

## CPA Examination Ownership

AICPA vs. NASBA

By

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Note: Input for this document was provided by the entire Illinois Board of Examiners. The responsibility for drafting the document was assigned to Gary L. Fish by Chairperson, Cheryl S. Wilson.

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Charge: A special NASBA examination conference for state board representatives was held May 19, 2008 in the Dallas/Ft. Worth airport. To be prepared for that meeting, Ms. Cheryl S. Wilson Chairperson, Illinois Board of Examiners, asked Dr. Fish, member, to head a Task Force to draft a white paper relative to the activities of the NASBA Committee on National Examination Preparedness.

## Introduction

The Uniform CPA Examination has been a significant factor in the quality and resultant prestige of the CPA profession for over 50 years. Its prestige and reputation going forward will depend on changes that are being considered at this meeting. It behooves us to consider the situation very carefully. The members of the Illinois Board of Examiners (IBoE) believe that the accounting profession is at a critical point regarding the future of the Uniform CPA Examination. Ownership of the CPA exam is a very complex issue. The objective of this white paper which represents the opinions of the members of IBoE is to identify what we believe to be the key factors in evaluating the ownership issue. The number of years of service on the board range from six to twelve years. In addition, both committee service and professional careers of the IBoE board members have been notable. This white paper is an opinion piece based on our years of service to the accounting profession and as regulators on the IBoE.

The organization of this white paper is straightforward. There are four sections in addition to the Introduction.

1. The Case for AICPA Ownership
2. The Concerns about AICPA Ownership
3. The Case for NASBA Ownership
4. The Concerns about NASBA Ownership

Since this is an opinion piece and our objective is to identify what we believe to be the key factors in evaluating the ownership issue, we do not present a recommendation.

## **The Case for AICPA Ownership**

The AICPA has an infrastructure in place to develop, deliver, score and evaluate the CPA exam.

The AICPA has been writing and scoring the Uniform CPA Exam for approximately 50 years. Until November of 2003 the exam was in the traditional pencil and paper (P&P) format. In April 2004 a computer based testing (CBT) format was introduced. A partnership was formed among NASBA, Prometric and the AICPA to meet the challenges of evolving functions of writing, distributing, scoring, scheduling and proctoring the exam. (Note: Illinois started using the Institute's exam in November 1932, but the Committee on Accountancy continued grading them until 1957 when the Institute took over that function.)

Over the years the AICPA has acquired and developed an infrastructure that supports the production of the exam. This infrastructure includes computer hardware and software, an experienced staff of technical content experts as well as expert psychometricians. This infrastructure includes an adequate amount of office space for the computer systems and the staff.

The AICPA has also developed a network of vendors who provide technical testing services. This network brings to the AICPA new products and services that have been developed for a high stakes exam.

The AICPA has a proven performance record in producing the CPA exam

The AICPA has a proven performance record in developing, distributing and grading that has been observed for many years. While there have been minor problems both with the P&P exam as well as the CBT exam, the overall performance record has been very good. For example, under the P&P, exams were given with printing errors. However, these

errors have never been significant enough to be classified as a major error or to cause a P&P exam to be recalled.

There is probably general agreement that there have been more errors with the CBT exam in the past four years than with the last four years of the old P&P exam. However, these errors have to be viewed within the context of the number of innovations that were incorporated into the CBT exam. The AICPA has, at considerable risk and expense, been an innovator in moving the exam beyond simple “objective-format” to a “constructed response-format” such as simulations, all at the request of the profession. The history of how this change came about is important.

During the 1990’s some State Societies, as well as major employers of recently certified CPAs, began requesting significant changes in the CPA exam. Specifically, the concern was that the existing P&P CPA exam focused entirely too much on testing “knowledge” and rewarded simple memorization of enormous amounts of technical information. Many believed testing of skills such as communication, research, analysis and organization and judgment would result in a much-improved high stakes CPA exam.

Unfortunately, the generally accepted practices for testing skills on high stakes exams at that time were not as advanced as testing for knowledge. As a result, problems have surfaced in the testing of simulations. Probably the most prevalent problem was related to the copy-paste function within the research text. The AICPA worked with Prometric and NASBA to correct this and a few other similar issues. But when one considers the magnitude of what was accomplished at the same time that the exam was computerized, the size of the task that the AICPA undertook can be better appreciated. In addition, the CPA exam has never been challenged as a fair and an appropriate tool for identifying those who are ready to enter the credentialed profession from those who are not.

