



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



**DEPARTMENT OF CONSUMER AFFAIRS (DCA)
CALIFORNIA BOARD OF ACCOUNTANCY (CBA)**

**CBA MEETING
NOTICE & AGENDA**

**Thursday, September 22, 2011
9:00 a.m. – 5:00 p.m.**

Meeting Location

Tsakopoulos Library Galleria
828 I Street
Sacramento, CA 95814
Telephone: (916) 264-2800
Facsimile: (916) 264-2809

Roll Call and Call to Order (**Sally Anderson**).

- I. Report of the President (**Sally Anderson**).
 - A. Educational Presentation on Legislative Tracking (**Matthew Stanley, CBA Staff**).
 - B. Proposed Modification to 2012 CBA Meeting Calendar (**Veronica Daniel, CBA Staff**).
 - C. Announcement Regarding Annual Officer Elections.
 - D. Presentation of CBA Leadership's Award of Excellence.
- II. Report of the Vice President (**Marshal Oldman**).
 - A. Recommendations for Appointment to the Enforcement Advisory Committee (EAC).
 - B. Recommendations for Appointment to the Qualifications Committee (QC).
 - C. Resolution for Retiring EAC Member, Arthur Thielen.

- III. Report of the Secretary/Treasurer (**Leslie LaManna**).
 - A. Discussion of Governor's Budget.
 - B. Fiscal Year 2010-11 Year End Financial Report.
- IV. Report of the Executive Officer (EO) (**Patti Bowers**).
 - A. Update on Hiring Freeze Exemption Requests.
 - B. Update on CBA 2010-2012 Communications and Outreach Plan (**Lauren Hersh, Information and Planning Manager**).
 - C. CBA 2010-2011 Annual Report (**Dan Rich, Assistant EO**).
 - D. Update on Legislation Which the CBA Has Taken a Position (AB 431, AB 1424, SB 103, SB 306, SB 541, SB 543, SB 706, SB 773) (**Matthew Stanley**).
 - E. Discussion on Initiating a Rulemaking to Amend California Code of Regulations, Title 16, Section 4 – Safe Harbor (**Matthew Stanley**).
 - F. Discussion of Report to the Financial Accounting Foundation on Potential Revised Accounting Standards for Private Companies and a New Standard Setting Board (**Paul Fisher, Supervising Investigative CPA**).
- V. Report of the Licensing Chief (**Deanne Pearce**).
 - A. Report on Licensing Division Activity.
 - B. Discussion on Fingerprinting CPAs Licensed Prior to January 1998.
- VI. Closed Session. Pursuant to Government Code Section 11126(c)(3), the CBA Will Convene Into Closed Session to Deliberate on Disciplinary Matters (Stipulations, Default Decisions, and Proposed Decisions).
- VII. Report of the Enforcement Chief (**Rafael Ixta**).
 - A. Enforcement Case Activity and Aging Report.
 - B. Citation and Fine Activity Report.
 - C. Reportable Events Report.
 - D. Update on Peer Review Implementation.

E. Annual Results From the DCA Performance Measures Report.

VIII. Committee and Task Force Reports.

A. Enforcement Program Oversight Committee (EPOC)
(Michelle Brough, Chair).

No Report.

B. Committee on Professional Conduct (CPC)
(Marshal Oldman, Chair).

No Report.

C. Legislative Committee (LC) **(Diana Bell, Chair).**

No Report.

D. Ethics Curriculum Committee (ECC) **(Donald Driftmier, Chair).**

Report of the August 16, 2011 ECC Meeting.

E. Peer Review Oversight Committee (PROC) **(Nancy Corrigan, Chair).**

1. Report of the August 30, 2011 PROC Meeting.

2. Acceptance of 2012 PROC Meeting Dates.

3. White Paper Regarding Changes to the AICPA Standards for Performing and Reporting on Peer Reviews.

4. Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials.

5. Conflicts of Interest Involving Members of the PROC.

F. Enforcement Advisory Committee (EAC) **(Cheryl Gerhardt, Chair).**

1. Report of the August 4, 2011 EAC Meeting.

2. Acceptance of 2012 EAC Meeting Dates.

G. Qualifications Committee (QC) **(Fausto Hinojosa, Chair).**

No Report.

- IX. Acceptance of Minutes
 - A. Draft Minutes of the July 21, 2011 CBA Meeting.
 - B. Draft Minutes of the September 1, 2011 CBA Meeting.
 - C. Minutes of the May 5, 2011 EAC Meeting.
 - D. Minutes of the July 8, 2011 PROC Meeting.
 - E. Minutes of the August 16, 2011 ECC Meeting.
- X. Other Business.
 - A. American Institute of Certified Public Accountants (AICPA).
No Report.
 - B. National Association of State Boards of Accountancy (NASBA).
 - 1. Update on NASBA Committees.
 - a. Accountancy Licensee Database Task Force
(Patti Bowers/Sally Anderson).
 - b. Board Relevance & Effectiveness Committee
(Marshal Oldman).
 - c. Uniform Accountancy Act Committee (UAA)
(Donald Driftmier).
 - 2. Proposed Responses to NASBA Regional Director's Focus Questions **(Dan Rich, Assistant Executive Officer)**.
 - C. Proposed Response to Joint AICPA and NASBA Exposure Draft Regarding Continuing Professional Education Standards **(Deanne Pearce)**.
- XI. Closing Business.
 - A. Public Comments.*
 - B. Agenda Items for Future CBA Meetings.
 - C. Press Release Focus **(Lauren Hersh)**.
Recent Press Releases.

Adjournment.

Action may be taken on any item on the agenda.

In accordance with the Bagley-Keene Open Meetings Act, all meetings of the CBA are open to the public. While the CBA intends to webcast this meeting, it may not be possible to webcast the entire open meeting due to limitations on resources.

*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the CBA prior to the CBA taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the CBA, but the CBA President may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the CBA to discuss items not on the agenda; however, the CBA can neither discuss nor take official action on these items at the time of the same meeting (Government Code Sections 11125, 11125.7(a)).

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Veronica Daniel at (916) 561-1718, or by e-mail at vdaniel@cba.ca.gov, or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

Veronica Daniel, Board Relations Analyst
(916) 561-1718 or vdaniel@cba.ca.gov
California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

An electronic copy of this agenda can be found at <http://www.dca.ca.gov/cba/calendar.shtml>.



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CBA Item Number I.A
September 22, 2011

Educational Presentation on Legislative Tracking

Presented by: Matthew Stanley, Legislation/Regulation Analyst

Date: August 31, 2011

Purpose of the Item

This item will provide the California Board of Accountancy (CBA) Members with an understanding of how and why bills are selected for tracking purposes. It will also provide information on how staff intends to improve this process to ensure all bills impacting the CBA are being tracked.

Action(s) Needed

No action is needed.

Background

The legislative tracking process begins in January of each year as new bills begin to be introduced. There are two major sources that staff use to identify bills affecting the CBA; Leginfo, which is maintained by the State, and State Net which is a private company. Of these two, State Net is by far the most useful due to its versatility.

- **State Net.** State Net allows you to search for bills using limits on date, bill status (introduced, amended, etc.), and most importantly by topic. Since there are approximately 2500 bills introduced every year (there were 2381 this year), there must be a method for deciding which ones are appropriate for taking a closer look. State Net utilizes a topic based system. State Net then examines every bill and assigns all topics that it believes to be relevant to the bill. When State Net customers search for a bill by a particular topic, any bill with that topic assigned to it is returned. Many of the bills which are returned are not relevant, but the number is such that it is possible to go through them all to determine relevance. Using the limits on bill status and dates, staff perform a search on State Net in preparation for CBA meetings to determine which bills need to be discussed.
- **Leginfo.** Leginfo allows you to track the status of any bill, and it provides bill history, status, votes and analysis. However, it falls far short when it comes to identifying the legislation in the first place. It only allows for searches to be performed by keyword which, with most keywords, returns too many results to be

Educational Presentation on Legislative Tracking

Page 2 of 3

very useful. Searches cannot be limited by bill status or date, so even dead bills continue to be returned as the session moves on.

- **Weekly Tracking.** Staff prepare a weekly tracking sheet (**Attachment 1**) to follow all of the legislation that is of interest to the CBA. It is used to keep management apprised of where these bills are, what version is the current version, and when the next expected action is to take place.

Comments

Staff have made changes to the bill discovery and tracking process to ensure that all bills relevant to the CBA are being tracked.

- **Increased topics.** Staff have increased the number of topics which are being used for searches on State Net. While staff have tracked the same core group of topics for many years, the search parameters have been expanded to include topics that are peripherally connected to the CBA as well. Executive staff met to review State Net's topics and created the list of topics (**Attachment 2**) which is now used for legislative searches.
- **Code Search.** Staff have amended the contract with State Net to add an additional service which will allow staff to search for legislation based on which code sections are affected by the bill. This will allow staff to find any bill impacting the Accountancy Act, the General Business & Professions code sections, or other code sections impacting the CBA.
- **Cross-Training.** As a part of the succession planning that management has been performing, certain positions have been identified for cross-training of staff to ensure that certain functions can be covered in a time of need. Beginning this month, a staff member has been assigned to cross-train in the area of legislation and regulations so that this vital function can be performed at all times.
- **DCA list.** Staff will be checking a list kept by the Department of Consumer Affairs (DCA) of bills which it is tracking, including bills which impact all boards and bureaus. Staff will regularly check DCA's list for differences from the CBA's tracking list.
- **Proactive outreach.** Staff will make a proactive effort to make regular contact with DCA's Legislation Unit as well as other stakeholders, including CalCPA and CPIL, to discover if they have any legislation to bring to our attention.
- **Roundtable.** Finally, staff have requested that DCA host a Legislation/Regulation Roundtable similar to meetings that already take place in the areas of enforcement, IT, and Web design. DCA has responded positively to this suggestion and informed staff that they plan to move forward on the idea.

Educational Presentation on Legislative Tracking

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Recommendation

None.

Attachments

1. Legislation Tracking Sheet
2. Search Topics Used by the CBA

California Board of Accountancy

2011 Legislative Tracking

Attachment 1

| <u>Bill #</u> | <u>Author</u> | <u>Topic</u> | <u>Version</u> | <u>Board Position</u> | <u>Location</u> | <u>Hearing</u> |
|----------------------|----------------------|--|-----------------------|------------------------------|------------------------|-----------------------|
| AB 431 | Ma | Retired Status | 8/30/2011 | Sponsor | Asm. Concurrence | |
| AB 675 | Hagman | Continuing Education | 4/5/2011 | Support | Asm. B&P-Failed | |
| AB 958 | Berryhill | Enforcement limitation periods | 2/18/2011 | Oppose | Asm. B&P | |
| AB 991 | Olsen | California Licensing and Permit Center | 4/13/2011 | Oppose | Asm. Suspense | |
| AB 1193 | Hagman | Accountancy | 2/18/2011 | Watch | Introduced | |
| AB 1424 | Perea | Tax Delinquency | 8/31/2011 | Oppose | Sen. Floor | |
| SB 103 | Liu | Teleconferencing | 7/12/2011 | Oppose | Asm. Approps. | |
| SB 306 | De Leon | Safe Harbor Extension | 8/22/2011 | Support | Sen. Concurrence | |
| SB 366 | Calderon | Regulation Review | 2/15/2011 | Support | Sen. GO | |
| SB 541 | Price | Expert Consultants | 6/21/2011 | Support | Sen. Concurrence | |
| SB 543 | Price | Sunset Review | 8/30/2011 | Support | Asm. Floor | |
| SB 706 | Price | Real Estate | 8/26/2011 | Neutral | Asm. Floor | |
| SB 773 | Negrete-McLeod | Ethics Curriculum | 8/15/2011 | Support if Amended | Governor | |

updated 9/2/11

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**Attachment 2****List of Search Topics Used by the CBA**

Professional Advertising- Non-Medical*
 Advertising- Misc.
 Advertising Tax and Exemptions
 Independent Contractors
 Partnerships and Joint Ventures
 Professional Corporations*
 Services Sales Tax and Exemptions
 Sales Tax Collections
 Accountancy and Licensing*
 Specific Industries, Occupations- Other
 Business Taxes- Misc.
 Public Information, Meetings Access*
 Privileged Communications
 Government Records
 Consumer Agencies*
 Consumer Action Groups
 Consumer Protection- Misc.*
 Future Service Contracts
 Plain Language
 Contracts- Misc.
 Financial Planners/Advisors & Licensing
 Support Collection
 Child Support, Custody, Visitation Rights
 Liability Insurance- Misc.
 Occupational Testing and Licensing- Misc.
 Civil Service Classifications, Exams
 Collective Bargaining and Unions (Public Sector)
 Public Employee Wages and Hours
 Administrative Agencies*
 Interstate Cooperation/Agreements- Misc.
 Personal Income Tax- Other
 Tax-Related Professions and Licensing
 Tax Agencies

*- Denotes original core group of topics



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CBA Item I.B.
September 22, 2011

Proposed Modification to 2012 CBA Meeting Calendar

Presented by: Veronica Daniel, Board Relations Analyst
Date: September 7, 2011

Purpose of the Item

The purpose of this item is to discuss the possibility of modifying the date of the July 2012 CBA meeting. A copy of the 2012 CBA Meeting Dates/Locations calendar is attached for reference.

Action Needed

It is requested that the CBA adopt the following recommendation.

Background

As a result of feedback received from CBA members during telephone interviews with the Executive Officer, staff reviewed the history of meeting agendas looking for possible areas through which consolidation and timing of agenda items might achieve more efficiency. Based on this review it was determined that it would be practical to modify the July 2012 CBA meeting to a one-day meeting on July 26, 2011.

Comments

None

Recommendation

Staff recommends, in consultation with CBA leadership, that the CBA modify the July 2012 CBA meeting to a one-day meeting on Thursday, July 26, 2012.

Attachment

2012 CBA Meeting Dates/Locations Calendar

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
2012 MEETING DATES/LOCATIONS
(CBA MEMBER COPY)**

JANUARY 2012

| S | M | T | W | Th | F | S |
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| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
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| 29 | 30 | 31 | | | | |

FEBRUARY 2012

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MARCH 2012

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APRIL 2012

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MAY 2012

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JUNE 2012

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JULY 2012

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AUGUST 2012

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SEPTEMBER 2012

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OCTOBER 2012

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NOVEMBER 2012

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DECEMBER 2012

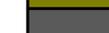
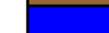
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| 30 | 31 | | | | | |

COMMITTEE/TASK FORCE

- EAC-ENFORCEMENT ADVISORY COMMITTEE
- QC-QUALIFICATIONS COMMITTEE
- ECC-ETHICS CURRICULUM COMMITTEE
- PROC-PEER REVIEW OVERSIGHT COMMITTEE

GENERAL LOCATION

- NC-NORTHERN CALIFORNIA
- SC-SOUTHERN CALIFORNIA

-  CBA OFFICE CLOSED
-  CBA MEETING
-  DCA CONFERENCE
-  CBA WORKING CONFERENCE
-  SPECIAL CBA MEETING ON LEGISLATION
-  SUNSET REVIEW HEARING
-  EAC MEETING
-  QC MEETING
-  ECC MEETING
-  PROC MEETING



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CBA Item I.C.
September 22, 2011

Announcement Regarding Annual Officer Elections

Presented by: Sally Anderson, President

Date: September 7, 2011

Purpose of the Item

Each year in November, the CBA elects a new President, Vice President, and Secretary/Treasurer. At the September meeting, the current President instructs the CBA that elections will be held in November, and that any person who wishes to be considered for a leadership position is encouraged to submit a one page Statement of Qualifications to the Board Relations Analyst, Veronica Daniel. If interested, please submit your Statement of Qualifications to the CBA office by October 14, 2011. The Statements of Qualifications will be included in the November CBA meeting materials, as part of an agenda item.

At the November CBA meeting, the President will provide an opportunity for additional candidates for the officer positions to express their interest. All candidates may be given up to five minutes of floor time to describe why they are qualified for the position.

Please note that the President, Vice-President and Secretary Treasurer each serve one year terms, and may not serve more than two consecutive terms.

Action(s) Needed

Action is only needed by those members who wish to be considered for a Leadership position.

Background

The process for the election of officers and a detailed listing of applicable duties is outlined in the CBA Guidelines and Procedures Manual, pages 3-4 (**Attachment**).

Comments

There are no comments for this agenda item.

Recommendation

Staff is making no recommendation in this agenda item.

Attachment

Excerpt from CBA Guidelines and Procedures Manual

- Legislative Committee
- Committee on Professional Conduct
- Enforcement Program Oversight Committee
- Other Committees and Task Forces

3. Mentoring.

CBA officers and more experienced members are encouraged to act as mentors to new CBA members, making themselves available to answer procedural and historical questions as they arise.

E. TENURE (Ref. Business & Professions Code § 5002).

Each member is appointed for a term of four years and holds office until they are reappointed, a successor is appointed, or until one year has elapsed since the expiration of the term for which he was appointed, whichever occurs first.

No person shall serve more than two terms consecutively.

Vacancies must be filled by a person in the same capacity (public or licensee member) as the person being replaced.

The Governor must remove any licensee member whose permit to practice becomes void, revoked, or suspended.

Any member may, after an administrative hearing, be removed for neglect of duty or other just cause.

If a member is appointed to fill a vacant seat in what would be the middle of the previous member's term, the rest of that term does not count against the two term limit, as it is still defined as the previous member's term.

F. OFFICERS (Ref. Business & Professions Code §§ 5003, 5004 & 5007).

The officers of the CBA are President, Vice-President, and Secretary-Treasurer.

1. Election of Officers.

The process for the election of officers is as follows:

- At the September CBA meeting, the President shall inform members that the election of officers will be held at the November CBA meeting. Interested candidates are requested to prepare a one page written summary outlining their qualifications for the position for which they are applying. The summary is to be sent to the Executive Analyst by a date determined by the Executive Officer and CBA President.
- The summaries of qualification shall be distributed as part of the agenda items for the November CBA meeting.

- At the November CBA meeting, the President shall ask if there are any additional candidates for the officer positions. All candidates may be given up to five minutes of floor time to describe why they are qualified for the position.
- The vote for officers shall be taken by a simple hand vote.
- The President, Vice-President, and Secretary-Treasurer serve one-year terms and may not serve more than two consecutive one-year terms. The newly elected President, Vice-President, and Secretary-Treasurer shall assume the duties of their respective offices at the conclusion of the annual meeting at which they were elected.

2. Vacancy.

In the event of a vacancy of the Vice President or Secretary-Treasurer prior to the annual election of officers, the CBA President shall make an interim appointment to fill the vacancy effective until the next election cycle. In the event of a vacancy of the President, the Vice President shall become the president.

3. Duties.

a. President.

The President shall perform general administrative duties, as well as the following:

- Preside over CBA meetings
- Approve the agenda and time schedule
- Appoint CBA members as Liaison to the EAC and QC committees
- Appoint CBA members to CBA committees and task forces
- Establish other CBA committees as needed
- Make decisions regarding CBA matters between meetings
- Represent the CBA in media relations
- Coordinate the annual evaluation of the Executive Officer
- Make interim appointments to the EAC and QC committees, subject to ratification at the next CBA Meeting
- Monitor CBA Member attendance at CBA Meetings, and report issues to DCA
- Make interim appointments to the Vice-President and Secretary-Treasurer positions should they become vacant mid-term

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CBA Item III.B.
September 22, 2011

Year End Financial Report

Presented by: Leslie Lamanna

Date: August 31, 2011

Purpose of the Item

This financial report, descriptive narrative, and attachments provide an overview of year end receipts, expenditures, and the status of the Accountancy Fund Reserve.

Action(s) Needed

No specific action is required on this agenda item.

Background

CBA Financial Reports are prepared quarterly (October, January, April, and August) and are included in CBA meeting materials. These reports provide an overview of receipts, expenditures, and the status of the Accountancy Fund Reserve.

Comments

None

Recommendation

Staff has no recommendation on this item.

Attachments

1. Year End Narrative
2. Year End Statistics
3. CBA Budget Allocation History
4. Total Year End Revenue and Expenditures

CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-11
YEAR END FINANCIAL REPORT
(for period of 7/01/10 through 6/30/11)



DISCUSSION AND ANALYSIS OF FINANCIAL REPORT

ATTACHMENT 1

BUDGET

On October 8, 2010, then Governor Schwarzenegger issued Executive Order (EO) S-15-10, which implemented a 12-month Personal Leave Program (PLP) reducing state workers' salaries by one days' pay per month. This amounted to a 4.62 percent pay reduction per month in exchange for 12 days of unpaid personal leave. This personal leave program and associated salary reduction is set to end November 1, 2011.

Governor Brown issued EO B-06-11 on April 26, 2011, prohibiting discretionary travel. All in-state non-discretionary travel must be approved by the Department of Consumer Affairs (DCA). The CBA submitted 12 trips for approval to the DCA during FY 2010-11, with all twelve being approved. As of August 31, 2011, the CBA submitted a total of 15 FY 2011-12 trips, all of which were approved.

REVENUES/TOTAL RECEIPTS

Total revenues for FY 2010-11, amounted to \$13,091,442 which is a 3 percent increase compared to the same period last fiscal year. Renewal revenue accounted for the majority of the increase. The table below details the renewal revenues for the last five fiscal years:

| FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$7,608,784 | \$7,961,922 | \$8,182,460 | \$8,457,550 | \$8,853,620 |

Renewal revenues increased by an average of 3 percent each year however the CBA is expecting the renewal receipts for FY 2011-12 to decrease as a result of the 40 percent renewal fee reduction implemented on July 1, 2011.

EXPENDITURES

Personnel expenditures increased 6 percent compared to the same period last fiscal year. When the three day per month "furlough program", introduced July 1, 2009, was reduced to a one day per month "personal leave program", employees recouped an additional two days of pay per month, which resulted in a large portion of the personnel expenditure increases. A significant increase in benefits expenditures also resulted from higher health care premium adjustments.

Additionally, the CBA was able to fill a number of vacant positions with DCA employees, which is allowable as a departmental transfer under the current hiring freeze. The Enforcement Division further filled a vacant Investigative Certified Public Accountant (ICPA) position through a successful hiring freeze exemption request.

Communication expenses decreased almost 24 percent from the prior fiscal year, resulting from the CBA's switch from standard telephone service containing bundled services and built-in additional costs tied to each line, to a digital subscriber line with greater capabilities and lower costs. The CBA was also impacted by the Governor's EO B-1-11 decreasing the number of cell or smart phones.

**CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-11
YEAR END FINANCIAL REPORT
PAGE 2**

The DCA goal was 50 percent deactivation, and the CBA eliminated ten smart phones assisting the DCA in reaching its required 50 percent goal. These changes resulted in a CBA expenditure reduction of more than \$10,000 per year in communications.

Other notable expenditure fluctuations are detailed below:

- Postal expenditures in FY 2010-11 decreased by 43 percent from FY 2009-10 levels due to the reduction in mass mailings by the RCC Unit for the Accounting Education and Ethics Curriculum Committees, and a reduction in introductory mailings for Peer Review and Continuing Education regulation change notifications. It is anticipated that these postal expenditures will decrease further in FY 2011-12 due to a majority of stakeholders receiving the CBA's UPDATE publication electronically rather than a mailed hardcopy.
- Facilities operational costs increased by approximately \$125,000 resulting from additional security guard services and increases in rent.
- Central administrative services pro rata increased 24 percent from last fiscal year. These expenditures support high-level state departments including the Governor's Office, the Legislature, the State Treasurer's Office, Controller's Office, the Department of Finance, etc.
- Enforcement expenditures have increased 44 percent in comparison to the prior year. This is a result of continuing action on several high-profile cases. Additionally, an increased usage of contract investigators assisting the CBA with investigations reflects an increase of about 15 percent in External Consultant expenditures from the prior year.
- Equipment costs have decreased significantly. The CBA received expenditure authority to purchase and replace two high-volume copiers for the Executive and Enforcement Divisions. It was decided to extend the service and maintenance agreements an additional 18 months as a money-saving measure since these copiers have not experienced major problems/downtime nor do they require frequent service visits.

RESERVES

The CBA ended FY 2010-11 with 13.3 months in reserve. On July 1, 2011 the CBA implemented a 40 percent renewal fee reduction. The fee reduction is expected to temporarily reduce annual revenues by over \$3,000,000 and is expected to reduce the CBA's reserves in FY 2011-12.

A \$10,000,000 loan to the General Fund was transferred on October 15, 2010 and in FY 2011-12, an additional \$1,000,000 loan to the General Fund will be made. As of now, the outstanding loans made by the CBA to the General Fund total \$31,270,000 not including interest.

CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-11
Year End Financial Report
(for period of 7/1/10 through 6/30/11)

CBA Agenda Item III. B.
September 22, 2011

Attachment 2

| | FY 2010-11 Received/Expended 7/01/10 - 6/30/11 (12 months) [9] | FY 2009-10 Received/Expended 7/01/09 - 6/30/10 (12 months) [9] | % Change FY 2010-11 to FY 2009-10 (A/B) | FY 2010-11 Annual Governor's Budget 7/01/10 - 6/30/11 (12 months) [10] | FY 2010-11 Receipts/Expenditures Over/Under Budget (D.A) |
|---|---|---|--|---|---|
| RECEIPTS | | | | | |
| Revenues: | | | | | |
| Renewals [1] | 8,853,620 | 8,457,550 | 4.7% | 8,645,500 | 2.4% |
| Examination Fees | 2,963,007 | 2,943,056 | 0.7% | 3,022,000 | -2.0% |
| Licensing Fees | 947,250 | 958,750 | -1.2% | 908,900 | 4.2% |
| Practice Privilege Fees | 186,100 | 176,650 | 5.3% | 175,800 | 5.9% |
| Miscellaneous [2] | 61,854 | 53,881 | 14.8% | 53,720 | 15.1% |
| Monetary Sanctions [3] | 0 | 0 | NA | 0 | NA |
| Penalties and Fines | 13,706 | 17,140 | NA | 46,608 | -70.6% |
| Total Revenues | 13,025,537 | 12,607,027 | 3.3% | 12,852,528 | 1.3% |
| Interest | 65,905 | 96,365 | | 186,000 | -64.6% |
| TOTAL NET RECEIPTS | 13,091,442 | 12,703,392 | 3.1% | 13,038,528 | 0.4% |
| EXPENDITURES: | | | | | |
| Personal Services: | | | | | |
| Salaries & Wages | 3,757,929 | 3,596,969 | 4.5% | 3,833,408 | -2.0% |
| Benefits | 1,528,822 | 1,364,204 | 12.1% | 1,810,549 | -15.6% |
| Total Personal Services: | 5,286,751 | 4,961,173 | 6.6% | 5,643,957 | -6.3% |
| Operating Expenses: | | | | | |
| Fingerprints | 23,822 | 21,475 | 10.9% | 185,000 | -87.1% |
| General Expense | 178,960 | 160,910 | 11.2% | 167,996 | 6.5% |
| Printing | 120,170 | 109,959 | 9.3% | 97,008 | 23.9% |
| Communications | 34,672 | 45,455 | -23.7% | 59,102 | -41.3% |
| Postage | 147,540 | 261,579 | -43.6% | 235,000 | -37.2% |
| Travel: In State | 140,418 | 127,866 | 9.8% | 131,237 | 7.0% |
| Travel: Out of State | 0 | 1,443 | NA | 0 | NA |
| Training | 17,046 | 12,762 | 33.6% | 34,012 | -49.9% |
| Facilities Operations | 693,393 | 568,509 | 22.0% | 617,818 | 12.2% |
| Utilities | 0 | 0 | NA | 0 | NA |
| Consultant & Professional Services Interdept. | 0 | 0 | NA | 3,708 | -100.0% |
| Consultant & Professional Services Ext. | 237,085 | 206,393 | 14.9% | 1,437,363 | -83.5% |
| Departmental Services | 1,164,053 | 1,089,326 | 6.9% | 1,196,186 | -2.7% |
| Consolidated Data Center | 27,735 | 52,709 | -47.4% | 41,148 | -32.6% |
| Data Processing | 17,702 | 37,969 | -53.4% | 80,103 | NA |
| Central Administrative Services | 497,360 | 399,360 | 24.5% | 498,436 | -0.2% |
| Exams | 67,781 | 132,006 | -48.7% | 0 | NA |
| Enforcement | 780,000 | 541,583 | 44.0% | 1,713,551 | -54.5% |
| Minor Equipment | 21,743 | 106,874 | -79.7% | 46,100 | -52.8% |
| Major Equipment | 0 | 0 | NA | 37,000 | -100.0% |
| State Controller Operations | 19,000 | 8,000 | 137.5% | 20,000 | -5.0% |
| FISCAL [4] | 7,000 | 0 | NA | 7,000 | 0.0% |
| Total Operating Expenses: | 4,195,480 | 3,884,178 | 8.0% | 6,607,768 | -36.5% |
| TOTAL EXPENDITURES | 9,482,231 | 8,845,351 | 7.2% | 12,251,725 | -22.6% |
| Less Reimbursements | 24,300 | 93,017 | -73.9% | 296,000 | -91.8% |
| Less Cost Recovery | 234,417 | 108,934 | 115.2% | 0 | NA |
| TOTAL NET EXPENDITURES | 9,223,515 | 8,643,400 | 6.7% | 11,955,725 | -22.9% |
| RECEIPTS IN EXCESS OF EXPENSES | | | | | |
| BEGINNING RESERVES JULY 1 [5] | 19,753,000 | 15,693,000 | | 19,753,000 | |
| GENERAL FUND LOAN 2010 [6] | -10,000,000 | 0 | | -10,000,000 | |
| Total Resources | 13,620,928 | 19,752,992 | | 10,835,803 | |
| PROJECTED ENDING RESERVES | 13,620,928 | 19,752,992 | -31.0% | 10,835,803 | |
| GENERAL FUND LOAN 2002 [7] | (6,000,000) | (6,000,000) | | | |
| GENERAL FUND LOAN 2003 [7] | (270,000) | (270,000) | | | |
| GENERAL FUND LOAN 2008 [7] | (14,000,000) | (14,000,000) | | | |
| GENERAL FUND LOAN 2010 [7] | (10,000,000) | | | | |
| MONTHS IN RESERVE (MIR) [8] | 13.3 | 19.7 | | 10.6 | |

CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-11
Year End Financial Report
(for period of 7/1/10 through 6/30/11)

Footnotes:

- [1] Includes biennial renewals, delinquent and prior year renewals, and initial licenses.
- [2] Includes misc. services to the public, dishonored check fees, certification fees, duplicate licenses, name changes, over/short fees, suspended revenue, prior year adjustments, and unclaimed checks.
- [3] Enforcement monetary sanctions received as components of stipulated settlements and disciplinary orders approved by the CBA. These orders bring to a conclusion any accusations that had previously been filed by the Executive Officer, and are separate from fines or citations.
- [4] FISCAL is the Financial Information System for California, an historic project with four Partner Agencies having authority over the state's financial management. Comprised of the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services, the project represents a multi-year commitment by the State of California to operate within and integrated financial management system environment. Leveraging the power of Enterprise Resource Planning (ERP) will assist the project to integrate the data, functions and processes of state fiscal data management into one system. All Agencies contribute a portion of their expenditure authority to this project.
- [5] FY 2010-11 beginning reserve amount was taken from Analysis of Fund Condition statement, prepared by the Department of Consumer Affairs (DCA) Budget Office on August 11, 2010.
- [6] The CBA Budget for FY 2010-11 includes a \$10 million loan to the General Fund.
- [7] Funds borrowed per California Government Code Section 16320, which indicates that the Budget Act is the authority for these loans. The "terms and conditions" of the loans, per the Budget Act are: "The transfer made by this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer." (Estimated at .515% for 2010, 2.78% for 2008, 2.64% for 2002, and 1.64% for 2003 loan). "It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through a reduction in service or an increase in fees."
- [8] Calculation: expenditure authority for FY 2010-11 (\$12,251,725) divided by twelve months equals monthly expenditure authority (\$1,020,977). Total ending reserves divided by monthly authority equals "Months in Reserve" (MIR).
- [9] Received/Expended amounts through June 30, 2011 for FY 2010-11 and June 30, 2010 for FY 2009-10 include encumbrances, and are taken from the DCA CalSTARS (FM13) Budget Report.
- [10] This column reflects figures provided in the Governor's Budget.

NOTE: CBA Financial Reports are prepared quarterly (October, January, April, and August) and included in CBA meeting materials. These reports provide an overview of receipts, expenditures, and the status of the Accountability Fund Reserve.

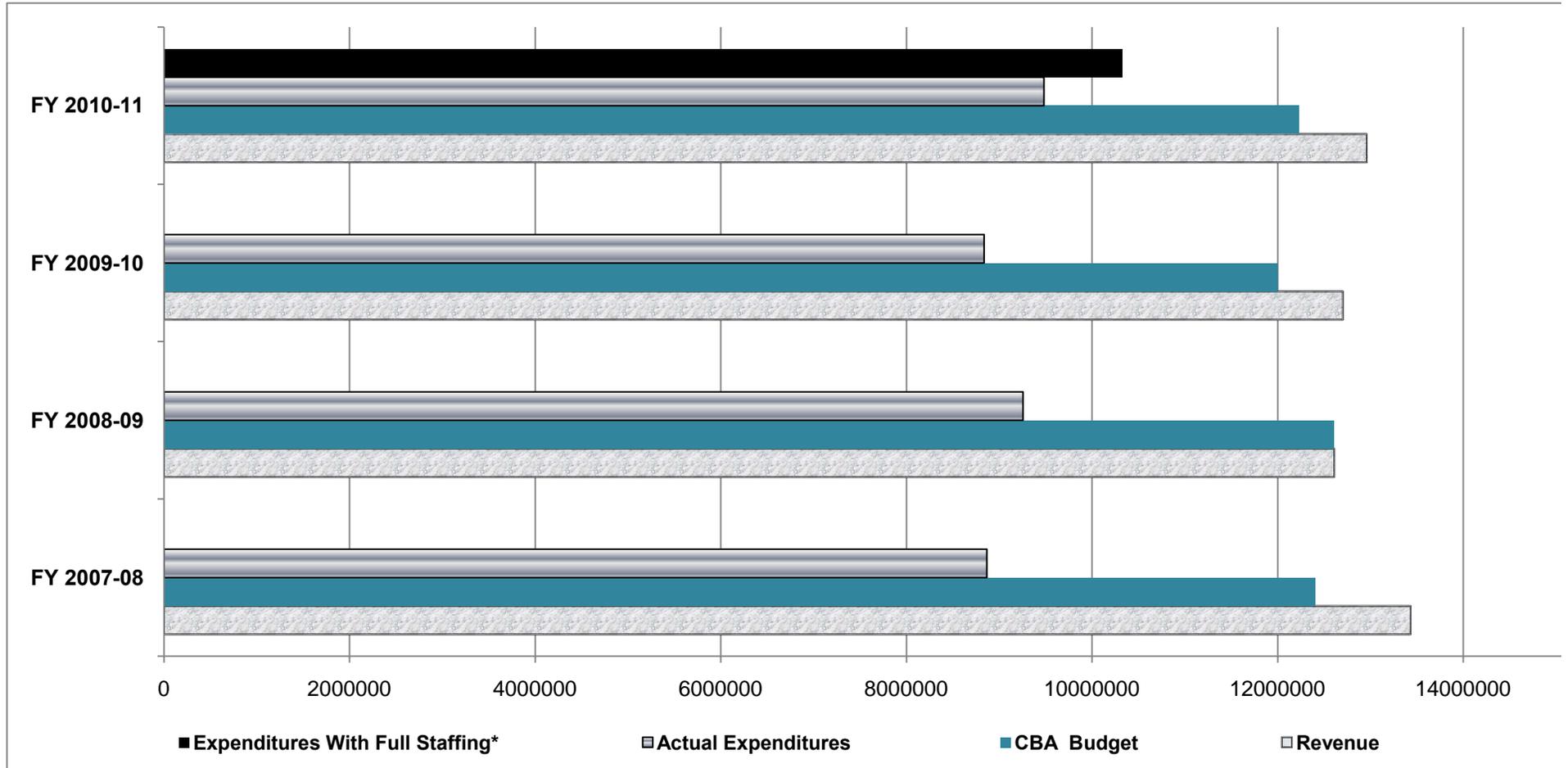
| CBA Budget Allocation History (including reimbursements FM13) | | | | | | | | | | | |
|--|---------------------|-----------------------|------------------|----------------------|-----------------------------|------------------|---------------------|-------------------|-----------|--------------------------------|---------|
| Year End FY 2010-11 | Total Budget Act | Practice Privilege | Exam | Initial Licensing | Licensing Administration | RCC | Enforcement | Administration | Executive | Client Services | Board |
| \$ Budgeted | \$11,955,725 | 176,030 | 1,020,298 | 1,244,918 | 618,123 | 926,135 | 5,146,107 | 2,163,298 | 519,359 | 0.0 | 141,456 |
| \$ Spent | \$9,223,515 | 140,127 | 883,475 | 1,230,379 | 530,717 | 980,654 | 2,743,474 | 2,118,158 | 478,714 | 0.0 | 117,816 |
| Authorized Positions | 84.0 | 2.0 ¹ | 9.0 ² | 15.0 | 5.0 | 8.0 ² | 20.0 ^{2,3} | 21.0 ⁴ | 4.0 | 0.0 | 0.0 |
| <p>1. Three Limited Term (LT) positions expired at the end of FY 2009-10. The positions were established to address anticipated levels of workload during the program's inception. Workload has since stabilized and these positions are no longer needed.</p> <p>2. The Client Services Unit was closed in FY 2010-11 and staff were redirected to the Examination, Enforcement, and RCC units.</p> <p>3. The Enforcement Division received two positions from the approval of a FY 2010-11 Enforcement Legislative BCP to establish peer review requirements. (AB 138 Chapter 312, Statutes of 2009).</p> <p>4. The Administration Division received two LT positions from the approval of a FY 2010-11 Legislative BCP. The positions were established to assist in determining educational courses tied to the new 150-hour education requirement effective January 2014. (SB 819, Chapter 308, Statutes of 2009).</p> | | | | | | | | | | | |
| FY 2009-10 | Total Budget Act | Practice Privilege | Exam | Initial Licensing | Licensing Administration | RCC | Enforcement | Administration | Executive | Client Services | Board |
| \$ Budgeted | \$11,739,568 | 446,994 | 617,118 | 1,311,926 | 568,326 | 788,597 | 4,970,948 | 1,830,145 | 591,295 | 501,841 | 112,378 |
| \$ Spent | \$8,635,398 | 301,775 | 665,369 | 1,122,477 | 517,342 | 805,498 | 2,601,959 | 1,564,363 | 469,070 | 409,554 | 177,991 |
| Authorized Positions | 83.0 | 5.0 | 6.0 | 15.0 | 5.0 | 7.0 | 17.0 | 19.0 | 4.0 | 5.0 | 0.0 |
| FY 2008-09 | Total Budget Act | Practice Privilege | Exam | Initial Licensing | Licensing Administration | RCC | Enforcement | Administration | Executive | Client Services | Board |
| \$ Budgeted | \$12,417,899 | 494,269 | 648,337 | 1,519,371 | 514,956 | 909,587 | 4,985,373 | 2,068,830 | 655,651 | 515,029 | 106,496 |
| \$ Spent | \$9,181,841 | 375,141 | 693,167 | 1,296,551 | 451,308 | 851,468 | 2,504,456 | 1,820,381 | 644,070 | 418,855 | 126,444 |
| Authorized Positions | 83.0 | 5.0 | 6.0 | 15.0 | 4.0 | 8.0 | 16.0 | 19.0 | 5.0 | 5.0 | 0.0 |
| FY 2007-08 | Total Budget Act | Practice Privilege | Exam | Initial Licensing | Licensing Administration | RCC | Enforcement | Administration | Executive | Client Services (Set Up) | Board |
| \$ Budgeted | \$12,113,217 | 477,732 | 579,856 | 1,480,862 | 503,169 | 884,437 | 4,867,490 | 2,014,969 | 641,906 | 556,460 | 106,336 |
| \$ Spent | \$8,402,081 | 288,083 | 710,356 | 1,313,195 | 458,266 | 782,238 | 2,126,920 | 1,823,105 | 627,985 | 138,641 | 133,292 |
| Authorized Positions | 83.0 | 5.0 | 6.0 | 15.0 | 4.0 | 8.0 | 16.0 | 19.0 | 5.0 | 5.0 | 0.0 |

* Dollars spent through June 30.

CBA Total Year End Revenue and Expenditures FY 2010-11

Attachment 4

Revenue: \$13,091,442
 Expenditures: \$9,482,231
 With Full Staffing*: \$10,220,947



* Expenditures assuming full staffing (no vacancies) amount to approximately \$739,000 in projected salaries and benefits.

**DEPARTMENT OF CONSUMER AFFAIRS**

CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>

**CBA Item IV.B**

September 22, 2011

Update on Communications & Outreach Plan**Presented by:** Lauren Hersh, Information & Planning Manager**Date:** 9/8/2011**Purpose of the Item**

To keep CBA members informed of communications and outreach efforts and activities.

Action(s) Needed

No specific action is required on this agenda item.

Background

As requested by the CBA, staff is providing regular updates regarding the communications and outreach activities which have taken place since the last CBA meeting.

Staff Outreach Committee (OC)

The OC has been working to maximize outreach within the limitations imposed by purchasing and travel restrictions. As a result, the focus has been on utilizing technology to continue outreach. Recently completed and current projects are:

- YouTube Peer Review video- The video is complete and is available through the CBA and DCA Web sites, as well as the YouTube channel.
- Live Facebook event, Ask the Experts: License Renewal and Peer Review will be held September 7.
- Staff is currently developing a peer review webinar in response to requests for outreach presentations.

Social media

Growth continues, with more than 670 Facebook fans and nearly 350 Twitter followers and 13 lists. Through social media, the CBA is strengthening its brand by creating community and serving as an online resource for stakeholders. Using analytics, staff can determine the likely general life and career stages of our fans and followers to meet their needs, while developing messages to strengthen and create growth in other segments. For example, we saw a spike in the 18-24 group, and to some extent in the 24-35 group, during the last CPA Exam score release. Through Twitter and Facebook, we proactively provided information to individuals awaiting their scores in order to reduce the volume of phone calls to the CBA office, answered questions posed by

inquiring candidates, and congratulated candidates who passed the exam, while directing them to resources they would need during their application for licensure.

UPDATE

As previously reported the upcoming fall edition of UPDATE will be the first primarily digital edition. Currently in the review process, it is expected UPDATE will be published in October. Staff began notifying readers in May, and the October publication date allows for additional time for readers to opt-in to continue to receive a printed copy by mail. Among the advantages realized by this transition to digital:

- The ability to publish a professionally-designed newsletter that can gain a larger readership through multiple distribution channels i.e. Web site, social media, digital reprints on other Web sites, blogs, etc.
- The ability to offer the convenience of a digital newsletter to our licensees and interested parties, while maintaining the option of printing out a hard copy or having one delivered.
- The smaller number of copies needing to be printed enables a quicker turn-around time: the spring edition endured lengthy delays in both printing and mail-out by Office of State Publishing (OSP). The spring edition was mailed out by OSP a full six weeks after it was available on the CBA Web site.
- The smaller number of copies can be printed and mailed by the Department of Consumer Affairs (DCA), giving staff the flexibility to order small batches of an UPDATE issue if needed. At this date, more than 450 licensees have opted- in to continue receiving a printed copy mailed to their address of record.
- The costs associated with producing UPDATE are covered by the pro rata paid to the DCA. Based on previous expenditures, staff estimates a cost-savings of at least \$22,000 for printing and \$24,000 for mailing each edition. With three editions annually, the cost savings is expected to be well over \$100,000.
- The savings in mailing costs alone enabled the CBA to meet the budget reduction requested by the Department of Finance for fiscal year 2011-12.

