

STATE • BOARD • REPORT

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XLIII, Number 3

March 2014

10th Anniversary of CBT on April 5

Executive Directors joined NASBA President Ken Bishop in heralding the upcoming tenth anniversary of the conversion of the Uniform CPA Examination to computer-based testing (CBT) from a paper-and-pencil based examination. Accompanied by a video presentation of exploding fireworks, those at the 2014 Executive Director and State Board Staff Conference, held March 3-5 in Savannah, GA, toasted the Executive Directors, staff of AICPA, NASBA and Prometric, and State Board Members and Associates who made possible the computerized examination, which launched on April 5, 2004.

"Ten years ago the candidates' most frequent problem was they failed to bring their Notice To Schedule (NTS) to the test center," remarked NASBA Client Services Director Patricia Hartman. "Ten years later it is still their most common problem." However, she

noted the candidate experience has been improved in many ways since that time, including giving candidates the ability to reprint their NTS at the test center. Over the last ten years, there has been a 31 percent increase in the number of testing center seats available for CPA candidates, Kimberly Farace, team leader of Client Services and Sales at Prometric, pointed out. New, more robust servers have also been installed for all testing centers for the CPA Examination, as well as a hardware upgrade to 3,700 testing workstations, she reported.

The practice analysis, that will serve as the foundation for the validation and legal defensibility of the next version of the Examination, is underway, AICPA Director of Examinations Michael Decker told the Executive Directors. He explained that because the accounting profession is changing so rapidly, the goal is to have a new Examination ready earlier than 2018, as was initially projected. The practice analysis, which identifies knowledge and skills needed for entry-level practice, needs input from large and small CPA firms, as entry-level practice differs among them. A 60-day invitation to comment on the practice analysis' results is expected to be released by the Board of Examiners in the summer of 2014, but the comment period may need to be extended, Mr. Decker said. NASBA Executive



From I to r: Pat Hartman, Russ Friedewald, Mike Decker and Kim Farace.

Vice President and COO Colleen Conrad told the Executive Directors that it is key to have this invitation on their Boards' agenda for discussion, as this is the period in which they have the ability to most significantly influence the future of the Examination.

Mr. Decker asked the Executive Directors to think about how an examination that might look different in ways such as number of sections, length, ordering of sections, and so on, might require a change in their rules. Consideration would need to be given to the candidates currently in the pipeline if the Examination's structure is changed, or if the specific sections changed. He stressed that no pre-conceived notion of changes have been made yet, as the practice analysis is in its early stages. NASBA Vice President Ed Barnicott, an executive sponsor of the Board of Examiners' Practice Analysis Project, pointed out: "These decisions have not been made yet. It is important to know now that change might be coming." ♦

Contents

10th Anniversary of CBT on April 5	1
Chair Johnson Talks to EDs and Legal Counsel	2
Reaching Out to Other Regulators	2
NASBA Creates Enforcement Tools Site	2
President's Memo	3
Bridging the Legislative Exclusion Gap	4
Boards Vary on Background Checks	4
CPE Standards Under Review	4
CPE Audit Service Ready for ALD States	5
Global CA Branding Effort Underway	5
23 States at Legal Counsel Conference	5
Call for NASBA BOD Nominations	5
Draft SEC Strategic Plan Released	6

Published by the National Association of State Boards of Accountancy

Editor-in-Chief: Louise Dratler Haberman

Editor: Ken L. Bishop

Production Editor: Anthony E. Cox

Editorial Assistant: Ann Bell

Tel/615.880.4200 Fax/615.880.4290
www.nasba.org

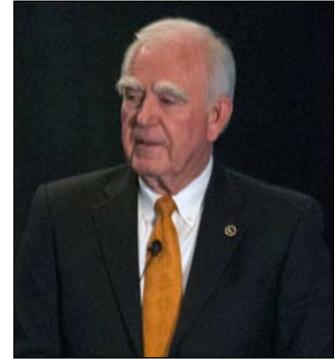


Executive Directors celebrate the 10th Anniversary of CBT during the Executive Directors and State Board Staff Conference.

