

The Rôle of the State Board of Examiners in the Development of Accountancy in New York

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WHEN this title was assigned to me, I felt impelled to ask the age-old question—which was first the hen or the egg? Did the work of the Board of Examiners influence the development of accountancy, or did the development of accountancy influence the work of the Board? Possibly, the answer is that the forces of action and reaction are equal, but the influence of the first Board of Examiners can hardly be questioned.

The Beginning . . . April 17, 1896

Public Accountants were known in this country long before 1896, when

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New York State enacted the first C.P.A. law, and at least some of them were recognized as professional men. Yet, the Secretary of the Board of Regents in his report for 1896 said:

"The public accountants have been made a distinct profession by a law authorizing the regents to appoint examiners and to issue credentials to those 21 years of age, of good moral character and who have passed the professional examinations necessary to entitle them to use the title certified public accountant and to attach the initials C. P. A. to their names. For a single year the regents are allowed to waive the examination in the case of men of undoubted standing and ability. The effect of this law will clearly be to elevate materially the standard of public accountants who are coming more and more to have the most important interests committed to their charge and to have functions in many cases as important as those of the commercial lawyer."

The Banking Law Journal for June, 1896, announced the appointment of the first Board of Examiners and said:

"While the new law does not restrict the practice of accountancy to those who qualify by a prescribed course of study and training, culminating in examination and license, as in the professions of law and medicine, it does provide for examination and certificate, with the exclusive right to those qualifying thereunder to use the title 'Certified Public Accountant' (C. P. A.) and thus aims at the creation of a professional, titled class, to whom the public generally may entrust their business."

Both writers recognized that public accountancy had been made legally a profession, but failed to realize that actually a new profession had been born—Certified Public Accountancy. Even today, fifty years later, we speak of the profession as public accountancy

but the law made a distinction between *Certified Public Accountancy* and *Public Accountancy*, and the gap has grown ever wider.

This first C. P. A. law was a model of brevity, less than 400 words including the title. It provided that a person "who shall have received from the regents of the university a certificate of his qualifications to practice as a public expert accountant, as hereinafter provided, shall be styled and known as a certified public accountant; and no other person shall assume such title . . .", and that "the regents of the university shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose . . ." The Regents were also authorized to charge fees for examination and certificate and to waive examination of those engaged for more than one year before passage of the act in practice on own account.

It will be noted that full power was vested in the "regents of the university" and that appointment of a Board of Examiners was permissive, not mandatory. It was not until 1929 that the statute required appointment of a Board of Examiners, and even then the power of the Board was limited to making recommendations to the Education Department and final authority was left with the Regents. Hence, the Board has always had to work through the Department and, officially, all actions appear as rules of the Regents or regulations of the Commissioner of Education, even though most of them have originated in the Board and only occasionally have the Regents taken action without approval of the Board.

The First Rules

Bearing in mind the form and operation of the organization, it must be pre-

sumed that the first Board of Examiners, appointed in May, 1896, contributed largely to the drafting of the first rules for Certified Public Accountant examinations and certificates, even though the first recorded minutes of the Board were under date of October 28, 1896, and the first rules were enacted by the Regents on October 15, 1896. This presumption seems also to be supported by a reading of these rules which contained the following provisions:

"Examinations may be waived on unanimous recommendation of the examiners in the case of candidates well known to them as meeting the professional requirements and as having been in reputable practice as public accountants since January 1, 1890, the same fee to be paid as for examination. "The full C. P. A. certificate is to be granted only to those at least 25 years of age who have had five year's satisfactory experience in the study or practice of accounting.

"Candidates having the required preliminary education and passing the required examinations but without the age or the five years' experience required for the full C. P. A. certificate may be certified as junior accountants under the same conditions as to residence and character.

"Two examinations, in June and December, are to be held annually. There are to be four sessions of three hours each as follows: 1 Theory of Accounts, 2 Practical Accounting, 3 Auditing, 4 Commercial Law.

