State of California
Department of Consumer Affairs

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

Memorandum

ECC Agenda Item VII.
September 21, 2010

To : ECC Members

Date : September 8, 2010

Telephone : (916) 561-4367
Facsimile : (916) 263-3672
E-mail : cfuller@cba.ca.gov

From : Cindi Fuller, Coordinator
Renewal/Continuing Competency Unit

Subject : Discussion Regarding Composition of the 10 Units of Ethics Study Required by Business and Professions Code Section 5093

As noted in previous agenda items, the California Legislature established the Ethics Curriculum Committee (ECC) with the express intent to provide to the California Board of Accountancy (CBA) ethics study guidelines for the new 10 units of ethics education required for licensure beginning January 1, 2014. These 10 units are in addition to the 24 units in accounting subjects and 24 units in business-related subjects already required for licensure, and also the new 20 units of accounting study established by Senate Bill (SB) 819.

SB 819 defines the ethics study guidelines as 10 units of ethics study which "consist of a program of learning that provides students with a framework of ethics reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public and the profession." SB 819 further states that, at a minimum, ethics study:

> includes academic work or independent study and shall include a foundation for ethical reasoning and the core values of integrity, objectivity, and independence consistent with the International Education Standards-4 of the International Accountants Education Standards Board, the International Federation of Accountants Code of Ethics, and the American Institute of Certified Public Accountants Code of Professional Conduct.[1]

In this memorandum staff provide a brief overview of the Uniform Accountancy Act (UAA), the foundation for most state's licensure requirements, while also providing a summary of other state's ethics education requirements. This information is provided as a background and also to help generate ideas and relevant discussions.

[1] Each of these documents are contained in the resource packet provided to members.

UAA and Other States' Ethics Education Requirements

The UAA, as amended in July 2007, recommends a licensure requirement of at least 150 units of college education including a baccalaureate or higher degree conferred by a college or university with the total educational program to include an accounting concentration. The UAA does not go into any further detail on what constitutes, or should constitute, an appropriate accounting concentration nor does it define the additional 30 units of education beyond the baccalaureate degree. Most states, however, have adopted their own requirements for an accounting concentration with some being more prescriptive than others.

Staff reviewed the education requirements of each of the 49 states and found that 12 states have some level of ethics education built into their requirements - Alabama, Arizona, Hawaii, Maine, Maryland, Michigan, Nebraska, Nevada, New York, Ohio, Texas, and West Virginia. Of these 12 states only four actually require the completion of ethics study. The remaining nine states simply accept ethics study to fulfill the accounting or business-related education requirements.

- Maryland requires the completion of three units in business ethics, accounting ethics, or philosophy of ethics. Acceptable courses are those entirely devoted to the study of ethics. Courses with an ethics component will not fulfill the three-unit requirement.

- New York requires courses be taken in ethics and professional responsibility but does not specify the amount of units.

- Texas requires the completion of three units in ethics study. Students must select a course from a Texas Board-approved college course list. An example of course titles include Ethics and the Accounting Profession, Ethics in Organizations, and Special Topics - Management Ethics.

- Beginning July 1, 2011, West Virginia will require the completion of three units in ethics study. These units may be counted as part of the required accounting or business-related electives.

10 Units of Ethics Study

The CBA has received two public comments which are provided under **Agenda Item VIII**. In e-mail comments received from Mr. Stan Deal, School of Business and Management at Azusa Pacific University, he expressed concerns over the availability of 10 units of ethics study and the hardships that may be incurred by colleges, universities, and the students themselves. In a letter received from Professor Steven Mintz, Ph.D., Professor of Accounting at California Polytechnic

State University, he expresses concern that the 10 units of ethics study is excessive and that very few universities presently have the ability to meet this requirement.[2] Professor Mintz suggested that the ethics study requirement be reduced to a minimum of three units and a maximum of six units.

The ECC has many options in considering the allocation of the new 10 units of ethics education. In addition to the concerns raised in the two public comments, staff pose the below questions to facilitate discussion regarding the new ethics education requirement.