It is our belief that the issue of testing knowledge versus skills is closely tied to the 120 hour requirement versus the 150 hour requirement. Many believe that a 120 hour university education is sufficient to pass a knowledge based exam. However, to pass an

exam that tests both professional knowledge and professional skills a 150 hour education is required. While the quantitative data are limited, it appears that candidates from a well-integrated 120 hour undergraduate and a 30 hour graduate program are more successful in passing the CPA exam. We believe that the public will be better protected by candidates who have a well integrated 150-hour university education that includes both professional knowledge and skills.

The AICPA has a very large membership base and a robust volunteer committee structure

The AICPA has over 350,000 members who are mobilized into approximately 200 standing committees. The large membership base permits the AICPA to appoint highly qualified members to various types of committees. As a result the AICPA has been successful over the years in appointing very qualified professionals to the CPA exam content committees, which make up the Board of Examiners. In addition to the CPA exam content committees, the AICPA has numerous other technical committees that cover the full spectrum of professional services that are provided by CPAs. These technical committees are also available for consultation when special CPA exam concerns are identified.

The AICPA has a significant commitment to the existing CBT exam

The AICPA has made a significant financial commitment to the CBT exam. At the end of fiscal year ended 2007, the AICPA was carrying \$44 million of deferred computerized examination development costs. In FY 2007 the AICPA exam revenues exceeded expenses by \$400,000, which is the first year that the CBT exam has earned a profit.

The investment of over \$44 million in the effort to convert the CPA exam from a P&P exam to a CBT exam and upgrade the quality of the exam itself demonstrates an impressive commitment by the AICPA to the CPA exam and the profession. While exact data are not available to the public, it is fair to assume had the AICPA just

converted the old P&P exam to a CBT without including skills testing, the cost of development of CBT the exam would have been substantially less. Fortunately, the AICPA responded to stakeholders' pleas to move aggressively to skills testing at the same time they undertook the huge task of converting to a computerized exam. This resulted in a much larger investment and probably quite a few of the testing errors.

In October 2007 the AICPA introduced the CBT-E project. The project proposed several changes to the existing CBT CPA exam, all aimed at improving the CPA exam. It would not be appropriate to discuss all of the proposed changes in this paper so only one will be highlighted. The AICPA is proposing that the current simulations which have caused scoring problems be shortened and renamed Task-Based Simulations (TBS). It is believed that the TBS will be easier to score and, therefore, will create substantially fewer scoring issues. To obtain feedback from the major stakeholders, the AICPA issued an invitation to comment with the responses due December 31, 2007. Future changes to the CBT CPA exam will be based on the feedback received. This project was a major undertaking and was motivated by constructive criticism received from stakeholders.

Obviously, the AICPA has a strong desire to protect the CPA "brand" or "image" in both the domestic and world markets. They recognize both the benefits and the risks to taking the CPA exam international. They have the depth of experience to move more quickly on this than any other provider and we know that because time is of the essence if we want to expand the global reach of the exam, this is perhaps not the best time to make other major changes.

## **The Concerns about AICPA Ownership**

There are a number of concerns about AICPA ownership of a licensing exam that is regulated by state boards.

While the AICPA rightfully views itself as a professional organization, all professional organizations by their very nature incorporate attributes of a trade association. Many believe that a trade association should not have undue influence over the required exam for those entering a trade or profession. In short, the AICPA is considered by some to be only a quasi-regulatory organization, not fully a member of the regulatory community.

While the AICPA has been able to move beyond breakeven one year earlier than projected, there have been significant fee increases required to generate the necessary revenue. Some believe that if the AICPA had more stringent cost controls and a better strategic plan, the \$44 million cost of development could have been reduced. As a result, there is a concern that the AICPA did not adequately control the costs of development in the past and this perceived lack of control would continue in the future.

The AICPA has been very public about its wish to begin the negotiations now to renew the existing contract which is due to expire during 2014. Judging by the AICPA's public statements in joint meetings and the lack of response by NASBA, it appears that NASBA is unwilling to enter into contract extension talks at this time. At a recent NASBA/AICPA International CPA Exam committee meeting, a member of the AICPA's Board of Examiners (BoE) publicly questioned whether the AICPA would continue to develop and invest significant dollars in an international CPA exam if NASBA would not extend the domestic contract. Since the AICPA currently owns the CPA exam, it is difficult to see how a uniform CPA exam could be given internationally if the AICPA elects not to participate in that effort.

