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STATE OF ALASKA
THE LEGISLATURE

POUCHY STATE CAPITAL
JUNEAU ALASKA 99801
907 465 1800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 25, 1984

SUBJECT: Practice of public accounting
(Draft SSSB 318)

TO: Senator Dick Eliason
Chairman
Senate Labor and Commerce Committee

FROM: Tamara Brandt Cook
Deputy Director *TBC*
Division of Legal Services

Here is the section by section analysis that you requested for the draft of SSSB 318 dated April 18, 1984.

Section 1 The section requiring regulations adopted and proceedings held under AS 08.01 to be done under the Administrative Procedure Act is modified to indicate that other law may exempt a particular proceeding. AS 08.01 applies to the Board of Public Accountancy and under section 25 of this draft, hearings of that board are not subject to the APA. Consequently, the change to this section is necessary.

Section 2 The termination date for the Board of Public Accountancy is extended to June 30, 1986.

Section 3 Six, rather than five, members of the board must be certified public accountants and four of them must have permits to practice under AS 08.04. The board now has only one public member, rather than two.

Section 4 Minor drafting changes have been made for consistency.

Section 5 The requirement that a member continues to serve until his successor formally advises the board of acceptance of appointment and appears at the next meeting is deleted.

Section 6 The board is required to elect a chairman, rather than a presiding officer. The requirement that a treasurer

be elected and the provision that one person may serve as secretary and treasurer is deleted.

Section 7 The types of regulations that may be adopted by the board are itemized.

Section 8 The board must submit an annual report to the governor containing specified information that will be made available to any person on request.

Section 9 At least 90 days before adopting a regulation, the board must mail a copy of the proposal to each person certified under AS 08.04 with a request that advisory comments be submitted at least 45 days before the proposed effective date.

Section 10 Requirements for a certificate of "certified public accountant" are set out.

Section 11 The board may waive the educational requirement for a certificate if it determines that the educational qualifications of the applicant are acceptable. The reason for and method by which the board may refuse a certificate for lack of good character are clarified.

Section 12 Examinations are to be held at least twice each year. Requirements for eligibility to take the examination are set out.

Section 13 The amount of an application for an evaluation of educational qualifications and to take an examination is set by the board, rather than being \$50.

Section 14 Application for certification by a nonresident constitutes the appointment of the lieutenant governor as agent for service of process in an action arising out of the practice of public accounting in this state by the nonresident.

Section 15 Qualifications for a permit to practice public accounting for an individual, a partnership and a corporation are set out.

Section 16 A person with a certificate before the effective date of this Act does not have to obtain a new one. The person shall automatically be issued a permit to practice as well.

Section 17 A partnership or corporation engaged in public accounting must register with the board and must meet itemized requirements.

Section 18 The board must establish the fee for registration of partnerships and corporations and for notification to the board of the admission or withdrawal of a partner or shareholder.

Section 19 Each office for the practice of public accounting must be registered biennially, rather than annually.

Section 20 The board shall establish a fee for the registration of an office.

Section 21 The title "certified public accountant" may not be used in connection with an office registered under AS 08.04 unless it is under the direct supervision of a person with a permit to practice.

Section 22 The board's authority to suspend a certificate, permit, or registration is limited so that the board may do so only for a period not to exceed two years. The grounds for suspensions are altered somewhat.

Section 23 A special hearing requirement is specifically added to the section authorizing the board to revoke the registration or permit to practice of a partnership or corporation that does not meet qualifications for registration. Under existing law a hearing is required under the APA.

Section 24 A special hearing requirement is specifically added to the section authorizing the board to revoke the registration and permit to practice of a partnership or corporation for grounds other than those set out in the previous section. Under existing law a hearing would be held under the APA.

Section 25 A procedure for hearings by the board is established. These hearings are not conducted under the APA, as hearings of other occupational boards are. A person adversely affected by an order of the board after a hearing may petition for court review within 30 days. The review shall be de novo on the record. Upon taking disciplinary action, the board is required to notify the board of

accountancy of any other state the person holds a certificate, registration or permit in.

Section 26 A person may not use the title "certified public accountant" unless he has a certificate, but he need not have a permit to practice.

Section 27 A person offering financial services may not use the title "certified public accountant" even if he is certified unless he has a permit to practice.

Section 28 A partnership or corporation may not use the title "certified public accountant" unless it is registered and has a permit to practice. This is the same as existing law, but deletes a reference to a repealed section.

Section 29 This is the same as existing law, but deletes a reference to a repealed section.

Section 30 This is the same as existing law, but deletes a reference to a repealed section.

Section 31 This is essentially the same as existing law, but deletes a reference to a repealed section.

Section 32 This is essentially the same as existing law, but deletes a reference to a repealed section.

Section 33 This is the same as existing law, but deletes a reference to a repealed section.

Section 34 This is the same as existing law, but minor drafting changes have been made for consistency of word usage.

Section 35 Paragraphs are added to the section itemizing things that are not prohibited under AS 08.04 relating to disclosure of confidential information and the offering of financial services by persons without permits to practice.

Section 36 The section on injunctions is made applicable to violations of the entire chapter, rather than to only certain sections.

Section 37 Violation of the chapter is made a class A misdemeanor.

Section 38 This has been redrafted slightly for clarity.

Section 39 This permits an accountant's working papers to be transferred to the accountant's corporation, or the successor in interest to the partnership or corporation, as well as to the accountant's partner.

Section 40 An accountant is prohibited from disclosing confidential information obtained in the course of performing public accounting, except in certain circumstances.

Section 41 Additional definitions are added to AS 08.04.

Section 42 A member of the board serving on the effective date of this Act continues to serve until the term expires.

Section 43 Certain provisions are repealed.

Section 44 The Act takes effect January 1, 1985.

TBC:ojb
J6/074



University of Alaska, Fairbanks

Fairbanks, Alaska 99701

March 1, 1984

The Honorable Senator Richard Eliason
Chairman, Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

Please find enclosed a copy of a paper discussing Senate Bill 318. I hope this paper will be helpful in your committee's deliberations on this important piece of legislation. I researched this paper as my academic research project for this year. If I can be of any assistance as this legislation moves through the political process, please call on me.

Sincerely,

Tom Bartlett, Associate Professor
Department of Accounting
School of Management

TB/bcs

Certification Requirements for CPAs:
A Look at Senate Bill 318

Tom Bartlett, CPA
Associate Professor of Accounting
School of Management
University of Alaska, Fairbanks

February 29, 1984
Fairbanks, Alaska

The current session of the Alaska Legislature (Jan. 84-?) is debating legislation significantly affecting accountants in Alaska. (Senate Bill No. 318 introduced by Senator Bette Fahrenkamp of Fairbanks). This legislation involves the State's requirements for certification of Certified Public Accountants. Each of the fifty-four states and territories within the United States sets minimum requirements that must be fulfilled before an individual is granted a CPA certificate. Traditionally, the specific requirements of the states have centered on three elements; Education, Examination, and Experience. This paper will discuss how the proposed revision of the Alaskan Public Accountancy Statute will change those elements. Particular emphasis will be placed on the experience requirement, since that is the element most altered by Senate Bill 318.