- Directive number two in **Agenda item VI** requests members to determine the feasibility for obtaining 10 units of ethics study. Questions to consider in this regard include:
    - What was the Legislature's intent for choosing 10 units of ethics? Staff have researched the amendments for SB 819 and reviewed the legislative materials and found no rationale as to why or how the Legislature decided on 10 units.
    - Are 10 units of ethics study currently available?
    - What courses should qualify?
    - If sufficient courses are not currently available, is it reasonable to expect colleges and universities will be able to develop additional courses prior to the January 1, 2014 effective date?
- SB 819 states that ethics study may consist of a portion of a course.
    - When discussing whether to allow partial credit for a course, members may wish to consider the practical application of allowing such credit. For example, a college/university offers an Auditing 101 course for three units. As part of the course, the class spends a portion of time covering topics that would count towards the ethics requirement. This poses a potential problem for an applicant in that when reviewing the college/university course catalog, how would the applicant know with any degree of certainty how many units of a course may be applied towards the ethics requirement? This would almost always lead to an after-the-fact evaluation where an applicant will need to determine whether sufficient class time was spent on the topic of ethics. This would also pose an issue for staff because when evaluating the official transcript there will be no tangible way to identify how many units of the course may be applied towards the ethics requirement since the transcript will

[2] The CBA received the attached letter from Professor Mintz prior to his appointment to the ECC; therefore, the letter has been placed under public comments.

only indicate that the applicant completed an Auditing 101 course for three units.

- The Accounting Education Committee has come to a tentative decision that the 20 units of accounting study must be completed at the upper division or graduate level. Do members wish to identify the level at which ethics courses must be completed?

- Should a specific number of units need to be completed in specific areas of study, such as business ethics, personal ethics, or philosophy of ethics?

The questions posed by staff in this memorandum are intended to stimulate discussion and are not all-inclusive of the areas open to consideration for the ECC. Likewise, the information regarding other states' approved subject matter is provided to give committee members examples of how other states have addressed the topic of ethics study.

Once the ECC has finalized the guidelines, they will be presented to the CBA no later than June 1, 2012. SB 819 does not provide any direction as to what form the guidelines must take. At a minimum, the guidelines will need to address what course or course content will be required to obtain ethics units, as well as at what level the courses will need to be taken. The CBA will then need to take the guidelines and formulate them into regulatory language without making any substantive changes.

RECEIVED
09 OCT -5 PM 2:49
STATE BOARD OF ACCOUNTANCY

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http://www.cob.calpoly.edu/

October 1, 2009

Mr. Matthew Stanley
Legislation/Regulation Analyst
California State Board of Accountancy
2000 Evergreen St., Suite 250
Sacramento, CA 95815-3832

Dear Mr. Stanley:

I was asked by the faculty of the Accounting Area to analyze Senate Bill 819 (SB 819) with respect to its potential effects on ethics education for accounting students at Cal Poly, SLO. The request was directed to me because of my years teaching and publishing in the area of ethics in general, and accounting ethics specifically. I thought the California Board of Accountancy might be interested in my observations.

First, I believe the "10 units of ethics study" requirement is excessive. If separate courses were used to demonstrate compliance, accounting students would typically need to demonstrate completion of one philosophy of ethics course, one in business ethics, and one course in accounting ethics. I believe very few universities in California could meet this requirement right now. At Cal Poly, the philosophy course is an elective and we have no business ethics course. I teach the accounting ethics course. While SB 919 does provide that ethics study "may consist of academic courses, portions of courses, or independent study...," I believe it would be very difficult and extremely time-consuming to verify that any course or group of courses contributes to meeting the 10 unit requirement *when* selected material from courses is used to demonstrate compliance. The task of reviewing course syllabi and assessing whether one-half, one, or two units of ethics are being taught would be a daunting task.

I suggest the number of units of ethics required should be reduced to a minimum of three and a maximum of six with the stipulation that at least three units must be in accounting ethics. If the decision is to require six units, then the other course should be either in business ethics or the philosophy of ethics wherein the guidelines provided in Section 5094.6(e) (2) would govern course coverage. I think it's critical that only full courses be used to meet the ethics requirement to avoid an unending process of reviewing potentially hundreds of courses from California universities to determine compliance. As it is, accounting ethics, business ethics and/or philosophy of ethics course would have to be reviewed for approval. However, it is much easier to review these holistic approaches to teaching ethics than the piecemeal approach stated above.

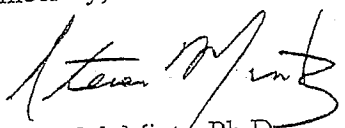
Finally, I believe these are the states currently with an ethics requirement:

Maryland	Business ethics
Ohio	Integrated accounting ethics
Nebraska	Accounting ethics
New York	Integrated accounting ethics
Texas	Stand Alone Accounting or Business ethics

I submit that the Texas model is best. For your information, the website of the Texas State Board of Accountancy that has information about its ethics requirement is: http://www.tsbpa.state.tx.us/education/ethic-course-requirements.html.

