50 Boards Represented at Regionals

NASBA’s Regional Meetings, held June 17-19 in Coronado, CA, and June 14-16 in Baltimore, brought together representatives of 50 of the 55 Boards of Accountancy, NASBA President Ken L. Bishop proudly announced at the meetings. However, he added, “We will be at our strongest when we have every jurisdiction represented.” He reported that NASBA is involved in more activities with more states than it ever has been before, having given direct support of more than $7.4 million to these efforts in the past year.

Chair Walter Davenport told the meetings that NASBA is engaged in efforts to increase the CPA candidate pipeline and its diversity. NASBA representatives have participated in the annual conference of the National Association of Black Accountants as well as other professional organizations. NASBA is also a sponsor of the Ph.D. Project, which aims to support the development of business school professors of color. President Bishop will be the keynote speaker at the Ph.D. Project’s meeting this year.

Welcoming the Western Regional Meeting, California Board Chair Jose A. Campos thanked NASBA for working with the California Board. Mr. Campos also serves as Deloitte’s Western Region Audit Diversity Leader, involved with “attracting, retaining and developing minority members of the profession.” He noted: “NASBA has been a close partner every step of the way and we have been using NASBA to help drive the dialog.”

The Honorable Kelly M. Schulz, Secretary of the Maryland Department of Labor, Licensing and Regulation welcomed the Eastern Regional Meeting by applauding their Accountancy Boards’ members for serving the public. She pointed to the Maryland Board’s early adoption of on-line licensing, CPAVerify and modernized continuing professional education standards, and said the state hopes to implement CPETracking this year. Adding to Ms. Schulz’s greeting, Maryland Board Chair Elizabeth S. Gantnier presented some fun facts about Maryland and Baltimore, the place that inspired the “Star Spangled Banner.”

Regional Directors J. Coalter Baker (TX), Robert J. Cochran (VA), John F. Dailey, Jr. (NJ), W. Michael Fritz (OH), Edwin G. Jolicoeur (WA) and Benjamin C. Steele (NV) and Directors-at-Large Jimmy E. Burkes (MS) and Telford A. Lodden (IA) moderated the Regional Meetings including the highly praised Regional Breakout Sessions which gave Board representatives the opportunity to pose questions and concerns to their neighboring Boards. Among the topics raised at those sessions were: how to deal with CPAs working for marijuana industry-related clients when the legality of those operations differs from state-to-state; the length of time it takes to get bad actors out of the profession; what amount of continuing professional education can be obtained through nano learning; and Accountancy Boards’ fund balance sweeps into the states’ general funds.

During questions from the audience, President Bishop was asked about NASBA’s potential membership growth. He said legal counsel is working with the Board of Accountancy in Samoa to determine if they will become the 56th member board of NASBA.

In conjunction with the Eastern Regional Meeting, the NASBA Center for the Public Trust held its Student Leadership Conference, June 22-24. Sixty-six students from across the country were in attendance. Celebrating its tenth anniversary, the Center for the Public Trust now has 500 student members in chapters on 26 college campuses, with other chapters under development.

This issue of the sbr contains highlights from some of the Regional Meeting sessions.
Nominating Committee Announces Slate

The NASBA Nominating Committee met on June 26, 2015 in Baltimore and selected the following individuals as their nominees for Directors-at-Large and Regional Directors, as reported by Nominating Committee Chair Carlos E. Johnson:

**Directors-at-Large (three-year terms)**
- Tyrone E. Dickerson (Associate – VA)
- Raymond N. Johnson (Associate – OR)
- E. Kent Smoll (Associate – KS)

**Regional Directors (one-year term)**
- Central – Sharon A. Jensen (Delegate – MN)
- Great Lakes – Wayne Michael Fritz (Delegate-OH)
- Mountain – Benjamin C. Steele (Delegate- NV)
- Northeast – John F. Dailey, Jr. (Delegate-NJ)
- Pacific – Edwin G. Jolicoeur (Delegate- WA)
- Southeast – Maria E. Caldwell (Delegate – FL)
- Southwest – J. Coalter Baker (Delegate – TX)

On June 26, the Nominating Committee learned that the current Middle Atlantic Regional Director had withdrawn his name from consideration for another term. As a result, the Nominating Committee is now seeking names of qualified individuals interested in serving as the Middle Atlantic Regional Director for the 2015-2016 term. Per NASBA Bylaws, Section 4.5.8, all Regional Directors must be State Board members at the time of or within six months prior to the Annual Meeting. Interested and qualified persons should submit letters of interest via email to NASBA Nominating Committee Chair Johnson in care of aholt@nasba.org by Monday, August 10, 2015.

