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Official Business

Alaska State Legislature

Senate

Rules Committee

State Capitol
Juneau, AK. 99801-1182

SPONSOR STATEMENT

CSSB 75 (L&C) - CPA Exam Qualifications

CSSB 75 proposes to change the application criteria for those planning to take the CPA examination in Alaska, now held every May and November. This bill will NOT change the test itself, nor will it change the requirements for licensure in Alaska.

The need for this legislation arises from the dramatic increase in foreign applicants who come to our state to sit for the CPA exam, most of whom will not live and practice in Alaska, and many of whom have no background in accounting. The unusual number of foreign applicants could substantially impact the Division of Occupational Licensing, and the licensing examiner, who is shared with two other boards.

Currently, our requirements call merely for a baccalaureate degree, not an accounting degree, nor any accounting experience. Ours are the lowest standards in the country. Previously, Montana, also with low requirements for application, raised its criteria by emergency order to stem the same problem. Where Alaska usually seats several dozen for the exam, the test being given in May, 1997 may have as many as eight-hundred candidates.

The Alaska State Board Of Public Accountancy uses the uniform certified public accounting examination, the same as used in every other jurisdiction in the country. With such a large number of casual applicants taking the test, issues of security for the national exam and possible liability arise.

Section 1 of CSSB 75 would institute new standards for those applying to take the CPA exam in Alaska. In addition to a baccalaureate degree or its equivalent, one would need an accounting

concentration of study, and either a minimum number of accounting credit hours, or one year of experience under the direct supervision of a CPA.

Section 2 of the bill would address a lesser and unrelated issue, that of allowing the use of the designation "EA" by enrolled agents. Enrolled agents are unlicensed accountants or tax practitioners who are enrolled by the Internal Revenue Service to engage in tax-related business. Official recognition of this professional designation must be made in statute.

Section 3 of CSSB 75 originally provided for an immediate effective date, however, the Senate Labor & Commerce Committee determined that there would be an adverse time impact on those signing up for the May, 1997 exam, and made June 1st the effective date. This would have our changes in place well ahead of the November, 1997 exam.

The bill is supported by the Alaska State Board of Public Accountancy, and the Alaska Society of Certified Public Accountants. If there are questions, contact Tim Benintendi at 3770.



JAN - 4 1997

ALASKA SOCIETY OF CPAs
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January 2, 1996

Charles Griffin, CPA
Chair, Alaska Board of Public Accountancy
Division of Occupational Licensing
P.O. Box 670
Palmer, Alaska 99645

Dear Mr. Griffin:

The Board of Directors of the Alaska Society of Certified Public Accountants has reviewed the statute and regulations proposed by the Board of Public Accountancy to increase the Alaskan requirements to sit for the CPA exam. We understand the recent developments which prompted your call for change. Several of our members were involved with the administration of the November 1996 exam. The tremendous increase in applicants did cause considerable problems. The ability of our state to administer the exam under conditions of high security must be a priority concern.

We believe the statute and regulations changes outlined in your proposal should be adopted. The statute change will give the Board the authority to regulate the exam through education and experience regulations. This will not only allow the Board to act in the current situation, but will also provide the statutory authority to react to future problems that might arise. The revised educational/experience regulations will bring our state into closer conformity with other jurisdictions with minimum impact on Alaskans who plan to sit for the exam. Alaskan students majoring in accounting will continue to be qualified to sit for the exam in the final semester of their baccalaureate programs. We believe your proposal will provide a practical and fair solution to our current exam administration problems.

The Board of Directors of the Alaska Society of Certified Public Accountants unanimously voted to support your proposal at our December 6, 1996 Board meeting and authorized this letter of public support. We stand ready to provide any additional support that might be necessary as this proposal moves through the legislative process.

On another matter, we are in receipt of the December 17, 1996 "Regulations Notice" from Regulation Specialist, Joanne Cummings regarding various other regulation changes including Quality Review regulations. We worked closely with you as these Quality Review regulations were drafted and are pleased to see them moving through your due process procedures. We continue to strongly support the adoptions of these Quality Review requirements.

Please contact us if we can be of any further assistance with regard to any of the matters referred to in this letter. We appreciate the opportunity to work with you as you strive to administer the Accountancy Statute and Regulations to protect the public interest.

