

Statement of  
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Before

**The United States Senate Committee on Homeland Security Government Affairs  
(Subcommittee on Federal Financial Management, Government Information,  
Federal Services and International Security)**

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Chairman Carper, Senator Coburn, and Members of the Subcommittee, the National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments relating to the President's Council on Integrity and Efficiency (PCIE) report titled *National Single Audit Sampling Project* (Report).

Our testimony today will focus on the role of NASBA and State Boards of Accountancy (State Boards) as integral parties of the regulatory process, provide comments on the Report, and set forth NASBA's suggestions relating to certain recommendations contained in the report, such as NASBA's commitment to developing and maintaining an effective referral program for governmental agencies and State Boards. I will describe this program in detail later.

It is encouraging to note that the Report indicates that 92.9% of the Federal awards reported were acceptable and could be relied upon. This percentage reveals substantial success and should provide comfort that there is only a need to refine the Single Audit process, not initiate a complete overhaul.

### **Background**

First, we would like to provide some background information that will help the Committee understand the roles of State Boards and NASBA.

#### **Mission of State Boards and NASBA**

The primary mission of each State Board is to protect the public through regulation, as well as work with governmental entities, both federal and state, which also represent and serve the public. The State Board, as well as each U.S. territory or commonwealth that has a board of accountancy, is responsible for administering the CPA examination, determining whether an applicant has met the education, examination, and experience qualifications to be licensed as a Certified Public Accountant (CPA), and enforcing the state's accountancy laws and regulations.

NASBA's mission is to enhance the effectiveness of State Boards. This mission is achieved by

- serving as a forum for the 55 State Boards;
- providing high quality, effective programs and services;
- identifying, researching, and analyzing major current and emerging issues affecting State Boards and developing solutions;
- maintaining effective communications with State Boards to facilitate the exchange of ideas and opinions; and
- developing and enhancing relationships with organizations that impact the regulation of public accounting.

NASBA is guided by a board of directors consisting of current and former State Board members from throughout the country. Many of the board members are CPAs who provide a rich, extensive background in public accounting, industry and government. The Board is supported by a staff of approximately 200 professional and administrative individuals who operate out of the Nashville and New York City offices. In addition, there are approximately 30 NASBA Committees comprised of current and former State Board members working to help achieve NASBA's mission.

Through an extensive volunteer network, NASBA has been able to work as a partner in the development of the Uniform Accountancy Act, model legislation which has been adopted by a majority of the 55 State Boards. Currently, the volunteer community of NASBA is working to evaluate the feasibility of the convergence of international and U.S. accounting standards; researching improvements to increase the effectiveness of peer reviews, a process mandated by many states as a requirement for firms engaged in the attest (assurance) function; and revisiting the interaction between State Boards and Federal regulatory bodies through the recently developed Government Agency Referral Task Force. In summary, NASBA is attuned to the needs of State Boards as they fulfill their charge of protecting the public and it is those needs that drive the activities of NASBA.

## **NASBA's Comments on the Report Recommendations**

### **Report Recommendation Relating to Regulatory Referrals**

A recommendation in the Report that is very relevant to the missions of NASBA and State Boards is: "Review the suspension and debarment process to identify whether (and if so, how) it can be more efficiently and effectively applied to address unacceptable audits, and based on that review, pursue appropriate changes to the process."

State Boards take seriously their responsibility to protect the public and, therefore, carefully investigate and adjudicate the complaints they receive. For many years, State Boards have expressed frustration and concern about:

- the lack of timely communications between governmental agencies and State Boards;
- the difficulty of obtaining information when a State Board becomes aware of a matter that should be investigated; and
- the long lapse of time between the alleged violation and the referral, which can span several years thereby placing the State Boards at a severe disadvantage in pursuing the matter; whereas, expedited referrals would allow boards to begin the complaint process while the information is most relevant and accelerate the process so the public is protected sooner rather than later.

NASBA holds semi-annual conferences to address issues affecting State Boards and the aforementioned issues have been discussed at these conferences numerous times. We have also engaged in dialogue with various governmental agencies, some of whom regularly attend our conferences. Thus, NASBA wholeheartedly agrees with the need to develop a better process to address unacceptable audits.