As previously announced, Telford A. Lodden (Associate – IA), is the Nominating Committee’s choice for Vice Chair 2015-2016, to accede to Chair 2016-2017 if elected Vice Chair by the member Boards at the October 27, 2015 Annual Business Meeting in Dana Point, CA. Elections for the other NASBA officers will also take place at that time. Nominations may also be made by any five member Boards if filed with NASBA Chair Walter C. Davenport at least 10 days before the Annual Business Meeting. A majority vote of the designated voting representatives of the member Boards attending the Annual Meeting shall constitute an election provided a quorum is present.

At the 2015 Regional Meetings, half of the Nominating Committee's members and alternate members were selected by four Regions, in accordance with Section 7.1 of the Bylaws. The newly elected members of the 2015-2017 Nominating Committee are:
- Great Lakes – Barry M. Berkowitz (Delegate – PA) member, Sheldon P. Holzman (Delegate-IL) alternate;
- Mountain – Karen Forrest Turner (Delegate- CO) member, Cheryl M. Guiddy (Delegate-ID) alternate;
- Northeast – Michael Weinsheil (Associate-CT) member; Frederick G. Briggs, Jr. (Delegate-NH) alternate;
- Southwest – Barbara A. Ley (Delegate-OK) member; Thomas G. Prothro (Delegate-TX) alternate.

The Nominating Committee will meet on August 21, 2015 to select their candidate for Middle Atlantic Regional Director.

Sept. Release for Exam Exposure Draft

The AICPA is preparing for the September release of the exposure draft covering the blueprints, structure and design for the next version of the Uniform CPA Examination, AICPA Vice President – Examinations Michael A. Decker told the Regional Meetings. “The key thing we learned from the practice analysis was that content knowledge remains the key to protecting the public interest, but higher order skills are also needed.” Successful candidates need to be able to do research, but they also need to be able to research a computer may be able to gather information, “but how do we assess the skills they need to apply the new knowledge?”

Board of Examiners Chair Frederick Niswander reported surveys were sent to thousands of newly licensed CPAs and those who supervise them asking them what content and skills should be required of newly licensed CPAs. This resulted in a draft 52-page blueprint under development by the AICPA Exam Team. Comparing the skill levels needed, Dr. Niswander explained that the current Examination focuses on “remember and understand” and “application,” while it is anticipated that the new Examination would test additional skill levels, “analysis” and “evaluation.” As it is easier to assess higher level skills with simulations, rather than multiple choice questions, there could be more simulations in the next version of the Examination.

At this point in the practice analysis, the AICPA and the Board of Examiners are anticipating that the four current sections of the Uniform CPA Examination will be continued (AUD, FAR, REG and BEC), but the skill/content allocation would change based upon the blueprint and survey results, Mr. Decker noted. The public comment period for the exposure draft will run September – November 2015. The next version of the Uniform CPA Examination is projected to be announced during the second quarter of 2016 and launched in the second quarter of 2017, but full implementation of Excel as a candidate tool for the Examination is not expected until 2018.

NASBA Executive Vice President Colleen Conrad reminded the State Boards that it is their state’s statutes and rules that determine how the candidate is tested. Potential changes to the test administration model being considered include a possible extension of the quarterly testing windows. Ms. Conrad said NASBA is eager to hear the Boards’ opinions on possible changes. These could require a change in a Board’s statute, rules or policies. A modest increase in the price of the Examination is anticipated, but Ms. Conrad pointed out that there had been only nominal increases in the price of the Examination since it was set in 2004. She told the Boards that NASBA would be happy to send a representative to either call in or attend their meetings to discuss the exposure draft. NASBA will be sending in comments on the exposure draft based on input from its committees.

From left to right: Colleen Conrad, Frederick Niswander and Michael Decker. ex
I Am Smiling . . .

I recently came upon a quote from fellow Missourian, actor and author Gillian Flynn, which read: “I am smiling a big adopted orphan smile as I write this…” It had special meaning to me as I will always remember the smile on my adopted daughter’s face when the judge, a family friend, said: “I now pronounce you father and daughter!”

As I was writing some notes in preparation for this fiscal year’s final President’s Memo, and thinking of the many accomplishments we have achieved this year, it caused me to smile and think of Gillian’s quote.

