COLORADO DEPARTMENT OF REGULATORY AGENCIES
OFFICE OF POLICY AND RESEARCH

REGULATION OF THE ACCOUNTING PROFESSION IN COLORADO

COLORADO STATE BOARD OF ACCOUNTANCY
1999 SUNSET REVIEW

October 15, 1999

Members of the Colorado General Assembly
c/o the Office of Legislative Legal Services
State Capitol Building
Denver, Colorado 80203

Dear Members of the General Assembly:

The Colorado Department of Regulatory Agencies has completed the evaluation of the regulation of the accounting profession by the Colorado State Board of Accountancy. I am pleased to submit this written report which will be the basis for my office's oral testimony before the 2000 legislative committees of reference. The report is submitted pursuant to §24-34-104(8)(a), of the Colorado Revised Statutes (C.R.S.), which states in part:

> *The department of regulatory agencies shall conduct an analysis of the performance of each division, board or agency or each function scheduled for termination under this section...*
>
> *The department of regulatory agencies shall submit a report and supporting materials to the office of legislative legal services no later than October 15 of the year preceding the date established for termination . . ..*

The report discusses the question of whether there is a need for the regulation provided under Article 2 of Title 12, C.R.S. The report also discusses the effectiveness of the board and staff in carrying out the intention of the statutes and makes recommendations for statutory and administrative changes in the event this regulatory program is continued by the General Assembly.

Sincerely,

M. Michael Cooke
Executive Director

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Executive Summary

This 1999 sunset review of the Colorado State Board of Accountancy sets out seven recommendations based on statutory evaluation criteria. The recommendations are designed to protect Colorado consumers without undue hindrance to the accounting profession. The central conclusion of this review is that the 150 credit-hour[1] educational requirement is an overly restrictive entry barrier into the accounting profession with no demonstrable public protection function. Setting and maintaining the educational entry standard at the Bachelor's level will promote the optimum utilization of certified public accountants, and enhance free market competition with its ancillary benefits to all Colorado consumers.

This sunset review also recommends that the Colorado State Board of Accountancy be continued until 2005, at which time it should be again subject to review. New business conditions and the varied response of the accounting profession to these changes calls for an accelerated review schedule. New conditions include technological changes such as "telepractice", accountancy's expansion into non-traditional business services, and varied professional requirements across the country based on the types of accounting and auditing services provided to the public.

If the General Assembly adopts the major recommendations of this sunset review, Colorado will serve as a vanguard state in the effective, efficient, and equitable regulation of the accounting profession in the United States.

[1] A Bachelor's degree with a concentration in accounting and an extra thirty credit hours of coursework.

List of Recommendations

Recommendation 1: Continue the Colorado State Board of Accountancy until 2005, and adopt term limits. 36

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Background

INTRODUCTION

In the history of occupational regulation, the rise of craft, merchant, and professional guilds played an important role. In medieval times, these guilds possessed quasi-governmental authority, set prices and minimum quality standards, and were also responsible for providing services to the poor and infirm. Guild regulation was similar in many ways to the contemporary system of regulation in which professional associations work in conjunction with government to enact licensing laws. Modern professional associations are a by-product of the extraordinary scientific, technological, and legal advances that have taken place since the Industrial Revolution. They reflect the demands of various groups in society for standards in the numerous highly specialized services that exist today.[2]

Most Americans know that practicing medicine without a license is against the law. They also know that lawyers, barbers, and accountants must have the state's approval before they can practice their trades. Few Americans, however, would guess that in some states ferret breeders and eye enucleators are also subject to some form of government regulation. Actually, nearly 1,000 occupations are regulated by some or all of the fifty states.[3] Colorado regulates 110 professions,[4] including accountants who are the subject of this review.

THE DESIGN AND PURPOSE OF THIS SUNSET REVIEW

Methodology

Original research and a literature review were used to identify the prevalent accountancy issues in Colorado and to establish the policy context for the ensuing recommendations. To increase internal validity, the study comprised of a literature review, a mail-out survey, and consultations with experts. Research and analysis was guided by the statutory evaluation criteria referenced in Appendix G. The major

[2] Young, David, S., 1987. *The Rule of Experts*. Washington, D.C.: Cato Institute, pp. 2-9. Hereinafter "Young."
[3] Young, p. 4
[4] Bianco, David P. (ed.). *Professional and Occupational Licensing Directory (2nd edition),* 1996. New York: ITP.

portion of the original research consisted of a mail-out survey to a sample of 845 currently licensed CPAs. The number of returned questionnaires amounted to 391, achieving a 46% return rate. The results are statistically significant at the 95% level of confidence and a $\pm$ 5% margin of error. The survey instrument used for this purpose may be found in Appendix B.

Consultation with key stakeholders constituted the remainder of the original research. Key experts, accountancy board members, and other stakeholders were contacted in person, by telephone, or in a focus group. The final recommendations of the study were arrived at following discussion and review of the sunset report by the Program Administrator, the Director of the Division of Registrations, the Director of the Office of Policy and Research, and the Executive Director of DORA.

OVERVIEW OF THE ACCOUNTING PROFESSION

Accountants and auditors prepare, analyze, and verify financial reports and tax returns, and monitor information systems that furnish this information to managers in business, industry, and government. In Colorado, attest services are provided exclusively by certified public accountants (CPAs). These services involve the use of audit and other procedures to examine and test the accuracy of financial statements and reports followed by the issuance of an impartial written opinion that expresses a conclusion about the reliability of the documents under consideration. Attest services are also known as audits, or independent audits.

Chester Levine (1998) of the Federal Bureau of Labor Statistics reports that the main areas of accounting practice are public accounting, management accounting, governmental accounting, and internal auditing. Public accountants may have their own businesses or work for public accounting firms. They perform a broad range of accounting, auditing, tax, and consulting activities for such diverse clients as corporations, governments, nonprofit organizations, and individuals. Management accountants record and analyze the financial information of the companies for which they work. Other responsibilities include budgeting, performance evaluation, cost management, and asset management. Management accountants are usually part of executive teams involved in strategic planning. Government accountants and auditors maintain and examine the records of government agencies, and audit private businesses and individuals whose activities are subject to government regulations or taxation. Internal auditors verify the accuracy of their organization’s records, and check for mismanagement, waste, or fraud.

There is a large degree of mobility among public accountants, management accountants, and internal auditors. Practitioners often move into management accounting or internal auditing from public accounting, or between internal auditing and management accounting. It is less common, however, for accountants and auditors to move from either management accounting or internal auditing into public accounting.

Computers are used widely in accounting and auditing. With the aid of specialized software packages, accountants summarize transactions in standard formats for financial records, or organize data in particular formats for financial analysis. These accounting packages considerably reduce the amount of tedious manual work associated with record keeping. Some packages require few specialized computer skills, while others require formal training. Personal and laptop computers enable accountants and auditors in all fields to use their clients' information systems to extract information from large mainframe computers. Internal auditors may recommend controls for their organizations' information systems to ensure reliability and the integrity of data. A growing number of accountants and auditors have extensive computer skills and specialize in correcting problems with software or develop software programs to meet unique data needs.

In the future, the changing role of accountants and auditors will spur job growth in the profession. Accountants will perform less auditing work due to potential liability and relatively low profits, and less tax work due to growing competition from tax preparation firms, but they will offer more management and consulting services in response to market demand. Accountants will continue to take on a greater advisory role as they develop more sophisticated and flexible accounting systems, and focus more on analyzing operations rather than merely providing financial data. Internal auditors will be increasingly needed to discover and eliminate waste and fraud. Employment of accountants and auditors is expected to grow about as fast as the average for all occupations through 2006. On a national basis, the need to replace accountants and auditors who retire or change occupations will produce thousands of additional jobs annually, reflecting the large size of this occupation. Table 1 below depicts the ratio of the general population per accountant, job growth, and the salary range in Colorado compared to national trends.

TABLE 1: Ratio of Population per Accountant, Job Growth, and Salary Range in Colorado and the United States

Location	*Ratio of Population per Accountant*[1]	*Average Annual Job Openings*[2]	*Midrange Annual Salary*[3] *($)*
Colorado	240	750	27,900 to 43,600
United States	278	28,370	27,100 to 45,300

1. Based on 1997 population and 1994 employment figures respectively.
2. Based on 1994 figures.
3. Based on 1996 figures.

Source: Statistical Abstract of the United States, Colorado Department of Labor and Employment, and Bureau of Labor Statistics.

THE IMPORTANCE OF THE ACCOUNTING PROFESSION

In its legislative declaration, the Colorado General Assembly notes that:

> It is in the interest of the citizens of the state of Colorado and a proper exercise of the police power of the state of Colorado to provide for the licensing and registration of certified public accountants, to insure that persons who hold themselves out as possessing professional qualifications as certified public accountants are, in fact, qualified to render accounting services of a professional nature, and to provide for the maintenance of high standards of professional conduct by those so licensed and registered as certified public accountants. Because of the customary reliance by the public upon audited financial statements and upon financial information presented with the opinion or certificate of persons purporting to possess expert knowledge in accounting or auditing, it is further declared to be in the interest of such citizens to limit and restrict, under the circumstances set forth in this article, the issuance of opinions or certificates relating to accounting or financial statements which utilize or contain wording indicating that the author has expert knowledge in accounting or auditing or which purport to express an independent auditor's

> opinion as to financial position, financial results of operations, changes in financial position, reliability of financial information, or compliance with conditions established by law or contract to persons so licensed or registered.[5]

Early in the century, accountants and the financial statements that they provided represented most of the information available to creditors and investors. Today, financial statements continue to be at the center of business reporting. An audit of a company's financial statements provides accountability, reduces information asymmetry between buyers and sellers of capital, and lessens uncertainty, which in turn decreases the cost of capital.[6] The public accountant's audit is an important element in the financial reporting process because the audit subjects financial statements, which are management's responsibility, to scrutiny on behalf of shareholders and creditors to whom management is accountable. The auditor is the independent link between management and those who rely on the financial statements. In that role, the auditor evaluates the judgments made by management in applying generally accepted accounting principles (GAAP) to the preparation and presentation of financial information.[7]

Accountants, especially certified public accountants, provide important services to clients and the public. When substandard services are supplied, they can have serious consequences. Of the more than 500 companies sued in federal court for stock violations in the last three years, nearly 60 percent were accused of artificially boosting profits. Arthur Leavitt of the Securities and Exchange Commission (SEC) notes that "if America's investors cannot rely upon the sanctity of the numbers that are presented to them, our whole capital system is at stake." Independent accountants are entrusted with checking the numbers. The problem, according to the *CBS Evening News*, is that auditors are paid by the very people they are expected to police (May 31, 1999). Closer to home, the *Rocky Mountain News* reported in 1998 that a Fort Lupton certified public accountant in the employ of a local school district was responsible for administrative errors amounting to approximately $1.5 million. According to school district officials, eight

[5] §12-2-101, C.R.S.
[6] General Accounting Office (GAO), *The Accounting Profession: Major Issues, Progress, and Concerns*. Report Number: GAO/AIMD-96-98, 1996, p. 126. Hereinafter "GAO-96-98".
[7] GAO - 96-98, p. 27.

people had to be laid off, and pay cuts ensued (October 28, 1998, p. 30A). Clearly, the accounting profession is important to financial and social stability, and consequently the regulation of Colorado certified public accountants is in the public interest.

HISTORICAL OVERVIEW

Accountancy has been a regulated profession in Colorado since 1907. The original statute provided for state certification of select accountants as "Certified Public Accountants". Other persons engaged in accounting were still allowed to practice their trade, but were prohibited from holding themselves out as being state certified. A State Board of Accountancy was created, and the board members were required to be "skilled and knowledgeable" and in active practice, but were not, paradoxically, required to be state certified.

The first set of regulations did not include a definition of the terms "accounting" or "public accountant", and this tradition has been carried through to our modern Act in which these terms are likewise undefined. For purposes of this report, a public accountant is one who offers his or her accounting skills to the public for a fee. Thus, it excludes accountants working for private businesses and governments, since these accountants render services "in house" rather than to the general public. In Colorado, CPAs are further distinguished by being the only class of accountants legally able to perform independent audits.

The Public Accountancy Act was substantially revised in 1937, and from that date a long series of debates developed between licensed accountants (CPAs) and unlicensed accountants. The 1937 Act allowed all unlicensed accountants then practicing in Colorado to continue to practice as "registered accountants"; however, prospective accountants who wished to be licensed were required to meet the established educational and testing standards. Board membership became restricted to CPAs. Practice as a registered accountant was defined in the 1937 statute, but practice as a certified public accountant continued to be undefined. A controversy arose, lasting many years, in which CPAs claimed that the new Act restricted the practice of accounting to those who were either CPAs or "grandfathered", registered accountants under the law. For their part, unlicensed accountants maintained that the 1937 statute merely continued the provisions of the 1907 statute by restricting the use of the title "CPA" to those actually licensed by the state.

The 1937 Act was rewritten in 1959, and included a new and controversial condition:

> No person shall use, sign or affix his name . . . to any title or designation, the use of which is prohibited under law, or with any wording indicating that he has expert knowledge in accounting or auditing, to any opinion on, or certificate to any accounting or financial statement, unless he holds a permit . . .

Debate over the meaning of this section flared with the CPA Society contending that the 1959 Act "continued to restrict the attest function to Certified Public Accountants." Public accountants insisted that the language restricted only the signing or affixing of a name on a financial statement, and not the actual attest function. This was precisely the issue that was tested in the 1974 case of *Richard Hamrick vs. The Colorado State Board of Accountancy.*[8] In 1967, the Legislature had given the board the power to enforce the accountancy statute through "cease and desist" orders. In 1972, the board issued such an order to a non-licensed accountant in Delta, Colorado, Richard Hamrick. Mr. Hamrick's alleged violation was that he had signed a financial statement bearing an attestation as to its correctness. The court held, and was subsequently affirmed on appeal by the Colorado Supreme Court, that the Unlawful Acts Section of the 1959 Accountancy Act only restricted public accountants from holding themselves out as being state certified. In consequence, unlicensed public accountants were allowed to continue attesting to the accuracy of financial statements as long as they did not hold themselves out as CPAs.

[8] Civil Case No. C-43568, September 9, 1974.

The 1977 revision of the Public Accountancy Act restricted accounting practice further. In 1988, a scope of practice question spawned litigation in the District Court of the City and County of Denver[9] whose ruling was subsequently appealed to the Colorado Court of Appeals.[10] At issue was whether the Colorado State Board of Accountancy had the statutory authority to prohibit non-certified public accountants from performing accounting services known as "reviews". A review is one of three distinct levels of financial analysis. A review involves an intermediate level of analysis and responsibility, more than that entailed in a compilation, but less than that involved in an audit. A review carries a "negative attestation" that the accountant does not know of any material modification that should be made to bring the financial statement into conformity with generally accepted accounting principles. Since they are relatively inexpensive and less time consuming than audits, review reports are often more popular. In its decision, the Court of Appeals held that unlicensed accountants are prohibited from conducting "audits" only if they are acting in the capacity of an "independent auditor". Moreover, the court found that the statutory prohibition involving auditing functions did not extend to the review function, which is separate and distinct from the auditing function. The court said, "the statute is clear and contains no ambiguity: thus, it must be applied as written."

COLORADO CPA SURVEY RESULTS, 1999

Personal and Professional Characteristics of Colorado CPAs

The personal characteristics of Colorado CPAs are arguably similar to national trends in at least one respect. A majority constituting 57% of Colorado CPAs are male, while 43% are female. The gender profile nationally is 70% male and 30% female. Colorado figures are accurate within a $\pm$ 5% margin of error. National figures are drawn from a survey of 3,353 CPAs conducted by the *CPA Vision Project*.

The age profile of Colorado CPAs is as follows: 1% are 24 years and under; 27% are 25 to 35; 36% are 36 to 45; 24% are 46 to 55; 9% are 56 to 65; and 3% are over 66 years of age.