Please let me know if I can be of any help to the California Board in its deliberations.

Sincerely,



Steven M. Mintz, Ph.D

Professor of Accounting

Dominic Franzella

From: Stan Deal [[illegible]]
Sent: Tuesday, February 09, 2010 9:29 AM
To: Dominic Franzella
Subject: RE: New 150 hour requirement

Dear Ms. Franzella,

Thanks for your response. I will be watching for your updates as we move towards the effective date.

Thanks,

Stan Deal

From: Dominic Franzella [mailto:dfranzella@cba.ca.gov]
Sent: Tuesday, February 09, 2010 9:05 AM
To: Stan Deal
Cc: pbowers@cba.ca.gov; drich@cba.ca.gov; DPearce@cba.ca.gov; 'Matthew Stanley'
Subject: RE: New 150 hour requirement

Good Morning Mr. Deal,

Please be assured that your e-mails will be forwarded to both committees for review. The Accounting Education Committee (AEC) has its first meeting scheduled for April 8, 2010 here at the California Board of Accountancy office in Sacramento. I will ensure that all materials prepared for the meeting, and all future meetings, will be sent to you to keep you fully informed of the AEC's activities.

In response to the question regarding the effective date of new requirement, there is no provision in Senate Bill 819 to grandfather people in; therefore, individuals applying for licensure on or after January 1, 2014 will need to meet the 150-hour requirement, including fulfilling the 24/24 requirement already in existence and the soon to be prescribed 10-hour ethic and 20-hour accounting study requirements.

Sincerely,

Dominic

Dominic Franzella, Manager

Renewal/Continuing Competency & Client Services Units

California Board of Accountancy

(916) 561-4310

(916) 263-3672 (fax)

From: Stan Deal [mailto:
Sent: Monday, February 08, 2010 11:09 AM
To: Dominic Franzella
Cc: pbowers@cba.ca.gov; drich@cba.ca.gov; DPearce@cba.ca.gov; Matthew Stanley
Subject: RE: New 150 hour requirement

Dear Ms. Franzella,

Thank you for your response. I do appreciate your time and effort to help clarify the application of this new requirement. Your explanation does help greatly. There remain some tremendous hurdles as we try to navigate how this change will impact our program. Many other colleges and universities in California will be facing the same questions. While SB 819 does not require the additional units to be post-graduate, informal polls among our students have indicated that if students are going to invest an additional $25,000, they want more than just 30 additional units. It seems almost certain that an intensive one year masters program will be the most desirable approach.

This bring me to the most difficult hurdle. If I understand the intent of SB 819, the purpose of specifying the content of the additional 30 units is to "provide students with a framework of ethical reasoning, professional values, and attitudes, for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public and the profession." This would indicate the additional units cannot simply be repetitive units in accounting subjects. They will need to expand upon the foundation built by the undergraduate major. This would mean that a student with an undergraduate degree in accounting from a four year school could not go to a community college to take the additional courses. The accounting courses offered by a community college would not be additional content. A student would have to go to a four year school that either offers additional accounting courses or pursue a masters degree. Due to the current budget cutbacks, none of the California state universities will allow a student to just take additional courses. You must be enrolled in a degree program. Further, they have cut back significantly on the number of students being accepted. The

option to get the additional units at a state university will be severely limited for the foreseeable future.

The purpose of the AEC and ECC is to define the content of the additional courses. You have indicated that the ECC is to have its recommendations submitted no later than January 1, 2012. I do not see that there has been any such requirement of the AEC yet. At our university, the process to create a new course and have it approved through the administrative process is six to twelve months, if all goes well (which rarely happens). The process to create a new masters program is a two to three year process given the approvals needed from the various administrative offices and outside accrediting bodies and recruiting qualified faculty. If we start today we might be able to have everything approved by the January 2014 effective date. However, we cannot effectively plan and create the courses unless we know what the content requirements will be. It will be virtually impossible to comply if we have to wait until January 2012 or later for the advisory bodies to make their decisions.

I realize that none of this is under your control. I imagine SB 819 will complicate your life as well. I would like these concerns to be communicated to the appropriate groups so we can work together to make this transition as smooth as possible for both the universities and the students. For the record, specifying the content of the additional units makes perfect sense. However, the change is coming at a very difficult economic time for students and parents.

