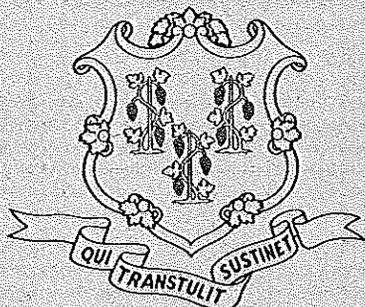


# State Board Of Accountancy

Connecticut  
General Assembly



LEGISLATIVE  
PROGRAM REVIEW  
AND  
INVESTIGATIONS  
COMMITTEE

## SUNSET 1983

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CONNECTICUT GENERAL ASSEMBLY

LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Legislative Program Review and Investigations Committee is a joint, bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 as the Legislative Program Review Committee to evaluate the efficiency and effectiveness of selected state programs and to recommend improvements where indicated. In 1975 the General Assembly expanded the Committee's function to include investigations and changed its name to the Legislative Program Review and Investigations Committee. During the 1977 session, the Committee's mandate was again expanded by the Executive Reorganization Act to include "Sunset" performance reviews of nearly 100 agencies, boards, and commissions, commencing on January 1, 1979.

The Committee is composed of twelve members, three each appointed by the Senate President Pro Tempore and Minority Leader, and the Speaker of the House and Minority Leader.

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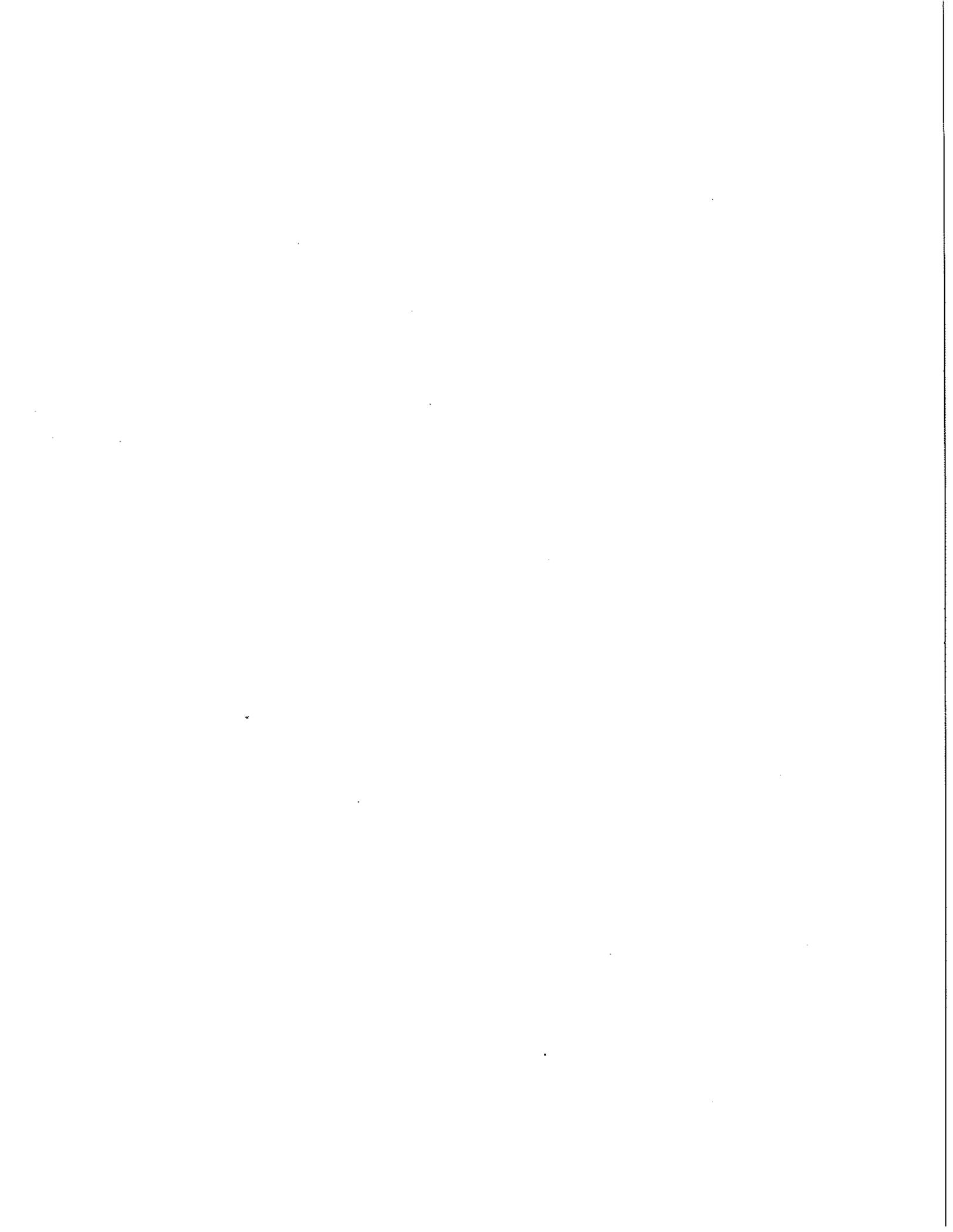
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SUNSET REVIEW 1983

STATE BOARD OF ACCOUNTANCY

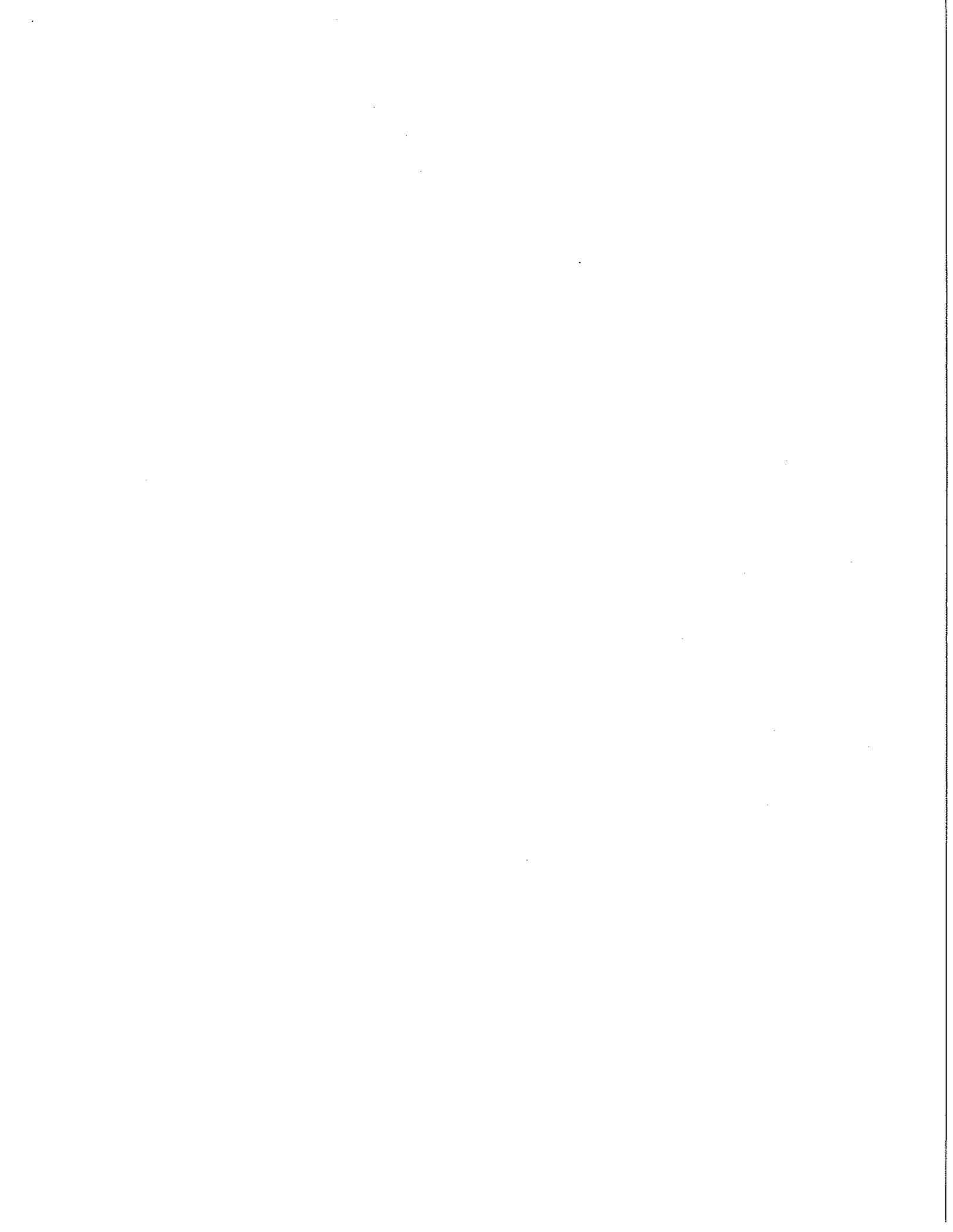
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## STATE BOARD OF ACCOUNTANCY