[9] Allen H. Cartwright, James Clarke and Public Accountants Society of Colorado vs. The State Board of Accountancy, Case Number BBCV29952.
[10] Allen H. Cartwright, James Clarke and Public Accountants Society of Colorado vs. The State Board of Accountancy, Case Number 88CA1856.

The overwhelming majority (84%) of Colorado CPAs belong to a professional accounting or business organization, and 16% also have other professional credentials such as the Certified Management Accountant (CMA), or Certified Internal Auditor (CIA) designation.

Seeking to derive the benefit of their experience, this study's survey of Colorado CPAs asked the question: *How would you characterize the following licensing requirements?* (Q8 of the survey instrument). The results are shown in Table 2 below.

TABLE 2: Characterization of Licensing Requirements by Colorado CPAs

	Very Lax (1)	Lax (2)	About Right (3)	Stringent (4)	Very Stringent (5)	Unnecessary (6)
Entry-level education	40	50	289	19	4	0
CPA exam	0	9	235	84	52	0
Work experience	16	96	217	31	8	3
Ethics exam	11	53	264	24	2	24
Education in lieu of experience	32	114	143	14	6	10
Continuing professional education	2	28	262	62	17	3

Source: Colorado CPA Survey, Spring 1999, Question 8.

The findings are not surprising. Having attained the CPA designation, it is reasonable to expect Colorado CPAs to indicate that the licensing requirements were in general either "about right", or at the "lax" end of the continuum. This premise can be confirmed upon inspection of Table 2. Consequently, it is of more interest to gauge the relative strength of characterizations that fall outside this range. For example, a fairly large number, 84 (22%) of respondents, feel that the CPA exam is stringent, while 14% characterize it as "very stringent". Similarly, 13% of Colorado CPAs believe that the ethics exam is either stringent, very stringent, or unnecessary.

Employment Characteristics

Colorado CPAs work primarily in small, private sector companies, or are self-employed. Moreover, a full 51% work in CPA firms. A more detailed breakdown is shown in Table 3 below. The "other" category in Table 3 includes a variety of responses, but the most common employer listed was the "federal government".

In addition, Colorado CPAs appear to have considerable work experience. Table 4 below lists the frequency and percentage of responses to the question: *How long have you been a CPA in Colorado?* (Q5 of the survey instrument). These results, however, need to be interpreted with some caution since the number of years an individual may have been a CPA need not be identical to actual years of work experience. However, because a large proportion (36%) of respondents have 15 years of experience or more, and because a relatively high proportion of Colorado CPAs are self-employed (22%), it can be reasonably inferred that, on average, Colorado CPAs have considerable accounting experience.

TABLE 3: Employment Profile of Colorado CPAs

Type of Employer	No.	%
Small, private sector company	104	27%
Medium, private sector company	74	19%
One of the "Big 6"	25	7%
School District	3	1%
College or university	5	1%
Local government	6	2%
State government	15	4%
Self-employed	84	22%
Other	68	18%
TOTALS	**384**	**100%**

Source: Colorado CPA Survey, Spring 1999, Question 12(a).

TABLE 4: Number of Years as a CPA in Colorado

Inferred Years of Experience	No.	%
2 years and under	45	12%
3 to 5 years	71	18%
6 to 8 years	57	15%
9 to 11 years	47	12%
12 to 14 years	29	7%
15 years and above	142	36%
TOTALS	**391**	**100%**

Source: Colorado CPA Survey, Spring 1999, Question 5.

By way of comparison, financial management personnel in Fortune 100 companies have, on average, about 14 years of total experience in public accounting, corporate accounting, internal auditing, or accounting systems design and maintenance. This overall experience includes an average of 2.5 years combined experienced in internal auditing, public accounting, or accounting systems design and maintenance. These three types of work experience are especially important because they often provide exposure to a wide variety of accounting issues and decision-making processes throughout an organization. Considerable work experience also resides in state government financial personnel. In general, state government personnel have about 20 years of work experience in government accounting, public accounting, internal auditing, and accounting systems design and maintenance.[11] It is important to keep in mind that the above discussion is merely indicative of general trends, since the comparison being made is between Fortune 100 and state government financial managers in relation to Colorado CPAs as a group, regardless of the latter's organizational status.

The accounting work that Colorado CPAs perform includes many of the traditional tasks associated with accounting and auditing as discussed in the introduction to this report. Table 5 below depicts the relative frequency of these tasks.

TABLE 5: Frequency of Tasks Performed by Colorado CPAs

	Very Frequently (1)	Frequently (2)	Not so frequently (3)	Almost Never (4)	Never (5)	**Mean Score (1 to 5)**
Tax Preparation	148	47	50	54	87	2.70
Financial Analysis	93	134	94	42	22	2.39
Financial Statements Compilation	76	90	59	49	107	3.06
Reviews and Audits	55	37	51	47	192	3.74
Management Consulting	44	117	93	40	90	3.04
Budgeting	43	79	94	79	85	3.22
Payables/Receivables	34	49	57	64	174	3.78
Attest Services	32	28	39	49	234	4.11
Information System Controls	21	57	90	80	132	3.64
Internal Audits	13	24	51	67	223	4.22

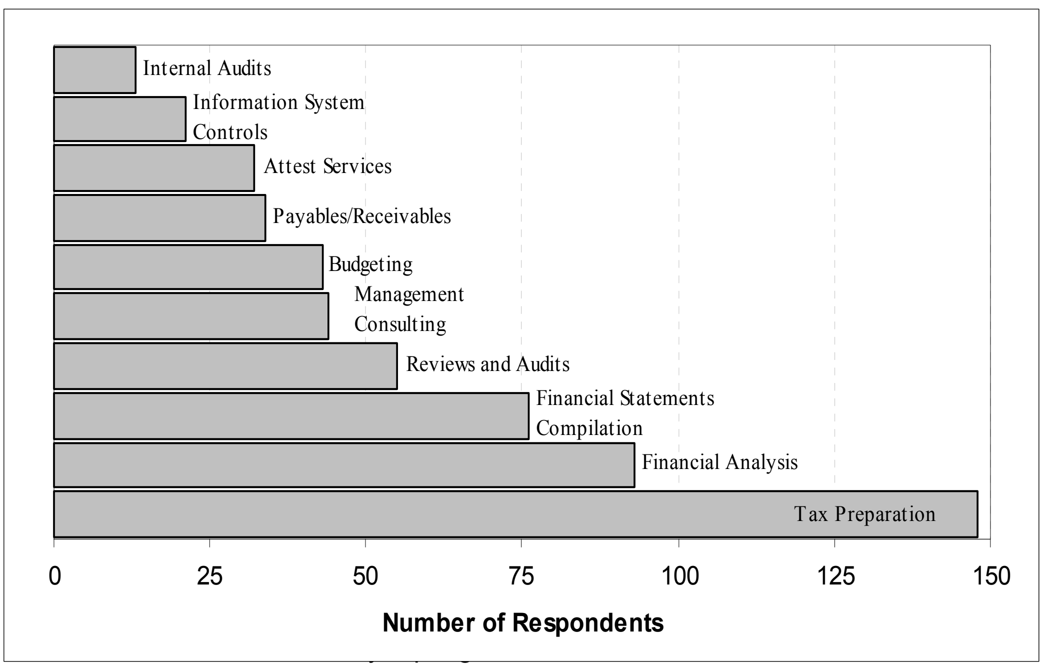
Source: Colorado CPA Survey, Spring 1999, Question 13.

[11] These figures are derived from a 1997 survey conducted by the United States General Accounting Office (GAO). In this study, 3,621 key financial management personnel in Fortune 100 companies, and 1,309 of their counterparts in state governments were surveyed. GAO, "Financial Management: Profile of Financial Personnel in Large Private Sector Corporations and State Governments", 1998, pp. 16-18.

For present purposes, it is worth noting that Colorado CPAs report that they engage "not so frequently" in "Information System Controls" and are closer to a point of "almost never" performing these tasks (mean score of 3.64 on a scale of 1 to 5). Good internal controls are fundamental to ensuring corporate accountability, accurate financial reporting, and to prevent fraud. The continuing growth of information systems technology places an even more important emphasis on internal controls, especially computer security controls, in detecting and preventing fraud. Controls are primarily the responsibility of management, but directors, regulators, and auditors also have essential roles to play.[12]

In general it may be said that the relative frequency of tasks performed by Colorado CPAs is a by-product of where they work. For example, since a sizable proportion (22%) are self-employed, it follows that internal audits are likely to be underrepresented for the group, as is indeed the case. A visual comparison of frequently performed tasks is useful by way of contrast. Figure 1 below is such an illustration.

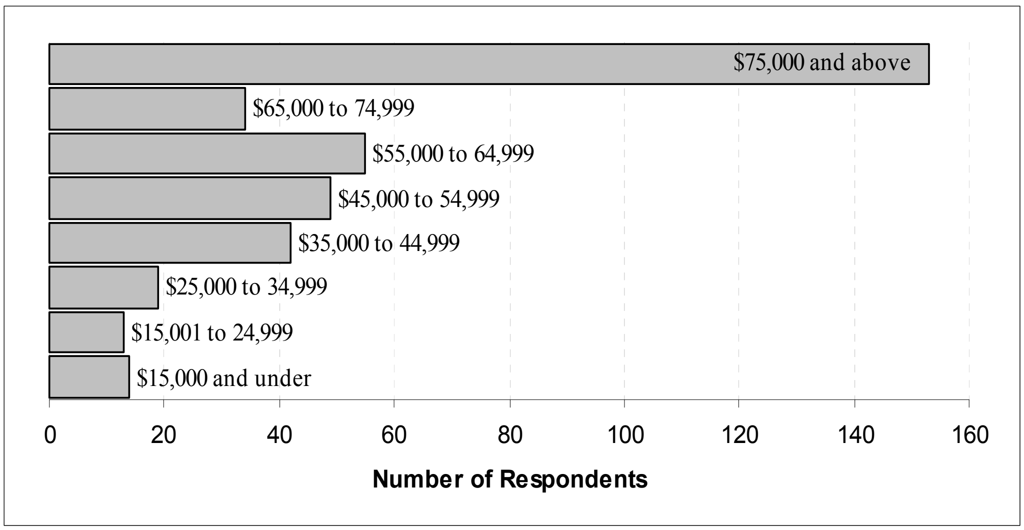
<u>FIGURE 1</u>: Tasks Performed "Very Frequently" by Colorado CPAs



[12] GAO-96-98, pp. 67-70.

Finally, in terms of the employment characteristics of Colorado CPAs, it is important to survey their income. Figure 2 depicts this study's effort. As Young (1987) notes, one measure of whether self-interest is a primary motivation for seeking regulation by an occupation is the per capita income of the occupation over time. The survey conducted in connection with this sunset review can perhaps serve as the baseline for future analyses.

<u>FIGURE 2:</u> The Salary Profile of Colorado CPAs



Source: Colorado CPA Survey, Spring 1999, Question 11.

CPAs are high-income earners in Colorado. Within a ± 5% margin of error, 64% of Colorado CPAs have a work income of $55,000 and above. By way of contrast, the midrange annual salary for all accountants in Colorado is $27,900 to $43,000. Only 12% of Colorado CPAs earn $34,999 and under.

Satisfaction with the Colorado Board of Accountancy

A cursory review of Table 6 below would indicate that there is general satisfaction with the Colorado State Board of Accountancy. In every category Colorado CPAs report being somewhere between "neutral" and "satisfied" with the board. What is not apparent in these figures is the tendency of respondents to have chosen the "neutral" option across categories. This was evident during the data entry portion of the study. One might reasonably infer from this observation that Colorado CPAs are reluctant to express their true opinions regarding the various functions of the board. One possible explanation for this might be the disparity of power between individual respondents and the board, combined with uncertainty as to how the requested information might have been used.

TABLE 6: Ranked Mean Scores of Satisfaction with the Colorado Board of Accountancy

	Very Dissatisfied (1)	Dissatisfied (2)	Neutral (3)	Satisfied (4)	Very Satisfied (5)	**Mean Score (1 to 5)**
License/Permit Renewal(s)	4	8	93	227	43	3.79
Initial Licensure	8	15	99	216	36	3.69
General Administration	5	9	140	170	33	3.61
Communication	7	23	132	173	28	3.53
Interstate Reciprocity/Endorsement(s)	5	14	173	99	20	3.37
Reactivation/Reinstatement	2	4	188	75	14	3.34
Disciplinary Actions (if any)	8	7	162	46	7	3.16

Source: Colorado CPA Survey, Spring 1999, Question 15.

Irrespective of the above reservations, it is clear that regarding some of the basic functions of the board, there is general satisfaction with the board's performance. When it comes to "license/permit renewal(s)" and "initial licensure", respectively, 227 (61%) and 216 (58%) of respondents report being "satisfied". In terms of the real numbers connected with these functions, over twice as many CPAs report being satisfied with the board's performance than with any other function at any level of satisfaction.

Summary of Statute and Regulation

Title 12 of the Colorado Revised Statutes (C.R.S.) deals with professions and occupations, including "Accountants" under Article 2. The accountancy statute is referenced throughout this sunset review. The full text of the statute may be accessed on http://web.intellinetusa.com/stat98/. Rules may be accessed on www.dora.state.co.us/accountants

POWERS AND DUTIES OF THE COLORADO STATE BOARD OF ACCOUNTANCY (§12-2-104, C.R.S.)

Within the provisions of Article 4 of Title 24, which governs rulemaking and licensing procedures by state agencies, the accountancy board is empowered to, among other things, promulgate rules and regulations necessary to the orderly conduct of its affairs and for the administration of the accountancy statute. More specifically, the board is to "set rules of professional conduct in order to establish and maintain a high standard of integrity in the profession of public accounting." Such rules are to be applicable to every person practicing as a certified public accountant in Colorado.

Additional powers of the board include administering examinations and determining educational requirements. Regarding licensing, the board may grant, deny, suspend, or revoke licenses. In addition, the board has the authority to issue letters of admonition, and to censure, place on probation, fine, or impose other conditions and limitations on any entity under its jurisdiction. Under §12-2-125, C.R.S., the board is empowered to conduct hearings with respect to the denial, suspension, or revocation of certificates or registrations in accordance with the Administrative Procedure Act.[13] In addition, the board may issue subpoenas, compel the attendance of witnesses and the production of documents, and may administer oaths, take testimony, hear proofs, and receive exhibits in evidence. The attorney general or one of his or her assistants represents the board at such hearings. Cases are decided by a simple majority vote.

[13] §24-4-104 and §24-4-105, C.R.S.

The board is also empowered to set, collect, and transmit fees to the state treasurer, but it is the General Assembly that funds the Colorado State Board of Accountancy by means of annual appropriations. The size and composition of the board is discussed in Recommendation 1.

UNLAWFUL ACTS (§12-2-120, C.R.S.)

Subsection 1 of this section holds that "no person shall assume or use the title or designation 'certified public accountant' or the abbreviation 'C.P.A.', or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that such person is a certified public accountant unless such person holds an active certificate as a certified public accountant." These requirements also apply to registered CPA firms. In addition, the "single act evidence of practice" section stipulates that any person who holds one's self out as a certified public accountant unlawfully on any one occasion may be subject to an injunction. [14]

The main prohibition is against unlicensed persons and firms performing independent audits. They are precluded from being able to "attest or express an opinion, as an independent auditor, as to the financial position, changes in financial position, or financial results of the operation of any person, organization, or corporation, or as to the accuracy or reliability of any financial information contained in any such accounting or financial statement." The term "independent auditor" is defined in such a way as to exclude an officer, employee, or partner of the person, organization, or corporation under audit. Moreover, the provisions allow for "the performance by persons other than certified public accountants of other services involving the use of accounting skills, including the preparation of tax returns and the preparation of financial statements without the expression of opinions or assurances thereon."

[14] §12-2-122, C.R.S.

Under a separate section entitled "Exceptions - acts not prohibited" (§12-2-121, C.R.S.), employees or assistants of individual CPAs or CPA firms may perform accounting tasks, provided that "such an employee or assistant shall not issue any accounting or financial statement over his name." Further, out-of-state CPAs are not prevented from practicing temporarily in Colorado provided that such temporary practice is incident to their regular practice and conducted in conformity with the regulations and rules of professional conduct promulgated by the board.