"Candidates must complete all four subjects at a single examination as required in medicine.

"Candidates for either the C. P. A. or the junior accountant certificate must be more than 21 years of age and of good moral character. They must pay a fee of \$25 and must have the regents academic diploma or its equivalent, as prescribed for other professional examinations."

It is interesting to note that the four subjects in the examination and the amount of the fee have remained unchanged and have been adopted by nearly all of the other states. In addition to fixing the pattern for the examinations, this first Board was required to consider at length many questions of experience. In the fiscal year

1896-97, only 14 candidates were examined, while 104 certificates were issued under the waiver. The decisions made in these cases established precedents for the guidance of future Boards and for the profession not only in New York but throughout the country.

The First Board of Examiners

It is indeed fitting to refer briefly to the personnel of that first Board:

Charles W. Haskins, of Haskins and Sells, a leader in the profession and in education for the profession, founder and first Dean of the School of Commerce, Accounts and Finance of New York University.

Col. Charles E. Sprague, Ph.D., President of the Union Dime Savings Bank, teacher, soldier, accountant, banker, and author of two accounting classics: *The Philosophy of Accounts*, and *The Accountancy of Investment*.

Frank Broaker, of Broaker and Chapman, Vice-President of the American Association of Public Accountants, teacher, author and the one recognized by his contemporaries as deserving most credit for the passage of the first C. P. A. law.

These were the three men who blazed the trail, who set the requirements and the standards for the new profession, and whose influence upon the development of Certified Public Accountancy cannot be questioned. There have been modifications and changes in detail, but the basic requirements, Education, Examination, and Experience, established by the first law and the first Board, have remained.

The age requirement of 25 years remained in effect until 1911, although the law said "over the age of twenty-one years".

The Education Requirement

The education requirement of high school or equivalent remained until January 1, 1938, when Section 1498-a of the 1929 law became effective. In the 1914 report of the Education Department, Dr. A. S. Downing suggested "that the time seems ripe for requiring professional training for admission to the C. P. A. examination," and this was noted in the minutes of the meeting of the Board of Examiners held on July 21, 1915, with the statement:

"In the above recommendation this Board heartily concurs."

The term "professional training" used by Dr. Downing is not to be confused with professional experience, but refers to training in a professional school. Strictly speaking, there were no professional schools of accountancy in 1914, but the newly organized schools of commerce or business administration were developing rapidly, both in number and in quality of instruction. Dr. Downing and the Board were well aware of this, and undoubtedly were equally well aware that years would be spent in discussion and debate before it was finally approved as Section 1498-a of the 1929 law. Despite the fact that during all of this time the Board of Examiners had urged the need of higher academic education at every opportunity, the effective date of the new requirement was put off nine more years.

Following the passage of the 1929 law, it became necessary for the Education Department and the schools to prepare for the January 1, 1938, deadline. Originally, it seems to have been the thought that the course of study should be principally in accounting and technical subjects, but the Board of Examiners pointed out that recent examinations had demonstrated a much

greater lack of general education than lack of accounting knowledge, and insisted that a fair part of the new course of study should be devoted to liberal arts. This view was accepted by the Department and the schools without argument, even though some of the schools had to revise their courses. In the profession of Certified Public Accountancy, January 1, 1938, is a date second in importance only to April 17, 1896. It was another first in history and established college education as a requirement for the certificate, a step that is being followed by other states and is destined to spread to all of them.

The Examination Requirement

The second of the basic requirements is the Examination. I have previously noted that there has been no change in the subjects selected by the first Board, but there have been several changes in the rules, all intended to make it easier for the candidates.

The first examination was held December 15-16, 1896, and as provided in the rule, 3 hours were allowed for each subject. In the second examination, the time allowed for Practical Accounting was extended to 4 hours. In October, 1907, this was changed to 2 sessions of 3 hours each. In May, 1928, the time in each session was extended to 4 hours, and for one examination, October, 1940, there were 2 sessions of 5 hours each. The present schedule was adopted in May, 1946, and allows 4½ hours for each session in Practical Accounting and 3½ hours for each of the other subjects.

