

**HB**

**78**

<target><bill>HB 78</bill><subject>HB  
78</subject><comm>SFIN26</comm></target>

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/3/09

FURTHER:

DATE TURNED  
IN TO OFFICE: 4/17/09

Finance Committee considered HOUSE BILL NO. 78

HB 78 EXTEND BOARD OF PUBLIC ACCOUNTANCY

"An Act extending the termination date of the Board of Public Accountancy; and providing for an effective date."

and recommends:

- be replaced with  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

**SENATE BILL:**  
 Same Title  
 New Title

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**HOUSE BILL:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

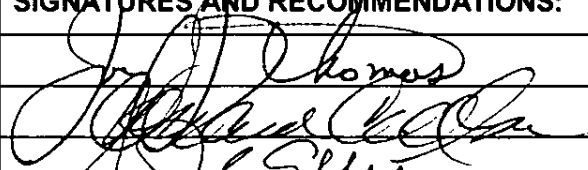
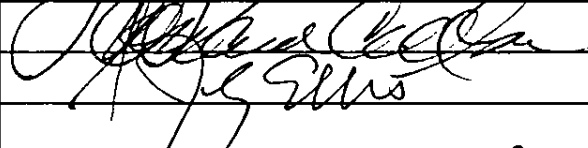
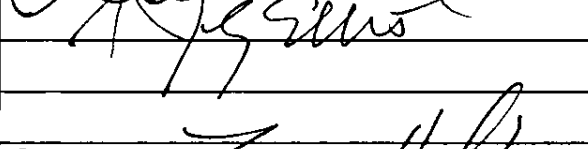
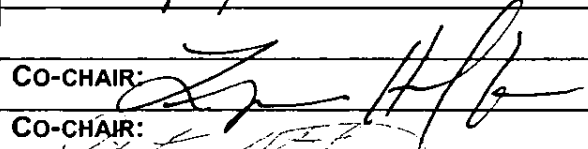
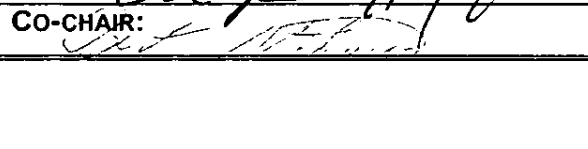
**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	THOMAS	✓			
	OLSON			✓	
	ELLIS	✓			
CO-CHAIR: 		✓			
CO-CHAIR: 		✓			

# FISCAL NOTE

**STATE OF ALASKA**  
**2009 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 78  
 (H) Publish Date: 3/12/09

Identifier (file name): HB78-CED-CBPL-03-06-09 Dept. Affected: DCCED  
 Title: Extend Board of Public Accountancy RDU: Corp, Bus, & Prof Licensing (117)  
 Component: Corp., Bus., & Prof. Licensing  
 Sponsor: Representative Olson  
 Requester: House Labor and Commerce Component Number: 2360

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>OPERATING EXPENDITURES</b>							
Personal Services		63.1	63.1	63.1	63.1	63.1	
Travel		16.1	16.1	16.1	16.1	16.1	
Contractual		19.6	19.6	19.6	19.6	19.6	
Supplies		0.6	0.6	0.6	0.6	0.6	
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>							
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<b>CHANGE IN REVENUES ( )</b>							
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other: RSS (1156)		99.4	99.4	99.4	99.4	99.4	
<b>TOTAL</b>	<b>0.0</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>99.4</b>	<b>0.0</b>

Estimate of any current year (FY2009) cost: 99.4

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

HB 78 extends the Board of Public Accountancy to June 30, 2013. In accordance with AS 08.03.020 funding extends one year following the termination date allowing the Board to conclude its affairs. The FY2010 funding is included in the Operating Budget request and costs shown are an average of direct costs for a biennial licensing period.

Travel expenses represent transportation and per diem for the 7 member board and 2 staff to meet at least 4 times each year in accordance with AS 08.04.025.

The program is required to cover costs with licensing fees under AS 08.01.065, and revenue generated by board fees are anticipated to cover its full operating costs. New funds are not required to implement this bill.

Prepared by: Jennifer Strickler, Chief Phone: (907) 465-2144  
 Division: Corporations, Business & Professional Licensing Date/Time: 3/6/09 11:40 AM  
 Approved by: Emil Notti, Commissioner Date: 3/6/2009  
Department of Commerce, Community and Economic Development



# ALASKA STATE LEGISLATURE HOUSE LABOR & COMMERCE COMMITTEE

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Rep Mark Neuman, V-Chair    Rep. Mike Chenault  
Rep. John Coghill            Rep. Bob Lynn  
Rep. Lindsey Holmes        Rep. Bob Buch

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## Sponsor Statement House Bill 78

*An act extending the termination date of the Board of Public Accountancy; and providing for an effective date.*

HB 78 extends the termination date of the Board of Public Accountancy. Currently the board will sunset on June 30, 2009. HB 78 extends this date by four years, to June 30, 2013.

