>10</u>	<u>5</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>13</u>	<u>1</u>	<u>5</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>2</u>	<u>---</u>	<u>---</u>
(b) just about right	<u>13</u>	<u>---</u>	<u>1</u>
(c) too low	<u>3</u>	<u>---</u>	<u>---</u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>13</u>	<u>5</u>	<u>1</u>
10. An "open-book" ethics examination should be required before licensure.	<u>8</u>	<u>8</u>	<u>3</u>
11. State regulation of public accountancy is unnecessary.	<u>1</u>	<u>18</u>	<u>-</u>

I am presently engaged:

- in the public practice of accounting _____
- in the private practice of accounting 19
- in governmental accounting _____
- in the teaching of accountancy _____
- outside of the accounting profession _____

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP

QUESTIONNAIRE - BPA - 41 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>9</u>	<u>1</u>	<u>-</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>2</u>	<u>6</u>	<u>2</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>-</u>	<u>10</u>	<u>-</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>4</u>	<u>2</u>	<u>4</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>-</u>	<u>3</u>	<u>7</u>
6. The current license renewal fees are too high.	<u>4</u>	<u>3</u>	<u>3</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>5</u>	<u>2</u>	<u>3</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>1</u>	<u>---</u>	<u>---</u>
(b) just about right	<u>8</u>	<u>---</u>	<u>1</u>
(c) too low	<u>-</u>	<u>---</u>	<u>---</u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>6</u>	<u>3</u>	<u>1</u>
10. An "open-book" ethics examination should be required before licensure.	<u>3</u>	<u>3</u>	<u>4</u>
11. State regulation of public accountancy is unnecessary.	<u>2</u>	<u>8</u>	<u>-</u>

I am presently engaged:

in the public practice of accounting ---
in the private practice of accounting ---
in governmental accounting 10
in the teaching of accountancy ---
outside of the accounting profession ---

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP

QUESTIONNAIRE - BPA _____ - 42 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>3</u>	<u>-</u>	<u>-</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>1</u>	<u>2</u>	<u>-</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>-</u>	<u>3</u>	<u>-</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>2</u>	<u>1</u>	<u>-</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>-</u>	<u>1</u>	<u>2</u>
6. The current iicense renewal fees are too high.	<u>-</u>	<u>3</u>	<u>-</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>2</u>	<u>1</u>	<u>-</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>1</u>	<u>---</u>	<u>---</u>
(b) just about right	<u>1</u>	<u>---</u>	<u>---</u>
(c) too low	<u>1</u>	<u>---</u>	<u>---</u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>2</u>	<u>1</u>	<u>-</u>
10. An "open-book" ethics examination should be required before licensure.	<u>2</u>	<u>1</u>	<u>-</u>
11. State regulation of public accountancy is unnecessary.	<u>-</u>	<u>3</u>	<u>-</u>

I am presently engaged:

in the public practice of accounting ---
in the private practice of accounting ---
in governmental accounting ---
in the teaching of accountancy 3
outside of the accounting profession ---

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP

QUESTIONNAIRE - BPA - 43 -

Please indicate your agreement or disagreement with the following statements

	<u>AGREE</u>	<u>DISAGREE</u>	<u>NO OPINION</u>
1. The State of Alaska should continue to license accountants.	<u>7</u>	<u>-</u>	<u>-</u>
2. The State should continue to license a class of accountants in addition to CPA's --i.e. Public Accountants (PA's)	<u>3</u>	<u>3</u>	<u>1</u>
3. Public Accountants (PA's) should be permitted to perform the audit (attest) function.	<u>2</u>	<u>4</u>	<u>1</u>
4. Applications and renewals are handled efficiently by the Division of Occupational Licensing (DOL).	<u>4</u>	<u>1</u>	<u>2</u>
5. Complaints regarding public accountancy services are investigated efficiently by DOL.	<u>2</u>	<u>-</u>	<u>5</u>
6. The current license renewal fees are too high.	<u>2</u>	<u>4</u>	<u>1</u>
7. The Board of Public Accountancy is doing a good job of presenting competent and qualified accountants to serve the public need.	<u>3</u>	<u>1</u>	<u>3</u>
8. The education and experience requirements for licensure in Alaska are:			
(a) too high	<u>-</u>	<u>---</u>	<u>---</u>
(b) just about right	<u>4</u>	<u>---</u>	<u>2</u>
(c) too low	<u>1</u>	<u>---</u>	<u>---</u>
9. Documentation of continuing professional education (CPE) should be a requirement of license renewal.	<u>5</u>	<u>2</u>	<u>-</u>
10. An "open-book" ethics examination should be required before licensure.	<u>4</u>	<u>2</u>	<u>1</u>
11. State regulation of public accountancy is unnecessary.	<u>-</u>	<u>7</u>	<u>-</u>