The first rules required that all four subjects be passed at one sitting. This remained in effect until 1908, when provision was made for conditioning in one subject. In 1934, this was further modified to give credit for passing any two subjects or for passing Practical Accounting only. In 1943, the exam-

ination was divided into two parts: the first, consisting of the subjects, Theory of Accounts, Auditing and Commercial Law, may be taken immediately upon completion of the required college course; the second part, Practical Accounting, may be taken only after completion of the required experience. It is still one examination of 4 subjects, not four separate examinations, but taking it in two parts relieves a great deal of the nervous strain of a 2½ day examination and also eases the burden of preparation.

The Experience Requirement

The experience requirement in the first rules was "five years' satisfactory experience in the study or practice of accounting". This was changed in 1899 to read "three years' satisfactory experience in the practice of public accounting, of which at least one year must have been in the office of an expert public accountant". In 1913, the time was increased to "five years of experience in the practice of accountancy, at least two of which should be in the employ of a certified public accountant in active practice in no less grade than that of a junior accountant".

The differences in the language of these three rules are interesting, but of no practical importance. In 1896, there were no certified public accountants other than those who had been granted waiver certificates; yet the record shows that no experience other than public practice was considered "satisfactory" by the Board. The change in 1899 was to make this clear, and in the language of the time, "in the office of an expert public accountant", had the same meaning as the 1913 language, "in the employ of a certified public accountant in active practice". The law of 1896 defined a certified public accountant as a public expert accountant who had received the certificate, and in every day usage the

terms were synonymous. The only real differences were in the length of time required.

This requirement of actual professional auditing experience has been the subject of more persistent attack by non-professional accountants than any of the other established requirements and, almost without exception, the educators in the Department have tended to favor the opposition to this policy of the Board of Examiners. Many certified public accountants have given encouragement to this opposition by failing to recognize that the profession is Certified Public Accountancy and that the public interest is concerned only with those who hold themselves out to the public as practitioners. It seems almost axiomatic that a State licensing department should not be concerned with the competency or incompetency of those who enter private employ or the civil service. Yet for fifty years the Board of Examiners has had to defend its position against both direct and indirect attacks by individuals and organized groups of private and governmental accountants.

The first attack was launched in 1897, one year after the enactment of the first C. P. A. law. This was the Ford bill introduced, but not passed, in the 1897 legislature, which provided for certificate by waiver to "all persons who on April 17, 1896 were employed by any of the city governments of this state as auditors in the office of the comptroller or as chief clerks, examiners or assistant examiners in the offices of the commissioner of accounts".

Space does not permit even the listing of later actions, and no purpose would be served thereby. Suffice it to say that for fifty years every change in the wording of the rules, every special rule promulgated for the relief of apparent hardships, every proposal of new legislation, and every change in

the administration of the Education Department has been the signal for a renewed attempt by the governmental accountants to obtain full recognition of their experience.

The 1913 rule was amended in 1918 to permit admission to the examination upon completion of 3 of the 5 years' experience. In 1927, a graduate from a college or school of accountancy and business administration was given credit for 2 years of general experience in accountancy, and after January 1, 1938, this credit became automatic and the rule was changed to read 3 years. Also, in 1927, provision was made for the waiver of the high school education requirement for those engaged in public accounting for 10 years prior to January 1, 1930, and provision was also made that 10 years' practice of public accountancy by an applicant on his own account prior to January 1, 1938, would be accepted as meeting the experience requirement. These two waivers were recommended by the Board to afford an opportunity to all those in public practice to obtain certificates before the higher academic standards then under discussion were imposed.