### SUMMARY

Accounting is a service activity that provides quantitative information about economic entities for use in making economic decisions. Accountants perform recording, classification, measurement, summarization and interpretation functions. The first two activities are considered to be bookkeeping tasks; the latter three functions, which utilize more analytical skills, constitute what are usually thought of as accounting. Expressing opinions on financial statements, also known as the "attest" function, is the only function in Connecticut restricted to licensees.

The accounting profession was first regulated in Connecticut in 1907. At that time a three-member board was created to examine eligible applicants for certificates as certified public accountants (CPAs). A variety of legislative modifications concerning fees, board operations and eligibility criteria were made during the next 45 years, but the broadest statutory changes occurred in 1955.

Public Act 55-539 affected nearly every aspect of the practice of accounting in the process of establishing an annual licensure system for the profession. Under the law, only individuals who met specified requirements were allowed to perform certain functions and use certain titles. Individuals engaged in the analytical aspects of the practice of accounting at the time the law passed but who were not certified public accountants were grandfathered into the licensure system as "public accountants." A Public Accountants Advisory Commission was established for three years to advise the Board of Accountancy on the eligibility of individuals to be public accountants.

The Executive Reorganization Act, P.A. 77-614, produced the greatest changes in the composition and powers of the Board of Accountancy. It added a fourth professional, who prior to 1990 must be a public accountant and after that may be a certified public accountant, and three public members to the board. The act also placed the board within the Department of Consumer Protection effective January 1, 1979, and gave the commissioner of that department authority to make regulations.

#### Powers and Duties of Board

The six-member Board of Accountancy meets approximately 18 times a year; attendance averages 80 percent of the appointed members. The powers and duties of the board include:

- evaluating the qualifications of CPA applicants;
- providing a written examination process for CPAs;
- verifying compliance with continuing education requirements;
- advising and assisting with the development of regulations; and
- holding hearings and imposing disciplinary action including suspension and revocation of certificates, authorities and licenses.

Upon authorization by the board, the Department of Consumer Protection is empowered to issue certificates to certified public accountants, grant authorities to public accountants and issue annual licenses.

Expenses for the operation of the State Board of Accountancy during FY 1981-82 totaled \$176,038. This includes the cost of three Department of Consumer Protection clerical staff and a full-time administrator.

#### Analysis and Recommendations

Before deciding whether the Board of Accountancy should be sunsetted, the Legislative Program Review and Investigations Committee evaluated the need for continued state regulation of the practice of accounting.

Only four states in the country allow nonregulated practitioners to perform the "attest" function. The program review committee was concerned that the establishment of a less restrictive form of regulation than licensure would hamper the ability of consumers to judge the qualifications of accounting practitioners. It was the consensus of the committee that the existing system provides a screening process for evaluating individuals who provide a complex service, the quality of which is not always easily assessed by its purchasers.

*Accordingly, the Legislative Program Review and Investigations Committee recommends that the practitioners of public accountancy continue to be licensed in Connecticut.*

The committee does believe the eligibility criteria for certified public accountants should be modified to delete standards that are not directly related to the performance of accounting functions.

*The Legislative Program Review and Investigations Committee, therefore, recommends that the following changes be made in the eligibility criteria for certified public accountants and public accountants:*

- 1) delete the minimum age requirement;
- 2) delete the proof of good moral character requirement, and replace it with a reference to C.G.S. Section 46a-80 concerning state licensure of individuals with prior criminal convictions;
- 3) delete residency or a place of business in the state as a requirement; and
- 4) change the reciprocity requirement so that standards "equal to or greater than" those of Connecticut are acceptable, regardless of whether an applicant is from a state that offers Connecticut practitioners reciprocity.

The program review committee also believes Connecticut should be less restrictive in its experience requirement standards. *The committee recommends the Board of Accountancy keep the present two-year experience requirement and allow more flexibility in the granting of credit for part-time work and graduate level education. However, no more than one year of credit shall be granted for a master's degree in accounting.*

With respect to the regulation of public accountants, the program review committee questioned the legality of one activity of the State Board of Accountancy. The board is continuing to issue authorities to practice to individuals who were approved by the Public Accountants Advisory Commission in the mid-1950's but who have not previously requested the authority even though the language concerning this action was removed from the statutes. The committee was also concerned that the individuals whose letters of approval are on file with the board may not have practiced public accountancy for at least 25 years and, therefore, may not be familiar with current accounting practices and standards.

*The Legislative Program Review and Investigations Committee recommends that the issuance of new authorities to practice as a public accountant stop within one year of the date notifications go out from the Department of*

*Consumer Protection to individuals approved as public accountants but who have never requested authority to practice. Letters are to be sent to the last known address in the files at the Department of Consumer Protection.*

In order to be licensed as a certified public accountant or a public accountant in Connecticut, an individual must provide evidence that he/she has met certain continuing education requirements. Several problems with the enforcement of that requirement were identified by the program review committee. Currently, the acceptability of specific courses is only confirmed by the board when a practitioner submits information on the courses taken. So, an individual may discover after the fact that credit will not be received. With respect to waivers, the board has not established any specific standards on which to base its decisions.

In the process of considering solutions to these problems, the program review committee began to question the need for continuing education requirements. Only a few of the dozens of other professions regulated by the State of Connecticut mandate continuing education, and at least one of those has never implemented the requirement. It is the belief of the committee that the state is not being consistent in this area of policy.

*Therefore, the Legislative Program Review and Investigations Committee recommends the removal of continuing education requirements for certified public accountants and public accountants.*

Since the program review committee believes licensure should continue to be the mechanism for regulating the accounting profession, there must be a vehicle for overseeing that system. While the Department of Consumer Protection is capable of performing many of the administrative tasks related to the regulation of accountants, the committee believes a policy-making body is needed to supplement the department's role.

*Accordingly, the Legislative Program Review and Investigations Committee recommends the continuation of the State Board of Accountancy (C.G.S. Section 20-279).*

## INTRODUCTION

### Purpose and Authority

Chapter 28 of the Connecticut General Statutes provides for the periodic review of certain governmental entities and programs and for the termination or modification of those which do not significantly benefit the public health, safety, or welfare. This law was enacted in response to a legislative finding that a proliferation of governmental entities and programs had occurred without sufficient legislative oversight.

The authority for undertaking the initial review in this oversight process is vested in the Legislative Program Review and Investigations Committee. The committee is charged, under the provisions of Section 2c-3 of Chapter 28, with conducting a performance audit of each entity or program scheduled for termination. This audit must take into consideration, but is not limited to, the four criteria set forth in Section 2c-7. These criteria include: (1) whether termination of the entity or program would significantly endanger the public health, safety, or welfare; (2) whether the public could be adequately protected by another statute, entity, or program or by a less restrictive method of regulation; (3) whether the governmental entity or program produces any direct or indirect increase in the cost of goods or services and, if it does, whether the public benefits attributable to the entity or program outweigh the public burden of the increase in cost; and (4) whether the effective operation of the governmental entity or program is impeded by existing statutes, regulations or policies, including budgetary and personnel policies.