FEDERAL AND OTHER STATES' LAWS CONCERNING ACCOUNTANCY

Federal Oversight

The Securities and Exchange Commission (SEC) is the most important federal agency involved in the oversight of the public accounting profession. The SEC has traditionally delegated much of its responsibility for setting standards for financial reporting and independent audits to the private sector without relinquishing its oversight authority. Accordingly, the SEC has accepted the rules known as Generally Accepted Accounting Principles (GAAP) set by the Financial Accounting Standards Board (FASB) as the primary standard for the preparation of financial statements. The SEC has also accepted the rules known as Generally Accepted Auditing Standards (GAAS) set by AICPA's Auditing Standard's Board as the standard for conducting independent audits of financial statements. The SEC reviews and comments on various financial reports required by federal securities laws and regulations, and issues interpretive guidance and staff accounting bulletins on accounting and auditing matters. What is more, the various stock exchanges, which are self-regulatory organizations under SEC authority, require listed companies to publish annual reports containing financial statements prepared in accordance with GAAP and audited by independent public accountants.

The Foreign Corrupt Practices Act of 1977 amended the Securities Exchange Act of 1934. The Foreign Corrupt Practices Act was the result of numerous disclosures that improper accounting and the falsification of records had allowed businesses to make millions of dollars in questionable or illegal payments to facilitate business transactions. The Foreign Corrupt Practices Act mandates that companies registered with the SEC have adequate internal accounting controls to provide reasonable assurance that transactions reflect management's authorization, and that financial statements are prepared in accordance with GAAP. In 1991, the United States Congress enacted the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which includes requirements for independent audit committees in large banks and savings and loan institutions to discuss certain matters with the independent auditor, and also sets audit committee membership prerequisites for the largest of the institutions. In 1995, Congress enacted the Private Securities Litigation Reform Act of 1995, which spells out the auditor's responsibility for reporting illegal acts to audit committees and requires, in certain circumstances, auditors to report illegal acts to regulators.[15]

Other States

The *Digest of State Accountancy Laws and State Board Regulations, 1998*[16] notes that accountancy laws governing the licensing of professional accountants have been enacted in all fifty states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands. These statutes set forth education, experience, examination, and other requirements for licensure, and establish a state board of accountancy or its equivalent to administer the law. Certified public accountants are licensed in all fifty-four jurisdictions. The accountancy law in each of these jurisdictions restricts the use of the title "Certified Public Accountant", or its abbreviation "CPA", to individuals who are registered as such with the state's regulatory authority.

Regulatory laws in all but four states prohibit nonlicensees from expressing opinions or issuing restricted forms of accounting reports on financial statements. Put differently, certain accounting or auditing functions are reserved for licensees. The four states that provide exceptions are Arizona, Kansas, North Carolina, and Wyoming. These states are often referred to as "permissive states" since their statutes restrict only the use of the CPA title. In these states, anyone may furnish accounting services, including auditing services. In all states, under so-called "grandfather" clauses, non-CPAs who were practicing public accounting on the effective date of each accountancy law were eligible to register as public accountants. There are currently thirty-six states that have such an anachronistic class of accountants. Ten states also license, on a continuing basis, a second and distinct class of accountants variously known as "accounting practitioner",

[15] GAO, *The Accounting Profession: Major Issues, Progress and Concerns*, September 1996, pp. 3-7.
[16] American Institute of Certified Public Accountants (AICPA), 1998. New York: AICPA-NASBA, p. vii.

"registered public accountant", "licensed public accountant", or "public accountant". These states are Delaware, Georgia, Indiana, Iowa, Maine, Montana, Oklahoma, Oregon, South Carolina, and Vermont.

In all states, licensing is not required for employment as an accountant in government, industry, or public accounting. Unlicensed persons may provide consumers with a variety of accounting and bookkeeping services, including the preparation of financial statements without reports or assurances, as well as the preparation of taxes as long as these providers do not use certain titles, furnish unlawful services, or otherwise hold themselves out to indicate that they are licensed.

By reference to the *Digest of State Accountancy Laws and State Board Regulations,* a more detailed state-by-state comparison of accountancy laws is possible. In particular, this publication enables readers to compare jurisdictions in the following categories: general qualifications, educational requirements, experience requirements, CPA exam conditioning, continuing professional education, quality review, temporary practice, interstate and foreign reciprocity, and other categories. Of particular interest are the tables in Appendix A of the *Digest* which facilitate comparison in such categories as which states will grant a certificate without experience, and state board fees.

KEY PROVISIONS OF THE UNIFORM ACCOUNTANCY ACT (UAA)

A "model bill" to regulate the practice of public accountancy was first published in 1916 by the American Institute of Accountants, the predecessor membership organization of the American Institute of Certified Public Accountants (AICPA). In 1984, the AICPA and the National Association of State Boards of Accountancy (NASBA) published the first joint model bill, later renamed the Uniform Accountancy Act (UAA, or Uniform Act). Both organizations, however, felt that their aim of increasing the uniformity of regulation had not produced satisfactory results. This, coupled with other significant factors occurring in the global marketplace for accounting services, led both AICPA and NASBA to explore new regulatory concepts and approaches that would be responsive to modern challenges.

The Uniform Act is proffered as a comprehensive set of legislation that could be adopted in place of existing state laws. Because there is an accountancy law now in effect in every American jurisdiction, the Uniform Act is also designed by means of its separable provisions to be incorporated, with appropriate amendments, into existing laws instead of replacing such laws entirely. In the interest of uniformity and to promote mobility through the substantial equivalency standard, AICPA and NASBA strongly urge states to adopt the entire Act. [17]

There are several important provisions in the UAA. Highlights are presented below. The entire Uniform Act can be referenced on www.nasba.org under "Publications".

Definition of "Attest Services"

The definition of attest services is a controlling factor both in the Uniform Act and in Colorado's accountancy statute. As evidenced by its revisions, the initial trend in the UAA was to expand the definition of attest services to include the audit, review, and compilation functions; that is, all three levels of assurance. The most recent revision (July 1999), however, excludes compilations from its provisions. "Attest" currently means any audit, review of a financial statement, or examination of prospective financial information that is performed in accordance with the relevant standards. The UAA notes that "the statements on standards specified in this definition shall be adopted by reference by the board pursuant to rulemaking and shall be those developed for general application by recognized national accountancy organizations such as the AICPA."[18]

By way of contrast, Colorado's accountancy statute does not define "attest" or "attest services". Instead, "under unlawful acts" non-licensees are directed not to "attest or express an opinion, as an independent auditor, as to the financial position…," and are further directed not to "as an independent auditor, make or conduct an investigation, examination, or audit of the financial statements..." [19]

[17] Preface to the UAA. Hereinafter "UAA-[section]-[page number]".
[18] UAA-3-1, (July, 1999).
[19] §12-2-120(6)(a)(II).

Work Experience Requirements

Work experience requirements have undergone dramatic revisions in the Uniform Act. Originally, the UAA called for individual CPAs to have one year of experience in one of the following areas: accounting and auditing (including issuing reports on financial statements), tax preparation or advice, and advisory or consulting services, all of which must have been under the supervision of a licensee. The focus was squarely on those tasks performed in the practice of public accounting.

While maintaining the general requirement of a year's experience, the 1998 revision of the Uniform Act expanded the number of acceptable tasks to include attest, management advisory, and financial advisory services. This general experience may have been acquired in industry, government, academia, or public practice, and need only have been verified by a licensee. Under these provisions, experience in performing attest services is only one of several types of qualifying experience. Consequently, large numbers of CPAs could potentially have no experience in issuing reports on financial statements. The focus on public accounting has been lost.

Under the latest proposals, the core work experience requirements have been preserved, but expanded to include "compilation". More importantly, the UAA stipulates that "any individual licensee who is responsible for supervising attest services and signs or authorizes someone to sign the accountant's report on the financial statements on behalf of the firm, shall meet the experience requirements set out in the professional standards for such services."[20] "AICPA and NASBA will work cooperatively to develop a requirement that provides adequate protection to the public in this sensitive area. The development of this attest experience requirement will go through the normal development and exposure process for any new or revised professional standard. Licensees, state boards and the public will all have an opportunity to provide input on the requirement as it is developed."[21] Finally, it is important to note that CPAs who wish to offer "attest services" for the public must do so in a duly licensed CPA firm. These firms must undergo peer review every three years.

[20] UAA-7-2.
[21] AICPA-NASBA, "The New AICPA/NASBA Uniform Accountancy Act (UAA): What Does it Mean?", February ,1999 issue brief, p. 7.

Offering Nonattest Services Through Non-CPA Firms

Under earlier versions of the Uniform Act, CPAs employed in non-CPA firms were restricted from "holding-out" to the public as CPAs offering CPA-type services. The UAA accomplished this by defining the practice of public accountancy in such a way as to include both firms and individuals performing the range of tasks discussed previously. Recently this policy was challenged in court in the case of *American Express vs. the Florida State Board of Accountancy*. The Federal Appeals court ruled in favor of *American Express* and its CPA employee, concluding that CPAs may advertise their CPA designation, even when working for unlicensed entities.

The UAA continues to provide for the issuance of CPA firm permits, but only requires permits for firms that provide attest services, or those wishing to use the title "CPA" or "CPA firm". What is more, the revised Uniform Act has dropped its reference to the definition of public accounting. Instead, the focus of regulation is now largely restricted to CPA firms in the business of providing attest services. The effect of these provisions would enable CPAs employed in non-CPA firms to hold themselves out as CPAs offering non-attest services.[22]

In summary, the Uniform Accountancy Act as proposed by AICPA and NASBA contains several important reforms that can potentially benefit both the accounting profession and the public it serves. To achieve this aim, however, certain provisions of the Uniform Act should be selectively applied, while others should be systematically rejected.

[22] Colbert, Gary and Dennis Murray, "An Assessment of Recent Changes in the Uniform Accountancy Act", *Accounting Horizons*, March, 1999, p. 63.

Program Description and Administration

Although some overlap may exist, there are four steps in obtaining a CPA certificate in Colorado. In sequence, these steps are (1) Attaining a bachelor's degree in accounting; (2) Taking and passing the Uniform CPA exam; (3) Obtaining one year of work experience in accounting; and (4) Successful completion of a prescribed ethics exam. Excluding the requirement for a bachelor's degree, the licensing process takes approximately twenty-three months for applicants to complete.[23] A flow chart with an accompanying narrative describing the general requirements and procedures for initial CPA licensure may be found in Appendix C.

In general, accountancy regulations can be classified into admission requirements designed to promote the competency of entry level professionals, and regulations that govern the ongoing practice of public accounting. In Colorado, the latter constitutes continuing professional education. The first step to obtaining a CPA certificate in Colorado is obtaining a four-year degree. Applicants must possess a baccalaureate degree with a concentration in accounting or its equivalent from an accredited college or university before they will be admitted to take the CPA exam. A sit-early option is available to students within two months of graduation.

Beginning on January 1, 2002, a minimum of 150 total semester hours will serve as the entry-level educational requirement.[24] The Colorado Board of Accountancy adopted this requirement by rule in accordance with the Uniform Accountancy Act (UAA) and under the authority granted in §12-2-104(1)(m), C.R.S. In addition, Colorado is distinctive in its requirements in that it has an education in lieu of experience provision. An additional thirty semester hours of non-duplicative study beyond a baccalaureate degree, or a master's degree with a concentration in accounting may be substituted for the one year of work experience.

[23] Colorado CPA Survey, 1999. Average of the most common methods of licensure, excluding reciprocity and special cases.
[24] Rule 2.4:4 of the *Rules of the Colorado State Board of Accountancy*.

The second step of licensure is the CPA exam. The Colorado State Board of Accountancy has entered into a contract with *CPA Examination Services*, a division of the National Association of State Boards of Accountancy, to administer the CPA exam and review applications. Applicants take the CPA exam consisting of four sections over two days. The cost is $191.00 for first-time candidates. If in a single sitting a candidate passes at least two subjects (sections) with a minimum score of seventy-five, and a score of at least fifty in the remaining two sections, he or she attains "conditioned status". Conditioned candidates must pass all remaining subjects within six consecutive examinations (three years) after first earning partial credit. The CPA exam is stringent. For example, in 1997 the overall pass rate was 22.3% for the 336 first-time candidates who were tested in Colorado.[25]

The third step of CPA licensure is obtaining one year of work experience in accounting. A candidate must complete one year (2,080 hours) of accounting experience within five years of passing the CPA exam. This experience is to consist of 1,800 hours under the direct supervision of a practicing CPA. Another means of gaining the requisite experience is through selective supervision based on a written agreement. Provided the other criteria are met, this alternative to the traditional employment relationship allows for certification based on the quality and level of supervision, as well as actual work products. Public accounting and internal audit work are the two main types of acceptable experience.

The fourth and final step in being certified as a public accountant in Colorado is taking and passing an ethics exam. Candidates must take and pass the open-book ethics examination developed by the American Institute of Certified Public Accountants.

Once certified, active status licensees must complete eighty hours of continuing education every two years. An "active status" or "inactive status" certificate must be renewed every two years. The cost to the applicant is $100.00. The number of active and inactive CPAs, and the number of CPA Firms in Colorado is depicted in Table 7 below.

[25] National Association of State Boards of Accountancy (NASBA), *Candidate Performance on the Uniform CPA Examination*, 1998 Edition. Nashville: NASBA, 1998, p. 34.

TABLE 7: Colorado CPAs and CPA Firms by Category, FY 1993-1999

	FY 93/94	FY 94/95	FY 95/96	FY 96/97	FY 97/98	FY 98/99
Individual CPAs						
Active	7,336	7,650	7,502	8,535	8,246	*9124
Non-Active	3,291	3,239	3,414	3,415	3,388	*3365
CPA Firms	711	822	771	860	946	*981

* FY98/99 Estimates only.

The Colorado State Board of Accountancy is housed in the Division of Registrations of the Department of Regulatory Agencies (DORA). Appendix A is an organization chart of the Division of Registrations. The Fiscal Year 1998-99 expenditures of the board were $552,988 as compared to earned revenue of $561,836 for the same period.

Enforcement and Examinations

Young notes that the most frequent criticism leveled against licensing boards has been their failure to discipline licensees. Although licensing agencies are entrusted with the responsibility of protecting the public, they are usually more zealous in prosecuting unlicensed practitioners than in disciplining licensees. In many occupations, complaints of sub-standard practice are usually brought by licensed practitioners, not consumers, and these complaints become more common when economic conditions worsen. [26]

Table 8 below depicts the type of disciplinary actions undertaken across six fiscal periods. It is important to note, however, that line items are discrete, especially in the top third of the table. In other words, because of open cases across fiscal years, cases that are dismissed, and other factors, the number of "complaints received" is not all inclusive of cases referred to the Attorney General's Office, and so on. The number of cases dismissed for the combined period under consideration is 45% of the total number of cases. Second, letters of admonition, which represent the least severe form of disciplinary action available to the board, amount to 32% of all cases. These two categories together represent 77% of all the disciplinary cases handled by the board for the six-year period under consideration.

[26] Young, p. 41.

TABLE 8: Enforcement Related Activities of the Colorado Board of Accountancy

Activity	FY 92/93	FY 93/94	FY 94/95	FY 95/96	FY 96/97	FY 97/98
Complaints Received	201	153	186	211	156	116
Cases Referred to C&I	23	29	57	40	18	23
Cases Closed by C&I	30	32	62	29	23	15
Cases Referrred to AG	26	39	66	83	52	44
Cases Closed by AG	47	43	51	46	88	46
Action Taken						
Probation	6	23	17	3	1	1
Letter of Admonition	103	51	71	59	55	17
Suspension	6	2	2	2	4	3
Revocation	2	2	6	10	4	3
Cease & Desist Order	0	12	8	7	11	8
Other Actions	41	16	3	13	30	19
Cases Dismissed	62	62	90	108	70	111
Fines						
Total Fines Assessed	$264,350	$21,200	$21,500	$6,750	$332,850	$267,000
Total Fines Paid	$262,350	$21,200	$21,300	$6,950	$326,850	$265,000

Source: Board of Accountancy.
Note: "C&I" are Complaints and Investigations; "AG" is Attorney General.