Some State Boards of Accountancy (SBAs) have expressed concern that in the early days of the CBT exam the AICPA did not co-operate well with the other stakeholders.

Whether or not that is a fair charge, it appears that as the partnership among Prometric, NASBA and AICPA has matured, the level of co-operation has increased and the trio is functioning well at this point.

It is our view that the fact that the AICPA is a trade association is the biggest concern and an issue that would require some adjustments should the AICPA retain ownership of the CPA exam. One possible solution would be for the AICPA to hand over to NASBA the functions that are most problematic for the trade association to control. While this determination would require a thorough review, two functions that come to mind are conducting the Practice Analysis study and the setting of the “cut score”. The Practice Analysis is a regulatory function since this study is used to determine which topics are actually tested on the CPA exam. Another regulatory function is the setting of the cut score since this process determines the number of candidates who pass one of the four sections of the CPA exam each quarter. This list is intended to be only representative of the type of review that would need to be conducted and does not purport to be all-inclusive.

## **The Case for NASBA Ownership**

### NASBA is an association of regulators

NASBA is a freestanding association of regulators representing the State Boards of Accounting (SBA) in all 50 states, the District of Columbia and 4 territories. To the extent that state representatives participate, NASBA is a representative voice.

However, the participation is very uneven and it takes a very lengthy process to find consensus on any subject. NASBA does not have any direct ties with the accounting profession and therefore has the appearance of being independent of the issue related to the number of entrants into the accounting profession. NASBA ownership would remove the occasional allegation that the AICPA has a bias towards reducing (or increasing) the number of entrants into the accounting profession. NASBA, who is not a regulator but a representative of regulators, would be responsible for limiting the new CPA designation to only those candidates who demonstrate sufficient knowledge and skills to protect the public interest.

### NASBA could design and implement an entirely new exam development process

NASBA ownership of the CPA exam would provide NASBA an opportunity to design and develop an entirely new CPA exam. Ideally, a totally new exam would be free of any existing design and process limitations that exist with the current exam. The process of designing a new CPA exam today would permit the inclusion of any new “high stakes” exam technologies that have been developed since the current CPA exam was designed. In addition, the new design would have the opportunity to avoid the existing pitfalls and build on strengths of the current exam. Starting from scratch might also be prohibitively expensive. But, of course, there is no guarantee that NASBA, an organization without any experience in preparing high-stakes tests, would be able to do better or even as well as the AICPA.

### NASBA could (eventually) receive a large increase in revenues from developing, distributing, and scoring the CPA exam

NASBA ownership of the CPA exam could result in a significant increase in revenues. Currently, NASBA (through the CPA Examination Services subsidiary) contracts with over 30 jurisdictions to provide credential evaluations and application processing. Exam ownership would allow NASBA to generate revenue from the entire CPA exam process. NASBA would own or control the development of the exam, the operation of the National Candidate Database, the evaluation of the candidates' credentials (for the CPA Examination Services states), the scoring of exams, and the distribution of the exam scores. This entire vertical integration could generate a substantial increase in revenue and provide for some possible expense efficiencies as well.

NASBA has been building an impressive leadership team and infrastructure

NASBA has been building an impressive leaderships team and might be able to undertake development and ownership of the CPA exam. This assumption is based on several isolated observations which may or may not be related to this issue. The observations are:

- NASBA recently hired two highly regarded former SBA Executive Directors.
- NASBA hired a high- level and highly regarded Project Manager.
- Over several years NASBA built an Information Services Department with over 20 staff members.
- NASBA has established a committee on National Examination Preparedness. The committee's charge is to "Initiate a process to increase the influence of the state boards of accountancy and NASBA in the CPA examination process."
- NASBA's 2007 Annual Report shows an Unrestricted Net Asset End of Year balance of over \$12.5 million. This appears to be an adequate amount to begin the early basic design of a contingent CPA exam.
- If NASBA desires to take over as the single provider of the CPA exam it would need to begin the design and development stage soon. [While the

experts differ, apparently five years is a reasonable length of time to launch a new high stakes CBT exam. The current CBT CPA exam was more than five years in development. The current master contract among NASBA, AICPA and Prometric expires in 2014. (2014 – 5 = 2009)].

NASBA ownership of the CPA exam would reduce by 1/3 the number of parties involved in the master contract. If NASBA assumed ownership of the CPA exam, the number of parties would be reduced to two (NASBA and Prometric). Some believe the potential exists for fewer problems if the number of parties to the exam contract is reduced.