Chair Johnson Talks to EDs and Legal Counsel

NASBA is talking about services it can offer to State Boards and the resources it can provide to them, NASBA Chair Carlos Johnson told the Executive Directors, Board staff and legal counsel, who gathered in Savannah for conferences held March 3-5. "We will follow your lead," he assured the audience as he summarized with President Ken Bishop NASBA's recent and forthcoming activities. "The Uniform Accountancy Act is an evergreen document, changing from year to year. Topics the UAA Committee will consider include: when a CPA has to make records available to ex-clients and what happens when a CPA is a whistleblower."

Chair Johnson reported: "We have created a leadership group to help us consider new ways of identifying and attracting future leaders to represent NASBA. We need to promote and spotlight people from NASBA so that those who make appointments will be aware of them, and we want to do that with Executive Directors too." President Bishop underscored that getting people appointed to groups gives the State Boards and NASBA name recognition. "We are going to nurture and promote people to important boards that have input on what you do," he told the Executive Directors. ♦



NASBA Chair Carlos E. Johnson

Reaching Out to Other Regulators

Lee D. Martin, Deputy Director of the Internal Revenue Service's Office of Professional Responsibility (OPR), and Ian Dingwall, Chief Accountant of the Employee Benefits Security Administration (EBSA), both addressed the NASBA Executive Directors Conference as well as the Legal Counsel Conference in Savannah. Both had been contacted through NASBA's stepped up outreach program to federal regulators, spearheaded by Executive Vice President Colleen Conrad and assisted by NASBA attorneys Maria Caldwell and Stacey Grooms, who provide staff support to NASBA's Enforcement Resources Committee. Ms. Conrad explained that the program is working to build staff-to-staff relationships between NASBA staff and federal agency staff, getting those who "work in the trenches" to know whom to call, in that way serving as a conduit for information for the State Boards. She encouraged the Executive Directors to contact her, Ms. Caldwell or Ms. Grooms when they need information from federal agencies or are seeking points of contact. "If we can work with the federal agencies and speak with a common voice, it may help," she suggested. "We also realize that there are many new Executive Directors and investigative staff throughout the Boards of Accountancy. We are working on adding guidance and tools regarding working with federal agencies in NASBA-U, as well as in our enforcement tools."

Fitness to practice before the IRS is the focus of Mr. Martin's 40-member department. Approximately two-thirds of the cases they pursue are related to bad conduct, while some 14 percent involve compliance issues, such as the tax professional's failure to pay his own taxes. Under Circular 230, the IRS can privately reprimand the professional, or can publicly censure, suspend or disbar him, and can assess monetary penalties against an individual or a firm, though it has not done so against a firm, Mr. Martin said. The IRS cannot tell the State Boards what cases they are working on: "What is published is the extent of what we can do," he told the Executive Directors. In 2012, the Office of Professional Responsibility disposed of 711 cases of which 31 involved CPAs. In 2013, they disposed of 766 cases of which 35 involved CPAs.

There are 82,579 employee benefit plan (EBP) audits being done by 7,358 CPA firms, Mr. Dingwall said, and audit quality remains problematic. A nationwide quality study of 400 EBP audits was started in October and is expected to be completed by September 2014. Based on past experience, half of the CPA firms audit only one or two plans,



From l to r: Ken Bishop, Ian Dingwall, Walter Davenport and Carlos Johnson.

and those "dabblers" are the ones that are most likely to be deficient because they don't pay attention to the audit guides, according to Mr. Dingwall. His department has referred more than 800 cases of the most egregious work to the AICPA and about 100 to the State Boards of Accountancy when the firms were not AICPA members. The Executive Directors asked Mr. Dingwall to have his agency refer cases to the appropriate State Board at the same time as they do to the AICPA. He said, when EDs receive the referrals, they will get detailed information along with his department's summary, and he advised the Boards to ask for the EBSA's work papers so that they would not have to "re-invent the wheel" to move ahead with the case.