Oversight of the CPA examination is another important program activity, and exam pass rates are a key program descriptor. Table 9 below depicts Colorado CPA exam pass rates for the period 1994-1999.

TABLE 9: Colorado CPA Exam Pass Rates, 1994-1999.

Year	May Examination			November Examination		
	Total Candidates	Candidates Passing	% Passing	Total Candidates	Candidates Passing	% Passing
1994	804	244	30.3	835	243	29.1
1995	847	258	30.5	839	243	29.0
1996	765	223	29.2	800	254	31.8
1997	731	209	28.6	767	178	23.2
1998	809	217	26.8	863	271	31.4
1999	764	204	26.7			

Source: CPA Exam Services

Issues Reviewed

THE CONCEPT OF SUBSTANTIAL EQUIVALENCY

The stated purpose of substantial equivalency is to promote the interstate mobility of CPAs. The UAA notes, "implementation of the substantial equivalency standard and creation of the National Qualification Appraisal Service will make a significant improvement in the current regulatory system and assist in accomplishing the goal of portability of the CPA title and mobility of CPAs across state lines."[27] Section 23 of the Uniform Act sets out the elements of the substantial equivalency standard.

> The criteria for determining whether a state's CPA qualification requirements are substantially equivalent to the UAA include: good character, completion of the 150-hour education requirement, passage of the Uniform CPA examination and compliance with a one year general experience requirement. A state will be considered substantially equivalent as long as the effective implementation date for the 150-hour education requirement is to occur within six years after the date on which the requirement is enacted.[28]

State Boards can utilize the NASBA National Qualification Appraisal Service for determining whether another state's certification criteria are substantially equivalent to the national standard outlined in the AICPA/NASBA Uniform Accountancy Act. If a state is determined to be substantially equivalent, then individuals from that state would have ease of practice rights in other states. Individuals who personally meet the substantial equivalency standard may also apply to the National Qualification Appraisal Service if the state in which they are licensed is not substantially equivalent to the UAA.

Individual CPAs who practice across state lines or who provide services to clients in another state via electronic technology would not be required to obtain a reciprocal certificate or license if their state of original certification is deemed substantially equivalent, or if they are individually deemed to be substantially equivalent. The CPA must

[27] UAA-23-2.
[28] UAA-C-1.

merely notify the board of the state in which the service is being performed. However, licensure is required in the state where the CPA has his or her principal place of business. If a CPA relocates to another state and establishes his or her principal place of business in that state, then he or she would be required to obtain a certificate to practice in that state. Likewise, if a firm opens an office in a state, it would be required to obtain a permit in that state.

The above scenario is contingent upon states adopting all the key provisions of the Uniform Act.

If all fifty states were to be substantially equivalent with one another, then interstate reciprocity by means of license endorsement would become *pro forma*, and in consequence, CPA mobility would be enhanced. In support of this position, Young (1987) notes that licensing requirements can create maldistributions in the supply of practitioners, especially when laws make it difficult for licensed practitioners in one state to obtain a license in another.[29]

On the other hand, three arguments counsel against adopting a substantial equivalency standard. First, geographical mobility would differ among CPAs even in the absence of licensing because of differences in earnings potential, education, age, and types of employment contracts.[30] Second, as Dennis Murray of the University of Colorado at Denver has noted, substantial equivalency makes sense only if the whole of the UAA is adopted (Interview, March 24, 1999). Along the same lines, substantial equivalency can only be achieved in practice if all fifty states adopt the key provisions of the UAA. According to NASBA, twenty-one states are considered to be substantially equivalent, while three states, including Colorado, are "to be determined". Colorado is one of the thirty other jurisdictions that are not substantially equivalent, and hence a member of the majority of states that have not accepted the concept of substantial equivalency (see Appendix D for a summary table of the status of substantial equivalency across the states as of January, 1999).[31] Furthermore, acceptance by all fifty states is not only a high threshold; it would also be a diminution of Colorado's sovereignty to enact accountancy laws that are based primarily on considerations of substantial equivalency.

[29] Young, p. 59.
[30] Young, p. 59.
[31] The table is reproduced from a memorandum by David A. Costello of the NASBA Qualifications Appraisal Board to NASBA UAA Committee Members, January 14, 1999.

Finally, individual CPAs would not be prevented, nor significantly hindered from practicing in another state in the absence of such a standard. The NASBA Qualification Appraisal Service established under the UAA would be able to make equivalency determinations based on broad outlines. As the UAA notes, "individual CPAs who personally meet the substantial equivalency standard can personally apply for and utilize the standard even if the CPA qualification requirements in their state are not substantially equivalent."[32]

Acceptance of the concept of substantial equivalency would mean that proposals that did not conform to the UAA would not be feasible because, by definition, Colorado would not be "substantially equivalent." Consequently, the concept of substantial equivalency should be discounted.

FUTURE POLICY CONSIDERATIONS

Sunset evaluation criteria direct DORA to assess "whether regulation by the agency is necessary to protect the public health, safety and welfare; whether the conditions which led to the initial regulation have changed; and whether other conditions have arisen which would warrant more, less or the same degree of regulation.[33] Conditions have indeed changed, while the need for independent verification of financial information remains.

Changing business operations and the tremendous advancement of information technology are greatly influencing users' needs for data that are more real-time and comprehensive than those provided by contemporary financial reporting. At the same time, consumers need audited financial information because it provides independent assurance of the reliability of amounts reported that are not otherwise verifiable by third-party users.[34] These attest services are historically the most important that CPAs provide. "On June 6, 1996, the Chairman of the SEC cautioned the accounting profession about what he saw as recent developments concerning expanded services that go far beyond traditional services, such as activities in investment banking, franchising the use of the auditor's name, and providing outsourcing for a variety of services in addition to internal auditing services that

[32] UAA-C-1.
[33] §24-34-104(9)(b)(I), C.R.S.
[34] GAO-96-98 p. 136.

threaten the accounting profession's credibility."[35] Closer to home, survey respondents of this study report that Colorado CPAs are engaged in "sales of stocks, mutual funds, [and] insurance", and that they are involved in "investment management". On the other side of the coin, CPAs feel besieged by what they perceive as encroachment into their traditional business by non-CPAs providing accounting services. A typical concern was expressed as follows: "non-CPAs performing work that was traditionally in the domain of CPAs only."

The question then arises: What services do Colorado CPAs provide? Table 10 below summarizes what survey respondents say in response to the question: *How often do you perform the following tasks*? (Q13 of the survey instrument). Table 10 shows that a majority of Colorado CPAs--234 (61%) of respondents--never perform attest services. By the alternative measure of mean scores, the attest function ranks second to internal audits as the task least performed (4.11 on a scale of 1 to 5, that is, between "almost never" and "never"). To compensate for survey construction weaknesses, it is also important to compare the above data to the "reviews and audits" category.

Reviews provide a lower level of assurance than attest services, which are in turn only distinguished from audits in the survey instrument by being defined as requiring a CPA's signature. Significantly, the ranking of the "reviews and audits" category at 3.74 is also in the top half of the mean scores column, again indicating that traditional accounting tasks are not being performed as often as one might expect of certified public accountants. Colorado CPAs are primarily engaged in tax preparation and financial analysis. These findings imply that the current regulatory scheme, which was built around public protection concerns related to the audit function, may no longer serve its intended purpose.

[35] GAO-96-98, p. 51.

TABLE 10: Ranked Mean Scores of Tasks Performed by Colorado CPAs*

	Very Frequently (1)	Frequently (2)	Not so frequently (3)	Almost Never (4)	Never (5)	**Mean Score (1 to 5)**
Internal Audits	13	24	51	67	223	4.22
Attest Services	32	28	39	49	234	4.11
Payables/Receivables	34	49	57	64	174	3.78
Reviews and Audits	55	37	51	47	192	3.74
Information System Controls	21	57	90	80	132	3.64
Budgeting	43	79	94	79	85	3.22
Financial Statements Compilation	76	90	59	49	107	3.06
Management Consulting	44	117	93	40	90	3.04
Tax Preparation	148	47	50	54	87	2.70
Financial Analysis	93	134	94	42	22	2.39

Source: Colorado CPA Survey, Spring 1999, Question 13.
***** Excludes 68 responses involving "other" tasks as reported in Q13 (k).

Additional support of a two-tier regulatory scheme based on the primacy of the attest function may be found in the UAA and supporting documents. In a February 1999 communication, the AICPA and NASBA note that "'attest services' are the most publicly sensitive because the public and other third parties rely on the licensee's word. As a result, they are the only professional accounting services that are restricted to licensees." Further, "the majority of individuals entering the profession will never perform attest services. Therefore, it is unnecessary to require all applicants to demonstrate this competency. By specifying the requirement for those who wish to supervise attest engagements and sign reports for their firm, regulation protects the public in the one area where the public interest is greatest--yet without impeding others who wish to obtain the CPA title."[36] Finally, some Colorado board members have expressed the view that the UAA itself is a two-tier system in all but name.[37] Such assertions may be justified since the UAA calls for a different work experience requirement for those wishing to perform attest services in contradistinction to those CPAs that do not.

[36] AICPA-NASBA, "Why not require all applicants for licensure to obtain attest experience?" *Attest Services*, February 1999 issue brief, pp. 1-4.
[37] April 28 and May 26, 1999 focus group meetings.

Sunset evaluation criteria also direct DORA to determine "if regulation is necessary, whether the existing statutes and regulations establish the least restrictive form of regulation consistent with the public interest, considering other available regulatory mechanisms and whether agency rules enhance the public interest and are within the scope of legislative intent."[38] One policy option is to eliminate state licensing of accountants as Dennis Murray and Gary J. Colbert (1999) of the University of Colorado at Denver have suggested. They say, "we believe there is little public interest justification for the government to operate a credentialing service. Private sector organizations, such as the Institute of Management Accountants and the Institute of Internal Auditors, have emerged to fulfill the need for credentialing programs such as the Certified Management Accountant (CMA) and Certified Internal Auditor (CIA) designations. The AICPA, a private sector body, rather than governmental units, could serve a similar role for the CPA designation."[39] As noted in the legislative declaration, however, there is a traditional public reliance on the CPA designation. This set of circumstances coupled with the asymmetry of information in the average CPA-client relationship calls for a minimal level regulation. Yet the current regulatory scheme may be more stringent than is necessary because it is based on the need to regulate CPAs who conduct independent audits. Audit failures have the greatest potential for public harm, or as an economist might say, they carry externalities. This is the main reason that the independent audit is the only function that Colorado non-CPAs are currently prohibited from performing.

According to Young, licensing laws are often called "practice acts" because they grant authority to licensees to engage in certain practices within a profession. Once the scope of practice is established by statute or rule, it is illegal for anyone without a license to perform any of the activities covered by the law. Professionals guard their existing scope of practice and may attempt to broaden what is restricted.[40] Regarding the scope of practice, one survey respondent of this study expressed the view that one of the most important problems facing the accounting profession was the "willingness of practitioners to limit practice to areas of expertise as issues become increasingly complex." Another respondent identified the "expansion into non-traditional services" as a significant issue. Yet another Colorado CPA identified the "erosion of [the] attest function" as being important. One

[38] § 24-34-104 (9)(b)(II), C.R.S.
[39] Colbert, Gary and Dennis Murray, "An Assessment of Recent Changes in the Uniform Accountancy Act", *Accounting Horizons*, Vol. 13, No. 1, March 1999, p. 60.
[40] Young, p. 81.

survey respondent succinctly expressed the tension between marketplace demands and traditional roles by noting that "flexibility vs. specialization of functions for clientele" was an important issue facing the accounting profession today. In sum, "CPAs must become market driven and not dependent upon regulations to keep them in business," according to *The CPA Vision Project*, a profession-wide collaborative effort between state CPA societies and the AICPA.[41]

In short, Colorado's regulatory scheme takes a "one size fits all" approach to the licensing of accountants. In the words of one survey respondent, "the profession is becoming 'boilerplate'--not all CPAs fit into the same slot." A regulatory scheme in the form of a two-tier system that recognizes the relative importance of different accounting and auditing tasks would accommodate many of these concerns, and should be considered as a viable policy option in subsequent reviews.

[41] AICPA, "The CPA Vision Project: 2011 and Beyond", *Journal of Accountancy,* Vol. 186, No. 6, December 1998, p. 13, also available on www.cpavision.org

Analysis and Recommendations

***RECOMMENDATION 1**: Continue the Colorado State Board of Accountancy until 2005, and adopt term limits.*

As provided in Section 12-2-103 of the Colorado Revised Statutes, the Colorado State Board of Accountancy is subject to termination on July 1, 2000.[42] The board administers the accountancy statute (Title 12, Article 2, C.R.S.), has adopted rules of professional conduct for certified public accountants, and disciplines licensees who violate statutory and regulatory standards. In consequence, the board operates in the public interest and is necessary for the effective regulation of the accounting profession in Colorado. The Colorado State Board of Accountancy should be continued until 2005. Although the public need for the verification of financial information through the independent audit function provided by certified public accountants remains, new business conditions and the varied response of the accounting profession to these changes calls for an accelerated review. New conditions include technological changes such as "telepractice", accountancy's expansion into non-traditional business services, and varied professional requirements across the country based on the types of accounting and auditing services provided to the public.

Arguments in favor of term limits are generally well known. The UAA, for example, proposes that "no person who has served two successive complete terms shall be eligible for reappointment, but appointment to fill an expired term shall not be considered a complete term for this purpose."[43] Further, "the length of the term should be four years rather than three years, as is now more commonly the case. Although there seems to be an increasing trend toward not reappointing board members for a second term, it takes any new board member some time in office before he is fully effective. A somewhat longer term seems an appropriate way of balancing these two considerations."[44] Since the current Colorado accountancy statute circumscribes each member's term of office to four years,[45] it remains to limit the number of terms to a total of two per board member.

[42] Pursuant to § 24-34-104, C.R.S.
[43] UAA-4-1.
[44] UAA-4-2.
[45] §12-2-103, C.R.S.

Statutory evaluation criteria direct DORA to assess "whether the composition of the agency's board or commission adequately represents the public interest and whether the agency encourages public participation in its decisions rather than participation only by the people it regulates."[46] The current board is composed of seven members consisting of five CPAs and two public members.

A skewed board composition in favor of experts has a disproportionate effect on deliberations because public members tend to be overshadowed by their counterparts. One way to mitigate this tendency is to appoint a public member who is also an active academic in accountancy. Since education is a fundamental measure of competency in accounting and other professions, a representative of that community would enhance pedagogical debates and the currency of information regarding educational issues. Along the same lines, the AICPA chairman stated in 1995 his intention to get more accounting faculty involved in the AICPA committee structure to better integrate education and practice.[47]

In conclusion, this first recommendation continues the Colorado State Board of Accountancy, and at the same time establishes an accelerated sunset review date. Moreover, it encourages greater representation by means of member rotation while preserving the expertise necessary to regulate the accounting profession in Colorado.

RECOMMENDATION 2: Eliminate the 150 credit-hour educational requirement (Rule 2.4:4) by repealing §12-2-104(1)(m), C.R.S.

Sunset evaluation criteria also direct DORA to determine "if regulation is necessary, whether the existing statutes and regulations establish the least restrictive form of regulation consistent with the public interest, considering other available regulatory mechanisms and whether agency rules enhance the public interest and are within the scope of legislative intent."[48] The purpose of entry level requirements is to ensure a minimum level of competency in those wishing to provide accounting and auditing services to the public. The educational component of these requirements is the keystone on which all other requirements hinge.