On a different issue, will the application of the new requirement be absolute on Jan. 1, 2014 or will there be some grandfathering. If someone has fewer than 150 hours, passed the exam but has less than the 2 years experience, will they be required to complete the additional 30 units? I will be advising students in the time leading up to the deadline and need to know how to properly advise them.

Thank you for listening to me. I appreciate your advice as we move towards implementing these new requirements.

Sincerely,

Stan Deal

From: Dominic Franzella [mailto:dfranzella@cba.ca.gov]

Sent: Tuesday, February 02, 2010 4:01 PM
To: Stan Deal
Cc: pbowers@cba.ca.gov; drich@cba.ca.gov; DPearce@cba.ca.gov; 'Matthew Stanley'
Subject: FW: New 150 hour requirement

Dear Mr. Deal,

The California Board of Accountancy (CBA) thanks you for taking the time to contact us regarding Senate Bill (SB) 819. In my prior e-mail sent January 14, 2010 (see below), I indicated that additional time would be needed to provide a thorough response to your concerns. It is my hope that this e-mail will fully address the issues and questions you raised in your communication.

1. The new educational requirements defined in SB 819 refine the previously unspecified 30 semester units of college/university coursework that made up the 150-unit requirement. Specifically, of the 150 units, in addition to the already established 24/24-unit requirement for business-related and accounting subject matter, applicants must also complete an additional 20 units in accounting subjects and 10 units in ethics-related subjects, which will be defined by the Accounting Education Committee (AEC) and Ethics Curriculum Committee (ECC) respectively.

2. The ECC will be tasked with defining the criteria for the required 10 units of ethics education. SB 819 requires that the ECC composition be established by the following appointments:

- One member by the California Public Employees Retirement System
- Two members by the Regents of the University of California
- Two members by the California State University Board of Trustees
- Two members representing the California Community Colleges appointed by the Board of Governors of the California Community Colleges
- One member each by the Senate Committee on Rules and the Speaker of the Assembly
- One member by the Governor
- One member by the CBA

SB 819 will require that the ECC, no later than June 1, 2012, recommend to the CBA ethics study guidelines that make up the 10 semester units of ethics. These units may consist of academic courses, portions of courses, or independent study offered by degree-granting institutions or other institutions of learning accredited by a regional or national accrediting agency.

SB 819 states that the units must come from "a program of learning that provides students with a framework of ethical reasoning, professional values, and attitudes, for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public and the profession." This broad definition should provide the committee with considerable latitude when defining what coursework will make up the 10-unit ethics education requirement, to possibly include ethical components of courses taught at your university.

3. SB 819 does not specify that the new 30-unit requirement be completed with postgraduate units. Instead, as noted above, it refines the units that comprise the total 150 semester units needed for licensure.

4. Although SB 819 provides clear due dates for the committees to complete their work, the CBA intends on working with these committees to exceed these expectations and try to complete the work sooner. Hopefully, if the committees can complete their work earlier, it will mitigate some of the impact to all affected groups.

In order to get the message out regarding the new licensure requirements that will take effect in 2014, the CBA intends to take a proactive role in its outreach activities with colleges, universities and students.

5. In SB 819, the Legislature outlined the purpose for the new educational requirements for licensure. As you are probably aware, the CBA presently maintains two pathways to licensure – Pathway 1, completion of a baccalaureate degree with a minimum of 120 hours and a two-year experience requirement, and Pathway 2, completion of a baccalaureate degree including completion of a minimum of 150 semester units and a one-year experience requirement. With SB 819 eliminating Pathway 1 as an option for licensure, the Legislature declared "that if California is to require an additional 30 units of education of its accountancy students as a substitute for one year of accountancy experience, that the education must be relevant to the practice of accountancy and must include ethical education for the protection of consumers." Therefore, the purpose of the new educational requirements is to offset the loss of Pathway 1 and its two-year experience requirement.

The seven-member AEC will not be the only group tackling the workload brought on by the new educational requirements. As I noted when addressing Question 2, SB 819 requires that the 11-member ECC handle the ethics educational units of the new requirements.

Mr. Deal, I hope I have addressed all of your questions and concerns. Should you need any additional

or further clarification regarding SB 819, please do not hesitate to contact me.