In support of the transition, staff used the following vehicles for informing licensees of the change:

- The spring edition contains instructions regarding how readers wishing to continue receiving UPDATE by mail may do so. All readers are encouraged to sign up for E-News in order to receive notification when the UPDATE is posted to the CBA Web site.
- The CBA Web site, where the information and link to the opt-in form is prominently displayed.
- Contacted the professional societies to request distribution of the information and opt-in link to their membership.
- Prominent notice on social media, including Facebook and Twitter .
- A tagline has been added to outgoing emails to inform licensees that they should go to the CBA Web site and “opt-in” to continue receiving UPDATE in hard copy via mail.

Consumer Assistance Booklet

The newly revised Consumer Assistance Booklet has completed legal review and has been submitted to DCA's Office of Publications, Design and Editing . Once approved, it will be redesigned to be compatible with other redesigned CBA publications.

E-News

E-News subscriptions have increased by nearly 4,700 subscriptions since the last report, with the total number of subscriptions up from 13,120 on June 17, 2011 to 17,816 on August 24, 2011. The increase was seen across all interest areas, but the largest increase, 1,140 new subscribers, was notably those requesting the delivery of UPDATE via E-News. The table below indicates the number of subscribers by areas of interest, with many subscribers choosing more than one area of interest.

| List Name | External | Internal | Total |
|-------------------------------------|-----------------|-----------------|--------------|
| California Licensee | 4549 | 43 | 4592 |
| Consumer Interest | 2187 | 48 | 2235 |
| Examination Applicant | 1525 | 38 | 1563 |
| Licensing Applicant | 1732 | 41 | 1773 |
| Out-of-State Licensee | 1111 | 36 | 1147 |
| Statutory/Regulatory | 3708 | 50 | 3758 |
| CBA Meeting Info & Agenda Materials | 1388 | 28 | 1416 |
| UPDATE Publication | 1326 | 6 | 1332 |
| | | | |
| Total subscriptions | 17526 | 290 | 17,816 |

Comments

None.

Recommendation

Staff has no recommendation on this item.

**DEPARTMENT OF CONSUMER AFFAIRS**

CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item IV.C.
September 22, 2010

CBA FY 2010-11 Annual Report

Presented by: Dan Rich, Assistant Executive Officer

Date: August 29, 2011

Purpose of the Item

Attached is the *California Board of Accountancy Fiscal Year 2010-2011 Annual Report of Accomplishments & Activities*. The report highlights CBA activities from July 1, 2010 to June 30, 2011. The report is presented annually at the September CBA meeting, and is published to the CBA Web site in the interest of transparency.

Action(s) Needed

No specific action is required on this agenda item.

Background

This report is drafted annually, at the conclusion of the California Fiscal Year. It represents the accomplishments and achievements of the CBA and staff.

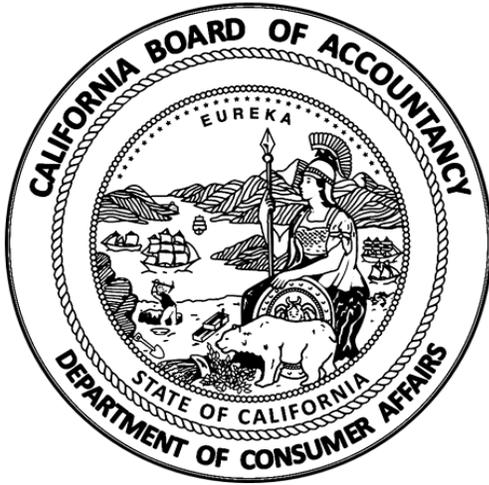
Comments

There are no comments for this agenda item.

Recommendation

Staff is making no recommendation in this agenda item.

Attachment



**CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-2011
ANNUAL REPORT OF ACCOMPLISHMENTS AND ACTIVITIES**



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A NOTE FROM THE EXECUTIVE OFFICER

I am pleased to present the fiscal year (FY) 2010-11 *California Board of Accountancy (CBA) Annual Report of Accomplishments and Activities*. This report highlights the results of each division's operations as well as solutions that are under way to enhance and improve the CBA's commitment to California consumers and licensees.



Patti Bowers
Executive Officer

The past year has seen a number of major accomplishments and changes at the CBA, including:

- Coordinated with Assemblymember Ma to sponsor Assembly Bill 431, which will allow a retired status for California Certified Public Accountants.
- The completion of substantial staff work and research in support of the Accounting Education and Ethics Curriculum Committees.
- Implemented a reduction in Initial Licensure and License Renewal fees for all California CPAs.
- Successful staff augmentation for the newly implemented Peer Review Program.
- Created a CBA Workforce and Succession Plan.
- The continuation of an Executive Leadership Roundtable.
- Responded to 26 Information Practices Act/Public Records Act requests and 1,257 requests for certification of documents by licensees.
- Created and implemented of an Employee Satisfaction Survey, which is designed to provide feedback from employees to management.
- Instituted "In the Loop" staff meetings that follow each CBA meeting, to provide staff with information regarding what happened at the CBA meeting, what is happening throughout the CBA as a whole and provide staff "face time" with all managers.
- Worked with the Department of Consumer Affairs (DCA) training staff to hold a "FISHing" team-building session that all staff were encouraged to attend.

All of these are valuable and mission critical changes to the CBA. However none of them fully illustrates the work staff has devoted to increase customer service to all stakeholders.

The State of California fiscal condition has resulted in multiple Executive Orders that affected the CBA. First was a limit on cell phones, which cut the number of cell phones assigned to staff to eight, a 50% reduction. The cell phone reduction was then followed by a hiring freeze and travel freezes. The freezes have been more difficult to implement, as normal attrition has sometimes led to staff resource shortages. Management worked to address these issues with work re-prioritization, and was successful in obtaining one Hiring Freeze Exemption for an Investigative CPA. There are currently more exemption requests at the Department of Finance, and I am encouraged that we will have a status update shortly.

In order to address future staffing changes, staff has worked to create a Workforce and Succession Plan. This plan helps to ensure that the CBA workforce has the right people in the right positions, at the right time. In order to provide the cross-training of management as outlined in the plan, in August 2011 all of the licensing managers rotated and began oversight of a new program. This will ensure that if a vacancy occurs, another manager will have the program knowledge to be able to absorb the workload until a replacement is found.

CBA management has worked to mitigate the effect of the hiring freeze on CBA staff morale as much as possible. Steps include completing an Individual Development Plan for all staff, so staff may work with management to identify areas for further development and identify resources to obtain additional skills; redeveloping the Alternate Work Program, so that employees may alter their work schedules to better suit their personal lives; and implementing additional employee recognition mechanisms, including the CBA Leadership's Award of Excellence and the CBA Managers' Distinguished Service awards.

Looking forward to FY 2011-12, I am confident in saying that California consumers and licensees, CBA stakeholders, and fellow agencies can count on continued exemplary services and consumer protection at the California Board of Accountancy.

Patti Bowers
Executive Officer

ABOUT THE CALIFORNIA BOARD OF ACCOUNTANCY

From its inception in 1901, the California Board of Accountancy has, by statute, been charged with regulating the practice of accountancy. The original law prohibited anyone from falsely claiming to be a certified accountant, a mandate which exists today.

The standards for licensure have always been high. The first accountants certified by the CBA in 1901 were required to sit for a written examination, including questions on Theory of Accounts, Practical Accounting, Auditing, and Commerce Law, with a passage rate of at least 70 percent for each section. Applicants were required to provide a notarized affidavit certifying at least three years accounting experience, at least two years of which must have been in the office of a Certified Public Accountant (CPA) performing actual accounting work. In addition, each applicant was required to submit three references testifying to his character, in the form of a "Certificate of Moral Character." Today's mandate that each CBA licensee pass an ethics course finds its antecedent in the CBA's original requirement of this certificate.

In 1929, the Legislature placed the CBA within the Department of Professional and Vocational Standards. In 1945, the Accountancy Act was substantially revised. In 1971, the Legislature located the CBA within the newly-created Department of Consumer Affairs.

Function of the CBA

The CBA's legal mandate is to regulate the accounting profession for the public interest. The CBA establishes and maintains entry standards of qualification and conduct within the accounting profession, primarily through its authority to license. The CBA's enabling act is found at Section 5000 *et seq.* (Accountancy Act) of the Business and Professions Code, and the CBA's regulations appear in Title 16, Division 1 of the California Code of Regulations (CBA Regulations).

The CBA is unique among California licensing authorities, in that it has the authority to license and discipline not only individuals but also CPA firms. As accounting practitioners, the CPA and the Public Accountant (PA) are sole proprietors, partners, shareholders, and staff employees of public accounting firms. They provide professional services to individuals; private and publicly-held companies; financial institutions; nonprofit organizations; and local, state, and federal government entities. CPAs and PAs also are employed in business and industry, in government, and in academia.

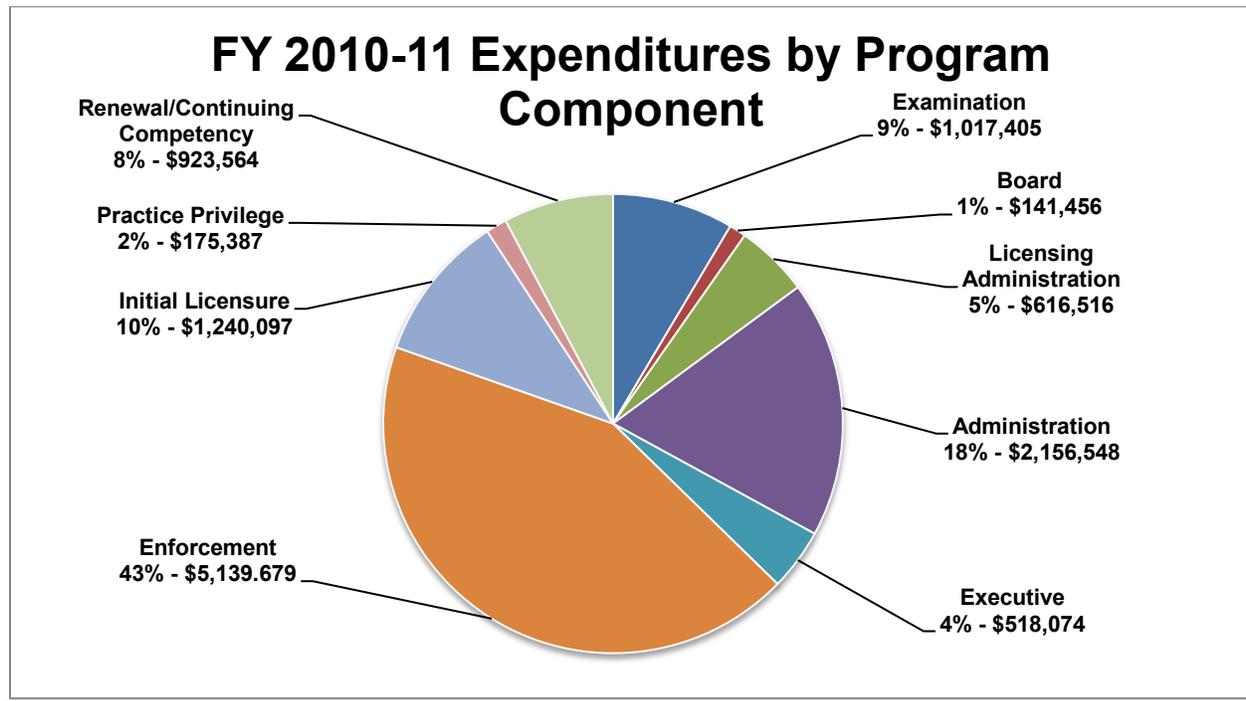
The CBA performs its consumer protection mission for many stakeholders, including:

- Consumers of accounting services who require audits, reviews, and compilations of financial statements, tax preparation, financial planning, business advice and management consultation, and a wide variety of related tasks.
- Lenders, shareholders, investors, and small and large companies who rely on the integrity of audited financial information.

- Governmental bodies, donors, and trustees of not-for-profit agencies, which require audited financial information or assistance with internal accounting controls.
- Regulatory bodies such as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Public Utilities Commission, and federal and state banking regulators; and local, state, and federal taxing authorities.
- Retirement systems, pension plans, and stock exchanges.

Current law stipulates that the CBA consists of 15 members, seven of whom must be CPAs, and eight of whom shall be public members who shall not be licensees of the CBA or registered by the CBA. The Governor appoints four of the public members and the seven licensees. In appointing the seven licensees, the Governor must appoint members representing a cross-section of the accounting profession with at least two members representing small public accounting firms. A small public accounting firm is defined as a professional firm that employs a total of no more than four licensees as partners, owners, or full-time employees in the practice of public accountancy. The Senate Rules Committee and the Speaker of the Assembly each appoint two public members.

BUDGET



The CBA's budget in FY 2010-11 was \$11,928,725, which represents the maximum amount of money that the CBA can spend on annual operations. The chart above illustrates the resources allotted to each unit within the CBA. The CBA Administration Division is responsible for determining the budgets for each program; with the number and classification of personnel, specific contracts, and expected equipment purchases all considered when determining these amounts. Each year, staff submit the budgeted amounts to the DCA in December.

As part of revenue planning, in August 2010, staff submitted workload and revenue statistics to the DCA and the Department of Finance (DOF) to finalize projected revenue levels for the FY 2011-12 budget. These statistics will provide a preliminary estimate to use for projecting revenues for the FY 2012-13 budget.

In January 2010 a new Executive Order was given, which required departments achieve an additional 5% salary savings in FY 2010-11. Staff and management worked to meet the goal of saving approximately \$260,000 by holding four staff positions vacant.

In order to keep CBA members abreast of the CBA budget, staff provide quarterly financial reports and budget updates at CBA meetings. These reports give CBA members status updates on CBA spending levels. The final year-end financial report for FY 2010-11 will be presented at the September 2011 meeting.

As part of the FY 2011-12 California Budget Act, the Legislature approved three budget change proposals for the CBA in FY 2011-12, two of which provided additional staffing in the Enforcement Division. Staff provided a summary of the budget change proposals at the January 2011 CBA meeting and details are provided below.

- Authorization of 2.5 Associate Governmental Program Analysts to address new and existing non-technical enforcement workload, including probation monitoring, unlicensed activity, and continuing education audits, with the CBA absorbing all costs within its existing budget.
- Authorization of one two-year limited-term Office Technician to provide peer review clerical support, with the CBA absorbing all costs within its existing budget.
- A \$1M reduction in CBA budget.

Previously, the CBA was mandated to retain approximately nine months worth of expenditures in reserve. In FY 2010-11 the Legislature removed that requirement, and the CBA ended FY 2010-11 with 13.3 months in reserve as indicated in the table below.

| ANALYSIS OF FUND CONDITION | FY 2010-11 (Actual) | FY 2011-12 (Projected) | FY 2012-13 (Projected) |
|------------------------------------|----------------------------|-------------------------------|-------------------------------|
| Total Reserves, July 1 | \$19,753,000 | \$13,621,000 | \$11,111,000 |
| Total Revenues | \$13,091,000 | \$9,716,000 | \$9,905,000 |
| Total Transfers | -\$10,000,000 | -\$1,000,000 | \$0 |
| Total Rev. & Transfers | \$3,091,000 | \$8,716,000 | \$9,905,000 |
| Total Resources | \$22,844,000 | \$22,337,000 | \$21,016,000 |
| Total Expenditures | \$9,223,515 | \$11,226,000 | \$11,349,000 |
| Unreimbursed Loans to General Fund | \$30,270,000 | \$31,270,000 | \$31,270,000 |
| Reserve, June 30 | \$13,621,000 | \$11,111,000 | \$9,667,000 |
| MONTHS IN RESERVE | 13.3 | 11.8 | 10.2 |

WORKFORCE, SUCCESSION, AND STRATEGIC PLANNING

STRATEGIC PLAN

Fiscal year 2009-10 began with CBA leadership deciding to take a proactive look at the CBA business processes and their functions. The process began with an update to the CBA Strategic Plan. The current plan, which covers 2010, 2011 and 2012 will help the CBA achieve its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards. Staff continue to work toward completing the nine Goals and 45 Objectives. Some of the progress and successes in achieving strategic goals and objectives are outlined below.

- 1.4 Achieve an Investigative CPA staffing level to adequately address workload demands.
 - Revised the Investigative CPA Exam by eliminating the written portion of the exam, making the questions more relevant, and implementing continual testing.
 - Developed a budget change proposal for 2.5 additional Investigative Analysts to alleviate Investigative CPA workload demands. This budget change proposal was approved, and the positions are in the CBA FY 2011-12 budget.
 - Contracted with five expert consultants to assist Investigative CPAs with investigative matters.
 - Completed multiple Hiring Freeze Exemption requests to facilitate hiring additional staff.

- 1.6 Expand field work by Investigative CPAs.
 - Working to hire CPAs directly in the field, working remotely.
 - Increasing field assignments when the hiring freeze ends to provide more field presence.
 - Implementing a telework policy, allowing Investigative CPA staff to maintain a home office in other areas of the state.

- 2.1 Respond to all inquiries within a reasonable timeframe.
 - Information Technology (IT) staff worked with program staff to refine the CBA Information Practices Act/Public Records Act (IPA/PRA) request tracking system.
 - The system allows management to input the new request, automatically emails staff that an IPA/PRA request has been assigned to them, and to log the request as completed.
 - In FY 2010-11, the CBA received 26 IPA/PRA requests and 419 requests for certification of documents by licensees.

- 2.2 Maintain a secure and relevant Web site that provides enhanced interactive features.
 - Continually verifies access and usability to various Web site utility programs.
 - Created the E-news utility to allow greater outreach to CBA stakeholders.
 - Added a link on the Web site to the CBA Facebook and Twitter pages.
 - Created and posted the Peer Review Reporting Form.

- 4.3 Increase the CBA's visibility and reputation with the Legislature.
- Making regular contact, in accordance with legislative calendar, in order to stay apprised of issues impacting the CBA or the profession.
 - Conducting "Meet and Greet" meetings with Business and Professions Committee members at the start of every legislative session.
 - Meeting with author or staff of CBA sponsored legislation to stay apprised of the status of the bill.
 - Writing letters communicating positions following CBA meetings at which positions are taken.
- 5.1 Proactively work with the American Institute of Certified Public Accountants (AICPA), National Association of State Boards of Accountancy (NASBA), and Prometric on behalf of national Uniform CPA Examination candidates to resolve issues in a fair and expeditious manner.
- Finalized a contract with NASBA to continue services related to the Uniform CPA Examination (CPA Exam).
 - CBA Examination staff is in regular and frequent contact with NASBA's Candidate Care personnel to resolve issues identified by candidates who are taking the CPA Exam.
- 5.3 Monitor national association activities and respond as appropriate.
- Responded to three NASBA focus questionnaires.
 - Notified CBA members of exposure drafts that are open for comment in the Executive Officer's monthly report.
- 6.4 Maintain a plan to ensure that CBA has staffing and skill levels in response to employee retirement and attrition.
- Drafted and presented to the CBA part one of a Workforce and Succession plan for Senior Staff.
 - Drafted and presented to the CBA part two of a Workforce and Succession plan for Supervisory Staff.
 - Coordinating with management and IT staff to draft parts three and four, which focus on senior analytical staff and Information Technology staff.
- 7.2 Educate licensees about the peer review process.
- Developed Peer Review Brochure and posted to the CBA Web site.
 - Published various articles in *UPDATE* regarding peer review legislation.
 - Posted news releases regarding peer review.
 - Ran radio spots regarding peer review.
 - Developed two sets of FAQs and posted to the CBA Web site.
 - Sent letter to all impacted licensees informing them of their peer review reporting requirement.
 - Drafted a reminder, final notice, and deficiency letter to all impacted licensees.
 - Updated the renewal forms and initial licensing forms to include peer review information.

- 7.3 Explore the feasibility of conducting workshops in various regions of the state.
- Contacted multiple colleges to perform outreach to students.
 - Contacted the Franchise Tax Board and Board of Equalization for outreach opportunities.
 - Finalized presentations for use as educational tools. The presentations have been provided to CBA Member's for their use at various outreach events at colleges throughout the state.
 - CBA staff used the presentation once, prior to travel restrictions being imposed. Outreach staff is now exploring making the presentation materials available on the CBA Web site and staff is also exploring the use of Webinar technology to continue conducting educational workshops, without incurring travel costs.
- 9.1 Evaluate staff annually and provide essential training to maintain currency of knowledge and achieve optimum skill levels.
- CBA management completed Individual Development Plans (IDP) and Probation Reports for all staff.
 - Sixty seven percent of staff attended various training courses throughout the year
 - Held "FISHing" training for all staff, which is designed to transform a "status quo" work environment into an exciting, playful, and productive work environment.
- 9.4 Develop and implement a staff recognition program.
- CBA Management created a quarterly theme competition among CBA staff, including an employee appreciation quarter.
 - Reached out to CBA members in the March Executive Officer's report for input on additional ideas to provide recognition to staff.
 - Created new award programs for staff, consisting of the CBA Leadership's Award of Excellence, and the CBA Managers' Distinguished Service Award. The awards are given annually recognizing two staff members making outstanding contributions to the CBA over the past year.

WORKFORCE AND SUCCESSION PLAN

After the completion of a new Strategic Plan, CBA leadership began to turn an eye toward establishing a Workforce and Succession Plan. Succession planning is working to ensure the continued effective performance of an organization, division, or work group, by making a provision for the development and replacement of leaders over time. The goal of succession planning is to match the organization's available (present) talent to its needed (future) talent, to ensure that the lessons of organizational experience (institutional memory) will be preserved and combined with reflection on that experience to achieve continuous improvement in work results.

Staff has completed two of the four portions of the plan, with the third portion to be presented in the November 2011 EO Monthly Report. The first portion of the plan outlined steps for the CBA members to take if the Executive Officer were to vacate their position, and steps the Executive Officer should take if any other Senior Staff, which includes the Assistant Executive Officer and two Division Chiefs leave the CBA. The second portion of the plan outlined steps to take if any supervisory staff were to leave the CBA, and provides a plan to cross-train staff to better prepare the CBA for any vacancies. The second portion of the plan also outlines steps CBA leadership should take to prepare the next generation of supervisory staff.

Suggestions include promoting training, cross-training where appropriate, and emphasizing the DCA mentoring program for any interested staff.

Originally, when creating the project outline for the entire Workforce and Succession Plan, the IT and Senior Analytical sections were to be drafted and presented together. However, when exploring the IT portion of the plan it became apparent that due to the technical nature of Information Technology, outside assistance would be needed to adequately address the business process. Staff has met with representatives from other boards that have recently completed an IT succession plan, and will be utilizing their plan as a model. It is anticipated the analytical portion of the Workforce and Succession Plan will be presented to the CBA in late 2011, and the IT portion in 2012.

ADMINISTRATION DIVISION

INTRODUCTION

The Administration Division is comprised of twenty staff responsible for all CBA day-to-day administrative operations. Duties include assisting with the creation of the budget, facilitating requests for staffing augmentations, contracting with vendors, purchasing new equipment, serving as liaison to the DCA on personnel and travel matters, providing IT support, maintaining the CBA Web site, and providing timely outreach to all stakeholders.

PUBLIC AFFAIRS AND OUTREACH

Outreach continues to be a cornerstone of the CBA's 2010-2012 Strategic Plan, and the Outreach Committee (OC) continues to utilize the high level strategies outlined in the Outreach Plan to meet those strategic goals and objectives. The OC is comprised of staff from across the divisions and programs, and is intended to serve as a clearinghouse for input and resources related to outreach. The CBA Public Information Officer provides oversight and guidance to the OC in order to ensure that planning and executing communications and outreach efforts will be integrated with the goals of the Outreach Plan.

One of the most significant accomplishments of the OC was expanding the use of social media to reach additional stakeholders, and to create an online community through which the CBA could get feedback and foster communications that would be beneficial to those participating. In November 2010, staff launched a CBA Twitter page, @CBANews, which at this writing has more than 300 followers. The Twitter launch was followed by the creation of a CBA Facebook page, www.facebook.com/CBANews. The CBA Facebook page is "liked" by more than 600 people, making it a vital tool in the outreach to various stakeholders. Allowing for "amplification" and "reverberation", Facebook posts reach many more individuals than are signed up to "like" us, and public Twitter lists multiply our reach beyond those who are following the CBA on Twitter, as well as recruit new followers.

Facebook not only allows the CBA to provide information to stakeholders; it provides a forum for CBA staff to communicate directly with examination and licensure candidates, licensees, and consumers. In May 2011 the OC held a live "Facebook Event", which focused on Examination Candidates. The event was an hour long, and staff answered questions from more than 40 visitors related to the international delivery of the Uniform CPA Examination (CPA Exam), and applying for the exam. The committee built upon the success of the first Facebook event with another event related to Peer Review in August 2011.

In addition to social media, staff completed and mailed three editions of the *UPDATE* publication. Of particular interest, in the winter edition staff included an article related to the Investigative CPA positions available at the CBA. The article garnered significant feedback from licensees, and staff is encouraged that it could lead to new candidates. The Spring edition of *UPDATE* marks the last wholesale printing of *UPDATE*; a newly-designed online edition will give *UPDATE* a fresh contemporary look, allow for ease of access online, and yet still enable those who prefer to have a paper copy mailed to them to choose to do so by selecting that choice on the CBA Web site. Stakeholders have been encouraged to "opt-in"

online if they desire to continue receiving the *UPDATE* via mail, and staff continues to get the word out via prominent placement on the CBA Web site, social media and E-News. It is anticipated that with the migration to a digital format, not printing the *UPDATE* will save the CBA approximately \$100,000 per year.

As part of the 2010 CBA Member Guidelines and Procedures Manual, the CBA Vice President is designated as the CBA Ambassador, providing guidance on outreach requests from various stakeholders. In February, staff crafted a PowerPoint presentation for President Sally Anderson to deliver to the California Association of State Auditors. This was followed by a presentation in May to Chapman College, and in June with a presentation to the annual meeting of CalCPA.

In addition to the presentations created for President Anderson, OC staff gave a PowerPoint presentation at the University of the Pacific focused on the CPA Exam and initial licensing process. Subsequently, staff made a presentation to Consumnes River College faculty related to the upcoming changes in education requirements. Additional opportunities for presentations at colleges are presenting themselves, but the current restriction on staff travel, even within Sacramento, is hampering the ability of staff to continue this type of outreach. However, staff is creatively considering ways address the issue, including YouTube videos as online tutorials. The first YouTube video on how and when to report a Peer Review is currently in production, and subsequent videos are planned.

It is vitally important that the CBA liaison with the DCA and other regulatory agencies to increase exposure to consumers. To that end, in March the CBA partnered with the DCA, Contractors State License Board, and several other smaller boards to provide information at several outreach events. Staff has been in contact with the Outreach Coordinator at the Board of Equalization, and, along with the Franchise Tax Board, is considering a partnership for outreach activities which would be beneficial to CBA licensees.

Staff has made conscious and strategic efforts to expand CBA Communications and Outreach, and will continue to do so into the future. Outreach to all stakeholders is paramount to fulfilling the CBA vision that all consumers are well informed and receive quality accounting services from licensees they can trust.

LEGISLATION AND REGULATION

Sunset Review

Staff delivered the CBA 2010 Sunset Review Report to the Legislature on Friday, October 1, 2010. In April, CBA President Anderson and Executive Officer Patti Bowers testified before the Senate Business, Professions, and Economic Development Committee (Committee) as a part of the CBA's sunset review. Staff then provided the Committee with written responses to the issues identified in its background paper. The Committee made a number of recommendations, and incorporated those into Senate Bill (SB) 541, which will, among other things, extend the CBA's sunset date. The bill is currently on the Governor's desk awaiting signature.

Blue Book

The CBA Blue Book is a compilation of the Accountancy Act, the CBA Regulations, and other related California Codes. Staff updated the Blue Book, which is current as of January 1, 2011. The book was also consolidated electronically, and placed on the CBA Web site. This allows for easier searching/printing by CBA stakeholders and updating by CBA staff.

Pending Legislation

- **Assembly Bill 431 (Ma)**
This bill is sponsored by the CBA, and would authorize the CBA to establish, by regulation, a system for the placement of a license in a retired status for accountants who are not actively engaged in the practice of public accountancy or any activity which requires them to be licensed.
- **Senate Bill 306 (de León)**
This bill will make the Practice Privilege Safe Harbor period permanent in law. The previous safe harbor provision was in regulation and became inoperative on December 31, 2010. This bill will also carve out a licensing exemption for certain out-of-state licensees practicing under very specific conditions in California.
- **Senate Bill 541 (Price)**
This bill extends the sunset date for the CBA to January 1, 2016. In addition, it makes the Peer Review Program permanent and exempts certain restatements from the self-reporting requirements.
- **Senate Bill 773 (Negrete-McLeod)**
This bill would codify most of the ECC's recommendations regarding the 10 semester units of ethics study required for licensure starting in 2014.

Regulations Finalized and Filed

- **Peer Review (12/20/2010)**
This package made permanent the Peer Review Regulations, which were originally adopted as emergency regulations.
- **Peer Review Oversight Committee (12/21/2010)**
Established the qualifications and duties of the Peer Review Oversight Committee, and established an adjudication procedure for peer review programs which are denied CBA approval.
- **Continuing Education: Exemptions and Extensions (2/2/2011)**
This package was mostly cleanup correcting some numbering issues and cross-references. However, it did add a requirement that any Regulatory Review course must cover Article 6-Peer Review.

- **Fee Reduction (4/14/2011)**
This package reduced initial license and renewal fees by 40%, lowering these fees from \$200 to \$120. After four years, the CBA must reassess these fee levels; if it takes no action, the fees will return to their previous levels.
- **Peer Review Provider Requirements (4/25/2011)**
This package requires providers to provide the CBA with failed peer reviews within 60 days.

Regulations in Progress

- **Supervision and Disciplinary Guidelines**
This package will define supervision and incorporate by reference supervision verification forms. It will also incorporate by reference the CBA's revised Disciplinary Guidelines.

CBA WEB SITE

CBA staff has worked diligently to improve the CBA Web site. Coinciding with the launch of the CBA Twitter and Facebook pages, staff added a link to the CBA Web site allowing stakeholders to navigate directly to the CBA Facebook and Twitter pages. Staff also added a temporary link highlighting the inaugural Facebook event to the homepage, and created an online request for a paper version of *UPDATE*.

In relation to the Enforcement Program, staff added all discipline actions to the summaries under the "Disciplinary Actions/License Restrictions" Web page. Further, all pending accusations are now posted on the homepage. In the licensing arena, staff created a "New Licensure Requirements" page, complete with a list of frequently asked questions, a document detailing the proposed changes, and a link to contact the CBA for more information.

Finally, the "CBA Regulations" page was migrated from a downloadable .pdf format to a web page. This allows for easier updating by CBA staff, and searching/printing by CBA stakeholders.

INFORMATION TECHNOLOGY

Over the past year, CBA IT staff have successfully completed several important projects that have enhanced internal operations and CBA outreach and communication with stakeholders. It is worth noting that in light of the State of California's fiscal crisis and the increased pressure on State agencies to reduce waste and operate more efficiently, these CBA IT projects were also completed with minimal expenditures by utilizing existing CBA resources.

In order to mirror DCA's migration from the antiquated Lotus Notes email servers to Microsoft Office, IT staff has migrated staff's email to Outlook. This allows the IT team to manage everyone's email accounts on one server and brings us closer to retiring the Lotus notes server and IMAP server. Outlook is now the primary staff email client. IT has also upgraded hardware and software for the staff, including anti-virus and security updates. The improvements are expected to enhance office functions and security.

The Disaster Recovery Plan (DRP) has been updated from last year to better reflect changes in personnel and information systems that the CBA relies on for mission critical processes. The DRP focuses on Maximum Allowable Outages to critical IT services that the CBA must maintain for operational integrity. Since information systems are used to augment CBA business processes, manual contingency processes are identified for outages exceeding allowable time limits. All personnel involved in planning and response to disaster recovery procedures have been issued a copy of the DRP and a copy has been placed in the "go bag" to accompany the Business Continuity Plan.

The DCA document imaging project Scanning and Records Retrieval System (ScanRRs) has been vetted and approved by the DCA Director and the Feasibility Study Report has been submitted to the State and Consumer Services Agency and is expected to continue to the California Technology Agency for final approval. The ScanRRs project is scheduled to launch in July 2012, just prior to the BreZEze project and is anticipated to be incorporated into the entire DCA-based licensing process.

TRAVEL

Executive Order B-06-11, issued on April 26, 2011 by Governor Brown, eliminated discretionary travel. No travel is permitted unless it is mission critical to specific exemption criteria and receives authorization by the DCA.

Management has looked for ways to manage travel expenditures and to reduce unnecessary spending. In FY 2010-11, one CBA meeting and nine Committee meetings were conducted in the CBA office in Sacramento in order to eliminate staff travel expenses.

PERSONNEL

CBA staff continue to participate in the Human Resource Modernization (HR Mod) Project, which streamlines hiring, rewards performance, and simplifies the State's system of job classifications. Participation requires CBA staff to submit to the DCA justifying statements when hiring for the Associate Governmental Program Analyst, Investigative CPA, and Staff Services Manager I classifications, and to submit probationary reports timely.

In May 2011, CBA management distributed an Office Operations and Staff Expectations memorandum to provide staff with a clear awareness of the CBA's expectations regarding conduct in the office. The memorandum serves as a reminder of some of the CBA's most important policies, including, but not limited to, proper handling of confidential information and discrimination and sexual harassment awareness. All CBA staff are required to annually review the memorandum and all associated policies.

In keeping with the CBA Strategic Plan Objective 9.1, staff are encouraged to attend training that will develop their professional and personal skills. In FY 2010-11, sixty seven percent of staff utilized training at the DCA, including the DCA "FISHing" program, the Enforcement Academy, the DCA mentoring program, and various other training offered by outside agencies.

ENFORCEMENT DIVISION

INTRODUCTION

The Enforcement Division is comprised of approximately 20 staff that are responsible for overseeing the enforcement of laws and rules governing the practice of public accountancy. Staff receive complaints from consumers, licensees, professional societies, law enforcement agencies, other government agencies and internal referrals. While historically consumers and internal referrals have been the main origin of complaints, licensees also have been a significant source, most often reporting unlicensed activity. Enforcement staff also regularly monitor the news media for information that may suggest licensees' violations of the Accountancy Act. Staff from the Licensing Division refer licensees who have not complied with license renewal requirements.

The CBA has significant responsibilities in the area of consumer protection. Workload is prioritized to ensure maximum consumer protection, and cases with the potential for ongoing consumer harm receive the highest priority and urgent attention. The options of interim suspension order or Penal Code Section 23 suspension are utilized whenever appropriate to restrict or suspend licensee practice rights to diminish potential consumer losses.

STAFFING AND ORGANIZATION

During FY 2009-10 the Enforcement Division overcame an employee turnover rate of approximately 70%. Fortunately, with the exception of a few Investigative CPA vacancies, all positions have now been filled and are stable. Training and developing of staff has been a time consuming process; however, a technical knowledge base has been established that can be nurtured and cultivated for the future long term growth.

Historically it has been difficult to recruit and retain Investigative CPAs, with below market salaries and the state testing process contributing to these challenges. This year, significant improvements were accomplished in both of these areas. While the CBA continued to utilize temporary incentives, such as a recruitment and retention bonus of 15% - 20%, the Investigative CPA union and DPA are discussing a permanent fix to increase salaries for Investigative CPAs. Hopefully, these discussions will lead to a permanent solution to the low salary issue which has hindered recruitment of Investigative CPAs.

In 2010 Senior Management implemented significant changes to the Investigative CPA civil service testing process, including acceptance of applications for the Investigative CPA exam on a continual basis, eliminating the written portion of the exam, and making exam questions more relevant to the duties of an Investigative CPA. Additionally, the Investigative CPA exam is routinely advertized in the *UPDATE* publication, which has become increasingly effective as Investigative CPA positions are now allowed to be filled anywhere in the state (e.g. no longer required to hire in Sacramento). These changes have yielded the following positive results.

| | FY 2009-10 | FY 2010-11 |
|---|------------|------------|
| Number of applicants | 28 | 80 |
| Number of candidates meeting minimum qualifications | 11 | 32 |
| Candidates eligible to be hired | 3 | 18 |

Similar to the impact on other CBA vacancies, the ongoing hiring freeze prevented the hiring of Investigative CPAs. Multiple hiring freeze exemptions were submitted, but only one position was approved, which resulted in an Investigative CPA being hired in June 2011.

The effects of the various furloughs and hiring restrictions have had a negative impact on casework backlog. Since January 2010, the number of pending investigations has increased by 70% to 334, and the average age of investigations has increase by 21 percent to 238 days. Furthermore, the number of investigations referred to the Attorney General's Office (AG) has decreased steadily over the past three years from 41 to 36 to 24.

Fortunately, there may be some relief in sight. CBA management has worked with the DCA to engage contract consultants for assistance on complex technical investigations. Management was successful in finalizing five new contract consultants, and it is anticipated this will help reduce the current backlog.

One other notable development that took place in the Enforcement Division during the past year was the posting of all pending accusations to the CBA Web site. The CBA acted on this issue at the September 2010 meeting, and staff have posted 15 pending accusations on the CBA Web site since October 1, 2010.

Additionally, Enforcement staff have begun assessing Administrative Penalties on an increasing basis. Administrative Penalties are considered when actual or potential harm to consumers or clients exists.

And finally, the Enforcement Division has begun drafting "At a Glance" articles for the *UPDATE*. These articles are designed to provide licensees with an update on current issues facing the profession, and give information on how a licensee can avoid or mitigate compliance issues.

Peer Review

During FY 2010-11, implementation of the mandatory peer review program was transitioned from the Licensing Division to the Enforcement Division. With the assistance of staff from the Licensing Division, enforcement staff began the arduous task of learning peer review laws and regulations, establishing peer review procedures, and working with the newly created Peer Review Oversight Committee (PROC). In order to adequately administer the program, staff performed the following tasks:

- Drafted and implemented a Confidentially Letter with the AICPA to allow PROC members access to peer review information.
- Mailed 28,000 initial letters and 9,000 reminder letters to licensees with a peer review reporting requirement of July 1, 2011.

- Drafted deficiency letters to be mailed to 3,500 licensees who did not report their peer review information by July 1, 2011.
- Worked with the California Society of CPAs (CalCPA) to establish procedures and communications with licensees requesting an extension to complete their peer review; resulting in 287 extensions being granted by CalCPA.
- Received 19,000 peer review reporting forms from licensees with a peer review reporting requirement of July 1, 2011.
- Received 25 failed peer reviews; opened an investigation, and are monitoring the licensees adherence to corrective actions imposed by CalCPA.
- Mailed 20,000 initial letters to licensees with a peer reporting requirement of July 1, 2012.
- Developed, deployed, and received 1,214 peer review surveys. These are voluntary surveys that will assist the CBA in collecting information from sole proprietors and small firms to prepare the report that is due to the Legislature and the Governor in 2014.
- Revised the renewal forms for individuals, corporations, and partnerships to include information regarding peer reviews.

PERFORMANCE MEASURES

As part of the Consumer Protection Enforcement Initiative, the DCA began posting Performance Measures for each board and bureau. Beginning in July 2010, each board and bureau began tracking performance measurement data and providing it to DCA for posting to its Web site. Following are the final performance measures for FY 2010-11:

| Performance Measure | Target | Result |
|--|---------------|---------------|
| Number complaints and convictions received | NA | 854 |
| Average cycle time from complaint receipt, to the date the complaint was assigned to an investigator | 10 days | 5 days |
| Average cycle time from complaint receipt to closure of the investigation process. Does not include cases sent to the Attorney General or other forms of formal discipline | 180 days | 189 days |
| Average number of days to complete the entire enforcement process for cases resulting in formal discipline | 540 days | 642 days |
| Average number of days from monitor assignment, to the date the monitor makes first contact with the probationer | 5 days | 1 day |
| Average number of days from the date a violation of probation is reported, to the date the assigned probation monitor initiates appropriate action | 15 days | 2 days |

COMPLAINT MANAGEMENT (STATISTICS)

| | FY 2009-10 | FY 2010-11 |
|---|------------|------------|
| Complaints | | |
| Received | 630 | 722 |
| Closed without Assignment for Investigation | 369 | 132 |
| Assigned for Investigation ¹ | 331 | 573 |
| Average Days to Close or Assign for Investigation | 25 | 5 |
| Pending | 0 | 17 |
| Average Age of Pending Complaints | N/A | 5 |
| Convictions/Arrest Reports | | |
| Received | 75 | 132 |
| Closed | 63 | 100 |
| Assigned for Investigation | 15 | 27 |
| Average Days to Close or Assign for Investigation | 3 | 2 |
| Pending | 0 | 5 |
| Investigations | | |
| Initial Assignment for Investigation | 346 | 601 |
| Investigations Closed | 280 | 464 |
| Average Days to Close | 212 | 130 |
| Investigations Pending | 196 | 334 |
| Average Age of Pending Investigation | 197 | 238 |
| Enforcement Actions | | |
| AG Cases Initiated | 35 | 24 |
| AG Cased Pending | 41 | 37 |
| Statement of Issues Filed | 1 | 0 |
| Accusations Filed | 26 | 20 |
| Disciplinary Orders | | |
| Proposed Decisions Default Decisions Effective | 8 | 10 |
| Stipulations Effective | 17 | 12 |
| Average Days to Complete Proposed Decisions/Default Decisions/Stipulations ² | 722 | 727 |
| Citations | | |
| Final Citations | 14 | 30 |
| Average Days to Complete | 218 | 268 |
| Administrative Penalties | \$0 | \$20,000 |
| <p>¹ There are two reasons for the increase in formal investigations opened from previous years. The first is the result of an internal change made by the DCA that defines an investigation as opened immediately following the initial review. The second is based on the number of "internal" investigations that have been referred within the CBA. During FY 2009-10 there were 215 "internal" investigations open and in 2010-11 there were 387 "internal" investigations open.</p> <p>² Average Days to Complete Proposed Decisions/Default Decisions/Stipulations is based on the number of days from receipt of complaint to the effective date of Disciplinary Order.</p> | | |

LICENSING DIVISION

INTRODUCTION

The Licensing Division is comprised of approximately 45 staff, who are responsible for ensuring: 1) applicants meet education requirements prior to taking the CPA Exam; 2) applicants for licensure have passed the Uniform CPA Examination (CPA Exam) and have met the education and experience requirements necessary for licensure; 3) accountancy partnerships and corporations are registered so they can offer services in California; 4) licensees have paid the required fees and have completed the required amount of continuing education hours in order to renew their license; and 5) out-of-state licensees seeking the privilege to practice public accountancy in California have notified the CBA of their intent.

Although the main focus of the Licensing Division is to regulate entry into the profession, Licensing Division staff are an integral part of the enforcement process as well. A significant number of enforcement complaints originate from within the Licensing Division, based upon information provided by the current or potential licensee. For instance, the Renewals and Continuing Competency Unit routinely refers complaints to the Non-Technical Unit in Enforcement related to licensees practicing with continuing education deficiencies, and practicing with expired licenses.

EXAMINATION UNIT

The Examination Unit processes applications to sit for the CPA Exam, including the review of official transcripts and foreign credential evaluations to ensure that examination candidates meet the educational qualifications pursuant to Sections 5092 and 5093 of the Business and Professions Code.

Beginning January 1, 2011, the American Institute of Certified Public Accountants (AICPA) launched changes to the CPA Exam, which were referred to as CBT-e. The changes to the CPA Exam are a direct result of the AICPA's 2008 Practice Analysis, which was undertaken to ensure the validity of the examination.

Significant changes made to the CPA Exam by the AICPA included:

- Change in the examination section structure, section time allocations, and the percentage value of examination components.
- New question formats will be introduced.
- New content and skill specifications will go into effect, including testing of International Financial Reporting Standards (IFRS).