In addition to the criteria contained in Section 2c-7, the Legislative Program Review and Investigations Committee is required, when reviewing regulatory entities or programs, to consider, among other things: (1) the extent to which qualified applicants have been permitted to engage in any profession, occupation, trade, or activity regulated by the entity or program; (2) the extent to which the governmental entity involved has complied with federal and state affirmative action requirements; (3) the extent to which the governmental entity involved has recommended statutory changes which would benefit the public as opposed to the persons regulated; (4) the extent to which the governmental entity involved has encouraged public participation in the formulation of its regulations and policies; and (5) the manner in which the governmental entity involved has processed and resolved public complaints concerning persons subject to review.

## Methodology

The Legislative Program Review and Investigations Committee's sunset review process is divided into three phases. The initial phase focuses on collecting quantitative and qualitative data related to each entity's background, purpose, powers, duties, costs and accomplishments. Several methods are used by committee members and staff to obtain this information. These include: (1) a review of statutes, transcripts of legislative hearings, entity records (e.g., minutes, complaint files, administrative reports, etc.), and data and statutes of other states; (2) staff observation of meetings held by each entity during the review period; (3) surveys of selected persons and groups associated with each entity; (4) formal and informal interviews of selected individuals serving on, staffing, affected by or knowledgeable about each entity; and (5) testimony received at public hearings.

During the second phase, the staff organizes the information into descriptive packages and presents it to the committee. The presentations take place in public sessions designed to prepare committee members for the hearings, identify options for exploration and alert entity officials to the issues the committee will pursue at the hearings.

The final step of the review involves committee members and staff following up on and clarifying issues raised at briefings and public hearings. During this period, the staff prepares decision papers and presents recommendations to the committee. The committee, in public sessions, then debates and votes upon recommendations for the continuation, termination or modification of each entity.

## BACKGROUND

### Legislative History

The practice of accountancy in Connecticut has been regulated since 1907 (Public Act 202). At that time a three-member State Board of Accountancy, composed of "two persons skilled in the practice of accounting and one attorney-at-law," was created.

The board had the right to adopt a seal and such by-laws, rules and regulations as were needed to transact business. As necessary, but at least at its annual meetings in June, the board was to examine all eligible applicants for a certificate as a certified public accountant (CPA). Board members were authorized to receive \$10 per day and necessary expenses "while engaged in the discharge of their official duties."

In order to be eligible to take the CPA exam, a person had to:

- be a citizen of the United States;
- reside or have a place for the regular transaction of business in the state of Connecticut;
- be over 21 years of age;
- be of good moral character;
- be a graduate of a high school with a four-year course, or, in the discretion of the board, have equivalent experience;
- be regularly employed as a bookkeeper for not less than two years; and
- have had such training and experience in the art of public accounting as the board, by its rules and regulations, prescribed.

Applications for the examination had to be in writing, accompanied by a fee of \$25. Subjects covered by the exam were theory of accounts, practical accounting, auditing, commercial law and such other related subjects as the board deemed necessary.

Persons who held certificates as CPAs from other states with reciprocal privileges and who met specified experience requirements were eligible to receive a Connecticut certificate without an exam upon payment of a \$10 fee. Also, during the 90 days following passage of the law, individuals who had been instructed by reputable public accountants in Connecticut and who had themselves practiced public accountancy in the state for at least one year were eligible for a certificate without an exam.

Any person falsely claiming to be a CPA was guilty of a misdemeanor. Upon conviction, the person was subject to a fine of not more than \$500.

The composition of the Board of Accountancy was changed by the revision of the Connecticut General Statutes issued in 1918 (Section 2991) to "three members skilled in the practice of accounting." Appointments continued to be by the governor for staggered three-year terms.

In 1933, a number of changes affecting the laws regulating public accounting were made. Fees and moneys collected by the board had to be transferred to the state treasurer "promptly" rather than annually, and expenditures had to be drawn by requisition from the state comptroller rather than out of the fees before they were turned over to the state. In cases of suspended or revoked certificates, new language was added concerning appeal hearings and reinstatement procedures. Other changes increased the fee for certification without an examination to \$50, moved the date of the annual meeting to January and expanded who could call a special meeting of the board.

In 1941, the requirement that applicants for the CPA exam had to have worked as a bookkeeper for at least two years was eliminated. Legislative changes in 1955 affected nearly every section of the statutes governing the practice of accounting. Several entirely new provisions were also added.

Up until 1955, any person could use the label "public accountant" and perform public accounting services as long as no claim of certification was made. In what was labeled an effort to raise the standards of the accounting profession, Public Act 55-539 was enacted to place restrictions on who could be known as a public accountant. A grandfather provision was included to allow noncertified public accountants practicing at the time the act passed to continue in the profession, provided they met certain criteria.

A Public Accountants Advisory Commission was established for a period of three years to assist the Board of Accountancy with the task of evaluating public accountant candidates. The commission was required to act on all applications received from individuals wishing to receive authority to practice as public accountants. The board was required to issue such authority to all applicants approved by the commission; applicants rejected by the commission were notified of that fact by the board.

The general criteria for qualification as a public accountant were:

- be a citizen of the United States, or apply for such citizenship prior to June 29, 1956;
- have good moral character;
- be a resident of Connecticut, or be employed in or have maintained a place of business in the state; and
- be 21 years of age.

In addition, a person, on June 29, 1955, had to have: 1) been engaged in the practice of public accounting as his or her principal occupation; 2) been employed as a staff accountant by a certified public accountant, a public accountant or a firm of accountants and been regularly assigned principally to accounting engagements; or 3) immediately prior to entering service in the armed forces, been in a situation that would have qualified under either of the above provisions.

Persons qualifying under the third alternative could apply for authority to practice up to one year after returning to civilian status. All other applicants had to apply for authority within one year of passage of the act. However, in the case of certain exempted groups, such as students studying accounting above the high school level at the time the act passed, alternative arrangements were provided. The applications of these individuals could be approved by the commission, but authority to practice would not be issued until written notice was received by the board stating a person was about to engage in the practice of public accounting. The applicant had to continue to meet the character and residence requirements. Failure to engage in the practice of public accounting within 60 days of the issuance of authority to do so resulted in surrender of the authority.

At the same time public accountants were being brought under the jurisdiction of the Board of Accountancy, the manner in which

individuals were to be tested for certification was changed. Public Act 55-539 mandated a written examination of applicants for a certificate as a certified public accountant. The specific enumeration of topics to be covered by the exam was revised to "such accounting and related subjects as the board shall deem necessary." The board was given the option of using "the American Institute of Accountants Uniform Examination questions and grading services, or any part thereof."

The eligibility requirements for a certificate were modified to eliminate the requirement of a four-year high school program and to change "training and experience in public accounting" as the board shall prescribe by its rules or regulations to "training or experience, or a combination of such training and experience, in the theory and practice of public accountancy." In addition, individuals holding authority as public accountants were eligible to take the exam.

Certified Public Accountants holding Connecticut certificates granted prior to this legislation were not required to obtain new certificates. CPAs holding certificates from other states could still obtain Connecticut certificates without an exam provided they met previously existing and expanded criteria concerning minimum age and moral character standards. An individual holding "a similar certificate or other designation granted under the laws of a foreign country" could also qualify under this provision.

An annual registration system requiring any person holding an unrevoked certificate as a CPA or an unrevoked authority as a public accountant to obtain an annual registration card was also established under this public act. Valid through December 31 of the year of issuance, initial cards required a payment of \$25 while the fee for subsequent renewals was \$15. Failure to renew a card before its expiration did not deprive a person of the right of renewal--renewal could be made by paying all fees unpaid since the expiration of the card.

The act also increased restrictions on the activities of nonauthorized individuals. People were not allowed to hold themselves out as CPAs or public accountants unless they had been granted a certificate or authority to practice and they had registered with the board. Likewise, limitations were placed on the use of additional titles and abbreviations that might be confused with the terms certified public accountant or public accountant.

There were also specific prohibitions, effective on January 1, 1956, concerning affixing individual or firm signatures

to accounting or financial statements. The Board of Accountancy was authorized to apply to the appropriate court for a restraining order to stop violations of this nature. The cumulative effect of these and the previously described revisions of 1955 was to change the regulatory process from certification to licensure.