I am presently engaged:

in the public practice of accounting ---
in the private practice of accounting ---
in governmental accounting ---
in the teaching of accountancy ---
outside of the accounting profession 7

Please feel free to comment on the reverse side. THANK YOU FOR YOUR HELP



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 4, 1979

RECEIVED

DEC 5 1979

LEGISLATIVE
AUDIT

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
Pouch W
Juneau, Alaska 99811

Dear Mr. Wilkerson:

We have reviewed the enclosed agency responses to your preliminary report entitled:

"A Performance Review of the Alaska State Board of Public Accounting"

The Office of the Governor recognizes the importance of keeping appointments up-to-date with qualified professional and public members. Please be assured that every effort is being made to comply with your Recommendation No. 2.

While the agency responses make certain references to or allude to budget restrictions which limit the capacity of the Board and Division of Occupational Licensing, it has been well recognized that most or all budgets for State functions have been similarly restricted. Therefore, anticipated progress in implementing your recommended enhancements would appear subject to current and future fundings.

Otherwise those responses appear adequate and self-explanatory.

Sincerely,

Richard A. Smith
State Internal Auditor

RAS/PJA/mjc
Enclosures

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF OCCUPATIONAL LICENSING

POUCH D
JUNEA 1, ALASKA 99811

November 29, 1979

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
Pouch W
Alaska Office Building
Juneau, Alaska 99811

RECEIVED

DEC 5 1979

LEGISLATIVE
AUDIT

Dear Mr. Wilkerson:

I have reviewed the preliminary audit report on "A Performance Review of the Alaska State Board of Public Accountancy October 1, 1979". On behalf of the Alaska State Board of Public Accountancy the following comments related to that report are submitted:

Recommendation 1:

The qualification and conditions of Board membership (AS 08.04.020) should be amended to specify five certified public accountants or public accounts and two public members.

Response:

We concur with the concept of this recommendation. The Governor at the request of the Alaska State Board of Public Accountancy introduced during the last session of the Legislature a bill changing the makeup of the State Board of Accountancy in a manner similar to that which is recommended. The proposed legislation (Committee Substitute for Senate Bill No. 185) amends AS 08.04.020 to read as follows: "Appointment and qualifications of Board. The Board consists of seven members appointed by the Governor. Each member shall be a resident of this state for at least one year. Three members shall be certified public accountants, two members shall be public members in accordance with AS 08.01.025, and the remaining members shall be individuals licensed under this chapter." Committee Substitutes for Senate Bill No. 185 has passed the State Senate and currently is being held by the House Commerce Committee. We strongly urge that the House Commerce Committee act favorably on this bill early in the next session of the Legislature.

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 27, 1979
Page 2

Recommendation 2:

The Board of Public Accountancy should be brought to its full complement of seven members, and maintained at that strength by means of timely appointments of qualified professional and public members.

Response:

The Board concurs with this recommendation. On January 11, 1979 Roxanne Kemp, a public member, and I met with Jessie Dodson of the Governor's staff to discuss appointments to the vacancies on the State Board. We requested the filling of these vacancies as soon as possible. The meeting with the Governor's staff is covered in the March 23-24, 1979 minutes of the State Board of Accountancy. The Board was notified that the Governor appointed an additional member to the Board on October 31, 1979. After this appointment one vacancy for an unlicensed member remains.

Recommendation 3:

Without effecting the rights and privileges of presently licensed public accountants, the accountancy laws should be amended to discontinue the licensing of new applicants as public accountants.

Response:

We concur with this recommendation. The need for a comprehensive review and revision of the State Accountancy Act has been scheduled for discussion during the Board's meeting on December 6 and 7, 1979.

Recommendation 4:

Electronic recordings should be made of all board meetings, and the tapes retained by DOL for two years.

Response:

The State Board of Accountancy has no objection to this recommendation. In the past we have cooperated with the Division of Occupational Licensing policy regarding the retention of tape recordings of Board meetings.

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 29, 1979
Page 3

Recommendation 5:

The Board should adopt a formal statement of goals, objectives and policies; and should prepare an annual report of it's activities.