Preceding the launch of CBT-e, the Examination Unit experienced a record high volume of 3,489 applications in June 2010. The increased volume of applications continued through November. Because of the changes to the exam, including the correlated study materials, and the inclusion of IFRS, candidates expressed their eagerness to sit for and pass the CPA Exam by November 30, 2010. With the assistance from Initial Licensing staff, the Examination Unit was able to maintain reasonable processing times under 45 days.

During a number of CBA meetings in FY 2010-11, the CBA considered the international delivery of the CPA Exam (iExam), most recently at the July 2011 CBA meeting. Over the course of these meetings, members raised many concerns, including grading, security of the examination, enforcement, and the Social Security Number requirement for licensure. Over the course of deliberations, the Examination Unit has assisted CBA members by researching and providing additional information addressing their concerns. Examination staff also contacted other states' boards of accountancy that have agreed to participate in iExam, specifically Texas and New York, and sought information as to whether those states' board members shared the same concerns. Staff provided the responses to CBA members at the July 2011 CBA meeting. Although a decision to participate in iExam was not made, staff will continue to monitor iExam following its launch by NASBA in August 2011 and will bring information back to CBA members in 2012.

One of the issues identified during discussions on iExam revolved around the CBA's CPA Exam pass letter. CBA members voiced concern that foreign candidates could fraudulently use the pass letter with a gold seal as evidence of a license to practice public accounting. Based on decisions reached by the CBA at the November 2010 meeting, the Examination Unit began issuing the revised CPA Exam pass letter that eliminated the gold seal. Examination staff also made revisions to the content of the letter providing more direction to the candidates regarding obtaining a California CPA license.

Also in FY 2010-11, Examination Unit staff worked closely with IT to make improvements to the system used to process scores. With the implementation of the new score posting system, as scores are received from NASBA, they are automatically posted into candidates' client accounts as a final score. Once a candidate has passed all four parts of the CPA Exam, a score sheet detailing the candidate's exam history is generated and placed into the candidate's file and a pass letter is issued. This eliminates the need to manually post each candidate's score and apply a label in each file, thus decreasing the time final scores are available to candidates.

Statistics

| | FY 2009-10 | FY 2010-11 |
|--|---------------|---------------|
| Examination Applications Received | | |
| First-time Sitter | 7,666 | 7,109 |
| Repeat Sitter | 16,116 | 17,404 |
| Totals: | 23,782 | 24,513 |
| Processing Time Frames | 26 days* | 28 days* |
| Scores Processed | 37,993 | 40,261 |

* Average processing time frames for first-time applicants

INITIAL LICENSING UNIT

Upon passing the CPA Exam, completion of any additional required education, and obtaining the requisite experience, a candidate may apply for CPA licensure. The Initial Licensing Unit received 3,361 applications for CPA licensure during FY 2010-11. Staff review each application thoroughly to ensure the applicant has met the education, examination and experience requirements necessary for licensure.

In FY 2010-11 staff revamped the internal process for approving and issuing CPA licenses. Under the new system, once an application is approved the applicant is sent a letter informing them of their approval and the license fee amount due. The applicant is informed of the two-year application abandonment deadline, and an improved "personal data card" is included with the approval letter. The new process is more automated and streamlined than the previous process, which results in it taking less staff time to complete, being easier for applicants, and more accurate for tracking statistics surrounding application approval and licenses issued. Initial Licensing Unit staff continue to access the NASBA Accountancy Licensing Database (ALD) to expedite processing time for CPA licensure applicants. This database allows staff to verify the licensure of out-of-state CPAs who are providing supervision to California applicants. Presently, 35 states report licensing information to the ALD.

The Initial Licensing Unit is also responsible for registering General and Limited Liability Partnerships (LLP), Corporations and Fictitious Name Permits¹. There were 146 accountancy firm applications received during FY 2010-11.

Statistics

| | FY 2009-10 | FY 2010-11 |
|--|--------------|--------------|
| Licenses Issued by Pathway | | |
| Pathway 0 | 88 | 14 |
| Pathway 1 | 1,043 | 1,070 |
| Pathway 2 | 2,638 | 2,483 |
| Total Licensed | 3,769 | 3,567 |
| Average Processing Timeframes | 22 Days | 15 Days |
| Pathway 0 was repealed in January 2010, however applicants seeking re-licensure following a cancelled license can be licensed under Pathway 0, that number is reflected above. | | |
| Firm Registrations | | |
| Corporations | 227 | 184 |
| Partnerships | 109 | 66 |
| Fictitious Name Permits | 155 | 146 |
| Total Registrations | 491 | 396 |
| Average Processing Timeframes | 15 Days | 11 Days |

The Initial Licensing Unit is responsible for responding to requests for certification of CBA records. Although the majority of these requests are from California licensees or CPA Exam candidates who are applying for licensure out-of-state, the CBA also receives requests from other interested parties. In FY 2010-11 there were 1,257 Certification Requests.

¹ A sole proprietor choosing to practice using a name other than the name under which the person holds a valid permit to practice issued by the CBA.

One of the final projects Initial Licensing Unit staff worked on was modifying letters and handbooks to accommodate the reduced fees for CPA licensure applicants as well as accountancy firms. Initial licensure fees for CPA are \$60/\$120 and initial permit fees for accountancy firms are \$120.

RENEWAL/CONTINUING COMPETENCY UNIT

The Renewal/Continuing Competency (RCC) Unit is responsible for processing license renewals for CPAs, PAs, and accountancy firms. CPA and PA licensees are required to renew their licenses biennially, in conjunction with their birthday. For those licensees electing to renew their license in an active status, the RCC Unit ensures that the continuing education (CE) was completed in the appropriate manner. Accountancy corporations and partnerships are also required to renew biennially, corresponding with their registration date with the CBA. Firms must submit information pertaining to their shareholders or partners.

The biennial renewal fee was lowered for a four-year period; licenses expiring after June 30, 2011 will now pay a license renewal fee of \$120 rather than \$200 through the end of FY 2014-15. A delinquency fee of \$60 will be added to the total amount due if postmarked after the license expiration date. Staff have updated information on the CBA Web site to ensure licensees are able to reference accurate fee information.

In conjunction with the fee reduction, staff in the RCC and Enforcement Division collaborated to incorporate changes into license renewal applications to include a certification that a firm or sole proprietor acknowledges a peer review must be completed and reported to the CBA if they provide accounting and auditing services. Additionally, an informational insert detailing the peer review requirements and the reporting timeline is included with the license renewal application.

RCC staff continue to review and approve Regulatory Review courses as part of the new CE regulations that became effective January 2010. In FY 2010-11, RCC Staff reviewed and approved 12 courses.

The bulk of the work completed by RCC staff involves the review of CE reporting worksheets, which are submitted by licensees at the time of license renewal. When deficiencies occur, RCC staff send a letter to the licensee informing them of the deficiency and advising them how to gain compliance. Provided below are the CE worksheet review statistics including the number of deficiencies that were referred to the Enforcement Division for further review. As the table indicates, during FY 2010-11 RCC successfully worked with 2,380 licensees to bring them into compliance with the CBA's CE requirements.

Statistics

| | FY 2009-10 | FY 2010-11 |
|--|---------------|---------------|
| License Renewal Applications Processed | | |
| Certified Public Accountant | 34,112 | 35,704 |
| Public Accountant | 30 | 33 |
| Accountancy Partnerships | 482 | 616 |
| Accountancy Corporations | 1,217 | 1,663 |
| Total: | 35,841 | 38,016 |
| Regulatory Review Courses | | |
| Number of Courses Received (first time submission) | 12 | 12 |
| Number of Courses Returned for Corrections | 8 | 9 |
| Number of Revised Courses Received (initial submission returned for corrections) | 7 | 1 |
| Number of Courses Approved | 5 | 12 |
| Worksheet Review Statistics | | |
| Number of CPA/PA Worksheets Reviewed | 29,914 | 31,336 |
| Number of Deficiencies Received | 1,535 | 3,086 |
| Number of Compliance Letters Sent (including inactive response) | 1,406 | 2,380 |
| Number of Enforcement Referrals | 27 | 70 |
| Number of Outstanding Deficiencies (including abandonment) | 102 | 636 |

CALIFORNIA PRACTICE PRIVILEGE

In order to practice under California Practice Privilege, out-of-state licensees are required to submit the CBA Notification Form, which is available for submission on-line or via hardcopy. Practice rights under California Practice Privilege are automatic upon submission of the Notification Form unless specific disqualifying conditions exist that require prior CBA approval.

To ensure that key consumer protection elements of the Practice Privilege Program are effective, the CBA established a verification of qualifications procedure. To date staff have issued 57 Administrative Suspension Orders to California Practice Privilege holders not qualified to practice under the Practice Privilege Program.

On January 1, 2011, Section 5050(b) of the Accountancy Act on temporary and incidental practice became inoperative. As a result, non-California CPAs who may have practiced public accountancy under Section 5050(b) are now required to file a practice privilege to allow them to practice public accountancy in California lawfully.

Additionally, California's Safe Harbor provision (CCR Title 16, Section 30), which allowed out-of-state CPAs five days in which to file a Practice Privilege Notification Form following the commencement of practicing public accountancy in California, expired on December 31, 2010. Beginning on January 1, 2011, a Practice Privilege Notification Form must be filed with the California Board of Accountancy (CBA) prior to practicing public accountancy in the state.

Staff worked in conjunction with DCA Legal Counsel to provide accurate information regarding these changes on the CBA Web site and to modify the on-line Practice Privilege Notification Form.

Statistics

| | FY 2009-10 | FY 2010-11 |
|--|------------|------------|
| Practice Privilege Notification Forms Received | 2,403 | 2,594 |
| Disqualifying Conditions Received | 39 | 37 |

COMMITTEE ACTIVITIES

Accounting Education Committee

The Accounting Education Committee (AEC) is a temporary, nine-member, legislatively-established committee under the jurisdiction of the CBA tasked with assisting the CBA in defining an additional 20 units of accounting study that will be required for applicants for CPA licensure beginning January 1, 2014. During FY 2010-11 the AEC met four times as a full committee and once in a joint meeting with the Ethics Curriculum Committee (ECC). At the joint AEC-ECC meeting on June 7, 2011, members reached final agreements and approved a proposal for the 20 units of accounting study, which was recommended to the CBA at the July meeting.

RCC Unit staff served as a liaison to the AEC and performed significant support functions. From an administrative aspect, staff assisted members with travel arrangements and reimbursements. Staff developed meeting agendas, reports and minutes, and assisted in research to enhance the AEC's ability to make informed decisions. For example, staff researched information from other state boards of accountancy, and from colleges and universities, including an in-depth review of one course catalog for each of the four main institutions of higher learning in California – community college, private college, California State University, and University of California. Additionally, as the committee approached drafting regulations, staff provided guidance on the rulemaking process in California.

Ethics Curriculum Committee

The ECC is a temporary, 11-member, legislatively-established committee under the jurisdiction of the CBA tasked with providing the CBA with guidelines on the 10 units of ethics study that will be required for CPA licensure beginning January 1, 2014. During FY 2010-11 the ECC met four times and one time in a joint meeting with the AEC. To further assist the committee, a subcommittee, which met twice, was established to draft a framework for the ethics study guidelines. At the joint AEC-ECC meeting on June 7, 2011, the ECC reached final agreements and approved a proposal for the 10 units of ethics study which was presented to the CBA at the July meeting.

RCC staff served as a liaison to the ECC, which also included providing numerous support activities and guidance on the rulemaking process in California. Staff researched information on ethics courses offered by colleges and universities throughout California, as well as ethics requirements for other state boards of accountancy. Staff also conducted a six-week study to track where licensees completed their education. Additionally, staff provided the subcommittee support in researching courses and assistance with drafting the framework for the ethics study guidelines.

AEC-ECC Joint Meeting

On June 7, 2011, the AEC and ECC conducted a joint meeting to expose stakeholders to the proposed increase in ethics and accounting study educational requirements for CPA licensure. In order to reach as many stakeholders as possible, RCC staff, working with the OC, publicized the meeting through e-mails, press releases, and the CBA's social media sites. Staff invited over 700 stakeholders to the meeting and sent a variety of flyers and formal invitations. Additionally, staff prepared a PowerPoint of the proposals which was presented at the joint meeting. Through these efforts, many stakeholders physically attended the meeting in addition to a record number of people who watched the meeting via webcast.

Qualifications Committee

Initial Licensing Unit staff act as liaisons to the Qualifications Committee (QC). The QC reviews selected applicants' audit work papers for sufficient experience for licensure as a CPA. During FY 2010-11, there were 45 appearances before the QC, resulting in 35 applicants approved for licensure and 10 applicants deferred for additional experience.

In addition to conducting interviews of applicants, there were three critical topics that the QC members discussed in FY 2010-11. Staff provided background information and served as a resource for the following topics:

- Continuing education requirements for applicants seeking reissuance of their CPA license, following its cancellation due to non-renewal.
- Continuing education requirements for applicants who have applied for CPA licensure and have experience that was obtained more than five years prior to application.
- Peer training guidelines for QC members to assist in establishing common practices and interview techniques amongst QC members, identifying methods for reviewing electronic records, understanding more of the internal staff processes with respect to applicant and employer interviews.

The discussions on these topics will continue during FY 2011-12.

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MANAGER

LIZA WALKER
INITIAL LICENSING AND PRACTICE PRIVILEGE
UNITS MANAGER

* Past President of the CBA



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item Number IV.D.
September 22, 2011

Update on Legislation on Which the CBA Has Taken a Position

Presented by: Matthew Stanley, Legislation/Regulation Analyst

Date: September 2, 2011

Purpose of the Item

This is a summary of the CBA's positions on bills and an update on any recent amendments.

Action(s) Needed

The CBA will be able to change any positions it deems necessary.

Background

Attached, for your information, is a chart (**Attachment 1**) outlining the positions the CBA has previously taken on bills that are still moving through the legislative process.

Comments

AB 431 was amended on the CBA's recommendation to remove language regarding specified minimum qualifications, particularly a minimum age. SB 306 was amended to add an urgency clause that the CBA approved of at its July meeting. AB 1424, SB 543, and SB 706 have also been amended, but the amendments do not change the impact of these bills on the CBA.

SB 541 has not been amended since the CBA's July meeting.

SB 103, the bill dealing with teleconference meetings, was held in the Assembly Appropriations' Suspense file and is dead.

SB 773 (**Attachment 2**), the bill implementing ethics study requirements, was amended in August, but not in the way the CBA requested.

- The CBA requested that the language be changed to make the bill more clear to those who will have to follow its direction, including students. This amendment was not taken.
- The CBA requested that all reference to upper division units be removed. Instead, the bill was amended to state that if the required course is taken at a

Update on Legislation on Which the CBA Has Taken a Position

Page 2 of 2

community college, it does not need to be upper division; however, if it is taken at a four-year school, it must be upper division.

- The bill was amended to add auditing to the list of acceptable course titles. This could potentially create confusion for students as the Ethics Curriculum Committee (ECC) specifically carved out that only one unit in a course specific to financial statement audits should be counted towards the ethics study requirement.
- The amendments deleted seven of the ten course disciplines that the ECC recommended as acceptable disciplines for ethics study.

Recommendation

Staff recommend the following:

1. No change of position on AB 431, AB 1424, SB 306, SB 541, SB 543, and SB 706.
2. Discontinue Following SB 103.
3. Adopt a Neutral position on SB 773.

Attachments

1. CBA Legislative Positions Chart
2. SB 773



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



Attachment 1

| <u>Bill #</u> | <u>Author</u> | <u>Topic</u> | <u>CBA Position</u> |
|----------------------|----------------------|--------------------------------|----------------------------|
| AB 431 | Ma | Retired Status | Sponsor |
| AB 1424 | Perea | Tax Delinquency | Oppose |
| SB 103 | Liu | Teleconferencing | Oppose |
| SB 306 | De Leon | Safe Harbor Extension | Support |
| SB 541 | Price | Expert Consultants | Support |
| SB 543 | Price | Sunset Review | Support |
| SB 706 | Price | Real Estate | Neutral |
| SB 773 | Negrete-McLeod | Ethics Curriculum Requirements | Support if Amended |

AMENDED IN ASSEMBLY AUGUST 15, 2011

AMENDED IN ASSEMBLY JUNE 28, 2011

AMENDED IN ASSEMBLY JUNE 20, 2011

AMENDED IN SENATE APRIL 14, 2011

AMENDED IN SENATE MARCH 24, 2011

SENATE BILL

No. 773

Introduced by Senator Negrete McLeod

February 18, 2011

An act to amend Sections 5093, 5094, ~~and 5094.5 of~~, to amend and repeal Section 5094.5, and 5094.6 of, and to add Section 5094.3 to, the Business and Professions Code, relating to accountants.

LEGISLATIVE COUNSEL'S DIGEST

SB 773, as amended, Negrete McLeod. Accountants.

Existing law provides for the licensure and regulation of accountants by the California Board of Accountancy in the Department of Consumer Affairs. Existing law requires an applicant for an accountancy license to complete a minimum of 24 semester units in accounting subjects and a minimum of 24 semester units in business-related subjects, or as calculated in quarter units. Existing law, on and after January 1, 2014, requires an applicant for an accountancy license to complete an additional 10 units in ethics study and 20 units in accounting study, and establishes an advisory committee to recommend to the board ethics study guidelines, to be adopted by the board by regulation.

This bill would set forth the ethics study requirements that, on and after January 1, 2014, would apply to an applicant for an accountancy license, as specified. ~~the~~ *The* bill would authorize the advisory committee

described above to determine that a course or portion of a course satisfies the ethics study requirements. The bill would make conforming changes to related provisions and delete the requirement that the board adopt these provisions by regulation.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 5093 of the Business and Professions
2 Code is amended to read:

3 5093. (a) To qualify for the certified public accountant license,
4 an applicant who is applying under this section shall meet the
5 education, examination, and experience requirements specified in
6 subdivisions (b), (c), and (d), or otherwise prescribed pursuant to
7 this article. The board may adopt regulations as necessary to
8 implement this section.

9 (b) (1) An applicant for admission to the certified public
10 accountant examination under the provisions of this section shall
11 present satisfactory evidence that the applicant has completed a
12 baccalaureate or higher degree conferred by a degree-granting
13 university, college, or other institution of learning accredited by
14 a regional or national accrediting agency included in a list of these
15 agencies published by the United States Secretary of Education
16 under the requirements of the Higher Education Act of 1965 as
17 amended (20 U.S.C. Sec. ~~1001~~, 1001 et seq.), or meeting, at a
18 minimum, the standards described in subdivision (c) of Section
19 5094. The total educational program shall include a minimum of
20 24 semester units in accounting subjects and 24 semester units in
21 business-related subjects. This evidence shall be provided at the
22 time of application for admission to the examination, except that
23 an applicant who applied, qualified, and sat for at least two subjects
24 of the examination for the certified public accountant license before
25 May 15, 2002, may provide this evidence at the time of application
26 for licensure.

27 (2) An applicant for issuance of the certified public accountant
28 license under the provisions of this section shall present satisfactory
29 evidence that the applicant has completed at least 150 semester
30 units of college education including a baccalaureate or higher
31 degree conferred by a college or university, meeting, at a minimum,

1 the standards described in Section 5094, the total educational
2 program to include a minimum of 24 semester units in accounting
3 subjects, 24 semester units in business-related subjects, and, after
4 December 31, 2013, shall also include a minimum of 10 units of
5 ethics study consistent with the requirements set forth in Section
6 5094.3 and 20 units of accounting study consistent with the
7 regulations promulgated under subdivision (c) of Section 5094.6.
8 This evidence shall be presented at the time of application for the
9 certified public accountant license. Nothing herein shall be deemed
10 inconsistent with Section 5094 or 5094.6. The Advisory Committee
11 on Accounting Ethics Curriculum established under Section 5094.5
12 may determine that a course or a portion of a course satisfies the
13 ethics study requirement. Nothing herein shall be construed to be
14 inconsistent with prevailing academic practice regarding the
15 completion of units.

16 (c) An applicant for the certified public accountant license shall
17 pass an examination prescribed by the board.

18 (d) The applicant shall show, to the satisfaction of the board,
19 that the applicant has had one year of qualifying experience. This
20 experience may include providing any type of service or advice
21 involving the use of accounting, attest, compilation, management
22 advisory, financial advisory, tax or consulting skills. To be
23 qualifying under this section, experience shall have been performed
24 in accordance with applicable professional standards. Experience
25 in public accounting shall be completed under the supervision or
26 in the employ of a person licensed or otherwise having comparable
27 authority under the laws of any state or country to engage in the
28 practice of public accountancy. Experience in private or
29 governmental accounting or auditing shall be completed under the
30 supervision of an individual licensed by a state to engage in the
31 practice of public accountancy.

32 (e) Applicants completing education at a college or university
33 located outside of this state, meeting, at a minimum, the standards
34 described in Section 5094, shall be deemed to meet the educational
35 requirements of this section if the board determines that the
36 education is substantially equivalent to the standards of education
37 specified under this chapter.

38 SEC. 2. Section 5094 of the Business and Professions Code is
39 amended to read:

1 5094. (a) In order for education to be qualifying, it shall meet
2 the standards described in subdivision (b) or (c) of this section.

3 (b) At a minimum, education shall be from a degree-granting
4 university, college, or other institution of learning accredited by
5 a regional or national accrediting agency included in a list of these
6 agencies published by the United States Secretary of Education
7 under the requirements of the Higher Education Act of 1965 as
8 amended (20 U.S.C. Sec. 1001 et seq.).

9 (c) Education from a college, university, or other institution of
10 learning located outside the United States may be qualifying
11 provided it is deemed by the board to be equivalent to education
12 obtained under subdivision (b). The board may require an applicant
13 to submit documentation of his or her education to a credential
14 evaluation service approved by the board for evaluation and to
15 cause the results of this evaluation to be reported to the board in
16 order to assess educational equivalency.

17 (d) The board shall adopt regulations specifying the criteria and
18 procedures for approval of credential evaluation services. These
19 regulations shall, at a minimum, require that the credential
20 evaluation service (1) furnish evaluations directly to the board, (2)
21 furnish evaluations written in English, (3) be a member of the
22 American Association of Collegiate Registrars and Admission
23 Officers, the National Association of Foreign Student Affairs, or
24 the National Association of Credential Evaluation Services, (4) be
25 used by accredited colleges and universities, (5) be reevaluated by
26 the board every five years, (6) maintain a complete set of reference
27 materials as specified by the board, (7) base evaluations only upon
28 authentic, original transcripts and degrees and have a written
29 procedure for identifying fraudulent transcripts, (8) include in the
30 evaluation report, for each degree held by the applicant, the
31 equivalent degree offered in the United States, the date the degree
32 was granted, the institution granting the degree, an English
33 translation of the course titles, and the semester unit equivalence
34 for each of the courses, (9) have an appeal procedure for applicants,
35 and (10) furnish the board with information concerning the
36 credential evaluation service that includes biographical information
37 on evaluators and translators, three letters of references from public
38 or private agencies, statistical information on the number of
39 applications processed annually for the past five years, and any
40 additional information the board may require in order to ascertain

1 that the credential evaluation service meets the standards set forth
2 in this subdivision and in any regulations adopted by the board.

3 SEC. 3. Section 5094.3 is added to the Business and Professions
4 Code, to read:

5 5094.3. (a) An applicant for licensure as a certified public
6 accountant shall, to the satisfaction of the board, provide
7 documentation of the completion of 10 semester units or 15 quarter
8 units of ethics study, as set forth in paragraph (2) of subdivision
9 (b) of Section 5093, in the manner prescribed in this section.

10 (b) (1) Between January 1, 2014, and December 31, 2016,
11 inclusive, an applicant shall complete 10 semester units or 15
12 quarter units in courses described in subdivisions (d), (e), and (f).

13 (2) Beginning January 1, 2017, an applicant shall complete 10
14 semester units or 15 quarter units in courses described in
15 subdivisions (c), (d), (e), and (f).

16 (c) A minimum of three semester units or four quarter units in
17 courses at an upper division level or higher devoted to accounting
18 ethics or accountants' professional responsibilities, *unless the*
19 *course was completed at a community college, in which case it*
20 *need not be completed at the upper division level or higher.*

21 (d) Between January 1, 2014, and December 31, 2016, inclusive,
22 a maximum of 10 semester units or 15 quarter units, and on and
23 after January 1, 2017, a maximum of 7 semester units or 11 quarter
24 units, in courses containing the following terms in the course title:

- 25 (1) Business, government, and society.
- 26 (2) Business law.
- 27 (3) Corporate governance.
- 28 (4) Corporate social responsibility.
- 29 (5) Ethics.
- 30 (6) Fraud.
- 31 (7) Human resources management.
- 32 (8) ~~Leadership~~ *Business leadership*.
- 33 (9) Legal environment of business.
- 34 (10) Management of organizations.
- 35 (11) Morals.
- 36 (12) Organizational behavior.
- 37 (13) Professional responsibilities.
- 38 (14) *Auditing*.

39 (e) (1) A maximum of three semester units or four quarter units
40 in courses taken in the following disciplines:

- 1 (A) Philosophy.
- 2 (B) Religion.
- 3 ~~(C) Sociology.~~
- 4 ~~(D)~~
- 5 (C) Theology.
- 6 ~~(E) Psychology.~~
- 7 ~~(F) Political science.~~
- 8 ~~(G) Economics.~~
- 9 ~~(H) Cultural studies.~~
- 10 ~~(I) Diversity studies.~~
- 11 ~~(J) Ethnic studies.~~

12 (2) To qualify under this subdivision, the course title shall
13 contain one or more of the terms “introduction,” “introductory,”
14 “general,” “fundamentals of,” “principles,” “foundation of,” or
15 “survey of,” or have the name of the discipline as the sole name
16 of the course title.

17 (f) A maximum of one semester unit of ethics study for
18 completion of a course specific to financial statement audits.

19 SEC. 4. Section 5094.5 of the Business and Professions Code
20 is amended to read:

21 5094.5. (a) There is hereby created within the jurisdiction of
22 the board the Advisory Committee on Accounting Ethics
23 Curriculum. For purposes of this section, “committee” means the
24 advisory committee established under this section.

25 (b) The committee shall consist of the following 11 members:

26 (1) One member appointed by the California Public Employees
27 Retirement System.

28 (2) Two members appointed by the Regents of the University
29 of California. These members shall be professors of business ethics
30 or accounting who have published works on the desirability and
31 potential contents of accounting ethics education.

32 (3) Two members appointed by the California State University
33 Board of Trustees. These members shall be professors of business
34 ethics or accounting who have published works on the desirability
35 and potential contents of accounting ethics education.

36 (4) Two members representing the California Community
37 Colleges appointed by the Board of Governors of the California
38 Community Colleges. These members shall be instructors of
39 business ethics or accounting.

1 (5) The Senate Committee on Rules, the Speaker of the
2 Assembly, and the board shall each appoint one member. The
3 members appointed by the Senate Committee on Rules and the
4 Speaker of the Assembly shall be from organized labor or consumer
5 advocacy organizations.

6 (6) The Governor shall appoint one California certified public
7 accountant in public practice from a list provided by the California
8 Society of Certified Public Accountants.

9 (c) The term of a member of the committee shall be at the
10 pleasure of the appointing authority.

11 (d) The committee shall be subject to the Bagley-Keene Open
12 Meeting Act (Article 9 (commencing with Section 11120) of
13 Chapter 1 of Part 1 of Division 3 of Title 2 of the Government
14 Code).

15 (e) This section shall remain in effect only until January 1, 2014,
16 and as of that date is repealed, unless a later enacted statute, that
17 is enacted before January 1, 2014, deletes or extends that date.

18 SEC. 5. Section 5094.6 of the Business and Professions Code
19 is amended to read:

20 5094.6. (a) No later than June 1, 2012, the committee shall
21 recommend to the board ethics study guidelines consisting of no
22 less than 10 semester units to be included as a part of the education
23 required under Section 5093. Ethics study may consist of academic
24 courses, portions of courses, or independent study offered by
25 degree-granting universities, colleges, or other institutions of
26 learning accredited by a regional or national accrediting agency.
27 Nothing herein shall be deemed inconsistent with prevailing
28 academic practice regarding completion of units.

29 (b) The board shall, no later than January 1, 2012, by regulation,
30 adopt guidelines for accounting study to be included as part of the
31 education required under Section 5093. In promulgating these
32 regulations, the board shall consider the views of the Accounting
33 Education Advisory Committee established under Section 5094.7.

34 (c) No later than six months following the issuance of the report
35 by the California Research Bureau regarding the Uniform
36 Accountancy Act's 150-hour rule, the board shall hold a hearing
37 on the report. At the hearing, the board shall make
38 recommendations, based on that report, to the National Association
39 of State Boards of Accountancy and the American Institute of
40 Certified Public Accountants for ensuring the relevancy of

1 accountancy education to the modern practice of accounting and
2 shall approve a plan for the board to seek the adoption of those
3 recommendations and any others the board may recommend related
4 to enforcement and Internet disclosure.

5 (d) For purposes of this section, the following definitions shall
6 apply:

7 (1) Except as provided in subdivision (c), “committee” means
8 the Advisory Committee on Accounting Ethics Curriculum
9 established under Section 5094.5.

10 (2) “Ethics study guidelines” means the guidelines for the study
11 of ethics adopted for California by the committee and the board
12 consisting of a program of learning that provides students with a
13 framework of ethical reasoning, professional values, and attitudes
14 for exercising professional skepticism and other behavior that is
15 in the best interest of the investing and consuming public and the
16 profession. At minimum, it includes academic work or independent
17 study and shall include a foundation for ethical reasoning and the
18 core values of integrity, objectivity, and independence consistent
19 with the International Education Standards-4 of the International
20 Accountants Education Standards Board, the International
21 Federation of Accountants Code of Ethics, and the American
22 Institute of Certified Public Accountants Code of Professional
23 Conduct.

24 (3) “Accounting study” means independent study or other
25 academic work in accounting, business, ethics, business law, or
26 other academic work relevant to accounting and business, so as to
27 enhance the competency of students as practitioners.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item IV.E.
September 22, 2011

**Discussion on Initiating a Rulemaking to Amend CCR, Title 16,
Section 4- Safe Harbor**

Presented by: Matthew Stanley, Legislation/Regulation Analyst
Date: August 26, 2011

Purpose of the Item

This item is a discussion on stakeholder input regarding the possible California Board of Accountancy (CBA) amendment to Section 4 of the CBA Regulations (**Attachment 1**), and to determine if further action is desired.

Action(s) Needed

The CBA will be asked to determine if it wishes to pursue a rulemaking to amend Section 4 of the CBA Regulations.

Background

On August 21, 1986, a lawsuit was filed against the CBA by Bonnie Moore because of the way the CBA was pursuing enforcement activities against unlicensed individuals who called themselves "accountants." The suit was funded by the California Society of Accounting and Tax Professionals (CSATP), the National Society of Accountants (NSA), and the California Society of Enrolled Agents (CSEA). The case was eventually decided by the California Supreme Court in 1992 when it ruled that Ms. Moore could continue to call herself an accountant provided she described her services as being work which does not require licensure by the CBA (a "modifier"). This was to help the public avoid mistaking her for a licensee.

In the late 1990s, language was added to the Uniform Accountancy Act (UAA) Rule 14-3 (**Attachment 2**) that created a safe harbor letter in connection with financial statements issued by non-licensees. At the same time, the UAA was also amended to make compilations an attest function like audits and reviews. Out of these amendments to the UAA, and through negotiations between the CBA, the NSA, the CSEA, and the CSATP, the CBA decided not to include compilations as an attest function. It also created its own safe harbor letter in Section 4 of the CBA Regulations that was substantially similar to the UAA Rule 14-3 and referred to the financial statements being "prepared" rather than "compiled."

Discussion on Initiating a Rulemaking to Amend CCR, Title 16, Section 4- Safe Harbor

Page 2 of 3

In 2009, the CBA instituted its Peer Review Program which requires all licensees who perform accounting and auditing work, which includes compilations, to have a peer review completed every three years.

At the CBA Leadership Meeting in January 2011, Ms. LaManna raised the issue that CPAs who prepare compilations are subject to peer review while non-licensees who prepare similar financial statements pursuant to Section 4, are not subject to peer review. This led to a discussion that consumers may not be aware of differences between the two groups providing compilations and that additional disclosure may be appropriate.

At its May, 2011 meeting, the CBA was presented with two possible amendments to Section 4 to address this issue. The first amendment was to clarify that non-licensees who prepare financial statements pursuant to Section 4 are not licensees of the CBA. The second amendment clarified that these individuals may not be independent. The CBA directed staff to combine the two amendments into one proposal (**Attachment 3**) and seek input from the stakeholders with whom it had negotiated the original language of Section 4 (affected stakeholders).

Comments

The NSA responded (**Attachment 4**) that it objects to the negative tone of the proposal by saying that the individual is “not licensed.” The NSA would prefer that the originally negotiated language be maintained to remain consistent with the UAA. If, however, a change must be made, it suggests that it take a positive tone such as, “I am not required to be licensed by the CBA.” With respect to the independence portion, the NSA cautions that the more the safe harbor letter models the standard compilation report used by licensees, the more confusion it could create for consumers.

The CSEA responded (**Attachment 5**) that it also objects to the negative tone of “not licensed” and may lead consumers to question the quality of the work. The CSEA recalled the Moore case and indicated that the purpose of the modifier was to “reduce the likelihood of the public mistaking her (Moore) for a licensed accountant.” The CSEA would prefer no change be made to the current language “that was negotiated and agreed upon in good faith.” If a change is pursued, the CSEA suggests the following be added to the current language, “We [I] are [am] not required to be licensed by the CBA. If reviewed or audited financial statements are desired for greater assurance, the services of someone licensed by the CBA would be required.” The CSEA did not address independence.

**Discussion on Initiating a Rulemaking to Amend CCR, Title 16,
Section 4- Safe Harbor**

Page 3 of 3

Recommendation

Staff is presenting the CBA with three options for how to proceed.

Option 1

Maintain the status quo. This is the option that is preferred by the affected stakeholders as non-licensees are already required under the Moore decision to utilize a modifier disclosing the fact that the work they are performing does not require them to be licensed by the CBA.

Option 2

Proceed with a rulemaking using the language (**Attachment 6**) suggested by the affected stakeholders and removing reference to independence.

Option 3

Proceed with a rulemaking using the originally proposed language from the May, 2011 CBA meeting (**Attachment 3**).

Attachments

**DEPARTMENT OF CONSUMER AFFAIRS**

CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>

**Attachment 1****Current Language****§ 4. Safe Harbor Language.**

A person who is not licensed by the California Board of Accountancy, and who prepares a financial report in a form substantially the same as that set forth in subsection (a) or (b) below, shall not be deemed to be engaged in the practice of public accountancy as defined in Section 5051 of the Business and Professions Code.

(a) "I [we] have prepared the accompanying financial statements of [name of entity] as of [time period] for the [period] then ended. This presentation is limited to preparing in the form of financial statements information that is the representation of management [owners]. I [we] have not audited or reviewed the accompanying financial statements and accordingly do not express an opinion or any other form of assurance on them."

(b) "We [I] have prepared the accompanying statement of assets, liabilities and equity for [name of company] as of [month-day-year], together with the related statements of revenue, expense, [and cash flow] for the year [or month] then ended on the income tax basis of accounting.

The preparation of financial statements on the income tax basis of accounting is limited to presenting information that is the representation of management [the owners]. We [I] have not audited nor reviewed the accompanying statements. Accordingly, we [I] do not express an opinion or any other form of assurance on them.

Management has [The owners have] elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenues, expenses [and cash flow]. Accordingly, these financial statements are not designed for those who are not informed about such matters."

**DEPARTMENT OF CONSUMER AFFAIRS**

CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>

**Attachment 2****UAA Rule 14-3 - Safe harbor language.**

Non-licensees may use the following disclaimer language in connection with financial statements to not be in violation of the Act:

“I (we) have prepared the accompanying (financial statements) of (name of entity) as of (time period) for the (period) then ended. This presentation is limited to preparing in the form of financial statements information that is the representation of management (owners).

I (we) have not audited or reviewed the accompanying financial statements and accordingly do not express an opinion or any other form of assurance on them.”



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



Attachment 3

PROPOSED REGULATORY LANGUAGE

Section 4. Safe Harbor Language.

(a) A person who is not licensed by the California Board of Accountancy, and who prepares a financial report in a form substantially the same as that set forth in ~~subsection (a) or (b) paragraph (1) or (2)~~ below, shall not be deemed to be engaged in the practice of public accountancy as defined in Section 5051 of the Business and Professions Code.

~~(a)(1)~~ "I [we] have prepared the accompanying financial statements of [name of entity] as of [time period] for the [period] then ended. This presentation is limited to preparing in the form of financial statements information that is the representation of management [owners].

I [we] have not audited or reviewed the accompanying financial statements and accordingly do not express an opinion or any other form of assurance on them.

I [We] am [are] not licensed by the California Board of Accountancy.

I [We] am [are] not independent with respect to [name of entity]."

~~(b)(2)~~ "We [I] have prepared the accompanying statement of assets, liabilities and equity for [name of company] as of [month-day-year], together with the related statements of revenue, expense, [and cash flow] for the year [or month] then ended on the income tax basis of accounting.

The preparation of financial statements on the income tax basis of accounting is limited to presenting information that is the representation of management [the owners]. We [I] have not audited nor reviewed the accompanying statements. Accordingly, we [I] do not express an opinion or any other form of assurance on them.

Management has [The owners have] elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenues, expenses [and cash flow]. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We [I] are [am] not licensed by the California Board of Accountancy.

We [I] are [am] not independent with respect to [name of entity]."

(b) A person who is not licensed by the California Board of Accountancy, and who prepares a financial report in a form substantially the same as that set forth in subsection (a)(1) or (2) shall include the final sentence of subsection (a)(1) or (2) as appropriate.



August 15, 2011

Matthew Stanley, Regulation Analyst

California Board of Accountancy

2000 Evergreen Street, Suite 250

Sacramento, CA 95815-3832

Re: Safe Harbor Language-California Code of Regulations Section 4

Dear Mr. Stanley;

I thank you on behalf of the National Society of Accountants for the letter of August 1, 2011 requesting our input on proposed changes to your accountancy regulations. In reading the proposed language, we feel that it casts a very negative implication upon the unlicensed accountant that may legally prepare financial statements. This could have the effect of causing competent unlicensed accountants to lose business because of an implication that their work was inferior solely because of an absence of a license.

The decision of the Bonnie Moore case was clear in that an accountant was not required to be licensed by the state of California to prepare financial statements. The language that is proposed has a strong implication that a license is required by the preparer of the financial statements and this implication would violate the intent of the Bonnie Moore decision.

The language that is currently being used was approved by a joint committee of the A.I.C.P.A. and N.A.S.B.A. and remains unchanged in their most recent revision of the Uniform Accountancy Act. That committee believed that this language was sufficient to not confuse the public. Our recommendation is that the current safe harbor language be kept to be consistent with the model.

However, you have indicated that you are concerned that the currently approved language does not go far enough in protecting and informing the public. A review of the disciplinary proceedings as listed on your website would imply that subjecting an accountant to licensing standards also does not go far enough to protect the consumer. This shows that even though licensed accountants are subject to standards, some do not follow them. Likewise, I am sure that some accountants that are not required to adhere to standards exceed them.

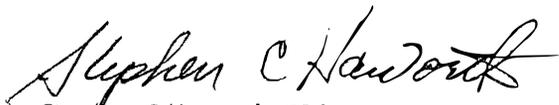
However, if in your judgment, you propose to add a disclaimer to the safe harbor language, NSA would request that you substitute a positive statement such as "We (I) are (am) not required to be licensed by the California Board of Accountancy." This statement more closely describes the result from the Bonnie

Moore decision and would seem to provide the consumer with the additional information you wish for them to know.

NSA has no objection to adding any statements regarding Independence except to caution you that the more the report models the standard compilation report required to be used by licensees, the more likely that the consumer will be confused. Since the non-licensee is not required to adhere to standards, then they are not required to be independent to prepare financial statements. The proposed statement suggests that they are required to be independent unless they state they are not and, as a result, are subject to standards.

The National Society of Accountants would, again, like to thank you for your notification and request for input on this very critical issue. We will be most interested in your final decision as to this proposal.

Very truly yours;



Stephen C Haworth, CPA

Chair, National Society of Accountants Regulation and Oversight Committee



California Society of Enrolled Agents
3200 Ramos Circle
Sacramento, CA 95827-2513

Tel: 916-366-6646
Fax: 916-366-6674
www.csea.org

Attachment 5

August 16, 2011

Ms. Patti Bowers, Executive Officer
Members of the California Board of Accountancy
Department of Consumer Affairs
California Board of Accountancy
2000 Evergreen St., Suite 250
Sacramento, CA 95815-3832

Submitted by Email:
mstanley@cba.ca.gov

RE: Safe Harbor Language – California Code of Regulations Section 4

Dear Ms. Bowers and Members of the California Board of Accountancy:

We are writing in response to the California Board of Accountancy's (CBA) proposed regulatory changes to California Code of Regulations, Title 16, Division 1, Section 4 – the safe harbor language used by non-licensees when preparing financial statements.

We are strong advocates of consumer protection and believe consumers have a right to understand the difference between a CPA and non-CPA financial statement preparer. We also support clear disclosure of independence impairment to third-party users of financial statements.

However, the proposed change, designed to better inform the public when preparers of financial statements are not licensed by the CBA, potentially has the result of causing greater confusion among consumers. The use of the phrase "not licensed," although accurate, in the proposed addition to the safe harbor language, without further explanation, may lead the consumer to question the quality of services and even whether the financial statement preparer is legally allowed to perform the services. The potential confusion and damage to the reputation of non-CPA preparers resulting from the incomplete information in the proposed language is not beneficial to the consumer. With this proposed change, non-CPAs would be required to indicate that they are not licensed by the CBA for a service that we are not required to be licensed by the CBA to perform.

In *Moore vs. State Board of Accountancy*, the California Supreme Court described Ms. Moore's accounting services as being work which does not require licensure by the state. The court upheld Ms. Moore's right to perform certain audit and report writing functions and said she could continue to call herself an accountant as long as she described her accounting services as being work which does not require licensure by the state. The reason for the modifier was to reduce the likelihood of the public mistaking her for a licensed accountant.



The Tax Professionals

If the CBA is intent on adding clarifying language to the safe harbor letter, we believe that the higher level of accuracy in our proposed alternative will provide consumers with the best available information about the preparer of their financial statements. We suggest one of the following:

1. No change to the current language that was negotiated and agreed upon in good faith with the CBA and that has served us well for a decade, or
2. Addition to current language: (underline is intended for emphasis in this response only)
“We [I] are [am] not required to be licensed by the California Board of Accountancy (CBA). If reviewed or audited financial statements are desired for greater assurance, the services of someone licensed by the CBA would be required.”

We appreciate the opportunity to respond to the CBA’s proposed changes to the safe harbor language used by non-licensees. We trust our shared goal of providing consumers with clarity about the services they engage will result in mutually agreeable language.

Please don’t hesitate to contact me at (916) 366-6646 or svanyi@csea.org if further clarification is needed.

Sincerely,



Scarlett D. Vanyi, CAE
Executive Vice President



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



Attachment 6

PROPOSED REGULATORY LANGUAGE

Section 4. Safe Harbor Language.

A person who is not licensed by the California Board of Accountancy, and who prepares a financial report in a form substantially the same as that set forth in subsection (a) or (b) below, shall not be deemed to be engaged in the practice of public accountancy as defined in Section 5051 of the Business and Professions Code.

(a) "I [we] have prepared the accompanying financial statements of [name of entity] as of [time period] for the [period] then ended. This presentation is limited to preparing in the form of financial statements information that is the representation of management [owners].

I [we] have not audited or reviewed the accompanying financial statements and accordingly do not express an opinion or any other form of assurance on them.

I [We] am [are] not required to be licensed by the California Board of Accountancy."

(b) "We [I] have prepared the accompanying statement of assets, liabilities and equity for [name of company] as of [month-day-year], together with the related statements of revenue, expense, [and cash flow] for the year [or month] then ended on the income tax basis of accounting.

