

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: December 28, 2021

Subject Matter of Proposed Regulations: Educational Requirements – Definition of Satisfactory Evidence

Section Affected: 2.8

The California Board of Accountancy (CBA) regulates the accounting profession in part by establishing and maintaining minimum standards of practice for the protection of the public. The CBA currently regulates approximately 108,000 licensees, including individual Certified Public Accountants/Public Accountants (CPAs/PAs), accountancy partnerships and accountancy corporations, all of which are required to be separately licensed by the CBA (Accountancy Act – see Business and Professions Code (BPC), § 5000 et seq.).

The CBA also has the largest volume of applicants applying for the Uniform CPA Examination (CPA Exam) and for CPA licensure. Over the prior three years, the CBA has averaged approximately 20,000 CPA Exam applications¹ and 3,100 applications for CPA licensure, annually.

Problem being addressed

BPC section 5094 requires education to be earned from a degree-granting university, college, or other institution of higher learning accredited by a regional or national accrediting agency. Education earned from a college, university, or other institution of learning located outside the United States may be qualifying if determined by the CBA to be equivalent to education earned in the United States. The CBA, as provided for by BPC section 5094, has individuals submit documentation to credential evaluation services to assess the educational equivalency.

BPC sections 5092 and 5093 outline various requirements for CPA licensure, including that applicants for licensure shall meet specified education, examination, and experience requirements. These sections require that applicants meet minimum educational requirements both for examination and licensure and that applicants shall present satisfactory evidence of the education being completed from a degree-granting university, college, or other institution of higher learning accredited by a regional or national accrediting agency.

BPC sections 5094.3 and 5094.6 specify additional educational requirements that applicants for CPA licensure must meet as required by BPC section 5093. These are commonly referred to as ethics study and accounting study, respectively.

¹ Number includes first time and repeat applicants.

Presently, educational institutions send certified transcripts directly to the CBA via mail. This requires applicants to request the certified transcripts from their respective institutions and await the educational institution to mail the records to the CBA directly. This process can take several weeks to occur, delaying applicants' ability to obtain admission to the CPA Exam or be approved for CPA licensure.

The CBA receives nearly 20,000 educational documents per year. Matching these with the CPA Exam and CPA licensure applications can create extended processing timeframes and delay a candidate's approval for admission to the CPA Exam and to obtain CPA licensure.

Matching the educational document(s) with the application involves the following:

- When transcripts are received, they are logged into a tracking database and a search is completed to determine if an application is on file and, if one exists, the documents are paired up and reviewed to determine eligibility. If there is no application on file, the transcripts are filed alphabetically.
- When an application is received, a file is created and a search is conducted to determine if any educational documents (or other required documents) have been received. If they have been received, the documents are paired up and reviewed to determine eligibility. If there are no transcripts (or other supporting documents) a letter is sent to the candidate regarding the deficiency.

Additionally, the present definition limits the educational institutions to a mail-only process. As such, this limits the CBA and educational institutions from using electronic methods, which can be substantially faster.

The proposed regulatory language creates much-needed flexibility for how the CBA may receive certified transcripts by 1) allowing the sealed and untampered transcripts to come from an applicant; and 2) modernizing the language to allow for the option of electronic transmission.

The proposed amendments will allow for applicants to obtain and submit certified transcripts directly to the CBA with their respective applications. Oftentimes, applicants can get transcripts processed at their respective educational institutions on an expedited manner that day and have them in hand to mail or provide to the CBA with their respective applications. This will allow for fewer steps in the processing of applications and provide for increased efficiencies in workflow.

Also, the proposed amendments will create a new method for educational institutions to employ in transmitting educational transcripts. By creating and then allowing educational institutions to submit transcripts electronically, it will eliminate steps the educational institutions take to print and mail transcripts to the CBA. It also will allow for the CBA's application system to quickly pair transcripts with individuals applications.

Anticipated benefits from this regulatory action

The proposal is designed to streamline how the CBA may receive certified transcripts, including the ability to receive certified transcripts from the applicant or via an electronic method from the educational institution. The proposal may assist in decreasing the timeframe for processing the CPA Exam and CPA licensure applications.

