

Connecticut State Board of Accountancy

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Written Testimony of Thomas F. Reynolds, CPA Chairman of the Connecticut State Board of Accountancy concerning the Proposed Budget for FY10 & FY11

Respectfully Submitted to the Appropriations Subcommittee – General Government A
by Thomas F. Reynolds, CPA, Chairman

Good evening, Senator Gomes, Representative Heinrich and members of the Appropriations Sub-Committee.

I am Thomas Reynolds, Chairman of the State Board of Accountancy. Joining me in the audience are several members of our Board, in addition to our Executive Director and Legal Counsel.

I fully recognize that change must occur in these times of financial crisis. As the saying goes, "serious times call for serious decisions".

I applaud Governor Rell for her courage in presenting a budget that attempts to deal with the State's financial issues, with a myriad of conflicting demands. My goal is to see that the State Board of Accountancy continues to not only serve the public, but also protect the citizens of our State.

In the course of your deliberations as the Appropriations Committee, I would ask that you consider the following:

The current proposal calls for the State Board to become part of the Department of Consumer Protection. History is repeating itself here, as the Board operated under DCP from 1978 to 1985 until it was realized that the relationship was inappropriate, ineffective, and harmful to the citizens of Connecticut

DCP primarily licenses and regulates building- related trades and occupations. The work performed by the State Board is very technical in nature, and goes well beyond simply issuing licenses and includes:

- Work with the SEC, IRS, PCAOB and other regulatory bodies regarding conduct by licensed CPAs for improper financial statement audits and tax fraud cases.
- Investigate claims against CPAs by members of the public.
- Regulate the continuing education requirements of licensees.
- oversee the quality review program for CPAs issuing financial statements.

The current proposal also calls for the elimination of two positions, or 40% of the staff. The State Board office already operates with a minimal staff, barely adequate to meet the demands required of it.

The Board generates revenues far in excess of its expenses. Annual revenues are \$2.5 million, with the cost to operate the Board approximating \$425,000. It is a truly efficient operation.

Current economic conditions are calling for greater regulation and oversight of the financial services arena. We have hopefully learned from the past with the likes of Cendant, Arthur Andersen, Colonial Realty and Xerox, all of which involved accounting improprieties. Most recently, there is the financial debacle of Bernard Madoff, which implicates the New York CPA Firm who prepared his audited financial statements. Additional concerns center around our State becoming a major hedge fund capital, which brings with it the need for more oversight, not less.

Protecting the public and regulating the accounting profession, which is a cornerstone of our economic system, is a core function of government. It is a core function which is carried out efficiently and expertly by the State Board of Accountancy. A diminished focus under the Department of Consumer Protection and a reduction in this specialized staff will harm the public without providing any savings to the State, and actually has the potential to reduce the current revenue stream. This lack of economic benefit and the possibility of potential losses and harm to the public that would result from weakening and moving the Board demonstrates that no changes should be made to the current configuration of the Board and its staffing.

As Chairman of the State Board of Accountancy, I fully support the Governor in her mission to reduce costs and increase efficiencies in State Government. My concern is that the proposal to move and possibly disassemble this agency would, in fact, undermine that mission and the goals associated with it.

Thank you