Before any discussion of certification requirements, the paper will discuss the rationale for any government involvement in the certification process. Since such requirements result from government involvement, it is necessary to understand the objectives of government regulation in order to critically review the current and proposed qualifications requirements of Alaska's statute. Following this rationale discussion, Alaska's present and proposed certification requirements will be contrasted to the current status and historical development of certification requirements in other states. Information will be presented on the requirements of other states. The source of all these references to the various state public accountancy laws and regulations is the Accountancy Law Reporter published by Commerce Clearing House, Inc. in cooperation

with the American Institute of Certified Public Accountants. References are current through December, 1983. Finally, in conclusion, recommendations and opinions concerning Senate Bill 318 will be presented.

The proposed legislation additionally provides for other significant changes in the public accountancy statute; however, a detailed discussion of all the changes is beyond the scope of this paper. This paper has been prepared under the auspices of the University of Alaska-Fairbanks School of Management and such support is gratefully acknowledged. Opinions expressed, however, are solely those of the author.

Rationale for Certification and Regulation

The CPA certificate is not granted by a private organization such as the American Institute of Certified Public Accountants (AICPA). Rather, the various state governments grant the certificate. Why should state governments spend considerable time, effort, and dollars certifying public accountants? How is certification in the Public Interest? We will examine two differing rationales for government involvement in a certification process; the Public Interest Rationale and the Self-Interest Rationale.

Public accountants provide accounting services to the general public. These services require a knowledge of generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). This extensive and complicated knowledge cannot be expected of the general public. Accordingly, a non-accountant cannot be expected to confidently evaluate a public accountant or his work with respect to technical accounting or auditing knowledge. Some

sanctioned indicator is required so that a non-accountant member of the general public can be assured a public accountant does possess that level of technical knowledge and proficiency expected of a professional public accountant. In our society that indicator is the certification as a CPA. The states' certification processes are designed to insure compliance with some minimum level of qualifications before an individual can hold himself out to be a CPA. The general public might thus assume that a sanctioned CPA possesses the required degree of technical knowledge and proficiency. Certification protects the public interest and requires the State to closely administer that minimum level of efficacious qualifications. This argument for government certification and regulation of public accountants is the "Public Interest Rationale."¹

One might expect that the technically uneducated general public would have clamored for the first public accountancy laws. The public interest rationale for certification and regulation involves general public protection. We might expect the public to lobby and exert political pressure for that protection. However, it was the accounting profession itself which initially fought for certification. Certification limits the number of new entrants into

¹In economics terminology, a market failure exists, i.e. the consumer of accounting services is unable to judge the quality of those services. One of the necessary conditions for pure market competition (that consumers possess a high degree of knowledge about the product purchased) is violated. Government intervention in the accounting marketplace is necessary to remedy this deficiency.

employment as public accountants and enhances an individual's and a profession's status and prestige.² Historically in the United States, government regulation of the professions has resulted from the political activity of the group to be regulated.³

At the turn of the twentieth century, public accountancy in the United States was dominated by British Accountants who were distinguished by their designation as Chartered Accountants. (CA). The British accounting journal, The Accountant stated in 1896, "we believe we are understating the case when we say that the bulk of the most desirable accountancy business in the States is transacted by British accountants." American counterparts of these British Accountants had established the American Association of Public Accountants in 1887 in an attempt to respond to this British challenge. Among the initial actions of this group was political

² See for example, The Significance of Organization Conflict on the Legislative Evolution of the Accounting Profession in the United States, Myron Samuel Lubell, Arno Press, 1980. On page 22 Lubell states, "Benefits such as higher income, prestige and autonomy accrue to members of an occupational group generally recognized as a profession. Accordingly, many occupational groups seek to publicize the complexity of their craft and the importance of their services, hoping to secure recognition as a profession. Such groups typically seek legitimization of their claim to professional status through licensing, certification, or other forms of legal recognition.

³ See The Tyranny of the Experts, Jethro K. Liberman, Walker Publishing Company, Inc., 1970. On page 15 Liberman states, "The bulk of existing professional licensing laws was passed at the behest of the professional groups; almost invariably these groups have been given a share of the regulatory power. At a session of the Wisconsin legislature some two decades ago, caterers, canopy and awning installers, cider makers, coal dealers, dancing school instructors, egg breakers, frog dealers, labor organizers, meat cutters, music teachers, and beer coil cleaners tried unsuccessfully to get themselves regulated. This same state in 1939 did enact legislation requiring examination for house painters; on the strength of this law, friendly citizens who helped relatives and neighbors paint their houses were arrested and fined for failure to possess the requisite license." Fortunately, for friendly neighbors, but perhaps not for certified painters, the law was later declared unconstitutional. Accountants have been more successful than painters in proving to the Judiciary the compelling public interest benefit in their being regulated. So have physicians, attorneys, barbers, and realtors.

activity in support of certification and in 1906 the New York legislature enacted the first public accountancy statute in the United States. Other states quickly followed the New York lead with the drive for certification typically spearheaded by the accounting profession within the various states.⁴ Through legislation, accountants who were able to qualify, achieved legal, public recognition of a professional title.

These early statutes were of a permissive nature, i.e., the statutes restricted use of the title CPA, but did not reserve any particular accounting service strictly for the CPA. Later, statutes (beginning in the mid-20's) were generally of a restrictive nature, i.e., restricted to CPAs the right to express an opinion on financial statements. This is the so-called attest function of public accounting. These statutes restricted for the CPA a title and exclusive right to perform certain types of services. By limitation of rights of others to engage in such services the CPA reaps the increased rewards due the supplier of a scarce commodity in a restricted economy.⁵ This is known as the self-interest rationale

4 See The Rise of the Accounting Profession: From Technician to Professional 1896-1936, vol.1, John L. Carey, AICPA, 1969 for an in-depth discussion of the British influence on accounting in the United States and the early accounting statutes of the various states.

5 "We have seen that the entry of new members into an occupational group will generally have the effect of lowering the average remuneration of all the members of the group. This is no doubt why all professions and trades, at all times, feel themselves to be overcrowded: it is because if more people come into them, those already established will probably be worse off. What is more natural, therefore, than to find that those who already enjoy the benefits of a favored occupation seek to preserve those superior advantages for themselves by making it more difficult for other people to enter the occupation? So trade unions of the craft type seek to prevent the entry of too many people into the craft by imposing arduous and often unnecessary apprenticeship conditions or by demanding high membership fees. Professional associations, under the respectable guise of establishing "standards," frequently impose a long and costly ritual of education and preparation upon the neophyte." Kenneth E. Boulding, Economic Analysis Volume 1 Microeconomics, Harper and Row, 1966.

for regulation.

Certification qualifications result from both rationales of government involvement. Under the public interest rationale qualifications for certification are necessary to insure the professional level of technical knowledge and proficiency. Under the self-interest rationale, qualifications limit access of potential competitors to the accounting marketplace. CPAs accept and even lobby for government's certification regulations and they especially accept regulations coincident to the right to perform a restricted service. Traditionally in the United States, regulations have evolved which require passing a professional examination, completing a designated level of education and attaining a designated level of work experience.

The specific technical knowledge desired of a CPA can only be attained after a period of formal education. Hence, we have an Education requirement.

A potential CPA must prove possession of that level of technical knowledge. Hence, we have an Examination requirement.

Technical proficiency requires a level of professional judgment. That judgment is only acquired after a period of employment in an environment where the restricted public accounting service is performed and only after the potential CPA participates as an apprentice in the actual performance of the restricted service. Hence, we have an Experience Requirement.

