

Testimony of Michael Vekich, CPA
Board of Accountancy Rules Hearing; July 26, 2017

Good morning, Your Honor. My name is Michael Vekich and I am a Certified Public Accountant, the Board Secretary/Treasurer, and Chair of the Board's Complaint Committee. Thank you for the opportunity to speak regarding our proposed amendments to rules governing education, continuing professional education, fees, peer review, and housekeeping updates. The Board believes that the rules are necessary, reasonable and in accordance with the law.

First, the Board's proposed rules address education required for initial licensure. Minnesota is one of a few jurisdictions that defines its education requirement in terms of "levels" of accreditation causing confusion for those attempting to become licensed CPAs in the state. In reality, there are three types of accreditation pertinent to accounting education.

Institutions of higher education seek accreditation through two types of accrediting agencies, institutional and specialized. The Board's rules currently attempt to categorize schools with an institutional accreditation as "level one" and programs that have specialized accreditation as either "level two" or "level three." Accrediting bodies do not indicate a "level" of accreditation for a particular school or program, so individuals are not able to look up their school and find out what its "level" is. Individuals must infer the "level" by determining whether the school itself or a program or a college within the

school is accredited, then translate the type of accreditation into a “level” to fit with the Board’s rules. The proposed rules clearly identify the different types of accreditation and describe the education requirements for each type.

The United States Department of Education recognizes both national and regional accrediting agencies for postsecondary institutions in the United States and its territories. The Board’s SONAR incorrectly stated that national accrediting agencies were not relevant to accounting education because they focus on trade and technical institutions or religious colleges such as seminaries and Bible colleges. The Board’s proposed rules eliminate the recognition of national accrediting agencies and require an educational institution to be accredited by one of the six recognized regional accrediting agencies listed with the U.S. Department of Education.

However, following publication of the Dual Notice and notifying affected parties, including all the educational institutions offering accounting education in Minnesota, the Board received a comment from Academy College regarding national accreditation. Academy College offers Bachelor’s Degrees specific to business (i.e. accounting), aviation, and computer technology. The college is not accredited by a regional accrediting agency but rather by a U.S. Department of Education-recognized national accrediting agency. Eliminating recognition of nationally accredited schools from the Board’s rules would mean that graduates from Academy College would not meet the education requirements to become a Certified Public Accountant.

As this was not the Board's intent, it will amend its proposed rules so that national accrediting agencies are not eliminated.

Also in regard to the education requirements, applicants graduating from an accredited educational institution that does not also have a specialized accreditation for the business school or accounting program within the educational institution must document completion of the education requirements described in part 1105.2900, item B in order to qualify for initial certification. The chart in the current rule is duplicative. The requirement in row one (24 semester hours in upper division or graduate-level courses in financial accounting, auditing, taxation, and management accounting) is the requirement in part 1105.1500, subpart 1, item D, for taking the examination. Before obtaining an initial certificate, the applicant must complete the remainder of the 150 required credits, including 24 semester hours in business-related subjects or accounting.

The Board's proposed language incorporated the chart into the rule as a sentence. However, in doing so, the allowable coursework for business-related subjects was inadvertently narrowed. The current rule requires 24 semester hours in undergraduate or graduate-level courses in business-related subjects or accounting (not including elementary-level accounting courses). The Board's proposed rule requires a minimum of 24 semester hours in intermediate, advanced, or graduate-level courses in business-related subjects or accounting. It is a subtle difference, but the current rule limits accounting coursework to post elementary levels whereas business-

related subjects includes *all* courses at the undergraduate or graduate level. The proposed rule limits both accounting and business-related coursework to coursework beyond the elementary level.

The Board discussed the comments it received from educational institutions concerned with the proposed rule and voted to amend the proposed language to allow introductory level business-related courses to apply to the 24 semester hour requirement. The amended language is shown in Exhibit L.

The second portion of the Board’s proposed rule includes modifications to the continuing professional education requirements. The first is to incorporate two new instructional delivery methods for CPE – nano-learning and blended learning. The addition of these two learning methods meets the demand for greater flexibility and increased continuing professional education options. The Board received and considered comments about the addition of nano-learning and blended learning and voted to amend its proposed rules for the following reasons.

Continuing education programs fall under two categories in the Board’s current rules – “regular qualifications,” as described in part 1105.3100, subpart 1 and “other qualifications,” as described in part 1105.3100, subpart 2.

For a “regular qualification,” program sponsors must be members of the National Association of State Boards of Accountancy (NASBA) CPE

registry (with a few exceptions as listed in rule). All programs listed in the registry may be applied toward the Board's CPE requirement.

Programs not listed on the CPE registry are accepted by the Board if the Board determines that the program contributes to the growth of the professional knowledge and competence of the licensee.

The proposed rules list nano-learning and blended learning programs in the list of activities eligible for credit following Board review. However, the Board does not have the expertise or the staff to evaluate every nano-learning or blended learning program in which a licensee wishes to engage. The Board intends to amend its proposed rule to require nano-learning programs and blended learning programs and program sponsors be approved by NASBA and listed on NASBA's CPE Registry as shown in Exhibit L. This requirement is the same as the approval requirement for self-study programs.

Additionally, the Board's current rules require a minimum of 24 hours be obtained from attending instructor-led programs. Since blended learning includes instructor-led portions, the Board received questions on whether blended learning programs could be applied toward this requirement. Currently, "group" programs, which are always instructor-led, are the only type of learning activity that meets the "instructor-led" requirement. In order to ensure blended learning programs could be applied toward this requirement, the Board voted to amend its proposed rule to remove the phrase "instructor-led" and replace it with "group or blended learning programs."

Licenseses will be required to obtain at least 24 hours of continuing education by attending either group or blended learning programs as shown in Exhibit L.