The preparation of financial statements on the income tax basis of accounting is limited to presenting information that is the representation of management [the owners]. We [I] have not audited nor reviewed the accompanying statements. Accordingly, we [I] do not express an opinion or any other form of assurance on them.

Management has [The owners have] elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenues, expenses [and cash flow]. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We [I] are [am] not required to be licensed by the California Board of Accountancy."



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Agenda Item IV. F
September 22, 2011

Discussion of Report to the Financial Accounting Foundation on Potential Revised Accounting Standards for Private Companies and a New Standard Setting Board

Presented by: Paul Fisher, Supervising Investigative CPA

Date: September 6, 2011

Purpose of the Item

In December 2009, The American Institute of Certified Public Accountants (AICPA), the Financial Accounting Foundation (FAF), the parent organization of the Financial Accounting Standards Board (FASB), and the National Association of State Boards of Accountancy (NASBA) established a Blue-Ribbon Panel (BRP) to address how accounting standards can best meet the needs of users of U.S. private company financial statements. In January 2011, the BRP issued a report to the FAF Board of Trustees making recommendations to set up a separate private company standards board and to make exceptions and modifications to U.S. Generally Accepted Accounting Principles (GAAP) for private companies (**Attachment 1**). The FAF has established a working group that is conducting outreach to stakeholders to obtain input on the scope of the issue and suggested improvements including solutions recommended by the BRP.

Action(s) Needed

No specific action is required on this agenda item. Once the FAF issues a report and seeks stakeholder input, the topic may be placed on a future CBA agenda for deliberation.

Background

Currently there is one set of GAAP for all U.S. companies that are set by one body, the FASB. Some BRP members indicated that standard setting seems to be driven to a large degree by public company financial statement needs and often tends to be more relevant to users in that sector than it does to users in the private company sector. The BRP concluded that the current U.S. accounting standard-setting process has systemic issues, involving (a) an insufficient understanding of the needs of users of private company financial statements and (b) an insufficient weighing of the costs and benefits of GAAP for use in private company financial reporting. Examples given of accounting standards that have little relevance to many users of private company financial statements included those on variable interest entities, uncertain tax positions, fair value measurements, and goodwill impairment.

Discussion of Report to the Financial Accounting Foundation on Potential Revised Accounting Standards for Private Companies and a New Standard Setting Board

Page 2 of 2

The BRP recommendation to the FAF is that the FAF create a separate accounting standards board with the ultimate standard-setting authority to determine and set exceptions and modifications in GAAP for private companies. The new boards' mission would be to establish appropriate exceptions and modifications to GAAP for private companies, while helping to ensure that users of private company financial reports receive decision-useful information. The BRP estimates that the new board's annual budget would be \$4-6 million with funding coming from a portion of the FAF publications sales and mandatory contributions from stakeholders. As an alternative funding source, the BRP also considers state board licensing fee allocation.

The BRP further recommends that accounting standards for private companies be based on existing U.S. GAAP, but with exceptions and modifications that would result in financial statements that provide relevant, decision-useful information that meets the needs of users of private company financial statements in a cost-effective manner. Private company accounting standards under this model would be based on existing U.S. GAAP modified as necessary in the standard-setting process. This model contemplates the continued use of U.S. GAAP for public and private companies, with exceptions and modifications made for private companies.

The BRP report detailed many alternatives to the above recommendations. Not all members were in agreement with the recommendations and one dissenting view recommended that there be one set of U.S. GAAP standards and one standard setting board.

Ms. Bowers previously informed CBA members of the completion of the BRP report in the February 2011 Executive Officer Monthly Report.

Comments

NASBA informed all state boards of accounting that the FAF met on August 23 and discussed the issue of standard setting for non-public entities. In his public remarks, FAF Chairman Jack Brennan stated that the FAF has been engaged in broad outreach on the subject, and is working toward issuing a document for public comment. Mr. Brennan indicated that the document would be subject to further discussion by the FAF Board of Trustees over the next several weeks. The target date for issuance of this document is September 30, 2011, subject to Board of Trustee's decision process.

Recommendations

None

Attachment

1. Blue-Ribbon Panel on Standard Setting for Private Companies Report to the Board of Trustees of the Financial Accounting Foundation dated January 2011.

The attachment for Agenda Item IV.F. - Discussion of Report to the Financial Accounting Foundation on Potential Revised Accounting Standards for Private Companies and a New Standard Setting Board is a protected document, and therefore may not be included in this agenda packet. A copy may be obtained from:

<http://www.accountingfoundation.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175822037729&blobheader=application%2Fpdf>

**CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
JUNE 2011 – AUGUST 2011**

Board Agenda Item V.A.
September 22, 2011

| EXAMINATION | June | July | August |
|--|-------------|-------------|---------------|
| CPA Examination Applications Received | | | |
| First-time Sitter | 842 | 597 | 625 |
| Repeat Sitter | 1,984 | 1,508 | 904 |
| Processing Time Frames | | | |
| First-time Sitter | 18 | 26 | 21 |
| Repeat Sitter | 8 | 8 | 5 |
| Appeals | | | |
| Management-Level Appeals | 41 | 39 | 25 |
| Board-Level Appeals | 0 | 0 | 0 |
| INITIAL LICENSING | | | |
| CPA Licensure Applications Received | | | |
| CPA | 333 | 317 | 285 |
| Partnership | 12 | 5 | 10 |
| Corporation | 20 | 21 | 16 |
| Fictitious Name Permit (Registration) | 11 | 11 | 5 |
| Processing Time Frames | | | |
| CPA | 15 | 15 | 14 |
| Partnership | 11 | 9 | 7 |
| Corporation | 11 | 9 | 7 |
| Fictitious Name Permit (Registration) | 11 | 9 | 7 |
| Applicants Licensed Under | | | |
| Pathway 0 | 1 | 1 | 1 |
| Pathway 1A | 35 | 13 | 37 |
| Pathway 1G | 58 | 19 | 66 |
| Pathway 2A | 70 | 30 | 84 |
| Pathway 2G | 131 | 65 | 147 |

**CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
JUNE 2011 – AUGUST 2011**

| RENEWAL AND CONTINUING COMPETENCY | June | July | August |
|--|-------------|-------------|---------------|
| Licenses Renewed | | | |
| CPA | 2,719 | 3,602 | 3,278 |
| PA | 3 | 2 | 1 |
| Partnership | 85 | 24 | 18 |
| Corporation | 309 | 32 | 115 |
| CE Worksheet Review | | | |
| CPA/PA Applications Reviewed | 1,859 | 2,417 | 2,578 |
| Deficient Applications Identified | 68 | 279 | 252 |
| Compliance Responses Received <i>(Including Requests for Inactive Status)</i> | 42 | 127 | 23 |
| Enforcement Referrals | 0 | 0 | 0 |
| Outstanding Deficiencies <i>(Including Abandonment)</i> | 26 | 152 | 229 |
| PRACTICE PRIVILEGE | | | |
| Notifications Received | | | |
| Hardcopy | 41 | 16 | 26 |
| Electronic | 100 | 91 | 120 |
| Disqualifying Conditions Received | | | |
| Approved | 2 | 1 | 1 |
| Denied | 0 | 0 | 0 |
| Pending | 0 | 1 | 4 |
| Practice Privilege Suspension Orders | | | |
| Notice of Intent to Suspend | 0 | 9 | 0 |
| Administrative Suspension Order | 0 | 0 | 0 |

**CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
JUNE 2011 – AUGUST 2011**

DIVISION AND UNIT ACTIVITIES

Examination Unit

- Staff conducted site visits at the Prometric Testing Centers located in Fair Oaks, San Jose, and Santa Rosa. The purpose of the site visits is to evaluate the administration of the computer-based CPA Exam at Prometric Testing Centers.
- On August 5, 2011, staff approved Academic Records Evaluation Center (AREC) as a CBA-approved foreign credential evaluation service.

Initial Licensing Unit

- Effective July 1, 2011 the Initial Licensing Unit instituted a new CPA license approval and issuance process. The new process ensures more accurate tracking of statistics for both internal and external use.
- Hilary Barboza, an Office Technician (OT) from the Renewal and Continuing Competency Unit, and Denise Corrigan, an OT from the Administration Unit, were hired in the Initial Licensing Unit to fill two of the three vacant OT positions.
- The Initial Licensing Unit has one full-time Office Technician position vacant.

Renewal and Continuing Competency Unit

- The Renewal and Continuing Competency (RCC) Unit recently filled two vacancies, a fulltime OT position and a permanent intermittent OT position. The RCC Unit is still recruiting to fill a fulltime OT position and an OT Retired Annuitant Position.
- Staff approved three regulatory review courses bringing the total number of Board-approved courses to 19. Staff is actively working with three additional course providers to amend their course materials to be in compliance with the course content requirements, and three more courses are pending initial review.

COMMITTEE NEWS

- At the July 21, 2011 CBA meeting, the Accounting Education Committee (AEC) submitted its recommendations for the 20 units of accounting study. After review and consideration, the CBA elected to remove the upper division or higher requirement as outlined in its recommendation. The CBA adopted the accounting study guidelines and directed staff to initiate the rulemaking process. With the adoption of the accounting study guidelines, this completed the work of the AEC.

**CALIFORNIA BOARD OF ACCOUNTANCY
LICENSING DIVISION REPORT
JUNE 2011 – AUGUST 2011**

- At the July 21, 2011 CBA meeting, the Ethics Curriculum Committee (ECC) presented its guidelines for the 10 units of ethics study. The CBA requested the ECC continue its deliberations and reconsider the upper division or higher requirement as prescribed in its proposal. On August 16, 2011, the ECC held a meeting and unanimously approved a motion to remove the upper division or higher requirement from the accounting ethics or accountant's professional responsibilities requirement.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item V.B.
September 22, 2011

Discussion on Fingerprinting CPAs Licensed Prior to January 1998

Staff: Deanne Pearce/Licensing Division Chief

Date: September 6, 2011

Purpose of the Item

To provide California Board of Accountancy (CBA) members the opportunity to discuss whether they believe the CBA should adopt regulations to require Certified Public Accountants (CPA) and Public Accountants (PA) who have not done so previously or for whom a record of the submission of fingerprints no longer exists, to submit fingerprints for the purpose of conducting on-going criminal history record checks.

Action(s) Needed

Determine whether the CBA should develop and adopt regulations to require CPAs and PAs, who have not done so previously or for whom a record of the submission of fingerprints no longer exists, to submit fingerprints for the purpose of conducting criminal history record checks.

Background

In November 2008, members were presented with a memorandum (**Attachment 1**) providing information regarding licensees regulated by the Department of Consumer (DCA) Affairs who had not been fingerprinted prior to licensure or had not been required to report the occurrence of criminal convictions at license renewal.

As discussed in the memorandum, this came to light after an investigative article was written identifying potential gaps in conviction disclosure by licensees and receipt of conviction information from the Department of Justice (DOJ).

In the memorandum, staff provided information regarding CBA requirements for conviction reporting, specifically that Section 5063 of the Business and Professions Code (Reportable Events), requires licensees to report certain convictions within 30 days of the date the licensee has knowledge of the event. Further, staff informed members that a question was being added to the license renewal form requesting disclosure of convictions, which was subsequently completed in August 2009.

Discussion on Fingerprinting CPAs Licensed Prior to January 1998

Page 2 of 3

The memorandum also identified proposed legislation that would require DCA boards to implement a process through which licensees who have not previously been fingerprinted, or for whom a record of the submission of fingerprints no longer exists, to submit fingerprints for the purpose of conducting a criminal history record check.

In 2009, Senate Bill (SB) 389 (**Attachment 2**) was introduced that would implement the aforementioned fingerprinting requirements. At the March 2009 CBA meeting, members voted to support SB 389. The CBA sent a letter of support indicating the following:

"[T]he Board believes that ensuring all licensees undergo a criminal offender record information search will be a benefit to California consumers."

Although the bill was supported by the CBA as well as the Medical Board of California and others, it failed to pass out of the Assembly Public Safety Committee in June 2009.

As identified in the November 2008 memorandum, beginning in January 1998 applicants for licensure as CPAs in California were required to furnish fingerprints for the purposes of conducting criminal history record checks through the DOJ, the law did not require those licensed prior to this date to furnish fingerprints.

The criminal history record check ensured consumer protection by verifying that applicants did not have convictions substantially related to the qualifications, functions, or duties of the accounting profession. In addition, once the fingerprints are on record with the DOJ, subsequent arrest reports are provided to the CBA.

Since 2009, some DCA boards, including, but not limited to, the Board of Behavioral Sciences, Board of Registered Nursing, and Pharmacy Board, have adopted regulations to implement fingerprinting requirements as described above. These boards used broad statutory authority for unprofessional conduct and public protection to justify their regulations.

Comments

The CBA estimates that there would be approximately 25,000 active licensees, licensed prior to January 1998, who would be subject to the proposed fingerprinting requirement. Inactive licensees, not previously fingerprinted, would also be subject to the requirement prior to renewing or converting to their license to an active status. The CBA estimates that there are approximately 16,000 inactive licensees who were licensed prior to January 1998.

When this topic was first discussed by CBA members, it was believed that legislation would be needed to implement this type of fingerprinting requirement. It now appears that the CBA may presently have the statutory authority to implement a requirement via regulation, using a similar justification as the previously mentioned boards.

Discussion on Fingerprinting CPAs Licensed Prior to January 1998

Page 3 of 3

The CBA received 99 subsequent arrest reports for licensees during Fiscal Year 2010-11.

Staff is seeking direction from CBA members prior to doing any further research regarding fiscal impact and implementation strategies.

Recommendation

The absence of fingerprints on file with DOJ leaves open the opportunity for CBA licensees to continue their practice even after committing serious crimes and endangering consumers. Implementing a fingerprint requirement for those not previously subject or for whom a record no longer exists, would be an additional step to ensure consumer protection.

Attachment 1: November 2008 Memorandum – Discussion of Fingerprinting and Conviction Disclosure Issues.

Attachment 2: SB 389 (Negrete McLeod: 2009-2010)

Memorandum

Board Agenda Item VI.F.
November 20-21, 2008

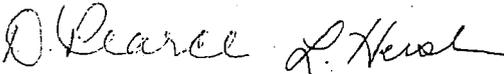
To : Board Members

Date : November 12, 2008

Telephone : (916) 561- 1789

Facsimile : (916) 263- 3675

E-mail : lhersh@cba.ca.gov

From :  Deanne Pearce and Lauren Hersh

Subject : Discussion of Fingerprinting and Conviction Disclosure Issues

The following information is being presented to the California Board of Accountancy (Board) for consideration as a result of recent media attention regarding licensees regulated by the Department of Consumer Affairs (DCA) that have not been fingerprinted, or have not been required to report the occurrence of criminal convictions at license renewal.

Background

Following an 18-month investigation, the *Los Angeles Times (Times)* and *ProPublica* published a story October 4, 2008, which reported there have been 115 cases since 2002 in which the Board of Registered Nursing (BRN) failed to act against nurses' licenses until the nurses had been convicted of a crime three or more times. According to the article, the BRN's scrutiny process was flawed in two ways.

"First, it allows a large portion of the 343,000 active registered nurses to escape the state's scrutiny. The state began requiring applicants to submit their fingerprints in 1990, so that the board would be flagged by law enforcement agencies whenever a licensed nurse was arrested. But the rule does not apply to nurses licensed before then -- a group that now numbers about 146,000. California misses a second chance at catching errant nurses when they apply to renew their licenses every two years. Unlike many states, California does not ask nurses to disclose criminal convictions that occurred since the last time they applied." —*Los Angeles Times*, Oct. 4, 2008

Following the October 4th article, the BRN adopted emergency regulations that will require, as a condition of renewal, that licensees who have not previously been fingerprinted furnish fingerprints for purposes of conducting criminal history record checks through the Department of Justice (DOJ). It's anticipated this will affect nearly 40 percent of the BRN's licensees. After the publication of the article, the *Times* submitted Public Records Act requests for enforcement information regarding all licensees in the health professions regulated by DCA. On November 2, 2008, the *Times* ran a story similar to the BRN article, this

time focusing on licensees of the California Bureau of Vocational Nursing and Psychiatric Technicians who were convicted of felonies on the job.

In response to the news stories, DCA Director Carrie Lopez issued two statements. The first announced the BRN's emergency approval of fingerprinting; the second announced DCA's decision to seek statutory changes to allow all DCA boards and bureaus that require fingerprinting of new applicants to also require fingerprinting of existing licensees. Without a licensee having submitted fingerprints to the Department of Justice, there is no mechanism for DOJ to transmit conviction information to the regulatory boards. Therefore, there are instances where a board may not be aware of a conviction, unless the licensee discloses the information at renewal, if required by the laws governing the profession, or by volunteering such information.

California Board of Accountancy Requirements

Beginning in January 1998, applicants for licensure as a Certified Public Accountant in California were required to furnish fingerprints for purposes of conducting criminal history record checks through the Department of Justice. The criminal history record check ensured consumer protection by verifying that applicants did not have convictions substantially related to the qualifications, functions, or duties of the accounting profession. The law did not retroactively require licensees to furnish fingerprints.

The current renewal form does not require conviction disclosure either; however the Accountancy Act has required since 1997 that all licensees disclose conviction information, pursuant to the Reportable Events requirement identified in Section 5063, which specifically requires licensees to report the following within 30 days of the date the licensee has knowledge of the events:

(1) The conviction of the licensee of any of the following:

(A) A felony.

(B) Any crime related to the qualifications, functions, or duties of a public accountant or certified public accountant, or to acts or activities in the course and scope of the practice of public accountancy.

(C) Any crime involving theft, embezzlement, misappropriation of funds or property, breach of a fiduciary responsibility, or the preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.

As used in this section, a conviction includes the initial plea, verdict, or finding of guilt, pleas of no contest, or pronouncement of sentence by a trial court even though that conviction may not be final or sentence actually imposed until appeals are exhausted.

Department of Consumer Affairs Proposal

The DCA has submitted a legislative proposal (**Attachment**) to the State and Consumer Services Agency (Agency) as well as to the Governor's Office to require all licensees of designated boards and bureaus regulated by the DCA who were not previously fingerprinted, to furnish fingerprints for purposes of conducting criminal history record checks through the Department of Justice in order to renew their professional license. This would also include business entities. Further, the proposed legislation gives boards the authority, if not already defined, to require licensees to disclose conviction information at the time of license renewal. The proposed operative date for this legislation is January 1, 2011.

California Board of Accountancy's Response

Since the Board currently has the authority to require that licensees disclose criminal convictions at renewal, staff is working with DCA to amend renewal forms to include questions regarding criminal convictions. This action enables the Board to act quickly to close loopholes in consumer protection while awaiting legislation that will enable the Board to implement the new fingerprinting regulations.

The Board estimates that there will be approximately 25,000 active licensees, licensed prior to January 1998, who will be subject to the proposed fingerprinting requirement. Inactive licensees, not previously fingerprinted, will also be subject to the requirement prior to renewing or converting to active status. The Board estimates that there are approximately 16,000 inactive licensees who were licensed prior to January 1998.

In addition to individual licensees, the proposed law will give the Board authority to determine if business entities (accountancy corporations and partnerships) will be required to have its non-licensee owners, officers, directors, shareholders, members, agents, employees or other natural persons who are representatives of the business entity to submit fingerprints through the Department of Justice and disclose the information on its renewal forms. There are approximately 4,400 accountancy corporations and partnerships currently registered with the Board.

Preliminary meetings have taken place between DCA and DOJ to determine a process for identifying all licensees who haven't been fingerprinted.

Additionally, once the legislation has been approved by Agency and the Governor's Office, the Board may wish to analyze issues such as fiscal impact, consumer benefit and implementation, and consider taking a position on the bill. Presently, staff is monitoring the issue and when a bill is proposed, staff will add this to the Legislative Committee Agenda - presumably for the March

2009 meetings.

If the legislative proposal does not receive approval from either Agency or the Governor's Office, the Board may wish to consider proposing similar legislation relating specifically to Board licensees. This would be an additional step the Board could take to ensure consumer protection and, should the Board consider this approach, staff will work with DCA and the Legislature to develop language.

Attachment

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Proposed Legislation

SEC. 1 Section 144 of the Business and Professions Code is amended to read:

(a) Notwithstanding any other provision of law, an agency designated in subdivision (b) shall require an applicant to furnish to the agency a full set of fingerprints for purposes of conducting criminal history record checks and require the applicant to successfully complete a state and federal level criminal offender record information search conducted through the Department of Justice as provided in subdivision (c). ~~Any agency designated in subdivision (b) may obtain and receive, at its discretion, criminal history information from the Department of Justice and the United States Federal Bureau of Investigation.~~

(b) Subdivision (a) applies to the following:

- (1) California Board of Accountancy.
- (2) State Athletic Commission.
- (3) Board of Behavioral Sciences.
- (4) Court Reporters Board of California.
- (5) State Board of Guide Dogs for the Blind.
- (6) California State Board of Pharmacy.
- (7) Board of Registered Nursing.
- (8) Veterinary Medical Board.
- (9) Registered Veterinary Technician Committee.
- (10) Board of Vocational Nursing and Psychiatric Technicians.
- (11) Respiratory Care Board of California.
- (12) Hearing Aid Dispensers Advisory Commission.
- (13) Physical Therapy Board of California.
- (14) Physician Assistant Committee of the Medical Board of California.
- (15) Speech-Language Pathology and Audiology Board.
- (16) Medical Board of California.
- (17) State Board of Optometry.
- (18) Acupuncture Board.
- (19) Cemetery and Funeral Bureau.
- (20) Bureau of Security and Investigative Services.
- (21) Division of Investigation.
- (22) Board of Psychology.
- (23) The California Board of Occupational Therapy.
- (24) Structural Pest Control Board.
- (25) Contractors' State License Board.
- (26) Bureau of Naturopathic Medicine.
- (27) Dental Board of California.
- (28) Dental Hygiene Committee.
- (29) Professional Fiduciary Bureau.

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- (30) Osteopathic Medical Board of California.
- (31) California Board of Podiatric Medicine.

~~(c) The provisions of paragraph (24) of subdivision (b) shall become operative on July 1, 2004. The provisions of paragraph (25) of subdivision (b) shall become operative on the date on which sufficient funds are available for the Contractors' State License Board and the Department of Justice to conduct a criminal history record check pursuant to this section or on July 1, 2005, whichever occurs first.~~

(c) Each agency listed in subdivision (b) shall direct applicants to submit to the Department of Justice fingerprint images and related information required by the Department of Justice for the purpose of obtaining information as to the existence and content of a state or federal criminal record. The Department of Justice shall forward the fingerprint images and related information received to the Federal Bureau of Investigation and request federal criminal history information. The Department of Justice shall compile and disseminate state and federal responses to the agency pursuant to subdivision (p) of Section 11105 of the Penal Code. The agency shall request from the Department of Justice subsequent arrest notification service, pursuant to Section 11105.2 of the Penal Code, for each person who submitted information pursuant to this subdivision. The Department of Justice shall charge a fee sufficient to cover the cost of processing the request described in this section.

SEC. 2 Section 144.5 is added to the Business and Professions Code, to read:

(a) Notwithstanding any other provision of law, an agency listed in subdivision (b) of Section 144 shall require all licentiates who have not previously submitted fingerprints or for whom a record of the submission of fingerprints no longer exists to successfully complete a state and federal level criminal offender record information search conducted through the Department of Justice as provided in subdivision (c). Failure of a licentiate to submit a full set of fingerprints to the Department of Justice before the date required for renewal of his or her license occurring on or after January 1, 2011 is grounds for discipline by the agency.

(b) (1) In order to renew a license all licentiates subject to subdivision (a) shall, in addition to meeting any other requirements for renewal of a license, certify on the renewal application that the licentiate has successfully completed a state and federal level criminal offender record information search pursuant to subdivision (c); and
(2) shall retain, for at least three years, as evidence of their certification made pursuant to subparagraph (b)(1) either a receipt showing that he or she has electronically transmitted his or her fingerprint images to the Department of Justice or, for those licentiates who did not use an

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electronic fingerprinting system, a receipt evidencing that the licentiate's fingerprints were taken.

(c) For the purposes of this section, each agency listed in subdivision (b) of Section 144 shall direct licentiates subject to subdivision (a) to submit to the Department of Justice fingerprint images and related information required by the Department of Justice for the purpose of obtaining information as to the existence and content of a state or federal criminal record. The Department of Justice shall forward the fingerprint images and related information received to the Federal Bureau of Investigation and request federal criminal history information. The Department of Justice shall compile and disseminate state and federal responses to the agency pursuant to subdivision (p) of Section 11105 of the Penal Code. The agency shall request from the Department of Justice subsequent arrest notification service, pursuant to Section 11105.2 of the Penal Code, for each person who submitted information pursuant to this subdivision. The Department of Justice shall charge a fee sufficient to cover the cost of processing the request described in this section.

(d) Notwithstanding subdivision (a), an agency may waive the requirements of subdivisions (a) and (c), if the license is inactive, retired, or the licentiate is actively serving in the military. For those licentiates subject to subdivision (a), an agency may not activate an inactive license or return a retired license to full licensure status until the licentiate has successfully completed a state and federal criminal offender record information search pursuant to subdivision (c).

(e) With respect to licentiates that are business entities, each agency listed in subdivision (b) of Section 144 shall, by regulation, determine which owners, officers, directors, shareholders, members, agents, employees or other natural persons who are representatives of the business entity are required to submit fingerprints through the Department of Justice and disclose the information on its renewal forms, as required by this section.

(f) For each renewal cycle, all licentiates of any agency listed in subdivision (b) of Section 144 shall disclose on a form provided by the agency whether he or she has been convicted, as defined in Section 490, of a misdemeanor or felony offense subsequent to the licentiate's last renewal;

(g) Failure to provide all of the information required by subdivision (b) of this section renders any application for renewal incomplete and the license will not be renewed until a complete application is submitted.

(h) This section shall become operative on January 1, 2011

AMENDED IN SENATE JUNE 1, 2009

AMENDED IN SENATE MAY 5, 2009

SENATE BILL

No. 389

Introduced by Senator Negrete McLeod

February 26, 2009

An act to amend Section 144 of, and to add Sections 144.5 and 144.6 to, the Business and Professions Code, relating to professions and vocations.

LEGISLATIVE COUNSEL'S DIGEST

SB 389, as amended, Negrete McLeod. Professions and vocations.

Existing law provides for the licensure and regulation of various professions and vocations by boards within the Department of Consumer Affairs. Existing law authorizes a board to suspend or revoke a license on various grounds, including, but not limited to, conviction of a crime, if the crime is substantially related to the qualifications, functions, or duties of the business or profession for which the license was issued. Existing law requires applicants to certain boards to provide a full set of fingerprints for the purpose of conducting criminal history record checks.

This bill would make that fingerprinting requirement applicable to the Dental Board of California, the Dental Hygiene Committee of California, the Professional Fiduciaries Bureau, the Osteopathic Medical Board of California, the California Board of Podiatric Medicine, and the State Board of Chiropractic Examiners. The bill would require *new* applicants for a license ~~and~~, *and petitioners for reinstatement of a revoked, surrendered, or canceled license, to successfully complete a state and federal level criminal record information search. The bill would also require*, commencing January 1, 2011, licensees who have

not previously submitted fingerprints, or for whom a record of the submission of fingerprints no longer exists, to ~~successfully~~ complete *the process necessary for* a state and federal level criminal offender record information search, as specified. The bill would require licensees *applying for license renewal* to certify compliance with that requirement, as specified, and would subject a licensee to disciplinary action for making a false certification. The bill would also require a licensee to, as a condition of renewal of the license, notify the board on the license renewal form if he or she, *or any member of the personnel of record of the licensee*, has been convicted, as defined, of a felony or misdemeanor since ~~his or her~~ *the* last renewal, or if this is the licensee's first renewal, since the initial license was issued. *The bill would provide that the Contractors' State License Board shall implement the provisions pertaining to renewal licenses on a specified schedule, after an appropriation is made for this purpose, utilizing its applicable fees.*

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 144 of the Business and Professions Code
- 2 is amended to read:
- 3 144. (a) Notwithstanding any other provision of law, an agency
- 4 designated in subdivision (b) shall require an applicant for a license
- 5 *or a petitioner for reinstatement of a revoked, surrendered, or*
- 6 *canceled license* to furnish to the agency a full set of fingerprints
- 7 for purposes of conducting criminal history record checks and
- 8 shall require the applicant *or petitioner* to successfully complete
- 9 a state and federal level criminal offender record information search
- 10 conducted through the Department of Justice as provided in
- 11 subdivision (c) or as otherwise provided in this code.
- 12 (b) Subdivision (a) applies to the following:
- 13 (1) California Board of Accountancy.
- 14 (2) State Athletic Commission.
- 15 (3) Board of Behavioral Sciences.
- 16 (4) Court Reporters Board of California.
- 17 (5) State Board of Guide Dogs for the Blind.
- 18 (6) California State Board of Pharmacy.
- 19 (7) Board of Registered Nursing.
- 20 (8) Veterinary Medical Board.

- 1 (9) Registered Veterinary Technician Committee.
- 2 (10) Board of Vocational Nursing and Psychiatric Technicians.
- 3 (11) Respiratory Care Board of California.
- 4 (12) Hearing Aid Dispensers Bureau.
- 5 (13) Physical Therapy Board of California.
- 6 (14) Physician Assistant Committee of the Medical Board of
- 7 California.
- 8 (15) Speech-Language Pathology and Audiology Board.
- 9 (16) Medical Board of California.
- 10 (17) State Board of Optometry.
- 11 (18) Acupuncture Board.
- 12 (19) Cemetery and Funeral Bureau.
- 13 (20) Bureau of Security and Investigative Services.
- 14 (21) Division of Investigation.
- 15 (22) Board of Psychology.
- 16 (23) California Board of Occupational Therapy.
- 17 (24) Structural Pest Control Board.
- 18 (25) Contractors' State License Board.
- 19 (26) Bureau of Naturopathic Medicine.
- 20 (27) Dental Board of California.
- 21 (28) Dental Hygiene Committee of California.
- 22 (29) Professional Fiduciaries Bureau.
- 23 (30) California Board of Podiatric Medicine.
- 24 (31) Osteopathic Medical Board of California.
- 25 (32) State Board of Chiropractic Examiners.
- 26 (c) Except as otherwise provided in this code, each agency listed
- 27 in subdivision (b) shall direct applicants for a license *or a petitioner*
- 28 *for reinstatement of a revoked, surrendered, or canceled license*
- 29 to submit to the Department of Justice fingerprint images and
- 30 related information required by the Department of Justice for the
- 31 purpose of obtaining information as to the existence and content
- 32 of a record of state or federal convictions and state or federal arrests
- 33 and also information as to the existence and content of a record of
- 34 state or federal arrests for which the Department of Justice
- 35 establishes that the person is free on bail or on his or her
- 36 recognizance pending trial or appeal. The Department of Justice
- 37 shall forward the fingerprint images and related information
- 38 received to the Federal Bureau of Investigation and request federal
- 39 criminal history information. The Department of Justice shall
- 40 compile and disseminate state and federal responses to the agency

1 pursuant to subdivision (p) of Section 11105 of the Penal Code.
 2 The agency shall request from the Department of Justice
 3 subsequent arrest notification service, pursuant to Section 11105.2
 4 of the Penal Code, for each person who submitted information
 5 pursuant to this subdivision. The Department of Justice shall charge
 6 a fee sufficient to cover the cost of processing the request described
 7 in this section.

8 SEC. 2. Section 144.5 is added to the Business and Professions
 9 Code, to read:

10 144.5. (a) Notwithstanding any other provision of law, an
 11 agency designated in subdivision (b) of Section 144 shall require
 12 a licensee who has not previously submitted fingerprints or for
 13 whom a record of the submission of fingerprints no longer exists
 14 to, as a condition of license renewal, ~~successfully complete~~
 15 *complete the process necessary for* a state and federal level criminal
 16 offender record information search *to be* conducted through the
 17 Department of Justice as provided in subdivision (d).

18 ~~(b) (1) A licensee described in subdivision (a) shall, as a~~
 19 ~~condition of license renewal, certify on the renewal application~~
 20 ~~that he or she has successfully completed a state and federal level~~
 21 ~~criminal offender record information search pursuant to subdivision~~
 22 ~~(d):~~

23 ~~(2) The licensee shall retain for at least three years, as evidence~~
 24 ~~of the certification made pursuant to paragraph (1), either a receipt~~
 25 ~~showing that he or she has electronically transmitted his or her~~
 26 ~~fingerprint images to the Department of Justice or, for those~~
 27 ~~licensees who did not use an electronic fingerprinting system, a~~
 28 ~~receipt evidencing that the licensee's fingerprints were taken.~~

29 *(b) (1) As a condition of license renewal, a licensee described*
 30 *in subdivision (a) shall complete the process necessary for a state*
 31 *and federal level criminal offender record information search to*
 32 *be conducted as provided in subdivision (d).*

33 *(2) No license of a licensee described in subdivision (a) shall*
 34 *be renewed until certification by the licensee is received by the*
 35 *agency verifying that the licensee has complied with this*
 36 *subdivision. The certification shall be made on a form provided*
 37 *by the agency not later than the renewal date of the license.*

38 *(3) As evidence of the certification made pursuant to paragraph*
 39 *(2), the licensee shall retain either of the following for at least*
 40 *three years:*

1 (A) *The receipt showing that the fingerprint images required*
2 *by this section were electronically transmitted to the Department*
3 *of Justice.*

4 (B) *For those licensees who did not use an electronic*
5 *fingerprinting system, the receipt evidencing that the fingerprint*
6 *images required by this section were taken.*

7 (c) Failure to provide the certification required by subdivision
8 (b) renders an application for *license* renewal incomplete. An
9 agency shall not renew the license until a complete application is
10 submitted.

11 (d) Each agency listed in subdivision (b) of Section 144 shall
12 direct licensees described in subdivision (a) to submit to the
13 Department of Justice fingerprint images and related information
14 required by the Department of Justice for the purpose of obtaining
15 information as to the existence and content of a record of state or
16 federal convictions and state or federal arrests and also information
17 as to the existence and content of a record of state or federal arrests
18 for which the Department of Justice establishes that the person is
19 free on bail or on his or her recognizance pending trial or appeal.
20 The Department of Justice shall forward the fingerprint images
21 and related information received to the Federal Bureau of
22 Investigation and request federal criminal history information. The
23 Department of Justice shall compile and disseminate state and
24 federal responses to the agency pursuant to subdivision (p) of
25 Section 11105 of the Penal Code. The agency shall request from
26 the Department of Justice subsequent arrest notification service,
27 pursuant to Section 11105.2 of the Penal Code, for each person
28 who submitted information pursuant to this subdivision. The
29 Department of Justice shall charge a fee sufficient to cover the
30 cost of processing the request described in this section.

31 (e) An agency may waive the requirements of this section if the
32 license is inactive or retired, or if the licensee is actively serving
33 in the military. The agency ~~may~~ *shall* not activate an inactive
34 license or return a retired license to full licensure status for a
35 licensee described in subdivision (a) until the licensee has
36 successfully completed a state and federal level criminal offender
37 record information search pursuant to subdivision (d).

38 ~~(f) With respect to licensees that are business entities, each~~
39 ~~agency listed in subdivision (b) of Section 144 shall, by regulation,~~
40 ~~determine which owners, officers, directors, shareholders,~~

1 members, agents, employees, or other natural persons who are
2 representatives of the business entity are required to submit
3 fingerprint images to the Department of Justice and disclose the
4 information on its renewal forms, as required by this section.

5 ~~(g)~~

6 (f) A licensee who falsely certifies completion of a state and
7 federal level criminal record information search under subdivision
8 ~~(b)~~ may be subject to disciplinary action by his or her licensing
9 agency. *(b) shall be subject to disciplinary action.*

10 (g) *(1) As it relates to the Contractors' State License Board,*
11 *the provisions of this section shall become operative on the date*
12 *on which an appropriation is made in the annual Budget Act to*
13 *fund the activities of the Contractors' State License Board to*
14 *accommodate a criminal history record check pursuant to this*
15 *section. If this section becomes operative with respect to the*
16 *Contractors' State License Board on or before July 1, 2012, the*
17 *Contractors' State License Board shall implement this section*
18 *according to the following schedule, and shall utilize the fees under*
19 *its fee cap accordingly:*

20 (A) *For licenses initially issued between January 1, 2000, and*
21 *December 31, 2005, inclusive, the certification required under*
22 *subdivision (b) shall be submitted during the license renewal period*
23 *that commences on January 1, 2013.*

24 (B) *For licenses initially issued between January 1, 1990, and*
25 *December 31, 1999, inclusive, the certification required under*
26 *subdivision (b) shall be submitted during the license renewal period*
27 *that commences on January 1, 2015.*

28 (C) *For licenses initially issued prior to January 1, 1990, the*
29 *certification required under subdivision (b) shall be submitted*
30 *during the license renewal period that commences on January 1,*
31 *2017.*

32 (2) *If this section becomes operative with respect to the*
33 *Contractors' State License Board after July 1, 2012, the license*
34 *renewal period commencement dates specified in subparagraphs*
35 *(A), (B), and (C) of paragraph (1) shall be delayed one year at a*
36 *time until this section becomes operative with respect to the*
37 *Contractors' State License Board.*

38 (h) This section shall become operative on January 1, 2011.

39 SEC. 3. Section 144.6 is added to the Business and Professions
40 Code, to read:

1 144.6. (a) An agency described in subdivision (b) of Section
2 144 shall require a licensee, as a condition of license renewal, to
3 ~~notify the board on the license renewal form if he or she has been~~
4 *notify the agency on the license renewal form if he or she, or any*
5 *member of the personnel of record of the licensee, has been*
6 convicted, as defined in Section 490, of a felony or misdemeanor
7 ~~since his or her last renewal, or if this is the licensee's first renewal,~~
8 ~~since the initial license was issued.~~ *since the license was last*
9 *renewed, or since the license was initially issued if it has not been*
10 *previously renewed.*

11 (b) The reporting requirement imposed under this section shall
12 apply in addition to any other reporting requirement imposed under
13 this code.

CALIFORNIA BOAF OF ACCOUNTANCY
CASE ACTIVITY and AGING REPORT
August 1, 2010 - July 31, 2011

| | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| COMPLAINTS | | | | | | | | | | | | |
| Received | 51 | 60 | 62 | 44 | 46 | 47 | 68 | 86 | 65 | 46 | 89 | 54 |
| Closed | 8 | 12 | 10 | 19 | 7 | 8 | 3 | 28 | 15 | 9 | 6 | 19 |
| Assigned | 40 | 50 | 40 | 36 | 37 | 40 | 58 | 58 | 57 | 34 | 74 | 48 |
| Pending | 5 | 3 | 15 | 4 | 6 | 5 | 12 | 12 | 5 | 8 | 17 | 4 |
| Convictions/Arrest Reports | | | | | | | | | | | | |
| Received | 9 | 9 | 7 | 14 | 13 | 7 | 6 | 17 | 14 | 7 | 16 | 10 |
| Closed | 6 | 7 | 5 | 12 | 8 | 6 | 5 | 15 | 11 | 6 | 8 | 5 |
| Assigned | 3 | 2 | 1 | 1 | 7 | 1 | 1 | 2 | 3 | 1 | 5 | 7 |
| Pending | 0 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 1 |
| INVESTIGATIONS (Non Sworn) | | | | | | | | | | | | |
| Assigned | 43 | 52 | 41 | 37 | 44 | 41 | 59 | 60 | 60 | 35 | 79 | 55 |
| Closed | 32 | 29 | 39 | 31 | 25 | 23 | 50 | 52 | 52 | 59 | 39 | 33 |
| Pending | 228 | 251 | 253 | 259 | 278 | 296 | 305 | 313 | 321 | 296 | 336 | 358 |
| INVESTIGATIONS (Sworn) | | | | | | | | | | | | |
| Assigned | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 |
| Closed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pending | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| CASE AGING | | | | | | | | | | | | |
| < 18 months | 216 | 235 | 236 | 239 | 252 | 266 | 272 | 280 | 293 | 267 | 306 | 319 |
| 18-24 months | 10 | 11 | 13 | 12 | 17 | 21 | 22 | 21 | 17 | 19 | 19 | 27 |
| > 24 mos | 2 | 5 | 4 | 8 | 9 | 9 | 11 | 12 | 11 | 11 | 12 | 13 |
| Average Age of Pending Investigations (days) | 205 | 206 | 223 | 239 | 249 | 258 | 255 | 255 | 236 | 255 | 238 | 238 |
| Median Age of Pending Investigations (days) | 166 | 163 | 186 | 197 | 200 | 216 | 220 | 213 | 171 | 196 | 155 | 165 |

**CALIFORNIA BOARD OF ACCOUNTANCY
CASE ACTIVITY and AGING REPORT
August 1, 2010 - July 31, 2011**

| ENFORCEMENT ACTIONS | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| AG Cases | | | | | | | | | | | | |
| Initiated | 2 | 1 | 1 | 2 | 1 | 2 | 3 | 3 | 2 | 5 | 2 | 5 |
| AG Cases Pending | 36 | 34 | 34 | 35 | 32 | 34 | 36 | 32 | 34 | 37 | 38 | 43 |
| Petitions for Reinstatement Pending | 3 | 3 | 3 | 4 | 4 | 2 | 3 | 3 | 1 | 1 | 0 | 0 |
| Accusations Filed | 0 | 5 | 0 | 2 | 1 | 0 | 1 | 2 | 3 | 1 | 1 | 4 |
| | | | | | | | | | | | | |
| AG Cases Aging | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 |
| Pre Accusation | | | | | | | | | | | | |
| < 18 months | 15 | 11 | 12 | 11 | 10 | 12 | 12 | 13 | 12 | 15 | 15 | 15 |
| 18-24 months | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 |
| > 24 months | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Pre Accusation | 16 | 12 | 13 | 12 | 11 | 13 | 14 | 15 | 14 | 17 | 17 | 17 |
| | | | | | | | | | | | | |
| Post Accusation | | | | | | | | | | | | |
| < 18 months | 16 | 20 | 17 | 17 | 15 | 14 | 13 | 11 | 14 | 16 | 16 | 21 |
| 18-24 months | 4 | 2 | 4 | 5 | 5 | 6 | 8 | 6 | 6 | 4 | 5 | 5 |
| > 24 months | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| Post Accusation | 20 | 22 | 21 | 23 | 21 | 21 | 22 | 17 | 20 | 20 | 21 | 26 |

**CALIFORNIA BOARD OF ACCOUNTANCY
CITATION AND FINE ACTIVITY REPORT
FOR THE PERIOD 7/1/11 THRU 8/23/11**

CBA Item VII.B
September 22, 2011

VIOLATION ANALYSIS

| RULE | | AVERAGE FINE AMOUNT | TOTAL FINES/CITATIONS ISSUED | TOTAL FINES ASSESSED | APPEALS RECEIVED |
|---------------|--|----------------------------|-------------------------------------|-----------------------------|-------------------------|
| | ACCOUNTANCY RULES AND REGULATIONS | | | | |
| 52 | RESPONSE TO BOARD INQUIRY | \$313 | 4 | \$1,250 | |
| 63 | ADVERTISING | | | | 1 |
| 87 | CE BASIC REQUIREMENTS | \$417 | 3 | \$1,250 | 1 |
| 87.8 | CE REGULATORY REVIEW COURSE | \$250 | 1 | \$250 | |
| 89 | CE CONTROL AND REPORTING | \$250 | 1 | \$250 | |
| | | | | | |
| | BUSINESS AND PROFESSIONS CODE SECTION | | | | |
| 5050 | PRACTICE WITHOUT A VALID PERMIT | \$1,000 | 1 | \$1,000 | |
| 5060 | NAME OF FIRM | | | | 1 |
| 5070.6 | RENEWAL OF EXPIRED PERMITS | \$0 | 1 | \$0 | |
| 5100c | DISCIPLINE IN GENERAL-DISHONESTY, FRAUD, GROSS NEGLIGENCE, REPEATED ACTS | \$750 | 2 | \$1,500 | |
| TOTALS | | | 13 | \$5,500 | 3 |

RECONCILIATION OF FINES OUTSTANDING 7/1/11 - 8/23/11

| | |
|---|-----------------|
| Balance at 7/1/11 | \$53,451 |
| Fines Assessed 7/1/11 - 8/23/11 | \$5,500 |
| Previous Paid Off - Reinstated - Revoked License | \$0 |
| Appeal Adjustments 7/1/11 - 8/23/11 | |
| Withdrawn Violations (1 violation, 1 case) | (\$250) |
| Modified Citations (0 violations, 0 cases) | \$0 |
| Remain As Issued Citations (2 violations, 1 case) | \$0 |
| Collections 7/1/11 - 8/23/11 | (\$2,716) |
| Fines Outstanding at 8/23/11 | \$55,985 |

COMPOSITION OF FINES OUTSTANDING

| | |
|---|-----------------|
| Fine Added to License Renew Fee/B & P 125.9 (52 violations, 28 cases) | \$47,300 |
| AG Referral (Citation Appealed/Non Compliance) (0 violations, 0 case) | \$0 |
| Issued/Pending Receipt of Fine (25 violations, 11 cases) | \$8,500 |
| Installment Payments (2 violations, 1 case) | \$185 |
| Appeal Request Pending Review (0 violations, 0 cases) | \$0 |
| Total Fines Outstanding at 8/23/11 | \$55,985 |

**CALIFORNIA BOARD OF ACCOUNTANCY
 REPORTABLE EVENTS RECEIVED
 07/01/11 – 07/31/11**

| | |
|--|-----------|
| Felony Conviction – 5063(a)(1)(A) | 1 |
| Criminal Conviction – 5063(a)(1)(B) | 0 |
| Criminal Conviction – 5063(a)(1)(C) | 0 |
| Cancellation, Revocation, Suspension of Right to Practice by Other State or Foreign Country – 5063(a)(2) | 0 |
| Cancellation, Revocation, Suspension of Right to Practice before any governmental body or agency – 5063(a)(3) | 0 |
| Restatements – 5063(b)(1) <ul style="list-style-type: none"> • Governmental – 4 • Non Profit – 0 • SEC Registrant – 1 | 5 |
| Civil Action Settlement – 5063(b)(2) | 2 |
| Civil Action Arbitration Award – 5063(b)(2) | 0 |
| SEC Investigation – 5063(b)(3) | 0 |
| Wells Submission – 5063(b)(4) | 0 |
| PCAOB Investigation – 5063(b)(5) | 1 |
| Civil Action Judgement – 5063(c)(1)(2)(3)(4)(5) | 0 |
| | |
| Reporting by Courts – 5063.1 | 0 |
| | |
| Reporting by Insurers – 5063.2 | 1 |
| | |
| TOTAL REPORTABLE EVENTS RECEIVED 07/01/11 TO 07/31/11 | 10 |



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VII.D.
 September 22, 2011

Update on Peer Review Implementation

Presented by: Rafael Ixta, Chief, Enforcement Division

Date: September 5, 2011

Purpose of the Item

Staff is providing this memorandum highlighting actions that have occurred in the peer review program since the July 2011 California Board of Accountancy (CBA) meeting.