Other regulatory changes resulting from P.A. 55-539 added exceptions to the statutory requirements of the public accounting laws. Individuals who were not certified public accountants or public accountants could still be employees of or assistants to CPAs and public accountants provided such workers did not issue accounting or financial statements. A public accountant certified or registered in another state or country was not prohibited from "temporarily practicing in this state on professional business incident to his regular practice" and attorneys admitted to practice in Connecticut were exempted.

Other revisions in 1955 changed the appointment and removal process for board members and certain aspects of their powers and compensation. Any member whose registration card was not renewed or whose card became void or was revoked or suspended would be removed from the board. Although the governor continued to appoint all members, he or she now had to fill vacancies from lists of five persons submitted by the Connecticut Society of Certified Public Accountants.

Additional duties given to the board included the promulgation of "reasonable regulations concerning professional conduct appropriate to establish and to maintain a high standard of integrity and of dignity in the profession of public accountancy" (C.G.S. 1955 Supp. Section 2293d). The board was also required to have printed annually in January a register of all CPAs, all practitioners holding registration cards, regulations concerning professional conduct and ethics, and other information deemed proper by the board. Copies of the register were to be mailed to all registered practitioners, and the funds to pay for printing and mailing were to come out of the cash receipts of the board.

Compensation for board members was increased to \$25 per day, but no General Fund money could be used to cover any expenses. If the receipts of the board were insufficient to cover all expenses of the board as well as compensation of the board and the Public Accountants Advisory Commission, then the compensation of the members of both bodies could be reduced equitably. Also affected by legislative changes in 1955 were board investigations and hearings. Procedures were specified more fully as were details of the appeal process for revocations and suspensions.

In 1959, Public Act 616 changed examination, license and registration fees for a number of regulated professions. All receipts had to be deposited in the General Fund and all expenditures had to be made from the General Fund by appropriation. Specific compensation amounts for members of boards were also removed from the statutes; authority for establishing the per diem rates was given to the state personnel board.

The effect of this legislation on the Board of Accountancy was twofold. First, the specific amount of the per diem for members was deleted from the statutes. Second, references to turning over funds to the state treasurer and reducing compensation if funds were insufficient to cover expenses were eliminated. This same public act doubled the application fee for exams to \$50 and increased the payment for a certificate without examination to \$100.

Fees were changed again during the 1970's. Public Act 71-8 increased the exam fee to \$150; the annual registration renewal fee was raised to \$100. This latter fee was raised to \$150 by Public Act 72-223. Also in 1972, the age of eligibility for becoming a certified public accountant or a public accountant was reduced to 18 years of age (P.A. 127).

Public Act 77-614 ("An Act Concerning the Reorganization of the Executive Branch of State Government") placed the Board of Accountancy within the Department of Consumer Protection, effective January 1, 1979. The commissioner of consumer protection was given the authority to make regulations with the advice and assistance of the board. This act also increased the size of the board to six members by adding a fourth individual skilled in the practice of accounting and two public members. Until January 1990, three of the professional members must be CPAs and one a public accountant; after that, the fourth professional may be either a public accountant or a certified public accountant.

Another piece of legislation passed in 1977 provided for the establishment of a limited permit for CPAs from other states (P.A. 475). Valid through December 31 of the year of issuance, a permit allows a CPA to render public accounting services to a specified client.

Public Act 77-475 also reworded eligibility criteria for holders of certificates without examination and required that the state or country where these individuals were originally designated CPAs be indicated. Reciprocal privileges for authority to practice as a public accountant were also created.

The fee for this was \$150. Public Act 77-260 allowed for the establishment of professional corporations for the purpose of providing public accounting services.

A major change in the accountancy statutes occurred as a result of the passage of Public Act 78-255. Effective January 1, 1981, evidence of continuing education became a condition for the: 1) issuance or renewal of an annual registration card; 2) issuance of a certificate as a CPA; 3) granting of authority to practice as a public accountant; and 4) issuance of a limited permit. Regulations specifying a definition of basic requirements, qualifying programs, and a system of control and reporting were to be promulgated. Exceptions from continuing education could be made by the board "for reasons of health and military service or in instances of individual hardship or other good cause."

This legislation also changed the fee to accompany applications for written examinations to "not less than" \$50 as the commissioner of consumer protection prescribes by regulation. In addition, the "titles restricted" section was reworded to clarify that certain actions were not prohibited.

Public Act 81-361 added experience requirements, to be established in regulation by the commissioner of consumer protection, as a condition for the issuance of an annual registration card. The act also included a definition of the term "report" and made the fee for the CPA exam nonrefundable.

During a special legislative session later that same year, Public Act 81-11 was passed. It ended per diem compensation for members of 11 regulatory boards, including the Board of Accountancy, and limited reimbursement to necessary expenses incurred in the performance of board duties.

The most recent changes affecting the practice of accountancy were passed during the 1982 legislative session. Public Act 82-41, "An Act Concerning the Practice Of Public Accountancy By Business Entities," requires sole proprietorships, partnerships and corporations practicing public accountancy to obtain annual permits from the board. The permit fee is \$25. Owners, officers and/or shareholders of such entities must hold Connecticut licenses to practice as CPAs or public accountants.

Public Act 82-419, which also applies to other regulatory boards within the Department of Consumer Protection, establishes certain standard procedures for the performance of board functions and attendance at meetings. New, specific statutory requirements state:

- the board must meet at least quarterly;
- a majority of the members of the board shall constitute a quorum;
- any member who fails to attend three consecutive meetings or fails to attend 50 percent of all meetings during a calendar year shall be deemed to have resigned; and
- members shall not serve more than two consecutive, full terms.

In the area of clarifying definitions of levels of regulation, the law changes existing statutory language so that accountants now receive licenses instead of "annual registration cards."

The law also makes it clear that, although the Board of Accountancy is given the power to take disciplinary action against practitioners, it is the Department of Consumer Protection that receives and handles the investigation of complaints. Monthly, the department is required to provide a list of all new complaints and any dismissals of complaints to the board chairperson. In conducting an investigation, the department may seek the assistance of a board member, who cannot participate in disciplinary proceedings resulting from any investigation in which he/she was involved. Formal hearings are still conducted by the board.

#### Nature of the Profession

Accounting has been defined as a service activity that is intended to provide quantitative information about economic entities for use in making economic decisions. The tasks performed by accountants include measurement, recording, classification, summarization and interpretation. Generally, the recording and classification functions are considered to be bookkeeping tasks. The other functions utilize more analytical skills and constitute what are usually thought of as "accounting."<sup>1</sup>

Consumers who use accountants vary depending on the nature of the service needed. Financial institutions, corporations, governmental entities and individuals all may hire accountants.

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<sup>1</sup> Earl A. Spiller, Jr., Financial Accounting: Basic Concepts, Third Edition (Homewood, Illinois: Richard D. Irwin, Inc., 1977), pp. 3-6.

The major types of accounting services are: bookkeeping; the expression of opinions on financial statements, which is also known as the "attest" function; tax preparation; and management services. In Connecticut only the "attest" function is restricted by the state.

Two categories of practitioners are licensed in Connecticut to provide opinions on financial statements--public accountants and certified public accountants. Public accountants are individuals who were grandfathered into the regulated accounting profession when the state adopted an annual licensure system. Only individuals verified during the 1950's as meeting certain requirements can be so designated. This classification category will no longer exist when all current practitioners cease practicing. Certified public accountants are accounting practitioners who have met specified criteria (including educational standards), passed a written exam, completed an experience requirement and, as of January 1981, met a continuing education requirement.

#### Structure

The State Board of Accountancy has six members: three certified public accountants, one public accountant and two public members. After January 1990, the mandatory public accountant category is eliminated; the fourth professional member of the board can be either a public accountant or a CPA. All appointments are made by the governor, although the state society of CPAs is authorized to provide the names of five people qualified for membership whenever a vacancy occurs.