A list of CPA firms that have done EBP audits but have not been peer reviewed is being prepared by the EBSA. Mr. Dingwall agreed to share that list with the State Boards. He said that the Department of Labor supports legislation that would amend ERISA to state the requirements for performing EBP audits and that would give the Department of Labor the authority to bar auditors from ERISA work or to prescribe remediation. When that legislation is written, the EBSA would like NASBA to review it and submit a letter of support if possible, Mr. Dingwall said. ♦

NASBA Creates Enforcement Tools Site

NASBA Enforcement Resources Committee Chair Harry O. Parsons (NV) has announced the creation of "Enforcement Tools" Web pages on www.nasba.org. The resources currently on the site that are available to the Boards as well as the public include: SEC/IRS Quarterly Enforcement Reports; Enforcement Newsletters; Becoming an Investigator or Expert Witness; Retaining an Investigator or Expert Witness; and Investigator Training Series. In addition, State Board Executive Directors can find the Enforcement Resource Guide available to them on the site. ♦

PRESIDENT'S MEMO

They Make It Happen

I am writing this *Memo* as I am preparing to attend the 32nd NASBA Annual Conference for Executive Directors and Board Staff, commonly referred to as the "ED Conference." There was a time I would have been somewhat reluctant to write an article about the importance of our Executive Directors, as it may have seemed self-serving in that up until about seven years ago I proudly served as the Executive Director (ED) for the Missouri State Board of Accountancy. After being at NASBA since that time, including a couple of years as President and CEO, the pivotal role of our Executive Directors is very clear to me.

Recently there has been discussion about the significant amount of turnover in the ED ranks. When I look back at the list of Executive Directors who were serving when I started in Missouri in 1999, only about a half dozen remain -- and several of them are now talking about retirement. The loss of their institutional knowledge creates a challenge offset by the gain of new knowledge, skills and ideas of those joining the EDs.



Ken L. Bishop
President & CEO

In my 15-year history with NASBA and Boards of Accountancy, there have been tremendous changes and accomplishments. To name a few: the conversion to computer-based testing (CBT) for the Uniform CPA Examination, CPA interstate mobility, the Accountancy Licensee Database, and on-line license renewal (in most states). It would not be an overstatement to proclaim that these and other achievements could not have happened without the participation and work of Executive Directors on NASBA committees and task forces and through unilateral efforts in their home states. These were ideas that benefitted the public and the profession and the Executive Directors were the ones who made them work. Only through the EDs' willingness to embrace the possible could those improvements have been made.

As I consider the key role Executive Directors have played historically, I do have some concerns about the future. Fifteen years ago, most EDs were dedicated specifically to their Accountancy Boards. At that time EDs were well aware of issues in the profession, shared disciplinary challenges and legislative activities. In addition, most had a common bond with other EDs from around the country. Today, there is a growing number of Executive Directors who have diminished roles with the Accountancy Boards, frequently serving multiple boards and commissions. Often these individuals are unable to attend NASBA meetings, including the ED Conference. This transition has decreased peer involvement and has limited, or even curtailed, the opportunity to leverage relationships with other EDs, thus denying them the opportunity to enhance their Boards' effectiveness by being current on relevant issues.

We at NASBA are very aware of the changes that have occurred. We are respectful of each state's decisions as to how its State Board should be staffed and how best to improve efficiency. We are sometimes challenged when "efficiency" decisions appear to be detrimental to the effectiveness of the Board of Accountancy. We have been proactive in reaching out to non-participating states and EDs to see what we can do to provide some relief, and we have developed strategies and programs to close the gap. Several years ago NASBA developed and implemented "NASBA-U." NASBA-U fully funds bringing Executive Directors and designated Board staff to our office in Nashville. The curriculum is primarily designed to provide participants with knowledge of the services NASBA can provide them (most at no cost to them or their states) to enhance the ability of their Boards. Another significant benefit of NASBA-U is the opportunity it provides to meet and build relationships with fellow EDs and staff members from around the country. If any Board or agency has a new Executive Director who has not attended NASBA-U, I strongly recommend you consider it.

As I indicated above, I am very proud of my experience and tenure as an Executive Director. We have several senior NASBA executives and staff members who are former EDs or Board staff. All of us at NASBA are aware of the critical role EDs play and the importance of maintaining and strengthening this network. It is my hope that Boards and agencies consider how the Executive Directors of Boards of Accountancy have helped to improve the profession to better serve the public. If there is anything we can do at NASBA to support your efforts to maintain or strengthen the role of your Executive Director, please reach out to us.