## **The Concerns about NASBA Ownership**

NASBA ownership of the CPA CBT exam might bring tremendous pressure to simplify the exam. This could be done by eliminating the skills testing (i.e. simulations) which are complex to write, pilot test, and score. One way to ensure that a new CBT CPA exam would have fewer problems than the existing exam is to make it simpler. The testing technology for designing CBT exams for testing “knowledge” is relatively straightforward. The challenge is to maintain a CBT exam that tests skills such as communication, research, analysis and judgment. Over the past four years, the partners to the master contract as well as the SBAs have made substantial progress in testing of the skills required by CPAs to protect the public interest. A pull back to testing only knowledge would be a loss to the profession.

NASBA would control several functions [drafting the education standards, evaluating candidates’ credentials (for the CPA Examination Services states), operating the National Candidate Database, writing the exam, scoring the exams, distributing the scores] that might be considered by some to be a conflict of interest. This arrangement would place all the major functions of the CPA exam except for proctoring CPA candidates at the computer-testing site under the control of one party. The AICPA would be eliminated from the partnership currently administering the CPA exam although the AICPA might be retained as a basic vendor for content development (i.e. question writing). NASBA would be in the position to exert significant influence on all operating procedures impacting the CPA candidates. Perhaps more importantly, NASBA would have significant influence as well on all the fees charged CPA candidates. Some believe that with only two parties there would be fewer checks and balances. Some also believe that the potential increase in revenues is one of the key reasons that NASBA wants to take over the CPA exam. If NASBA were to take over the development of the CPA exam, they would in fact control a near monopoly of all CPA exam related functions. Many believe that is not in the best interest of the profession.

NASBA ownership of the CBT CPA exam will require a huge financial investment. The AICPA's 2007 Annual Report shows \$44 million dollars of deferred costs related to the development and launch of the CBT CPA exam. NASBA's 2007 Annual Report shows an Unrestricted Net Assets balance as of July 31, 2007 of approximately \$12.5 million dollars. It would appear that even if NASBA was willing to invest the entire fund balance it, would still be substantially less than what the AICPA expended to design, develop and launch the CBT exam.

NASBA is currently investigating the alternative of offering the existing CPA exam outside the USA and its territories. Offering the CPA exam internationally will also require substantial investment in staff and investment of monetary assets as well. It may be a challenge financially for NASBA to simultaneously invest in the ownership of the domestic contingent CBT CPA Exam and at the same time develop an infrastructure for an international CBT CPA exam.

NASBA ownership would provide an opportunity for the CBT CPA exam to be redesigned. A new design would probably bring both good news and bad news. The good news would be that the current exam functionality issues would most likely be designed out of the exam. The bad news is that, in all likelihood, new faulty design issues would be introduced. In any event, a new exam structure would bring the possibility of new and different design issues. The learning curve has been relatively steep for CPA examination candidates to adjust to the design, format, and functionality of the current CBT exam. Major design changes to the exam will require educating the candidates well in advance of implementation. An additional concern is the consistency of content being tested now and in the future with the introduction of a new exam vendor. NASBA, as well as State Boards, does not want to provide fodder to challenges (i.e. law suits) from candidates on the "fairness" of the exam.

NASBA ownership would strain the existing volunteer committee structure.

NASBA's membership is probably well below 2,000. A membership of this size would probably have great difficulty filling the numerous technical committees that CPA exam ownership would require to develop the content of the exam. Of course, these functions could be outsourced to technical vendors, which would most likely result in a significantly higher cost. Given the relatively small size of NASBA's membership, it would appear that the recruitment of the required technical volunteers would be problematic.

NASBA ownership would require the building of a CBT exam infrastructure.

NASBA appears to have started building such an infrastructure, but an actual commitment to develop a contingent CBT CPA exam would be a huge undertaking as noted previously. The infrastructure would require computer hardware and software, content experts, psychometricians, project managers and office space to name just a few components. The building of an adequate infrastructure would require a gigantic financial investment and staffing effort by NASBA.

NASBA ownership of the exam may result in competing exams.

If NASBA develops a contingent exam and the AICPA continues to produce an exam, it is possible that not all states would choose to purchase the CPA exams from the same vendor. The result would be that the uniform CPA exam, which the profession has benefitted from for over 50 years, would be lost. This would be the worst possible outcome!

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