Sincerely,

Alaska Society of CPAs

Alaska Society of Certified Public Accountants, Inc.

cc: Mark Schnieter

CHARLES R. GRIFFIN

CERTIFIED PUBLIC ACCOUNTANT

P O. BOX 670 • PALMER, ALASKA 99645
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February 4, 1997
VIA FAX 907-465-3756

Senator Tim Kelly, Chairman
Senate Rules Committee
Alaska State Legislature
State Capitol, Room 101
Juneau, Alaska 99801-1182

Re: Senate Bill No. 75 (CPA Exam Qualifications)

Dear Chairman Kelly:

Thank you! - the Alaska State Board of Public Accountancy and I sincerely appreciate your valued assistance in introducing SB 75. This bill, amending only two sections of our Accountancy Act, will solve our current examination crisis - we are simply being overwhelmed by foreign examination applicants.

Alaska currently has the lowest standards for examination applicants in that we simply require a baccalaureate degree. Our current statutes do not require accounting courses or experience prior to taking the examination. And it is well settled that we cannot consider residency in establishing qualifications or fees.

Our Board was swamped by foreign (mostly Japanese) applicants for the November 1996 examination. We soon learned that the State of Montana, apparently the former state of choice, adopted emergency rules in May 1996 and for the November 1996 exam began requiring residency as well a degree with an accounting concentration. Our Board has been deluged by foreign applicants since the Montana rules were first noticed.

Our Board utilizes the uniform certified public examination which is offered each May and November by all of the U.S. accounting jurisdictions. It is a nondisclosed, secure examination and we are committed to administer it in Alaska. Under our current statutes, however, our Board counsel (AAG) advised us that we must simply accommodate all applicants who meet our requirements.

Thus for November 1996 we received 560 new applications and examined 507 candidates. We typically receive about 75 new applications and examine about 160 candidates. I enclose our examination statistics for 1995 and 1996 and you will clearly see the increase is staggering. We have already received over 100 additional new applications and are anticipating some 800+ candidates for the May 1997 exam.

We are extremely concerned that our current standards admit a very large number of candidates who will never be true candidates for licensure. A security breach could jeopardize this national examination, potentially subject our Board to liability for loss or damages, or prevent us from being able to offer the examination in the future.

Senator Tim Kelly, Chairman -2-
Senate Rules Committee
Alaska State Legislature

February 4, 1997

Re: Senate Bill No. 75 (CPA Exam Qualifications)

In addition, we are concerned that this volume of examination activity - processing applications, arranging sites, scheduling candidates, finding qualified proctors, and Board member site administration - is substantially impacting both our Licensing Examiner (whom we share with two other Boards) and the Division of Occupational Licensing. As a result, the service to Alaskan examination and licensing applicants, our licensees and the public is suffering.

Please note that Section 1 of the bill, repealing and reenacting AS 08.04.150, is not exclusionary. This bill does not change or increase the requirements for licensure in Alaska. This bill would only increase the qualifications required to take our examination to such an extent that it would exclude most of our foreign applicants. Alaska's accounting education requirement will still be among the lowest in the nation but we did not wish to set the requirement at the top and exclude many of our Alaskan applicants. We believe this bill will serve both the Board and all bona fide candidates for licensure.


We also believe that this bill should not require a fiscal note in that our fee setting is reviewed biennially and the application and examination processes are consistently priced on a break even basis.

Section 2 of the bill is a minor statutory change required in order to allow "enrolled agents" to use the designation "EA". We have recognized the term "enrolled agent" in the Board's regulations. We clearly recognize that the use of "EA" is not misleading or deceptive in this context and is used by a number of unlicensed accountants or tax practitioners who are, in fact, enrolled to practice by the Internal Revenue Service. The use of the abbreviation "EA" is however governed by statute and we seek your legislative grace for this change.

These two provisions are unanimously and enthusiastically sought, endorsed and supported by the State Board of Public Accountancy as well as the Alaska Society of CPA's. I would also expect that Director Reardon of Occupational Licensing will be supportive. I again express the Board's appreciation for your time and effort in getting this legislation introduced.

We look forward to participating in the committee hearing process and will be pleased to respond should you or any of your fellow legislators have any questions or desire any additional information.