In the remainder of the paper, the specific qualification requirements will be discussed. These two rationales for government involvement should be considered as the specific requirements are examined. Any discussion of the experience requirement must especially consider these rationales. We shall briefly discuss

present and proposed education and examination requirements before moving to a more extensive discussion of the experience requirement.

Education Requirement

A postbaccalaureate education requirement is the official policy of the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA).⁶ This policy position was adopted by the AICPA in 1969 but implementation through legislation has been slow.⁷ Only Florida currently requires education beyond the baccalaureate level.⁸ Hawaii has an education requirement of thirty semester hours beyond the baccalaureate level, but in 1983 that requirement

⁶ In December, 1983, the Special Committee on Model Accountancy Bill (a joint AICPA/NASBA committee) issued for comment a proposed Model Accountancy Bill. This draft bill was prepared with a view to merging the AICPA's 1981 Model Bill and NASBA's 1980 Model Bill "into a bill which would offer in a single harmonized form the substantive provisions of both those legislative models on which the sponsoring organizations agree, and set forth in opinion form the substantive provisions on which they differ." (introduction to Model Bill quoted). The joint bill calls for a baccalaureate degree with accounting concentration plus thirty semester hours of additional study. This is generally referred to as the 5 year education requirement.

Although the joint committee agreed (as with education) on most provisions of the joint bill, there was some disagreement. See notes 13 and 20 for discussion of optional provisions of the joint bill which resulted from those disagreements.

⁷ The five-year education policy was adopted by the AICPA with the issuance of the "Report of the Committee on Education and Experience Requirements for CPAs". (The Beamer Committee). That 1969 report targeted the year 1975 as the date for adoption of the five-year requirement.

⁸ Anecdotal evidence appears to indicate that the additional education requirement has restricted the supply of entry level accountants in Florida. Several students are scheduled to graduate from the University of Alaska-Fairbanks this spring with "MBA-Concentration in Accounting" degrees. During the fall recruiting season, one of these students was not offered a position in the Alaskan office of a particular national CPA firm. Rather, the student was asked if relocation to Florida was a possibility. Florida's postbaccalaureate education requirement became effective in 1983.

was revised to allow an applicant the option of replacing the additional education with an additional thirty months of professional experience in a public accounting practice. Utah has enacted a postbaccalaureate requirement which becomes effective in 1986. Several states reduce the experience requirement for the applicant with education beyond the baccalaureate level.

Responding to the slow implementation of a five year education requirement, an AICPA/NASBA joint "Commission on Professional Accounting Education" reaffirmed the postbaccalaureate position in July 1983. A vigorous political action campaign is being presently mounted to implement this increased education requirement through legislation in additional states.

The Alaskan statute does not require even a baccalaureate degree. Under present law the education requirement is two years of study at a recognized college or university or graduation from a recognized community or junior college. While not required, a baccalaureate degree does reduce Alaska's experience requirement. Senate Bill 318 would require a baccalaureate degree or its equivalent conferred by a college or university acceptable to the State Board of Accountancy.

One might argue that this is a substantial change which seriously restricts entry into the accounting profession. However, the requirement of a four year degree does not appear to be a particularly contentious issue among the concerned parties. As the rules of GAAP and GAAS have expanded in recent years,⁹ the

⁹ One might examine the proliferation of new authoritative standards to understand the increase in the technical accounting and auditing body of knowledge. Prior to 1970 there were 15 APB Opinions and 41 Statements on Auditing Procedure. Between 1970 and December, 1983, 16 new APB opinions, 76 FASB standards, 13 new Statements on Auditing Procedures, and 47 Statements on Auditing Standards were issued by various authoritative bodies.

accounting profession has generally recognized the need for a baccalaureate education to insure significant exposure to the accounting and auditing body of technical knowledge. Only fourteen accounting jurisdictions do not currently require at least a baccalaureate education.¹⁰ Additionally, it is generally recognized that a baccalaureate education is necessary if an applicant is to have a realistic opportunity of successfully passing the CPA exam. This changed education requirement will bring Alaska more closely into conformity with existing legislation in other states. Perhaps the principal question regarding the education requirement is whether Senate Bill 318 goes far enough in strengthening the requirement.

As discussed, both the AICPA and NASBA favor an education requirement beyond the baccalaureate level. In a few years, Alaska might be considering an education requirement of one year of additional study beyond the traditional four year degree. Such consideration is probably premature presently since no institution of higher education in Alaska currently has a five year Accounting program.

¹⁰ The fourteen jurisdictions are California, Delaware, Iowa, Minnesota, New York, North Carolina, North Dakota, Oklahoma, Oregon, Puerto Rico, Texas, Vermont, Virgin Islands, and Alaska. In some of these jurisdictions a degree is required unless an applicant fulfills an almost prohibitive experience requirement. For example, New York will substitute 15 years of public accountancy experience for the baccalaureate degree. The remaining forty jurisdictions require a baccalaureate degree (except for Illinois and New Hampshire which require four years of college education but no specific degree); however, in some states the Board of Accountancy has the authority to waive the baccalaureate requirement if an educational equivalency can be verified by successful completion of a Board Administered examination.

Examination Requirement

All states require a potential CPA to pass the Uniform Certified Public Accountants Examination administered by the AICPA. The 19 1/2 hour examination includes four sections; (1) Auditing (3 1/2 hours), (2) Business Law (3 1/2 hours), (3) Accounting Theory (3 1/2 hours), and (4) Accounting Practice (9 hours). Alaska currently has such a requirement and no change is proposed in Senate Bill 318. States do not always agree on what constitute a passing grade on the CPA exam. All states require a grade of 75 on each of the four sections of the exam, but states differ on what constitutes a "conditional pass." A conditional pass allows an examinee to carry forward passing grades on certain section(s) to future examinations. Thus, if the examinee passes some sections but not others, the passed section(s) do not have to be subsequently retaken. The states have different rules on how many passed sections are required for a conditional pass and on how the conditional pass is carried forward to future examinations. States also differ on whether an ethics examination must be passed by applicants.

Senate Bill 318 (like the present statute) requires a passing grade of 75 on each section of the Uniform CPA exam. The Alaska conditional pass rule is also not amended by the proposed legislation. Section 08.04.160 of the Alaska Public Accountancy Statute states, "An applicant who receives a passing grade in accounting practice or in at least two of the other subjects has the right to be re-examined in only the remaining subjects at succeeding examinations within five years after the first examination, if the applicant takes an examination in the remaining subjects at least

once each calendar year unless excused by the Board for good cause. An applicant who receives a passing grade in the remaining subjects has passed the entire examination."

There is one minor change in examination requirements in the proposed legislation. Currently, Alaskan applicants are required to pass an ethics examination administered by the AICPA but the requirement is by State Board regulation rather than through legislation. Senate Bill 318 would require the ethics examination through legislation. Section 08.04.100 of the Alaska Public Accountancy Act would be amended to require the applicant to have, "passed in this or another state the ethics examination administered by the AICPA."

Thus, the proposed legislation makes only minor changes to the examination requirement, and though the education requirement change is substantial it does not appear to be particularly controversial. The major change proposed is to the experience requirement. That change is discussed in the next section of this paper.

Experience Requirement

Accounting work experience has been traditionally required of potential CPAs. Such experience, when combined with technical education, will enable the accountant to develop professional judgment. Such seasoned professional judgment is a necessary ingredient of the expected level of technical knowledge and proficiency which the public assumes of a CPA. Since the only

restricted service of the CPA is the expression of an opinion on financial statements,¹¹ the necessary experience should be related to the expression of such opinion. Only CPAs in public practice express opinions on financial statements. Accordingly, most accounting jurisdictions historically required a period of employment with a public accounting firm (usually two years) to meet legislated experience requirements.