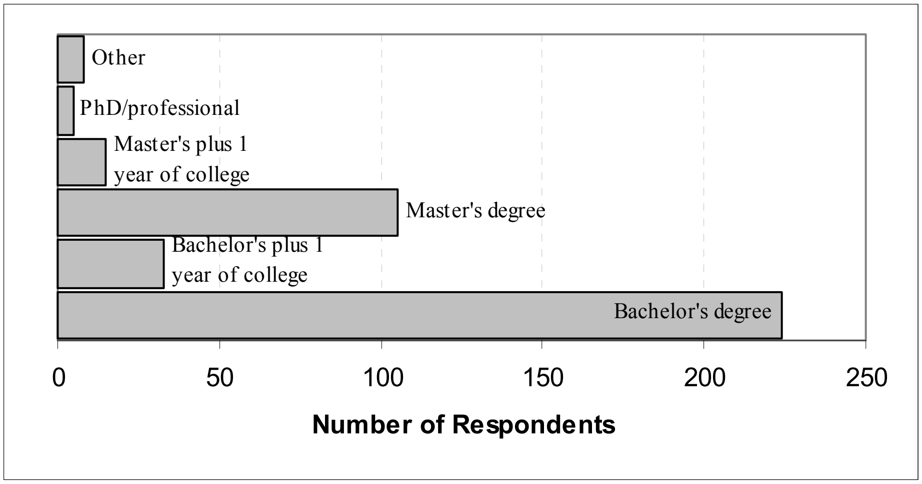
[46] §24-34-104(9)(b)(V), C.R.S.
[47] GAO-96-98, p. 136.
[48] §24-34-104 (9)(b)(II), C.R.S.

The Colorado Board of Accountancy has adopted the 150 credit-hour educational requirement for CPA licensure in accordance with the UAA. The UAA calls for "at least 150 semester hours of college education including a baccalaureate or higher degree conferred by a college or university acceptable to the board, the total educational program to include an accounting concentration or equivalent as determined by board rule to be appropriate."[49] Similarly, the Colorado Board of Accountancy stipulates that "a baccalaureate degree and at least 150 total semester hours in compliance with uniform educational standards set by the AICPA and the National Association of State Boards of Accountancy in the Uniform Accountancy Act, Section 5(c)" applies to qualified persons who plan to take the CPA exam after December 31, 2001 (Rule 2.4:4 (A)).

The current educational profile, within a ± 5% margin of error, of Colorado CPAs is shown in Figure 3 below. The majority of Colorado CPAs (57%) possess a Bachelor's degree in accounting. The second largest educational category is the Master's degree at 27%. By way of comparison, in Fortune 100 companies more than 90% of key financial management personnel hold undergraduate diplomas consisting of either accounting or business degrees. The percentage of personnel with advanced degrees ranges from over 60% for CFOs and controllers, to about 24% for supervisors of accounting operations. In state government, about 78% of financial management personnel hold bachelor's degrees. Approximately 16% of key financial personnel working for state government hold advanced degrees.[50]

[49] UAA-5-2.
[50] General Accounting Office, *Financial Management: Profile of Financial Personnel in Large Private Sector Corporations and State Governments*, January, 1998, pp. 9-13.

<u>FIGURE 3:</u> The Educational Profile of Colorado CPAs



Source: Colorado CPA Survey, Spring 1999, Question 2.

<u>Arguments in Favor of the 150 Hour Educational Requirement</u>. There are four main positions in favor of the 150 credit-hour requirement. First, proponents argue that "the 150 semester-hour requirement for new CPAs is, like mandatory CPE and mandatory peer and quality review, a response to demands to protect the public by improving the quality of the work of CPAs."[51] Second, "the financial world in which the CPA works is changing so rapidly that it is impossible to know what accounting topics to teach today that the CPA will use 25 or 40 year[s] from now. A broad general education including communication skills, mathematics, computer science, ethics, even literature will give those future CPAs the breadth of vision and intellectual curiosity needed for their work and continuing education."[52] Third, the 150-hour requirement will bring a much higher degree of uniformity in educational requirements across jurisdictions, and render Colorado substantially equivalent with many other states.

Finally, the new requirement will not be too burdensome for prospective CPAs. "Many universities <u>require</u> more than 120 hours to receive a baccalaureate degree in accounting. Nationally, the average degree is 126 hours and some universities are as high as 136 hours. It is not necessary for students to forego employment for a year in order to become a CPA. There are many opportunities for students to work full-time as accountants and even have their tuition paid by their

[51] AICPA, *150-Hour Education Requirement Legislative Briefing Book*, 1996, p. 2.
[52] AICPA, *150-Hour Education Requirement Legislative Briefing Book*, 1996, p. 5.

employer while they study on weekends and in the evening. Even if they choose not to work and attend school full-time, the average CPA candidate only needs one extra semester." In addition, "the issue of whether the rewards of the 150-hour requirement will be greater than the risk is answered, at least for many people, by the fact that more education is rewarded with higher life-long earnings. While starting salaries probably will not jump dramatically or immediately, the extra education will almost certainly pay off handsomely over one's entire career."[53]

Arguments Against the 150 Hour Requirement. By setting entry requirements at unnecessarily high levels, ostensibly to protect the public, a group may limit the number of individuals who can qualify. This, in turn, may create an artificial scarcity and enable those who are licensed to charge higher prices for their services than they might otherwise command.[54] This is evident in what Chester Levine (1998) of the Bureau of Labor Statistics has to say to his audience of prospective accountants: "Accountants and auditors who have earned professional recognition through certification or licensure should have the best job prospects. For example, CPA's should continue to enjoy a wide range of job opportunities, especially as more states enact the 150-hour requirement, making it more difficult to obtain this certification…Professional recognition through certification or licensure provides a distinct advantage in the job market…A growing number of states require 150 hours of coursework; the composition of the additional 30 hours is unspecified by most states."[55]

Because the 150-hour requirement does not mandate a significant increase in accounting or business hours, any benefit is likely to be marginal. According to Colorado educators, "required accounting hours will increase from 27 to 30 and required business hours will increase from 21 to 24. In our judgment, these small increases in accounting and business course work will not significantly improve a candidate's competence. While the benefits of the 150-hour requirement are small, the costs are significant. We estimate that the cost (including opportunity cost) incurred by a CU-Denver student to fulfill an additional 30 hours will be approximately $25,000. The people of Colorado will likely see a decline in the availability of CPAs. This effect

[53] AICPA, *150-Hour Education Requirement Legislative Briefing Book*, 1996, p. 3.
[54] The Council on Licensure, Enforcement, and Regulation (CLEAR), 1996. *Demystifying Occupational and Professional Regulation,* Lexington: CLEAR, 1996. p. 13.
[55] Levine, Chester, "Accountants and Auditors," *1998-99 Occupational Outlook Handbook,* January 16, 1998, pp. 4-7, also available on http://stats/bls.gov/oco/ocos001.html

might be particularly severe in remote areas of Colorado where candidates do not have access to 150-hour programs. Additionally, because of the restricted supply of CPAs and the additional costs incurred by new entrants, consumers will also experience an increase in fees paid to CPAs" (see Appendix E for the full text of this correspondence).

The most important issue raised by these authors is the supply-demand-cost relationship. Concerning the supply of CPAs, a recent *New York Times* article noted that "from Georgetown University to the University of Colorado, the number of students graduating with an accounting degree this spring will be only about half what it was a few years ago…Even before the recent steep declines on many campuses, the number of people sitting for the CPA exam had declined by 15 percent between 1990 and 1997. And even as the number of public companies in the United States has grown by more than 20 percent in the last 10 years, the number of professionals in public accounting has remained almost unchanged at roughly 131,000."[56] *The CPA Vision Project* similarly points out that "the number of students and young people electing to join the CPA profession has dramatically declined."[57] In Colorado several survey respondents appeared to share this concern. One CPA stated: "drop 5-year requirement--can't find enough hires as it is." Another respondent noted that an important issue facing the accounting profession was the "lack of trained/experienced professional staff." Yet another survey respondent was concerned with "staffing/keeping good people."

Statutory evaluation criteria direct DORA to assess "the economic impact of regulation and, if national economic information is not available, whether the agency stimulates or restricts competition."[58] Regarding consumer demand, Young notes that "licensing may reduce the number of poorly qualified or unqualified practitioners in a given trade or profession, [but] it also raises costs to consumers. Licensing schemes, by conveying a quality signal, can serve to reduce uncertainty for consumers, but less uncertainty can be had only for a price, and that price may be too high for some consumers. Those

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[56] Petersen, Melody, "Shortage of Accounting Students Raises Concern on Audit Quality," *The New York Times,* February 19, 1999, pp. 1-2, available on www.nytimes.com/yr/mo/day/news/financial/accountant-shortage.html.
[57] AICPA, "The CPA Vision Project: 2011 and Beyond", *Journal of Accountancy,* Vol. 186, No. 6, December 1998, pp. 3-5, also available on www.cpavision.org
[58] §24-34-104, (9)(b)(VI), C.R.S.

consumers prefer to assume more risk in exchange for lower prices".[59] Extending the argument to entry standards, Young points out that "the costs of the higher standards are distributed throughout the state in the form of higher prices. Affluent consumers who can afford these higher prices are better off, because the higher standards provide them with more confidence in the quality of the services they purchase. Poor consumers, however, do not benefit, because they cannot afford the higher prices. The poor are net losers, because the availability of low-cost service has been reduced. In essence, the poor subsidize the information-search costs of the rich."[60]

Although this sunset review does not establish a valid relationship regarding the supply-demand-cost nexus, it is nevertheless suggestive to note that 40% of Colorado CPAs earn $75,000 and above per annum. The salary profile of Colorado CPAs is depicted in Figure 2.

To achieve this recommendation, §12-2-104(1)(m), C.R.S., should be repealed, thus eliminating Board Rule 2.4:4.

In conclusion, the 150 credit-hour educational requirement is an overly restrictive entry barrier into the accounting profession with no demonstrable public protection function. Adoption of the 150 credit-hour requirement is likely to raise consumer costs, entrench market power in those accountants who attain the CPA designation, and restrict competition. On the other hand, keeping the educational requirement at the Bachelor's level is in line with current entry level educational trends in both the private and public sectors, and will promote the optimum utilization of personnel. A full 72% of Colorado CPA survey respondents agree by indicating that the current entry-level educational requirement is "about right".

[59] Young, pp. 77-78.
[60] Young, p. 21.

RECOMMENDATION 3: Amend the accountant-client privilege and statutes on complaints to enable the Board to effectively conduct investigations and to take disciplinary action against licensees while preserving client confidentiality to the maximum extent possible.

Statutory evaluation criteria direct DORA to assess "whether administrative and statutory changes are necessary to improve agency operations to enhance the public interest."[61] The Colorado Supreme Court in its May 26, 1998 decision in the case of the *Colorado State Board of Accountancy vs. Zaveral Boosalis Raisch*[62] ruled that the creation of an exception to the accountant-client privilege was a matter for legislative determination.

The Colorado State Board of Accountancy and the Colorado Society of Certified Public Accountants have requested that the accountant-client privilege be modified so as to enable the board to effectively discipline licensees. This recommendation is a qualified version of their joint proposal outlined in Appendix F.

The Colorado State Board of Accountancy is impeded in its efforts to investigate complaints against licensees who invoke the accountant-client privilege so as to obstruct an investigation, or to avoid turning over documents which might be incriminating. Of fifty-four state and territorial accountancy boards, at least thirty have accountant-client privilege laws. However, only Colorado and Missouri have no clear exception to client confidentiality for the purpose of issuing a subpoena in the event of an investigation. To grant the board this additional enforcement power, Section 13-90-107(1)(f) of the Colorado Revised Statutes should be amended by the addition of the following language:

(III) Paragraph (f)(I) above shall not apply to:

(a) The colorado state board of accountancy or a person or group authorized by such board to make an investigation or conduct a peer review on its behalf, if the books of account, financial records, advice, reports, or working papers relate to the competence or professional conduct of the certified public accountant or certified public accounting firm being investigated,

[61] §24-34-104, (9)(b)(IX), C.R.S.
[62] No. 96SC579.

(b) Any state or national certified public accounting societies or institutes or a person or group authorized by such societies or institutes of certified public accountants to make an investigation on their behalf, if the books of account, financial records, advice, reports, or working papers relate to the competence or professional conduct of the certified public accountant or certified public accounting firm being investigated, and only if the certified public accountant or certified public accounting firm being investigated is a member of such society or institute, and has agreed to participate in the investigative processes of such society or institute;

(c) Any state or national certified public accounting societies or institutes or a person or group authorized by such societies or institutes of certified public accountants to conduct a practice monitoring program, such as a quality or peer review program, of the certified public accountant or certified public accounting firm being monitored, and only if the certified public accountant or certified public accounting firm participating in the practice monitoring program is a member of such society or institute, and has agreed to participate in the practice monitoring program of such society or institute.

(iv) Disclosure of information under paragraph (f)(III) of this section shall not waive or otherwise limit its confidentiality and privilege nor relieve any certified public accountant, certified public accounting firm, or any state or national certified public accounting societies or institutes of the obligation of confidentiality.

(v) For the purpose of a practice-monitoring program under paragraph (f)(III)(c) of this section, the privilege under subsection (f) shall bind the certified public accountant(s) or certified public accounting firm(s) to whom the information is provided.

In the Board vs. Zaveral Boosalis Raisch case, one of the respondent's complaints was that the investigation was initiated on the basis of an anonymous complaint. Recognizing this shortcoming, the following changes should be made to Section 12-2-126 of the Colorado Revised Statutes:

> (1)(a) The board, on its own motion **based on reasonable grounds,** or on the **signed, written** complaint of any person, may investigate any person who has engaged, is engaging, or ~~threatens~~ **plans** to engage in any act or practice which constitutes a violation of any provision of this article.

The main purpose of the following changes is to exempt a client's confidential papers from the provisions of Sections 24-72-203 and 24-72-204, C.R.S. regarding public records:

> (1)(b) Complaints of record ~~on file with~~ **that are dismissed by** the board and the results of investigation **of such complaints** shall be closed to public inspection. ~~during the investigatory period and until dismissed or until notice of hearing and charges are served on an applicant or certification. The board's records and papers shall be subject to the provisions of sections 24-72-203 and 24-72-204, C.R.S., regarding public records and confidentiality.~~
>
> (c) **Complaints of record that are not dismissed by the board and the results of investigation of such complaints shall be closed to public inspection during the investigatory period and until a stipulated agreement is reached between the applicant or certificant and the board or until notice of hearing and charges are served on an applicant or certificant. Except for confidential books of account, financial records, advice, reports, or working papers provided by the client, the certified public accountant or the certified public accounting firm, the board's records and papers shall be subject to the provisions of sections 24-72-203 and 24-72-204, C.R.S., regarding public records and confidentiality.**

In conclusion, this recommendation eliminates a significant barrier to the effective enforcement of Colorado's accountancy statute while preserving the privacy rights of consumers.

RECOMMENDATION 4: The Colorado State Board of Accountancy must proactively and systematically apply its jurisdictional authority.

Currently, endorsements constitute 17% of total licensure in Colorado within a ± 5% margin of error.[63] As noted in the legislative declaration, it is in the public interest to ensure that those who hold themselves out as CPAs are qualified to render professional accounting and auditing services. In light of electronic and other interstate accounting practices, it follows that if out-of-state accountants are not held to the same regulations and standards when doing business in Colorado as resident CPAs are, then Colorado's regulatory scheme and public protection function would be effectively undermined. The main argument against this position holds that such a provision would be tantamount to restricting interstate trade. Courts, however, have upheld state statutes requiring out-of-state professionals to become licensed to sell insurance, and to practice medicine and accounting. Courts have ruled that the burden of obtaining a license is outweighed by the need to protect important state interests.[64]

What is more, the Assistant Attorney General of the Colorado State Board of Accountancy has called on the board to establish and publish its policy on jurisdiction.[65] A more effective means to accomplish this goal is to amend Section 12-2-101 (1) of the Colorado Revised Statutes to read: "…to provide for the licensing and registration of certified public accountants **employed, serving clients, or doing business in Colorado**…" In addition, subsection (2) should be amended to read: "It is ~~further~~ declared that the state board of accountancy may invoke discipline proactively with regards to certified public accountants **employed, serving clients, or doing business in Colorado** when required for the protection…"

To maximize protection for Colorado consumers irrespective of a CPAs residency, and especially for purposes of enforcement, Section 12-2-123 (1) (j), C.R.S. should also be amended to include the following grounds for disciplinary action:

> **Directly or indirectly providing independent audit services in Colorado without an active certificate or a valid CPA firm permit issued by the Colorado State Board of Accountancy; or if licensed, certified, or registered in a jurisdiction**

[63] Colorado CPA Survey, 1999.
[64] *State Government News*, May, 1997, p.10.
[65] Personal Interview April 15, 1999 and February 24, 1999 Board Meeting.

outside of Colorado, not notifying the board in writing of the intent to provide accounting services other than independent audit services to Colorado clients or employers by electronic or any other means.