To quote the audit summary, "In our opinion, the termination date for the board should be extended. The board is serving the public interest by effectively licensing and regulating certified public accounts. Moreover, the board is serving the public interest by policing the profession and ensuring that only properly qualified individuals practice in Alaska as certified public accountants."

I encourage all the members to review the Legislative Audit report.

Although the Legislature could extend this board up to eight years, it is the recommendation of the auditor to extend four years. This decision was reached after board discussions concerning future services that may be outsourced, possible changes in the board structure and new statutes and regulations that may be pursued in the near future.

I urge your support of this bill.

# Division of Legislative Audit

## Report Digest #08-20056-09

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**SUMMARY** A Sunset Review of the Department of Commerce, Community, and OF: Economic Development, Board of Public Accountancy.

### PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes, we have reviewed the activities of the Board of Public Accountancy (board). As required by AS 44.66.050(a), the legislative committees of reference are to consider this report during the legislative oversight process involved in determining if the board should be reestablished. Currently, AS 08.03.010(c)(1) states that the board will terminate on June 30, 2009. If the legislature does not extend the termination date before then, the board will have one year to conclude its administrative operations.

### REPORT CONCLUSIONS

In our opinion, the termination date for the board should be extended. The board is serving the public interest by effectively licensing and regulating certified public accountants. Moreover, the board is serving the public interest by policing the profession and ensuring that only properly qualified individuals practice in Alaska as certified public accountants.

The board has promoted and effectively assisted in updating the statutes governing the practice of public accounting. As statutes were updated, the board produced regulations to further define the new requirements affecting each professional under its purview. When the board discovered omissions in statute that acted to block an avenue to licensure that should have been grandfathered into the new rules, the board immediately requested a legislative "fix" and assisted with testimony during the legislative session in order to mitigate this omission. As a result, fifteen candidates who had been pursuing licensure under the old statute gained a legitimate avenue to become licensed.

The board was able to re-establish a Fairbanks site for the certified public accountant exam. However, a site in Southeast Alaska is still out of reach due to cost.

The board has also improved the application process to take the Certified Public Accountants exam by contracting for on-line services from the National Association of State Boards of Accountancy. The decision to contract these services has had the added benefit of redirecting staff time to important problem-solving and licensure activities.

The board has been proactive in shaping the future of the accounting profession by working with committees of national professional societies that set professional standards.

Alaska Statute 08.03.010(c)(1) requires the Board of Public Accountancy be terminated on June 30, 2009. Under AS 08.03.020, if the termination date is not extended by the legislature, the board will have a one-year period to administratively conclude its affairs.

Although AS 08.03.020(c) allows the legislature to extend the termination date of the board for up to eight years, we recommend the legislature extend the board's termination date for four years, to June 30, 2013. This recommendation is offered based on the board's discussions concerning future services that may be out-sourced, possible changes in board structure and new statutes and regulations that may be pursued in the near future.

#### FINDINGS AND RECOMMENDATIONS

##### Recommendation No. 1

Vacant board positions should be filled in accordance with AS 08.04.040.

##### Recommendation No. 2

The board, in concert with the Professional Licensing section, should review current and projected funding needs with the intent of reducing fees.

##### Recommendation No. 3

The Investigation Section should implement an effective case tracking system.

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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December 3, 2008

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 and Title 44 of the Alaska Statutes, the attached report is submitted for your review.

### DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT BOARD OF PUBLIC ACCOUNTANCY

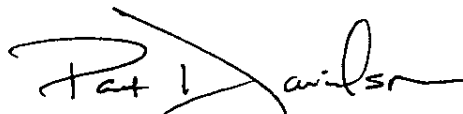
December 1, 2008

Control Number  
08-20056-09

Article IX, Section 14 of the Alaska Constitution, requires that the position of Legislative Auditor be filled by a certified public accountant (CPA). Likewise, the professional staff at the Division of Legislative Audit are either licensed or are pursuing licensure as CPAs. Since the board is responsible for licensing and regulating CPAs, our agency does not meet the independence standard required by generally accepted government auditing standards.

Therefore, to provide the legislature with an independent evaluation of the Board of Public Accountancy we contracted the services of LeResche & Co. a consulting firm to perform a management review. The management review is not an audit, but does use the criteria in AS 44.66.050(c), to assess whether there is a public need to continue the Board of Public Accountancy. Currently under AS 08.03.010(c)(1), the Board of Public Accountancy is scheduled to terminate on June 30, 2009 and has one year in which to conclude its administrative operations.