In an attempt to facilitate referrals from governmental agencies, NASBA has recently employed Linda Biek, a CPA who will work with NASBA's Government Agency Referral Task Force to establish a process and basis of assuring that appropriate referrals are made, that the appropriate State Boards are not only in receipt of the referrals, but that they are processing them, that there is a process of monitoring progress on the disciplinary process and that there is effective communication of the entire process between the State Boards, Federal and State Regulators and NASBA on a continuing basis. Ms. Biek's background includes public accounting experience in the audit department of a Big Four accounting firm. She formerly served as the Executive Director for the

Tennessee State Board of Accountancy and began her career with the Board as the technical investigator charged with overseeing the complaint process. Ms. Biek will draw on this experience as she assumes the role of NASBA's Director of Governmental, International and Professional Relationships.

Oftentimes, it has been noted by State Board executives that they have properly processed a complaint but failed to notify the referring agency. As a result, the referring agency is left to assume that the State Board took no action on the referral. By closing the loop in the process with good communication, the referring agency will be made aware of the status and ultimate disposition of the case.

Appropriate response by State Boards to complaints is critical to their mission of protecting the public. Most State Boards accomplish this goal exceedingly well. However, the enforcement efforts of some State Boards are impeded by limited staff. NASBA will assist those boards that do not have adequate enforcement staff and, when applicable, assist these boards in seeking adequate funding to fulfill their enforcement responsibilities.

Furthermore, NASBA is developing plans to host a conference which will include relevant Federal agencies, NASBA, and other interested groups. The purpose of the conference is to exchange ideas on best practices, identify the needs of the Federal agencies, provide updates on emerging issues, and expose the proposed referral process. Ms. Biek will coordinate the conference to ensure that it is held on a continuous basis and that it serves the needs and interests of Federal agencies and other entities committed to protecting the public.

#### **Report Recommendation Relating to Sanctions for Unacceptable Work**

This recommendation states: "Identify, review, and evaluate sanctions to be applied to auditors (for unacceptable work and/or for not meeting training and CPE requirements) and/or considering potential legislation that would provide for a fine to be available to Federal cognizant and oversight agencies as an option to address unacceptable audit work."

We believe that it is extremely important for the Committee to recognize that once State Boards have been provided with information pertaining to audit deficiencies, they possess the legislative authority to investigate the complaint, to adjudicate the complaint, and to impose a large range of disciplinary actions. These actions include assessing substantial fines, requiring continuing professional education, and suspending or even revoking the CPA's license to practice. Only State Boards can revoke a CPA's license to practice. Thus, Federal legislation to provide for other suspension and debarment measures is not necessary. Instead, governmental agencies should work with State Boards and NASBA to ensure that there is a process in place for communication of substandard practice to State Boards so they can take appropriate action.

#### **Report Recommendation Relating to Continuing Professional Education**

The Report recommends consideration of additional continuing professional education (CPE). Currently, the GAO requires individuals who participate in audits performed in accordance with *Government Auditing Standards* (Yellow Book) to obtain 24 hours of CPE relating to such audits within each 2 year period. NASBA suggests the careful evaluation of the content of this CPE.

Vendors who wish to supply this CPE should be evaluated to determine that the courses meet appropriate standards. Many State Boards utilize the NASBA CPE Registry to assist them in the vendor evaluation process. The value of the Registry results from the quality control procedures that are in place to ensure that CPE vendors are offering courses that will enhance the proficiency of the CPA. Vendors who do not comply are removed from the Registry and run the risk of their courses not being accepted in the states that require listing on the Registry. Certain organizations (e.g. colleges & universities, the AICPA and certain other organizations) are exempt from the registration requirement. We suggest the GAO consider requiring non-exempt vendors offering governmental CPE be listed on the Registry.

### **Conclusion**

To summarize:

- State Boards take seriously their responsibility to protect the public and, therefore, carefully investigate and adjudicate complaints they receive.
- State Boards can and do effectively protect the public.
- The process for referral of complaints from governmental agencies to State Boards can be improved and NASBA is committed to developing and maintaining that process, however we will need the assistance of the federal community in order to be successful.
- Where needed, NASBA will provide assistance to State Boards that need assistance with their enforcement responsibilities.
- State Boards possess a complete arsenal of disciplinary actions and, thus, there is no need for additional legislation. Instead, the emphasis should be on making the referral process effective.
- NASBA can provide assistance in strengthening any additional continuing professional education that might be needed.

In closing, NASBA appreciates the opportunity to address the Subcommittee and embraces the beginning of collaboration that will not only benefit the general public but also the Federal agencies charged with the responsibility of providing funding to governmental and non-profit entities throughout the country.