In 1925, provision was made for acceptance of 2½ years in the U. S. Army during World War I as equivalent to 6 months' experience in the employ of a certified public accountant, but for all practical purposes, this was a meaningless gesture as only 1 year and 7 months had elapsed between the declaration of war and the signing of the armistice, and very few were ever able to show 2½ years' service. In 1929, an addition to the experience rule was adopted so that either 2 years in the employ of a C. P. A., or 4 years in the employ of a public accountant who had been in practice for 10 years, could be accepted.

As a result the Board, in 1930, was

faced not only with the problem of setting one examination for both college graduates and those without a high school education, but also with the problem of three separate experience requirements, with no provision for averaging or for approval of other experience in lieu of even a small part of the required time under any one of the three rules. Under a strict interpretation of these rules, an applicant who had 1½ years' employment by a C. P. A., 3½ years' employment by a public accountant, and 9½ years' practice on his own account did not qualify, although he lacked only 6 months under each of the three requirements. Few of the cases were so extreme, but the injustice of arbitrary rules was quite apparent. The Board, therefore, asked for discretionary power to deal justly with these cases and, in 1934, the rule was amended to read "in the employ of a duly authorized certified public accountant in active practice or the equivalent thereof as determined by the Board". To preclude any possibility of approval of all kinds of experience as equivalent, a sentence was added to the same rule reading:

"A reasonable portion of the experience required for the certificate shall be gained by the applicant in responsible work on diversified audit engagements."

The purpose and meaning of this language and the intent of the Board were quite well understood by the Regents and the Department at the time and for eight years thereafter. Nevertheless, constant attack finally succeeded in making it appear that the rule began and ended with the word "equivalent".

The earlier Boards had to deal with the question of experience mainly under the waiver provision in the first law, which limited the time for filing applications to one year after passage

of the act. In 1901, the legislature extended to September 1, 1901, the time for filing such applications, but made no change in the requirement that the applicant must have been engaged in practice as a public accountant for more than one year before passage of the law. Three applicants who had been disapproved several times by the Board on the ground that the evidence submitted did not show actual practice of public accounting for one year prior to April 17, 1896, were approved by the Regents on October 4, 1904. This action resulted in some lengthy correspondence and the resignation of two of the three board members on February 8, 1905. The Commissioner of Education wrote in response to these resignations:

"It is my opinion as I understand it to be the opinion of the Board of Regents, that the statute does not provide that the determination of applications for certificates under the clause waiving examinations should be made by the Board of Examiners, but that such determination must necessarily be made by the Board of Regents, and that no good end is accomplished by referring them in the first instance to the Board of Examiners. The function of the Board of Examiners is to examine and pass upon the answer papers of applicants who must take the examination."

Business World, in its issue of March, 1905, page 132, said:

"While we cannot endorse in its entirety the radical views expressed by our contributor in another part of this issue, we believe that the action of the board should be final in the case of applications brought before it, unless revoked by the courts after due process of law. If the C. P. A. certificate can be given hereafter by a political appointee to anyone having the necessary political pull, then the C. P. A. certificate is not and will not be worth the paper on which it is written, and it were better to revoke the law."

In its April, 1905, issue, page 170, *Business World* again commented:

"It seems to be the opinion of most accountants that under a strict construction of the wording of the present law,

the Regents have the power to take such action as they did in the cases leading to the resignation of the two former members of the Board. That it was the intention of the makers of that law to grant them such power seems preposterous to those who were conversant with affairs at the time of its enactment. Should further arbitrary abuses of this power occur, it would be well to remember that the State Legislature is the source from which such power is drawn; and a new law or an amendment to the present one is not beyond the possibility of attainment."

These were the last certificates issued under the original waiver clause. The record shows 7 more waiver certificates issued in the fiscal year 1913-14, but in these cases, the waiver of examination was based upon certificates issued by other states and they should properly be classed as indorsements. The particular question involved in the 1904 action did not again arise, but it was almost forty years, and several Commissioners later, before the Regents again overruled the Board on a question of experience and a Commissioner of Education held statutory authority sufficient reason for ignoring recommendations of the Board of Examiners. This second overruling of the Board is too recent for historical comment, but the fact that there have been only two such instances in fifty years is worthy of note.