This report recommends the legislature extend the board's termination date to June 30, 2013.

  
Pat Davidson, CPA  
Legislative Auditor

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## OBJECTIVES, SCOPE, AND METHODOLOGY

The management review of the Board of Public Accountancy (board) was conducted in accordance with Title 44 of the Alaska Statutes. As required by AS 44.66.050(a), the legislative committees of reference are to consider this report during the legislative oversight process involved in determining if the board should be reestablished. Currently, AS 08.03.010(c)(1) states that the board will terminate on June 30, 2009. If the legislature does not extend the termination date, the board will have one year to conclude its administrative operations.

### Objectives:

1. To determine if the board should be extended and for how long.
2. To determine if the board is operating in the public interest.
3. To determine if the board has exercised appropriate regulatory oversight of certified public accountants.

The assessment of the operations and performance of the board was based on criteria set out in AS 44.66.050(c). Criteria set out in this statute relate to the determination of a demonstrated public need for the board.

### Scope and Methodology

During the course of our examination, the following was reviewed and evaluated:

1. Compliance with statutes and regulations related to the certification of public accountants. The evaluation addressed considerations of applications, testing of candidates, and continuing education necessary for certified public accountants to maintain their licenses in good standing.
2. Minutes of the meetings of the board.
3. Annual reports issued by the board.
4. Complaints filed with the Division of Corporations, Business, and Professional Licensing.
5. The contract with the National Association of State Boards of Accounting to manage the application process for all candidates who wish to take the exam under the Alaska jurisdiction.
6. Information concerning other states for comparison of pertinent statistics.

Additionally, the following staff were interviewed: staff of the Professional Licensing, Financial and Investigative Sections of the Department of Commerce, Community, and Economic Development, the Chair of the Board of Public Accountancy, and a board member.

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## ORGANIZATION AND FUNCTION

The Board of Public Accountancy (board) is established under the authority of AS 08.04.010. The seven-member board is appointed by the governor to staggered four-year terms.

### Board Membership

The board consists of five professional members, who must be certified public accountants currently licensed in the State of Alaska. Additionally, there are two public members who must be independent from the influence of a certified public accountant. Current members of the board are listed to the right.

### Board Duties

The board designs under statutes, the regulatory regime under which individuals are allowed to take the uniform certified public accounting exam, are deemed qualified to obtain a license to practice public accounting in the State and are qualified to continue the practice of public accounting by completing appropriate continuing education. Moreover, the board is responsible for policing the profession to ensure that only qualified individuals hold themselves out as certified public accountants.

### **Board of Public Accountancy**

(As of June 30, 2008)

#### Professional Members

Max Mertz, CPA Chair

Carla Bassler, CPA

Bruce Gabrys, CPA

Elaine Williamson, CPA

Vacant, CPA<sup>1</sup>

#### Public Member

Rebecca Jensen

Vacant

### The Department of Commerce, Community, and Economic Development, Division of Corporations, Business, and Professional Licensing

The Department of Commerce, Community, and Economic Development (DCCED), Division of Corporations, Business, and Professional Licensing provides administrative and investigative assistance to the board. Administrative services include budgeting, revenue collection, expenditure reporting and control; regulation support; public notices; and various form and file maintenance.

Alaska Statute 08.01.065, mandates that DCCED, with the concurrence of the board, adopt regulations to establish the amount and manner of payment of application fees, examination fees, license fees, registration fees, permit fees, investigation fees, and all other fees as appropriate for the occupations covered by the statute.

Alaska Statute 08.01.087 grants the Division of Corporations, Business, and Professional Licensing the authority to act on its own initiative or in response to a complaint. Professional Licensing may:

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<sup>1</sup> On October 16, 2008, the Governor appointed Kathleen Reid, CPA to the vacant professional position.

- Conduct an investigation if it appears a person is engaged or is about to engage in a prohibited professional practice;
- Issue Cease and Desist Orders;
- Bring an action in Superior Court to enjoin the act;
- Issue subpoenas for the attendance of witnesses and records; and,
- Examine the books and records of an individual licensed by the division.

## REPORT CONCLUSIONS

In our opinion, the termination date for the Board of Public Accountancy (board) should be extended. The board is serving the public interest by effectively licensing and regulating certified public accountants. Moreover, the board is serving the public interest by policing the profession and ensuring that only properly qualified individuals practice in Alaska as certified public accountants.

The board has promoted and effectively assisted in updating the statutes governing the practice of public accounting. As statutes were updated the board produced regulations to further define the new requirements affecting each professional under its purview. When the board discovered omissions in statute that acted to block an avenue to licensure that should have been grandfathered into the new rules, the board immediately requested a legislative "fix" and assisted with testimony during the legislative session in order to mitigate this omission. As a result, fifteen candidates who had been pursuing licensure under the old statute gained a legitimate avenue to become licensed.