Sincerely,

Dominic Franzella

Dominic Franzella, Manager

Renewal/Continuing Competency & Client Services Units

California Board of Accountancy

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(916) 263-3672 (fax)

-----Original Message-----
From: Dominic Franzella [mailto:dfranzella@cba.ca.gov]
Sent: Thursday, January 14, 2010 4:50 PM
To: [illegible]
Cc: 'pbowers@cba.ca.gov'; 'drich@cba.ca.gov'; 'DPearce@cba.ca.gov'; 'Matthew Stanley'
Subject: RE: New 150 hour requirement

Dear Mr. Deal,

The California Board of Accountancy (CBA) is in receipt of your January 13th e-mail requesting further clarification on the recently passed legislation Senate Bill 819. Because of an upcoming CBA meeting (January 20-21), we need additional time to provide a thorough response to your request.

In addition, given your obvious interest in the impending changes to the accounting requirements for licensure and the impact they will have on your institution and students, we, again, invite you to submit a letter of interest and résumé or curriculum vitae regarding appointment to the Accounting Education Committee to the CBA's Executive Officer (see address below). This committee will be responsible for dealing with many of your concerns on which you wish to have further clarification.

As noted in the December 8, 2010 letter, the deadline to submit a letter of interest and résumé or

curriculum vitae for consideration for membership on the Accounting Education Committee is January 31, 2010. These documents should be submitted to:

Patti Bowers, Executive Officer

California Board of Accountancy

2000 Evergreen Street, Suite 250

Sacramento, CA 95815-3832

Should you have any further questions going forward, please do not hesitate to contact either myself at the contact information listed below, or Matthew Stanley by telephone at (916) 561-1792 or by e-mail at mstanley@cba.ca.gov.

Sincerely,

Dominic Franzella

Dominic Franzella, Manager

Renewal/Continuing Competency and Client Services Units

California Board of Accountancy

(916) 561-4310

(916) 263-3672 (fax)

---------- Forwarded by Patti Bowers/BoardOfAccountancy on

01/13/2010 04:04 PM ----------

"Stan Deal" <[illegible]> on 01/13/2010 10:04:37 AM

To: <pbowers@cba.ca.gov>

cc:

Subject: New 150 hour requirement

Ms. Bowers,

I had been following the progress of the change to the 150 hour requirement for certification over the past few years. Then I received the letter dated December 8, 2009 indicating that California is going to dictate requirements for the additional units above the normal undergraduate degree. I was not aware of this part of the legislation and it is very problematic. I teach at a small private university and any changes in the curriculum requirements can have a severe impact on our students. The description of the new requirements is very vague. I have been in conversation with faculty at our university, faculty at other similar universities and recruiters at public accounting firms that hire our graduates and there are some basic questions that the letter does not answer. Below is a partial list of some of the questions and concerns. Perhaps you can answer them or tell to whom I should address them.

1. The 150 hour requirement seems to assume that the standard bachelor's degree consists of 120 units.. Many of our students graduate with 140 or more semester units. Will the new legislation require them to obtain only the additional units to attain 150, or will they be required to obtain the additional 30 units of ethics and accounting courses as defined by the new AEC?

2. The legislation states that an additional 10 units will be in ethics. It does not specify whether these must be in business or accounting ethics or just in general ethics study. We are a Christian faith based university. As part of our graduation requirements, all students are required to take several ethics based courses and ethics topics are incorporated into many courses including business and accounting courses. Will these courses count towards the 10 unit requirement or must they be post graduation?

3. Specifying the content of any additional units is especially problematic for private university students. If this is defined to mean 30 units post graduation, it will mean either a five year bachelors program or a one year intensive masters program. This will add an additional $20,000 - $30,000 to the cost of education and will drive students away from accounting as a major. Currently it is nearly impossible to attend state universities in order to take additional courses. Junior colleges will probably not offer accounting courses that will be in addition to those taken as part of the

undergraduate degree. This leaves few options on how to get the additional units.

4. Creating a new program that will satisfy this new requirement can take anywhere from 2 to 4 years to get through the university approval system. Finding new faculty is very difficult. In the current economic climate, getting funding approved for such an undertaking is almost impossible. If the 2014 start date is maintained, I will have to advise next year's freshman class how this will apply to them. Given what I know currently, I will be unable to do that.

5. To my knowledge, California will be the only state that specifies the content of courses beyond the degree requirements of the individual university. What is the purpose behind this? The members of the new AEC will effectively be dictating to all California universities the content of their accounting programs. That is more authority than 7 individuals should have.

I know that the legislation has just barely passed, but the issues it raises will have to be addressed soon if universities are going to be able to adapt in time to meet the 2014 start date. Any information or advise you can give would be greatly appreciated.

Sincerely,

Stan Deal

Stan Deal, M.S., CPA

School of Business and Management

Azusa Pacific University