Specific Purpose/Factual Basis/Rationale

The CBA proposes the following amendments to Section 2.8:

Section 2.8

The proposed amendment would add language authorizing satisfactory evidence of education be submitted to the CBA in a sealed and untampered envelope, or by electronic transmission from the educational institution. The proposed amendment deletes the requirement that the satisfactory evidence be mailed directly to the CBA from the educational institution.

- Purpose: The proposed amendment would provide added flexibility in how educational documentation can be submitted to the CBA for admission to the CPA Exam or to obtain a CPA license.
- Rationale: Proposed changes to Section 2.8 streamline how the CBA may receive certified transcripts, including the ability to receive certified transcripts via electronic transmission from the educational institution. The proposal will assist in decreasing the timeframe for processing CPA Exam and CPA licensure applications as the transcripts could accompany the application or be sent electronically. To ensure the security and validity of the educational information being mailed, which supports the application for examination or licensure, the envelope must be received sealed and untampered. As the envelope is sealed at the time the transcript is printed by the educational institution, receipt of a sealed envelope containing a certified transcript provides assurance that it is less likely to have been modified by the applicant or a third party. Noting this requirement in the regulation also notifies prospective applicants and institutions issuing sealed transcripts of the CBA's submission standards.

Consumer Protection Benefits Anticipated

The CBA's mission is to protect consumers by ensuring only qualified licensees practice public accountancy. This proposal would streamline the process of ensuring individuals meet specified educational requirements prior to taking the CPA Exam, obtaining licensure, and offering public accounting services.

Underlying Data

Technical, theoretical, or empirical studies, reports, or documents relied upon:

- Meeting materials of the September 26-27, 2019 Committee on Professional Conduct and CBA Meeting. (CPC Item II./CBA Item X.A.2 – Discussion and

Possible action to Initiate a Rulemaking to Amend Title 16, California Code of Regulations Section 2.8 – Definition of Satisfactory Evidence)

- Minutes of the September 26, 2019 Committee on Professional Conduct Meeting.
- Minutes of the September 26-27, 2019 CBA Meeting.

Business Impact

The CBA has made an initial determination that the proposed regulatory action would not have a significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

- This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/testimony:
 - This proposal impacts applicants for admission to the Uniform CPA Examination and CPA licensure.
- The CBA has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.
- Title 16, California Code of Regulations section 2.8 contains a definition of satisfactory evidence to demonstrate applicants have met the minimum qualifications for licensure.

Currently, domestic and international educational institutions, including those operating in the state, incur costs to transmit (digitally or traditional mail) student transcripts. These institutions already charge fees for this service or include them as part of a “document” fee surcharge for these services with tuition costs.

Because the costs for transcript services already exist in institutions, the proposed regulations are not anticipated to result in an economic impact to the state.

Economic Impact Assessment

This regulatory proposal will have the following effects:

- It will not create or eliminate jobs within the State of California because the requirement to provide satisfactory evidence is already required by the Business and Professions Code, is necessary to ensure consumer protection, and the cost impact to applicants is considered negligible.

- It will not create new businesses or eliminate existing businesses within the State of California because applicants must follow regulatory requirements when applying for admission to the Uniform CPA Examination and CPA licensure.
- It will not affect the expansion of businesses currently doing business within the State of California because applicants must follow regulatory requirements when applying for admission to the Uniform CPA Examination and CPA licensure.
- This regulatory proposal benefits the health and welfare of California residents because the proposal continues to require that applicants meet, to the satisfaction of the CBA, specified educational requirements.
- This regulatory proposal does not affect worker safety because it has nothing to do with worker safety.
- This regulatory proposal does not affect the state's environment because it has nothing to do with the environment.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment because the option of using a sealed envelope is provided.

Consideration of Alternatives

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

Maintain status quo – This leaves the present definition in place. It will continue to create delays for applicants to have paper documents submitted to the CBA directly from the educational institution in order to demonstrate satisfactory completion of the educational requirements. Additionally, it does not provide for a more modern approach to having transcripts submitted electronically.

The CBA rejects this alternative because maintaining the status quo significantly delays the approval process for admission to the CPA Exam and for CPA licensure. This could have negative consequences on individuals' ability to earn a livelihood. In addition, it deprives consumers of possible qualified CPAs from which to choose from in the market place. Lastly, some educational institutions are not offering paper transcripts at this time as a result of the pandemic.