The board was able to re-establish a Fairbanks site for the certified public accountant exam. However, a site in Southeast Alaska is still out of reach due to cost.

The board has also improved the application process to take the Certified Public Accountants (CPA) exam by contracting for on-line services from the National Association of State Boards of Accountancy. The decision to contract these services has had the added benefit of redirecting staff time to important problem-solving and licensure activities.

The board has been proactive in shaping the future of the accounting profession by working with committees of national professional societies that set professional standards.

Alaska Statute 08.03.010(c)(1) requires the Board of Public Accountancy be terminated on June 30, 2009. Under AS 08.03.020, if the termination date is not extended by the legislature, the board will have a one-year period to administratively conclude its affairs.

Although AS 08.03.020(c) allows the legislature to extend the termination date of the board for up to eight years, we recommend the legislature extend the board's termination date for four years, to June 30, 2013. This recommendation is offered based on the board's discussions concerning future services that may be out-sourced, possible changes in board structure and new statutes and regulations that may be pursued in the near future.

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## FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

Vacant Board of Public Accountancy (board) positions should be filled in accordance with AS 08.04.040.

Alaska Statute 08.04.040 requires that vacant board positions be filled within 60 days of becoming vacant. Two positions, one professional and one public, have been vacant for seven months and eight months, respectively. (On October 16, 2008, the Governor's Office filled the professional position but the public position remains vacant).

The board is striving to be proactive in shaping the professional standards required of each individual applying to practice public accounting in Alaska. Changes in business practices challenge the board to periodically update education and experience requirements and regulations. Additionally, barriers between states and countries are disappearing as the profession devises methods to ease practice across borders while still protecting the public. This board is properly reluctant to sit back and let others write the rules for Alaska.

In order to succeed in this effort, the board requires depth and consistency. The Governor's Office should make every effort to appoint members in a timely manner so the board can be most efficient in reaching its goals.

### Recommendation No. 2

The board, in concert with the Professional Licensing section, should review current and projected funding needs with the intent of reducing fees.

Alaska Statute 08.01.65(c) established fees based on the principal that total fees collected would approximately equal actual regulatory costs for the occupation.

In FY 08 the fee surplus accruing to the Board of Public Accountancy was 192% more than the fee surplus in FY 05. During this same time expenditures increased 25% from \$142,700 to \$178,800. Currently, the board is carrying a \$271,000 cumulative balance that represents approximately 150% of annual expenditures.

The Licensing Section reviews fees every two years. During the last review, they noticed the accumulation of funds, as did the board. However, the board needed to complete a large, complex regulation project that would draw down on the existing surplus. It was the opinion of staff that fees should be held steady until the project was complete. Since the regulation project is now complete, there now should be room to reduce fees on the profession.

The recommended fee review should incorporate estimates of the cost of achieving changes the board may wish to make to its structure. In addition, it should incorporate estimates of costs that might accrue from a further agreement with National Association of State Boards of Accountancy to provide services now provided by the board.

### Recommendation No. 3

#### The Investigation Section should implement an effective case tracking system.

Since the last management review of the investigative effort, a procedural change in the complaint process has successfully reduced the number of investigation cases and has allowed investigative staff to focus on valid cases. Consequently, average duration of cases of unlicensed activity has dropped from 15.7 months to 5.1 months. The investigation section should be complimented on this effort.

Further, of the forty-seven cases closed during the review period, nine cases (19 %) had time gaps of 6 to 27 months during which no notations to the file abstract were made. Five of these cases involved determinations of no violation and are examples of cases that would be resolved prior to a case file being opened under the new system. This new procedure has increased the efficiency and effectiveness of the investigation section.

However, the investigation section has been hampered in efficiently pursuing some cases because of staff turnover that led to serious inattention to cases. One complex case reviewed in the last sunset review is still open and shows long periods where no progress was made. This case was opened in 2002 and is in litigation with the Department of Law pursuing the case. (This case is the combination of 4 complaints against the same person.) Additionally, of the nine closed cases mentioned above, four had serious periods of inattention.

Under these circumstances, the section would benefit from a priority tracking system that reports to investigators and supervisors when a case has been dormant for a certain time period. This would provide supervisors with a timely tool to ensure high priority cases are pursued in a timely manner.

#### Prior Finding and Recommendation

##### The board should continue to be proactive in providing better access to its primary licensing examination – the Uniform Certified Public Accountant Examination (CPA exam).

In 2004, the manner in which the CPA exam is administered in Alaska was changed. Previously, the examination was administered twice a year at a minimum of three testing sites typically located in Anchorage, Fairbanks, and Juneau.