Prior to 1979 the board was an independent state entity employing its own staff. With the implementation of the Executive Reorganization Act (P.A. 77-614), the board was placed within the Department of Consumer Protection. Three clerical staff are assigned to perform work specifically related to the regulation of accountants. Data processing services and investigative personnel are employed by the Department of Consumer Protection to assist several boards including the Board of Accountancy.

#### Purpose, Powers and Duties

The State Board of Accountancy was created in 1907 to examine all eligible applicants for a certificate as a certified public accountant. Since that time, the board's jurisdiction has expanded. Today, it is responsible for overseeing the licensure of the profession in order to protect the consumer.

Among the current functions of the board are:

- evaluate the qualifications of CPA applicants;
- provide a written examination process for eligible applicants seeking to become CPAs;
- verify CPA and public accountant compliance with continuing education requirements; as warranted, make exceptions from continuing education requirements;
- advise and assist the commissioner of consumer protection with the development of regulations;
- hold hearings on matters within the board's jurisdiction and impose disciplinary action including suspension and revocation of certificates, authorities and licenses;
- apply to the courts for a restraining order in cases where violations of the statutes on title restrictions have or are about to occur; and
- have printed annually a register of all CPAs and of all practitioners holding registration cards.

The board is also empowered to authorize the Department of Consumer Protection to:

- issue certificates to certified public accountants;
- grant authority to practice to public accountants;
- issue annual licenses to CPAs and public accountants; and
- issue limited permits to CPAs from other states who are performing work for a specified client.

## Budget

Expenses for the State Board of Accountancy are handled by the Department of Consumer Protection within its budget allocation. Table II-1 shows a breakdown of board related expenditures for the past three years.

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Table II-1. State Board of Accountancy--Budget.

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	<u>FY 1979-80</u>	<u>FY 1980-81</u>	<u>FY 1981-82</u>
Board expenses	\$11,691	\$14,563	\$ 9,936
Staff expenses	19,160	21,072	25,702
O & E	66,098	89,615	100,000
Administrative expenses	<u>17,464</u>	<u>32,000</u>	<u>35,000</u>
TOTALS	\$114,413	\$157,250	\$176,038

Source: Department of Consumer Protection.

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The revenue received by the state from the regulation of the practice of accountancy exceeded \$400,000 during both FY 1980-81 and FY 1981-82. The specific fees charged for examinations and licenses under the jurisdiction of the Board of Accountancy are shown in Table II-2.

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Table II-2. State Board of Accountancy--Fee Schedule.

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Application for Examination	\$50
Initial License	\$25
Annual Renewal of License	\$150
Initial CPA Certification Without Examination (reciprocity)	\$150
Authority to Practice as a Public Accountant (reciprocity)	\$150

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## ACTIVITIES

During each of the past two fiscal years, the State Board of Accountancy has held at least 18 meetings. For one four-month period in 1981, there were only five board members because of a delay in filling a vacancy caused by a resignation. Attendance at meetings during the past two years averaged 80 percent of the appointed members.

The primary activities of the board involve determining eligibility for and overseeing the provision of the semiannual CPA examination; evaluating the qualifications of CPA applicants; hearing complaints and deciding on disciplinary action; and verifying licensee compliance with continuing education requirements.

### Licensure of Accountants

In order to obtain a license as a certified public accountant, an individual must:

- be 18 years of age;
- reside in or have a place of regular transaction of business in this state;
- be of good moral character;
- have such education in the theory and practice of public accountancy as the commissioner of consumer protection prescribes by regulation, or hold authority to practice as a public accountant;
- hold a bachelor's degree from an accredited college;
- pass a written examination; and
- have two years experience as a full-time practicing accountant.

Since January 1981, CPAs must also meet continuing education requirements that increase cumulatively to a minimum of 120 hours over a period of three years.

The state also issues authorities to practice to public accountants. These people were involved in the practice of public

accounting in 1955 or were in the armed services at that time and met certain criteria that allowed them to be grandfathered into the state regulatory system when licensure was established. Only individuals who were evaluated by the Public Accountants Advisory Commission and approved by the state board in the 1950s can be public accountants. This classification will cease to exist when all authorized practitioners stop working.

Information on the number of licensed practitioners in Connecticut is presented in Table III-1. The number of CPAs has been increasing annually; the number of public accountants, as expected, has been decreasing (with the exception of one year, FY 1979-80, when an unexplained increase was recorded).

Table III-1. Licensed Accountants in Connecticut.

<u>Registered to Practice on June 30</u>	<u>Number of Certified Public Accountants</u>	<u>Number of Public Accountants</u>
1976	1,315	430
1977	1,211	413
1978	1,367	395
1979	1,512	376
1980	1,622	440
1981	1,673	295

Source: Connecticut Digest of Administrative Reports to the Governor, 1975-76 through 1980-81.

### Examination Process

The CPA examination is a national written test developed and graded by the American Institute of Certified Public Accountants. It is used by all states as one of the entry requirements for becoming certified as a CPA.

There are five parts to the exam, which is administered twice a year. The topics covered by the exam are accounting practice, auditing, business (commercial) law and accounting theory. A candidate does not have to sit for all parts at one time. However, all portions of the test must be completed within three years from the first exam at which partial credit is received in order for an applicant to avoid retaking the initial parts he/she passed. Table III-2 presents information on the number of individuals taking and passing each of the last six exams offered in Connecticut.

Table III-2. Connecticut CPA Examination Statistics.

Date of Exam	May 1979	Nov. 1979	May 1980	Nov. 1980	May 1981	Nov. 1981
Total No. of Candidates Taking Exam	744	947	805	1,053	995	1,162
No. Receiving Passing Grade Entitling Candi- date to Certificate	14	24	23	28	36	↑ 237 ↓
No. Passing Exam Who Have Not Completed Experience Requirement <sup>1</sup>	159	156	142	155	184	
No. Receiving Partial Credit	154	268	231	342	295	↑ 925 ↓
No. Receiving No Credit	420 (56%)	499 (53%)	423 (53%)	521 (50%)	484 (49%)	
Grades Null & Void for Failure to Complete Requirements	-	-	-	6	-	-

<sup>1</sup> These individuals have successfully completed all portions of the examination, but must meet the experience requirement before they are licensed as certified public accountants in Connecticut.

Source: Minutes of State Board of Accountancy meetings, 1979-82.

The board and the Department of Consumer Protection are responsible for physically administering the exam in Connecticut. They must make arrangements for a site for the exam on nationally uniform dates in the spring and fall of every year, obtain proctors for the test days and take responsibility for ensuring the security of the exam questions and the completed answer sheets. As noted earlier, the exam itself is developed and graded by a national organization.

## A Typical Board Meeting

During the course of the sunset review, committee staff attended a number of board meetings. Based on those observations and an analysis of minutes from board meetings held between July 1980 and May 1982, an overview of a "typical" board meeting was developed.<sup>2</sup>

State Board of Accountancy meetings begin at 9:00 a.m. and generally last until about 4:15 p.m. (A break is taken for lunch.) As required by topics scheduled for discussion, Department of Consumer Protection representatives are present to provide information on personnel, legal or examination problems. An assistant attorney general also attends a portion of many meetings. Members of the public and the profession itself rarely, if ever, attend meetings.

An agenda divided into 11 categories is prepared for every meeting and distributed to members by mail prior to the meeting. Items processed at nearly every meeting include: 1) approval of minutes from the previous meeting; 2) review of reciprocal applications; 3) verification of the fulfillment of experience requirements; 4) equivalent experience issues; 5) applications for limited permits; 6) requests for waivers of the continuing education requirement; and 7) general correspondence.

After the minutes from the previous meeting are approved and upcoming meeting dates are verified, items carried over from previous meetings are reviewed. One or more members of the board may have been responsible for obtaining information on a particular matter or a complaint may be pending action by the Department of Consumer Protection. Whatever new information is available is shared with all members present. If the board can take an action, it does so; if it cannot act, the matter is held over until the next meeting. (Sometimes items from this category must be held for discussion later in the meeting because the person familiar with the matter is not present at the beginning of the meeting.)