June and July are busy months for me and the NASBA staff with the Regional Meetings, budget development, end of year’s assessments and financial reports, and the fiscal year-end Board of Directors’ meeting. It is a transitional time in which to reflect but also to look forward. In doing so, it becomes evident that we have plenty to smile about.

Let me start with the hugely successful Regional Meetings in California and Maryland. It was satisfying to have such great attendance and participation with 50 states and territories represented, including New York, California and Utah, states that have not been able to regularly attend in the recent past. NASBA’s strength and relevance comes from you, our Boards of Accountancy. We should all be smiling about this unprecedented level of participation.

At our recent meetings we talked a lot about developing and nourishing trusted relationships with associations, federal and international agencies, educators, accreditors and a multitude of outside stakeholders. This year we have seen those relationships pay huge dividends for Boards of Accountancy. Our opportunity to work closely with the Department of Labor (DOL) and AICPA resulted in a cooperative and collaborative response to the DOL’s public concerns about audit quality and to develop practical support for timely and effective State Board enforcement and disciplinary processes. Our close relationship with the Financial Accounting Foundation (FAF) has insured that NASBA’s and Boards of Accountancy’s positions and concerns are considered and addressed as GASB, FASB and PCC develop new standards and policies. The same can be said for the IRS, the PCAOB and others. The relevance of the State Accountancy Boards’ regulation of the profession gained significantly this year. That makes me smile!

We will be reporting to the NASBA Board of Directors that this year has been another year of business and service success. NASBA continues to be well funded and capable of providing an unprecedented level of services and support to Boards of Accountancy. This past year we set a new record of direct mission support of our Boards, providing legislative support, legal support, communication tools and a myriad of other products and services to assist the Boards. That directly reflects our mission, and we hope it makes you smile.

In short, this has been an amazing year. The level of involvement and participation of our volunteers is continuing to make a positive difference. As we begin planning for entering the new fiscal year, we will leverage the momentum of this year. I hope each of you is having a wonderful summer -- and that this Memo makes you smile!

Semper ad meliora (Always toward better things).

Ken L. Bishop
President & CEO

AICPA VP Sue Coffey and NASBA Chair Walter Davenport greet each other at the Regional Meeting.

Western Regional Meeting Attendees enjoy presentations from NASBA leaders.

Anita Holt, NASBA Executive Assistant to the President (left) welcomes attendees to the Regional Meeting.
Research on Candidates’ Characteristics

Informative results of the three 2014-15 NASBA Accounting Education Research Grants were reported at the Regional Meetings:

Professor Martin G. Fennema reported on his Florida State University research team’s work on “Are Accountants Made or Born?” They found that the natural ability to perform accounting-related tasks appears to be highly correlated with success in major accounting coursework and the Uniform CPA Examination. Students found to have this initial intrinsic ability can be trained to be even better; however, the study found no evidence that those who lacked that ability could be trained to “think like an accountant.”

“Intention to Sit for the CPA Examination,” was investigated by Professor Martin J. Coe of Western Illinois University. His study found predictors for taking the examination were: being able to take the Examination after 120 hours of education; attractiveness of passing the examination, including its benefit in getting a job; social support from wife, family or friends; access to a role model such as a local CPA; and recognizing the CPA has a portable career skill set. Dr. Coe said cost factors were not found to be associated with a student’s intention to sit for the Uniform CPA Examination.

Kansas State University’s research team conducted a two-part investigation on “State Policies and Attitudes Toward Acceptance of Advanced Placement Courses and a Comparison of Success on the CPA Exam Between Students That Enter College with Advanced Placement Credit and Those That Do Not.” Dr. Joseph Ugin reported his team found overwhelming support from the accounting profession for an advanced placement (AP) course in accounting. Those CPA candidates who took AP courses on average scored two points higher on the Uniform CPA Examination. Those who took AP English and Composition did the best, followed by those who had taken AP Calculus 1 and AP Government.

Focus on CPA Exam Statistics

Well over half of the Uniform CPA Examination candidates have passed all four parts within the 18-month window, NASBA Director – Continuous Improvement and Analytics James Suh reported to the Regional Meetings. In 2014 there were 91,384 unique candidates taking parts of the Examination, with 25,643 passing their fourth part. Candidates who had not passed all four parts of the Examination and had not taken an Examination section in the past 18 months are considered “drop outs;” and there were 19,071 in 2014.

While 2014 saw a decline in the number of candidates, it was not uniform throughout the jurisdictions, as Alaska, the District of Columbia and Wyoming and others saw increases over 14 percent in number of candidates.