In 2004, in conjunction with changes of format and structure that were made nationally by the American Institute of Certified Public Accountants (AICPA), the examination was changed to an all-computerized format that could be taken in whole or in parts up to three, and eventually four, times a year. By increasing the availability of the examination across the full year, access for applicants was improved. However, as the new testing regimen was implemented in Alaska, this improved access was offset to a large degree by the restriction in the number of available testing sites. Under the new testing regimen, applicants can take the examination at only one test site, located in Anchorage.

Such circumstances make taking the examination much more expensive for applicants in the Interior and Southeast Alaska. Applicants from these regions must now travel to Anchorage

and arrange for transportation and accommodations, in addition to paying a higher examination fee.

#### Current Status

During 2005, the board was successful in adding Fairbanks as a test site for the CPA exam. This was possible because Prometric (the service that administers the CPA exam) was providing testing services to an existing program at the University of Alaska Fairbanks. This allowed the board to take advantage of existing facilities in which to offer the CPA exam.

The board pursued the possibility of the same type of arrangement with the University of Alaska Southeast. However, no existing infrastructure was available and after analyzing the capital and operating costs, the board determined that the number of applicants from Southeast would be insufficient to cover the continuing costs of the facility.

Other professions that require a national exam and are administered by the Professional Licensing Section also have limited statewide sites for their tests. Five professions have no exam site in Alaska (for example: geologist and naturopaths); and eleven have an exam site only in Anchorage (for example: physicians and physician assistants). Three professions have test sites both in Anchorage and Fairbanks: CPAs, professional counselors, and social workers. Twelve professions have more than two sites. In comparison to other licensed professionals who are required to take a national exam, the CPA candidates have comparable opportunities to take the exam.

In conclusion, while a third site for the CPA exam in Southeast Alaska is preferable and the effort to establish it should not be abandoned, the board has succeeded in increasing the number of sites available to take the CPA exam in order to reduce the cost to applicants.

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## ANALYSIS OF PUBLIC NEED

The following analysis of board activities relates to the public need factors defined in AS 44.66.050. The analysis is not intended to be comprehensive, but only to address those areas I became aware of during my review.

***Determine the extent to which the board, commission, or program has operated in the public interest.***

In 2004, when the Board of Public Accountancy (board) adopted the computerized National Certified Public Accountant (CPA) exam provided by the American Institute of Certified Public Accountants (AICPA), the service provider, Prometric, provided only one Alaska site to take the exam. During 2005, the board was successful in adding Fairbanks as a test site for the CPA exam. This was possible because Prometric was providing testing services to an existing program at the University of Alaska Fairbanks. This allowed the board to take advantage of existing facilities at which to offer the CPA exam.

The board pursued the possibility of the same type of arrangement with the University of Alaska Southeast. However, no existing infrastructure was available and after analyzing the capital and operating costs the board determined that the number of applicants from Southeast would be insufficient to cover the continuing costs of the facility.

Because applicants have the option to take the National computerized CPA exam under the auspices of any state or country jurisdiction, many people who had no intention of practicing in Alaska were applying with the Alaska licensing section. To reduce the impact on the licensing section, the board contracted with National Association of State Boards of Accountancy (NASBA) to process applications for the CPA exam. In FY 08, approximately 1150 people applied to take the CPA exam under Alaska rules while only 185 of those actually took the test in Alaska. Contracting with NASBA to manage applications substantially reduced the workload of the licensing examiner in Alaska and allowed more focus on efficient problem resolution and licensure of accountants. In addition, the on-line application process is faster and easier for those applying to take the exam, than was the previous process.

The board increased educational requirements for persons wishing to become CPAs in Alaska in order to ensure a more informed and educated profession serving the Alaska public.

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

As discussed above, the board has contracted out the application process for the CPA exam. This has reduced the workload on the board and the licensing examiner and freed up time to focus on other tasks.

The board is actively engaging in shaping the rules in the accounting profession by its membership in national professional organizations. The board needs a full contingent of members if it is to perform most effectively. As described in Recommendation No. 1, the board has been pursuing its goals while lacking two members.

License fees remained at \$220 from FY 05 through FY 08. A schedule of license revenues and board expenditure is presented below. (See Recommendation No. 2 for a discussion of the ending cumulative surplus).