New correspondence, telephone calls or complaints to or from the Department of Consumer Protection are discussed next. Investigations being carried out by Department of Consumer Protection personnel are updated either verbally or in writing.

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<sup>2</sup> In August 1982 a full-time administrator was hired to assist the board with the functions required to regulate the practice of accounting. As this person assumes more of the exam and experience verification functions, board meetings should become shorter and more focused on policy matters.

In addition, new correspondence that contains an allegation of wrong-doing or identifies a possible problem is evaluated by the board to determine if either it or the department have authority over the matter. If insufficient information is available to make such a decision, the department is asked to look into the complaint.<sup>3</sup>

The general correspondence category follows on the agenda, although it is sometimes delayed until later in the meeting if there are other items that must be completed before the end of the meeting. Letters discussed in this category include: responses to board inquiries sent as a result of complaints; continuing education waivers and credits; questions about acceptable practices by accountants; descriptions of actions that may necessitate an investigation by the Department of Consumer Protection, and information from state and national associations.

Individuals seeking reciprocity and CPA applicants presenting evidence that they have fulfilled the state's experience requirements are listed by name on the agenda. The files for each person are brought up from the board office to the meeting. At some point in the day before these agenda items are acted on, the files are split up and some of the board members individually review the information. Any problem cases are noted and subsequently discussed by the board as a whole; the rest of the cases are approved as a group by the board. The number of files to be reviewed can range from a half dozen to more than 50. A similar file review procedure is used to evaluate equivalent experience requests and applications for limited permits.

The final specific category on the agenda is "New Business." For example, if a survey that requires a response has been received by the board, then a discussion of the response would occur at this point. Other items such as the logistics of procuring exams and verifying examination results must be handled several times a year and are usually taken up early in the meeting. Discussions about statutory and regulatory restrictions on the practice of accountancy may occur at a number of different points in the meeting in conjunction with a particular letter or application.

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<sup>3</sup> With the passage of P.A. 82-419, the responsibility of the department to handle the receipt and preliminary investigation of all complaints has been clarified. Consequently, the amount of board time spent on this area in the future should be reduced.

The board is very flexible about rearranging the items scheduled to be taken up at a meeting. If one or more members interested in or familiar with a case have time constraints on their attendance at the meeting, items will be postponed or taken up early as the situation may require. Almost all matters considered by the board during a meeting generate detailed discussion. Resolution is not always attained on issues and a number of agenda items, particularly correspondence, may be carried over for several meetings before they are finally resolved.

### Complaint Process

As recommended by the Legislative Program Review and Investigations Committee during previous sunset reviews, a comprehensive complaint process was statutorily established in 1982 (P.A. 419) for the Department of Consumer Protection to use for the various professional regulatory boards located within the agency. Under this system the department receives all complaints about licensees as well as nonauthorized individuals who are allegedly performing regulated activities.

After screening the complaints and dismissing those that would not be statutory violations even if true, the department investigates the remaining cases. On a monthly basis, a list of dismissed complaints, and all dispositions and final decisions of the department are sent to the boards. In cases where probable cause is found, the commissioner of consumer protection may bring the respondent to the complaint before the board for a formal hearing. Under the act, the board is empowered to administer oaths, issue subpoenas, compel testimony and order the production of books, records and documents.

Among the penalties that can be imposed by the State Board of Accountancy are: 1) license suspension for a definite period, not to exceed one year; 2) revocation of any certificate, authority to practice or license and 3) censure. The board is also authorized to make application to the courts for a restraining order in cases where a person has engaged in or is about to engage in an act in violation of statutory restrictions on the use of certain titles as described in C.G.S. Section 20-285.

Prior to implementation of the current complaint mechanism, the Department of Consumer Protection was receiving some complaints and providing investigative services to the Board of Accountancy, but the board was also receiving complaints directly. This resulted in delays as the information moved between the two entities. At times there was also confusion on the part of the

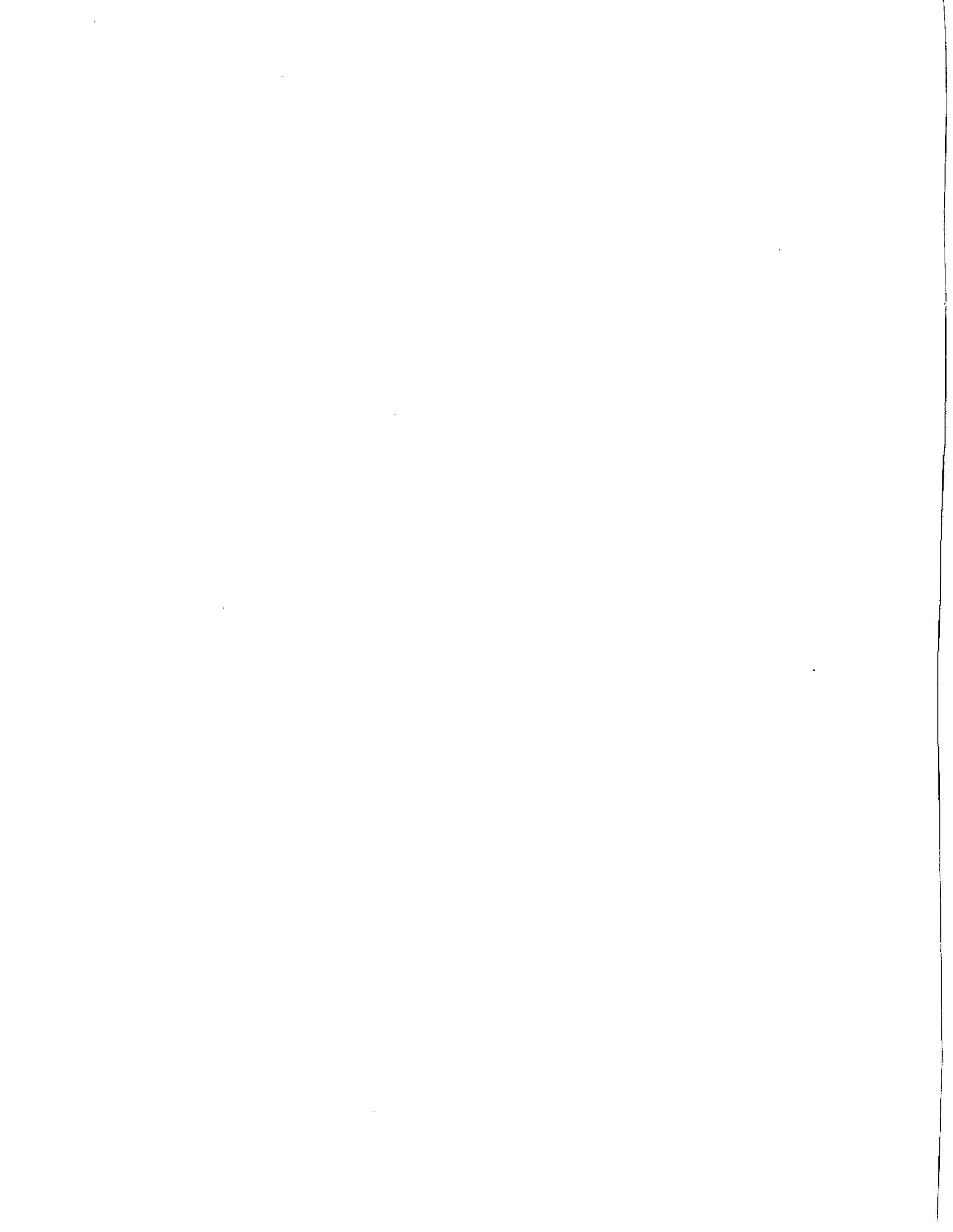
board about which entity was to determine the validity of a complaint since prior to executive reorganization all decisions in this area had been the responsibility of the board.

Due to the recent changes in the handling of complaints related to the practice of accountancy, records on past complaints were not completely centralized during the sunset review process. In an effort to categorize the complaints, program review committee staff analyzed the closed cases from calendar years 1980 and 1981 that were in the files of the Department of Consumer Protection investigators. Table III-3 presents a breakdown of those cases by type, source and disposition.