Although telepractice by means of the Internet is an emerging issue in accountancy, it does not yet significantly impact the independent audit function, which, as discussed earlier, is the main reason for the regulation of certified public accountants. In part, auditing is not affected because inventory control, review of source documents, and interviews with management level staff require site visits. Therefore, the above statutory changes are both proactive when in comes to the auditing function, and preventative in the case of the many other services currently offered by both Colorado and out-of-state certified public accountants.

In conclusion, the Colorado State Board of Accountancy must proactively and systematically apply its jurisdictional authority. This recommendation seeks to protect Colorado consumers who rely on professional accounting services furnished by local, as well as out-of-state CPAs.

RECOMMENDATION 5: Allow for non-CPA ownership of CPA firms provided that at least a simple majority of the owners are duly licensed CPAs in Colorado.

In general, professional groups maintain that entrepreneurs, unlike their members, are motivated primarily by profits rather than peer approval. Consequently, if professionals are hired by nonprofessional entrepreneurs, professional control will be weakened. A strong argument exists, however, for innovative forms of practice ownership. Providing professional services requires a different set of skills from marketing such services. Indeed, many high quality professionals are not good salespeople. Optimal market strategy for such professionals might be achieved by selling ownership interests to entrepreneurs with special marketing skills. So long as tort law, effective enforcement of ethics codes, and ordinary market incentives hold professionals to high standards for their output, nonprofessional ownership should not present a serious quality-control problem.[66]

[66] Young, pp. 72-73.

In keeping with this rationale, non-CPA ownership of CPA firms should be permitted in Colorado. This recommendation is based on UAA proposals and language. Accordingly, Section 12-2-117 of the Colorado Revised Statutes should be amended to include the following:

Notwithstanding any other provision of law, a simple majority of the ownership of a CPA firm doing business in Colorado, in terms of financial interests and voting rights of all partners, officers, shareholders, members, or managers shall belong to licensees of this state.

Additionally, the following language, which is in part modeled on the UAA, should be incorporated in §12-2-117, C.R.S.:

A CPA firm doing business in Colorado shall:

- **Designate and identify to the board a licensee of this state, who shall be responsible for the proper registration of the firm.**

- **Make known in writing to the board owners, including non-licensee owners, all of who are required to be active individual participants in the CPA, or PA firm, or affiliated entities.**

- **Comply with such other requirements as the board may impose by rule.**

Further,

- **An applicant for initial issuance or renewal of a permit under this section shall in their application list all states in which they have applied for, or hold a permit as a CPA firm, and list any past denial, revocation or suspension of a permit by any other state.**

- **Each applicant or holder of a permit under this section shall notify the board in writing within 30 days after its occurrence of any change in the identities of partners, officers, shareholders, members or managers who are owners, and any change in the number, or location of offices within this state. Firms which fall out of compliance shall take corrective action to bring the firm back into compliance as quickly as possible. The board may grant a reasonable period of time for a firm to**

take such corrective action. Failure to bring the firm back into compliance within a reasonable period as defined by the board will result in the suspension, or revocation of the firm permit.

In conclusion, non-CPA ownership of CPA firms on a simple majority (or greater) basis will allow for more flexibility in those organizational structures that furnish accounting services to the public. This policy recommendation accommodates the accounting profession's concerns as outlined in the UAA. Regarding simple majority ownership of CPA firms, Murray and Colbert note that it is a reasonable compromise that enables CPA firms to attract the human capital necessary to serve clients' diverse needs.[67] Furthermore, the Colorado State Board of Accountancy and the Colorado Society of Certified Public Accountants are in support of this recommendation. A letter outlining their position regarding this and other proposals may be found in Appendix F.

RECOMMENDATION 6: Limit, by statute, commission and contingent fees to non-attest clients of CPA firms, and in connection therewith, define "contingent fees".

Both the business conditions and functions of certified public accountants have changed over time, while the need for independent verification of financial information remains. Consequently, auditor independence continues to be a fundamental concern. For example, the GAO reports that "in 1992 and again in 1994, the SEC Chief Accountant questioned the independence of accounting firms in situations in which they condoned or advocated what he questioned as inappropriate interpretations of accounting standards to benefit their clients."[68] Looking to the future, a growing reliance on nonaudit services has the potential of compromising the objectivity or independence of the auditor by diverting firm leadership away from the public responsibility associated with the independent audit function, by allocating disproportionate resources to nonaudit lines of business within a firm, and by reducing the audit function to a means of selling other services.[69] Limiting commission and contingent fees to non-attest clients will serve to reduce potential conflicts of interests and help to maintain auditor independence.

[67] Colbert, Gary and Dennis Murray, "An Assessment of Recent Changes in the Uniform Accountancy Act", *Accounting Horizons*, March, 1999, p. 63.
[68] GAO-96-98, p. 8.
[69] GAO-96-98, p. 51.

The Colorado State Board of Accountancy has been proactive regarding this issue by promulgating Rule 7.4 prohibiting the receipt of commissions and contingent fees under certain conditions. The Rule is an important supplement to this recommendation.

The following statutory provisions are in part modeled on the UAA, which in turn bases its proposals on the professional conduct standards of the AICPA and NASBA. To effect this recommendation, Section 12-2-120 of the Colorado Revised Statutes should include two new subsections **(12)** and **(13)** as follows:

- **A CPA firm shall not for a commission recommend or refer to a client any of its products or services, or for a commission recommend or refer any of the client's products or services, or receive a commission, when the firm also concurrently performs for that client an audit of a financial statement.**

- **A CPA firm shall not provide for a contingent fee any professional services, or receive such a fee from a client, when the firm also concurrently performs for that client an audit of a financial statement. For purposes of this subsection, a "contingent fee" is defined as a business fee set for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or outcome is attained, or in which the amount of the fee is otherwise dependent upon the finding or outcome of such service.**

In conclusion, this recommendation is in response to new business conditions and potential sources of conflict that have arisen in the accounting profession which call for increased public protection.

RECOMMENDATION 7: Enable the Board to exempt at its discretion licensees who have been inactive six or more years from retaking the CPA exam.

This recommendation is a modified and expanded version of a joint proposal of the Colorado Society of Certified Public Accountants and the Colorado State Board of Accountancy. They state, "the current statutory requirement to retake the Uniform CPA Examination upon failure to properly renew a license for six or more years is too narrow. The State Board should have the ability to consider whether an individual is competent to practice public accounting in Colorado after such a lapse in licensing or to reinstate in an "inactive" status before requiring him or her to retake the CPA Examination."[70] In response to this concern, Section 12-2-108 of the Colorado Revised Statutes should be amended as follows:

Certificate of certified public accountant - issuance - renewal - reactivation - reinstatement. (1) A certificate of certified public accountant shall be granted by the board to any applicant:

(a) Who has passed a written examination;
(c) Who meets the further requirements of section ~~12-2-109 (1) (b) and (1) (c) or who meets the further requirements of section~~ 12-2-109 (1) (a) and (1) (b); ~~and~~ **or**
(d) Who meets the requirements of section 12-2-113**, or the person has maintained an active certified public accounting certificate in another jurisdiction, or otherwise satisfies the board of continued competence.**
(3) All certificates shall expire once every two years on a date established by the board but may be renewed in a manner prescribed by the board, which shall include compliance with the continuing education requirements authorized in section 12-2-119 (5) and payment of the renewal fee authorized to be established by the board pursuant to section 24-34-105, C.R.S.
(4) Any person may reactivate an expired certificate within a two-year grace period after the date of its expiration by making written application for reactivation, complying with the continuing education requirements imposed by the board, and paying a reactivation fee imposed by the board.
(5) In the event that a person fails to reactivate his certificate within the two-year grace period specified in subsection (4)

[70] From the letter in Appendix F, p.2..

of this section, a person may reinstate such certificate within four years after the date of the expiration of such grace period by making written application for reinstatement, complying with all continuing education requirements imposed by the board, paying a reinstatement fee, and providing proof to the board of his continued professional competence as required by the board. Thereafter, a person shall not be reinstated unless he fulfills and meets the requirements and conditions required of an applicant applying for the issuance of an original certificate, which requirements shall include retaking and passing the uniform certified public accountant examination**, or otherwise satisfies the board of the applicant's continued competence**.

(6) Any person who practices public accounting after the expiration of his certificate shall be practicing in violation of this article. The board may refuse to reactivate or reinstate any expired certificate for conduct which constitutes a violation of any provision of this article.

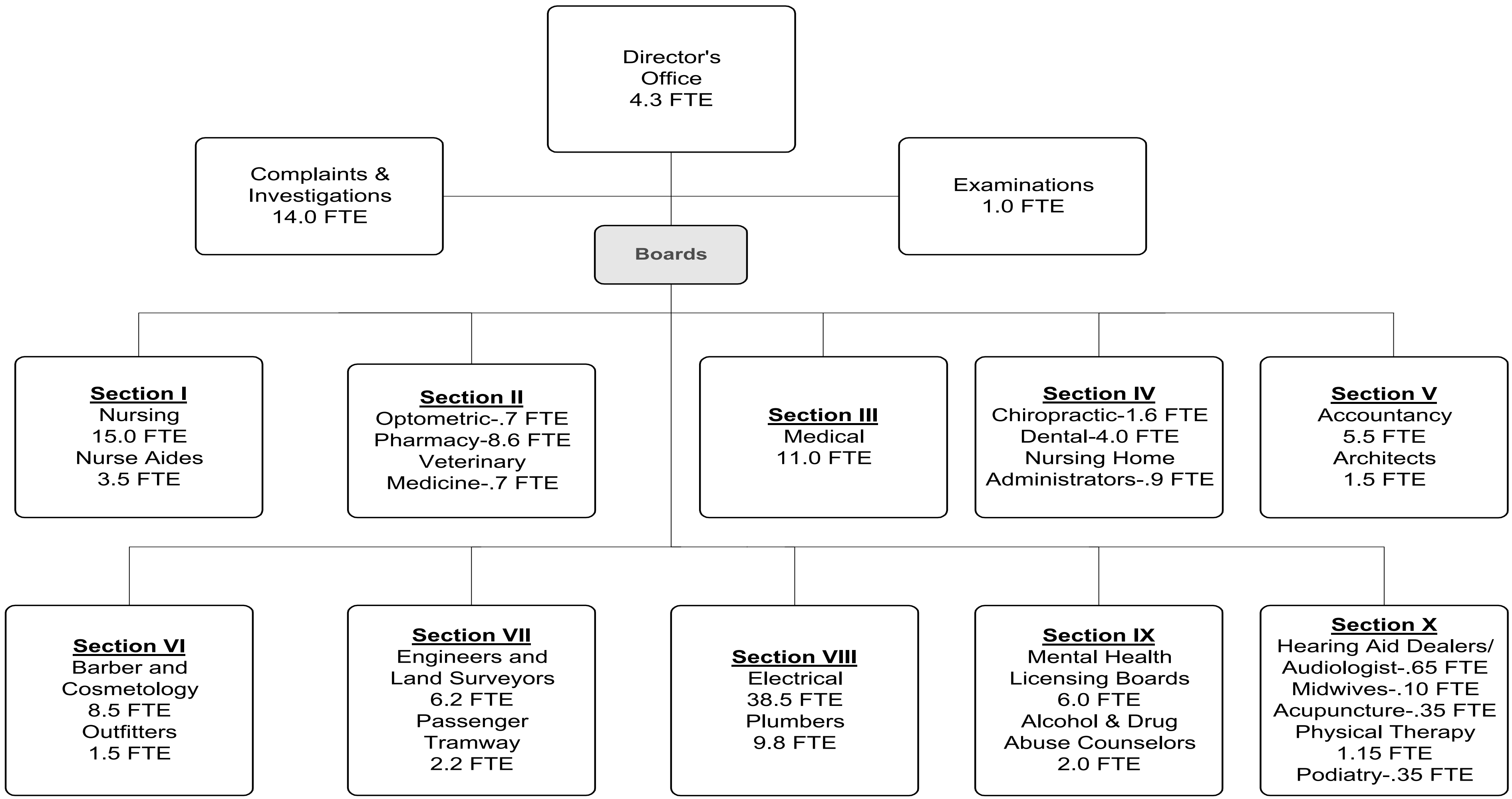
CONCLUSION

This 1999 sunset review of the Colorado State Board of Accountancy sets out seven recommendations based on statutory evaluation criteria. The recommendations are designed to protect Colorado consumers without undue hindrance to the accounting profession. The central conclusion of this review is that the 150 credit-hour educational requirement is an overly restrictive entry barrier into the accounting profession with no demonstrable public protection function. Setting and maintaining the educational entry standard at the Bachelor's level will promote the optimum utilization of certified public accountants, and enhance free market competition with its ancillary benefits to all Colorado consumers.

This sunset review also recommends that the Colorado State Board of Accountancy be continued until 2005, at which time it should be again subject to review. New business conditions and the varied response of the accounting profession to these changes calls for an accelerated review schedule. New conditions include technological changes such as "telepractice", accountancy's expansion into non-traditional business services, and varied professional requirements across the country based on the types of accounting and auditing services provided to the public.

Appendices

Appendix A - Division of Registrations Organization Chart



Appendix B - Colorado CPA Survey Instrument

STATE OF COLORADO

DEPARTMENT OF REGULATORY AGENCIES
Office of the Executive Director
Office of Policy and Research
H. Rene Ramirez, Director
1560 Broadway, Suite 1550
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Bill Owens
Governor

M. Michael Cooke
Executive Director

April 16, 1999

Dear Certified Public Accountant:

The Colorado Department of Regulatory Agencies, of which the Board of Accountancy is a constituent part, is conducting a survey of Colorado Certified Public Accountants to assess the state of the profession. The results of this survey will be used to make recommendations to the Colorado General Assembly by means of a Sunset Review as authorized by Section 24-34-104 of the Colorado Revised Statutes.

Please take the time to complete the attached questionnaire. It takes approximately twenty minutes. Responses will remain confidential and will be used for statistical purposes only. Please mail the completed questionnaire by May 10, 1999 in the stamped, self-addressed envelope provided.

If you have any questions regarding this survey, please do not hesitate to call Nondas Bellos at 303.894.2900 ext. 620.

We thank you in advance for your cooperation.