State of Alaska Board of Public Accountancy FY 05-FY 08 Schedule of License Revenues and Board Expenditures (unaudited)				
	FY 05	FY 06	FY 07	FY 08
Revenues	<u>\$44,000</u>	<u>\$278,500</u>	<u>\$128,100</u>	<u>\$290,600</u>
Direct Expenditures				
Personal Services	56,300	64,400	61,700	61,800
Travel	15,300	13,600	18,600	26,300
Contractual	18,600	15,800	23,400	29,300
Supplies	<u>100</u>	<u>100</u>	<u>1,000</u>	<u>200</u>
Total Direct Expenditures	<u>90,300</u>	<u>93,900</u>	<u>104,700</u>	<u>117,600</u>
Indirect Expenditures	<u>52,400</u>	<u>47,600</u>	<u>93,900</u>	<u>61,200</u>
Total Expenditures	<u>142,700</u>	<u>141,500</u>	<u>198,600</u>	<u>178,800</u>
Net Income (Loss)	<u>(98,700)</u>	<u>137,000</u>	<u>(70,500)</u>	<u>111,800</u>
Beginning Cumulative Surplus (Deficit)	191,400	92,700	229,700	159,200
Ending Cumulative Surplus (Deficit)	<u>\$92,700</u>	<u>\$229,700</u>	<u>\$159,200</u>	<u>\$271,000</u>

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

The board, in concert with the Alaska Society of CPAs and other professional organizations, assisted in passing a major update of the governing statutes of public accounting. This rewrite increased the education required to obtain a CPA license in Alaska. The rewrite included sections covering substantial equivalency, interstate reciprocity (which eased the ability of qualified persons to obtain Alaska certification) and "attest" experience requirements that ensure individuals are qualified to audit financial statements.

After discovering that the new statute unfairly impacted a class of accountants that had been pursuing licensure under the old law, the board immediately acted to obtain a legislative "fix". The board action provided a path to licensure for this small group of candidates.

The board worked diligently to provide a package of regulations to complement the new laws. The regulations were adopted and in effect concurrent with the effective date of the new legislation.

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

When the board adopted the AICPA National computerized CPA exam, it was concerned about the impact on the applicants taking the exam. The board created a survey and provided it to each applicant. The survey asked about various aspects of the test environment. As a result of this survey, the board was instrumental in getting new equipment for the Anchorage test site.

Each meeting of the board is noticed in the Anchorage Daily News and in an email from the Licensing Examiner to interested parties. Each meeting agenda has a public comment section and minutes confirm that public comments are welcome at these meetings. Representatives from Alaska professional organizations frequently attend and are provided the opportunity to comment.

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

Draft regulations are developed in a coordinated manner with Alaska professional accounting organizations. Usually a committee of professionals prepares a draft, sends it out to members for comment, and may incorporate those comments into the draft. The draft is provided to the board for review and discussion. Thus, the board attempts to thoroughly vet the proposed regulations before offering them for public review. Then public notice is published and directly provided to groups that have an interest in the regulations.

During the last regulation update, each regulated professional was provided a copy of the draft regulations and notified of the time for comment. Those professionals who are not CPAs but had an interest in understanding the ramifications of the new rules were also provided notice of the meetings and were welcome to provide comments. Board minutes confirm that interested parties commented on the draft regulations.

***Determine the efficiency with which public inquires or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the office of victims' rights or the office of the ombudsman have been processed and resolved.***

Overall, the investigation section has reduced the average time taken to resolve a case by implementation of a new complaint policy that confirms the complaint is valid before

opening a case. This policy was instituted in 2006 and has substantially increased efficiency of the section. The section still needs to address lapses due to staff turnover and absence of an effective tracking system that would periodically provide reports of activity to supervisors in order to identify "dormant" cases.

For example, four investigative cases (all involving the same person) have been open for more than six years. These cases are an example of the problems in staff turnover/reassignment and lack of an effective system to notify supervisors or investigators that a case has been dormant for an extended period of time. The cases are complex and are in litigation. Recommendation No. 3 is offered to help reduce the amount of time some cases are left unattended.

Since the implementation of the new complaint procedure in FY 2006, twenty complaints have been received. Twelve resulted in case files and eight were determined to be invalid. Of the twelve cases only two are still open. One involves a CPA licensed in Colorado who performed an audit in Alaska without getting a practice privilege, and the other involves an accountant who was denied licensure based on lack of experience and has requested an Administrative Hearing. Of these twenty complaints, seven were received from the licensing section, six from members of the public, one from a board member, and four from a state or federal agency.

Unlicensed activity cases opened under this new policy have an average duration of 5.1 months, in contrast to 15.7 months for the same type of cases opened prior to implementation of the new policy. This is a significant increase in efficiency.

Of the forty-seven investigative cases closed since the last review, thirty-two (68%) were determined to be unfounded. Most of the cases alleged unlicensed activity.

Of eighteen cases of unlicensed activity, eight resulted in a license action and ten were based on unfounded complaints. There were six cases alleging fraud or misrepresentation. Four of these were resolved with no violation and two ended in license action. Three cases were brought for negligence of which two were determined unfounded and one licensee complied with board directions.

Eight cases alleging incompetence resulted in determinations that no violation had occurred. Two cases were opened because an applicant had checked the box that he/she had a criminal conviction. Each of these cases was resolved with no violation. Three cases were for violation of professional ethics, and no license action was taken against any license.