Action Needed

No specific action is required on this agenda item.

Background

Peer Review Survey

The CBA has received 1,221 peer review surveys since the survey went live on the CBA's Web site in December 2010. This is an increase of 467 since the July meeting. The voluntary survey will assist the CBA in collecting information from sole proprietors and small firms to prepare the report that is due to the Legislature and the Governor.

Reporting Statistics

As of August 19, 2011, 26,192 peer review reporting forms have been submitted to the CBA. This is an increase of 7,543 since the July meeting. The reporting forms are categorized as follows:

| | |
|--|--------|
| Peer Review Required | 2,187 |
| Peer Review Not Required (firms) | 5,075 |
| Peer Review Not Applicable (non-firms) | 18,930 |

Public Contact Statistics

With the first reporting deadline past and an increase in peer review outreach, public contact has increased dramatically as evidenced in the statistics below.

| Method of Contacts: | March | April | May | June | July |
|---------------------|-------|-------|-----|------|------|
| Telephone | 80 | 424 | 361 | 630 | 743 |
| E-mail | 10 | 59 | 87 | 249 | 284 |

Correspondence to Licensees Regarding Peer Review Reporting

On July 22, 2011, the CBA mailed 20,169 letters to licensees who are required to report peer review information by July 1, 2012.

Staff is currently preparing to send approximately 3,500 deficiency letters to licensees who were required to report by July 1, 2011 (**Attachment 1**). These letters are expected to be mailed by the end of August.

Extensions to Report Peer Review Results

The California Society of CPAs (CalCPA) approved a total of 263 extensions for licensees required report peer review results by July 1, 2011. The deadline to request an extension from CalCPA was July 31, 2011.

In order to qualify for the extension, a firm must have first enrolled in the peer review program and completed the peer review scheduling form, including contracting with a peer reviewer or selecting the committee-appointed review process.

This process assures the CBA that the firm is enrolled in the peer review program and has a peer review scheduled, but allows the firm time to complete the peer review while still being in compliance with the reporting requirement.

Staffing

The Enforcement Program is currently recruiting for a full-time Office Technician to assist with peer review tasks. The hiring freeze exemption request for the Investigative CPA is currently pending approval at the Department of Finance.

Comments

None

Recommendation

None

Attachment



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



August 23, 2011

Attachment 1

License #:
PIN:

Name
Firm
Address
City, State Zip

Dear Licensee:

The California Board of Accountancy (CBA) notified you on July 1, 2010 and April 1, 2011 that you are required to submit a Peer Review Reporting Form (Form) to the CBA no later than July 1, 2011. The Form serves to report either that you are not subject to peer review or, alternatively, to report the results of your most recent peer review. To date, the CBA has no record of receiving a Form for the above-referenced license number.

If the California Society of Certified Public Accountants (CalCPA) has approved an extension of the completion of your peer review beyond July 1, 2011, please provide proof of the extension to the CBA by fax at (916) 263-3673.

If you are ready to submit the Form, there are two ways to do so. The Online Peer Review Reporting Form is available on the CBA Web site at www.cba.ca.gov. By using the PIN number provided above, you can log-in and fulfill your reporting requirements in just minutes. As an alternative, a hard copy Form is enclosed which can be mailed or faxed to this office.

Please be advised that failure to report is a violation of Title 16, California Code of Regulations (CCR), Section 45. Failure to submit the Form, or provide proof of an extension, to the CBA by September 30, 2011, may subject you to a Citation and Fine of up to \$5,000 or other enforcement actions by the CBA.

If you are required to undergo peer review, please contact the CalCPA immediately to enroll in the Peer Review Program. The enrollment form is available at www.calcpa.org. CalCPA can be reached by telephone at (650) 522-3094 or by e-mail at peerreview@calcpa.org.

If you have questions regarding peer review or reporting requirements, please visit the CBA Web site at www.cba.ca.gov or contact the CBA by telephone at (916) 561-1706 or by e-mail at peerreviewinfo@cba.ca.gov.

Sincerely,

Patti Bowers
Executive Officer

Enclosure



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VII.E
September 22, 2011

ANNUAL RESULTS FROM THE DCA PERFORMANCE MEASURES REPORT

Presented By: Rafael Ixta, Enforcement Chief

Date: August 23, 2011

Purpose of the Item

As part of the Department of Consumer Affairs' (DCA) commitment to consumer protection and its ongoing efforts to better serve consumers and licensees, the DCA is improving its enforcement business function. The new enforcement model calls for performance accountability and streamlining or modifying existing business processes in order to reduce cycle time for the completion of investigation and prosecution.

The attached table displays a list of the performance measures that have been established, the CBA target for each of these measures and the results from the CBA's Annual Performance Measures Report (July 1, 2010 – June 30, 2011).

Action(s) Needed

No specific action is required on this agenda item.

Background

Beginning on July 1, 2010, the DCA began collecting enforcement performance measures from each board and bureau. A set of eight measures was developed along with guidelines for setting targets for these measurements, which the DCA began reporting publicly in October 2010.

Comments

None

Recommendations

None

Attachment

**ANNUAL RESULTS FROM THE DCA
PERFORMANCE MEASURES REPORT
July 1, 2010 – June 30, 2011**

| DCA Performance Measure | DCA Target | CBA Target | Annual Results | Comments |
|--|----------------------|-------------------|---|---|
| PM 1; Number of Complaints and Convictions Received – Volume | Will vary by program | N/A | 854 | |
| PM 2; Average number of days to complete complaint intake – Cycle Time | Set by program | 10 days | 5 days | |
| PM 3; Average number of days to complete closed cases not resulting in formal discipline - Cycle Time | Set by program | 180 days | 111 days | |
| PM 4; Average number of days to complete investigations resulting in formal discipline – Cycle Time | 12-18 months | 540 days | 655 days | |
| PM 5; Average cost of intake and investigation for complaints not resulting in formal discipline - Efficiency (Cost) | TBD | N/A | N/A | DCA is no longer tracking this performance measure. |
| PM 6; Consumer satisfaction with the services received during the enforcement process – Customer Satisfaction | Will vary by program | 80 % Satisfaction | Not available this quarter due to low number of responses received. | DCA is not currently tracking this performance measure due to the low volume received. Boards and Bureaus are distributing pre-printed survey cards with all case closure letters in an effort to increase responses. |
| PM 7; Average number of days from the date a probation monitor is assigned to the date the monitor makes contact - Initial Contact Cycle Time (Probation Monitoring) | Set by program | 5 days | 2 days | |
| PM 8; Average number of days from the time a violation is reported to the program to the time the probation monitor responds - Violation Cycle Time (Probation Monitoring) | Set by program | 15 days | 3 days | |



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CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VIII.E.2.
September 22, 2011

Acceptance of 2012 PROC Meeting Dates

Member: Nancy Corrigan, Chair, PROC
Date: September 5, 2011

Purpose of the Item

Approval of 2012 PROC Meeting Dates.

Action Needed

The Peer Review Oversight Committee (PROC) is requesting the California Board of Accountancy to adopt the following 2012 PROC meeting dates.

Background

These dates have been approved by the PROC Committee Members:

- December 9, 2011 Southern California
- February 10, 2012 Northern California
- April 20, 2012 Southern California
- June 15, 2012 Northern California
- August 24, 2012 Southern California
- October 19, 2012 Northern California
- December 4, 2012 Southern California

Comments

None

Recommendation

Staff recommends approval of the meeting dates.



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CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VIII.E.3
September 22, 2011

White Paper Regarding Changes to the AICPA Standards for Performing and Reporting on Peer Review

Presented by: Nancy Corrigan, Chair, PROC
Date: September 5, 2011

Purpose of the Item

To update the California Board of Accountancy (CBA) on the outcome of the American Institute of Certified Public Accountants (AICPA) Exposure Draft on Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs, June 1, 2010.

Action Needed

No specific action is required on this agenda item.

Background

At its September 22-23, 2010 meeting, the CBA was presented with the AICPA Exposure Draft (ED) and a summary of the proposed changes to the peer review standards (**Attachment 1**). The CBA referred the ED to the Peer Review Oversight Committee (PROC) for review.

On January 20, 2011, the PROC adopted a response to the ED (**Attachment 2**) and a draft letter to AICPA on behalf of the CBA. The CBA adopted the PROC's response to AICPA at its January 27-28, 2011 meeting and sent a letter of support on February 1, 2011 (**Attachment 3**).

The AICPA issued a white paper on August 15, 2011 which explains the rationale of the changes made since the original ED proposed on June 1, 2010.

The white paper is available for download at:

<http://www.aicpa.org/research/exposedrafts/peerreview/downloadabledocuments/whitepaperprbexpdraft.pdf>.

Comments

None

Recommendations

None

Attachments

State of California
Department of Consumer Affairs

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815-3832

Memorandum

CBA Agenda Item XIII.A.2.

September 22-23, 2010

To : CBA Members

Date: September 3, 2010
Telephone : (916) 561-1725
Facsimile : (916) 263-3673
E-mail: pfisher@cba.ca.gov

From : Paul Fisher
Supervising ICPA, Enforcement Division

Subject : AICPA Peer Review Program Exposure Draft, June 1, 2010

The July 2010 and August 2010 Executive Officer Monthly Reports both noted that on June 1, 2010, the AICPA issued an Exposure Draft titled "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing And Reporting On Peer Reviews Of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs".

Staff took note of the Exposure Draft, but did not believe the topical matter warranted bringing the Exposure Draft to the CBA for comment as it appeared to be "standards-based" as opposed to regulatory in nature and deals with the peer reviews of CPE programs and quality control materials. The "thrust" of the issues covered in the Exposure Draft relate to these specific peer reviewers' qualifications and independence, and are summarized in three points outlined in the Explanatory Memorandum at the front of the Exposure Draft. The three major changes, as iterated on pages 6 – 8 of the Exposure Draft are as follows:

- "Revises and clarifies the guidance for those involved in the development and maintenance of QCM or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (user firms)."
- "Removal of the requirements for providers to undergo triennial peer reviews of the system to develop and maintain QCM or CPE programs, and of the resultant materials."
- "Revises the procedures for performing a CPE program peer review for those providers that elect to undergo such a review."

However, further internal discussions have lead staff to conclude the topical matter of this Exposure Draft is such that it should be brought to CBA members attention to deliberate on whether, as a body, the CBA wants to "weigh in" on any changes to the AICPA Peer Review Program, which can be considered unique in that the entire program has basically been adopted into CBA Regulations. Further, the importance of bringing this Exposure Draft to the CBA is underscored by a specific request received recently from the AICPA that the CBA provide a "general comment" response to the Exposure Draft.

Staff has outlined below a number of options that members might consider with regards to this Peer Review Exposure Draft. Members may, of course, come up with other alternatives they wish to employ to address the issue.

1. Take no action. As indicated earlier, this Exposure Draft is “standards based” and the CBA has in the past indicated that it did not want to consider/comment on “standards based” exposure drafts. Further, the Exposure Draft was specifically being exposed to AICPA membership for response to the five specific questions noted on page 9 of the document.
2. Provide a general letter of comment as requested by Jim Brackens from the AICPA. Should the CBA choose this option, staff have generated a draft letter for members consideration that can be modified.
3. Refer the Exposure Draft to the CBA Peer Review Oversight Committee to develop a “general letter of comment”, to be brought to the CBA for consideration at the November 2010 CBA meeting.
4. Refer the Exposure Draft to the CBA Peer Review Oversight Committee to respond to the five questions posed on page 9 of the Exposure Draft.

Given that the original comment period ended August 31st, staff has requested that the AICPA provide the CBA with an extension to provide comment on the Peer Review Exposure Draft. Though no such extension was forthcoming, it should be noted that the entire AICPA Peer Review Board is meeting on October 7th. In order for the Peer Review Board to consider the CBA comments, comments should be provided prior to this date. If this date cannot be met the CBA may still desire to go on record with respect to California’s perspective regarding the issues contained in the document.

Attached to this memorandum is a copy of the AICPA Peer Review Exposure Draft, dated June 1, 2010 (Attachment I). Also attached is the letter referred to in option 2 above that staff has drafted for your consideration from President Ramirez to the AICPA providing “general comments” related to issues addressed in the Peer Review Exposure Draft (Attachment II).

Staff will be at the September 2010 CBA meeting to assist members in their deliberation of this agenda item, though response to the technical issues addressed in the Peer Review Exposure Draft are likely beyond the scope of knowledge that staff possess related to the AICPA Peer Review Program.

MEMORANDUM

December 12, 2010

PROC Agenda Item VII.
January 20, 2011

TO: Nancy Corrigan, Chair, PROC
PROC Members

FROM: Tze-Ki Lam, PROC Member
Robert Lee, PROC Member Elect

SUBJECT: AICPA Peer Review Program Exposure Draft, June 1, 2010

This memorandum is respectfully submitted to the California Peer Review Oversight Committee for purposes of making a recommendation to the California Board of Accountancy for their consideration in submitting a response to the AICPA during the open comment period regarding the AICPA Exposure Draft of June 1, 2010 entitled "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Peer Review of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs."

In summary, the Exposure Draft calls for three major changes to the current standards as follows:

- 1) "Revises and clarifies the guidance for [individuals or firms] involved in the development and maintenance of QCM or CPE programs such that they are not permitted to serve on review teams that use [the] QCM or CPE programs [that the individuals or firms developed as QCM and CPE materials for peer review] (user firms) . This impacts firms that develop and maintain QCM or CPE programs (provider firms) as well as an association of CPA firms that develop and maintain QCM or CPE programs (provider association).
- 2) "Removal of the requirements for providers to undergo triennial peer reviews of the systems to develop and maintain QCM and CPE programs, and of the resultant materials. However, providers can still elect to undergo such a review voluntarily. This is applicable for provider associations."
- 3) "Revises the procedures for performing a CPE program review for those providers that elect to undergo such a review. There are no changes proposed to the procedures for performing a QCM peer review, although some clarifications to those procedures are included."

With respect to change #1 above, the AICPA Peer Review Board (PRB) is seeking to further strengthen and clarify the current *Standards for Performing and Reporting on Peer Reviews* and related *Interpretations* (collectively "*Standards*") and better ensure that the *Standards* support and comply with one of the most important pillars of our profession – Independence. This fundamental hallmark of our profession requires that a CPA be independent in fact and/or in appearance. The Peer Review *Standards* define independence and objectivity in paragraph 22, stating that "the reviewing firm, the review team,

and any other individuals who participate on the peer review should be free from an obligation to, or interest in, the reviewed firm or its personnel.” With respect to objectivity, paragraph 22 further states “the principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.”

The predominant issue at hand arises when a developer and provider of QCM and CPE materials sells its own materials to a user firm that employs the materials and then engages the provider firm to perform peer review services for the user firm. The purchase of QCM and CPE materials from a provider naturally creates an economic relationship with a user firm. This economic relationship further creates a natural desire on behalf of the provider to ensure that the materials they have developed and sold to the user firm will result in a favorable outcome for the user firm. As a result, this economic bias could readily taint the objectivity of the provider firm both in fact and/or in appearance. Providers will naturally benefit when the firms that use their materials successfully complete peer review.

In addition to creating a lack of independence, the provider that delivers QCM and CPE materials for implementation by a user firm will by default become an extension of the user firm’s system of quality control. Again, this is a violation of the Independence rules and standards requiring that CPA’s not be a part of the establishment and implementation of internal controls, including monitoring ongoing activities, in attest engagements. The PRB therefore concluded that the “consequences of allowing a peer reviewer that is also a part of the provider’s system of control to peer review a user firm conflicts with a peer reviewer maintaining the independence, integrity and objectivity that the *Standards* embody.”

The proposed change regarding #1 above, affects paragraphs 156, 159, 160 and 164 of the *Standards* as well as Interpretations 21-1, 21-7 and 21-9.

The *Standards* as they currently exist, sought to mitigate the independence issues above by requiring provider firms to undergo triennial peer review themselves. The issue again is that these provisions only provided a level of mitigation and not an elimination of the item causing the lack of independence. The objective of the PRB is to eliminate these situations from occurring by prohibiting provider firms from also peer reviewing a firm for which they have provided QCM and CPE materials. With the revisions of the *Standards* as provided in #1 and as discussed above, the need for a peer review of provider firms on a triennial basis or otherwise as outlined in #2 above is of no consequence. Therefore the areas covered under #2 providing for compulsory triennial peer review will be eliminated while still allowing for a provider firm to undergo a peer review should they so desire. This proposed change affects *Standards* paragraphs 159 and 160.

Change #3 above relates to the lack of provisions in the *Standards* regarding the instruction component of CPE programs. The *Standards* do require that the peer reviewer evaluate and opine on the system to develop and maintain the CPE programs. “The PRB considered how users rely on the peer review reports of the CPE programs and determined that since the instruction component of a CPE program is key to the programs as a whole, users of CPE program peer review reports are not served by an opinion on the program aids alone.” The PRB also “determined that there is no practical and efficient way that the instruction component can be appropriately evaluated and opined upon.”

MEMORANDUM to Nancy Corrigan, Chair, PROC

December 12, 2010

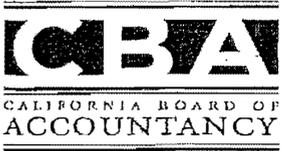
Page 3

Since a peer reviewer can evaluate and opine on the system in place to develop and maintain the CPE program, the PRB determined that the report for CPE programs should be revised to opine on the system to develop and maintain CPE programs and that the peer review procedures in the *Standards* performed in support of the report should similarly be revised so that the procedures focus on the system.

The change in #3 above affects *Standards* paragraphs 156, 158-160, 166 and 168-173, and renumbers the paragraphs beginning in 170.

In reviewing the above provisions and in researching the responses to the AICPA Exposure Draft it was noted that they overwhelmingly support the Exposure Draft.

As a result of the intent of the AICPA's work in this endeavor to uphold the pillar of independence which is so key to the vitality of our profession and the protection of the public interest, it is the considered opinion and respectful recommendation of this subcommittee of the California Peer Review Oversight Committee that our committee wholly support the provisions of the Exposure Draft and recommend to the California Board of Accountancy that they cast their full support in favor of this Exposure Draft.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
200 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3688
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



Attachment 3

February 1, 2011

LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Peer Review Exposure Draft

Dear Ms. King:

On behalf of the California Board of Accountancy (CBA), I am pleased to submit our comments on the American Institute of Certified Public Accountants (AICPA) Exposure Draft titled "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs."

The first notable change addressed in the Explanatory Memorandum of the Exposure Draft states that "those involved in the development and maintenance of QCM or CPE program ... are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs." This change seeks to further strengthen and clarify the current *Standards* and better ensure that the *Standards* support and comply with one of the most important pillars of our profession – independence.

The second revision outlined in the Explanatory Memorandum "removes the provision requiring providers to undergo a triennial peer review of the system to develop and maintain QCM or CPE programs, and the resultant materials." The *Standards* as they currently exist, sought to mitigate the independence issues by requiring provider firms to undergo triennial peer review. With the revisions of the *Standards* as provided in the first issue, the need for a peer review of provider firms on a triennial basis or otherwise is of no consequence.

The third change "revises the procedures for performing a CPE program peer review for those providers that elect to undergo such a review." Since a peer reviewer can evaluate and opine on the system in place to develop and maintain the CPE program, the PRB determined that the report for CPE programs should be revised to opine on the system to develop and maintain CPE programs and that the peer review procedures in the *Standards* performed in support of the report should similarly be revised so that the procedures focus on the system.

Peer Review Exposure Draft
February 1, 2011
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Given that independence is a critical element of the peer review process, the CBA is supportive of all the changes to the AICPA Peer Review Program and believes that they will increase consumer protection through enhanced independence and objectivity for those performing peer reviews.

Thank you for the opportunity to provide comment on the AICPA Exposure Draft "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs."

Regards,


Sarah J. Anderson, CPA, President

c: Members, California Board of Accountancy



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VIII.E.4
September 22, 2011

**Proposed Changes to the AICPA Standards for
Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of
Quality Control Materials**

Presented by: Nancy Corrigan, Chair, PROC
Date: September 5, 2011

Purpose of the Item

To provide the California Board of Accountancy (CBA) members an opportunity to provide comments on the American Institute of Certified Public Accountants' (AICPA) Exposure Draft on Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011 (**Attachment 1**).

Action Needed

The CBA may deliberate on this exposure draft and approve a letter in support of the exposure draft (**Attachment 2**).

Background

The AICPA Peer Review Board (Board) released a new exposure draft on administering and performing Quality Control Material (QCM) reviews. During the process of finalizing the changes based on the June 1, 2010 exposure draft, the Board recognized a need to provide additional guidance on administering QCM reviews, and performing and evaluating QCM review results. This new guidance was not addressed in the June 1, 2010 exposure draft. As a result, the Board issued a new exposure draft with proposed changes for peer reviewer qualifications, planning and performing QCM reviews, QCM provider and reviewer cooperation, and publicizing QCM review information.

Prior exposure drafts affecting peer reviews have been assigned to the Peer Review Oversight Committee (PROC) for analysis. Since the PROC is not meeting until October 27, 2011, and the exposure draft comment period ends on September 20, 2011, CBA staff conducted a cursory review of the exposure draft and prepared a letter supporting the exposure draft. Should the CBA desire a more in-depth analysis, the exposure draft will be assigned to the PROC. Should the PROC identify additional changes, a new letter may be brought to the November 17 & 18, 2011, CBA meeting for discussion.

It should be noted CBA staff contacted the Board seeking an extension until November to provide comments to the exposure draft. CBA staff was informed that the Board would take action on the exposure draft in October and to submit comments prior to October.

The revisions to the Standards adopted as final will be effective for all reviews commencing on or after January 1, 2012.

The CBA was supportive of the changes in the June 1, 2010 exposure draft, believing that the changes would increase consumer protection through enhanced independence and objectivity for those performing peer reviews.

Comments

This exposure draft makes the following changes:

- Adds a minimum requirement that the reviewer be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of *pass*.
- Clarifies which materials are subject to the scope of review, identifying risk assessment considerations, how to evaluate if the materials are reliable aids, and identifying matters, findings, deficiencies, and significant deficiencies.
- Addresses the provider's and the reviewer's cooperation during a QCM review, including the impact of non-cooperation on the provider's independence and the reviewer's ability to gain approval to perform future QCM reviews or peer reviews.
- Addresses' publicizing the results of QCM reviews, including posting the results on the AICPA's website after review acceptance.

Recommendations

1. It is recommended that the CBA approve the letter in support of the current exposure draft (**Attachment 2**).
2. It is recommended that the CBA assign the exposure draft to the PROC for a more in-depth analysis.

Attachments

- **Attachment 1:** Exposure Draft: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Reviews of Quality Control Materials, August 22, 2011
- **Attachment 2:** Letter to the AICPA on the current exposure draft.

EXPOSURE DRAFT

PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS:

Performing and Reporting on Reviews of Quality Control Materials

August 22, 2011

Comments are requested by September 20, 2011

**Prepared by the AICPA Peer Review Board for comment from persons interested in the
AICPA Peer Review Program**

**Comments should be received by September 20, 2011 and addressed to
LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or PR_expdraft@aicpa.org**

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August 22, 2011

The AICPA Peer Review Board approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *Standards for Performing and Reporting on Peer Reviews* ("Standards").

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR_expdraft@aicpa.org by September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after October 20, 2011 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* are struck through, and new items are underlined).

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

A handwritten signature in cursive script that reads "Daniel J. Hevia".

Daniel J. Hevia
Chair
AICPA Peer Review Board

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2010 – 2011**

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AICPA Peer Review Program

LaShaun King
Technical Manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

This memorandum provides explanatory information for the proposed changes to the AICPA Standards for Performing and Reporting on Peer Reviews (“Standards”) issued by the AICPA Peer Review Board (“the Board”). The proposed changes would:

- Amend the peer reviewer qualifications in paragraph 31
- Replace paragraphs 167 – 170 with new paragraphs 167 – 189 on planning and performing QCM reviews (other paragraphs re-numbered as appropriate)
- Add new paragraphs 198 – 202 addressing QCM reviewer and provider cooperation
- Add new paragraphs 203 – 204 addressing publicizing QCM review information
- Amend and add new interpretations that further address the above changes

Background

Reviews of quality control materials (QCM) have continued to be an area of interest. The current guidance in the Standards refers QCM reviewers to other sections of the Standards for additional information on planning, performing, and administering QCM reviews. While there are some similarities between the process and procedures for reviewing a firm’s system of quality control and reviewing both a provider’s system of quality control and the resultant materials, there are also many differences not adequately addressed in the Standards. In response to questions and feedback from both QCM reviewers and providers of QCM, the Peer Review Board (PRB) clarified aspects of performing and administering QCM reviews through the proposed revisions.

Comment Period

The comment period for this exposure draft ends on September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after October 20, 2011, for a period of one year.

Explanation of Proposed Changes

Amendments to Existing Standards

Paragraph 31 addresses the minimum requirements necessary for a reviewer on a System or Engagement Review. The proposed change to paragraph 31 adds a requirement that the reviewer is associated with a provider firm or affiliated entity (if applicable) that has received a QCM report with a review rating of *pass*. If a reviewer is from a firm that is either a provider of QCM or is affiliated with a provider of QCM that received a QCM report with a review rating of *pass with deficiencies* or *fail* on its most recent review, the reviewer would not be qualified to serve as a reviewer on the System or Engagement Review of another firm.

Paragraphs 166 – 188 revises and enhances the current guidance on planning and performing QCM reviews by clarifying which materials are subject to the scope of the review, identifying risk assessment considerations, how to evaluate if the materials are reliable aids, and identifying matters, findings, deficiencies, and significant deficiencies.

Additions to the Standards

Paragraphs 198 – 202 address the provider’s and the reviewer’s cooperation during a QCM review, including the impact of non-cooperation on the provider’s independence and the reviewer’s ability to gain approval to perform future QCM reviews or peer reviews.

Paragraphs 203 – 204 address publicizing the results of QCM reviews, including posting the results on the AICPA’s website after review acceptance.

Amendments and Additions to the Interpretations

The Board is not required to expose changes to the Peer Review Standards Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed amendments and additions to the Standards.

The proposed changes re-numbers Interpretation 169-1 to Interpretation 175-1 to reflect the updated numbering in the changes to the Standards. The interpretation also provides additional guidance on assessing whether QCM are reliable aids.

The proposed changes also include new Interpretations 174-1, 199-1 and 199-2 that further explain the revised guidance in the related paragraphs.

The proposed changes strike existing Interpretation 169-2.

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by September 20, 2011.

Effective Date

Revisions to the *Standards* adopted as final by the Peer Review Board will be effective for all reviews commencing on or after January 1, 2012.

Proposed Revisions to the Peer Review Standards

Qualifying for Service as a Peer Reviewer

System and Engagement Reviewers

.31 Performing and reporting on a peer review requires the exercise of professional judgment by peers (see paragraphs 147–153 for a discussion of a reviewer’s responsibilities when performing a peer review). Accordingly, an individual serving as a reviewer on a System or Engagement Review should at a minimum:

g. If the reviewer is from a firm that is a provider of quality control materials (QCM) or is affiliated with a provider of quality control materials and is required to have a QCM review under these standards, be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of pass for its most recent QCM Review that was submitted timely, ordinarily within six months of the provider’s year-end.

Peer Reviewers’ Performance and Cooperation

.150 Any condition imposed on a reviewer will generally apply to the individual’s service as a team captain, review captain, ~~or a team member, or QCM reviewer~~ unless the condition is specific to the individual’s service as only a team captain, review captain, ~~or team member, or QCM reviewer~~.

~~Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs~~

~~Procedures for Planning and Performing QCM or CPE Reviews~~

~~.167 A QCM review should include procedures to plan and perform the review. The provider should identify the specific materials subject to the QCM review that will be opined upon in the report. Procedures to test the provider’s system of quality control should be determined based on the specific materials included in the scope of the review.~~

~~**.167.168** Once materials are identified for review purposes, they cannot be subsequently excluded from the scope of the review without resulting in a scope limitation. If the QCM review is required because the provider firm plans to peer review user firms, ordinarily all of the provider firm’s materials should be included in the scope of the QCM review. If specific materials are excluded from the scope of the QCM review, then the provider firm will not be independent of firms that use those specific materials excluded from the scope of the QCM review. The provider should identify the materials, whether QCM or CPE program materials, to be reviewed and on which an opinion is to be expressed. A QCM or CPE review should include a study and evaluation of the system for the development and maintenance of the QCM or CPE program that have been identified and a review of the materials themselves. Where not~~

otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting QCM and CPE reviews.

Planning Considerations

.169 The team captain should obtain the prior QCM report, the letter of response (if applicable), and the acceptance letter from the provider. The team captain should also obtain the prior FFC forms (if applicable) from the National PRC. The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review, and evaluate the provider’s actions in response to the prior report.

.170 In addition, the review team should assess the risk associated with QCM reviews. This is the risk that the review team:

- a. Fails to identify significant weaknesses in the provider’s system of quality control for the development and maintenance of its quality control materials, its lack of compliance with that system, or a combination thereof.
- b. Fails to identify significant weaknesses in the materials.
- c. Issues an inappropriate opinion on the provider’s system of quality control for the development and maintenance of its quality control materials, its compliance with that system, or a combination thereof.
- d. Issues an inappropriate opinion on the materials.
- e. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report.

.171 QCM review risk consists of:

a. The risk (consisting of *inherent risk* and *control risk*) that the quality control materials are not reliable aids, that the provider’s system of quality control will not prevent such failure, or both.

b. The risk (*detection risk*) that the review team will fail to detect and report on design and/or compliance deficiencies or significant deficiencies in the provider’s system of quality control or in the resultant materials.

.172 In planning the review, the QCM review team should assess and document the relevant inherent and control risk factors, and how the combined risks impact detection risk and, therefore, the scope of review procedures. This assessment should include but is not limited to consideration of the nature and environment of the provider (including economic and competitive pressures), experience with developing and maintaining QCM, the level of risk, complexity and change inherent in the industries and professional standards covered by the QCM, prior findings on previously-issued materials and the disposition of those findings, and any investigations, allegations, or restrictions on authors and technical reviewers (including outside and guest authors and/or technical reviewers).

Understanding the Provider’s System of Quality Control

~~168.173~~ A provider's system of quality control for the development and maintenance of the materials normally should include:

a. A requirement that the provider's system of quality control be documented.

b. A requirement that the provider perform on-going monitoring of its system of quality control.

~~a~~c. A requirement that the materials be developed and maintained by individuals qualified in the subject matter.

~~b~~d. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.

e. Procedures to ensure that the individuals that develop, maintain, and/or review the materials for technical accuracy are appropriately qualified in the subject matter.

~~e~~f. Procedures to ensure the currency and relevancy of the materials that the materials are current and address the relevant professional standards and industry guidance.

~~e~~g. Procedures for soliciting and evaluating feedback from users of the materials.

~~e~~h. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials.

~~f~~i. Procedures and the provider's policy, (if any,) regarding the issuance of updates to the materials and, if a policy exists, the method of updating; if the provider's policy is not to provide updates to the materials between versions, then the procedures for communicating this policy to users.

~~f~~i. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.

k. Procedures for ensuring that the system of quality control as designed is operating effectively.

~~169.174~~ A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

a. Reviewing and evaluating the procedures established for monitoring the system of quality control, and assessing how any findings or issues were resolved.

~~a~~b. Reviewing and evaluating the procedures established for developing and maintaining the materials.

~~b~~c. Reviewing and evaluating the procedures established for updating (including distributing) the materials to ensure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials (and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to updating the CPE programs).

~~ed.~~ Reviewing the technical competence of the developer(s) ~~or~~ and updater(s) (if applicable) of the materials.

~~de.~~ Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s) or updater(s).

~~ef.~~ Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider's ~~intention to~~ policy regarding update-updating the materials.

~~fg.~~ Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

Performing Tests of the Materials

~~.170.175~~ The scope of the QCM review includes all of the materials identified by the provider and covered in the opinion (see paragraph 167). The extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed is subject to the QCM review team's judgment and should be documented in the risk assessment (see interpretations). For QCM reviews of provider firms, all materials should be within the scope of the review. A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.

.176 For all of the materials tested, the QCM review team should assess whether or not the materials are reliable aids. This includes evaluating whether the materials can assist users in conforming with all those components which are integral to the professional standards that the materials purport to encompass. The QCM review team performs this evaluation by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate (see interpretations).

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.177 In evaluating the provider's system of quality control, the QCM review team may note that the system is not appropriately designed or complied with. Similarly, the tests of the provider's materials may uncover that design weaknesses or lack of compliance with the system resulted in one or more materials that do not reach the threshold of reliable aids. With any of these items, the QCM review team has available a set of definitions to assist in classifying the condition noted.

.178 Determining the relative importance of matters noted during the QCM review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow are intended to assist in aggregating and evaluating the QCM review results, concluding on them, and determining the nature of the QCM review report to issue:

a. A matter is noted as a result of

- i. the QCM reviewer's evaluation of the design of and compliance with the provider's system of quality control. Matters can be one or more "No" answers to questions in QCM review

questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a provider's system of quality control.

- ii. the QCM reviewer's evaluation of whether the materials submitted for review are reliable aids. Matters can arise from either the reviewer's comments based on tests of the materials, or one or more "No" answers to questions in QCM review questionnaire(s) that the reviewer concludes warrants further consideration by the provider in the evaluation of the materials.

A matter is documented on a Matter for Further Consideration (MFC) form.

b. A finding is one or more matters that result from

- i. a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop and/or maintain reliable aids, and/or
- ii. the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass.

A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.

c. A deficiency is one or more findings that

- i. the QCM reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, could create a situation in which the provider would not have reasonable assurance of developing and/or maintaining reliable aids, and/or
- ii. impacts the reliability of one or more of the materials tested, such that one or more of the materials do not encompass the components which are integral to the professional standards that the materials purported to encompass.

This includes the relative importance of the finding to either the provider's system of quality control taken as a whole, or any of the materials tested (individually or collectively). It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency or deficiencies the provider has reasonable assurance of developing and maintaining reliable aids, or the nature of the deficiency or deficiencies is limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of *pass with deficiencies*.

d. A significant deficiency is one or more deficiencies that the QCM reviewer has concluded results from a condition in the provider's system of quality control where the system taken as a whole does not provide reasonable assurance of developing and/or maintaining reliable aids, and has impacted the reliability of one or more of the materials reviewed.

Such deficiencies are communicated in a report with a QCM rating of *fail*.

Aggregating and Evaluating Matters in the Provider's System

.179 The review team must aggregate matters noted during the review of the provider's system to develop and maintain the materials in order to conclude on the opinion over the provider's system. This entails determining whether any matters noted were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The review team should consider their relative importance to both the provider's system of quality control as a whole and the impact on the materials (individually and collectively), and their nature, causes, pattern, and pervasiveness.

.180 The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency or significant deficiency.

Design Matters

.181 A design matter in a QCM review exists when the provider's system of quality control is missing a quality control policy or procedure, or the provider's existing quality control policies and procedures (even if fully complied with) would not result in the development and/or maintenance of reliable aids in one or more respects. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the provider with reasonable assurance of developing and maintaining reliable aids should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its review of the materials.

.182 The relative importance of design matters noted in the provider's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, etc. For example, a matter noted during the review of a quality control policy or procedure may be partially or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists and its relative importance.

.183 There may be circumstances in which the reviewer finds few findings in the materials developed and maintained by the provider, yet may conclude that the design of the provider's system of quality control needs to be improved. For example, a provider that has a rapidly growing customer base may not have appropriately revised its policies and procedures to solicit user feedback. However, this type of finding may not result in less than reasonable assurance of developing and/or maintaining reliable aids. The reviewer would ordinarily conclude that the matter should be addressed in an FFC as a finding rather than result in a report with a QCM review rating of *pass with deficiencies or fail*.

Compliance Matters

.184 A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the provider to comply with it. Since a

variance in individual performance will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the provider with its prescribed quality control policies and procedures should be adequate to give the provider reasonable assurance of developing and maintaining reliable aids.

.185 In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the provider's system of quality control as a whole, as well as their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, etc.

.186 To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the provider is more critical to the provider obtaining reasonable assurance of developing and maintaining reliable aids. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in materials that are not reliable aids. The more direct the relationship between a specific quality control policy or procedure and the reliability of the aids, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

Aggregating and Evaluating Matters in the Provider's Materials

.187 The review team must also aggregate matters noted during the QCM review in order to conclude on the separate opinion on the reliability of the materials. Any design or compliance matters will usually be addressed in the consideration of the provider's system. However, all matters that impact the system also have to be evaluated for their impact and relative importance on the individual materials reviewed and opined upon in the report. The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency. One or more deficiencies in the materials is indicative of a deficiency or significant deficiency in the provider's system of quality control.

.188 The review team should consider whether design matters noted in the review of the provider's quality control system, individually and in the aggregate, impact the reliability of the materials. For example, a provider may not specify in its policies and procedures that authors must have a certain level of professional experience and/or expertise. In this circumstance, the review team should consider whether this design matter resulted in a potentially inexperienced or otherwise unqualified author writing portions of the materials, and whether those portions of the materials are technically accurate, to determine the impact on the reliability of the materials, and whether a finding or deficiency exists with respect to the materials.

.189 Similarly, the review team should consider whether compliance matters noted in either the review of the provider's quality control system or in the tests of the materials impact the reliability of the aids. For example, personnel that performed technical review on a particular industry manual may not have obtained the appropriate type or amount of CPE for that industry in compliance with the provider's policies and procedures. In this circumstance, the review team should consider if this compliance matter resulted in a failure to include new or recent changes in professional standards or industry guidance, or other omissions, to determine whether a finding or deficiency exists with respect to the materials.

Cooperating in a QCM Review

.198 Providers that undertake to have a QCM review under these standards have a responsibility to cooperate with the QCM reviewer, National PRC, and the board in all matters related to the QCM review.

.199 If a provider firm fails to cooperate during the course of a QCM review, the provider firm's independence with respect to user firms may be impaired (see interpretations).

QCM Reviewers' Performance and Cooperation

.200 A QCM reviewer has a responsibility to perform a QCM review in a timely, professional manner. This relates not only to the initial submission of the report and materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as resolving questions raised by the National PRC, as well as the board and AICPA staff.

.201 In considering QCM review documents for acceptance, the National PRC evaluates the reviewer's performance on the QCM review. In addition to the National PRC's evaluation, the board and AICPA staff also evaluate and track reviewers' performance on both peer reviews and QCM reviews.

.202 If weaknesses in a QCM reviewer's performance are noted on a particular QCM review (e.g. submitting incomplete review documentation, not performing sufficient review procedures, a failure to resolve questions raised by the committee or technical reviewer, etc.), or if the QCM reviewer refuses to cooperate with the National PRC at any time during the review process, the reviewer will be required to comply with the actions described in paragraphs 148 – 153. In addition, the National PRC has the discretion to no longer approve that individual to perform future QCM reviews, or other peer reviews.

Publicizing QCM Review Information

.203 The provider should not publicize the results of the review or distribute copies of the QCM report to its personnel, users, or others until it has been advised that the report has been accepted by the National PRC.

.204 Providers that elect or are required to have a QCM review under these standards agree that the National PRC and the AICPA may disclose the following information to allow peer reviewers of user firms to easily obtain this information for consideration during the user firm's peer review:

a. The provider's name

b. The results of the QCM review (i.e. report, LOR (if applicable), etc)

c. The date of acceptance and the year covered by the provider's most recently accepted QCM review

Independent QCM Reviews

174-1 *Question*—In a QCM review, the standards note the review team determines and documents the extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed. What should the QCM reviewer consider when making this judgment?

Interpretation—Because the QCM review report opines on both the quality control system and the specific materials or aids listed in the report, all of those materials or aids listed must be tested to some extent in order to support the opinion. However, the QCM reviewer can judgmentally determine the extent of testing or review procedures necessary on each aid. Considerations include areas within the materials or aids that address new guidance or changes in professional standards, areas that address procedures that rely heavily on judgment, or areas that contain methodology unique to the materials reviewed or unique interpretations of professional standards or other guidance. The assessment of the provider’s system, including the review and editorial process, update and revision procedures, etc. should also factor into the reviewer’s judgment. The reviewer’s considerations for determining the extent of testing necessary for the materials or aids should be documented in the risk assessment. In addition, the QCM review working papers should document the actual testing or review procedures performed for each aid.

169-1175-1 *Question*—Paragraph ~~169.175~~ of the standards discusses the objectives of peer reviewers performing peer reviews of quality control materials (QCM), including references to “reliable aids.” QCM review team’s assessment of whether or not the materials are reliable aids by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate. What constitutes “reliable aids”? What other information is available to further explain these considerations?