Sincerely,

M. Michael Cooke

Michael Cooke,
Executive Director

E Bellos

Nondas Bellos, Ph.D.,
Policy Analyst

Instructions and Definitions

Please read the whole questionnaire first before answering. For each of the following questions, place one check mark (✓) as applicable. Skip any question that you cannot, or choose not to answer. If you wish to elaborate on any issue, please feel free to attach additional pages provided that the relevant question number is clearly indicated. Should there be any doubt concerning the meaning of a particular word or phrase, please refer to the following definitions:

- ***Attest services*** is the use of audit or review procedures to examine and test the accuracy of financial statements and reports followed by the issuance of an impartial written opinion by a currently licensed certified public accountant that expresses a conclusion about the reliability of the documents under consideration.
- ***Big 6*** refers to the firms of *Arthur Andersen*, *Coopers & Lybrand*, *Deloitte & Touche*, *Ernst & Young*, *KPMG Peat Marwick*, and *Price Waterhouse*.
- ***Budgeting*** is the planned procurement and proper disbursement of funds.
- ***CPA*** stands for Certified Public Accountant, a professional accountant who has passed the Uniform CPA Examination, has met other educational and work experience requirements, and who is currently licensed by a state government to practice public accounting.
- ***CMA*** stands for Certified Management Accountant, a designation conferred by the Institute of Management Accountants.
- ***CIA*** stands for Certified Internal Auditor, a designation conferred by the Institute of Internal Auditors.
- ***Financial statements compilation*** is the presentation of data in financial statement format without an accountant's assurance or signature.
- ***Internal audit*** is the review of organizational procedures and operations.
- ***Interstate reciprocity is*** the evaluation and issuance of a Colorado CPA certificate based on the substantially equivalent requirements of another state.
- ***Small, private sector company*** refers to businesses employing 14 individuals or less.
- ***Medium, private sector company*** refers to businesses employing 15 to 300 individuals, unless the company is one of the Big 6 (see above).
- ***Reactivation*** is the process of recertification within two-years of being in an inactive status.
- ***Reinstatement*** is the process of recertification within four-years of being in an inactive status.
- ***Work income*** means any remuneration derived from professional employment, including salary, wages, and business profits.

COLORADO CPA SURVEY

Personal Characteristics

Q1. *What is your Age?*

- 24 and under ❒
- 25 to 35 ❒
- 36 to 45 ❒
- 46 to 55 ❒
- 56 to 65 ❒
- 66 and over ❒

Q2. *What is your level of education in accounting?*

- Bachelor's degree ❒
- Bachelor's plus 1 year of college ❒
- Master's degree ❒
- Master's plus 1 year of college ❒
- Ph.D./professional degree ❒
- Other (please specify)____________

____________________________.

Q3. Are you male or female?

- Male ❒
- Female ❒

Professional Characteristics

Q4. *What is your job title?*____.

Q5. *How long have you been a CPA in Colorado?*

- 2 years and under ❒
- 3 to 5 years ❒
- 6 to 8 years ❒
- 9 to 11 years ❒
- 12 to 14 years ❒
- 15 years and above ❒

Q6. *What was the method of your initial licensure?*

- ❒ Bachelor's degree, CPA exam, 1 year of work experience, and ethics exam.
- ❒ Bachelor's degree, CPA exam, education in lieu or experience, and ethics exam.
- ❒ Bachelor's degree, CPA exam, and 1 year of work experience.
- ❒ Licensure based on reciprocity with another state.
- ❒ Other (please specify)____

____.

Q7. *Excluding the Bachelor's degree, how long did the process outlined in* ***Q6*** *take?* _____________________*months.*

Q8. *How would you characterize the following licensing requirements?*

		Very Lax (1)	Lax (2)	About Right (3)	Stringent (4)	Very Stringent (5)	Unnecessary (6)
Q8 (a)	Entry-level education						
Q8 (b)	CPA exam						
Q8 (c)	Work experience						
Q8 (d)	Ethics exam						
Q8 (e)	Education in lieu of experience						
Q8 (f)	Continuing professional education						
Q8 (g)	Other (please specify)_____________ ____________________						

Q9. *Do you belong to a professional accounting or business organization?*

Yes ❒ No ❒ If "Yes", please specify___________

____.

Q10. *Do you have other professional credentials (CMA, CIA, etc.)?*

Yes ❒ No ❒ If "Yes", please specify____________

____.

Job Characteristics

Q11. What is your current work income?

$15,000 and under	❒	$45,000 to 54,999	❒
$15,001 to 24,999	❒	$55,000 to 64,999	❒
$25,000 to 34,999	❒	$65,000 to 74,999	❒
$35,000 to 44,999	❒	$75,000 and above	❒

Q12 (a). *How would you characterize your current employer?*

Small, private sector company ❒
Medium, private sector company ❒
One of the "Big 6" ❒
School District ❒
College or university ❒

Local government agency ❒
State government agency ❒
Self-employed ❒
Other (please specify) ❒
____
________________________.

Q12 (b). *Is your current employer/business a CPA firm?*

Yes ❒ No ❒

Q13. *How often do you perform the following tasks?*

		Very Frequently (1)	Frequently (2)	Not so frequently (3)	Almost Never (4)	Never (5)
Q13 (a)	Tax Preparation					
Q13 (b)	Financial Analysis					
Q13 (c)	Attest Services					
Q13 (d)	Management Consulting					
Q13 (e)	Information System Controls					
Q13 (f)	Financial Statements Compilation					
Q13 (g)	Reviews and Audits					
Q13 (h)	Budgeting					
Q13 (i)	Internal Audits					
Q13 (j)	Payables/Receivables					
Q13 (k)	Other (please specify)______________ ______________________					

Q14. *What is your level of satisfaction with the following aspects of your present job?*

		Very Dissatisfied (1)	Dissatisfied (2)	Neutral (3)	Satisfied (4)	Very Satisfied (5)
Q14 (a)	Opportunity to advance organization's strategic plans.					
Q14 (b)	Sufficient remuneration for work					
Q14 (c)	Ability to meet the changing needs of customers & markets.					
Q14 (d)	Opportunity for professional development.					
Q14 (e)	Opportunity to serve a useful public function.					
Q14 (f)	Professional prestige.					
Q14 (g)	Other (please specify)________					
	___________________________					

Level of Satisfaction with the Colorado Board of Accountancy and its Staff

Q15. *What is your level of satisfaction with the following aspects of the Board's performance?*

		Very Dissatisfied (1)	Dissatisfied (2)	Neutral (3)	Satisfied (4)	Very Satisfied (5)
Q15 (a)	Initial Licensure					
Q15 (b)	License/Permit Renewal(s)					
Q15 (c)	Interstate Reciprocity/Endorsement(s)					
Q15 (d)	Reactivation/Reinstatement					
Q15 (e)	General Administration					
Q15 (f)	Communication					
Q15 (g)	Disciplinary Actions (if any)					
Q15 (h)	Other (please specify)_____________					
	________________________________					

General

Q16. *What are the three most important issues facing the accounting profession today?*

____

____

____

____.

Q17. *Are you familiar with the "Uniform Accountancy Act" as proposed by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA)?*

Yes ❐ No ❐ *If "Yes", do you disagree with any provision? Please specify* ____

____

____

____.

Q18. *Do you have any recommendations for regulatory reform as they relate to the accounting profession?*

____

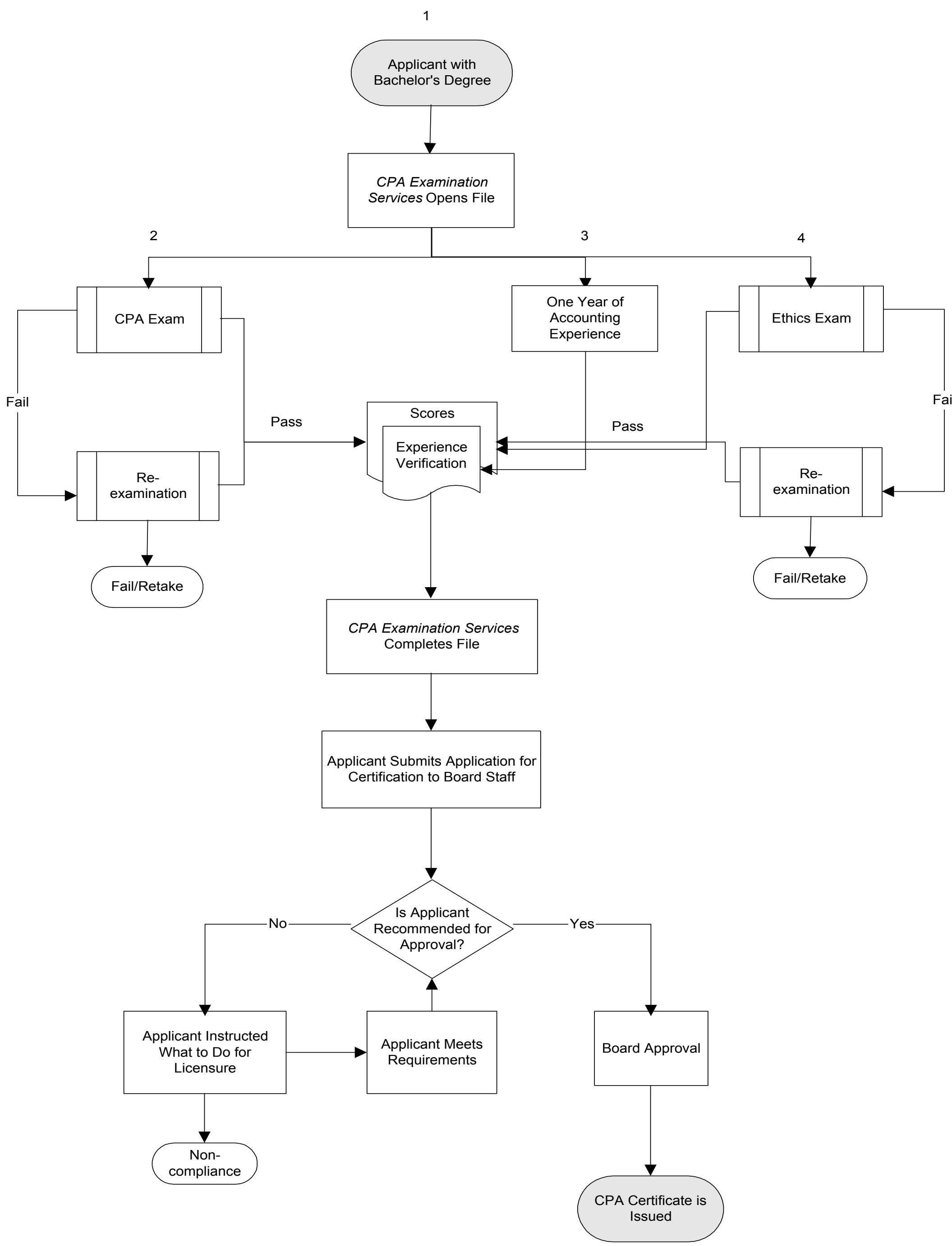
____

____

____.

Thank you for your participation

Appendix C - General Requirements and Procedures for Initial CPA Licensure in Colorado



I. ENTRY LEVEL EDUCATIONAL REQUIREMENTS.

A. Applicant must possess a baccalaureate degree[71] with a concentration in accounting[72] or its equivalent from an accredited college or university. Beginning on January 1, 2002 a minimum of 150 total semester hours will be required.
B. Applicant requests application materials from either the Accountancy Board, or *CPA Examination Services*. Upon receipt of materials, *CPA Examination Services* opens a candidate file.

II UNIFORM CPA EXAMINATION

A. Candidate forwards CPA examination application and fees to the Accountancy Board or *CPA Examination Services*[73] by the deadline (September 1, or March 1 of any given year).
B. Degree granting institutions forward official transcripts to *CPA Examination Services*.
C. Candidate takes the CPA exam consisting of 4 sections over 2 days.
D. If in a single sitting a candidate passes at least 2 subjects (sections) with a minimum score of 75, and a score of at least 50 in the remaining two sections, he or she attains "conditioned status". *CPA Examination Services* informs candidate of scores and status.
E. Conditioned candidates must pass all remaining subjects within 6 consecutive examinations (3 years) after first earning partial credit.

III WORK EXPERIENCE REQUIREMENTS

A. A candidate must have one year (2,080 hours) of accounting experience[74] within five years of passing the CPA exam. This experience is to consist of 1,800 hours under the direct supervision (or its equivalent) of a currently licensed CPA.
B. An additional 30 semester hours of non-duplicative study beyond a baccalaureate degree, or a master's degree with a concentration in accounting may be substituted for the one year of work experience.

---

[71] To include twenty-one semester hours of business related courses.
[72] To consist of twenty-seven semester hours, three of which must be in auditing.
[73] The Accountancy Board has entered into a contract with *CPA Examination Services*, a division of the National Association of State Boards of Accountancy, to administer the CPA exam and review applications.
[74] In public accounting, or similar work environment.

IV ETHICS EXAMINATION

A. Candidates must take and pass the open-book ethics examination developed by the American Institute of Certified Public Accountants.

V CERTIFICATION

A. Upon meeting all of the above requirements, submittal of application, payment of fees, and subject to Board approval, a certificate in the name of the applicant is issued.
B. An "active status" or "inactive status" certificate must be renewed every two years before it expires on May 31 of even numbered years.
C. A licensed accountant with an active status certificate may "hold-out" as a **Certified Public Accountant** or **CPA**, conduct business, and issue attestation reports.

V CONTINUING PROFESSIONAL EDUCATION

A. As a condition of licensure, each active status CPA must complete 80 hours of Board-approved continuing education every two years.
B. Responsibility for establishing and documenting the acceptability of a course, including attendance, rests with certificate holders.

Note: Each of the above steps is generally discrete in practice, although considerable overlap may exist.

Appendix D - The Status of "Substantial Equivalency" Across the States

State	Education		Examination			Experience	Substantially Equivalent	Specific UAA Deficiencies
	BA/BS Degree	150-Hour Effective Date	Within 6 Exams	Min. Failing Grade of 50	Test Remaining Sections			
Alabama	✓	1995	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Alaska	✓	2001	--	✓	✓	✓	TBD	All sections of the examination must be passed within five years or 10 consecutive examinations.
Arizona	--	--	✓	✓	✓	✓	NO	150-hour requirement not adopted.
Arkansas	✓	1998	✓	✓	✓	✓	YES	
California	--	--	✓	--	--	✓	NO	150-hour rule not adopted; no minimum failing grade on examination and candidates are not required to take all unpassed sections at one sitting.
Colorado*	✓	2002	✓	✓	✓	✓	TBD	Board accepts education in lieu of experience.
Connecticut	✓	2000	✓	✓	✓	✓	YES	
Delaware	--	--	✓	✓	✓	✓	NO	Board accepts associate's degree. Minimum failing grade of 50 waived if three sections passed at one sitting.
District of Columbia*	✓	2000	✓	✓	✓	--	NO	No experience required.
Florida	✓	1983	✓	✓	✓	--	NO	No experience required. Minimum failing grade of 50 waived if three sections passed at one sitting.
Georgia	✓	1998	✓	✓	✓	✓	YES	
Guam*	✓	--	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Hawaii	✓	2000	✓	✓	✓	✓	YES	Minimum failing grade of 50 waived if three sections passed at one sitting.
Idaho	✓	2000	✓	✓	✓	✓	YES	Minimum failing grade of 50 waived if three sections passed at one sitting.
Illinois	✓	2000	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Indiana	✓	2000	✓	✓	✓	✓	YES	
Iowa	✓	2000	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Kansas	✓	1997	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Kentucky	✓	2000	✓	✓	✓	✓	YES	
Maine	✓	2002	✓	✓	✓	✓	YES	

Appendix D - The Status of "Substantial Equivalency" Across the States

State	Education		Examination			Experience	Substantially Equivalent	Specific UAA Deficiencies
	BA/BS Degree	150-Hour Effective Date	Within 6 Exams	Min. Failing Grade of 50	Test Remaining Sections			
Louisiana	✓	1996	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Maryland	✓	1999	✓	✓	✓	--	NO	No experience required.
Massachusetts	✓	2002	✓	✓	✓	✓	YES	
Michigan	✓	2003	✓`	✓	✓	✓	YES	
Minnesota	--	--	✓	✓	✓	✓	NO	Board accepts associate's degree; 150 hour requirement not adopted.
Mississippi	✓	1995	✓	✓	✓	✓	YES	Currently two-tier state but changing effective July 1, 1999 to one-tier system.
Missouri	✓	1999	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Montana	--	1997	✓	✓	✓	--	NO	Board accepts experience in lieu of education; two-tier state: experience not required for certificate.
Nebraska	✓	1998	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Nevada	✓	2001	✓	✓	✓	✓	YES	Minimum failing grade of 50 waived if three sections passed at one sitting.
New Hampshire	✓	--	--	✓	✓	✓	NO	150-hour requirement not adopted; candidates are required to pass all sections within five years or ten consecutive examinations.
New Jersey	✓	2000	--	✓	✓	✓	TBD	Candidates are required to pass all sections within ten consecutive examinations.
New Mexico	✓	--	✓	--	--	✓	NO	150-hour requirement not adopted; no minimum failing grade on examination and candidates are not required to take all unpassed sections at one sitting.
New York	✓	2004/2009	✓	--	--	✓	NO	150-hour rule is partially in effect within the 5-year UAA requirement but allowing some candidates to comply by 2009; no minimum failing grade on examination and candidates are not required to take all unpassed sections at one sitting.
North Carolina	✓	2001	✓	✓	✓	✓	YES	
North Dakota	✓	1999	✓	--	✓	✓	NO	Minimum failing grade is 40; Board accepts education in lieu of experience. New experience requirement currently being proposed.
Ohio	✓	2000	✓	✓	✓	✓	YES	
Oklahoma	✓	2003	✓	✓	✓	--	NO	No experience required.
Oregon	✓	2000	✓	✓	✓	✓	YES	