In the meantime, let's all reach out to our Executive Directors and thank them for their important role in the regulation of a profession on which the capital markets depend!

Semper ad meliora (Always toward better things).

- Ken L. Bishop
President and CEO

Bridging the Legislative Exclusion Gap

The legislative process usually leaves Boards of Accountancy looking in from the outside, observed John W. Johnson, NASBA Director of Legislative and Governmental Affairs, at the meeting in Savannah. He explained that in the time that he has been with NASBA he has been working to bridge what he terms the "legislative exclusion gap," and having the ability to track legislation is an important part of that effort. Using a legislative tracking system, he has established 180 search profiles that sort out items associated with the State Boards. He then reviews those items and tags those he believes are of "high priority" to the Boards. To be considered "high priority" the legislation either: contains a change in statutory language having a direct impact on the profession, or it contains statutory language that if amended could have such an impact. Currently, with all but four State Legislatures in session, Mr. Johnson has 187 bills tagged as "high priority."

"The second piece of the process is for the State Board to be



John Johnson

aware of legislation and then to find out if NASBA can be of help," Mr. Johnson told the Executive Directors. On www.nasba.org by going to the "Member Center" and then to "Legislative Tracking," Mr. Johnson's short summary of high priority bills can be found with a link to the actual legislation.

"While the tracking system gives us the ability to remove barriers from the 'exclusion gap,' greater dialog and collaboration between the State Boards and NASBA, and between the Boards and their Societies is also needed," he stated. Thanks to collaboration between the Board and the Society, in February, a Virgin Islands legislative committee passed legislation that updates their Act and brings them one step closer to becoming substantially equivalent, he announced. "A great example of what can be accomplished when dialog and communication are part of the equation," Mr. Johnson stated. ♦

Boards Vary on Background Checks



The extent to which Accountancy Boards do background checks on CPA candidates and/or renewing licensees varies significantly among states, a recent poll conducted by Virginia Board of Accountancy Executive Director Wade A. Jewell found. At the Executive Directors Conference the results of the poll, which included responses from 45 jurisdictions, were weighed by the Executive Directors and questions were raised about what the public expects. States that are doing more in-depth checks feel that the public expects them to do this, even though relatively few problems have been discovered, while those who rely on self-reporting by candidates and licensees wondered if the cost and delay are justified.

The costs for the reported background checks range from \$49.00 paid by the applicant in California to \$1.00 included in the application fee in Texas. Among the sources of information for the background checks for the Boards are: state police, FBI, State Bureau of Investigation, sheriff, live scan, justice system, Social Security number and date of

birth, Pacer (Federal Court System) and Google. FBI background checks on reciprocals and licensees with recent criminal history are being done by the Texas Board. The California Board implemented mandatory retroactive fingerprinting for licensees in 2013.

Mr. Jewell also asked the Executive Directors if they had taken action in response to CPA Examination candidates who take the tests multiple times and never pass a section. The Virginia Board had one candidate take the Examination 140 times without passing a single section. In response, the Virginia Board has instituted a policy that applicants who have taken combined sections of the Examination more than 40 times will be required to come before an Informal Fact Finding hearing of the Board to present evidence of their intent to pass the Examination.

Mr. Jewell said Virginia has contacted seven individuals under this policy. Three never responded, one transferred grades to another jurisdiction, and three were given two years to completely pass the Examination. ♦

CPE Standards Under Review

2014 is a year of review and evaluation of the Statement on Standards for Continuing Professional Education Providers. The 13-member CPE Standards Working Group, comprised of representatives from the State Boards, the NASBA Board of Directors and representatives of CPE stakeholders, is studying the Standards, last revised in 2012, to make recommendations to a joint NASBA/AICPA CPE Standards Committee.