Challenges to the experience requirement have been numerous throughout the history of public accountancy laws and especially numerous in recent years. Challengers usually believe that a public accounting experience requirement restrains entry into the accounting profession and provides present CPA firms with a captive labor pool, i.e., recent accounting graduates who desire to be certified. Additionally, they have suggested that the most important components of technical proficiency are a thorough knowledge of GAAP and GAAS. They argue that such knowledge is gained through education, not experience. Finally, they argue that the value of a short period of

¹¹ The restricted service is not quite so easily defined, and is a contentious issue in several states. CPA's express either a Compilation, Review, or Audit Report at the conclusion of an engagement in which there is an association with financial statements. An audit report expresses an opinion on financial statements; a review report disclaims an opinion, but gives some degree of limited assurance; and a compilation report disclaims an opinion with no degree of assurance. The question is whether all three types of report engagements are restricted to CPAs. In several states, unlicensed public accountants have argued that they should be allowed to disclaim an opinion by issuing a review or compilation report. Proposed Senate Bill 318 makes a significant change in Alaska's law in this regard. The current accountancy statute is not specific about the exact types of reports restricted to the CPA. Under the proposed revision, section 08.04.560 is amended to state, "A person may not sign, affix, or associate a name...to a report expressing or disclaiming an opinion on a financial statement based on an audit or examination of the statement, report expressing assurance on a financial statement based on a review of the statement, compilation report on a financial statement based on a compilation of the statement, unless the person holds a permit to practice public accounting under this chapter..."

public accounting experience has been overstated. A new recruit to a CPA firm typically engages in detail audit testing work which might not assist significantly in the development of professional judgment and technical proficiency.

Anecdotal evidence would appear to confirm the captive labor pool argument. Over the past several years, the principal employment consideration of many, if not most, of the accounting graduates of the University of Alaska-Fairbanks has been to meet the experience requirement for certification as a CPA. Although private industry (especially the large Oil Companies) generally offer substantially higher salaries and benefits, most of the the accounting graduates accept employment in public accounting. This phenomenon is not unique to Alaska. The following quotation from Leo Donahue, State Auditor of Connecticut, confirms this development in other states Speaking to the experience requirement in a March 10, 1981 legislative hearing on Connecticut's Accountancy law, Mr. Donahue stated, "Where it's important to us, Mr. Chairman, is in the recruiting of young people who haven't yet established their career goals, coming to our office right out of college looking for employment. One of the first questions they always ask us is how much credit they will receive for work in our office towards being certified."

The argument that experience in public accounting will not add any special qualities to increase a CPA applicant's technical knowledge and proficiency was made by William Bruschi in the March 1969 Journal of Accountancy. At the time this article was written, Mr. Bruschi was a staff employee of the AICPA and presently Mr.

Bruschi is the AICPA Vice-President for Examinations and Regulations. The article was written as a position paper of the AICPA Committee on Education and Experience Requirements for CPAs (the Beamer Committee). This committee endorsed elimination of any experience requirement. Since 1969, the AICPA has not endorsed required experience as a qualification for certification.

Bruschi isolates professionalism, technical competence, and administrative ability as the most desired qualities of a CPA. The most important elements of professionalism are personal image of professionalism, ethics, and awareness of expected level of competence. Bruschi argues that education with its emphasis on personal development is a more valuable source of professionalism than a beginning accountant's first year or two of public experience. The elements of technical competence include awareness of information flow, applications of GAAP and GAAS, concepts of materiality, preparation of reports, professional judgment, and risk analysis. While Bruschi believes that experience is invaluable in developing these skills, he doubts that these skills are likely to be acquired in the first year or two of public accounting employment as a junior staff accountant. Finally, Bruschi feels that exposure to the third quality, administrative ability, including management of personnel and client engagements, is definitely not available to the junior staff accountant.

Most experience requirements initially required a certain number of years of public accounting employment. However, as challenges and especially restraint of trade arguments grew more numerous, State Legislatures and State Boards of Accountancy were forced to review their experience requirements. The political pressure for such

review often came from individuals who had met the Education and Exam requirements, but not the Experience requirement for certification. The courts were also involved as some of these individuals challenged experience requirements in court. The requirement had to be implemented to insure that the experience gained during the apprentice period was relevant to the development of professional skills expected of an accountant who was expressing an opinion on financial statements. In many states the requirement of a certain number of years CPA firm employment began to change.

State Accountancy Boards had to define the characteristics of relevant experience and with each new definition a revised experience requirement resulted and new regulation implementation problems emerged. Some argued that the development of professional judgment required a work experience in which independence was recognized. Only by working in a firm of independent CPAs would a potential CPA encounter such an "independence" atmosphere. However, challengers contended that other accounting employment situations also stressed independence, such as work experience with State Legislative Audit, GAO, IRS, and some private industry internal audit departments.

Other definitions of relevant experience attempted to specify the type of work to be performed. The restricted service a CPA renders to the public is the expression of an opinion on the fair presentation of financial statements in accordance with GAAP. This attesting to financial statements is the particular technical proficiency that the experience requirement is expected to enhance in the potential CPA. Some states began to require that some amount of attest activity be included in any qualifying experience and some

specifically required an amount of time engaged in specific types of attest activity such as audit planning, audit program preparation, and audit report writing. Since only public accountants are allowed to express opinions on financial statements, these regulations have often been interpreted to require public accounting employment. However, internal and especially governmental auditors argue that they are involved in audit activity and that they are sometimes associated with opinions on financial statements.

Implementation problems arose as State Boards attempted to enforce their different experience requirements. Fairness charges were leveled against State Accountancy Boards as its members tried to judge whether particular patterns of experience did or did not meet the stated regulations.¹² Some states began to radically alter or eliminate the experience requirement. Three different approaches have been utilized. A few states have completely eliminated the experience requirement. The other jurisdictions have an experience requirement, but some states have liberalized their definition of experience, thereby eliminating any public accounting employment requirement. Finally, some states have established a two-tier licensing arrangement for CPAs.

Florida currently requires postbaccalaureate education and no

¹²For example, in 1974 the Utah Supreme Court ruled in favor of a plaintiff with 15 years private accounting experience who had been denied a certificate because he lacked the required public accounting experience. The Court found this denial "arbitrary, capricious, and without foundation in fact or law" and ordered the Utah State Board of Accountancy to grant a certificate. An important issue in the case concerned the Board's certification of another private accountant who had worked for two years in the internal audit department of an insurance company. That private accountant had been certified under an equivalent experience decision by the Utah Board of Accountancy. [Merrill vs. McGinn, 30 Utah 2d 421, 518 p.2d 1392 (Utah 1974)]

experience. Maryland, Montana, and West Virginia do not require experience but do require a baccalaureate education. North Dakota, Puerto Rico, and Oklahoma, are among the jurisdictions which do not require a baccalaureate degree. In these jurisdictions, no experience is required for those applicants with an appropriate baccalaureate degree. In Colorado experience is required, but the requirement is waived for those candidates with a postbaccalaureate degree. In eight jurisdictions, it is therefore possible to become certified and practice public accounting without meeting any experience requirement.