Interpretation—Many firms place a high degree of reliance on QCM, based on the nature and use of such materials. ~~There is an implied high degree of reliance by firms on QCM.~~ Because of this reliance, ~~including the~~ there are expectations that the materials are stand-alone aids, and use of the materials as designed, by a professional with an appropriate level of experience and expertise, ~~will result in~~ provides reasonable assurance of assisting users in performing ~~an~~ audit or attest engagements ~~performed in~~ accordance with professional standards. Accordingly, the QCM review team should assess and document how the materials address each of these considerations in order to be reliable aids:

~~should include a sufficient level of instructions and explanatory guidance to be considered reliable aids.~~

~~a.~~—Instructions should include (but are not limited to) the aid’s’ applicability for different firms or clients (e.g., based on size, industry or engagement complexity, levels of experience or knowledge, etc.), a reminder for the need to tailor the materials as appropriate, and use of professional judgment in the application of the materials based on the facts and circumstances of each engagement. The instructions should also address SAS 103 documentation considerations, and specifically discuss whether completion of the aids will assist users with fulfilling SAS 103 requirements.

~~a.~~ _____

~~b.~~—Guidance should be sufficient and technically accurate to assist users with conforming with the components that are integral to the professional standards that the materials purport to

~~encompass conforming to the professional standards that the aids purport to encompass, regardless of whether such standards are encompassed explicitly or implicitly. Explanatory guidance ranges from specific cross-references to professional standards or directly quoting the standards, to explanations of the standards or integrating the verbiage of the standards into audit checklists or programs. QCM limited to audit program steps without explanatory guidance or specific reference to applicable professional standards would be considered insufficient, and do not constitute reliable aids. In addition, materials that are industry-specific should appropriately address the relevant professional standards and industry guidance from a completeness standpoint (e.g. an aid that purports to assist users with performing risk assessment procedures for an ERISA engagement should include SAS 107 considerations tailored to the industry; the reviewer should question if SAS 107 considerations are omitted).~~

~~b.~~

~~e.~~ Methodology inherent in the materials (if applicable), including the provider's stance on the application of professional standards or alternative procedures, should be evaluated to determine if methodology provides reasonable assurance to users of performing an engagement performed in conformity with the components which are integral to the applicable professional standards the materials purport to encompass. This is especially important when the methodology addresses the treatment of unique transactions or accounts, contains unique interpretations of professional standards, incorporates elements of widely recognized and accepted industry practice where higher levels of guidance are not available, or suggests departures from professional standards in certain circumstances.

~~d.c.~~

Reviewers should refer to section 3100 *Supplemental Guidance* for additional illustrative guidance for reliable aids.

~~QCM may be tailored to practitioners whose clients do not engage in complex transactions or accounting issues. Accordingly, there may be areas or topics that are not covered by the QCM, which by default makes guidance for those areas unnecessary (e.g., derivative activities or hedge transactions). In such cases, the instructions should alert the user that those areas are not covered by the materials, and instruct the practitioner to refer to professional standards or other guidance material in the event such transactions are encountered.~~

~~Peer reviewers of QCM are expected to evaluate the aids and determine whether they contain an appropriate level of instruction and guidance. Aids either lacking or containing an insufficient level of instructions and/or guidance, or that contain inappropriate methodology, should be further evaluated by the review team to determine if the aids are reliable. The review team should also evaluate the impact on the provider's ~~indicate a deficiency in the system of quality control for the development and maintenance of the aids (and in some cases an indication of a significant deficiency).~~ If an aid is deemed to not be a reliable aid, This this should be reflected in a peer review report with a rating of *pass with deficiencies* or *fail*, respectively, for the QCM depending on the underlying cause of the issue.~~

Note that the intent of QCM is to assist in providing firms and practitioners with reasonable assurance of complying with professional standards as a part of their overall system of quality control. The peer

independent review of such materials does not provide firms or practitioners with absolute assurance of compliance solely through reliance on the materials, nor is it intended to.

169-2 ~~Question—Is there more guidance regarding the extent of guidance that would customarily be present for QCM to constitute reliable aids?~~

~~Interpretation—Peer reviewers should refer to illustrative guidance on QCM included in section 3100 Supplemental Guidance.~~

199-1 Question—Paragraph .199 of the standards states that if a provider refuses to cooperate during the course of a QCM review or if a provider receives a report rating other than *pass*, the provider firm's independence with respect to user firms may be impaired. Under what circumstances would the provider's independence with respect to user firms be impaired due to non-cooperation?

Interpretation—If the required QCM review documents are not submitted by the due date due to the provider's non-cooperation, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed (see Interpretation 25-2).

Once all of the required QCM review documents have been submitted timely but before the report has been accepted, the National PRC may make whatever inquiries or initiate whatever actions of the provider or the review team it considers necessary under the circumstances. The National PRC will set a date by which responses to inquiries and evidence of completion of required actions must be received. If, as a result of non-cooperation by the provider, inquiries and/ or required actions remain unresolved as of the due date established by the National PRC, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed.

199-2 Question—Under what circumstances would the provider's independence with respect to user firms be impaired due to receiving a report rating other than *pass*?

Interpretation—If the provider receives a report with a rating of *pass with deficiencies*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms starting on the date that the QCM review is submitted. After accepting the report, the National PRC will identify a corrective action which will be communicated to the provider. While the corrective action falls outside of the reporting and acceptance process for reviews of QCM, it affords the provider an opportunity to maintain their independence with respect to users by remediating the deficiency identified in the report. The National PRC will set a date by which evidence of completion of the corrective action should be received. If evidence of completion of the corrective action is submitted by the date set by the National PRC, upon acceptance of the corrective action by the National PRC the provider's independence with respect to user firms will no longer be impaired. If evidence of completion of the corrective action is not submitted by the date set by the National PRC, the provider's independence with respect to user firms will be impaired until the completion of the provider's subsequent QCM review.

If the provider receives a report with a rating of *fail*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer

reviews of user firms starting on the date the QCM review is submitted. The provider's independence with respect to user firms will remain impaired until the completion of the provider's next QCM review.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



Attachment 2

September 26, 2011

LaShaun King, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Peer Review Exposure Draft, August 22, 2011

Dear Ms. King:

On behalf of the California Board of Accountancy (CBA), I am pleased to support the American Institute of Certified Public Accountants' (AICPA) Exposure Draft titled "Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Performing and Reporting on Quality Control Materials."

These comments, however, are based on a cursory review by CBA staff since the AICPA's comment period did not allow sufficient time for a more in-depth review by members of the Peer Review Oversight Committee (PROC). Given this important topic, my desire is to assign all exposure drafts affecting peer reviews to the PROC for analysis. The PROC will review this exposure draft at the October 27 meeting and the CBA may consider changes to this letter at the November 17 & 18 meeting.

Thank you for giving the CBA the opportunity to respond to this exposure draft. I would like to request that in the future the comment period be extended to 90 days to give the CBA sufficient time to respond.

Sincerely,

Sarah Anderson, CPA, President

c: Members, California Board of Accountancy



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VIII. E. 5
September 22, 2011

Conflicts of Interest Involving Members of the PROC

Presented by: Nancy Corrigan, Chair PROC

Date: September 6, 2011

Purpose of the Item

To inform CBA members of the resolution of conflicts of interest issues involving members of the Peer Review Oversight Committee (PROC).

Action(s) Needed

No specific action is required on this agenda item.

Background

At the March 4, 2011 PROC meeting, members deliberated the issue of potential “conflicts of interest” arising through PROC members performing peers reviews or being associated with firms or organizations involved in performing peer reviews. Such “conflict” might be evidenced in a member reviewing, or providing oversight on, a peer review he or she had performed. Additionally, members of the PROC are responsible for providing oversight to the AICPA peer review program – basically, providing oversight to the very same organization that enables them to be peer reviewers in the first place, as well as provides them with peer review training.

The specific questions posed to the DCA Legal Office are noted below along with the legal counsel’s responses (**Attachment 1**):

1. Q: Can a PROC member also be a member of the AICPA/CalCPA?
A: *Yes. A PROC member can be a member of AICPA and/or CalCPA.*
2. Q: Can a PROC member conduct peer reviews (as a self-employed/sole proprietor)?
A: *Yes. However, if any decisions involving a peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.*
3. Q: Can a PROC member conduct peer reviews as an employee of a firm that conducts peer reviews? The peer reviews are issued under the firm’s name.

Conflicts of Interest Involving Members of the PROC

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A: Yes. However, if any decisions involving the employee's firm or peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.

4. Q: Can a PROC member be an owner/partner of a firm that conducts peer reviews, but the PROC member is not a peer reviewer?

A: Yes. A PROC member may be an owner and/or partner of an accounting firm that conducts peer reviews when the PROC member does not conduct peer reviews. However, if any decisions involving this firm come before the PROC, the PROC member would have to disqualify himself/herself from all of these issues/decisions before the PROC.

5. Q: Does Form 700 – Statement of Economic Interests (Schedule C: Income, Loans, & Business Positions) – serve as a means to disclosure and mitigate any potential conflicts?

A: To some extent, the Form 700 serves as a means of disclosure and mitigation of financial conflicts of interest. The Form 700 identifies when there is a financial conflict of interest such that disqualification in regards to a specific decision would be required.

Comments

The attached DCA Legal Office memo considered the Political Reform Act, Conflicts of Interest in Contracts, Common Law Doctrine Against Conflict of Interest, and Incompatible Work Activities in arriving at the responses to the questions posed.

Recommendations

- It is recommended that the CBA continue its current process to recruit, select, and appoint members to the PROC.
- It is recommended that PROC members adhere to the guidance provided by the DCA Legal Office in carrying out their duties to avoid any potential conflict of interest situations.

Attachment

1. Memorandum from Michael R. Santiago, Senior Staff Counsel, dated August 30, 2011.



Legal Affairs Division
 1625 N. Market Blvd., Suite S309, Sacramento, CA 95834
 P 916-574-8220 F 916-574-8623 | dca.ca.gov



**ATTORNEY-CLIENT PRIVILEGED COMMUNICATION
 ATTORNEY WORK PRODUCT**

MEMORANDUM

| | |
|----------------|--|
| DATE | August 30, 2011 |
| TO | Patty Bowers, Executive Officer Board of Accountancy |
| FROM |  Michael R. Santiago, Senior Staff Counsel Department of Consumer Affairs, Legal Office |
| SUBJECT | Conflicts of Interest Involving Members of the Peer Review Oversight Committee |

I. QUESTIONS

You have asked the following questions regarding members of the Board of Accountancy's ("Board") Peer Review Oversight Committee ("PROC"):

- (1) Can a PROC member also be a member of the American Institute of Certified Public Accountants ("AICPA") and/or the California Society of Certified Public Accountants ("CalCPA")?
- (2) Can a PROC member conduct peer reviews as a self-employed individual?
- (3) Can a PROC member conduct peer reviews as an employee of a firm that conducts peer reviews?
- (4) Can a PROC member be an owner and/or partner of a firm that conducts peer reviews, but the PROC member does not conduct peer reviews?
- (5) Does the Form 700 – Statement of Economic Interests (Schedule C: Income, Loans, & Business Positions) serve as a means of disclosure and mitigation of any potential conflicts?

II. SHORT ANSWERS

- (1) Yes. A PROC member can be a member of AICPA and/or CalCPA.
- (2) Yes. A PROC member can conduct peer reviews as a self-employed individual. However, if any decisions involving the peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.
- (3) Yes. A PROC member can conduct peer reviews as an employee of a firm that conducts peer reviews. However, if any decisions involving the employee's firm or peer review that was conducted by the PROC member come before the PROC, the PROC member would have to disqualify himself/herself from any of these issues/decisions before the PROC.
- (4) Yes. A PROC member may be an owner and/or partner of an accounting firm that conducts peer reviews when the PROC member does not conduct peer reviews. However, if any decisions involving this firm come before the PROC, the PROC member would have to disqualify himself/herself from all of these issues/decisions before the PROC.
- (5) To some extent, the Form 700 serves as a means of disclosure and mitigation of financial conflicts of interest. The Form 700 identifies when there is a financial conflict of interest such that disqualification in regards to a specific decision would be required.

III. BACKGROUND

The California Board of Accountancy regulates the accounting profession for the public interest by establishing and maintaining entry standards of qualification and conduct within the accounting profession. The Board requires specified licensees to have a "peer review" of its accounting and auditing practices done every three years prior to renewal. A licensee's peer review may only be conducted by a "board recognized peer review program." (Business & Professions Code § 5076.) The AICPA Peer Review Program is the only Board-recognized program provider in California. The Board may rescind its recognition of AICPA if the Peer Review Program no longer meets certain standards. (See 16 CCR §§ 48.1, 48.5.).

The AICPA Peer Review Program is a national program and AICPA engages accounting societies in various states to administer their peer review program. Founded in 1887, AICPA is a non-profit association (IRC section 501(c)(6) – "business league") for certified public accountants. AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations,

federal, state and local governments. AICPA is recognized by the Board as meeting the minimum peer review programs requirements and is authorized to administer peer reviews in California. These peer reviews are conducted via CalCPA.

CalCPA is a non-profit membership organization whose purpose is to advance the profession of accountancy in the state of California. CalCPA provides its members with general and technical resources through its chapters and committees and administers the Peer Review Program on behalf of AICPA in California, Arizona, and Alaska.

The PROC is composed of not more than seven licensees who are required to maintain a valid and active license to practice public accounting in California issued by the Board. The PROC's main duty is to review and recommend to the Board for approval, peer review program provider applications, and to provide recommendations to the Board to ensure the effectiveness of mandatory peer review. (Business and Professions Code §5076.1; 16 CCR § 47.). The PROC is also charged with the following:

- Developing policies and procedures for reviewing and recommending approval to the Board for new peer review program providers.
- Preparing an annual report to the Board regarding the results of its independent oversight of the Peer Review Program.
- Striving for consistency among peer review programs.
- Performing random sampling of peer review reports to assess the effectiveness of the Peer Review Program.

Although the PROC may view a random sampling of peer review reports or observe actual peer reviews for informational purposes related to the PROC's oversight of peer review program providers, the PROC does not receive, review, or approve any peer reviews. AICPA and CalCPA have committees called Report Acceptance Bodies ("RAB") that review peer reviews for acceptance or rejection. PROC members may attend selected RAB meetings. AICPA and CalCPA also have technical peer review committees that review the peer review reports and contact the peer reviewer to clarify any questions or issues with the peer review reports. Once the peer review committee is satisfied with the peer review report, it then goes to the RAB for approval. If a "failed" peer review report is issued, a copy is provided to the Board, but not to the PROC.

A person who qualifies to become a peer reviewer is paid by the accounting firm that is subject to the peer review, and not by AICPA or CalCPA.

IV. ANALYSIS

(1) AICPA and CalCPA Membership.

(A) Political Reform Act

There is no statute or regulation that prohibits a Board or committee member from being affiliated in any manner with a professional association or organization. The conflict of interest analysis begins with considering the financial or economic interests of the public official and whether the governmental decisions made by the public official have any effect on his or her financial interests. Government Code Section 87100 of the Political Reform Act ("Act") prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a qualifying conflict of interest exists, the Act requires that the disqualified official abstain from participating in every aspect of the decision-making process. (See Govt. Code § 87105; *Hamilton v. Town of Los Gatos* (1989) 213 Cal.App.3d 1050, 1058-1059.)

Section 87103 of the Act specifies various types of disqualifying financial interests:

A public official has a financial interest in a decision within the meaning of section 87100 if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or on any of the following:

- (a) Any business entity in which the public official has a direct or indirect investment worth two thousand dollars (\$2,000) or more.
- (b) Any real property in which the public official has a direct or indirect interest worth two thousand dollars (\$2,000) or more.
- (c) Any source of income, except gifts or loans by a commercial lending institution made in the regular course of business on terms available to the public without regard to official status, aggregating five hundred dollars (\$500) or more in value provided or promised to, received by, the public official within 12 months prior to the time when the decision is made.
- (d) Any business entity in which the public official is a director, officer, partner, trustee, employee, or holds any position of management.

- (e) Any donor of, or any intermediary or agent for a donor of, a gift or gifts aggregating two hundred fifty dollars (\$250) or more in value provided to, received by, or promised to the public official within 12 months prior to the time when the decision is made. The amount of the value of the gifts specified by this subdivision shall be adjusted biennially by the commission to equal the same amount determined by the commission pursuant to subdivision (f) of Section 89503 [currently \$420].

For purposes of this section, indirect investment or interest means any investment or interest owned by the spouse or dependent child of a public official, by an agent on behalf of a public official, or by a business entity or trust in which the official, the official's agents, spouse, and dependent children own directly, indirectly, or beneficially a 10-percent interest or greater.

No facts were presented that any PROC members have any financial interests in either AICPA or CalCPA, thus, there would be no violation of the Act. Current PROC members are noted to be merely members of these two organizations and none currently hold any type of director or officer position. Section 87103 of the Act states, in part, that a public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect on any "business entity in which the public official is a director, officer, partner, trustee, employee, or holds any position of management." However, AICPA and CalCPA are non-profit organizations, and are not considered business entities under Government Code section 82005, which limits the definition of a "business entity" to for-profit entities. (See Govt. Code § 82005 defining a "business entity" as "any organization or enterprise operated for profit....") Thus, even if a PROC member was also a director or officer of either AICPA or CalCPA, such a position would not be considered a financial interest and there would be no violation of the Act.

(B) Conflicts of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, financial interest in any contract between the PROC and AICPA or CalCPA. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

The common-law doctrine against conflicts of interest applies to situations that do not involve financial or pecuniary interests. Public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. (*Clark v. City of Hermosa Beach* (1996) 48 Cal.App.4th 1152.) While common law conflicts may sometimes arise in the absence of any financial interests, there still must be some personal advantage or disadvantage at stake for the public officer/employee. (*Id.* at 1172.) Where a conflict of interest exists, the interested official is disqualified from participating in any discussions or votes concerning the particular transaction in which he or she has the conflicting interest.

No specific facts were provided that would suggest or indicate any impropriety on any PROC members' part or that any PROC member is placing his or her interests with AICPA or CalCPA above or in conflict with the duties of being a PROC member. There could be cause for concern that since PROC members make recommendations to the Board about peer review program provider applications, a PROC member who is also a member of AICPA might be biased towards AICPA and not be fair or impartial in the evaluation of another peer review program provider's application. However, there does not appear to be any current personal stake on the part of any PROC member in simply being a member of AICPA that would somehow influence the duty of a PROC member when reviewing a peer review program application for possible approval by the Board; thus, there is no common law conflict of interest.

(D) Incompatible Work Activities

There is a prohibition against state officers and employees engaging in any activity or enterprise that is clearly inconsistent, incompatible, in conflict with, or inimical to their duties as state officers or employees. (Govt. Code §19990). Some examples are: using the prestige or influence of the State for the officer's private gain or advantage; using confidential information for private gain or advantage; or receiving money from anyone other than the state for the performance of his or her duties as a state officer or employee.

Section 19990, subdivision (d) prohibits a state officer or employee from "performance of an act in other than his or her capacity as a state officer or employee knowing that the act may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the officer or employee."

AICPA and CalCPA via its association with AICPA, are subject to the Board's standards for peer reviewers and if such standards are not met, the Board may rescind AICPA's authorization to administer peer reviews in California. There is concern that being a member of AICPA is an incompatible work activity for a PROC member since AICPA is regulated by the Board. However, AICPA is not regulated by the PROC and simply

being a member of AICPA would not in and of itself be considered an incompatible work activity since membership in AICPA is not something that would come under inspection, review, or audit of the PROC. Unless the PROC member who is also an AICPA member engages in activity within AICPA that would be subject to the inspection, review, or audit of the PROC, simply being a member of AICPA would not be considered an incompatible work activity of being a member of the PROC.

(2) PROC Member conducting peer reviews as a self-employed individual.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a PROC member conducts peer reviews as a self-proprietor/self-employed individual, payment is received from the firm that is subject to the peer review process. The PROC does not exercise any regulatory control or authority over peer reviews or the firms that are subject to the peer review process. Further, the PROC member who is conducting peer reviews as a self-employed individual would not have any financial interests in any governmental decisions involving his peer review since neither the peer review report nor the firm that is subject to the peer review process come before the PROC. Thus, there is no violation of the Act.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members that conduct peer reviews as a self-employed individual who have any financial interest in any contract involving the PROC. In fact, the PROC does not currently have any outstanding contracts with any person or entity. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member conducting peer reviews as a self-employed individual could possibly have his peer review report viewed by the PROC. If that were to occur, the PROC member would have to recuse himself from viewing his own work to avoid any common-

law conflicts of interest. However, no facts were presented that indicate any PROC member who might be conducting peer reviews as a self-employed individual was reviewing his own peer review report in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest. A PROC member who conducts peer reviews must ensure that he does not view any of his own peer review reports.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly, to the control, inspection, review, audit, or enforcement by the state officer or employee.

A PROC member who conducts peer reviews as a self-employed individual could have his/her peer review or peer review report viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports for accuracy or acceptance; thus, a PROC member conducting peer reviews as a self-employed individual would not be engaging in an incompatible work activity so long as the peer review is not subject to the PROC or that PROC member's inspection or audit. As previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, the PROC member conducting peer reviews must ensure that he does not view any of his own peer review reports.

(3) PROC Member conducting peer reviews as an employee of a firm that conducts peer reviews.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. When a PROC member conducts peer reviews as an employee of a firm that conducts peer reviews, the peer reviewer's firm receives payment from the firm that is subject to the peer review process. The PROC does not exercise any regulatory control or authority over peer reviews, the firms that hire peer reviewers, or the firms that are subject to the peer review process. Thus, member who is conducting peer reviews as an employee of a firm that conducts peer reviews would not have any financial interests in any governmental decisions involving his peer review as the peer review report, the firm that hired the peer reviewer, and the firm that is subject to the peer review process do not appear before the PROC.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract.

(*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members who conduct peer reviews as an employee of a firm that conducts peer reviews who have any financial interest in any contract involving the PROC. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member conducting peer reviews as an employee of a firm conducting peer reviews could possibly have his peer review report viewed by the PROC. If that were to occur, the PROC member would have to recuse himself from viewing his own work to avoid any common-law conflicts of interest. However, no facts were presented that indicate any PROC member who might be conducting peer reviews as an employee of a firm conducting peer reviews was viewing his own peer review report in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest so long as the PROC member conducting peer reviews as an employee of a firm conducting peer reviews does not view any of his own peer review reports.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the state officer or employee.

A PROC member who conducts peer reviews as an employee of a firm that conducts peer reviews could have his/her peer review or peer review report viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports or the firm's work for accuracy or acceptance, nor does the PROC regulate firms conducting peer reviews. Thus, a PROC member conducting peer reviews as an employee of a firm that conducts peer reviews would not be engaging in an incompatible work activity so long as the peer review is not subject to the PROC or that PROC member's inspection or audit. As

previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, the PROC member conducting peer reviews must ensure that he does not view any of his own peer review reports or any peer review reports associated with the firm for which he works.

(4) PROC Member who is an owner and/or partner of a firm that conducts peer reviews, but the PROC Member does not conduct peer reviews.

(A) Political Reform Act

Section 87100 of the Act prohibits any public official (including state employees) from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. It is undisputed that a PROC member who is an owner and/or partner of a firm that conducts peer reviews but is not a peer reviewer, has a financial interest in the firm, which is subject to regulation by the Board. However, since firms that conduct peer reviews are not subject to any sort of regulation by the PROC, nor is any peer review associated with the firm, there is no opportunity for the firm to have to come before the PROC in any regulatory matters. Thus, there would be no violation of the Act since there would be no governmental decisions that the PROC would engage in when it comes to the PROC member's firm of which he is an owner and/or partner. No facts were presented to suggest that any PROC member has any financial interests in any governmental decisions that come before the PROC as it relates to a firm conducting peer reviews of which the PROC member is an owner and/or partner.

(B) Conflict of Interest in Contracts

Government Code Section 1090 essentially prohibits public officials, acting in their official capacities, from making contracts in which they are financially interested. When a conflict of interest exists within the meaning of section 1090, the contract is void and unenforceable even if the financially interested member of a particular body or board refrains from participating in any of the steps involved in making the contract. (*Thomson v. Call* (1985) 38 Cal.3d 633,649; *Stigall v. City of Taft* (1962) 58 Cal.2d 565, 570-571.). Based on the facts presented, there are no PROC members that own or are a partner in a firm that conducts peer reviews who have any financial interest in any contract involving the PROC. Thus, because section 1090 of the Government Code is inapplicable here, there is no violation of section 1090.

(C) Common Law Doctrine Against Conflicts of Interest

As previously stated, public officials are prohibited from placing themselves in a position where other private and/or personal interests may conflict with their official duties. A PROC member who is an owner and/or partner of a firm that conducts peer reviews, but

who does not himself conduct peer reviews would not have any peer review report reviewed or audited by the PROC since the PROC is not charged with reviewing peer reports for final acceptance. However, this PROC member might have the opportunity to view a peer review conducted by a peer reviewer associated with the firm wherein he is an owner and/or partner. To avoid any common law conflicts of interest, this PROC member should not view any peer reviews from the firm in which he is an owner and/or partner. However, no facts were presented that indicate any PROC member who is an owner and/or partner of a firm that conducts peer reviews, but who does himself conduct peer reviews, viewed any peer review report from his firm in the official capacity of a PROC member. Thus, there would be no violation of the common law doctrine against conflicts of interest.

(D) Incompatible Work Activities

According to section 19990 of the Government Code, a state officer or employee is prohibited from engaging in any activity wherein such activity may later be subject, directly or indirectly to the control, inspection, review, audit, or enforcement by the state officer or employee.

When a PROC member is an owner and/or partner of a firm that conducts peer reviews, but is not a peer reviewer for the firm, the peer reviews or peer review reports conducted by those associated with the firm may still be viewed by certain members of the PROC. However, the actual review of the peer review report for final acceptance is not the responsibility of the PROC or any of the PROC members. The PROC does not inspect, review, or audit peer review reports or the firm's work for accuracy or acceptance, nor does the PROC regulate firms conducting peer reviews; thus, a PROC member who is an owner and/or partner of a firm that conducts peer reviews, but is not a peer reviewer of the firm would not be engaging in an incompatible work activity so long as the peer review that is associated with the firm is not subject to the PROC or PROC member's inspection or audit. As previously stated, certain PROC members might have the opportunity to view a peer review report for informational purposes related to the PROC's oversight of peer review program providers. Thus, this PROC member must ensure that he does not view any peer review reports associated with the firm in which the PROC member is an owner and/or partner.

(5) Form 700 and Conflicts.

The Act requires most state and local government officials and employees to publicly disclose their personal assets and income. They must also disqualify themselves from participating in decisions which may affect their personal economic interests. The Fair Political Practices Commission's Form 700 is used to file statements of economic interests. The Department of Consumer Affairs' Conflict of Interest Code lists designated individuals who must file, along with the types of disclosure required.

Members of the PROC are designated as Disclosure Category 4, which means that they must report:

All interests in real property and investments and business positions in, and any income, including gifts, loans and travel payments from, a business entity, professional association or individual where the business entity, professional association or individual's profession is regulated by or offers programs or courses qualifying for licensing or continuing education credit by the official's or employee's licensing agency.

If any PROC member receives any income, gifts, loans, or travel payments from any person or entity (as defined by the Act) regulated by the Board, he or she must disclose the financial interest on the Form 700. This would be true even if such person or entity is not regulated in any manner by the PROC since Disclosure Category 4 requires disclosure when the regulation stems from the "official's or employee's licensing agency." A PROC member would be deemed to have a financial interest in a decision if certain financial limits are met. Thus, it would be correct to state that the Form 700 serves as a means of disclosure and mitigation of potential conflicts involving specified financial interests.

V. CONCLUSION

Based on the foregoing, PROC members might be prohibited from engaging in certain activities based on possible violations of the PRA, common-law doctrine against conflicts of interest, and/or the Incompatible Work Activities Policy. This analysis would of course be subject to change should any new facts be presented.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item VIII.F.2
September 22, 2011

Acceptance of 2012 EAC Meeting Dates

Presented by: Cheryl Gerhardt, Chair, EAC

Date: September 5, 2011

Purpose of the Item

Approval of 2012 EAC Meeting Dates.

Action Needed

The Enforcement Advisory Committee (EAC) is requesting the California Board of Accountancy to adopt the following 2012 EAC meeting dates.

Background

These dates have been approved by the EAC Committee Members:

- February 2, 2012 Bay Area
- May 3, 2012 Los Angeles Area
- July 12, 2012 Sacramento Area
- October 18, 2012 Los Angeles Area
- December 13, 2012 San Diego Area

Comments

None

Recommendation

Staff recommendations approval of the meeting dates.



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



CBA Agenda Item IX.A.
September 22, 2011

DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY (CBA)

DRAFT
9/6/11

MINUTES OF THE
JULY 21, 2011
CBA MEETING

The Hilton Pasadena
 168 South Los Robles Ave.
 Pasadena, CA 91101
 Telephone: (626) 577-1000
 Facsimile: (626) 584-3148

Roll Call and Call to Order.

President Sally Anderson called the meeting to order at 9:44 a.m. on Thursday, July 21, 2011 at the Hilton Pasadena. The meeting adjourned at 3:36 p.m.

CBA Members

| | |
|-------------------------------------|------------------------|
| Sarah (Sally) Anderson, President | 9:44 a.m. to 3:36 p.m. |
| Marshal Oldman, Vice President | 9:44 a.m. to 3:36 p.m. |
| Leslie LaManna, Secretary-Treasurer | 9:44 a.m. to 3:36 p.m. |
| Diana Bell | Absent. |
| Alicia Berhow | 9:44 a.m. to 3:25 p.m. |
| Michelle Brough | 9:44 a.m. to 3:36 p.m. |
| Donald Driftmier | 9:44 a.m. to 3:36 p.m. |
| Herschel Elkins | 9:44 a.m. to 3:36 p.m. |
| Laurence (Larry) Kaplan | 9:44 a.m. to 3:36 p.m. |
| Louise Kirkbride | 9:44 a.m. to 3:36 p.m. |
| Kitak (K.T.) Leung | 9:44 a.m. to 3:36 p.m. |
| Manuel Ramirez | 9:44 a.m. to 3:36 p.m. |
| Michael Savoy | 9:44 a.m. to 3:36 p.m. |
| David Swartz | 9:44 a.m. to 3:36 p.m. |
| Lenora Taylor | 9:44 a.m. to 3:36 p.m. |

Staff and Legal Counsel

Patti Bowers, Executive Officer
 Dan Rich, Assistant Executive Officer
 Rich Andres, Information Technology Staff

Veronica Daniel, Board Relations Analyst
Paul Fisher, Supervising Investigative CPA
Dominic Franzella, Manager, Licensing Division
Rafael Ixta, Chief, Enforcement Division
Deanne Pearce, Chief, Licensing Division
Kristy Shellans, Legal Counsel, Department of Consumer Affairs (DCA)
Carl Sonne, Deputy Attorney General, Department of Justice
Matthew Stanley, Legislation/Regulation Analyst

Committee Chairs and Members

Nancy Corrigan, Chair, Peer Review Oversight Committee (PROC)
Ruben Davila, Chair, Accounting Education Committee (AEC)
Cheryl Gerhardt, Chair, Enforcement Advisory Committee (EAC)

Other Participants

Seung Choe, CPA
Kenny Denny, National Association of State Boards of Accountancy
Ellen Glazerman, Ernst and Young
Marsha Hinkley, KPMG
Ed Howard, Center for Public Interest Law
Kent Krehl, CPA
Pilar Onate-Quintana, KP Public Affairs
Joseph Petito, The Accountants Coalition
Becky Scanlan, Deloitte
Hal Schultz, California Society of Certified Public Accountants (CalCPA)
Kathy Shoztic, Deloitte
Jeannie Tindel, CalCPA
Malcolm Wright, CPA

I. Report of the President.

Presentation on CPAVerify.

Mr. Denny stated that CPAVerify (developed by NASBA) is a central repository of CPA licensee information for consumer use. Mr. Denny stated that 20 states currently participate in the program. Mr. Denny then provided a visual overview of the CPAVerify Web site. Mr. Denny further stated that CPAVerify is scheduled to go live to the public in August 2011.

Ms. Kirkbride stated that the terminology “none provided” reflected next to the disciplinary action field may be confusing to consumers as it is unclear whether this means there is no disciplinary action against a licensee, or that the state has not provided such information. Mr. Denny stated that NASBA is working to differentiate between the two prior to the site being launched.

Ms. Bowers stated that the CPAVerify system is in its final stages of being

developed and that there is still opportunity for the CBA to provide comments or suggestions for improvements.

Ms. Kirkbride suggested implementing a one-stop-shop format to immediately inform consumers that there is action against a licensee.

Ms. Anderson stated that in her opinion, CPAVerify has come a long way and provides enough information for consumers to make an informed decision on whether to hire a licensee.

Mr. Elkins suggested an asterisk be added to the initial results screen to advise consumers that there is action against a licensee. Ms. Bowers stated that the current format is a result of compromise as NASBA could not get all states to agree to disclose such information.

Ms. Brough suggested definitions be established for the terms “none provided” and “contact state board.” Mr. Denny stated at this time, definitions are not provided on the site. Mr. Denny further stated that he would bring this suggestion along with all others back to NASBA for review.

Mr. Howard stated that the title “CPAVerify” may be misleading to consumers as it applies trust and accuracy of information.

Ms. Anderson thanked Mr. Denny for his presentation and acknowledged NASBA for its efforts with CPAVerify.

II. Report of the Vice President.

A. Recommendation for Appointments to the Enforcement Advisory Committee (EAC).

It was moved by Mr. Driftmier, seconded by Ms. Taylor and unanimously carried by those present to accept the recommendation to appoint Mervyn J. McCulloch and K. Jeffrey De Lyser to the EAC.

B. Recommendation for Appointments to the Qualifications Committee (QC).

There was no report for this item.

C. Resolution for Retiring QC Member, Bobbie Hales.

It was moved by Ms. Taylor, seconded by Mr. Swartz and unanimously carried by those present to adopt the resolution for retiring QC member, Bobbie Hales.

III. Report of the Secretary/Treasurer.

Discussion of Governor's Budget.

Ms. LaManna provided an overview of agenda item III. (**see Attachment __**).

Mr. Swartz inquired if the state was current in interest payments on the outstanding loans. Mr. Rich stated that interest payments are being made into the CBA's account and shows up as revenue on an annual basis.

Mr. Ramirez inquired whether it was unconstitutional for there to be no repayment dates on loans to the General Fund. Mr. Ramirez stated that it was his recollection that this issue was highlighted in litigation involving the California Medical Association. Mr. Ramirez requested that legal counsel review the case and provide follow up regarding the outcome.

IV. Accounting Education Committee (AEC) and Ethics Education Committee (ECC) Reports.

A. Report of the June 7, 2011 AEC and ECC Joint Meeting.

Ms. Pearce provided an overview of the memorandum for this item, which included the purpose of the joint meeting (**see Attachment __**).

Mr. Ramirez stated that he was in agreement with Ms. Shellans' assessment in her legal opinion regarding the upper division course requirement to the CBA. Mr. Ramirez stated that upon establishment of the committee, the intention was that existing lower division education programs be included in the recommendation. Ms. Anderson concurred with Mr. Ramirez and stated that specific representatives were placed on the committee to ensure that community colleges were properly represented.

B. Discussion Regarding the Additional 30 Units of Education Required for CPA Licensure Beginning January 1, 2014.

1. History/Background Regarding the Requirement to Further Define the Additional 30 Units of Education.

Mr. Franzella provided an overview of the memorandum for this item (**see Attachment __**).

Ms. Anderson thanked Mr. Franzella for providing an excellent summary of this agenda item.

2. Report on the Development of and Recommendations for the 20 Units of Accounting Study.

Mr. Davila commended the efforts of the members of the AEC and CBA staff throughout the process and leading up to the committee's

recommendation.

Mr. Davila provided an overview of the memorandum for this item (**see Attachment __**).

It was moved by Mr. Elkins, seconded by Ms. Berhow and unanimously carried by those present to accept the AEC's proposal for the 20 units of accounting study, with exception of Recommendation # 1 regarding the upper division course requirement.

Mr. Elkins stated the CBA should make a recommendation to the ECC to remove the upper division course requirement from its proposal as well.

Mr. Driftmier expressed his disappointment in the late discussions regarding upper division courses. Mr. Driftmier stated that the ECC will review such recommendation, and reminded the CBA that this matter needs to be addressed in an expeditious manner.

Mr. Davila stated he personally disagrees with the legal interpretation by Ms. Shellans, but that the way the requirement is currently set up, it would make sense to remove the upper division requirement given the controversy.

Mr. Ramirez stated his support for the motion to eliminate Recommendation #1. Mr. Ramirez stated concern with the specificity in Recommendation #3, and that it would be his preference to include all business established programs, such as MBAs and minors in accounting or finance.

It was moved by Mr. Ramirez to accept the AEC's proposal for the 20 units of accounting study, with exception of Recommendation #1, and to include all business established programs, such as MBAs and minors in accounting or finance in Recommendation #3. Mr. Ramirez later withdrew this motion.

Mr. Davila stated that the idea surrounding Recommendation #3 was that those with MBAs or minors in accounting or finance would presumptively meet the requirements.

Mr. Ramirez stated his concern with establishing a high requirement that would prohibit members in the community from becoming a CPA because they cannot afford to take an extra year of courses at an upper division level. Mr. Ramirez stated he would like to see the opportunity to allow the extra year be taken at a community college. Mr. Ramirez further stated the compromise would be to broaden the requirements and not be so specific.

Mr. Swartz stated he is in support of eliminating Recommendation #1.

Ms. Anderson recommended that all courses should be interchangeable in Recommendation #2. Mr. Davila stated that the AEC initially provided a broad recommendation; however, there was opposition by CPIL.

Mr. Howard stated such a change to Recommendation #2 would require review before CPIL could be in agreement. Mr. Howard further stated he is happy to go back and obtain further guidance on this matter if necessary.

Mr. Swartz stated he favored leaving Recommendation #2 as is.

Mr. Howard stated his support regarding the elimination of Recommendation #1. Mr. Howard further stated a better compromise would be to state the requirement is at upper division; however, courses taken at a community college level would be accepted.

Mr. Wright stated he opposes elimination of the upper division requirement.

3. Discussion and Possible Action to Initiate a Rulemaking to Adopt Title 16, California Code of Regulations (CCR) Sections 2.8, 11, 11.1, and to Amend Section 9.2 – Regarding the Additional 20 Units of Accounting Study Required for CPA Licensure Beginning January 1, 2014.

Mr. Stanley provided an overview of the memorandum for this item (see Attachment __).

It was moved by Mr. Ramirez, seconded by Mr. Swartz and carried by those present to approve the proposed language with elimination of the portion of proposed Section 11.1(a)(2) between the commas, inclusive, and to direct and authorize staff to initiate the rulemaking process and make any non-substantive changes as necessary. Ms. Brough and Mr. Oldman were temporarily absent.

4. Report on the Development of and Guidelines for the 10 Units of Ethics Study.

Mr. Driftmier commended the efforts of the members of the ECC and CBA staff throughout the process and leading up to the committee's recommendation.

Mr. Driftmier provided an overview of the memorandum for this item

(see Attachment __).

It was moved by Mr. Elkins, seconded by Mr. Swartz and unanimously carried by those present to accept the ECC's proposal for the 10 units of ethics study, with exception of Recommendation # 1. The CBA requests that the ECC meet to reconsider its decision regarding the upper division course requirement.

Mr. Howard stated that CPIL opposes inclusion of courses such as Political Science and Economics in Recommendation #3.

Ms. Anderson thanked Mr. Driftmier for his efforts and service on both the AEC and ECC.

5. Discussion and Possible Action to Initiate a Rulemaking to Adopt Title 16, CCR Sections 11 and 11.2 – Regarding the 10 Units of Ethics Study Required for CPA Licensure Beginning January 1, 2014.

Mr. Stanley provided an overview of the memorandum for this item (see Attachment __).

Ms. Shellans recommended that the CBA direct staff to initiate the rulemaking, pending the outcome of the ECC's vote (either way) regarding the requested language modification.

It was moved by Mr. Ramirez, seconded by Ms. Brough and carried by those present to approve the proposed language with elimination of the words, "at an upper division level or higher" from proposed Section 11(a), and to direct staff to initiate the rulemaking process, pending the concurrence of the ECC at its upcoming meeting. Should the ECC not accept the CBA's recommendation, this item shall come back before the CBA for further deliberation.

Mr. Swartz opposed.

Ms. Tindel stated that she supports Ms. Shellans recommendation that the CBA provide the latitude in allowing the rulemaking process to move forward in a timely matter.

Ms. Anderson stated this may not be an issue as she believes that accounting ethics courses may only be provided at an upper division level. Mr. Swartz concurred with Ms. Anderson and stated it is also likely that the ECC will accept the CBA's recommendation.

- C. Reconsideration of Position on SB 773 – Ethics Curriculum.

Mr. Stanley provided an overview of the memorandum for this item (see

Attachment __).

Mr. Swartz inquired regarding why the CBA would want this to go through the legislative process and not through regulation. Mr. Stanley stated that the legislative process would make it effective January 1, 2012. Mr. Stanley further stated that the regulatory process would take up to 12 months to complete.

It was moved by Mr. Ramirez, seconded by Ms. Brough and unanimously carried by those present to adopt a Support if Amended position on SB 773. The recommendation for amendment is to eliminate the upper division requirement and allow for course acceptance from any accredited institution; and to make further clarification to the language.

Ms. Anderson took a moment to congratulate Mr. Swartz for being honored as recipient of CalCPA's Distinguished Service Award for 2011.

V. Report of the Executive Officer (EO).

A. Update on Hiring Freeze Exemption Requests.

Ms. Bowers stated the CBA has submitted new exemption requests for two Investigative CPA positions and one receptionist position. Ms. Bowers stated that she will keep the CBA updated as the requests go through the exemption approval process.

Ms. Bowers noted that there are significant vacancies in the Enforcement Division. Ms. Bowers further stated that the resources are needed in order to move forward with the CBA's enforcement priorities relating to the Peer Review Program.

Mr. Driftmier stated that the CBA has the financial resources to accomplish its enforcement priorities and expressed opposition regarding the hiring freeze.

Mr. Ramirez stated that it is important for the record to reflect that the CBA's Enforcement Division is currently understaffed by more than 50 percent.

B. Update on 2010/2012 CBA Communications and Outreach Plan.

Ms. Pearce provided an overview of the memorandum for this item (**see Attachment __**).

Mr. Elkins acknowledged the cost savings associated with the transition to an electronic version of the UPDATE publication.

Mr. Ramirez questioned the decision to require an opt-in selection in order for interested parties to continue receiving hard copies of the UPDATE publication. Ms. Anderson stated that if interested parties fail to opt-in and would like to receive the hard copy version, it will be made available to them. Ms. Pearce added that the CBA will make every attempt to get the word out once the electronic version of UPDATE is available for viewing on the CBA's Web site.

VI. Report of the Enforcement Chief.

A. Enforcement Case Activity and Aging Report.

B. Citation and Fine Activity Report.

C. Reportable Events Report.

Mr. Ixta provided an overview of agenda items VI.A.-VI.C.

Mr. Ixta stated that the CBA recently hired three expert consultants to assist with the enforcement case inventory. Mr. Ixta further stated that the consultants are adding tremendous value to the CBA's Enforcement Division.

Mr. Ramirez inquired regarding the age of the oldest pending case. Mr. Ixta stated that that oldest case pending is from 2008 and it's a complex matter that is still in the investigation stage.

Mr. Ramirez stated that he would prefer to see six to twelve months of activity on the Enforcement Case Activity and Aging Report.

D. Update on Peer Review Implementation.

Mr. Ixta provided an overview of the memorandum for this item (**see Attachment __**).