Response:

We concur with this recommendation. The Board has taken some steps to comply with this recommendation. The steps taken are as follows:

1. The Board's proposed budget for the year ending June 30, 1981 contains narrative in support of the Board's goals for 1981 and the associated costs to obtain those goals. This budget was adopted during the Board's March 23-24, 1979 meeting and submitted to the Department of Commerce.
2. During the March 23-24, 1979 meeting a listing of Board policies was derived from prior Board minutes. This listing was distributed to each Board member for review. These policies were formally adopted during the October 1-2, 1979 Board meeting.
3. Board goals and objectives were established and adopted during the August 1-2, 1979 meeting.
4. The State Board of Accountancy prepared a report of its actions for the year ending June 30, 1979. This report was approved during the August 1-2, 1979 Board meeting and submitted to the Division of Occupational Licensing.

It is our understanding that the Board has no statutory requirement for an annual report (calendar year report) but the Board does have a statutory requirement for a yearly performance report (year ending June 30). Therefore we interpret Recommendation 5 to relate to the performance report rather than an annual report.

Recommendation 6:

AS 08.01.025 should be amended to state more clearly legislative intent with respect to the qualification of public members of the Board.

Response:

We have no objection to this recommendation. It should be noted that the possible conflict referred to in this recommendation was made known during the confirmation hearings of the current unlicensed board member.

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 29, 1979
Page 4

Recommendation 7:

DOL should develop improved statistical record keeping methods and procedures.

Response:

We concur with this recommendation. A board member, Charlotte Stuart, has prepared significant statistical data regarding Alaska CPA examination results. Part of Mrs. Stuart's work is contained as pages 30 and 31 of the Performance Review of the Alaska State Board of Public Accountancy. It would be helpful if DOL could prepare statistical data for Board use.

Recommendation 8:

DOL should handle investigations in a more comprehensive, efficient and timely manner.

Response:

We strongly endorse this recommendation. A DOL investigator met with the Board during its October 1-2, 1979 meeting and discussed thirty-seven (37) cases. As a result of this meeting twenty-four (24) cases were closed. The Board requested additional data on ten (10) cases be presented at its December 6-7, 1979 meeting. The three (3) remaining cases are still being investigated by DOL. This is the first comprehensive report we have received from DOL.

Two provisions of AS 44.66.050 (c) are as follows:

1. "The extent to which the board, commission or agency has recommended statutory changes which are generally of benefit to the public interest."
2. "The extent to which statutory, regulatory, budgeting or other changes are necessary to enable the agency, board or commission to better serve the interests of the public and to comply with the factors enumerated in this subsection."

In addition to the Board's activity related to provision one (1) above, (page 17 of the audit report) the State Board of Accountancy has opposed statutory changes to AS 08.04 which were not generally of benefit to the public interest.

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 29, 1979
Page 5

The Board believes that the following budgetary changes are necessary for it to comply with provision two (2) above: (page 19 of the audit report)

1. The State should provide adequate money for the Board to fulfill its duties. Examples of inadequate monies for the year ending June 30, 1980 are:
 - o Monies for only three (3) Board meetings were appropriated. The Board should have four (4) meetings per year. Estimated additional cost - \$2,800.
 - o No monies were appropriated for the Board to appear before the Legislature on Sunset hearings. Estimated additional cost - \$1,700.
 - o No monies were appropriated for Board members to attend meetings of the National Association of State Boards of Accountancy. Yet Board members are expected to be proficient in administration and policing of accountancy in Alaska.

The National Association of State Boards of Public Accountancy, of which Alaska is a member, has several ongoing programs which affect Alaska. Some of these programs are:

- o Entry Level Licensing - This program develops standards for entry into the profession to insure that the examination content, procedures for administering the examination, security of the examination content and grading the examination are proper. The accounting profession is unique in that the Uniform CPA Examination is recognized by all 50 states, the District of Columbia and three territories as the examination which properly measures a person's accounting abilities. This program also develops proper experience level requirements for entry into the profession.
- o Reciprocity and Temporary Practice - This program reviews existing statutes and regulations on accounting in the various states and the development of model statutes and regulations which promote licensure reciprocity among the states while providing adequate public protection.
- o Relicensing and Reentry - This program develops standards for evaluation of competence of an individual with an inactive license to upgrade to an active license or to relicense an individual whose license has lapsed for some reason.