Very truly yours,



Charles R. Griffin, CPA, Chairman
Alaska State Board of Public Accountancy

ALASKA STATE BOARD OF PUBLIC ACCOUNTANCY
 EXAMINATION STATISTICS
 MAY 1995 THROUGH NOVEMBER 1996

	May-95	Nov-95	May-96	Nov-96
New Exam Applications Approved	<u>72</u>	<u>70</u>	<u>79</u>	<u>560</u>
Exam Candidates Scheduled	188	211	198	704
No Shows	<u>-38</u>	<u>-32</u>	<u>-31</u>	<u>-197</u>
Candidates Examined	<u>150</u>	<u>179</u>	<u>167</u>	<u>507</u>
Candidates Examined:				
Alaskan	87	89	91	94
Foreign	54	80	68	392
Out of State	<u>9</u>	<u>10</u>	<u>8</u>	<u>21</u>
Total	<u>150</u>	<u>179</u>	<u>167</u>	<u>507</u>
Candidates Passed All 4 Parts	5.33%	6.14%	4.19%	5.52%
Candidates Failed All 4 Parts	37.33%	39.10%	41.31%	61.73%
Examination Section Pass Rates:				
AUD	21.32%	25.00%	25.85%	13.54%
LPR	18.32%	20.26%	24.67%	17.17%
FARE	36.58%	35.25%	33.07%	25.26%
ARE	36.58%	27.06%	23.25%	17.08%

Japanese count on taking CPA exam here

By Margaret Thomas
Staff writer, The Paper

State officials are scrambling to accommodate a sudden surge in the number of people planning to take the certified public accountant licensing exam in Alaska next month. And here's the weird part: Almost 80 percent of the applicants are Japanese.

Some 700 people have applied to take the two-day test in Alaska, with 295 of them scheduled to sit in Juneau. Organizers here have reserved the Centennial Hall ballroom to make room for the crowd. Last time the twice-yearly test was offered in Juneau, 15 people signed up.

The recent influx is a result of the prestige that Japanese businesses attach to passing

the U.S. exam, combined with an emergency change in Montana regulations that made Alaska the easiest place to qualify for the test. Now, Alaska's Board of Public Accountancy is pushing to close the door here, too.

The problem is that most of the foreign test takers have no intention of fulfilling up to three years of work experience required to become licensed, practicing CPAs in Alaska. Worse yet, the change in Montana law could make Alaska a target for "ringers" — those who just want a peek at the standardized test in order to help their clients cheat.

"Alaska currently has the lowest requirements for eligibility to sit for the exam,"

said Chuck Griffin, head of the state Public Accountancy Board. "The more people we let in who will have no ultimate chance of being licensed, it seems the greater our exposure is."

Officials at the state Division of Occupational Licensing worry too that application fees won't cover the cost of processing more paperwork, renting larger facilities and hiring extra proctors for administering the test to so many, said state licensing supervisor Judy Weske. "We will have to look at our costs for this exam and compare it to what we charge candidates."

Montana had the least-restrictive exam eligibility requirements in the country, until this year. Applicants were not required to

meet education, experience or residency requirements before taking the test, which is administered at the same time nationwide and in three U.S. protectorates.

More than 800 applicants signed up for the May test in Helena, said Sue Criswell, administrator for the Montana Board of Public Accountants. Many of them were from Japan and other foreign countries.

What made the crowd so daunting was the fact that national rules for administering the test had undergone a major change. In the past, the national organization that publishes the exam rewrote the questions every six months. Students and teachers were allowed to use old versions of the test to

Please turn to page 7

CPA exam

Continued from page 3

prepare. No more.

The American Institute of Certified Public Accountants decided it would be fairer if the test was always the same. The change also would allow the institute to cut the costs of continually writing, pre-testing and evaluating new exam questions.

The result is a level of anxiety over security that is normally reserved for shipments of jewels, furs and bundles of big bills. Security guards now deliver the exams to testing sites in armored trucks.

Montana officials stationed armed guards at exits during that state's first "non-discreet" test in May. Monitors were assigned to the bathrooms and chaperons accompanied anyone who wanted to step outside for a smoke during the 15½-hour, two-day test.

Officials in every test jurisdiction sweat over the possible consequences of a breach. The institute could declare exam scores invalid nationwide and have to begin the expensive process of developing a new test. The jurisdiction that allowed the leak could be held liable for those costs and lose its authorization to give future exams.