It is difficult to determine exactly the number of states which require public accounting experience. All jurisdictions except the eight discussed above require experience, but most accept experience equivalent to public accounting experience. A reading of the statutes and regulations does not always indicate exactly how this "equivalent experience" regulation is administered. For example, Alaska currently does accept equivalent experience, but work in private accounting is generally not considered totally equivalent. It appears that approximately twenty jurisdictions will accept private accounting employment to meet the experience requirement.

Alaska's sister petroleum state, Texas, is one example of a state in which public accounting experience is not specifically required. The Texas law does require experience but the statute reads that the experience "shall be in public practice under the supervision of a CPA or public accountant or in an activity comparable thereto (emphasis added) or in any combination of such types of experience in work of a non-routine accounting nature which continually requires independent thought and judgment on important

accounting matters." (Art 41a-1-Public Accountancy Act of 1979, Section 12, paragraph (5)(A). Regulations of the Texas State Board of Public Accountancy define comparable experience, "Experience in other positions may be approved by the Board as experience comparable to experience gained in the practice of public accountancy under the supervision of a CPA or public accountant upon certification by the person or persons supervising the candidate that the experience was of a nonroutine accounting nature which continually required independent thought and judgment on important accounting matters. Experience for which approval is sought under this section must be described in detail and the applicant must inform the Board of one or more certified public accountants or public accountants having knowledge of the applicant's experience." (Sec. 511.123 of the Rules of the Texas State Board of Public Accountancy).

Under the Texas regulations, an individual without public accounting experience can be certified as a CPA provided that his/her private industry accounting experience is of a non-routine nature which requires independent judgment on important matters. An individual so certified in Texas would be unable to obtain a reciprocal CPA certificate in other states which require public accounting experience.

Under a two-tier licensing system, an applicant can be granted a CPA certificate without meeting any experience requirement. This is tier I. A tier I certificate would be granted when an individual had successfully completed the Exam and Education requirements for certification. This tier I certificate would not qualify an individual to practice public accounting. A tier II license would

only be granted after an experience requirement had been fulfilled and this license would allow an individual to engage in the practice of public accounting. NASBA's Model Accountancy Act favors this approach.¹³

Illinois adopted the first two-tier plan in 1943.¹⁴ Certification was granted without experience, but a permit to practice public accounting required experience. No jurisdiction followed the Illinois lead until Iowa adopted the two-tier system 31 years later in 1974. Seven more states [Arkansas(1975), Wyoming(1975), Nebraska(1977), Missouri(1978), Louisiana(1979), Minnesota(1980) and Utah (1981)] and the District of Columbia(1978) have adopted the Illinois Plan.¹⁵ Connecticut adopted the plan in 1981, but repealed it in 1983. No other state has adopted the two-tier Illinois Plan. Currently ten jurisdictions have adopted the Illinois Plan two-tier system.

13 This is one area where NASBA and the AICPA were unable to reconcile their differences in the December 1983 exposure draft of a joint model bill. Under one provision (favored by the AICPA) that bill requires no experience. An optional provision to the permit to practice section requires experience in the practice of public accountancy or its equivalent. NASBA favors this alternate provision.

14 An interesting feature of the two-tier system in Illinois is that the CPA certificate (Tier I) is granted by the University of Illinois. The tier II permit to practice is granted by the State of Illinois.

15 Kansas has adopted a plan similar to the Illinois plan. In that state an individual with an accounting baccalaureate degree who has passed the CPA examination receives a certificate known as the "Kansas certificate." This certificate which does not require an experience requirement is a certificate of having "passed the CPA examination." An experience requirement is required before a permit to practice in Kansas as a certified public accountant is granted.

Seven other jurisdictions have adopted plans sometime referred to as two-tier systems.¹⁶ In these jurisdictions, experience is required for both certification and the permit to practice. The two-tier terminology in these states is in reference to the continuing education requirements. The permit to practice in these seven jurisdictions requires continuing professional education. Such continuing education is not required for CPA's who do not engage in public practice. These states should not be considered two-tier in any discussion of the experience requirement. Only the ten jurisdictions above are true two-tier states which require experience for the permit to practice, but not for certification.

The Experience Requirement in Alaska

The experience requirement in Alaska has evolved in a manner similar to the other accounting jurisdictions. A requirement for public accounting work experience has been replaced by detailed regulations which attempt to define relevant experience. Alaska's Regulations are particularly complicated. An individual with a baccalaureate degree in accounting¹⁷ must accumulate four experience points, including 850 hours performing the attest function. One year of public accounting experience under the direct supervision of a CPA counts for two experience points; one year experience working in private accounting or governmental accounting

¹⁶ These seven jurisdictions include Maryland, Mississippi, Montana, North Dakota, Oklahoma, Puerto Rico, and West Virginia.

¹⁷ Alaska Board of Accountancy regulations define an accounting major as 24 semester hours of accounting courses, 3 semester hours of business law, 3 semester hours of economics, and 3 semester hours of either statistics, computer science, or algebra. (Sec 12 AAC 04.185)

under the direct supervision of a CPA counts for one and one-third experience points; one year experience working as an accountant not under the direct supervision of a CPA counts as one point.

The 850 hours performing the attest function must include 50 hours experience in planning audit programs and 150 hours experience in the analysis, review, or preparation of audited or unaudited financial statements. These attest function hours have generally been interpreted so that only employment in public accounting and some types of governmental accounting has qualified. Although individuals can accumulate the four experience points with three years of private accounting experience, private accountants have generally not been able to accumulate the required 850 attest function hours.

Opponents to Alaska's current law are principally those individuals who work in private accounting and have accumulated or will accumulate the required four experience points. These individuals are unable, however, to accumulate the attest function hours. Some of these individuals have moved to Alaska from other states where the public accounting experience requirement has been eliminated. Some were licensed as CPA's in their previous locations but they are unable to obtain reciprocal Alaska certification because their experience does not qualify under Alaska regulation.

The proposed legislation in Alaska would establish an Illinois Plan two-tier certification system. The CPA certificate would be granted to an individual who had fulfilled the education requirement

and successfully passed the Uniform CPA Examination and the ethics exam.¹⁸ No experience would be required; however, certification would not license an individual to practice public accounting. Section 08.04.375 of the proposed legislation states that "a biennial permit to practice public accounting in this state shall be issued by the Board to a CPA with public accounting experience that meets requirements established by regulations of the Board or other experience that the Board determines to be substantially equivalent." Presumably, this experience requirement would be substantially similar to the current requirement which includes the 850 attest function hours.

Discussion of Two Tier Systems

The two tier system sidesteps the issue of the value of experience as a qualifying certification criteria. Since the Tier I certificate would not allow an individual to practice public accounting, the question of the value of experience in the development of public accounting proficiency is not relevant. The

18 The proposed law also requires that the applicant be a person of good character. Some states have eliminated any character requirement because of problems of interpretation. The joint AICPA/NASBA draft model bill retains the good character requirement but defines it precisely to assure that the requirement will be narrowly and precisely construed, avoiding problems of both vagueness and overbreadth." Section 5(b) of the joint model bill reads, "Good character for purposes of this Section means lack of a history of dishonest or felonious acts. The Board may refuse to grant a certificate on the ground of failure to satisfy this requirement only if there is a substantial connection between the lack of good character of the applicant and the professional responsibilities of a licensee, and if the finding by the Board of lack of good character is supported by clear and convincing evidence. When an applicant is found to be unqualified for a certificate because of a lack of good character, the Board shall furnish the applicant a statement containing the findings of the Board, a complete record of the evidence upon which the determination was based, and a notice of the applicant's right of appeal."

value of experience remains a relevant question only with regard to the Tier II license. By establishing an experience requirement for the permit to practice, two-tier legislation accepts the view that experience is a necessary ingredient in the development of public accounting proficiency. This view is in accord with the NASBA position on a Model Public Accountancy Bill. During the past several years the public accounting profession has been repeatedly attacked with allegations of substandard work performance.¹⁹ NASBA's policy is that an experience requirement is a necessary part of a triad of regulations including required continuing education, positive enforcement, and experience to combat substandard performance.²⁰ However, a Tier I certificate holder does not engage in public accounting services, so the question of substandard public performance is not relevant for the CPA not in public practice.