*1st 3 items have
small budgetary
- from*

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 29, 1979
Page 6

- o Practice Surveillance and Enforcement - This program assists state boards of accountancy in developing and establishing procedures to monitor activities of licensees on an ongoing basis and develop criteria for sanctions and penalties.

Participation by members of the Alaska State Board of Accountancy insures knowledge of what other states are doing, which impact Alaska. Two of Alaska's board members have been named to serve on NASBA committees.

Entry Level Licensing - C. Stewart
Practice Surveillance and Enforcement - V. Johnson

These Board members were not able to participate in committee activities because no monies were available for travel. Estimated additional costs - \$4,800.

The estimated additional costs of the foregoing items is \$11,000. The financial data contained on page 20 of the Performance Review indicates that sufficient monies are collected by the State from Board activities to finance these necessary Board functions.

These activities are included in the Board's 1980-1981 budget request which was submitted to DOL in March 1979. Similar activities were included in the Board's 1979-1980 budget but were deleted prior to the submission of the State Budget to the Legislature. We request that appropriations for these activities be included in the 1980-1981 State Budget.

2. The State Board of Public Accountancy believes that it needs to establish a positive enforcement program to monitor the activities of licensed accountants. At present, the only monitoring of a licensed individual's activity occurs when a complaint is filed against the licensee. The State Board of Accountancy believes that it should, on a sampling basis, review the work of licensed persons for substandard practices. A review of this type increases the chances of detecting unacceptable activities prior to the time they become so serious that a complaint is filed against the licensee.

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
November 29, 1979
Page 7

The detection of substandard practices would:

- o Increase public protection by identifying marginal licensees before someone suffers injury; and
- o Provide the licensed individual an opportunity to take corrective measures prescribed by the state board with minimum disruption to their occupation.

In the three states, Florida, Colorado and Arizona, where this type of positive enforcement program has been undertaken, 30 percent of the investigations revealed substantial substandard practices by licensed individuals.

Estimated additional costs - \$20,000

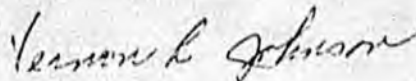
The Board's 1980-1981 Budget Request includes this new program.

* * * * *

We wish to acknowledge the courtesy and proficiency with which the Performance Review of the Alaska State Board Public Accountancy has been conducted. Should you desire additional comment or desire to discuss the Board's response to this review, please contact the Board.

Very truly yours,

ALASKA STATE BOARD OF
PUBLIC ACCOUNTANCY



Vernon R. Johnson
Presiding Officer

VRJ:hkk

cc: Members of Alaska State Board of Public Accountancy
Commissioner, Department of Commerce and Economic Development
Deputy Commissioner, Department of Commerce and Economic Development
Division of Occupational Licensing
State Internal Auditor

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

OFFICE OF THE COMMISSIONER

POUCH D
JUNEAU, ALASKA 99811

November 19, 1979

RECEIVED

DEC 5 1979

**LEGISLATIVE
AUDIT**

Gerald Wilkerson, CPA
Division of Legislative Audit
Pouch W
Juneau, Alaska 99811

Dear Mr. Wilkerson:

The following comments are offered in response to the Performance Review of the Board of Public Accountancy, as submitted by the Division of Legislative Audit.

Recommendation No. 1: We would have no objection to your recommendation but would suggest that consideration be given to comprising the board of three certified public accountants and two public members.

Recommendation No. 2: Agree.

Recommendation No. 3: We agree that such amendments would reduce unnecessary regulation while still serving the public interest and maintaining professional integrity.

Recommendation No. 4: Agreed. The board has discussed this matter and is complying with the recommendation.

Recommendation No. 5: Agreed. The board did submit goals and objectives for the FY '81 budget, and its performance report for FY '79.

Recommendation No. 6: Agreed.

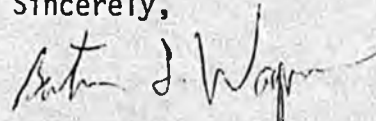
Recommendation No. 7: Agreed. The Division is in the process of collecting data concerning the number of licensees, examination statistics, complaint information, correspondence work load and number of requests. Monthly reports are prepared by the examiners in addition to interim activity reports which detail activity between scheduled board meetings.

November 19, 1979

Recommendation No. 8: Agreed. Complaints received against all regulated professions should be handled on a timely basis.

I appreciate the time and efforts expended on this review and the opportunity to provide these comments.