Maria Caldwell, NASBA Director of Compliance Services, told the Executive Directors: "The Standards for the National Registry do not operate in a vacuum and we have a CPE Model Rule task force this year that is looking at current and future trends in education. They will come up with a Model Rule that will be submitted to the Uniform Accountancy Act Committee." She observed: "The challenge is to determine an additive approach to the CPE model, to add the new methodologies while retaining the good elements from the old. We are learning in ways that were not envisioned a decade ago and we need to take these advances into account." Ms. Caldwell will be leading breakout sessions at NASBA's June Regional Meetings on

changes coming in continuing professional education.

Eric Dingler, Deloitte's Audit Chief Learning Officer, told the conference that his firm would like a uniform CPE standard that: expands the range of CPE inputs; changes the unit of measure from hours to minutes; and builds into the CPE system flexibility for non-formal, non-assessed learning to apply. For example, Deloitte is providing their employees with just-in-time "nano learning," segments no longer than seven minutes, through which they learn how to do specific things at the point of when they need to know. Though the professionals are demanding this type of learning, under the current system they cannot be given CPE credit for it.

Asked about what could be done at the pre-certification level, Mr. Dingler said that the American Accounting Association is addressing that through the work of its Pathways Commission. He suggested adding education around auditing beyond what is currently required. Although each firm has its own methodology for audits, more could be provided at a general level, he said. ♦

CPE Audit Service Ready for ALD States

Following a successful pilot project with the Missouri Board of Accountancy and subsequent successful implementations for the Tennessee and Virginia Boards of Accountancy, NASBA is now making its CPE Audit Service available to all Boards that are participating in the Accountancy Licensee Database (ALD) and providing hashed data that links licensee records across state lines. The program utilizes NASBA's existing CPE compliance evaluation platform, CPEtracking, and the licensee data feeds received from Boards for the ALD. The combination of these two assets, along with some added functionality specific to the CPE audit process, offers a turnkey solution to Boards for conducting CPE audits, Rebecca Gebhardt, NASBA Associate Director of Regulatory Compliance Programs, explained at the Executive Directors Conference.

Tennessee launched the program in January 2014 and Virginia will go live with the system in April. NASBA has set up a test site for Mississippi to consider as well. Ms. Gebhardt stated that NASBA is able to implement the system for an Accountancy Board in 4-6 weeks' time and has focused on making the implementation and training process as streamlined as possible.

In July 2013 Missouri notified its licensees that the CPE tracking

system was being made available on a voluntary basis to all of them, and that anyone selected for a CPE audit was recommended to use the system. "The system allows the CPAs to enter credits earned and attach their scanned attendance records. The Board has administrative access to the system that allows the Board to see all the records entered including the supporting documentation. CPAs can even take a picture of the documents and upload the photo if they cannot scan," explained Missouri Board Executive Director Tom DeGroodt. "To date 1,700 individuals have entered their accounts, or about 15 percent of our licensees. We can encourage them to use the system, but we cannot require it." He noted that only 15 individuals asked his staff to upload their documents for them. In the fall of 2013, the tool was used to conduct the Board's CPE audit and NASBA trained a Missouri staff member for that. "It is a really convenient tool. I have used it as a CPA myself," Mr. DeGroodt said. "If you have your information in there, you have your documented evidence. So wherever you go as a CPA, it is available to you."

Boards interested in more information about NASBA's CPE Audit Service should contact Ms. Gebhardt at rgehardt@nasba.org or (615) 564-2134. ♦

Global CA Branding Effort Underway

"No ordinary business minds" is the marketing slogan of the six institutes of chartered accountants that banded together a year ago to promote the work of their combined 310,000 professionals. Speakers at the February 27, 2014 annual meeting of the Association of Chartered Accountants in the United States (ACAUS) were told the marketing program is going well and there are hopes that more of the 32 institutes of chartered accountants worldwide will be brought into the program. It was noted that the Institute of Certified Public Accountants of Singapore had changed its name this year to the Institute of Singapore Chartered Accountants. Speakers also commented on the merging of professional bodies, not only in the formation of the Chartered Professional Accountants of Canada, but also the ongoing merger of the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants Australia.

