

HOUSE BILL REPORT

ESHB 2293

As Amended by the Senate

Title: An act relating to accounting.

Brief Description: Changing CPA licensing requirements.

Sponsor(s): By House Committee on State Government
(originally sponsored by Representatives Anderson, Bowman,
Sheldon, McLean, D. Sommers, Forner, Ogden and Chandler).

Brief History:

Reported by House Committee on:
State Government, January 28, 1992, DPS;
Revenue, February 8, 1992, DPS(SG);
Passed House, February 18, 1992, 65-33;
Amended by Senate.

**HOUSE COMMITTEE ON
STATE GOVERNMENT**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 9 members: Representatives Anderson, Chair; Pruitt, Vice Chair; McLean, Ranking Minority Member; Bowman, Assistant Ranking Minority Member; R. Fisher; Grant; Moyer; O'Brien; and Sheldon.

Staff: Linda May (786-7135).

**HOUSE COMMITTEE ON
REVENUE**

Majority Report: *The substitute bill by Committee on State Government be substituted therefor and the substitute bill do pass.* Signed by 8 members: Representatives Wang, Chair; Fraser, Vice Chair; Brumsickle, Ranking Minority Member; Wynne, Assistant Ranking Minority Member; Day; Leonard; Morris; and Rust.

Minority Report: *Do not pass.* Signed by 6 members: Representatives Appelwick; Belcher; Carlson; J. Kohl; Morton; and Silver.

Staff: Robin Appleford (786-7093).

Background: Board of Accountancy. The Board of Accountancy is composed of five members: four members who hold CPA certificates and who have been in public practice, and one public member. Statute assigns to the board certain responsibilities and authority. The board hires its own staff, including its executive director.

Education and Examination Requirements. The Board of Accountancy has the authority to establish requirements regarding the taking and passing of the CPA exam, and requirements for initial and continuing education. The board establishes these requirements by rule. Currently CPA candidates must complete 120 semester hours of schooling.

Professional Association Activities. There are national and state-level professional organizations which CPA's may choose to join. These organizations are not state agencies and determine their own rules and qualifications for membership.

Reciprocity. The Board of Accountancy is authorized to issue a CPA certificate to a CPA from another state, on two conditions: 1) that the requirements which the applicant had to meet in order to get the certificate from another state are at least equivalent to the requirements in Washington, and 2) that the state of origin has similar reciprocity rules for CPA's from Washington.

Funding. The Board of Accountancy charges several different examination, registration, and licensing fees. One set of fees goes directly into a dedicated fund called the certified public accountants account. This account is used for administration of the CPA exam. All other fees collected by the board go into the state's general fund.

Summary of Bill: Board of Accountancy. The board's membership is increased from five to seven. The two new members must hold CPA certificates. The board's authority to conduct reviews and investigations and to discipline CPA's is expanded. The board's authority to regulate CPA certificate holders as well as CPA license holders is clarified. Added to statute are detailed definitions of practicing public accounting and "holding out" services to the public.

The appointment authority for the executive director of the board is transferred from the board to the governor.

Education and Examination Requirements. The bill moves the specific requirements regarding education and the CPA examination out of board rules and into statute. Eight years after the effective date of this act, the educational

requirement is to increase from 120 semester hours to 150 semester hours.

The board of accountancy is directed to assess a surcharge equal to 15 percent of the CPA license fee for each license issued or renewed. Funds collected through this surcharge are to be used for financial assistance for economically disadvantaged students who are taking their last 30 semester hours in accountancy programs.

Professional Association Activities. New definitions of the terms "quality review" and "review committee" are added to statute. Quality reviews involve CPA's reviewing the work of other CPA's as a quality control mechanism associated with a professional association, and not affiliated with reviews conducted by the Board of Accountancy. The bill also contains a provision establishing that the findings of one of these review committees are not subject to discovery, subpoena, or other means of legal process in a civil action, arbitration, administrative proceeding, or board proceeding.

Reciprocity. The bill provides in some detail the requirements for the issuing of a Washington CPA certificate or license to a CPA from another state. A new section also addresses the requirements for CPA's from other countries who wish to receive a certificate or license from Washington.

Funding. Beginning with the 1993-95 biennium, all fees collected by the board would go into the CPA account.