Sincerely,



Bertram L. Wagnon
Deputy Commissioner

CRW/kkk5/9



Official Business

Alaska State Legislature

Senate

Committee on Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

March 13, 1980

The Honorable Clem Tillion
President of the Senate
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. President:

Your Senate Commerce Committee has had under consideration for "Sunset" review the Board of Public Accountancy pursuant to your referral under AS 44.66.050 and AS 08.03.010.

In accordance with the statutory requirements, a public hearing was held on the review of this board, at which written and oral testimony was received. Members of the board testified in person or by teleconference. The Committee considered the proposed budget of the board for FY 1981 and particularly examined the performance audit of the activities of the board conducted by R. W. Pavitt and Associates, Inc. and Homan-McDowell Associates under contract to the Division of Legislative Audit.

Guided, in part, by this performance review the Committee took into consideration the factors required to be considered under AS 44.66.050(c).

Your Commerce Committee thereby makes the following findings: The Committee concurs in the eight findings and recommendations as they appear on pages 7 through 15 of the Performance Review of the Board of Public Accountancy dated October 1, 1979 which is hereby incorporated by reference as though fully set out herein.

The Committee further recommends that the board use its powers in the granting of licenses, in acceptance of experience in the public and private sectors, and in cases involving reciprocity in a more judicious and evenhanded manner.

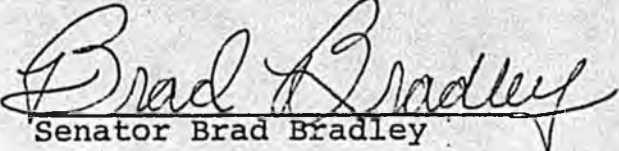
The Committee feels that it has adequately addressed the recommendations and categories required under AS 44.66.050(d), and recommends that with the changes stated in this report

The Honorable Clem Tillion
March 13, 1980
Page 2

the Board of Public Accountancy be continued for another four years, that is, that the repealer with regard to the activities of the board be amended to read June 30, 1984.

A bill will be introduced by the Commerce Committee facilitating the changes and recommendations in this report.

Respectfully submitted,


Senator Brad Bradley
Chairman
Senate Commerce Committee

BB/bm

February 28, 1980

Senator Brad Bradley, Chairman
Senate Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Bradley:

I attended the teleconference hearing in Anchorage on Tuesday, February 26, 1980 concerning the sunset review of the State Board of Accountancy. Unfortunately, due to other commitments I was unable to stay for that portion of the hearing. Consequently, I am submitting my testimony in written form.

I have read the performance review of the State Board of Accountancy and concur with all of its recommendations. With the enactment of the Foreign Corrupt Practices Act and the increasing surveillance of the accounting profession by Congress and the Securities and Exchange Commission, the State must do its part to protect the public interest and insure the competence of those individuals who desire to offer their services to the public as accountants. It is therefore extremely important to continue the State Board of Accountancy, implement the eight recommendations contained in the report and fund the activities of the Board at a level at which they can operate effectively.

I am a Certified Public Accountant, but am not in public practice. I am responsible for issuing financial statements and constantly refer to the financial statements of other companies in my work. It is extremely important for these statements to be consistent and reliable so that investors, creditors and other users like me can make proper decisions based on them. The only way to accomplish this in Alaska is to insure a strong State Board of Accountancy.

Very truly yours,


Edward R. Geiger

cc: Senator Arliss Sturgulewski
Senator Tim Kelly
Senator Frank Ferguson
Senator Terry Stimson
Mr. Vern Johnson, Chairman, State Board of Public Accountancy

REPORT FROM STATE BOARD OF ACCOUNTANCY FOR FY '79

The problem that has been before the Board of Public Accountancy for several years is work experience before the CPA certification is issued. It is our responsibility in protecting the public to see that the persons who hold themselves out to be CPAs have had some experience in performing the audit (attest) function. This continues to be the only difference between accountants that are licensed and the non-licensed accountant or bookkeeper.

Our goal was accomplished with the adopting of final regulations in December 1978 that refined and clarified the type of experience necessary before the CPA certificate would be issued. Formal hearings were held in Juneau and an informal hearing held in Anchorage regarding the proposed changes in regulations. After they were cleared by the Department of Law on May 25, 1979, a certified mailing was done to all holders of CPA certificates issued by the State of Alaska to comply with Section 08.04.080 of the Accountancy Act.