ACAUS President Mark Coles said that reciprocity is high on the list of the society's priorities. He commented that progress

is being made on developing mutual recognition agreements covering chartered accountants. The NASBA/AICPA International Qualifications Appraisal Board has established agreements with the chartered accountant bodies in Ireland, Canada, Australia and New Zealand, and others have been under consideration for years. ACAUS Executive Director Michael Dexter-Smith and ACAUS Board Member David Freeman met with NASBA President Ken Bishop, Executive Vice President Colleen Conrad, and Vice Presidents Ed Barnicott and Daniel Dustin in Nashville in October.

Addressing the ACAUS New York reception on February 27, which included attendees of the meeting of the International Federation of Accountants, NASBA President Bishop pointed out that just as the chartered accountants have called for increased clarity in financial reporting, NASBA has been urging more transparency in standard setting. He commended the chartered accountants for the high quality of their work and their desire to forge global ties. ♦

23 States at Legal Counsel Conference

The 2014 NASBA Legal Counsel Conference drew 33 representatives from 23 jurisdictions. Stacey L. Grooms, NASBA Manager of Regulatory Affairs, who moderated the conference, remarked that the March 3-5 meeting provided a great opportunity for attorneys from different states to have conversations that allowed them to better understand the parameters within which their colleagues can share information.

Among the topics discussed during the Legal Counsel Conference were: the multiple roles Board attorneys have to play, criminal background checks, what are public records, basic accounting for attorneys and ethics for attorneys. NASBA Legal Counsel Noel L. Allen brought the attorneys up-to-date on the latest regulatory case law, and Lee D. Martin and Ian Dingwall discussed their agencies' operations with the Boards' legal counsel. ♦

Call for NASBA BOD Nominations

State Boards are asked to submit their nominations for NASBA 2014-2015 Board members by Monday, May 19, 2014. Nominations for all Regional Directors and three Directors-at-Large will be accepted. Recommendations, with bios, should be sent to Nominating Committee Chair Gaylen Hansen at NASBA, 150 Fourth Avenue North, Nashville, TN 37219-2417 or e-mailed to aholt@nasba.org. Please direct any questions about the nominating process to Anita Holt (615)880-4202.

The election of NASBA officers will take place at the Annual Business Meeting on November 4, 2014 in Washington, D.C. ♦



Draft SEC Strategic Plan Released

The U.S. Securities and Exchange Commission plans to continue to support the Financial Accounting Standards Board's efforts, while promoting the development of global standards, over the next four years. Its draft Strategic Plan for Fiscal Years 2014-2018 states: "In overseeing the Financial Accounting Standards Board (FASB), the SEC will strengthen and support the FASB's independence and maintain the focus of financial reporting on the needs of investors. Due to the increasingly global nature of capital markets, the agency will work to promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable."

The FASB has been working with the International Accounting Standards Board to converge standards, but the extent of U.S. adoption of the International Financial Reporting Standards has remained a question for years. The SEC's Strategic Plan makes no specific mention of IFRS. It does mention the SEC's active participation in international multilateral organizations, including the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, the Organization for Economic Cooperation and Development, and the Financial Action Task Force. "These

efforts will be complemented by direct bilateral consultations with foreign regulatory counterparts on enforcement and regulatory cooperation matters. In addition, the SEC continues to promote international coordination and cooperation through its technical assistance programs for foreign regulators."

Greater sharing, cooperation and joint initiatives both within the SEC and with other regulators is part of the SEC's strategic plan: "This would include continuing efforts to collaborate and share information with other regulators, such as FINRA, state regulators, the CFTC, international counterparts and others."

The SEC intends to continue to build its National Examination and Enforcement program which includes "enhancing information-sharing, leveraging the knowledge of third parties, improving the processing of the thousands of tips the agency receives annually, and improving risk assessment techniques." Through IOSCO the SEC has entered into a Multilateral Memorandum of Understanding and has also negotiated bilateral information sharing arrangements, to enable it to assist foreign regulators making requests for enforcement assistance and to obtain from those countries similar assistance. ♦

State Board Members and NASBA Associates: Through April 24 you can volunteer for NASBA's 2014-2015 Committees. Submit your Committee selections directly on-line through <https://nasba.secure.force.com/>

6 NASBA State Board Report / March 2014

State Board Report

National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219-2417