EFFECT OF SENATE AMENDMENT(S): The House bill calls for a transfer of funds from the general fund to the CPA account on July 1, 1993. The Senate amendment deletes this provision. The House bill contains two specific education requirements for CPA candidates. For the next eight years, a CPA candidate would be required to have a baccalaureate degree. Thereafter, a candidate would be required to have a degree and at least 150 semester hours of college education. The Senate amendment deletes the two specific education requirements and returns responsibility for establishing educational standards to the Board of Accountancy. The House bill establishes a surcharge, an account, and a program to offer financial assistance to economically disadvantaged students taking their last 30 semester hours in an accountancy program. The Senate amendment deletes these provisions.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: (State Government) The language in this bill is the result of many interested parties working together. The Washington CPA Society has worked both with the board and with members nationally on these concepts. CPA's are working towards uniformity nationwide. A strong, well-funded board is good for the public as well as for CPA's. It is important to have a definition of what a CPA is and what constitutes "holding out" services; it is also important to be sensitive to the needs of professionals who are not CPA's. The new reciprocity provisions are more contemporary and will help facilitate a free-flow of information between states and countries. The 150 hour requirement is necessary. CPA's must be well-qualified and have a more diverse education. It will be up to the universities and the board to determine the curriculum. Many of the changes the board hoped for in its legislation last session are in this bill. CPA's need both quantity and quality education. One can't prepare to be a CPA in only four years. The profession is becoming more international. The makeup of the CPA exam and educational course of study are being studied now by various groups. Many other states are adopting the 150 hour requirement. Washington CPA's may not be able to be licensed in other states if Washington keeps the 120 hour requirement. The 150 hour requirement is not a whim; it has been the subject of study for many years. The changes in the bill are necessary for the future of CPA's and to protect the public from unscrupulous people doing audits. The new requirement is 150 hours, which is not necessarily a fifth year. Educators and the board can be relied upon to establish what courses will be required. No accreditation body will support a program without substance.

(Revenue) Same as Committee on State Government.

Testimony Against: (State Government) The definitions in the bill could be construed to include financial planners and others under the jurisdiction of the board. Language should be changed to clarify that only CPA's are covered by this regulation. No definitive study has been done of the costs and benefits of the 150 hour requirement. In thinking about the 150 hour requirement, the Legislature should consider why there should be a fifth year, who should pay for it, and what impact it will have on educational institutions. Lids on universities are a problem now; asking schools to keep students another year may prevent admitting other students. This requirement may bar students who don't have enough financial resources. There should also be concern over the continuing education requirements. This is imposing a burden on the 10 to 15-year-olds of today. If the fifth year is so valuable, it should apply to everyone and not be grandfathered in. The bill does not

specify what the 150 hours are in. The main effect of the requirement is to limit entry into the profession. The issue of college funding is not addressed. Taking a bunch of liberal arts classes will not make someone a better CPA. This is a self-serving piece of legislation with the goal of having graduate schools of accounting in the future. The bill is very generous with the next generation's time and money.

(Revenue) Same as Committee on State Government.

Witnesses: (State Government) Jim Boldt, Dwan Bowen, and Mike Sweeney, Washington Society of CPA's; Kit Harden, Washington State Board of Accountancy; Jim Hudspeth, J. D. Hudspeth - CPA; Wayne Browkowski, St. Martin's College; and Rick Elam, American Institute of CPA's (all in favor); Carl Warren, Washington Association of Accountants; Jack Beyers, Department of Licensing; and Walt Corneille, International Association for Financial Planning (not opposed to bill if amended); Jay D. Forsyth; and Bill Fritz, David Lightfoot and Dennis Applegate, Coalition Against Restrictive Entrance (opposed).

(Revenue) Jim Boldt and Dwan Bowen, Washington Society of Certified Public Accountants (in support); and Wayne Borkowski, St. Martin's College (in support); Celia Fritz, CARE-CPA (would support with Rep. Silver's amendments); and Dr. D.J. Cocheba, Central Washington University (opposed).

VOTE ON FINAL PASSAGE:

Yeas 65; Nays 33

Nays: Representatives Beck, Belcher, Betrozoff, Braddock, Brekke, Brough, Cantwell, Edmondson, Fisher G, Fisher R, Fuhrman, Heavey, Hochstatter, Horn, Inslee, Jacobsen, Johnson R, Kohl, Locke, Ludwig, May, Morton, Nealey, Padden, Paris, Rasmussen, Schmidt, Silver, Sommers D, Sommers H, Spanel, Wilson, Wood