¹⁹ See for example, The Accounting Establishment by the staff of the Subcommittee on Reports, Accounting and Management of the Committee on Governmental Affairs of the United States Senate, 1976 (commonly referred to as the Metcalf Report) and The Commission on Auditors' Responsibilities; Report, Conclusions and Recommendations, AICPA, 1978 (commonly referred to as the Cohen Commission Report).

²⁰ Regulators have recognized that the proliferation of technical authoritative standards requires continuing effort by CPAs to stay abreast of current authoritative developments. 44 jurisdictions (including Alaska under both the current and proposed statutes) have mandatory continuing professional education requirements. The AICPA as well as NASBA endorses such requirements. NASBA also endorses positive enforcement programs to monitor compliance of practicing CPAs with GAAP and GAAS. Under such a program a Board of Accountancy "may review the publically available professional work of licensees on a general and random basis, without any requirement of a formal complaint or suspicion of impropriety on the part of any particular licensee." (Joint draft model bill quoted) In the joint Model Bill the positive enforcement provision is shown as optional because of a difference in the legislative policies of NASBA (which favors it) and of the AICPA (which has no formal policy). Some practitioners of public accounting are concerned about the excessive intrusiveness of such a program. Such programs currently exist in only a few states, but in Florida and Louisiana such programs are considered very effective in ferreting out substandard work. The Alaska statute does not provide for such a program nor is such a program included in Senate Bill 318.

If, however, the general public is not concerned with the performance and proficiency of a Tier I CPA, one must question how the public interest is benefitted from the certification of such private accountants. The public interest rationale for certification and regulation hinges on the public's ability to assume a level of technical knowledge and proficiency in individual public accountants. Why should government expend any effort in certifying accountants who are not in public practice? What is the rationale for government certification of private accountants?

There is a self interest argument that can be made for the certification of private accountants. The CPA certificate in our society grants to an individual much more than the right to practice public accounting. One might argue that the CPA designates an individual as a professional accountant and not simply as a professional public accountant. Some individuals undoubtedly believe CPA stands for certified professional rather than public accountant. If this is true, the private accountant is being denied the status and prestige of a professional. Certainly private accountants, who must possess a level of technical competence on par with public accountants, are deserving of professional recognition. A tier I CPA certificate for individuals who have qualified under education and examination requirements would grant status and prestige as professional accountants.

Private organizations have attempted to grant such status through adoption of such titles as Certified Management Accountant (CMA) and Certified Internal Auditor (CIA). However, these titles

which are granted only after meeting education and exam requirements arguably as strenuous as for the CPA,²¹ may not be perceived as professionally equivalent to CPA by the general public. If one asks a non-accountant what a CMA or CIA designates, the response is likely to be a blank expression or a reference to the Central Intelligence Agency. That same individual would probably say that the CPA designates a professional accountant. Is it fair to deny to individuals in private accounting the title that the public equates with a professional accountant? This question is especially relevant when one realizes that the title CPA was originally granted as a result of the self-interest political pressure of public accountants rather than as a result of a general public pressuring for protection. Isn't the self interest argument of the private accountant just as valid as the self-interest argument of the public accountant?

²¹ The CMA exam is sponsored by the National Association of Accountants and was first administered in 1972. The 17 1/2 hour exam includes five 3 1/2 hour sections; (1) Economics and Business Finance, (2) Organization and Behavior Including Ethical Considerations, (3) Public Reporting Standards, Auditing, and Taxes, (4) Periodic Reporting for Internal and External Purposes, and (5) Decision Analysis, Including Modeling and Information Systems. Two years of management accounting work experience must be completed and successful passing of the exam is required to attain the CMA designation.

The CIA exam is sponsored by the Institute of Internal Auditors and was first administered in 1974. The 12 hour exam includes four 3 hour sections; (1) Principles of Internal Auditing, (2) Internal Audit Techniques, (3) Principles of Management, and (4) Disciplines Related to Internal Auditing. Two years of internal audit experience must be completed and successful passing of the exam is required to attain the CIA designation.

In addition to the exam and experience requirements, both the CMA and CIA certificates also require a baccalaureate education.

There are several other professional accounting designations including CBA (Chartered Bank Auditor, CDP (Certificate in Data Processing), Enrolled Agent (one enrolled to practice before the IRS), CFA (Chartered Financial Analyst), and CISA (Certified Information Systems Auditor). See "An Evaluation of Professional Certification Programs in Accounting" by J. Guy and L. Kistler in the September 1975 Journal of Accountancy for additional discussion of these programs.

Though self-interest might have been the original impetus for public accountancy laws, there does currently appear to be a consensus that the public interest is served through such laws. State Accountancy Boards in several states have been subjected to sunset reviews in recent years and no state has eliminated its public accountancy statute. As the body of accounting and auditing knowledge has expanded and as the accounting profession has been attacked for alleged substandard performance, regulation of the public accountancy profession does appear to be a valid public interest. Therefore, the effect of a two-tier certification system on the regulation process protecting that public interest must be considered. Under a two-tier system there exist two different groups of accountants who possess exactly the same title, but who are not eligible to engage in the same accounting services. The result may be the substitution of one regulation implementation problem for another.

Under a two-tier system the problem of fair implementation of the experience requirement would be eliminated insofar as tier I certification is concerned. However, under the two-tier systems, State Boards have a new problem insuring that tier I licensees do not engage in services restricted to tier II licensees. When Connecticut repealed its two-tier system in 1983, this problem was cited as a reason for the repeal movement. In a March 17, 1983 legislative hearing on the repeal bill, George Viely, President of the Connecticut Society of CPA's stated, "the confusion and difficulties of policing the present system have convinced the Board of Accountancy to change back to the single tier system whereby the granting of a certificate and the licensing to practice use the same

criteria." Other two-tier states have suggested similar policing problems. Two-tier certification was briefly discussed at a January 1984 joint AICPA/NASBA meeting and representatives of two-tier states, notably Missouri, voiced this implementation concern.

Another criticism of the two-tier system is the alleged confusion of the general public. Bernard Blum, chairman of the Connecticut State Board of Accountancy, stated in the same March 17, 1983 repeal hearing, "the public is confused when they see a certificate that says Certified Public Accountant and the person is not licensed to practice." This concern, however, might be overstating the public's level of understanding regarding the different types of accountants without a two-tier system. Kevin O'Brien, an attorney in Connecticut, testified in a March 10, 1981 hearing in which the Connecticut legislature was considering the bill which established its two-tier system, "I understand the problem you raised regarding how does the public know about all this. I submit that I as an attorney who's been in business for six years, have some problem telling what accountants are now. I have a good friend who's a public accountant. Well, I didn't know for years that he wasn't a certified public accountant. And he does my taxes. I don't know what the difference is. And I submit that one more level isn't going to hurt people too much."