Appendix D - The Status of "Substantial Equivalency" Across the States

State	Education		Examination			Experience	Substantially Equivalent	Specific UAA Deficiencies
	BA/BS Degree	150-Hour Effective Date	Within 6 Exams	Min. Failing Grade of 50	Test Remaining Sections			
Pennsylvania	✓	2000	✓	--	--	✓	NO	Minimum failing grade is 20 and candidates are not required to take all unpassed sections at one sitting.
Puerto Rico*	✓	2000	✓	✓	✓	--	NO	Candidates who earned conditioned credit prior to 1994 are exempt from taking all unpassed sections at one sitting. No experience required for those who meet the educational requirement.
Rhode Island*	✓	1999	✓	✓	✓	✓	YES	Conditioned credit expires within six consecutive examinations or five years, whichever comes first.
South Carolina	✓	1997	✓	✓	✓	✓	YES	
South Dakota	✓	1998	✓	✓	✓	--	NO	Conditioned credit expires after seven consecutive examinations; two-tier state: experience not required for certificate.
Tennessee	✓	1993	✓	✓	✓	✓	YES	
Texas	✓	1997	✓	✓	✓	✓	YES	
Utah	✓	1994	✓	✓	✓	✓	YES	
Vermont	--	--	✓	✓	✓	✓	NO	College degree not required; 150-hour requirement not adopted.
Virgin Islands*	--	--	--	--		✓	NO	Board accepts high school diploma as educational requirement.
Virginia	✓	2006	✓	✓	✓	--	NO	150-hour rule is in effect after the 5 year UAA requirement; two-tier state: experience not required for certificate.
Washington	✓	2000	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
West Virginia	✓	2000	✓	✓	✓	--	NO	Two-tier state: experience not required for certificate.
Wisconsin	✓	2001	✓	✓	✓	✓	YES	Minimum failing grade of 50 waived if three sections passed at one sitting.
Wyoming	✓	1999	✓	✓	✓	✓	NO	Two-tier state: experience not required for certificate.

Appendix E - Letter from Colorado Educators

University of Colorado at Denver

College of Business and Administration
Graduate School of Business Administration

Campus Box 165
P.O. Box 173364
Denver, Colorado 80217-3364
Phone: (303) 556-5858
Fax: (303) 556-5899
Internet: http://carbon.cudenver.edu/public/business/

June 21, 1999

Dr. Nondas Bellos
State of Colorado
Department of Regulatory Agencies
1560 Broadway, Suite 1550
Denver, CO 80202

Dear Dr. Bellos:

We would like to comment on several issues related to your sunset review of Colorado's Public Accountancy Law. The issues are: 1) the 150 hour requirement, 2) the nature of qualifying experience, and 3) the education in lieu of experience option.

The 150 Hour Requirement. This issue, like all others, should be evaluated within a cost/benefit framework. One benefit of the 150 hour requirement will be marginally better trained entrants into the profession. Only marginal improvements are likely, in part, because the 150 hour requirement does not mandate a significant increase in accounting or business hours. Required accounting hours will increase from 27 to 30 and required business hours will increase from 21 to 24. In our judgment, these small increases in accounting and business course work will not significantly improve a candidate's competence.

While the benefits of the 150 hour requirement are small, the costs are significant. We estimate that the cost (including opportunity cost) incurred by a CU-Denver student to fulfill an additional 30 hours will be approximately $25,000. What are the ultimate consequences of this additional educational cost? Given that new entrants will face a higher cost, fewer candidates will elect to enter the profession. Tennessee's experience is instructive. That state implemented the 150 hour requirement in 1993. In 1991 (two years prior to implementation), 1,347 first time candidates took the CPA Exam in Tennessee. In 1995 (two years after implementation), only 386 first time candidates took the exam. The people of Colorado will likely see a decline in the availability of CPAs. This effect might be particularly severe in remote areas of Colorado where candidates do not have access to 150 hour programs. Additionally, because of the restricted supply of

CPAs and the additional costs incurred by new entrants, consumers will also experience an increase in fees paid to CPAs. A recent *New York Times* article ("Shortage of Accounting Students Raises Concern on Audit Quality" February 19, 1999) describes the nation-wide shortage of CPAs.

Additionally, increased costs to candidates might actually reduce the quality of new entrants. The relevant question here is: Will the best and brightest potential new entrants be willing to incur the additional $25,000 cost or will they opt for alternative careers in finance, information systems, etc.? There is no clear answer to this question, but it does raise a concern. An article in the *Journal of Accounting and Economics* ("The 150 Hour Rule" April 1999) shows analytically that audit quality may well decline as the result of the 150 hour requirement. A reduction in audit quality is clearly not in the public interest.

Perhaps CU-Denver's recent placement results would be of interest to you. This year we placed eight students with national CPA firms. All of those students were from our undergraduate program. There is every reason to believe that these firms would hire only well qualified candidates. How can it be that holders of undergraduate degrees are competent to enter the profession in 1999 but will not be competent to do so in 2002 when Colorado's 150 hour requirement takes effect?

In summary, we do not believe that the 150 hour requirement is "the least restrictive regulation consistent with the public interest" (24-34-104, C.R.S.).

Nature of Qualifying Experience. Current Colorado law recognizes, with a few exceptions, only public accounting experience. The new Uniform Accountancy Act (UAA) permits a wide range of business experiences. Broadening the types of qualifying experiences is consistent with the widening scope of public accounting and is, we believe, in the public interest.

Critics of the new UAA assert that recognizing experiences in entities other than public accounting firms is inappropriate because an independent client relationship does not exist. However, in public accounting firms, independent client relationships exist only with respect to attest services. Thus, these critics would be forced to argue that only attest experience should qualify. Yet, attest services represent a declining component of public accounting. Consequently, such a restriction seems undesirable.

We do believe, however, that ensuring the competence of those who perform attest services is imperative. The UAA's peer review provisions provide an interesting and innovative position regarding experience. A mandatory tri-annual peer review will include an assessment of the attest experience held by the firm's personnel who supervise attest engagements and who sign reports. Given that the cornerstone of the public accountancy law is to protect those who rely on attest services, evaluating the backgrounds of the personnel who deliver those services is an essential step in promoting the public interest. Colorado's current law, which requires one year of any type of public accounting experience, does not provide the same level of assurance as the UAA in assuring that attest services will be performed by competent personnel. Accordingly, we would encourage the adoption of the UAA's peer review provision.

Note that the UAA addresses the experience issue in two ways. First, the types of qualifying experiences for certification are broadened. This recognizes the expansion in the scope of services rendered by public accounting firms. Second, evaluations by peer reviewers will assure that personnel who perform attest services have adequate experience. This is clearly in the public interest.

Education in Lieu of Experience. Colorado's current public accountancy law recognizes that alternative paths exist to achieve a minimum level of entry level competency. That is, candidates either need to have 120 hours plus one year of experience or 150 highly specified hours of education, which includes 45 hours of accounting. We encourage retaining this flexibility. It provides candidates with options which they can choose based upon their interests, backgrounds and career objectives.

Thank you for this opportunity to comment on the public accountancy law sunset review.

Regards,

Dennis Murray
Dennis Murray
Professor and
Director of Accounting Programs

Gary Colbert
Gary Colbert
Assistant Professor

Ronald O. Reed
Ronald Reed
Professor and
Accounting Department Chairperson
University of Northern Colorado

Appendix F - Letter from State Board of Accountancy and Colorado Society of Certified Public Accountants
(ATTACHMENTS NOT INCLUDED)

COLORADO SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
7979 E Tufts Ave Ste 500
Denver CO 80237-2845
303-773-2877/800-523-9082/FAX 303-773-6344
www.cocpa.org

COLORADO STATE BOARD OF ACCOUNTANCY
1560 Broadway Ste 1340
Denver CO 80202
303-894-7800/V/TDD 303-894-7880
www.dora.state.co.us/accountants

August 27, 1999

Dr. Nondas Bellos
Policy Analyst
Office of Policy and Research
State of Colorado Department of Regulatory Agencies
1560 Broadway, Suite 1550
Denver CO 80202

Dear Dr. Bellos:

The Colorado Society of Certified Public Accountants and the Colorado State Board of Accountancy formed a joint "Sunset Task Force" to review the current accountancy statute, the Uniform Accountancy Act (UAA), and the statutory sunset standards. Its mission is to provide assistance and input into the Sunset Review of the accountancy law. To date, it has focused on comparing current law with the UAA as well as developing recommendations that address critical issues in the effective regulation of the accounting profession in Colorado.

The Task Force has concluded the majority of its work. Knowing the time frame under which the Office of Policy and Research is operating, we offer the following comments and recommendations now so that you may consider and incorporate them into the process prior to publication of your "draft" report. They are based on the belief that regulation of the accounting profession should be continued, and both the Society and the State Board have unanimously endorsed them. Where appropriate, we have included proposed statutory language that supports the recommendations.

Recommendations

- **Achieve "substantial equivalency" as defined in the model Uniform Accountancy Act, as amended, February 1999**. This concept is designed to align the existing statutory structure with uniform requirements for entry, practice, and public protection. It will reduce impediments to reciprocity, provide greater ease of mobility by CPAs across state lines (including services provided through electronic means), and require licensees from other states to consent to the Board's jurisdiction and comply with the Colorado statute and Board rules.

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Four essential elements constitute "substantial equivalency":

- Completion of 150 hours of education, including a baccalaureate degree
- Passage of the Uniform CPA Examination
- Completion of one year of experience under the supervision of an actively licensed CPA
- Statutory authority to allow the State Board to recognize licensees from other states which have substantially equivalent entry and practice requirements to Colorado's

Two of the four elements (150 hours of education and passage of the exam) currently exist in Colorado law. The current experience requirement is too narrow to achieve substantial equivalency, and we recommend broadening it as described below. The last item, granting the Board statutory authority to recognize non-Colorado licensees, would require adding a section to the current statute.

As you may be aware, 32 jurisdictions have or recently have adopted provisions to achieve the "substantial equivalency" concept. More are considering the changes necessary. We believe it is critical that Colorado make these changes, as well.

- **Broaden the definition of qualifying experience, as defined in the Uniform Accountancy Act, to permit work under the supervision of an actively licensed CPA wherever the work is performed** (draft language attached). This would permit a candidate to become licensed after one year providing any type of professional service or advice involving the use of accounting, attest, management advisory, financial advisory or consulting skills, all of which would be verified by a current licensee whether employed in public accounting, industry, government, or education. Broadening what constitutes appropriate experience would eliminate a significant barrier to entry into the CPA profession and enable candidates to work in a wide variety of employment situations.

- **Eliminate the "education in lieu of experience" option to becoming a CPA in Colorado** (draft language attached). The existence of this option renders Colorado unable to be substantially equivalent. In addition, it severely restricts Colorado CPAs who choose this option from the ability to obtain a reciprocal license in another state which does not recognize this avenue to becoming certified or which adopts the substantial equivalency standard. Currently, most states do not recognize education in lieu of experience, and few have ever recognized it.

- **Enable the Board to grant an exemption for licensees who have allowed their certificates to lapse for six or more years from the requirement to retake the CPA Examination** (draft language attached). The current statutory requirement to retake the Uniform CPA Examination upon failure to properly renew a license for six or more years is too narrow. The State Board should have the ability to consider whether an individual is competent to practice public accounting in Colorado after such a lapse in licensing or to reinstate in an "inactive" status before requiring him or her to retake the CPA Examination.

- **Add the ability for the State Board to subpoena and examine client information through an exception to the accountant/client privilege statutes** (draft language attached). As a result of the 1998 Colorado Supreme Court decision in re Zaveral Boosalis Raisch v. Colorado State Board of Accountancy, the State Board is precluded from performing its

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regulatory and investigatory responsibilities regarding complaints against CPAs. This language is necessary to fulfill the State Board's role on the public's behalf.

- **Permit non-CPA ownership of Colorado CPA firms, as defined in the Uniform Accountancy Act to mandate a simple majority ownership by CPAs** (draft language attached). The UAA promotes changes in the regulation of CPA firms to respond to changes in the marketplace for CPA services, expanded use of non-CPAs within CPA firms, and recent court decisions on who can hold themselves out as CPAs. Appropriate protection of the public involves the ability of CPAs and CPA firms in Colorado to assemble the best team possible to deliver services, which may include involving non-CPAs. Currently non-CPAs are prohibited from participating as owners in the firm. That restriction is no longer meaningful in today's business environment. Under this proposed change, CPAs still would be responsible for attest engagements, and a majority of firm owners still would be CPAs. The public would continue to be protected.

Housekeeping Items

- **Delete the references to registered accountants**. The few remaining Registered Accountants in Colorado were grandfathered as CPAs during the last Sunset Review of the State Board in 1990. RA's no longer exist, and references to them should be removed from the statute.

- **Align the time frame for renewing as an active licensee, an inactive licensee or a retired CPA to two years**. The current renewal cycle is two years. However, the existing statutory provisions include a three-year cycle for "inactive" licensees. This creates an impossible administrative requirement which should be eliminated in the law.

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Finally, the Society and the State Board continue to discuss one additional issue regarding the discipline of CPA firms. Therefore, we may submit additional comments or recommendations later in September.

Thank you for the opportunity to provide input into the process. If you have any questions or require additional information, please contact Harold Hein, Task Force chair, at 303-422-3227, Bob Longway, Program Administrator for the State Board, at 303-894-7794, or Mary Medley at the Society, mmedley@cscpa.denver.co.us or 303-741-8601. We look forward to working with you.

Cordially,

Cheryl A. Wenzinger
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President, Colorado Society of CPAs

Lawrence P. Gelfond
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Appendix G - Sunset Statutory Evaluation Criteria

(I) Whether regulation by the agency is necessary to protect the public health, safety and welfare; whether the conditions which led to the initial regulation have changed; and whether other conditions have arisen which would warrant more, less or the same degree of regulation;

(II) If regulation is necessary, whether the existing statutes and regulations establish the least restrictive form of regulation consistent with the public interest, considering other available regulatory mechanisms and whether agency rules enhance the public interest and are within the scope of legislative intent;

(III) Whether the agency operates in the public interest and whether its operation is impeded or enhanced by existing statutes, rules, procedures and practices and any other circumstances, including budgetary, resource and personnel matters;

(IV) Whether an analysis of agency operations indicates that the agency performs its statutory duties efficiently and effectively;

(V) Whether the composition of the agency's board or commission adequately represents the public interest and whether the agency encourages public participation in its decisions rather than participation only by the people it regulates;

(VI) The economic impact of regulation and, if national economic information is not available, whether the agency stimulates or restricts competition;

(VII) Whether complaint, investigation and disciplinary procedures adequately protect the public and whether final dispositions of complaints are in the public interest or self-serving to the profession;

(VIII) Whether the scope of practice of the regulated occupation contributes to the optimum utilization of personnel and whether entry requirements encourage affirmative action; and

(IX) Whether administrative and statutory changes are necessary to improve agency operations to enhance the public interest.