Mr. Suh reported that NASBA is engaged in new analysis and collaboration to understand the CPA pipeline. “We are getting beyond overall pass rate to support stronger understanding of candidate performance and behavior,” he stated. NASBA has been hosting a data summit each year to assist educators in seeing what can be done with the information gathered on the candidates.

Bringing Boards Into the DOL Loop

The May 2015 report from the Office of the Chief Accountant, Employee Benefits Security Administration (EBSA), U.S. Department of Labor (see sbr 6/15) on the quality of employee benefit plan audits performed by independent qualified public accountants was “a call to action,” NASBA Executive Vice President and COO Colleen K. Conrad told the NASBA Regional Meetings. “A positive outcome of this is that the DOL now recognizes that the State Boards have been left out of the equation. Very few referrals have gone to the Boards,” she stated.

All State Boards will be receiving a letter from the DOL as part of the EBSA’s initiative to communicate the results of the study and ensure that only competent CPAs are performing these audits. Out of 400 plan audits sampled from 2011 Form 550 filings, the EBSA found approximately 4 out of 10 audits contained major deficiencies. Looking at similar studies done in previous years, the EBSA has found a negative trend in the percentage of deficiencies. Ms. Conrad said, “The report expresses concern that peer review and practice monitoring efforts are not improving audit quality or identifying deficient audits.”

Over the last 10 years, only 89 referrals were made by the DOL to specific State Boards, NASBA Legal Counsel Maria L. Caldwell stated. “Many states have not received even one referral from DOL over the last years. When Boards have received referrals, they have taken appropriate action.”

Ms. Caldwell said the specifics are being worked out for the DOL to request consent agreements from firms to share its investigative information with the State Boards, and a similar information sharing strategy is being developed with the AICPA. Details on these cooperative programs when finalized will be provided to the State Boards.

“The key to effective enforcement will be having detailed information shared with the State Boards,” Ms. Caldwell stated.
Peer Review at the Crossroads

The past, present and future of peer review were considered by a Regional Meeting panel composed of NASBA Vice President – State Board Relations Daniel J. Dustin, Compliance Assurance Committee Chair Janice L. Gray (OK) and Regulatory Response Committee Chair W. Michael Fritz (OH). Mr. Dustin looked at how the State Boards responded to learning firms doing employee benefit plan audits were out of compliance with peer review; Ms. Gray reviewed recent changes that have been made to the AICPA peer review program; and Mr. Fritz summarized NASBA's comments on the AICPA's paper on peer review of the future.

Mr. Dustin reported that the Department of Labor had asked the AICPA in 2013 to confirm that 4,918 audit firms had participated in the peer review program. The AICPA became aware that 21 percent of the firms doing audits of employee benefit plans were not in compliance with peer review requirements, because they were: failing to enroll in peer review, or to have the appropriate type of peer review (system vs. engagement) or to report “must select” engagements to their peer reviewer. The State Boards' most common response to learning of this situation was to verify the firm's registration and then to issue an administrative warning to bring the firm into compliance. Some imposed discipline on the firms.

Ms. Gray reported that in the fall of 2014 new requirements were approved and changes were made to the quality assurance materials by the AICPA. Peer reviewers have to verify the firm's license to ensure the firms are registered where they are practicing. In the revised representation letter, firms have to agree that if the representation letter is incorrect it could be used as evidence of their non-compliance with the peer review requirement. When misrepresentations occur the peer review report could be recalled and the State Board notified of that recall. A hearing panel would determine termination from the peer review program or require a replacement peer review, and re-enrollment in the peer review program would be subject to the approval of a second hearing panel. As of January 1, 2015, consecutive pass with deficiency or fail reports are to be referred to a hearing panel.

Ms. Gray noted that the AICPA is also focusing on peer reviewer performance and requiring as of May 5, 2016 that reviewers must complete annual on-demand training with competency assessment. To be a team captain, the peer reviewer must have been in public practice within the last five years and have experience in the area in which the audit was performed.

Mr. Fritz commented that peer review is at a crossroads, with the profession either continuing to monitor quality as it has done in the past or to “go down a new path and embrace change.” He summarized some of the key items in NASBA's comment letter on the AICPA's “Evolving the CPA Profession's Peer Review Program for the Future” concept paper (AICPA's complete letter can be found on www. NASBA.org). The letter supports the AICPA's efforts to improve audit performance and quality, recognizing that enhancement in the quality of peer review is a critical element to any changes in practice monitoring. NASBA does have concerns on how some of the proposals would impact non-AICPA member firms and how electronic information could be standardized.