Conclusion

This paper has attempted to examine the qualifications criteria for certification of accountants. Good arguments can be made for and against any experience requirement and for and against the two-tier certification system proposed in Senate Bill 318. This section of the paper expresses the opinions of the author. The reader should be

aware that those opinions are clouded by the perspective and self-interest of one who is certified in Alaska, who did work in public accounting to meet the experience requirement, and who has spent the last ten years teaching accounting in Alaska. The reader should also be cautioned that the opinions expressed are solely those of the author and do not represent the position of the University of Alaska-Fairbanks or its Accounting Faculty.

Experience in public accounting is necessary before an individual becomes proficient enough in accounting to individually practice public accounting. Students, upon graduation, generally are well versed in the theory of accounting and auditing. Often the classroom can prepare an individual to pass the CPA exam, but the classroom doesn't develop the professional judgment and proficiency that the public should expect of a CPA. Many students upon graduation have never experienced a real accounting system. While the first years of employment in public accounting may be devoted to fairly routine accounting and auditing work, those years expose the recent hire to live accounting systems. Additionally, while the recent hire may not be exercising any administrative control over client engagements, he is learning about the various factors that must be considered when he is placed in such a control position. I favor retention of an experience requirement before an individual is certified to practice public accounting.

I am persuaded that the CPA certificate does represent the indicator of a professional accountant in our society. Other professional designations (such as CMA) should be equally prestigious but at the present time they are not so regarded. It is unfair to deny the symbol of accounting professionalism to private accountants.

Therefore, I do favor a two-tier system which would allow the private accountant to attain the CPA designation. However, in my opinion, professionalism of the private accountant is as dependent upon experience as it is for the public accountant. No accountant should be designated as a CPA without first completing an experience requirement.

Therefore, I favor a two-tier system, but not the system proposed in Senate Bill 318. The tier I certificate should be granted after an experience qualification has been fulfilled; however, that requirement should be similar to the Texas requirement. (See page 17). This would allow private accountants in Alaska to become certified, but only after two or three years of accounting experience of a non-routine nature which required independent judgment on important matters. The tier II license to practice public accounting should be granted only after two or three years of public accounting experience including some time devoted to audit planning and control. Such a two-tier system would insure that the CPA designation is only granted to individuals who had developed the professional judgment that comes from practical experience and would insure that practicing public accountants would have experience in performing the restricted activities of public accounting.

Additionally, I believe a good case can be made for requiring an applicant without public accounting experience to pass the CMA or CIA exam. (See footnote 21). If the granting of a CPA certificate to private accountants is to certify accounting professionalism, it is reasonable to expect the applicant to possess the technical knowledge of a private accounting professional. The CMA and CIA exams require

Two areas of such conflict are the lack of a five year education requirement advocated by both NASBA and the AICPA and the lack of a positive enforcement program, advocated by NASBA but not by the AICPA. I would personally favor inclusion of a positive enforcement program in any revision to Alaska's Statute.

Senate Bill 318 or some substitute would affect every professional accountant in Alaska. The general public will be affected by any change in existing regulations. This paper has attempted to discuss some of the relevant issues. Interested parties are encouraged to express their opinions and concerns to the legislature.

SB 318 TITLE & SPONSOR SUMMARY

14:17 5/22/84 PAGE 1 OF 2

AMENDED TITLE:

AN ACT RELATING TO THE PRACTICE OF PUBLIC ACCOUNTING, AND PROVIDING FOR AN EFFECTIVE DATE

PRIME SPONSOR: FAHRENKAMP.

CO-SPONSORS: SACKETT.

CURRENT STATUS: 3/26/85 IN (S) LABOR & COM

SB 318 SENATE ACTION

14:37 5/22/84 PAGE 2 OF 2

DATE	SEQ	PAGE	LEGISLATIVE ACTION
06/21/83	01	1539	FIRST READING -- COMMITTEE REPORTS LABOR & COMMERCE RULES

*** ** ** ** **

Alaska State Legislature

SENATOR
DON GILMAN

Juneau Ph.
(907) 485-4835
(907) 485-4529



HOME ADDRESS
P.O. BOX 630
KENAI, ALASKA 99611
(907) 283-4182

DURING SESSION
POUCH V
JUNEAU, ALASKA 99811

State Senate

March 9, 1984

MEMORANDUM

To: Senator Richard Eliason
Chairman, Senate Labor
& Commerce Committee

From: Senator Don Gilman

Would you please enter the attached letter as testimony for the hearing on SB 318, "An Act relating to the practice of public accounting; and providing for an effective date."

Thank you.

National Society of Public Accountants

1010 N. Fairfax Street, Alexandria, Virginia 22314 (703) 549-6400

Office of the Alaska State Director
John E. Baxter
PO Box 503
Homer, Alaska 99603
(907) 235-8643
Jan. 23, 1984

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Alexandria, Virginia

Senator Bob Mulcahy
Pouch V
Juneau, Alaska 99811

Dear Bob,

Thank you for your immediate response to our phone conversation of January 9, 1984 regarding SB 318.

To bring you up to date as to why I am opposing portions of SB 318, following is a brief resume' of my experience and position:

Years of experience in accounting	25+ years
Included in above experience:	
private industry	6 years
self-employed accountant, all within Alaska	17+ years
Director-Alaska Society of Independent Accountants	4 years
Alaska State Director-National Society of Public Accountants	1 1/2 years
Accredited in accounting by Accreditation Council for Accountants	6+ years
Accredited in taxation by Accreditation Council for Accountants	2+ years
Enrolled to practice before the I.R.S.	19+ years

Now to SB 318 objections:

In Sec. 08.04.560 (pg 17) starting on line 5, line 12 and line 6 on page 18, the phrase "report expressing assurance on a financial statement based on a review of the statement, compilation report on a financial statement based on a compilation of the report".

Sec. 37 AS 08.04.620 (7) (page 20) starting on line 18 "(B) review a financial statement and issue a report expressing assurance on the statement; or (C) compile a financial statement and issue a compilation report on the statement."

Sec. 08.04.630 (page 20) the phrase on lines 24 and 25 and again on line 28 that states", or is about to engage,".

Sec. 43 AS 08.04.660 (page 23) starting on line 14, (7) (A), (B), (C), (D) - the entire section (7).

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Charlottesville, Virginia

The individual, and cumulative, effect of these phrases and sections is to:

1. Immediately create a drastic reduction in income, thus creating economic hardships.
2. Long term effect is to put myself, and many other independent accountants, completely out of business.
3. Increase the cost of accounting to the small businessman to the extent that many would hire semi-skilled, or even unskilled, persons to try to keep their books, thus creating inaccurate records.
4. Due to the high costs of accounting it would become extremely difficult for small businesses to have financial statements prepared, that would be acceptable to financial institutions, so that these businesses could acquire working capital, and/or capital improvement, loans.
5. Creates, within Alaska, an absolute monopoly for the C.P.A.'s in the accounting industry.
6. In Sec. 08.04.630 I feel that the phrase "or is about to engage" is strictly a tool for harrassment of the unlicensed accountant. To me it says that an unlicensed accountant could be taken to court for a "crime" that has not occurred.
7. Sec. 113 AS 08.04.680(7)(a), to me, says that since I am not a licensed C.P.A. or P.A. that I have no knowledge or skill in accounting. I very strongly object to this statement as I have, and continue to, take educational courses to upgrade the quality of the work I do and to stay abreast of the continuing changes within the accounting industry.
8. If the changes in this bill are passed, as submitted, many of the independent unlicensed accountants will be put out of business or have such reduced income that they will no longer be able to meet their financial commitments..