The second change to the continuing professional education rules was a limitation on nontechnical learning activities. The current rules limit the number of hours a licensee can obtain from programs in the subject area of personal development to 24 hours in a rolling three-year period. The definition of personal development includes skills such as communications, managing the group process, dealing effectively with others, interviewing, counseling, and career planning.

The NASBA Fields of Study, a document that describes categories of learning activities and upon which CPAs rely for continuing education, was recently updated to group the fields of study into two categories – technical and nontechnical. Personal development, communication & marketing, and personnel/human resources were three of the seven categories defined as “nontechnical.” The Board’s proposed rules were to replace the limitation on personal development with a 24 hour limitation on nontechnical learning activities.

The Board received many comments on the limitation of nontechnical learning activities and requests to increase the limitation to 60 hours over a rolling three-year period. The Board discussed these comments and rationale for the change and voted to increase the limitation to 60 hours, as shown in Exhibit L.

Now Andrea Barker, the Board's Assistant Executive Director and Rules Coordinator will address the Board's proposed changes to fees, peer review, and housekeeping updates. Thank you.

Testimony of Andrea Barker
Assistant Executive Director and Rules Coordinator
Board of Accountancy Rules Hearing; July 26, 2017

Thank you Mike and thank you, Your Honor.

The third portion of the Board's proposed rules eliminates the \$20 administrative fee for verification of an examinee or licensee's credentials. Eliminating this fee will increase the speed in which an applicant can obtain a license in another jurisdiction, especially since most verifications are now completed electronically. Applicants will no longer need to send the verification request and fee payment to the Board by U.S. Mail.

The verification process used to be labor intensive and took significant staff time each week to complete. With advances in technology and nationwide verification systems, it now takes more staff time to collect and process the administrative fee than it does to simply complete the verification. Additionally, in 2013, the legislature raised the fees for initial license and renewal for certified public accountants for the first time in over 40 years. This increase in fees offsets the loss of revenue from eliminating the fee for verification.

The Board believes that it has the authority to eliminate this fee pursuant to Minnesota Statutes, section 16A.1283, paragraph (c), which states that, "An executive branch agency may reduce a fee that was set by

rule before July 1, 2001, without legislative approval.” The Board’s fee was set in rule in 1993.

The Governor’s Office reviewed the *Proposed Rule and SONAR Form*, which indicated that eliminating the fee would reduce the State’s General Fund by approximately \$2,200 per year, and authorized the Board to proceed with the Notice of Intent to Adopt Rules.

Additionally, the chairs and ranking minority members of the House and Senate policy and budget committees with jurisdiction over the Board were notified via email and given the text of the Board’s *Dual Notice*, proposed rules, and SONAR. No legislators have objected to the removal of the fee.

Finally, Minnesota Statutes, section 14.131, requires an agency to consult with Minnesota Management and Budget, “to help evaluate the fiscal impact and fiscal benefits of the proposed rule on units of local government.” According to section 14.128, subdivision 1, “local government” means a town, county, or home rule charter or statutory city. Eliminating the fee for verification of exam and license credentials does not affect local units of government.

The fourth portion of the Board’s proposed rules addresses peer review requirements. The Board’s current rules require a firm to submit its first peer review to the Board 27 months after the issuance of the firm’s first attest or compilation report (15 months after the end of the first year in which the firm is subject to the peer review requirements). However, the national Peer

Review Standards published by the American Institute of Certified Public Accountants (AICPA) and incorporated by reference into the Board's rules sets the due date for a firm's initial peer review at 18 months from the date it enrolled, or should have enrolled, in a peer review program. The Board's proposed rules are intended to align with the national standard and shorten the time frame in which the initial peer review is due. The Board believes this would increase protection of the public by more quickly identifying firms that have failed a peer review.

The Board's proposed rules require that a firm undergo a peer review and submit the material required by part 1105.5400 (a copy of the peer review report, letter of acceptance from the Report Acceptance Body and agreements to correct deficiencies) to the Board no later than 18 months from the report date of the initial attest or compilation service.

The Board received comments about its proposed rules and voted to amend the language as shown in Exhibit L. The amended rules require a firm to enroll in a peer review program (rather than undergo a peer review) and submit the peer review report, letter of response, if applicable, and the peer reviewer's materials to the Administering Entity (rather than the Board) within 18 months from the report date of the initial attest or compilation engagement. Firms must report to the Board in accordance with part 1105.5400 which requires that materials be submitted to the Board within 30 days of receipt of the final letter of acceptance from the Report Acceptance

Body. These amendments will better align the Board's rules with the national standards.

The final portion of the Board's proposed rules addresses housekeeping updates, including updating the dates of documents incorporated by reference. One document, the AICPA Code of Professional Conduct, was most recently dated, December 15, 2014. However, several updates have been made to the document and the Board voted to amend its proposed rules to incorporate the most recent update. As shown in Exhibit L, the proposed rules will be modified to incorporate the AICPA Code of Professional Conduct, effective December 15, 2014, including all official releases through August 31, 2016.

The Board received several additional comments at the end of the comment period that it has not had a chance to discuss. These comments will be taken into consideration and the Board will issue a decision in the Board's letter to the Administrative Law Judge at the end of the post-hearing comment period.

In closing, we would like to thank all those individuals, educational institutions, and professional organizations who submitted comments and questions about the Board's rulemaking activities. By taking the time to read the proposed rules and express your concerns to the Board, we were able to incorporate the viewpoints of those most affected by the rules and modify the proposed language to avoid unintended consequences. We sincerely

appreciate your time and engagement in the administrative rulemaking process.

Thank you, Your Honor, for this opportunity to speak about the Board's proposed rule changes.