Table III-3. Complaints Re Public Accounting--1980 and 1981.

	<u>1980</u>	<u>1981</u>
Total Number of Complaints	17	17
<u>TYPE</u>		
Fees	2	-
Competence/Ethics	2	8
Tax Matters		
Failure to submit returns	2	2
Failure to return papers	9	3
Other	2	4
<u>SOURCE</u>		
Individuals/Consumers	11	9
Business or Professional Corp.	6	3
Practitioner	-	5
<u>OUTCOME</u>		
Board had no jurisdiction	10	6
Action taken after respondent informed of complaint	3	5
Board determined there was no violation	-	3
Board sent letter saying papers must be returned	1	-
Licenses suspended or revoked	-	-
Uncertain	3	3

Source: Department of Consumer Protection files.



## ANALYSIS AND RECOMMENDATIONS

### Regulation of the Profession

Before deciding whether the State Board of Accountancy should be sunsetted, the Legislative Program Review and Investigations Committee evaluated the need for state regulation of the accounting profession. Although the highest designation in the practice of accounting is "certified" public accountant and for many years the state issued annual "registration" cards, in Connecticut accounting is a licensed profession. By definition, this means that only those individuals who have met all of the state's specified requirements can perform the restricted functions and use the designations certified public accountant or public accountant.

The activity currently restricted by state law that was examined most closely by the committee was the "attest" function, which is the issuance or expression of a financial opinion. In the United States only Arizona, Delaware, Kansas and North Carolina allow nonregulated practitioners to perform this function. In Connecticut this task has been limited to licensees since 1955.

The program review committee was concerned that the establishment of a less restrictive form of regulation would hamper the ability of consumers to judge the qualifications of accounting practitioners. It was the consensus of the committee that the current limitations on this profession are appropriate. The existing system provides a consistent screening process for evaluating individuals who provide a complex service, the quality of which is not always easily assessed by its purchasers. *Accordingly, the Legislative Program Review and Investigations Committee recommends that practitioners of public accountancy continue to be licensed in Connecticut.*

### Eligibility Criteria

The committee does believe the eligibility criteria for certified public accountants should be modified. Several requirements identified by the committee in earlier sunset reviews and subsequently deleted from the statutes for other professions (P.A. 80-484) remain as criteria for CPAs. These standards are not directly related to the performance of accounting functions.

*The Legislative Program Review and Investigations Committee, therefore, recommends that the following changes be made in the eligibility criteria for certified public accountants and public accountants:*

- 1) delete the minimum age requirement;
- 2) delete the proof of good moral character requirement, and replace it with a reference to C.G.S. Section 46a-80 concerning state licensure of individuals with prior criminal convictions;
- 3) delete residency or a place of business in the state as a requirement; and
- 4) change the reciprocity requirement so that standards "equal to or greater than" those of Connecticut are acceptable, regardless of whether an applicant is from a state that offers Connecticut practitioners reciprocity.

Another criterion of concern to the committee is the experience requirement. Currently no credit is given for graduate course work, and a person must work 20 or more hours per week to receive any credit for work experience. Most of the other New England states require two years experience but allow credit for graduate work. (See Table IV-1.) The committee believes Connecticut should be less restrictive in its standard.

*Therefore, the Legislative Program Review and Investigations Committee recommends the Board of Accountancy keep the present two-year experience requirement and allow more flexibility in the granting of credit for part-time work and graduate level education. However, no more than one year of credit shall be granted for a master's degree in accounting.*

### Public Accountants

As mentioned previously, restrictions on use of the title "public accountant" were established in 1955. A licensure system was adopted at that time as a means of raising the professional standards of those in the accounting profession. In order to allow individuals who were already working as accountants but who did not qualify as certified public accountants to continue working, a provision in the law grandfathered existing practitioners into the licensure system as public accountants.

In order to be designated a public accountant, a person had to be approved by the Public Accountants Advisory Commission. The commission, which operated for three years, evaluated the applicants and recommended to the Board of Accountancy those individuals who should be granted authorities to practice as public accountants. The board was required to issue authorities to all approved candidates; it notified rejected applicants of that fact.

Table IV-1. Education and Experience Requirements for CPAs in Selected States.

STATE	Bachelor's Degree Required	Master's Degree Required	Years of Public Accounting Experience Required	
			Without Master's	With Master's
Connecticut	Yes	No	2 Years	N/A
Maine	Yes	No	2 Years	1 Year
Massachusetts	Yes	No	3 Years	2 Years
New Hampshire	Yes	No	2 Years	1 Year
Rhode Island	Yes	No	2 Years	1 Year
Vermont	High school diploma and at least 30 hours of accounting and related subjects	No	2 Years	N/A
New Jersey	Yes	No	2-4 Years	Teaching and graduate or other study may be accepted in lieu of required experience
New York	Yes	No	2 Years	1 Year

N/A = Not applicable.

Source: National Association of State Boards of Accountancy, Digest of State Accountancy Laws and State Board Regulations (1980), pp. 16, 43, 46, 60, 61, 64, 77 and 88.

Currently, it is unclear who is still entitled to obtain authority to practice. The statutes (C.G.S. Sec. 20-283) refer to veterans who were in the armed services in 1955 and who meet certain other criteria as having up to one year after discharge from service to apply for authority as a public accountant.

The State Board of Accountancy is also still issuing authority to practice to persons who were approved by the advisory commission in the mid-1950's, but who have not previously requested the authority. The board bases this action on language in Public Act 55-539 that was deleted from the statutes during the 1958 Revision.

The program review committee questioned the legality of continuing to issue these individuals authorities to practice because the language concerning this action was removed from the statutes. Attorneys who work for the legislature have expressed the opinion that a court case would be necessary to determine whether individuals who did not follow through on their approval before 1958 lost the opportunity to do so. Legal arguments can be made for and against granting new authorities to practice.

The committee was also concerned that the individuals whose letters of approval are on file with the board may not have practiced public accountancy for at least 25 years and, therefore, may not be familiar with current accounting practices and standards. The committee noted that since licensure, the most restrictive form of regulation, is the level of oversight deemed necessary for the practice of accountancy, all new practitioners should be required to meet the same eligibility standards.

*The Legislative Program Review and Investigations Committee recommends that the issuance of new authorities to practice as a public accountant stop within one year of the date notifications go out from the Department of Consumer Protection to individuals approved as public accountants but who have never requested authority to practice. Letters are to be sent to the last known address in the files at the Department of Consumer Protection.*

### Continuing Education

In order to be licensed as a certified public accountant or a public accountant in Connecticut, an individual must provide evidence that he/she has met certain continuing education requirements. As established in regulation, an accountant had to complete 40 hours of credit by the end of the first year following implementation of the program, 80 hours by the end of the second year and 120 hours by the end of the third year and thereafter. At least 20 hours of continuing education credit must be completed in the most recent year preceding license renewal.

New licensees initially follow a prorated hour-requirement depending on the point in the year when their license is issued. By their fourth renewal they are on a regular schedule.

The criteria for determining which courses and programs qualify as acceptable are listed in regulations promulgated by the commissioner of consumer protection. Exceptions to the continuing education requirements can be granted by the Board of Accountancy for reasons of health, military service, instances of individual hardship or other good cause.

Several problems with the continuing education program for accountants were identified by the program review committee. Currently, the acceptability of specific continuing education courses is only confirmed by the board when a practitioner submits information on the courses taken. As a result, an individual may discover after the fact that a course is unacceptable. At that point it may be too late to find a substitute to meet that year's requirement.

With respect to waivers, which are allowed for the reasons noted earlier, the board has not established any specific standards on which to base its decisions. For example, during the period of the sunset review, the board was granting waivers for health reasons for only one year at a time, although there was no regulatory basis for issuing one-year waivers.