Most, if not all, unlicensed accountants have made financial commitments for either leasing equipment and offices or purchasing equipment and offices, not to mention personal items such as their home and auto. As you know financial institutions loaned these people money to acquire these items based on the collateral offered and, more importantly, on their ability to repay the loans.

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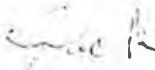
The ability to repay is based primarily on current financial statements and immediate past years financial statements. Now the State of Alaska is trying to say that these people can no longer maintain, or increase, this level of income thus possibly causing defaults on their loans or leases. If these defaults should occur they, but not the cause, will be on that persons financial record thus effecting that persons financial capabilities for many years to come.

So my question is this, if the State of Alaska passes SB 318 as submitted is it willing to payout the ,possibly, millions of dollars for the damages it has promulgated?

Bob, any help you can give us in deleting these monopolistic sections of SB 318 would be greatly appreciated. If there is anything else I can do to assist you in this task please let me know immediately.

Would you, or your staff, please call me, collect, to keep me up to date on what is occurring with this bill?

Respectfully,



John E. (Jack) Baxter
Alaska State Director N.S.P.A.

STATE OF ALASKA
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 30, 1984

SUBJECT: Practice of public accounting
(Draft SSSB 318)

TO: Senator Bettye Fahrenkamp

FROM: Tamara Brandt Cook
Deputy Director
Division of Legal Services

Here is the section by section analysis that you requested for the draft of SSSB 318.

Section 1 The section requiring regulations adopted and proceedings held under AS 08.01 to be done under the Administrative Procedure Act is modified to indicate that other law may exempt a particular proceeding. AS 08.01 applies to the Board of Public Accountancy and under section 26 of this draft, hearings of that board are not subject to the APA. Consequently, the change to this section is necessary.

Section 2 The termination date for the Board of Public Accountancy is extended to June 30, 1986.

Section 3 Six, rather than five, members of the board must be certified public accountants and four of them must have permits to practice under AS 08.04. The board now has only one public member, rather than two.

Section 4 The requirement that no board member that has served two successive complete terms may be reappointed until one year after the expiration of the last term has been deleted.

Section 5 The requirement that vacancies on the board be filled within 60 days is deleted. The requirement that a member continues to serve until his successor formally advises the board of acceptance of appointment and appears at the next meeting is deleted.

Section 6 The board is required to elect a chairman, rather than a presiding officer. The provision that one person could serve as secretary and treasurer is deleted.

Section 7 The types of regulations that may be adopted by the board are itemized.

Section 8 The board must submit an annual report to the governor containing specified information that will be made available to any person on request.

Section 9 At least 90 days before adopting a regulation, the board must mail a copy of the proposal to each person certified under AS 08.04 with a request that advisory comments be submitted at least 45 days before the proposed effective date.

Section 10 Requirements for a certificate of "certified public accountant" are set out.

Section 11 The board may waive the educational requirement for a certificate if it determines that the educational qualifications of the applicant are acceptable. The reason for and method by which the board may refuse a certificate for lack of good character are clarified.

Section 12 Examinations are to be held at least twice each year. Requirements for eligibility to take the examination are set out.

Section 13 The amount of an application to take an examination is set by the board, rather than being \$50.

Section 14 Application for certification by a nonresident constitutes the appointment of the lieutenant governor as agent for service of process in an action arising out of the practice of public accounting in this state by the nonresident.

Section 15 Qualifications for a permit to practice public accounting for an individual, a partnership and a corporation are set out.

Section 16 A person with a certificate from this or another state may use the title "certified public accountant", except that a person offering financial services to the public

may not use the title unless the person has a permit to practice, even if he actually has a certificate.

Section 17 A person with a certificate before the effective date of this Act does not have to obtain a new one.

Section 18 A partnership or corporation engaged in public accounting must register with the board and must meet itemized requirements.

Section 19 The board must establish the fee for registration of partnerships and corporations.

Section 20 Each office for the practice of public accounting must be registered biennially, rather than annually.

Section 21 The board shall establish a fee for the registration of an office.

Section 22 The title "certified public accountant" may not be used in connection with an officer registered under AS 08.04 unless it is under the direct supervision of a person with a permit to practice.

Section 23 The board's authority to suspend a certificate, permit, or registration is limited so that the board may do so only for a period not to exceed two years. The grounds for suspensions are altered somewhat.

Section 24 A hearing requirement is specifically added to the section authorizing the board to revoke the registration or permit to practice of a partnership or corporation that does not meet qualifications for registration. Under existing law a hearing is required under the APA.

Section 25 A hearing requirement is specifically added to the section authorizing the board to revoke the registration and permit to practice of a partnership or corporation for grounds other than those set out in the previous section. Under existing law a hearing would be held under the APA.

Section 26 A procedure for hearings by the board is established. These hearings are not conducted under the APA, as hearings of other occupational boards are. A person adversely affected by an order of the board after a hearing may petition for court review within 30 days. The review shall be de novo on the record. Upon taking disciplinary

action, the board is required to notify the board of accountancy of any other state the person holds a certificate, registration or permit in.

Section 27 A person may not use the title "certified public accountant" unless he has a certificate, but he need not have a permit to practice.

Section 28 A person offering financial services may not use the title "certified public accountant" even if he is certified unless he has a permit to practice.

Section 29 A partnership or corporation may not use the title "certified public accountant" unless it is registered and has a permit to practice. This is the same as existing law, but deletes a reference to a repealed section.

Section 30 This is the same as existing law, but deletes a reference to a repealed section.

Section 31 This is the same as existing law, but deletes a reference to a repealed section.

Section 32 This is the same as existing law, but deletes a reference to a repealed section and adds a cross-reference to the sections prohibiting a certified person from using a title if that person does not have a permit and is offering financial services.

Section 33 This is essentially the same as existing law, but deletes a reference to a repealed section.

Section 34 This is essentially the same as existing law, but deletes a reference to a repealed section.

Section 35 This is the same as existing law, but deletes a reference to a repealed section.

Section 36 This is the same as existing law, but minor drafting changes have been made for consistency of work usage.

Section 37 Paragraphs are added to the section itemizing things that are not prohibited under AS 08.04 relating to disclosure of confidential information, use of a title, and the offering of financial services by persons without permits to practice.

Section 38 The section on injunctions is made applicable to violations of the entire chapter, rather than to only certain sections.

Section 39 Violation of the chapter is made a class A misdemeanor.

Section 40 This has been redrafted slightly for clarity.

Section 41 This permits an accountant's working papers to be transferred to the accountant's corporation, or the successor in interest to the partnership or corporation, as well as to the accountant's partner.

Section 42 An accountant is prohibited from disclosing confidential information obtained in the course of performing public accounting, except in certain circumstances.

Section 43 Additional definitions are added to AS 08.04.

Section 44 A member of the board serving on the effective date of this Act continues to serve until the term expires.

Section 45 Certain provisions are repealed.

Section 46 The Act takes effect January 1, 1985.

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