A key point was that the concerns of the State Boards need to be considered in the new monitoring system. As State Boards would need to continue to receive firm results as part of their regulatory process, a parallel process may need to remain in place to the monitoring system being proposed for a long time. The letter supported the use of engagement quality indicators for a firm's internal system of monitoring quality control. NASBA noted that peer reviews can only succeed if their work is supported by appropriate consequences and an effective enforcement mechanism. Mr. Fritz said he believes there will be continued cooperation by the AICPA and NASBA on this project.

UAA Discussions Continue

What is the impact on inter-state mobility of states having different rules for CPA-inactive and/or CPA-retired designations? Uniform Accountancy Act Committee Chair J. Coalter Baker (TX) told the Regional Meetings his committee continues to ask this question as a task force works to determine the best rules for what such licensees can do.

Legal Counsel Noel Allen noted that compliance with the UAA model is not great in the area of inactive or retired CPAs. Some states have adopted what is in the UAA and others have established active, inactive and retired statuses for CPAs. Under the current UAA and Model Rules, a CPA-Inactive basically cannot perform any accounting-related service, even volunteer to assist with tax preparation. Whether or not the person is compensated for his or her services is not mentioned in the UAA, Mr. Allen pointed out. “We want to strive for a clearer definition and consistency.”

“We don't want CPAs to avoid discipline by slipping under the ‘inactive’ title,” Mr. Baker said. “There are legitimate reasons for going inactive.” Mr. Baker told the audience he hoped to get input from the Board members attending the Regional Meetings, on this and other topics being debated by the UAA.

These include establishing procedures for recognizing persons holding non-US designations with audit rights in other countries, without requiring a mutual recognition agreement. This potential new pathway was presented during breakout sessions conducted by NASBA/AICPA International Qualifications Appraisal Board Chair Telford Lodden (IA). Another topic for the UAA Committee will be Model Rules to cover new CPE Standards, which were covered in breakout sessions led by Maria L. Caldwell and Jessica Lutrull of NASBA, with John F. Dailey, Jr. (NJ) and Thomas T. Ueno (HI).
PCC Needs to Continue Outreach

The importance of getting quality and timely feedback from private company stakeholders on developing issues was stressed by Private Company Council (PCC) Chairman Billy M. Atkinson. In reviewing for the Western Regional Meeting the PCC’s accomplishments in its first two and a half years, Mr. Atkinson reported the PCC had used a “town hall approach” in different geographic areas to present topic updates to users, preparers and practitioners and have an “open mic” for new issues to be laid out for consideration. Four Accounting Standards Updates that had been proposed by the PCC were issued by the Financial Accounting Standards Board. The PCC has also initiated discussion topics and commented on FASB projects which have led to considerations for private companies as they relate to relevance or excess costs.

“Based on town halls or otherwise, future issues for private companies could very well include more types of intangible assets to be subsumed into goodwill, fair value accounting and disclosure, expanded VIE considerations and possibly a broader sweep of derivative and hedge accounting and disclosure considerations, among others,” Mr. Atkinson stated.

Having served as NASBA Chair 2009-2010, Mr. Atkinson said he is not seeking to extend his three-year term as PCC Chair: “My commitment to my friends and colleagues here at NASBA has been to get this effort off to a stable start and set the tone among all parties for its success.” He thanked NASBA leadership and the State Boards for attending many of the PCC’s meetings and for being “a tremendous resource to me as I developed points of view and tactics on issues.”

Speaking at the Eastern Regional Meeting, PCC Member George W. Beckwith observed, “I do not believe there is such a thing as a non-user of financial statements.” Although he serves as chief financial officer of the National Gypsum Company, a family-owned business headquartered in Charleston, SC, and is consequently classified as a “preparer,” Mr. Beckwith stated, “I don’t make journal entries, but I do get to see them and make comments. I call myself a ‘user’ because I look at my clients’ statements.” He has served on the PCC since its inception and will continue on next year.

Mr. Beckwith summarized the PCC’s work: In its first year, the PCC was establishing relationships and tackling its initial low-hanging-fruit projects. In the second year it was dealing with harder, more complex issues and gelling as a group with the FASB and staff. Now in the third year the review process has started. He too stressed the importance of the PCC’s outreach efforts, to hear from not only the large firms but from the “little guy” too.

The PCC is now working with the FASB and staff on the need for a formal provision of an unconditional one-time option for a company to make an election of a PCC alternative without establishing “preferability.”