Once Montana officials understood the implications, they moved quickly to cull candidates who have no intention of getting

licensed. The state board approved emergency regulations requiring applicants to complete a minimum number of accounting and other business credits before taking the test.

Overnight, there was a new reason for foreigners to come to Alaska. A bachelor's degree in any subject is all that's required to take the test here. "Word travels fast among the different nationalities," said Criswell. "They publicize it all over the country."

Representatives of state and national CPA organizations are unclear about why the Japanese and other foreigners value a versing in U.S. tax law. There are probably a variety of reasons, said Martha Kautz of the City-based National Association of State Boards of Accountancy. "It's a mark of status to be able to pass the exam, whether you actually

plan to practice in the U.S. or not."

State licensing examiner Steve Snyder knew he was in for it when Tokyo's Tanoramon Accounting School phoned to request 60 applications for the Alaska CPA exam last spring. Calls from several other Japanese accounting schools followed. The din of desk clerks shouting half-speed English into the phone became common at the division's Juneau office this summer and soon an avalanche of applications threatened to bury Snyder.

"It's a lot more overwhelming," said Snyder of his job these days. "I don't have a lot of time to do other things that need to be done."

Division director Catherine Reardon has reassigned a half-time employee to help Snyder dig out. Division officials also have contacted the state attorney general's office for an opinion on whether it's legal to charge foreign candidates more than Americans to take the test.

"They're not supporting the superstructure that everyone else pays for," said Reardon. "We're protecting our licensees from carrying extra costs."

The Alaska Supreme Court already has mixed state residency requirements, but the Alaska CPA board is devising another strategy for diverting the stampede, said

chairman Griffin. Board members will petition the Legislature to add new exam eligibility requirements — they're suggesting 15 semester hours in accounting subjects, or a year of relevant work experience.

Griffin doesn't anticipate trouble, but it's unlikely a new law and matching regulations could be in effect before test time in May. Not everyone is in a hurry.

The Westmark Juneau, next to the Centennial Hall test site, is already more than three-quarters full for Nov. 6-7. Admits Weske. "It's certainly great for the Juneau economy."

THE PAPER
JUNEAU
10-4-96

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February 10, 1997

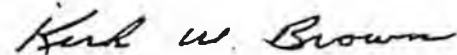
To: Senator Tim Kelly
(907) 465-3822 (FAX 907-465-3756)

Dear Tim:

I wish to inform you that I am in support of SB75 and would appreciate your support also. Last year I helped proctor the CPA exam in Anchorage and noted that we were deluged with foreign applicants. It is my understanding that this bill would not unreasonably restrict local applicants from taking the exam but would eliminate those not serious in obtaining their CPA certificate for practicing in the US.

Thank you for your support. Let me know when you get back to Anchorage.

Cordially,



Kirk W. Brown, CPA

cc Chuck Griffin
745-3239 (FAX 745-6038)



Alaska Society of Independent Accountants

Organized September 1, 1972

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Mr. Charles Griffin, CPA
Chair, Alaska State Board of Public Accountancy
Division of Occupational Licensing
Department of Commerce and Economic Development
P.O. Box 670
Palmer, Alaska 99645

Dear Mr. Griffin:

The Board of Directors of the Alaska Society of Independent Accountants has reviewed Senate Bill No. 75 relating to the qualifications to sit for the CPA exam and the use of the abbreviation EA as it related to the designation "Enrolled Agent" as defined by the Internal Revenue Service.

We understand the need to increase the Alaskan requirements to sit for the CPA exam and that this statute will bring our state into closer conformity with other jurisdictions. We do not believe that this bill will adversely affect the qualified Alaskans who wish to sit for the CPA exam.

We are very much in favor of the change to Sec. 08.04.540 relating to the use of "EA" as it relates to an individual who is enrolled to practice before the Internal Revenue Service. As I am sure you are aware, many of our members are enrolled to practice before the Internal Revenue Service and have the designation "Enrolled Agent" and "EA".

The Board of Directors of the Alaska Society of Accountants unanimously voted to support Senate Bill No. 75 and authorized this letter of support at a Special Board Meeting called, by telephone, on February 4, 1997. If we can be of any additional assistance as this bill moves through the legislature, please let us know.

Sincerely,

Sharon A. Blackwell, President
Alaska Society of Independent Accountants

CC: REX CRUSE