Three cases concerning license application problems were investigated. One was determined to involve no violation, one resulted in license action and one respondent complied without license action. One case concerned a licensee who violated a Memorandum of Agreement and resulted in further license action. The final two cases involved falsified applications for licenses. The applicant withdrew one case, and the other received an Advisement Letter.

The board received no complaints against its activities.

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

We found no evidence that the board, by any of its actions, acted contrary to any state personnel practices or affirmative action requirements.

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

The board has increased the amount of accounting education required to qualify for licensure to practice in Alaska. The board continues to require appropriate continuing education in order for a CPA license to be renewed. Each applicant for licensure is required to pass a national competency exam and to have appropriate experience prior to licensure.

Below is a summary of new licenses and permits issued by the board. The information was obtained from Annual Reports published by the board and verified with the licensing examiner.

New Permits Issued	FY 05	FY 06	FY 07	FY 08	Current Licenses
Certified Public Accountants	47	52	45	97	929
Resident Partnerships Corporations and Limited Liability Co.	2	5	2	8	84
Nonresident General Permits	9	18	16	21	57

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

The board is reviewing the concept of "mobility." Mobility would improve an accountant's ability to practice in many states and be subject to the laws of each state. Presently, if a problem arises with a CPA who is not licensed in Alaska, the board must work through the board of the state where that individual is licensed. If mobility were implemented as contemplated in Alaska, the Alaska board could directly enforce Alaska statutes and regulations on the CPA doing business in Alaska to ensure the public is protected. Increased mobility has the added advantage of making it easier for Alaskans to remain with chosen CPAs and still be assured they are regulated under Alaska rules.

The profession the board regulates changes in response to economic changes. The profession is complex and problems that arise can affect the economic well being of members of the public. In order to respond to this environment, the board is considering some structural

changes to insure that emerging issues in the accounting field will be properly researched and will improve the board's ability to be proactive in shaping the profession.

**Determine the extent to which the board, commission, or agency has effectively attained its objectives and purposes and the efficiency with which the board, commission or agency has operated.**

The board has been very effective in attaining its objectives. Statutory changes were instituted and regulations were adopted to coincide with the effective date of the legislation. The board identifies practical, achievable, objectives and proceeds efficiently to attain those objectives.

**Determine the extent to which the board, commission, or agency duplicates the activities of another governmental agency or the private sector.**

The board does not duplicate the activities of the private sector or another governmental agency. In fact, the board has endeavored to reduce workload by contracting the CPA exam applications process to a national, professional entity, NASBA. Currently, the board is reviewing the credentialing services offered by NASBA to see if contracting would 1) comply with Alaska law and, 2) provide a consistently more efficient method of licensure. The board would retain the authority to grant final approval of a license.

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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

December 29, 2008

RECEIVED  
DEC 29 2008  
LEGISLATIVE AUDIT

Ms. Pat Davidson  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 113300  
Juneau, AK 99811-3300

Dear Ms. Davidson:

This letter is in response to your December 1, 2008 confidential preliminary audit report on the Board of Public Accountancy.

Recommendation No. 1

Vacant Board of Public Accountancy (board) positions should be filled in accordance with AS 08.04.040.

The Office of the Governor concurs with this recommendation. I am pleased to report that the Governor recently selected the CPA/PA member for the board, however, and we are close to filling the remaining vacant public member. We find it challenging to find volunteers from the public who have an interest in specific licensing boards and the willingness to serve, but do not have inherent conflicts that would prevent them from serving. We will continue to make every effort to fill vacant positions in a timely manner.

If you need additional information, please contact me at 907-269-7450.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Bailey", written over a circular stamp or seal.

Frank Bailey  
Director  
Boards and Commissions

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STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT  
Office of the Commissioner

*Sarah Palin, Governor*  
*Emil Notti, Commissioner*

December 15, 2008

Ms. Pat Davidson, Legislative Auditor  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
PO Box 113300  
Juneau, Alaska 99811-3300

Dear Ms. Davidson:

Thank you for the opportunity to comment on the Preliminary audit report on the Alaska Board of Public Accountancy.

Recommendation No. 1: Vacant Board of Public Accountancy (board) positions should be filled in accordance with AS 08.04.040.

The department agrees with this recommendation.

Recommendation No. 2: The board, in concert with the Professional Licensing section, should review current and projected funding needs with the intent of reducing fees.

The department agrees with this recommendation and will be adjusting fees at the next licensing renewal period.

Recommendation No. 3: The Investigation Section should implement an effective case tracking system.

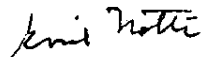
The department strongly supports this recommendation and has already taken steps to request funding through the State's Budget process to procure an effective Investigative case management tracking system. This tool will benefit all regulatory programs within the division.

