

**Report on May 19, 2008
Conference on the State of
the Examination**

Prepared for
NASBA Regional Meetings
June 2008

**Conference on the
State of the Examination**

- Held on May 19, 2008 at the Grand Hyatt DFW
- Invitation only for representatives of boards of accountancy
- 48 boards of accountancy were represented by 130 attendees

Agenda

1. Progress & Potential – Sam Cotterell & David Costello
2. Issues Related to the CBT Services Agreement:
 - Provisions of the Agreement – Noel Allen
 - Cost Control – Joe Cote
 - Control of the Examination – Bob Pearson
 - Contingency Examination – Dan Dustin
3. International Delivery of the CPA Examination – John Peace

Progress & Potential

- Third NASBA Examination Conference:
 - 1st – May 10, 2001, Chicago – Addressed Four C's: Cost, Control, Confidentiality & Contract. Result was to move forward with negotiations with AICPA & Prometric.
 - 2nd – January 9, 2002, Atlanta – Again addressed Four C's. Result was to sign CBT Services Agreement, which was done on May 22, 2002.
- CBT launched on April 5, 2004 with limited glitches since:
 - Volume lower than expected – 142,000 sections per year then, 210,000 sections per year now.
 - Simulations – rescoring resulting from rubric errors and control V (paste) issue.
 - Prometric/Micromash conflict

Progress & Potential

- After Four Years of CBT:
 - Are we headed in the right direction?
 - Are any corrections necessary?
 - How do we prepare for end of Agreement in 2014 (6 years)?
- State Boards of Accountancy are:
 - Primarily responsible for the CBT's success.
 - The only customers for the CBT.
 - Responsible for determining where we go from here.

Provisions of the CBT Agreement

Potential Enhancements to the Agreement:

- More state board/NASBA control in Exam?
- Shift the structure from a three-party deal toward a model where NASBA is purchaser and AICPA and Prometric are contracted suppliers?
- Restructure the calculation, determination and timing of fee increases?
- Revise escrow agreements to make the triggers more realistic and the process legally certain and efficient, or adopt an alternative?
- Clarify and strengthen NASBA access to AICPA/Prometric cost information?

Cost Control

Sample Total Candidate Fees for Four Sections

Year	AICPA	Prometric	NASBA	Board*	Total
2003 (PBT)	144.00	0	0	200.00	344.00
2004	180.00	250.00	40.00	140.00	610.00
2005	180.00	327.00	40.00	140.00	687.00
2006	260.00	339.54	60.00	140.00	799.54
2007	320.00	349.90	72.00	150.00	891.90
2008	380.00	357.70	72.00	150.00	959.70
2010 (Est)	474.24	368.90	80.00	160.00	1,083.14

* Each board sets its own administrative fees. Under PBT, board fees covered the costs of hiring proctors and renting facilities. These fees are representative samples.

How Might Costs Be Contained?

- Agreement requires a “break even” for the AICPA & NASBA but puts few limits on the costs that can be included in order to break even. Should there be limits?
- Should the AICPA & NASBA bid/establish a fixed fee (with a periodic COLA) and contain their costs to match the revenue available?
- Does the CPA Exam have to be 14 hours long and contain four sections? Many believe the answer is “No.” A shorter exam (maybe with fewer sections) should cost less to develop & deliver.
- Are simulations necessary? Much of the cost of developing the CPA Exam is the result of simulations and simulations have been responsible for many of the glitches the Exam has experienced.

How Might Costs Be Contained?

- Are essay questions necessary? Much evidence exists to say, “No.” More importantly, most written communications skills can be tested using objective questions.
- Prometric has a price protection through a “true-up” provision in the Agreement. Should the true-up continue?
- Consider an extension of current Agreement to allow AICPA to amortize its accumulated costs (\$44 million) over a longer period of time (beyond 2014).

Control of the Examination

AICPA Board of Examiners (BOE):

- Establish CPA Examination Policies
- Oversee content & scoring of the Exam
- Assures Exam validity and reliability
- Investigates and remediates issues/problems associated with the Exam

State boards and NASBA recommend people to serve on the BOE and its committees but the AICPA does not have to accept these recommendations nor retain anyone who serves.

Control of the Examination

Possible enhancements in state board control:

- State boards, through NASBA, appoint:
 - Majority of BOE members and
 - BOE Chair
- No requirement that any BOE member be an AICPA member
- No AICPA staff or paid consultants would serve as BOE members

Contingency Examination

Why develop a contingency exam?

- Bankruptcy (current escrow provisions may not be adequate; triggers may be too restrictive)
- Technical failures
- Dispute results in withdrawal
- Breach that cannot be remedied
- Legal action by third party
- Strategic business decision
- Theft of exam items

Contingency Examination

One Possible Approach:

- Four sections
- All multiple-choice or other objective formats
- Three hours per section (12 hours compared to 14)

Next Steps?

- Cost could be substantial
- Develop a business plan
- Discuss at Board of Directors' Meeting

International Delivery

Background:

- Recommendations from 2006 Task Force
- Formed Joint Committee with AICPA & Prometric
- Demand from about 7,000 international candidates
- Competition from other accounting organizations
- Some boards now issue a letter of completion with no subsequent contact with passing candidates
- Options have been controversial
- Under all options, licensing would be under the exclusive purview of state boards of accountancy

International Delivery

Options:

- Continue the current system (letters of completion or two-tier states) through boards of accountancy but begin to deliver the Exam in international locations
- Separate organization (could be operated collectively by state boards or NASBA and/or AICPA) would either:
 - Issue a letter of completion (for uniformity)
 - Issue letter allowing use of CPA designation –
 - Require additional items (Ethics exam, experience, CPE, etc.)
 - National database could be checked globally to verify candidates

Next Steps

Work of two NASBA Committees will continue:

- Committee on National Examination Preparedness – Committee will meet in July and develop a report to NASBA's Board of Directors
- Committee on International Delivery of the CPA Examination (iXam) – Committee will meet in June and attempt to reach some consensus

Boards will be kept informed and no decisions will be made prior to further discussions with board representatives

Questions?