Mr. Ramirez stated that in the future he would like the CBA to consider programmatic action for non-reporters.

Ms. Anderson stated that the CBA should further educate and empower consumers by encouraging them to ask for peer review reports in advance of hiring a CPA. Mr. Ixta stated that the consumer handbook is being updated to include this information.

Mr. Ramirez stated his recollection that the PROC was to develop guidelines for failed peer review reports. Mr. Ramirez requested the minutes regarding the deliberation of PROC's charge.

At this time, CBA members heard Agenda Items VIII.A.-IX.C.4.d. (see

pages 18706-18709).

VII. Regulation Hearing and Possible Action on Proposed Regulations.

A. Regulation Hearing Regarding Title 16, CCR Sections 9, 11.5, 12, 12.5, and 98 – Supervision, Master’s Degree, and Disciplinary Guidelines.

Mr. Stanley read the following statement regarding the regulation hearing into the record:

“This is a public hearing on proposed regulations of the California Board of Accountancy, Department of Consumer Affairs, to consider adopting regulations to specify and clarify the CBA’s requirements pertaining to supervision, master’s degrees, and disciplinary guidelines.

The CBA is contemplating this action pursuant to the authority vested by Sections 5010, 5018, 5092, 5093 and 5116 of the Business and Professions Code and Section 11400.20 of the Government Code, authorizing the CBA to amend, adopt, or repeal regulations for the administration and enforcement of the Chapter 1 of Division 3 of the Business and Professions Code.

For the record, the date today is July 21, 2011 and the time is approximately 2:02 p.m. This hearing is being held at The Hilton Pasadena, 168 South Los Robles in Pasadena, California.

The notice for the hearing on these proposed regulations was published by the Office of Administrative Law. Interested parties on our mailing list have been notified of today's hearing. The language of the proposed regulations has been mailed to those who requested it and has been available on the CBA’s Web site and upon request by other members of the public. Copies of the proposed regulations are available at the back of the room.

If the CBA has received written comments on the proposal, those comments will be entered into the official record of the proceedings. The CBA shall be provided and shall consider all written comments received up until 5:00 p.m., July 18, 2011. Anyone who wishes to comment in writing but does not want to speak today is welcome to do so. If we receive written comments on the proposed regulations, they will be acknowledged and entered into the official record of the rulemaking proceedings.

Those persons interested in testifying today should identify themselves and the section or subsection of the proposed regulations that they wish to address. Individuals will be called to testify in the order determined by recognition from the hearing officer. If you have a comment about the proposed regulation or any part or specific subsection of the proposal, please step up to the microphone and give your name, spelling your last name and tell us what organization you represent, if any. Speak loudly

enough for your comments to be heard and recorded. Remember, it's not necessary to repeat the testimony of previous commentators. It is sufficient if you simply say that you agree with what a previous speaker has stated. Written testimony can be summarized but should not be read. When you are testifying, please identify the particular regulation proposal you are addressing. Please comment only on provisions of the article under discussion.

If you have a question about a proposed regulation, please re-phrase your question as a comment. For example, instead of asking what a particular subdivision means, you should state that the language is unclear and why. This will give the CBA an opportunity to address your comments directly when the CBA makes its final determination of its response to your comments.

Please keep in mind that this is a public forum to receive comments on the proposed regulations from interested parties. It is not intended to be a forum for debate or defense of the regulations. After all witnesses have testified, the testimony phase of the hearing will be closed.”

No public comments were received.

Mr. Stanley adjourned regulation hearing at 2:05 p.m.

B. Discussion and Possible Action to Adopt or Amend Proposed Text at Title 16, CCR Sections 9, 11.5, 12, 12.5, and 98 – Supervision, Master’s Degree, and Disciplinary Guidelines.

Mr. Swartz stated the Certificate of General Experience should be revised to state “must” or “shall,” instead of “may” as it relates to the types of accounting services required. Ms. Bowers stated this concern could be addressed within the handbook to make sure it’s clear to applicants. Ms. Pearce stated she would review to ensure this language is clear in other areas as well.

Mr. Oldman suggested defining general accounting experience instead of stating what the experience may include.

It was moved by Mr. Swartz, seconded by Mr. Oldman and unanimously carried to revise the first sentence of paragraph one of the Certificate of General Experience to state “General accounting experience is defined as any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax or consulting skills.”

It was moved by Ms. Berhow, seconded by Mr. Ramirez and unanimously carried by those present to accept staff’s recommendation to strike CCR Section 11.5 – Master’s Degree from

this regulatory proposal.

It was moved by Mr. Ramirez, seconded by Mr. Swartz and unanimously carried by those present to direct staff to take all steps necessary to complete the rulemaking process, including sending out the modified text for an additional 15-day comment period. If after the 15-day public comment period, no adverse comments are received, the EO is authorized to make any non-substantive changes to the proposed regulations, and adopt the proposed regulations as described in the modified text notice.

VIII. Report of the Licensing Chief.

A. Report on Licensing Division Activity.

Ms. Pearce provided an overview of the memorandum for this item (**see Attachment __**).

B. Further Discussion and Action on International Delivery of the Uniform CPA Examination (iExam).

Ms. Pearce provided an overview of the memorandum for this item (**see Attachment __**).

Ms. Kirkbride stated there is still a concern as it is impossible to predict the security of iExam.

Ms. Pearce suggested that staff monitor the launch of iExam over the next six months and report back to the CBA regarding any issues. Ms. Anderson stated her approval of Ms. Pearce's suggestion.

IX. Committee and Task Force Reports.

A. Enforcement Program Oversight Committee (EPOC).

No Report.

B. Committee on Professional Conduct (CPC).

No Report.

C. Legislative Committee (LC).

1. Report of the July 21, 2011 LC Meeting.

It was moved by Mr. Ramirez, seconded by Ms. Taylor and unanimously carried by those present to accept the report of the LC.

2. Update on Bills on Which the CBA Has Taken a Position (AB 229, AB 675, AB 958, AB 991, AB 1193, SB 366, SB 541, SB 706).

Ms. Brough stated that the LC recommends that the CBA maintain its positions of Support on SB 541 relating to Expert Consultants and Neutral on SB 706, which will require the posting of accusations on the Web.

Ms. Brough stated that five other bills are dead for the year, but staff will continue to follow them as they may be revived after January 1, 2012.

Ms. Brough stated that AB 229 was gutted and no longer deals with the Controller or the CBA.

It was moved by Mr. Swartz, seconded by Ms. Berhow and unanimously carried by those present to adopt the LC's recommendation to discontinue following AB 229.

3. Discussion on Status of AB 431 – Retired Status.

Ms. Brough stated that AB 431 has passed the Senate Policy Committee and is now on the Senate Appropriations Committee's Suspense File. It is anticipated that AB 431 will be passed by the committee during the last full week of August.

Ms. Brough stated the LC decided that striking the age requirement from the bill would eliminate a potential future concern and ease passage of the bill. The CBA will continue to have authority via regulation to set minimum requirements for retired status.

It was moved by Ms. Brough, seconded by Mr. Swartz and unanimously carried by those present to adopt the LC's recommendation to amend the language to eliminate reference of a minimum age requirement and minimum years as a licensee in Section 2, 5070.1.(e).

4. Reconsideration of Positions on Legislation.

- a. AB 410 – Regulations: Narrative Descriptions.

Ms. Brough stated that AB 410 has been amended and is no longer applicable to the CBA.

It was moved by Ms. Brough, seconded by Ms. Taylor and unanimously carried by those present to adopt the LC's recommendation to discontinue following AB 410.

b. SB 103 – Teleconferencing.

Ms. Brough stated that the CBA originally took an Oppose position on SB 103 due to its concern that the privilege could be abused and makes it possible for a member to never physically attend a meeting. Staff worked with the author's office to craft an amendment stating that such a request may not be made solely for convenience. The LC however, believes that this amendment does not go far enough, and that abuse is still possible.

Ms. Brough stated that the LC recommends no change in position at this time on SB 103.

c. SB 306 – Safe Harbor Extension.

Ms. Brough stated that this bill still contains the Safe Harbor extension that the CBA supports; but it has been amended to also include provisions that will allow out-of-state CPAs to practice in California under very specific circumstances without being licensed by the CBA or obtaining a practice privilege. This was the sponsor's attempt to resolve the issues that occurred with the sunset of the temporary and incidental provisions in Section 5050(b) of the Accountancy Act.

Ms. Brough stated that legal counsel pointed out that this will be a change in the scope of the CBA's authority, but the LC determined that the change applied to such a narrow field that it was an acceptable change.

It was moved by Ms. Brough, seconded by Mr. Ramirez and unanimously carried by those present to adopt the LC's recommendation to maintain a Support position on SB 306 and direct staff to convey to the sponsor that adding an urgency clause to the measure would be supported as well.

d. SB 543 – Sunset Review.

Ms. Brough stated that SB 542 no longer affects the CBA, and its contents are now included in SB 543. In addition to the new sunset date of January 1, 2016, SB 543 also makes the Peer Review Program permanent, expands the Peer Review Report, and exempts restatements also filed with the Security Exchange Commission from the CBA's restatements reporting requirement.

It was moved by Ms. Brough, seconded by Mr. Elkins and unanimously carried by those present to adopt the LC's recommendation to Support SB 543 and discontinue following

SB 542.

At this time, CBA members heard Agenda Items VII.A.-VII.B. (see pages 18704-18706).

D. Peer Review Oversight Committee (PROC).

Report of the July 8, 2011 PROC Meeting.

Ms. Corrigan stated at its last meeting, the PROC worked on formalizing processes, and reviewing the responsibilities of the PROC to ensure the committee is on track to meeting its objectives. Ms. Corrigan stated the PROC also continues working on a procedures manual.

Ms. Corrigan stated that PROC members are attending peer review training courses for evaluation purposes.

Ms. Corrigan stated the potential conflict of interest matter is still pending with legal counsel. Ms. Corrigan further stated that NASBA representatives have stated the conflict of interest has not been an issue; however, based on survey results from a recent quick poll, states have reported conflicting information.

Ms. Corrigan stated that pending out-of-state travel approval, she plans to attend NASBA's PROC Summit on August 16, 2011 in Charleston, South Carolina. Ms. Corrigan further stated that the summit will provide insight on various matters associated with the peer review oversight process.

Ms. Corrigan stated the PROC will meet next on August 30, 2011 in Northern California.

Ms. Anderson thanked Ms. Corrigan and the PROC for its efforts.

Ms. Shellans clarified that the conflict of interest opinion is pending with DCA's Ethics Officer, and not with legal counsel.

E. Enforcement Advisory Committee.

No Report.

F. Qualifications Committee.

No Report.

X. Acceptance of Minutes

A. Draft Minutes of the May 19-20, 2011 CBA Meeting.

- B. Draft Minutes of the May 19, 2011 CPC Meeting.
- C. Draft Minutes of the May 19, 2011 LC Meeting.
- D. Minutes of the April 15, 2011 AEC Meeting.
- E. Minutes of the May 9, 2011 AEC Meeting.
- F. Minutes of the May 18, 2011 ECC Meeting.
- G. Minutes of the May 6, 2011 PROC Meeting.
- H. Minutes of the June 7, 2011 Joint AEC/ECC Meeting.

It was moved by Mr. Swartz, seconded by Mr. Savoy and carried by those present to accept agenda items X.A. and X.C.-X.H. Mr. Elkins and Mr. Ramirez abstained.

Agenda item X.B. was deferred to take place at a future CBA meeting.

XI. Other Business.

- A. American Institute of Certified Public Accountants (AICPA).

No Report.

- B. National Association of State Boards of Accountancy (NASBA).

- 1. Update on NASBA Committees.

- a. Accountancy Licensee Database Task Force.

There was no report for this item.

- b. Board Relevance & Effectiveness Committee.

There was no report for this item.

- c. Uniform Accountancy Act Committee (UAA).

Mr. Driftmier stated the UAA discussed its current draft of the policy regarding firm names. Mr. Driftmier stated the policy is nearly finalized.

XII. Closing Business.

- A. Public Comments for Items Not on the Agenda.

Mr. Kreh stated that he was before the CBA to address a letter written to Ms. Bowers regarding proposed legislation (**see Attachment __**).

Ms. Anderson stated a copy of Mr. Kreh's letter will be provided to CBA members, along with the response letter from Ms. Bowers. Ms. Anderson further stated that this matter will be discussed and it will be determined whether to place on a future agenda.

B. Agenda Items for Future CBA Meetings.

No comments were received.

C. Press Release Focus.

Recent Press Releases.

Mr. Rich provided an overview of the memorandum for this item (**see Attachment __**).

Mr. Rich stated that Ms. Hersh's proposed press release headline is "CBA approves proposals for new CPA education requirements and looks to keep CPA licensure attainable for community college and non-traditional students."

XIII. Closed Session. Pursuant to Government Code Section 11126(c)(3), the CBA Will Convene Into Closed Session to Deliberate on Disciplinary Matters (Stipulations, Default Decisions, and Proposed Decisions).

CBA members convened into closed session at 2:51 p.m., and the meeting reconvened into open session at 3:35 p.m.

Adjournment.

President Anderson adjourned the meeting at 3:36 p.m.

Sally Anderson, CPA, President

Leslie LaManna, CPA, Secretary-Treasurer

Veronica Daniel, Board Relations Analyst, and Patti Bowers, Executive Officer, CBA, prepared the CBA meeting minutes. If you have any questions, please call (916) 561-1718.



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



ENFORCEMENT ADVISORY COMMITTEE MINUTES OF MEETING

May 5, 2011

THE RED LION HOTEL
 150 Hegenberger Road
 Oakland, CA 94621

FINAL

CALL TO ORDER

Enforcement Advisory Committee Chair Cheryl Gerhardt called the regularly scheduled meeting of the Enforcement Advisory Committee (EAC) of the California Board of Accountancy (CBA) to order at 8:30 a.m. on May 5, 2011.

Administrative Committee

| | |
|-----------------------------------|-----------------------|
| Cheryl Gerhardt, Chair | 8:30 a.m. – 5:00 p.m. |
| James Rider, Vice Chair | 8:30 a.m. – 5:00 p.m. |
| Gary Caine, Committee Member | 8:30 a.m. – 5:00 p.m. |
| Mary Rose Caras, Committee Member | 8:30 a.m. – 5:00 p.m. |
| Robert A. Lee, Committee Member | 8:30 a.m. – 5:00 p.m. |
| James Petray, Committee Member | Absent |
| Seid Sadatnejad, Committee Member | 8:30 a.m. – 5:00 p.m. |
| Michael Schwarz, Committee Member | 8:30 a.m. – 5:00 p.m. |
| Arthur Thielen, Committee Member | Absent |

Staff and Legal Counsel

Paul Fisher, Supervising Investigative CPA
 Rafael Ixta, Enforcement Chief
 Kay Lewis, Investigative CPA
 Allison Nightingale, Enforcement Secretary
 Jesus Silva, Enforcement Analyst

CBA Members and Others Attending

Louise Kirkbride, CBA Member

I. FILE REVIEW/APPROVAL OF FILES CLOSED BY STAFF

[Closed session under provisions of Government Code Section 11126(c).]

II. MINUTES

Following review, it was moved by Mr. Schwarz, seconded by Mr. Lee, and unanimously carried to approve the minutes of the February 3, 2011 Enforcement Advisory Committee meeting.

The minutes will be submitted to the CBA members for review at the next regular CBA meeting.

III. REPORT OF COMMITTEE CHAIR

A. Report of the February 24 and March 24-25, 2011 CBA Meetings.

Mr. Ixta reported that the CBA held a special meeting on February 24, 2011 to consider proposed consolidation of the CBA and the Professional Fiduciaries Bureau (PFB). This consolidation was being proposed as part of sunset review for both the PFB and the CBA. The CBA members concluded that merging the PFB with the CBA would not be reasonable given the responsibility the CBA would be taking on in comparison with the fees generated by the small number of fiduciary licensees. They directed CBA staff and the CBA President to convey the CBA's opposition to the Legislature.

Mr. Ixta reported that the sunset review resulted in continuation of the PFB and CBA as separate entities.

Ms. Gerhardt attended the March 24-25, 2011 CBA meeting held in San Diego. She reported that issues discussed by the CBA members included peer review implementation, the Governor's budget, international delivery of the CPA exam, and implementation of the license renewal fee reduction, effective July 1, 2011.

IV. REPORT OF ENFORCEMENT CHIEF

A. Enforcement Case Activity and Status Report

The Enforcement Case Activity and Status Report for the period July 1, 2010 through March 31, 2011 were provided to the EAC members for review.

B. Aging Inventory Report

Mr. Ixta reported that there are 312 investigations pending as of March 31, 2011. He noted that the number of pending has more than doubled since January 2010, with the average age increasing from 189 to 255 days. He attributed these increases to staffing issues, but assured the EAC members that Enforcement is taking steps to reduce these numbers. The CBA has hired two consultants to review and make recommendations on the older cases and has begun sending cases that deal with unlicensed practice to the Division of Investigation.

C. Citation and Fine Report

Mr. Ixta reported that issuance of citations and fines had increased significantly in the past three months with Enforcement staff issuing 44 citations and fines as of April 28, 2011. He noted that over 50 percent of the violations regarded continuing education.

The EAC members inquired about the outstanding fines and ways to collect on them. Mr. Ixta stated that currently the fine is added to the licensee's renewal. When the hiring freeze is over, Enforcement will have more staff to address this issue directly.

Mr. Ixta stated that staff will consider changes to the report to explain what the outstanding amounts represent.

D. Reportable Events

The Reportable Events Report for the period July 1, 2010 through April 22, 2011 was provided in the agenda packets.

E. Results from 3rd Quarter Performance Measures Report to the DCA

The EAC reviewed the CBA Performance Measures Results for the 3rd Quarter, January 1, 2011 through March 31, 2011. Mr. Ixta reported that the CBA is reaching the targets for all the performance measures except PM4: Average number of days to complete investigations resulting in formal discipline. The target is 540 days; CBA's average is 733 days.

V. OTHER BUSINESS

A. Report on the March 24, 2011 Legislative Committee Meeting..

The 2011 Legislative Tracking Report, as of April 20, 2011, was provided in the agenda packets.

B. Update on Pending Fee Reduction Regulation, Title 16, CCR Section 70

Mr. Ixta reported that, effective July 1, 2011, both the initial license fee to practice and license renewal fee will be reduced to \$120.

C. Next Meeting

The next EAC meeting is scheduled for August 4, 2011 in Sacramento at the CBA office.

VI. Personal Appearances.

**[Closed session under provisions of Government Code Section 11126(c)
conducted after the general meeting.]**

VII. Public Comments

There were no public comments offered during the meeting.

VIII. ADJOURNMENT

Having no further business to conduct, the Enforcement Advisory Committee general meeting adjourned at approximately 11:55 a.m. to reconvene in closed session at 1:00 p.m.

Cheryl Gerhardt
Chair, Administrative Committee

Prepared by: Michele Santaga, Enforcement Analyst



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)
PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

CBA Item IX.D.
September 22, 2011

**MINUTES OF THE
July 8, 2011
PROC MEETING**

California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 94815
Telephone: (916) 263-3680

PROC Members:

Nancy Corrigan, Chair
Katherine Allanson
Gary Bong
T. Ki Lam
Sherry McCoy
Robert Lee
Seid M. Sadat

Staff and Legal Counsel:

Rafael Ixta, Chief, Enforcement Division
Kathy Tejada, Manager, Enforcement Division
April Freeman, Peer Review Analyst

Other Participants:

Linda McCrone, California Society of Certified Public Accountants (CalCPA)

I. Roll Call and Call to Order.

Nancy Corrigan, Chair, called the meeting of the Peer Review Oversight Committee (PROC) to order at 10:10 a.m.

II. Report of the Committee Chair.

A. Approval of May 6, 2011 Minutes.

Ms. Corrigan asked members if they had any changes or corrections to the minutes of May 6, 2011, PROC meeting. No edits were necessary.

It was motioned by Robert Lee, seconded by Seid Sadat, and unanimously carried by those present to adopt the minutes of the May 6, 2011 PROC meeting.

B. Report on the May 19-20, 2011 CBA Meeting

Ms. Corrigan summarized her report to the California Board of Accountancy (CBA) at its May 19-20, 2011 meeting. She spoke about the presentation by the American Institute of Certified Public Accountants (AICPA) and National Association of State Boards of Accountancy (NASBA), advising the CBA that California is among only six other states that have an active PROC. She also updated CBA members on the conflict of interest issue, the development of procedures and checklists, and gave a summary of the May 3, 2011, AICPA Peer Review Board meeting.

Rafael Ixta commented that the conflict of interest issue has been reassigned to a different attorney. Members of the PROC requested that, by the August 30, 2011 PROC meeting, they be provided with a date when they can expect an opinion.

C. Report on the June 2-3, 2011 California Society of CPAs (CalCPA) Peer Review Committee Meeting.

Ms. Corrigan and Katherine Allanson attended the meeting in person. The agenda included, but was not limited to, reports from the AICPA Peer Review Board, the National Peer Review Committee, and CalCPA, discussion of the annual oversight report, and technical issues. In addition, three Report Acceptance Body meetings were held.

Ms. Allanson stated that the meeting was a challenge because she and Ms. Corrigan did not have access to the meeting materials. She does not believe the PROC can evaluate the effectiveness of a meeting without appropriate materials. Mr. Ixta clarified that the CalCPA agreed to provide materials to PROC members when they attend meetings in person, but not when they attend via teleconference.

Linda McCrone explained that the AICPA requires that CalCPA have a document destruction policy in place stating that specific documents be destroyed 120 days after the peer review report is accepted. Since this issue has not been resolved, Ms. McCrone agreed to have materials available for members who attend meetings in person, but cannot send them ahead of time. Mr. Ixta will revisit the document destruction issue with legal counsel.

Ms. McCrone added that PROC members are welcome to visit the CalCPA office in Glendale and San Mateo to review RAB materials.

D. Report on CalCPA Report Acceptance Body (RAB) Meetings.

- i. June 15, 2011 RAB. Robert Lee and Sherry McCoy attended the meeting via teleconference. Mr. Lee commented that RAB meetings really only focus on problem peer review reports.
- ii. July 7, 2011 RAB. T. Ki Lam, Robert Lee, and Nancy Corrigan attended the meeting via teleconference. Ms. Corrigan stated that the meeting dealt with a lot of technical issues. Mr. Lee felt the RAB was very competent and knowledgeable. Ms. Lam stated the meeting was very candid, although she would have liked to have had the meeting materials.

III. Reports and Status of Peer Review Initial Implementation.

A. Pending Regulations Revised Proposed Legislative Language to Extend the Sunset Date on Mandatory Peer Review.

Ms. Tejada advised members that the author of Senate Bill 542 has decided to use the bill for other purposes. The language extending the sunset date and the report to the Legislature has been moved to SB 543. The bill passed through the Senate and has been re-referred to the Committee on Business, Professions and Consumer Protection.

B. Statistics of Licensees who have Reported their Peer Review Information to the CBA.

Ms. Tejada reported that as of June 24, 2011, 17,972 licensees have reported peer review information. The breakdown is as follows: 1,639 firms required to undergo peer review, 3,382 firms not required to undergo peer review, and 12,951 licensees not operating as a firm.

April Freeman added that telephone and email contacts concerning peer review have increased significantly. Since March 2011, telephone calls have increased 787% and emails have increased 2,490%.

C. Status of Correspondence to Licensees Regarding Peer Review Reporting and Updates to License Renewal Application.

Ms. Freeman stated that approximately 20,000 notification letters will be sent to licensees who are required to submit a reporting form by July 1, 2012. Further revisions have been made to those letters to make the requirements more clear. The letters are expected to be mailed in mid-July.

IV. Discussion Regarding the Draft Checklists for Report Acceptance Body (RAB) Meetings and CalCPA Peer Review Committee Meetings.

Ms. Allanson explained that she approached the development of the checklist for the Peer Review Committee (PRC) meetings by asking herself what she wants to accomplish when attending a meeting. She started with the checklist obtained from the Texas Board of Accountancy and then, during the June 2-3, 2011 PRC meeting, edited it to correspond to the way California conducts its meeting.

Ms. McCoy stated that she included a purpose statement at the top of the checklist for RAB meetings. The checklist includes an evaluation of the technical aspects of the meeting and an evaluation of the general meeting process. She used the checklists during the June 15th RAB meeting.

Members discussed the checklists and agreed on several minor edits. Staff will make the edits and ensure the format is consistent with other CBA documents. The checklists will remain in draft form until members determine they meet all PROC needs.

Members agreed to provide copies of the draft checklists to NASBA's Compliance Assurance Committee to be used at the upcoming PROC Summit.

Mr. Lee asked if each member in attendance would complete a checklist and what would be done with the completed checklists. Mr. Ixta suggested that each member in attendance complete their own checklist. All completed forms, along with the meeting agenda and a summary of the meeting, should be returned to CBA staff to be kept in a PROC library.

Ms. McCrone explained the process of selecting RAB members as each meeting has a different combination of PRC members. All RAB members are at the Team Captain level. She added that she makes sure each RAB has members with experience in high-risk industries such as ERISA and A-133 audits.

V. Discussion Regarding the Roles and Responsibilities Portion of the PROC Procedure Manual.

Seid Sadat explained that he and Gary Bong used two separate documents to refine the roles and responsibilities portion of the PROC procedure manual. Those documents were the *Continued Consideration of Key Policy Issues Related to Mandatory Peer Review* and the accountancy regulations. He clarified that this will be a working document.

Mr. Ixta pointed out the PROC Program Detail, beginning on page 4, will need to be edited to reflect the roles and responsibilities outlined on pages 1 and 2.

Mr. Ixta stated that if the PROC is ready to adopt the draft procedure manual, staff will continue working on the manual with input from the PROC.

It was motioned by Katherine Allanson, seconded by T. Ki Lam, and unanimously carried by those present to adopt the draft roles and responsibilities portion of the PROC procedures manual with the edits discussed, to direct staff to continue working on the manual, and to share the draft checklists for the RAB and PRC meetings with NASBA for the PROC Summit to be held August 16, 2011.

VI. Discussion Regarding Table of Contents for the Annual Report to the CBA.

Ms. Corrigan stated that the PROC's annual report to the CBA would be targeted for the March 2012 CBA meeting. She asked members if they had any comments on the draft table of contents prepared by staff. Mr. Ixta reminded members that items may change as the report is written.

Members suggested a few edits which staff will make and bring back to the next meeting.

VII. Discussion Regarding PROC Activities and Assignments.

Ms. Corrigan confirmed/assigned the following events:

- July 18-19, 2011 "How To Conduct A Review Under the AICPA" – Sherry McCoy, Katherine Allanson, Robert Lee, and possibly Gary Bong.
- July 26, 2011 RAB Meeting – T. Ki Lam and Sherry McCoy
- August 10, 2011 AICPA PRB Meeting – Gary Bong, Seid Sadat and T. Ki Lam
- August 16, 2011 NASBA PROC Summit – Staff will follow-up with NASBA to determine if a scholarship would be available for Nancy Corrigan to attend.
- August 25, 2011 RAB Meeting – TBD. Ms. McCrone will research the availability of the CalCPA Glendale office so that members in Southern California do not have to travel to San Mateo to view materials.

- October 20-21, 2011 CalCPA PRB – Nancy Corrigan and Seid Sadat
- October 26, 2011 AICPA PRB – Katherine Allanson and Robert Lee

VIII. Future PROC Meetings and Agenda Items.

The PROC set the following meeting dates for late 2011 and 2012:

- Friday, December 9, 2011 – Southern California
- Friday, February 10, 2012 – Northern California
- Friday, April 20, 2012 – Southern California
- Friday, June 15, 2012 – Northern California
- Friday, August 24, 2012 – Southern California
- Friday, October 19, 2012 – Northern California
- Tuesday, December 4, 2012 – Southern California

Agenda Items:

- Status of PROC Activities
- File Testing

IX. Public Comment for Items Not on the Agenda.

No public comment.

X. Adjournment.

There being no further business, the meeting was adjourned at 1:55 p.m.

Nancy Corrigan, Chair

April Freeman, Peer Review Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-1720.



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY
 2000 EVERGREEN STREET, SUITE 250
 SACRAMENTO, CA 95815-3832
 TELEPHONE: (916) 263-3680
 FACSIMILE: (916) 263-3675
 WEB ADDRESS: <http://www.cba.ca.gov>



DEPARTMENT OF CONSUMER AFFAIRS
 CALIFORNIA BOARD OF ACCOUNTANCY (CBA) **CBA Agenda Item IX.E.**
September 22, 2011

MINUTES OF THE
August 16, 2011
ETHICS CURRICULUM COMMITTEE (ECC) MEETING

Meeting Location

California Board of Accountancy
 2000 Evergreen Street, Suite 250
 Sacramento, CA 95815
 Telephone: (916) 561-1700

Teleconference Locations

Monterey Peninsula College
 980 Fremont Ave, Office BMC203A
 Monterey, CA 93940
 Telephone: (831) 646-4072

The H Hotel
 111 W. Main St.
 Midland, MI 48640
 Telephone: (866) 611-5231

3130-C Inland Empire Blvd.
 Ontario, CA 91764
 Telephone: (909) 944-7798

Diablo Valley College
 321 Golf Club Road
 Business Foreign Language
 (BFL) Building, Room 221
 Pleasant Hill, CA 94523
 Telephone: (925) 685-1280 ext 2319

Roll Call and Call to Order

Donald Driftmier, Chair, called the meeting of the ECC to order at 10:02 a.m. on Tuesday, August 16, 2011 at the California Board of Accountancy. Mr. Driftmier indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, Section 11122.5(c)(6), if a majority of members of the full CBA are present at a committee meeting, members who are not members of that committee may attend the meeting only as observers. CBA members who are not committee members may not sit at the table with the committee, and they may not participate in the meeting by making statements or by asking questions of any committee members.

ECC Members

Donald Driftmier, Chair
 Gary McBride
 Jon Mikkelsen

10:02 p.m. to 10:17 a.m.
 10:02 a.m. to 10:17 a.m.
 10:02 a.m. to 10:17 a.m.

| | |
|-----------------|--------------------------|
| Gary Pieroni | 10:02 a.m. to 10:17 a.m. |
| Michael Ueltzen | 10:02 a.m. to 10:17 a.m. |
| Robert Yetman | 10:02 a.m. to 10:17 a.m. |
| Dave Cornejo | Not Present |
| Gonzalo Freixes | Not Present |

Staff and Legal Counsel

Deanne Pearce, Chief, Licensing Division
 Dominic Franzella, Manager, Licensing Division
 Cindi Fuller, Licensing Coordinator
 Rich Andres, Information Technology Staff
 Kristy Shellans, Senior Legal Counsel, Department of Consumer Affairs

Other Participants

Jeannie Tindel, California Society of Certified Public Accountants (CalCPA)
 Jason Fox, CalCPA

Mr. Driftmier informed the committee that Steven Mintz had resigned.
 Mr. Driftmier expressed appreciation for the participation and contributions of Dr. Mintz.

- I. Reconsideration of Decision that Courses be Completed at an Upper Division Level or Higher Included in the Proposed 10 Units of Ethics Study Guidelines

Mr. Driftmier presented the memorandum for this item (**Attachment #1**).

Discussions were held regarding the removal of the upper division or higher requirement for the accounting ethics or accountants' professional responsibilities requirement included in the present version of the proposed ethics study guidelines. As a compromise, Mr. McBride suggested requiring students complete 60 semester units or 90 quarter units prior to taking the ethics class. Mr. McBride stated he believed this compromise was more in line with the original intent of the committee.

It was moved by Gary Pieroni, seconded by Michael Ueltzen, and unanimously carried by those present to remove the upper division or higher requirement from the accounting ethics or accountants' professional responsibilities requirement.

- II. Public Comments

No public comments were offered.

Since it appeared there would be no subsequent ECC meetings, Mr. Franzella suggested members provide the Chair with authority to approve the minutes of this meeting.

It was moved by Michael Ueltzen, seconded by Gary Pieroni, and unanimously carried by those present to have Donald Driftmier provide final approval of the minutes of the August 16, 2011 ECC meeting.

ADJOURNMENT

There being no further business to be conducted, the meeting was adjourned at 10:17 a.m. on Tuesday, August 16, 2011.

Donald A. Driftmier, Chair

Prepared by Cindi Fuller, Licensing Coordinator



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CBA Item Number X.B.2.
September 22, 2011

Proposed Responses to NASBA Focus Questions

Presented by: Dan Rich, Assistant Executive Officer

Date: August 26, 2011

Purpose of the Item

These are proposed responses to the NASBA Quarterly Focus Questions (**Attachment**).

Action(s) Needed

The CBA will be requested to either approve, or make changes to, the proposed responses.

Background

Attached for your information are draft responses to NASBA Regional Directors' Focus Questions, which were issued on August 8, 2011. These responses have been prepared for Laurie Tish, Pacific Regional Director and are due to Ms. Tish by October 5, 2011.

Comments

Staff has been informed that the quarterly Focus Questions are used to help NASBA regional directors stay apprised of each state's policies and procedures, and to see where improvements or adjustments might be made. The eight regional directors review the states' answers and then present their findings to NASBA.

Recommendation

These draft responses to the Focus Questions were prepared by CBA staff from the Enforcement, Licensing, and Administration Divisions.

Attachment

NASBA Quarterly Focus Questions

Attachment

NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.

August 8, 2011

To: State Board Chairs and Executive Directors
From: Kenneth R. Odom - Chair, Committee on Relations with Member Boards
Re: Focus Questions

As Chair of the Committee on Relations with Member Boards, I would like to thank you for your participation at NASBA's Regional Meetings and your assistance with our past Focus Questions. Your continued support helps keep NASBA an organization that responds to its member boards.

I hope you are all making plans to attend NASBA's Annual Meeting, October 23-26 in Nashville, TN. In the meantime, please do not hesitate to call your Regional Director to discuss the following questions or any other issues you feel NASBA should consider. We look forward to hearing from you.

Sincerely,

Ken Odom

Central Director – **Teleford A. Lodden** Fax: (515) 223-8778 Phone: (515) 223-7300
tal@brookslodden.com

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Great Lakes Director – **Kim Tredinnick** Fax: (608) 249-1411 Phone: (608) 240-2318
ktredinnick@virchowkrause.com

Illinois, Indiana, Michigan, Ohio, Pennsylvania, Wisconsin

Middle Atlantic Director – **Miley (“Bucky”) W. Glover** Fax: (704) 289-3439
Phone: (704) 283-8189 bglover@gotopotter.com

DC, Delaware, Maryland, North Carolina, South Carolina, Virginia, West Virginia

Mountain Director – **Karen Foster Turner** Phone: (970) 351-1216 karen.turner@unco.edu
Colorado, Idaho, Montana, Nevada, Utah, Wyoming

Northeast Director – **Jefferson Chickering** Phone: (603) 620-1961 jeffchickering@msn.com
Conn., Maine, Mass., New Hampshire, New Jersey, New York, Rhode Island, Vermont

Pacific Director – **Laurie J. Tish** Fax: (206) 622-9975 Phone: (206) 302-6466
laurie.tish@mossadams.com

Alaska, Arizona, California, CNMI, Guam, Hawaii, Oregon, Washington

Southeast Director – **Kenneth R. Odom** Fax: (334) 222-9125 Phone: (334) 222-4101
kodom@ro-cpa.com

Alabama, Florida, Georgia, Kentucky, Mississippi, Puerto Rico, Tennessee, Virgin Islands

Southwest Director – **Janice L. Gray** Fax: (405) 364-3771 Phone: (405) 360-5533, ext. 103
janiceg@cpagray.com

Arkansas, Louisiana, New Mexico, Oklahoma, Texas

REGIONAL DIRECTORS' FOCUS QUESTIONS

The input received from our focus questions is reviewed by all members of NASBA's Board of Directors, committee chairs and executive staff and used to guide their actions. We encourage you to place the following questions early on the agenda of your next board meeting to allow for sufficient time for discussion. Please send your Board's responses to your Regional Director by October 5, 2011. Use additional sheets for your responses if needed.

JURISDICTION California **DATE** 8/24/11
NAME OF PERSON SUBMITTING FORM Dan Rich

1. Are there any new communications efforts that your Board has implemented within the last year? Please explain. Will your Board be sending its representative to the Communications Officers' breakfast at the Annual Meeting?

This has been a very active year for Communications and Outreach. In the past year the California board

- launched successful Facebook and Twitter accounts to facilitate outreach to consumers, licensees and other stakeholders,
- began an "Ask the Expert" series on Facebook to address questions,
- produced the first in a series of "how to" videos for the CBA Web site and YouTube
- moved from hard copy with postal delivery of its newsletter to a digital format,
- began outreach to colleges and universities regarding the changes to educational requirements effective January 2014.

Due to travel restrictions due to California's budget situation, we will not be sending a representative to the breakfast at the Annual Meeting.

2. Does your Board restrict the number of on-line classes acceptable for continuing professional education (i.e., can all CPE requirements be obtained via on-line courses)? Please explain.

The California Board of Accountancy does not restrict the number of on-line classes for continuing education.

3. Is your Board accepting on-line education at the baccalaureate or graduate levels as part of domestic or foreign education? Please explain what qualifications you have for such courses.

The California Board of Accountancy accepts any education completed from a degree-granting college, university, or other institution of learning provided it is recognized by a United States regional or national accrediting agency. Any foreign education must be evaluated by a CBA-approved foreign credentials evaluation service. Provided the on-line education, including a baccalaureate degree or graduate level coursework, was taken from an regionally or nationally accredited institution of higher learning, or was deemed substantially equivalent to education earned at a regionally or nationally accredited institution of higher learning by a CBA-approved foreign credentials evaluation service, then the CBA will count it toward any CPA Exam and CPA licensure education requirements.

4. How is your Board addressing out-of-state CPA firms' mobility compliance? Provide examples.

The California Board of Accountancy has not adopted mobility. However, the CBA allows out-of-state licensees to practice public accountancy in this state under California Practice Privilege, which is the concept presented to the CBA by NASBA in 2003.

(a) A public accounting firm that is authorized to practice in another state and that does not have an office in this state may engage in the practice of public accountancy in this state through the holder of a California Practice Privilege provided that:

(1) The practice of public accountancy by the firm is limited to authorized practice by the holder of the practice privilege.

(2) A firm that engages in practice under this section is deemed to consent to the personal, subject matter, and disciplinary jurisdiction of the board with respect to any practice under this section.

(b) The board may revoke, suspend, issue a fine pursuant to Article 6.5 (commencing with Section 5116), or otherwise restrict or discipline the firm for any act that would be grounds for discipline against a holder of a practice privilege through which the firm practices.

5. The Texas Board has discovered non-U.S. accountants have signed the SEC's 10-K forms for companies based in Texas and brought this to the attention of the SEC. The Board has found non-U.S. accountants have signed these forms for companies in other states. How does your Board plan to respond to this should you be made aware that such violations are occurring in your state?

The CBA would consider initiating an investigation to determine if any of the provisions in the California Accountancy Act or CBA Regulations were violated.

6. Are there any concerns that you would like NASBA to address?

None

7. NASBA's Board of Directors would appreciate as much input on the above questions as possible. How were the responses shown above compiled? Please check all that apply.

Input only from Board Chair

Input only from Executive Director

Input only from Board Chair and Executive Director

Input from all Board Members and Executive Director

Input from some Board Members and Executive Director

Input from all Board Members

Input from some Board Members

Other (please explain):



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item X.C.
September 22, 2011

Proposed Response to Joint AICPA and NASBA Exposure Draft
Regarding CPE Standards

Prepared by: Deanne Pearce, Licensing Division Chief
Date: August 30, 2011

Purpose of the Item

To provide the California Board of Accountancy (CBA) members with the Joint AICPA and NASBA Exposure Draft regarding proposed changes to the Statement on Standards for Continuing Professional Education Programs (*Standards*) (**Attachment 1**).

Action(s) Needed

Staff request that the CBA consider adopting a staff-prepared letter for the CBA to issue to the AICPA and NASBA regarding the Exposure Draft (**Attachment 2**).

Background

The CBA promulgates regulations that govern the continuing education (CE) requirements for CPAs in California. Specifically, Article 12 of the CBA Regulations outlines the minimum number of hours and subject matter requirements CPAs must complete to renew a license in an active status. Unlike other state boards of accountancy, the CBA does not pre-approve CE providers or programs (with the exception of the CBA's Regulatory Review course); rather the CBA requires licensees to select appropriate programs from CE providers that offer programs that conform to the minimum program requirements and measurements outlined in Article 12 of the CBA Regulations.

While some jurisdictions may incorporate or reference the "Statements on Standards for Continuing Professional Education Programs" into their laws, California has established and maintained independence in this area and developed its own set of requirements, some of which mirror the *Standards* which are a part of the Exposure Draft.

Comments

Staff reviewed the Exposure Draft focusing on those areas that the CBA presently has similar requirements in regulation. The identified areas contain proposed changes that, if they are included in the final version, would warrant the CBA to review and discuss potential changes to the CBA Regulations. Having consistency among standards that CE providers must meet will assist licensees by broadening the pool of CE offerings.

Provided below is an overview of some of the areas that differ from what is presently contained in CBA Regulations. The identified changes are primarily in the areas of Self-Study and Group Internet-based (webcast) Programs.

At this point, staff anticipate that the AICPA/NASBA will release the final *Standards* in 2012, with the possibility that changes to the exposed *Standards* could be made prior to the release date. Once the *Standards* are officially released and establishment of an effective date is made known, staff will provide a more detailed overview and provide recommendations regarding possible changes to CBA Regulations.

Self-Study Programs

- Standard No. 8 (S8-03) – Modifies the definition for evaluated and reinforcement feedback, no longer mirroring the requirement in the CBA Regulation Section 88.2.
- Standard No. 8 (S8-04) – Does not allow True/False questions on final examinations for self-study programs. At present, the CBA has no such prohibition.
- Standard No. 8 (S8-06) – Requires an expiration date to complete course for self-study programs. At present, the CBA has no such prohibition.
- Standard No. 13 – Allows for ½ CE credits for self-study program, without having at least one full program hour completed. (*It does, however, note that providers should consult with the state boards regarding this type of credit.*) At present, the CBA has no such prohibition.
- Standard No. 14 – The two new proposed methods for calculating how providers determine the amount of CE credit given is not consistent with the CBA's present requirement in Section 88.2.

Webcast Programs

The prior iteration of the *Standards* did not include webcast CE standards.

- Standard No. 7 (S7 – 01) – Includes standards on Archived webcasts, which the CBA Regulations is silent on.
- Standard No. 13 (S13 – 03) – Establishes that when using polling questions for monitoring, the *Standards* set the minimum at three per hour. CBA Regulations require a minimum of two per half hour (4 per hour) with at least one coming at an irregular interval. (*Staff has been questioned about this higher standard by out-of-state CE providers.*)
- Standard No. 13 (S13 – 04) – Establishes standards for small group viewing of webcast, which the CBA Regulations is silent on. (*Licensees and providers have contacted the CBA on numerous occasions seeking guidance regarding this topic.*)

Additional Changes outside of Self-Study and Webcast Programs

- Standard No. 15 (S15 – 01) – Modifies how instructors, speakers, and discussion group leaders should receive credit by reducing the allowable hours.
- Standard No. 16 – Requires third party review of published article/books, which is not presently required in CBA Regulations.
- Standard No. 19 – Establishes a minimum number of years to maintain backup documents which is still less than CBA Regulations.

Recommendation

Staff is recommending approval of the attached letter, which merely provides the CBA's timeframe for incorporating changes into CBA Regulations and a position of supporting changes that strive to ensure the maintenance and enhancement of licensees' professional competency. As always, staff welcome members valuable input and suggestions regarding the proposed letter.