We continued our efforts to help the unsuccessful CPA candidate by participating in the CPA critique program offered by the National State Board of Accountancy. The program has been held in Anchorage and a total of 36 CPA candidates have participated. We will expand and offer the program in both Anchorage and Fairbanks in the fall of 1979.

The number of candidates for the CPA examination continues to climb and a suitable place to hold the examination became a problem in Anchorage. A new location was secured for the November exam and used for the May exam. There was a noise problem at the May exam and we may be looking for other accommodations in November. Fairbanks and Juneau are also having an increase in candidates and will be suffering from inadequate facilities in FY '80.

The Board continues to be short of the required number of members. This presents a problem in securing a quorum for at least the summer meeting. We would urge the Governor to appoint the other public members as soon as possible.

The Board is scheduled for Sunset review in FY '80 and Pete Hogan, a Board member from Southeast, is working on a history of Board Activities since its creation. This should be ready for review and approval at our summer Board meeting.

Vern Johnson and Roxana Klemp are the legislative committee for the Board. They worked with the Department of Commerce and Economic Development and the Governor's Office in introducing legislation in the spring of 1979 regarding changes in the current Accountancy Act.

Charlotte Stuart worked with the AICPA Advisory Grading Service for six weeks in 1978 while the grading of the May 1978 CPA examination was taking place. As the result of this experience, the Board had a report regarding the grading process and reaffirms the opinion that the CPA examination is fair and equitable. A study done on Alaska first-time candidates for the years 1973, 1974, 1975 showed that over 80% pass the examination within three years if they continue to take and retake it.

Many changes are taking place in the accounting profession and the Board continues to request funds for beginning a practice review program. At the present time, the Board does not have a method of monitoring a person's performance once they have received a CPA certificate and a permit to practice. We react to complaints rather than being able to take the initiative to see that the public is not harmed in the first place. This will be our main goal for the FY '80 year.

The Board has not had adequate funding for travel to Regional or Annual meetings of the National Association of State Boards of Accountancy. Two board members were asked to serve on National Committees. After a half promise that funding would be available from the State, Charlotte Stuart accepted a committee appointment to entry-level licensing and Vern Johnson was appointed to the practice review committee. Charlotte attended her committee meeting in Dallas and gave the committee report at the regional meeting in Hawaii. Both of these meetings were at her own expense since travel funds were not provided by the State.

Vern Johnson and Charlotte Stuart also attended the annual meeting of NASBA held in the fall of 1978 at their own expense. The State did provide travel for one member to attend the meeting and the Board voted to send our public member, Margaret Baker, so that she might gain some additional insight into the problems being confronted by all State Boards.

A problem that is facing all State Boards of Accountancies is recognition of foreign certificates. As the result of a lawsuit against one State Board, a joint committee was appointed by NASBA and the AICPA to do a review and evaluation of foreign examinations used as a basis for certification in various countries. The committee held public hearings in California in August of 1978. After the hearings, the following items were formulated:

1. The type of information required to assess the comparability of foreign licensing examination (i.e., preparation, security of examination, grading process).
2. Methodology for review.
3. Countries to be included were: Australia, Canada, England and Wales, India, Ireland, New Zealand, the Philippines, Scotland, and South Africa.
4. The time period to be covered would be from 1960 through 1977.

A report given at the Regional meeting on this committee confirms the opinion of the Alaska Board that it is impossible to measure the comparability of the foreign examinations as they relate to the Uniform CPA examination. Therefore, our Board continues to require all applicants for the CPA certificate to pass the entire Uniform CPA examination, since we have not been able to determine that the foreign examinations are equivalent to ours.

The Board held four meetings in FY '79. A one-day meeting in Fairbanks, one two-day meeting in Juneau and two two-day meetings in Anchorage. The Board continues to review each new candidate's application for the CPA examination and as the number of applicants increases, so does the workload of the Board.

The following is a statistical report on candidate applications:

New candidates approved for the CPA examinations:

November 1978 - 46

May 1979 - 51

Actual candidates scheduled for examinations:

November 1978 - 134

May 1979 - 152

No shows for the examinations:

November 1978 - 14

May 1979 - 18

Certificates issued by reciprocity: 33

Original Certificates issued: 46

Complaints filed with violations officer and brought
to the Board: 4

The Board had a change of licensing officers again this year and this continues to be a problem. With the increase in salary grade level given the licensing officers, it is hoped the turnover will decrease.

Prepared by Charlotte H. Stuart, Chairman