In the process of considering solutions to these problems with continuing education for accountants, the program review committee began to question the need for such requirements. Only a few of the dozens of other professions regulated by the State of Connecticut mandate continuing education, and at least one of those has never implemented the requirement.<sup>4</sup> It is the belief of the committee that the state is not being consistent in this area of policy. *Therefore, the Legislative Program Review and Investigations Committee recommends the removal of continuing education requirements for certified public accountants and public accountants.*

#### Continuation of the Board

Since the program review committee believes licensure should continue to be the mechanism for regulating the accounting profession, there must be a vehicle for overseeing that system. While the Department of Consumer Protection is capable of performing many of the administrative tasks related to requests to sit for the CPA exam, licensure, reciprocity and complaints, the committee believes a policy-making body is needed to supplement the department's role.

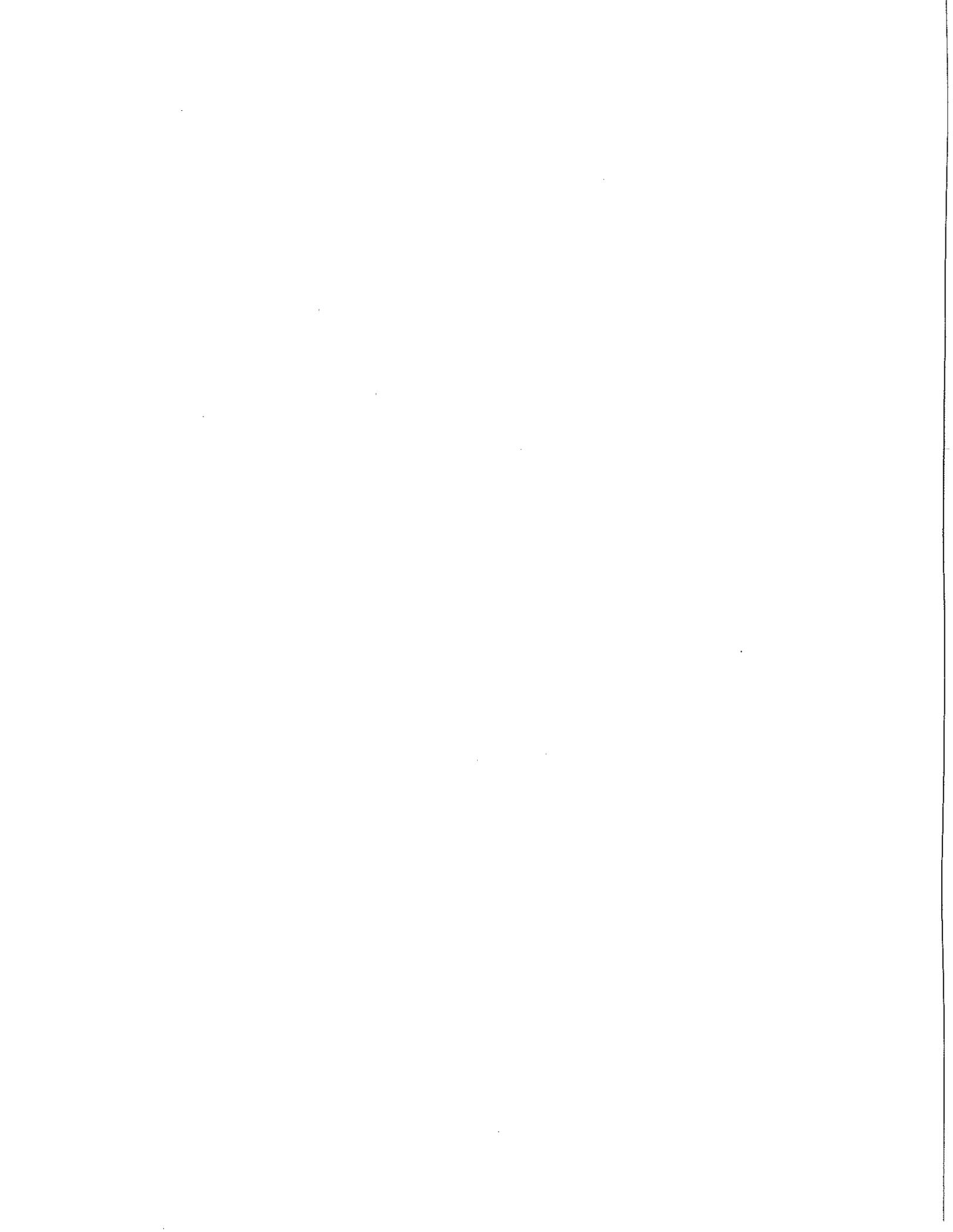
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<sup>4</sup> No regulations have been adopted to set up a continuing education program for nursing home administrators. Optometrists have an eight-hour, annual education requirement.

The responsibilities of that body include making a determination on the acceptability of examination and licensure candidates whose qualifications may not be in a form that makes it clear that they match the state's standards, and passing judgment on complaints that proceed to the hearing stage. It is the opinion of the committee that the current board with its mix of professional accountants and public members is the appropriate entity to perform those functions.

*Accordingly, the Legislative Program Review and Investigations Committee recommends the continuation of the State Board of Accountancy (C.G.S. Section 20-279).*

## APPENDICES



APPENDIX A

STATE BOARD OF ACCOUNTANCY

STATUTORY REF: C.G.S. Sections 20-279 through 20-287

ESTABLISHED: 1907 (Public Act 202)

ORGANIZATIONAL LOCATION: Department of Consumer Protection

PURPOSE: To oversee the practice of public accounting in Connecticut

POWERS AND DUTIES:

- Authorize the issuance of certificates to certified public accountants (CPAs)
- Authorize the granting of authorities to practice to public accountants
- Authorize the issuance of limited permits to CPAs from other states who are performing work for a specified client
- Evaluate the qualifications of CPA applicants
- Provide a written examination process for eligible applicants seeking to become CPAs
- Verify CPA and public accountant compliance with continuing education (CE) requirements; as warranted, make exceptions from CE requirements
- Authorize the issuance of annual licenses to CPAs and public accountants
- Advise and assist the commissioner of consumer protection with the development of regulations
- Hold hearings on matters within the board's jurisdiction and decide upon disciplinary action including suspension and revocation of certificates, authorities and licenses
- Have printed annually a register of all CPAs and of all practitioners holding registration cards

BOARD MEMBERSHIP: Six members  
3 certified public accountants  
1 public accountant (until January 1990)  
2 public members

APPOINTING AUTHORITY: Governor

STAFF: Three clerical (as of May 1982)

BUDGET:

	<u>FY 1979-80</u>	<u>FY 1980-81</u>	<u>Estimated FY 1981-82</u>
Board expenses	\$ 11,691	\$ 14,563	\$ 16,500
Staff expenses	19,160	21,072	23,500
O & E	66,098	89,615	100,000
Admin. expenses	<u>17,464</u>	<u>32,000</u>	<u>35,000</u>
TOTALS	\$114,413	\$157,250	\$175,000

REQUIREMENTS FOR LICENSURE (Certification as a CPA)\*

- Be 18 years of age
- Reside in or have a place of regular transaction of business in this state
- Be of good moral character
- Have such education in the theory and practice of public accountancy as the commissioner of DCP prescribes by regulation, or hold authority to practice as a public accountant
- Hold a bachelor's degree from an accredited college
- Pass a written examination
- Have two years experience as a full-time practicing accountant
- Obtain continuing education credits

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\* Authority to practice as a public accountant is limited to individuals who were involved in the practice of public accounting in 1955 or who were in the armed services at that time and meet certain criteria.

## APPENDIX B

### Legislative Changes Needed to Implement the Legislative Program Review and Investigations Committee's Recommendations

- Amend C.G.S. Sections 20-282 and 20-283 to remove eligibility criteria not related to the performance of accounting functions as recommended by the program review committee.
- Amend C.G.S. Section 20-282 to require two years experience for certified public accountants but to allow more flexibility in the granting of credit for part-time work and graduate level education; no more than one year of credit is to be granted for a master's degree in accounting.
- Amend C.G.S. Section 20-283 to prohibit the State Board of Accountancy from issuing new authorities to practice to individuals previously approved as public accountants but who have never requested approval, one year after notices stating that policy are sent out by the Department of Consumer Protection.
- Amend C.G.S. Sections 20-280 and 20-284 to delete all references to continuing education requirements.