Indorsements

Whatever may be said for the influence of the Board of Examiners on the development of accountancy, it is undeniable that the development of accountancy brought about the need for recognition of certificates issued by other states. Under Section 51 of the Education Law, the Regents have always had power to accept credentials in any profession issued by another state or country, and as previously noted, 7 certificates were issued in the 1913-14 fiscal year under a reciprocity rule enacted by the Regents. Two

more certificates were issued under this rule, one in 1918-19 and another in 1919-20. In 1922, the requirement of a reciprocal agreement with the other state was eliminated and the policy of indorsement without reciprocity by the other state was established. Under this rule, 79 certificates were issued before it became a part of the statute as Section 1492-a of the 1929 law. This made a total of only 88 up to 1929, but in the following 5 years, 345 such certificates were issued. The contribution of the Board of Examiners to this movement consisted only of formulating policies and rules under Section 1492-a and advising the Regents with respect to credentials from other countries which still may be indorsed only under Section 51. This work and the large number of applications under Section 1492-a made the Board acutely aware of the need for closer relations with other state boards and culminated in the organization of the Association of C. P. A. Examiners in 1935, an association of state boards to serve as a clearing house for information, to establish better understanding among boards, and to improve the standards of examinations and grading.

The Examination Syllabus

One major contribution to the development of accountancy by the first Board of Examiners has not been mentioned. It was the syllabus for the examination written by Charles W. Haskins and published in 1900 to provide a

"systematic statement of the scope of the examinations, accompanied by an outline of the sub-topics of which the candidate is required to have general or specific knowledge"

This syllabus was reissued in 1903 and 1907. A revision was published in 1911 and reissued in 1912. In the fol-

lowing twenty years, the matter was either forgotten or no one willing to undertake the work could be found. The next syllabus, and to date the last one, was published in 1935. The first draft, by far the hardest part of the job, was prepared by George E. Bennett. Various parts were then assigned to the other members of the Board for criticism and revision. Finally a revised draft was tentatively approved by the Board, submitted to the Council on Accountancy, further revised, submitted to the faculties of all the schools and colleges of accountancy and business administration in the State, and then revised as a whole by a committee consisting of Norman E. Webster, Chairman of the Board of Examiners, and John T. Madden, Dean of the School of Commerce, Accounts and Finance of New York University and Secretary of the Council on Accountancy. It took the combined efforts of all these people, and a period of three years, to produce the 1935 syllabus. The first syllabus was written by one man, the chairman of the first Board.

The Board and Its Work

The Board of Examiners consisted of 3 members prior to 1929, when the number was increased to 5. In the fifty

years since it was established, 33 individuals have served on the Board for periods ranging from 1 to 17 years. The Board has prepared the questions for 102 examinations, has graded the answer papers, and has passed upon all applications for examination, certificate and indorsement. If there is any doubt about the effect of the development of accountancy upon the work of the Board, a few figures will quickly dispel it. In the fiscal year 1896-97, only 14 candidates were examined. By 1920-21, the number had increased to 327. In 1929-30, it was 2,306, and the peak number, 4,983, was reached in 1937-38 when the college requirement went into effect. In that one year, the Board acted upon 3,092 applications, graded 14,022 answer papers and reviewed 456 appeals from grading. In the three following years, the number of candidates in the examination gradually decreased to 3,198 in 1940-41. There was a further decline during the war years, but in the calendar year 1946, the number was 3,653. Our schools are filled to capacity, or beyond it, and the 1937-38 peak may soon be passed. Will the next history of the Board of Examiners record its burial under a mass of detail, or will it record vital changes in the administrative organization?

(Ed. Note: The foregoing article was written before the enactment of the Oliver Bill on March 24, 1947, as Chapter 340 of the New York Laws of 1947.)