Attachments

Attachment 1: Exposure Draft: Statement of Standards for Continuing Professional Education (CPE) Programs – 2011

Attachment 2: CBA Response Letter to AICPA and NASBA

EXPOSURE DRAFT

Statement on Standards for Continuing Professional Education (CPE) Programs

Jointly Issued by the American Institute of
Certified Public Accountants (AICPA) and the
National Association of State Boards of
Accountancy (NASBA)

August 2011

Please submit comments by October 13, 2011 to:

Suzanne Jolicoeur at sjolicoeur@aicpa.org

or

Jessica Luttrull at jluttrull@nasba.org

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Introduction

Continuing professional education is required for CPAs to maintain their professional competence and provide quality professional services. CPAs are responsible for complying with all applicable CPE requirements, rules and regulations of state boards of accountancy, as well as those of membership associations and other professional organizations.

The Statement on Standards for Continuing Professional Education (CPE) Programs (*Standards*) is published jointly by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to provide a framework for the development, presentation, measurement, and reporting of CPE programs. The *Standards* were last revised in 2002.

In May 2010, NASBA and the CPE Advisory Committee provided a forum for an open and candid discussion of the *Standards*. A key outcome of the forum was to develop a Task Force to help review, analyze and implement suggestions and changes to the *Standards*.

The NASBA CPE Advisory Committee with input from NASBA leadership selected 13 Task Force participants. Careful consideration was given as to the composition of the Task Force to ensure that all facets of the CPE community were represented. The Task Force is comprised of CPE program sponsors; CPE Advisory Committee members; state board of accountancy members; state society members; educators and a representative of the AICPA (provider side).

The Task Force developed its recommended revisions to the *Standards* and presented its recommendations to a Joint CPE Standards Committee made up of representatives from the AICPA and NASBA. The Joint CPE Standards Committee presented its recommendation to the respective AICPA and NASBA Boards of Directors. In August 2011, the *Standards* exposure draft was released for comment. The revisions to the *Standards* were approved by the AICPA Board of Directors on _____, 2011 and the NASBA Board of Directors on _____, 2011.

The *Standards* are intended to be an “evergreen” document. As questions arise related to implementation and application of the *Standards*, the questions will be presented to the CPE Standards Working Group whose composition will be similar to that of the Task Force. The CPE Standards Working Group will meet quarterly and scheduled meeting dates will be posted on the NASBA website, LearningMarket.org. NASBA will communicate the findings of the CPE Standards Working Group to the specific CPE program sponsor. Authoritative interpretations will only be issued by the CPE Advisory Committee in limited cases when the matter is not addressed in the *Standards*, cannot be addressed specifically with the CPE program sponsor, or cannot be addressed in the Best Practices document. All interpretations issued by the CPE Advisory Committee will be reviewed and considered by the Joint AICPA/NASBA CPE Standards Committee upon the next revision of the *Standards*.

Preamble

- 01.** The right to use the title "Certified Public Accountant" (CPA) is regulated in the public interest and imposes a duty to maintain public confidence and current knowledge, skills, and abilities in all areas in which they provide services. CPAs must accept and fulfill their ethical responsibilities to the public and the profession regardless of their fields of employment.¹
- 02.** The profession of accountancy is characterized by an explosion of relevant knowledge, ongoing changes and expansion, and increasing complexity. Advancing technology, globalization of commerce, increasing specialization, proliferating regulations, and the complex nature of business transactions have created a dynamic environment that requires CPAs to continuously maintain and enhance their knowledge, skills, and abilities.
- 03.** The continuing development of professional competence involves a program of lifelong educational activities. Continuing Professional Education (CPE) is the term used in these standards to describe the educational activities that assist CPAs in achieving and maintaining quality in professional services.
- 04.** The following standards have been broadly stated in recognition of the diversity of practice and experience among CPAs. They establish a framework for the development, presentation, measurement, and reporting of CPE programs and thereby help to ensure that CPAs receive the quality CPE necessary to satisfy their obligations to serve the public interest. These standards may also apply to other professionals by virtue of employment or membership. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit.
- 05.** Advances in technology, delivery and workplace arrangements may lead to innovative learning techniques. Learning theory may evolve to include more emphasis on outcome based learning. These standards anticipate innovation in CPE in response to these advances. Sponsors must ensure innovative learning techniques are in compliance with the standards. CPE program sponsors are encouraged to consult with NASBA with questions related to compliance with the standards when utilizing innovative techniques.
- 06.** These standards create a basic foundation for sound educational programs. Sponsors may wish to provide enhanced educational and evaluative techniques to all programs.

¹ The term "CPAs" is used in these standards to identify all persons who are licensed and/or regulated by boards of accountancy.

Article I - Definitions

Advanced. Learning activity level most useful for individuals with mastery of the particular topic. This level focuses on the development of in-depth knowledge, a variety of skills, or a broader range of applications. Advanced level programs are often appropriate for seasoned professionals within organizations; however, they may also be beneficial for other professionals with specialized knowledge in a subject area.

Archived. A learning activity through which a group program has been recorded for future use.

Basic. Learning activity level most beneficial to CPAs new to a skill or an attribute. These individuals are often at the staff or entry level in organizations, although such programs may also benefit a seasoned professional with limited exposure to the area.

Continuing Professional Education (CPE). An integral part of the lifelong learning required to provide competent service to the public. The set of activities that enables CPAs to maintain and improve their professional competence.

CPE credit hour. Fifty minutes of participation in a program of learning.

CPE program sponsor. The individual or organization responsible for issuing the certificate of completion, and maintaining the documentation required by these standards. The term CPE program sponsor may include associations of CPAs, whether formal or informal, as well as employers who offer in-house programs.

Evaluative feedback. Specific response to incorrect answers to questions in self-study programs.

Group internet based program. An educational process designed to permit a participant to learn a given subject through interaction with an instructor and other participants by using the Internet.

Group live program. An educational process designed to permit a participant to learn a given subject through interaction with an instructor and other participants either in a classroom or conference setting.

Group program. Any group live or group internet based programs.

Independent study. An educational process designed to permit a participant to learn a given subject under a learning contract with a CPE program sponsor.

Instructional methods. Delivery strategies such as case studies, computer-assisted learning, lectures, group participation, programmed instruction, teleconferencing, use of audiovisual aids, or work groups employed in group, self-study, or independent study programs or other innovative programs.

Intermediate. Learning activity level that builds on a basic program, most appropriate for CPAs with detailed knowledge in an area. Such persons are often at a mid-level within the organization, with operational and/or supervisory responsibilities.

Internet-based programs. A learning activity through a group program or a self-study program that is designed to permit a participant to learn the given subject matter via the Internet. To qualify as either a group or self-study program, the Internet learning activity must meet the respective standards.

Learning activity. An educational endeavor that maintains or improves professional competence.

Learning contract. A written contract signed by an independent study participant and a qualified CPE program sponsor prior to the commencement of the independent study.

Learning objectives. Specifications on what participants should accomplish in a learning activity.

Learning objectives are useful to program developers in deciding appropriate instructional methods and allocating time to various subjects.

Overview. Learning activity level that provides a general review of a subject area from a broad perspective. These programs may be appropriate for professionals at all organizational levels.

Pilot test. Sampling of at least three independent individuals representative of the intended participants to measure the representative completion time as one method to determine the recommended CPE credit for self-study programs.

Professional competence. Having requisite knowledge, skills, and abilities to provide quality services as defined by the technical and ethical standards of the profession. The expertise needed to undertake professional responsibilities and to serve the public interest.

Program of learning. A collection of learning activities that are designed and intended as continuing education and that comply with these standards.

Reinforcement feedback. Specific responses to correct answers to questions in self-study programs.

Self study program. An educational process designed to permit a participant to learn a given subject without major involvement of an instructor.

Word count formula. A method to determine the recommended CPE credit for self study programs that uses a formula including word count of learning material, number of questions and exercises, and duration of audio and video segments.

Update. Learning activity level that provides a general review of new developments. This level is for participants with a background in the subject area who desire to keep current.

Article II – General Guidelines for CPAs

2.01 Professional Competence. All CPAs should participate in learning activities that maintain and/or improve their professional competence.²

Selection of learning activities should be a thoughtful, reflective process addressing the individual CPA's current and future professional plans, current knowledge and skills level, and desired or needed additional competence to meet future opportunities and/or professional responsibilities.

CPAs fields of employment do not limit the need for CPE. CPAs performing professional services need to have a broad range of knowledge, skills, and abilities. Thus, the concept of professional competence may be interpreted broadly. Accordingly, acceptable continuing education encompasses programs contributing to the development and maintenance of professional skills.

The fields of study at [include link] represent the primary knowledge and skill areas needed by CPAs to perform professional services in all fields of employment.

To help guide their professional development, CPAs may find it useful to develop a learning plan. Learning plans are structured processes that help CPAs guide their professional development. They are

² The terms "should" and "must" are intended to convey specific meanings within the context of this *Joint AICPA/NASBA Statement on Standards for Continuing Professional Education Programs*. The term "must" is used in the standards applying to CPAs and CPE program sponsors to convey that CPAs and CPE program sponsors are not permitted any departure from those specific standards. The term "should" is used in the standards applying to both CPAs and CPE program sponsors and is intended to convey that CPAs and CPE program sponsors are encouraged to follow such standards as written.

dynamic instruments used to evaluate and document learning and professional competence development. They may be reviewed regularly and modified as CPAs' professional competence needs change. Plans include: a self-assessment of the gap between current and needed knowledge, skills, and abilities; a set of learning objectives arising from this assessment; and learning activities to be undertaken to fulfill the learning plan.

2.02 CPE Compliance. CPAs must comply with all applicable CPE requirements.

CPAs are responsible for compliance with all applicable CPE requirements, rules, and regulations of state licensing bodies, other governmental entities, membership associations, and other professional organizations or bodies. CPAs should contact each appropriate entity to which they report to determine its specific requirements or any exceptions it may have to the standards presented herein.

Periodically, CPAs participate in learning activities which do not comply with all applicable CPE requirements, for example specialized industry programs offered through industry sponsors. If CPAs propose to claim credit for such learning activities, they must retain all relevant information regarding the program to provide documentation to state licensing bodies and/or all other professional organizations or bodies that the learning activity is equivalent to one which meets all these standards.

2.03 CPE Credits Record Documentation. CPAs are responsible for accurate reporting of the appropriate number of CPE credits earned and must retain appropriate documentation of their participation in learning activities.

To protect the public interest, regulators require CPAs to document maintenance and enhancement of professional competence through periodic reporting of CPE. For convenience, measurement is expressed in CPE credits. However, the objective of CPE must always be maintenance/enhancement of professional competence, not attainment of credits. Compliance with regulatory and other requirements mandates that CPAs keep documentation of their participation in activities designed to maintain and/or improve professional competence. In the absence of legal or other requirements, a reasonable policy is to retain documentation for a minimum of five years from the end of the year in which the learning activities were completed.

Participants must document their claims of CPE credit. Examples of acceptable evidence of completion include:

- For group and independent study programs, a certificate or other verification supplied by the CPE program sponsor.
- For self-study programs, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination.
- For instruction credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard 15 in Standards for CPE Program Measurement.
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received.
- For university or college non-credit courses, a certificate of attendance issued by a representative of the university or college.
- For published articles, books, or CPE programs, (1) a copy of the publication (or in the case of a CPE program, course development documentation) that names the writer as author or contributor, (2) a statement from the writer supporting the number of CPE hours claimed, and (3) the name and contact information of the independent reviewer(s) or publisher.

2.04 Reporting CPE Credits. CPAs who complete sponsored learning activities that maintain or improve their professional competence must claim no more than the CPE credits recommended by CPE program sponsors subject to the state board regulations.

CPAs may participate in a variety of sponsored learning activities, such as workshops, seminars and conferences, self-study courses, Internet-based programs, and independent study. While CPE program

sponsors determine credits, CPAs must claim credit only for activities through which they maintained or improved their professional competence. CPAs who participate in only part of a program must claim CPE credit only for the portion they attended or completed.

2.05 Independent Study. CPAs may engage in independent study under the direction of a CPE program sponsor who has met the applicable standards for CPE program sponsors when the subject matter and level of study maintain or improve their professional competence.

Independent study is an educational process designed to permit a participant to learn a given subject under the guidance of a CPE program sponsor. Participants in an independent study program must:

- Enter into a written learning contract with a CPE program sponsor who must comply with the applicable standards for CPE program sponsors. A learning contract:
 1. Specifies the nature of the independent study program and the time frame over which it is to be completed, not to exceed 15 weeks.
 2. Specifies that the output must be in the form of a written report that will be reviewed by the CPE program sponsor or a qualified person selected by the CPE program sponsor.
 3. Outlines the maximum CPE credit that will be awarded for the independent study program, but limits credit to actual time spent.
- Accept the written recommendation of the CPE program sponsor as to the number of credits to be earned upon successful completion of the proposed learning activities. CPE credits will be awarded only if:
 1. All the requirements of the independent study as outlined in the learning contract are met,
 2. The CPE program sponsor reviews and signs the participant's report,
 3. The CPE program sponsor reports to the participant the actual credits earned, and
 4. The CPE program sponsor provides the participant with contact information.

The credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

- Retain the necessary documentation to satisfy regulatory requirements as to the content, inputs, and outcomes of the independent study.

Article III – Standards for CPE Program Sponsors

3.01 - General Standards

Standard No. 1. CPE program sponsors are responsible for compliance with all applicable standards and other CPE requirements.

S1 - 01. CPE requirements of licensing bodies and others. CPE program sponsors may have to meet specific CPE requirements of state licensing bodies, other governmental entities, membership associations, and/or other professional organizations or bodies. Professional guidance for CPE program sponsors is available from NASBA; state-specific guidance is available from the state boards of accountancy. CPE program sponsors should contact the appropriate entity to determine requirements.

3.02 - Standards for CPE Program Development

Standard No. 2. Sponsored learning activities must be based on relevant learning objectives and outcomes that clearly articulate the knowledge, skills, and abilities that can be achieved by participants in the learning activities.

S2 - 01. Program knowledge level. Learning activities provided by CPE program sponsors for the benefit of CPAs must specify the knowledge level, content, and learning objectives so that potential participants can determine if the learning activities are appropriate to their professional competence development needs. Knowledge levels consist of basic, intermediate, advanced, update, and overview.

Standard No. 3. CPE program sponsors must develop and execute learning activities in a manner consistent with the prerequisite education, experience, and/or advance preparation of participants.

S3 - 01. Prerequisite education and experience. To the extent it is possible to do so, CPE program sponsors should make every attempt to equate program content and level with the backgrounds of intended participants. All programs must clearly identify prerequisite education, experience, and/or advance preparation, if any, in precise language so that potential participants can readily ascertain whether they qualify for the program.

Standard No. 4. CPE program sponsors must use activities, materials, and delivery systems that are current, technically accurate, and effectively designed. All courses must contain a publication or revision date. Courses must be revised as soon as feasible following changes to relative codes, laws, rulings, decisions, interpretations, etc. Courses in subjects that undergo frequent changes must be reviewed by an individual with subject matter expertise at least once a year to verify the currency of the content. Other courses must be reviewed at least every two years.

S4 - 01. Developed by a subject matter expert. Learning activities must be developed by individuals or teams having expertise in the subject matter. Expertise may be demonstrated through practical experience or education.

Standard No. 5. CPE program sponsors of group and self-study programs must ensure learning activities are reviewed by qualified persons other than those who developed the programs to assure that the program is technically accurate and current and addresses the stated learning objectives. These reviews must occur before the first presentation of these materials and again after each significant revision of the CPE programs. For all programs, the participation of at least one CPA is required in the development of every program in accounting and auditing. The participation of a CPA, tax attorney, or IRS enrolled agent is required in the development of each program in the field of study of taxes. As long as this requirement is met at some point during the development process, a program would be in compliance. Whether to have this individual involved during the development or the review process is at the CPE program sponsor's discretion.

S5 - 01. Qualifications of reviewers. Individuals or teams qualified in the subject matter must review programs. When it is impractical to review certain programs in advance, such as lectures given only once, greater reliance should be placed on the recognized professional competence of the instructors or presenters. Using independent reviewing organizations familiar with these standards may enhance quality assurance.

Standard No. 6. CPE program sponsors of independent study learning activities must be qualified in the subject matter.

S6 - 01. Requirements of independent study sponsor. A CPE program sponsor of independent study learning activities must have expertise in the specific subject area related to the independent study. The CPE program sponsor must also:

- Review, evaluate, approve, and sign the proposed independent study learning contract, including agreeing in advance on the number of credits to be recommended upon successful completion.
- Review and sign the written report developed by the participant in independent study.
- Retain the necessary documentation to satisfy regulatory requirements as to the content, inputs, and outcomes of the independent study.

Standard No. 7. Group internet based programs must employ learning methodologies that clearly define learning objectives, guide the participant through the learning process, and provide evidence of a participant's satisfactory completion of the program.

S7 - 01. Live instructor during program presentation. Group internet based programs must have a live instructor while the program is being presented. Program participants must be able to interact with the live instructor simultaneously while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). Once a group internet based program is recorded or archived for future presentation, it will continue to be considered a group internet based program only where a live subject matter expert facilitates the recorded presentation. Any future presentations that do not include a live subject matter expert will be considered a self study program and must meet all self study delivery method requirements with the exception of the basis for CPE credit. CPE credit for an archived group program will be equal to the CPE credit awarded to the original presentation.

Standard No. 8. Self study programs must employ learning methodologies that clearly define learning objectives, guide the participant through the learning process, and provide evidence of a participant's satisfactory completion of the program.

S8 - 01. Guide participant through learning process. To guide participants through a learning process, CPE program sponsors of self-study programs must elicit participant responses to test for understanding of the material. Learners must participate in activities during instruction to demonstrate achievement of learning objectives. Appropriate feedback must be provided. Achievement of learning objectives must be confirmed after the course through a final assessment.

S8 - 02. Use of review questions. Review questions must be placed at the end of each learning activity throughout the program in sufficient intervals to allow the learner the opportunity to evaluate the material that needs to be re-studied. If objective type questions are used, at least three review questions per CPE credit must be included (or two review questions if the program is marketed for one-half CPE credits).

S8 - 03. Evaluative and reinforcement feedback on review questions. If the multiple choice method is used, evaluative feedback for each incorrect response must explain why each response is wrong and reinforcement feedback must be provided for correct responses. If rank order or matching questions are used, then it is permissible to provide single feedback to explain the correct response. Simulations and other innovative tools that guide participants through structured decisions could provide feedback at irregular intervals or at the end of the learning experience. In those situations, single feedback would be permissible. True/false questions are allowed as review questions but are not included in the number of review questions required per CPE credit. Forced choice questions, when used as part of an overall learning strategy, are allowed as review questions and can be counted in the number of review questions required per CPE credit. There is no minimum passing rate required for review questions.

S8 - 04. Final examination requirements. To provide evidence of satisfactory completion of the course, CPE program sponsors of self-study programs must require participants to successfully complete a final examination with a minimum-passing grade of at least 70 percent before issuing CPE credit for the course. Examinations may contain questions of varying format (for example, multiple-choice, essay, and simulations). At least five questions/scored responses per CPE credit must be included on the final examination (or three final exam questions if the program is marketed for one-half CPE credits). For example, the final examination for a five-credit course must include at least 25 questions. Alternatively, a five and one-half credit course must include at least 28 questions. Except in courses where recall of information is the learning strategy, duplicate review and final exam questions are not allowed. True/false questions are not permissible on the final examination, effective as of January 1, 2014.

S8 - 05. Feedback on final examination. Providing feedback on the final examination is at the discretion of the CPE program sponsor. However, if feedback is provided on the final examination, then

the CPE program sponsor must ensure that the question test bank is of sufficient size to minimize overlap of questions on the final examination for the typical repeat test-taker. In addition, any provided feedback must comply with the feedback for review questions as described in S8 – 03.

S8 – 06. Program/course expiration date. All courses must include an expiration date (the time by which the learner must complete the final examination). For individual courses, the expiration date is one year from the date of purchase or enrollment. For a series of courses to achieve an integrated learning plan, the expiration date may be longer.

S8 – 07. Based on materials developed for instructional use. Self study programs must be based on materials specifically developed for instructional use and not on third party materials. Self study programs requiring only the reading of general professional literature, IRS publications, or reference manuals followed by a test will not be acceptable. However, the use of the publications and reference materials in self-study programs as supplements to the instructional materials could qualify if the self study program complies with each of the CPE standards.

Instructional materials for self study include teaching materials which are written for instructional educational purposes. These materials must demonstrate the expertise of the author(s). At a minimum, instructional materials must include the following items:

1. An overview of topics;
2. The ability to find information quickly;
3. The definition of key terms;
4. Instructions to participants;
5. Review questions with feedback; and
6. Final exam.

3.03 - Standards for CPE Program Presentation

Standard No. 9. CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. For CPE program sponsors whose courses are developed for sale and/or for external audiences (i.e., not internal training), CPE program sponsors must inform participants in advance of:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and field of study [include link].
- Prerequisites.
- Program level.
- Advance preparation.
- Program content.
- Course registration requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement (explaining final authority of acceptance of CPE credits) [include link].

For CPE program sponsors whose courses are purchased or developed for internal training only, CPE program sponsors must inform participants in advance of:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and field of study [include link].
- Prerequisites.
- Advance preparation.
- Program level (for optional internal courses only).

S9 – 01. Disclose significant features of program in advance. For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, Internet notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

S9 – 02. Disclose advance preparation and/or prerequisites. CPE program sponsors must distribute program materials in a timely manner and encourage participants to complete any advance preparation requirements. All programs must clearly identify prerequisite education, experience, and/or advance preparation requirements, if any, in the descriptive materials. Prerequisites, if any, must be written in precise language so that potential participants can readily ascertain whether they qualify for the program.

Standard No. 10. CPE program sponsors must ensure instructors are qualified with respect to both program content and instructional methods used.

S10 – 01. Qualifications of instructors. Instructors are key ingredients in the learning process for any group program. Therefore, it is imperative that CPE program sponsors exercise great care in selecting qualified instructors for all group programs. Qualified instructors are those who are capable, through training, education, or experience of communicating effectively and providing an environment conducive to learning. They must be competent and current in the subject matter, skilled in the use of the appropriate instructional methods and technology, and prepared in advance.

S10 - 02. Evaluation of instructors' performance. CPE program sponsors should evaluate the instructor's performance at the conclusion of each program to determine the instructor's suitability to serve in the future.

Standard No. 11. CPE program sponsors must employ an effective means for evaluating learning activity quality with respect to content and presentation, as well as provide a mechanism for participants to assess whether learning objectives were met.

S11 - 01. Required elements of evaluation. The objectives of evaluation are to assess participant satisfaction with specific programs and to increase subsequent program effectiveness. Evaluations, whether written or electronic, must be solicited from participants and instructors for each program session, including self-study, to determine, among other things, whether:

- Stated learning objectives were met.
- Stated prerequisite requirements were appropriate and sufficient.
- Program materials were relevant and contributed to the achievement of the learning objectives.
- Time allotted to the learning activity was appropriate.
- If applicable, individual instructors were effective.

S11 - 02. Evaluation results. CPE program sponsors must periodically review evaluation results to assess program effectiveness and should inform developers and instructors of evaluation results.

Standard No. 12. CPE program sponsors must ensure instructional methods employed are appropriate for the learning activities.

S12 - 01. Evaluate instructional method in context of program presentation. CPE program sponsors must evaluate the instructional methods employed for the learning activities to determine if the delivery is appropriate and effective.

S12 – 02. Facilities and technology appropriateness. Learning activities must be presented in a manner consistent with the descriptive and technical materials provided. Integral aspects in the learning

environment that should be carefully monitored include the number of participants and the facilities and technologies employed in the delivery of the learning activity.

3.04 - Standards for CPE Program Measurement

Standard No. 13. Sponsored learning activities are measured by actual program length, with one 50-minute period equal to one CPE credit. Sponsors may recommend one-half CPE credits under the following scenarios:

- **Group – after the first credit has been earned.**
- **Self study – one-half increments (equal to 25 minutes) are permitted.**

The CPA claiming CPE credits should refer to respective state board requirements regarding acceptability of one-half CPE credits.

S13 – 01. Learning activities with individual segments. For learning activities in which individual segments are less than 50 minutes, the sum of the segments would be considered one total program. For example, five 30-minute presentations would equal 150 minutes and would be counted as three CPE credits. When the total minutes of a sponsored learning activity are greater than 50, but not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit. Thus, learning activities with segments totaling 140 minutes would be granted two and one-half CPE credits.

S13 – 02. Responsibility to monitor attendance. While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must demonstrate reasonable efforts to monitor group learning participation to assign the correct number of CPE credits.

S13 – 03. Monitoring mechanism for group internet based programs. In addition to meeting all other applicable group program standards and requirements, group internet based programs must employ some type of monitoring mechanism to verify that participants are participating during the duration of the course. The monitoring mechanism must be of sufficient frequency and lack predictability to provide assurance that participants have been engaged throughout the program. If polling questions are used as a monitoring mechanism, at least three polling questions must be used per CPE credit hour. CPE program sponsors should verify with respective state boards on specific polling requirements.

S13 – 04. Small group viewing of group internet based programs. In situations where small groups view a group internet based program such that one person logs into the program and asks questions on behalf of the group, documentation of attendance is required in order to award CPE credits to the group of participants. Participation in the group must be documented and verified by the small group facilitator in order to authenticate attendance for program duration.

S13 – 05. University or college credit course. For university or college credit courses that meet these CPE Standards, each unit of college credit shall equal the following CPE credits:

- Semester System 15 credits
- Quarter System 10 credits

S13 – 06. University or college non-credit course. For university or college non-credit courses that meet these CPE standards, CPE credit shall be awarded only for the actual classroom time spent in the non-credit course.

S13 – 07. Participant preparation time. Credit is not granted to participants for preparation time.

S13 – 08. Committee or staff meetings qualification for CPE credits. Only the portions of committee or staff meetings that are designed as programs of learning and comply with these standards qualify for CPE credit.

Standard No. 14. CPE credit for self study learning activities must be based on one of the following educationally sound and defensible methods:

Method 1: Pilot test of the representative completion time.

Method 2: Computation using the prescribed word count formula.

S14 – 01. Method 1 - Sample group of pilot testers. A sample of intended professional participants must be selected to test program materials in an environment and manner similar to that in which the program is to be presented. The sample group must consist of at least three qualified individuals who are independent of the program development group. For those courses whose target audience includes CPAs, the sample group must be licensed CPAs currently subject to state CPE requirements as defined by state board requirements and possess the appropriate level of knowledge before taking the program. For those sponsors who are subject to various regulatory requirements that mandate a minimum number of CPE credits and offer courses to non-CPAs, those courses do not have to be pilot tested by licensed CPAs.

S14 – 02. Method 1 - CPE credit based on representative completion time. The sample does not have to ensure statistical validity; however, if the results of pilot testing are inconsistent, then the sample must be expanded or any inconsistent results eliminated. CPE credit must be recommended based on the representative completion time for the sample. Completion time includes the time spent taking the final examination and does not include the time spent completing the course evaluation. Pilot testers must not be informed about the length of time the program is expected to take to complete. If substantive changes are subsequently made to program materials, further pilot tests of the revised program materials must be conducted to affirm or amend, as appropriate, the representative completion time.

S14 – 03. Method 1 - Requirement for re-pilot testing. If, subsequent to course release, actual participant completion time warrants a change in CPE credit hours, re-pilot testing is required to substantiate a change in CPE credit prospectively.

S14 – 04. Method 1 - Pilot testing when course is purchased from vendor or other developer. CPE program sponsors may purchase courses from other vendors or course developers. For purchased courses where pilot tests were conducted and provided, CPE program sponsors must review results of the course developer's pilot test results to ensure that the results are appropriate. For purchased courses where no pilot tests were conducted or provided, CPE program sponsors must conduct pilot testing.

S14 – 05. Method 2 – Basis for prescribed word count formula. The prescribed word count formula begins with a word count of the number of words contained in the text of the required reading of the self study program and should exclude any material not critical to the achievement of the stated learning objectives for the program. Examples of information material that are not critical and therefore excluded from the word count are: course introduction; instructions to the learner; author/course developer biographies; table of contents; glossary; and appendices containing supplementary reference materials.

Again, only course content text that is critical to the achievement of stated learning objectives should be included in the word count formula. If an author/course developer determines, for example, that including the entire accounting rule or tax regulation is beneficial to the learner, the accounting rule or tax regulation should be included as an appendix to the course as supplementary reference material and excluded from the word count formula. Only pertinent paragraphs or sections of the accounting rule or tax regulation required for the achievement of stated learning objectives should be included in the actual text of the course and therefore included in the word count formula.

Review questions, exercises and final examination questions are considered separately in the calculation and should not be included in the word count.

S14 – 06. Method 2 – Consideration of audio and video segments in word count formula. If audio and video segments of a self study program constitute additional learning for the participant (i.e., not

narration of the text), then the actual audio/video duration time may be added to the time calculation as provided in the prescribed word count formula.

S14 – 07. Method 2 – Calculation of CPE credit using the prescribed word count formula. The word count for the text of the required reading of the program is divided by 180, the average reading speed of adults. The total number of review questions, exercises and final examination questions is multiplied by 1.85, which is the estimated average completion time per question. These two numbers plus actual audio/video duration time, if any, are then added together and the result divided by 50 to calculate the CPE credit for the self study program. When the total minutes of a self study program are not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit.

$$[(\# \text{ of words}/180) + \text{actual audio/video duration time} + (\# \text{ of questions} * 1.85)]/50 = \text{CPE credit}$$

Standard No. 15. Instructors or discussion leaders of learning activities may receive CPE credit for their preparation and presentation time to the extent the activities maintain or improve their professional competence and meet the requirements of these CPE standards.

S15 – 01. Instructor CPE credit parameters. Instructors, discussion leaders, or speakers who present a learning activity for the first time may receive CPE credit for actual preparation time subject to regulations and maximums established by the state boards. For repeat presentations, CPE credit can be claimed only if it can be demonstrated that the learning activity content was substantially changed and such change required significant additional study or research.

S15 – 02. Authoring and presenting a program. The CPA claiming CPE credits should refer to respective state board requirements.

Standard No. 16. Writers of published articles, books, or CPE programs may receive CPE credit for their research and writing time to the extent it maintains or improves their professional competence.

S16 – 01. Requirement for review from independent party. Writing articles, books, or CPE programs for publication is a structured activity that involves a process of learning. For the writer to receive CPE credit, the article, book, or CPE program must be formally reviewed by an independent party. CPE credits should be claimed only upon publication.

S16 – 02. Authoring and presenting a program. As a general rule, receiving CPE credits for authoring and presenting the same program should not be allowed. The CPA claiming CPE credits should refer to respective state board requirements.

Standard No. 17. CPE credits recommended by a CPE program sponsor of independent study must not exceed the time the participant devoted to complete the learning activities specified in the learning contract.

S17 – 01. CPE credits agreed to in advance. The credits to be recommended by an independent study CPE program sponsor must be agreed upon in advance and must be equated to the effort expended to improve professional competence. The credits cannot exceed the time devoted to the learning activities and may be less than the actual time involved.

3.05 - Standards for CPE Program Reporting

Standard No. 18. CPE program sponsors must provide program participants at or after the conclusion of the program with documentation of their participation (certificate of completion), which includes the following:

- CPE program sponsor name and contact information.

- Participant's name.
- Course title.
- Course field of study. [include link]
- Date offered or completed.
- If applicable, location.
- Type of instructional/delivery method used.
- Amount of CPE credit recommended.
- Verification by CPE program sponsor representative.
- Sponsor identification number or registration number, if required by the state boards.
- NASBA time statement stating that CPE credits have been granted on a 50-minute hour.
- Any other statements required by state boards.

S18 – 01. Entity to award CPE credits and acceptable documentation. The CPE program sponsor is the individual or organization responsible for issuing the certificate of completion and maintaining the documentation required by these standards. The entity whose name appears on the certificate of completion is responsible for validating the CPE credits claimed by a participant. CPE program sponsors must provide participants with documentation to support their claims of CPE credit. Acceptable evidence of completion includes:

- For group and independent study programs, a certificate or other verification supplied by the CPE program sponsor.
- For self-study programs, a certificate supplied by the CPE program sponsor after satisfactory completion of an examination.
- For instruction credit, appropriate supporting documentation that complies with the requirements of the respective state boards subject to the guidelines in Standard 15 in Standards for CPE Program Measurement.
- For a university or college course that is successfully completed for credit, a record or transcript of the grade the participant received.
- For university or college non-credit courses, a certificate of attendance issued by a representative of the university or college.
- For published articles, books, or CPE programs, (1) a copy of the publication (or in the case of a CPE program, course development documentation) that names the writer as author or contributor, (2) a statement from the writer supporting the number of CPE hours claimed, and (3) the name and contact information of the independent reviewer(s) or publisher.

Standard No. 19. CPE program sponsors must retain adequate documentation (electronic or paper) for a minimum of five years to support their compliance with these standards and the reports that may be required of participants.

S19 – 01. Required documentation elements. Evidence of compliance with responsibilities set forth under these standards which is to be retained by CPE program sponsors includes, but is not limited to:

- Records of participation.
- Dates and locations.
- Instructor names and credentials.
- Number of CPE credits earned by participants.
- Results of program evaluations.

Information to be retained by developers includes copies of program materials, evidence that the program materials were developed and reviewed by qualified parties, and a record of how CPE credits were determined.

S19 – 02. Maintenance of documentation as basis for CPE credit for self study programs. For CPE program sponsors using Method 1 (pilot tests) as the basis for CPE credit for self study programs, appropriate pilot test records must be retained regarding the following:

- When the pilot test was conducted.
- The intended participant population.
- How the sample was determined.
- Names and credentials and relevant experience of sample pilot test participants.
- A summary of pilot test participants' actual completion time.
- Statement from pilot tester to confirm that the pilot tester is independent from the course development group and that the pilot tester was not informed in advance of the expected completion time.

For CPE program sponsors using Method 2 (word count formula) as the basis for CPE credit for self study programs, the word count formula calculation as well as the supporting documentation for the data used in the word count formula (e.g., word count; number of review questions, exercises and final examination questions; duration of audio and/or video segments, if applicable; and actual calculation) must be retained.

Effective dates:

Unless otherwise established by state licensing bodies and/or other professional organizations, these Standards are to be effective as follows:

1. For group programs and independent study – January 1, 2012.
2. For self study programs being published for the first time – January 1, 2012.
3. For self study programs already in existence as of December 31, 2011 – January 1, 2014.



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



September 22, 2011

Joanne Jolicoeur
National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219

RE: CPE Standards Exposure Draft, August 2011

Dear Ms. Jolicoeur:

On behalf of the California Board of Accountancy (CBA), I am pleased to respond to the American Institute of Certified Public Accountants and the National Association of State Boards of Accountancy regarding the Exposure Draft for the Statement on Standards for Continuing Professional Education Programs (Standards).

The CBA supports the changes being made to the Standards contained in the Exposure Draft. It is believed that the improvements in the organization of the Standards, expanded record keeping requirements, enhancements related to third party review of published articles and books, as well as a number of technical changes will lead to increased clarity, ease of use and consistency among providers especially related to new webcast continuing education standards.

The primary areas where proposed changes in the Standards might warrant potential changes to CBA regulations fall into the arenas of Self-Study and Group Internet-based (webcast) Programs. Once the final Standards are released, the CBA will review and consider what changes might be appropriate for incorporation into CBA Regulations. Should changes to CBA Regulations be needed, the timeframe to implement a regulatory change is approximately 12-18 months.

Thank you for giving the CBA the opportunity to respond to this exposure draft.

Sincerely,

Sarah Anderson, CPA, President

c: Members, California Board of Accountancy



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



CBA Item XI.C
September 22, 2011

Press Release Focus

Presented by: Lauren Hersh/ Information and Planning Manager

Date: 9/8/11

Purpose of the Item

Staff will provide suggestions for an appropriate focus for the press release to be issued following each CBA meeting. This is a dynamic analysis based on the activities of each CBA meeting.

Action(s) Needed

No specific action is required on this agenda item

Background

There have been six press releases since the July CBA meeting. Several additional enforcement-related releases were drafted but are awaiting developments in the specific cases before final review and release.

Comments

None.

Recommendation

Staff recommendation will be made at the time of this presentation.

Attachments

California Board of Accountancy Enforcement Action News Release

Sent to business@latimes.com on August 1, 2011

The California Supreme Court has denied a petition for review filed by a Los Angeles area man whose CPA license was revoked by the California Board of Accountancy. **Kwang-Ho Lee**, Rancho Palos Verdes, CA (CPA 64155) and **Kenny H. Lee CPA Group, Inc.**, Gardena, CA (COR 5185) petitioned the state Supreme Court after the Second District for the California State Court of Appeals(Division Eight) upheld the revocation for gross negligence, failure to maintain independence when performing auditing services, and failure to report discipline by the Public Company Accounting Oversight Board. Please utilize the attached links to the California Board of Accountancy's Web page to access details of these enforcement actions. Please contact Patti Bowers, Executive Officer, by telephone at (916) 561-1718 or by e-mail at pbowers@cba.ca.gov should you have any questions regarding these enforcement actions.

http://www.dca.ca.gov/cba/discipline/decisions/index_l.shtml#442

http://www.dca.ca.gov/cba/discipline/decisions/index_k.shtml#521

**California Board of Accountancy
Enforcement Action News Release**

Sent to business@latimes.com on August 30, 2011

Glenn Eric Braly, Ventura, CA (CPA 35176) has been disciplined by the California Board of Accountancy. Please utilize the attached link to the California Board of Accountancy's Web page to access details of this enforcement action. Please contact Patti Bowers, Executive Officer, by telephone at (916) 561-1718 or by e-mail at pbowers@cba.ca.gov should you have any questions regarding this enforcement action.

http://www.dca.ca.gov/cba/discipline/decisions/index_b.shtml#705

California Board of Accountancy Enforcement Action News Release

Sent to San Diego Union Tribune on August 30, 2011

Daniel David Warren, San Diego, CA (CPA 44362), **Kathleen Ann Warren**, San Diego, CA (CPA 57016), and **Williams Withers**, San Diego, CA (CPA 48220) have been disciplined by the California Board of Accountancy. Please utilize the attached links to the California Board of Accountancy's Web page to access details of these enforcement actions. Please contact Patti Bowers, Executive Officer, by telephone at (916) 561-1718 or by e-mail at pbowers@cba.ca.gov should you have any questions regarding these enforcement actions.

http://www.dca.ca.gov/cba/discipline/decisions/index_w.shtml#568

http://www.dca.ca.gov/cba/discipline/decisions/index_w.shtml#569

http://www.dca.ca.gov/cba/discipline/decisions/index_w.shtml#706

**California Board of Accountancy
Enforcement Action News Release**

Sent to Orange County Register on August 30, 2011

Milliard C. Caldwell, Costa Mesa, CA (CPA 24276) has been disciplined by the California Board of Accountancy. Please utilize the attached link to the California Board of Accountancy's Web page to access details of this enforcement action. Please contact Patti Bowers, Executive Officer, by telephone at (916) 561-1718 or by e-mail at pbowers@cba.ca.gov should you have any questions regarding this enforcement action.

http://www.dca.ca.gov/cba/discipline/decisions/index_c.shtml#642



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NEWS RELEASE

FOR IMMEDIATE RELEASE

Contact: Lauren Hersh
(916) 561-1789

CALIFORNIA BOARD OF ACCOUNTANCY VOTES TO OPPOSE AB 1424

CBA takes position that bill would dilute CBA's consumer protection role and place it in the role of tax collector

SACRAMENTO- The California Board of Accountancy is opposing Assembly Bill 1424 (Perea) which would require the CBA to suspend the license of any of its licensees who appear on the Franchise Tax Board's (FTB) or Board of Equalization's (BOE) lists of the 500 largest tax delinquencies. The CBA cited the following reasons for voting to oppose AB 1424:

- The CBA already has the authority and a process in place to discipline its licensees for "fiscal dishonesty or breach of fiduciary responsibility of any kind" following an investigation, and AB 1424 creates added responsibilities and processes to the CBA that have already been charged to other boards.
- The CBA's role is to protect consumers. It is not a tax collection agency.
- The CBA is concerned there could be a future expansion beyond the 500 largest tax delinquencies, further diverting its resources from consumer protection to assist other agencies with their tax collection responsibilities.

The CBA took formal action to take a position on the bill at its meeting Thursday, September 1, and has submitted an opposition letter to the legislature.

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For immediate news updates via email, subscribe to CBA's E-News at <https://www.cba.ca.gov/forms/enews>. Please check us out on Twitter @ <http://twitter.com/CBAnews> and Facebook @ <https://www.facebook.com/CBAnews#!/>

Created by statute in 1901, the CBA's mandate requires that protection of the public shall be its highest priority in exercising licensing, regulatory, and disciplinary functions. The CBA currently regulates more than 85,000 licensees, the largest group of licensed accounting professionals in the nation, including individuals, partnerships, and corporations. More information about the California Board of Accountancy is available at www.cba.ca.gov



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NEWS RELEASE

CALIFORNIA BOARD OF ACCOUNTANCY APPROVES PROPOSALS FOR NEW CPA EDUCATION REQUIREMENTS

*Looks to keep CPA licensure attainable to community college
and non-traditional students*

(Sacramento, CA) –The California Board of Accountancy (CBA) has begun the process to add approved course requirements for 30 additional units of education necessary for CPA licensure in California, including 10 units devoted to ethics education. These additional hours were the result of the California Legislature’s passage of Senate Bill 819 in 2009 and are designed to enhance consumer protection by strengthening the competency of applicants as practitioners. The expanded education requirements will also enable California CPAs in good standing to practice outside the state without having to obtain another license from those states that have enacted mobility legislation. The new requirements take effect January 2, 2014.

At its July 21 meeting in Pasadena, the CBA removed a requirement for upper division courses in the Accounting Education Committee (AEC) proposal, and requested the Ethics Curriculum Committee (ECC) reconsider the upper division requirement from its proposal. By statute, the CBA may not change the ECC’s report, but may request it consider revisions. CBA President Sally Anderson said the CBA wanted to move ahead and support both proposals, but had concerns that requiring upper level courses at a four year institution may unintentionally impact community college and non-traditional students.

“The CBA’s goal of the expanded education requirements is to strengthen the competency of CPAs, not create barriers for those wishing to enter the profession,” said Anderson. “We are confident that the new education requirements for CPA licensure in

California will assist in turning out well-educated, well-prepared applicants whose work will enhance consumer protection.”

The ECC met August 16 in Sacramento to address the request to remove the upper division designation from its proposal. The CBA is moving forward with getting the new requirements into regulation, so that universities and colleges may begin making any necessary curriculum changes. A copy of the proposed course requirements is available at http://www.dca.ca.gov/cba/lic_require.shtml.

The July 21, 2011 CBA meeting webcast is archived and available for viewing at <http://www.cba.ca.gov/webcast/> A copy of the full July 21, 2011 CBA meeting agenda is available online at: <http://www.dca.ca.gov/cba/meetings/materials/2011/mat0721cba.pdf>

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Updates are also available via Twitter at <http://twitter.com/CBAnews> and on Facebook at <http://www.facebook.com/CBAnews>

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**CALIFORNIA BOARD OF ACCOUNTANCY
REGULATION STATUS REPORT
August 30, 2011**

| Reg. Action | Subject | Publication Date | Public Hearing Date | Status/Date | Next Action/ Target Date |
|--|---|-------------------------|----------------------------|------------------------------|-------------------------------------|
| Repeal §9 & 11.5, Add §11.5, Amend §12, 12.5, & 98 | Supervision, Master's Degree, & Disciplinary Guidelines | 6/3/2011 | 7/21/2011 | 15-Day Public Comment Period | DCA Approval Process 9/6/2011 |
| Add §2.8, 11, 11.1, Amend §9.2 | Accounting Study | 9/16/2011 | 11/18/2011 | Drafting Regulation Package | To OAL for publication 9/6/2011 |
| Add §11, 11.2, 11.3 | Ethics Study | 9/30/2011 | 11/18/2011 | Drafting Regulation Package | To OAL for publication 9/20/2011 |