In summary, we fully support your findings and recommendations; and that the Legislature extend the Board to June 30, 2013. Your audit report supports our belief that the Board is operating in the best interest of the public and in accordance with its statutory mandates.

There is only one correction I would like to direct to your attention, that is, the oversight division of the Alaska Board of Public Accountancy is the Division of Corporations, Business and Professional Licensing, *not* the Division of Banking, Securities, and Professional Licensing as mentioned on pages 1 and 3 of the preliminary report.

Thank you again for the opportunity to comment on the preliminary audit report.

Sincerely,



Emil Notti  
Commissioner

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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December 19, 2008

Ms. Pat Davidson  
Legislative Auditor  
Alaska Legislature  
P.O. Box 113300  
Juneau, Alaska 99811

RECEIVED  
DEC 19 2008  
LEGISLATIVE AUDIT

RE: Board of Public Accountancy Response to 2008 Management Review

Dear Ms. Davidson:

Thank you for the opportunity to respond to the findings resulting from your review. The Board concurs with your recommendations with the following comments.

## Recommendation No. 1

The landscape for the regulation of accountants has changed dramatically over the past seven to ten years. Some of the change has been driven by Congress, but much has been led by the National Association of State Boards of Accountancy, NASBA, which is an association of the fifty-five jurisdictions that make up the regulatory framework of accountants in the United States. The Alaska Board of Public Accountancy is one of those jurisdictions and a member of NASBA.

During this time, NASBA, working through its structure of over 30 standing committees, has made many significant and positive changes including substantial revision to the Uniform Accountancy Act, changes to the educational requirements for CPA candidates, changes to initial licensing experience requirements, computerization of the national CPA exam, and working to increase the mobility of CPA's across State lines, among others. Not all of these changes, however, necessarily make sense for Alaska. It is important for the Alaska Board of Accountancy to stay abreast of the changes so that those implemented here are appropriate. It is also important that we effectively participate in NASBA in order to have a voice in changes that affect the public in Alaska.

The Alaska Board has worked diligently over recent years to increase its presence at NASBA. Board vacancies that go unfilled for many months greatly hamper these efforts since there are fewer board members to carry on the work of the board. Alaska is also only one of about seven jurisdictions that do not have a full-time Executive Director to manage the affairs of the Board. Much of the ongoing dialogue between NASBA and the States occurs between Executive Directors. As such, it is even more important that the Alaska Board work to participate in NASBA through participation on committees and attendance at various NASBA meetings. Vacant board positions make this more difficult.

Recommendation No. 2

The Board is very supportive of minimizing fees. Over the last two or three years has encouraged the Professional Licensing section to evaluate our fees in light of the Board's cumulative balance.

As alluded in your letter, the Alaska Board is working to determine whether a change to the Board's operating structure is needed in light of the changes in the regulatory environment for CPA's. The work includes evaluating how other boards in Alaska and other State's Accountancy Boards operate around the country. Any adjustment of licensing fees should consider the costs of potential changes to the Board's operating structure as those potential changes are identified.

NASBA and other countries are moving to international standards for both financial reporting and regulation of accountants. Proximity to Canada, Russia and Asia frequently impact the exam application and licensing of CPA's in Alaska. As internationalization continues to take shape over the next few years, it will be important for the Alaska Board to stay abreast of these changes. As such, it will be necessary for the Alaska Board to involve itself, through NASBA committees, travel to meetings on the topic or potentially engaging Department of Law or other experts to evaluate these changes to Alaska. Changes to fees should be made in this light as well.

Recommendation No. 3

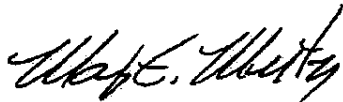
The Board believes that turnover in the investigator assigned to the Board has reduced timeliness and effectiveness of investigations. Also, the investigators recently assigned to the Board appear to not have a background in accounting regulatory matters.

Recently, NASBA created a new Enforcement Practices Committee. This committee, to which Carla Bassler of the Alaska Board has been appointed, has a mission to evaluate and examine enforcement practices in the various boards and develop best practices relating to evaluation of the effectiveness of state boards' enforcement efforts. The Committee will also develop resource materials including expert witnesses for special areas and provide resources for advice and enforcement issues to state boards.

This committee is also evaluating the creation of a "Certified Regulatory Investigator" which will offer uniform training and continuing competency material for State accountancy investigators. I encourage the investigative section to familiarize itself with NASBA's efforts to determine whether this can benefit investigations in Alaska.

Thank you for your work on the review of the Board of Accountancy. Please let me know if there is anything further I can assist you with.

Sincerely,



Max E. Mertz, CPA  
Chair, Alaska Board of Accountancy