



**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)  
PUBLIC MEETING NOTICE FOR THE MOBILITY STAKEHOLDER GROUP (MSG),  
STRATEGIC PLANNING COMMITTEE (SPC), COMMITTEE ON PROFESSIONAL  
CONDUCT (CPC), LEGISLATIVE COMMITTEE (LC), ENFORCEMENT PROGRAM  
OVERSIGHT COMMITTEE (EPOC), AND CBA MEETINGS**

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- |                                       |   |
|---------------------------------------|---|
| <b>DATE:</b> Thursday, March 19, 2015 | <b>MSG MEETING</b><br><b>TIME:</b> 9:30 a.m.  |
| <b>DATE:</b> Thursday, March 19, 2015 | <b>SPC MEETING</b><br><b>TIME:</b> 11:30 a.m. or upon adjournment<br>of the MSG Meeting |
| <b>DATE:</b> Thursday, March 19, 2015 | <b>CPC MEETING</b><br><b>TIME:</b> 11:45 a.m. or upon adjournment<br>of the SPC Meeting |
| <b>DATE:</b> Thursday, March 19, 2015 | <b>LC MEETING</b><br><b>TIME:</b> 12:00 p.m. or upon adjournment<br>of the CPC Meeting  |
| <b>DATE:</b> Thursday, March 19, 2015 | <b>EPOC MEETING</b><br><b>TIME:</b> 12:15 p.m. or upon adjournment<br>of the LC Meeting |
| <b>DATE:</b> Thursday, March 19, 2015 | <b>CBA MEETING</b><br><b>TIME:</b> 1:30 p.m. to 5:00 p.m.                               |
| <b>DATE:</b> Friday, March 20, 2015   | <b>CBA MEETING</b><br><b>TIME:</b> 9:00 a.m. to 11:00 a.m.                              |
- PLACE:** Wyndham Irvine-Orange County Airport  
17941 Von Karman Avenue  
Irvine, CA 92614  
Telephone: (949) 863-1999

Enclosed for your information is a copy of the agendas for the MSG, SPC, CPC, LC, EPOC, and CBA meetings on March 19-20, 2015. For further information regarding these meetings, please contact:

Corey Riordan, Board Relations Analyst  
(916) 561-1716 or [cfriordan@cba.ca.gov](mailto:cfriordan@cba.ca.gov)  
California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815

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

**The meeting is accessible to individuals who are physically disabled. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting Corey Riordan at (916) 561-1718, or email [cfriordan@cba.ca.gov](mailto:cfriordan@cba.ca.gov), or send a written request to the CBA Office at 2000 Evergreen Street, Ste. 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.**



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
 MOBILITY STAKEHOLDER GROUP (MSG)**

**MSG MEETING  
 AGENDA**

**Thursday, March 19, 2015  
 9:30 a.m.**

**Wyndham Irvine-Orange County Airport  
 17941 Von Karman Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999**

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the MSG Chair. The meeting may be cancelled without notice. For verification of the meeting, call (916) 561-1716 or access the CBA's website at <http://www.cba.ca.gov>.

	<b><u>CBA Item #</u></b>
Call to Order, Roll Call, and Establishment of Quorum ( <b>Katrina Salazar, Chair</b> ).	
I. Presentation and Discussion Regarding Requirements for Reporting Actions Taken at California Board of Accountancy Committee Meetings in Accordance With California Government Code Section 11123.	
II. Approval of Minutes of the November 20, 2014 MSG Meeting.	IX.F.
III. The MSG Decision Matrix and Stakeholder Objectives (Written Report Only).	VIII.A.2.
IV. Discussion Regarding the Consumer Protection Provisions of Business and Professions Code Sections 5096.2 – 5096.21 ( <b>Matthew Stanley</b> ).	VIII.A.3.
V. Discussion and Approval of the MSG Annual Report ( <b>Matthew Stanley</b> ).	VIII.A.4.
VI. Report on the New York Board of Accountancy's Practice Privilege Program ( <b>Matthew Stanley</b> ).	VIII.A.5.

- |       |  |            |
|-------|--|------------|
| VII.  | Discussion and Recommendation to the CBA Regarding Approval of Timeline and Plan for Making Determinations Required Pursuant to Business and Professions Code Section 5096.21 <b>(Matthew Stanley)</b> . | VIII.A.6.  |
| VIII. | Discussion and Recommendation to the CBA Regarding the Basis for Making Determinations Required Pursuant to Business and Professions Code Section 5096.21 <b>(Matthew Stanley)</b> .                     | VIII.A.7.  |
| IX.   | Discussion Regarding the CBA's Practice Privilege Preliminary Determinations Report <b>(Matthew Stanley)</b> .   | VIII.A.8.  |
| X.    | Discussion Regarding NASBA's Activities and CPAVerify <b>(Matthew Stanley)</b> .   | VIII.A.9.  |
| XI.   | Discussion Regarding Proposed Agenda Items for the Next MSG Meeting <b>(Matthew Stanley)</b> .   | VIII.A.10. |
| XII.  | Public Comments.*  |            |

### Adjournment

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the MSG are open to the public.

\*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the MSG prior to the MSG taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the MSG. Individuals may appear before the MSG to discuss items not on the agenda; however, the MSG can take no official action on these items at the time of the same meeting. (Government Code section 11125.7(a).)

CBA members who are not members of the MSG may be attending the meeting. However, if a majority of members of the full CBA are present at the MSG meeting, members who are not MSG members may attend the meeting only as observers.



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
 STRATEGIC PLANNING COMMITTEE (SPC)**

**SPC MEETING  
 AGENDA**

**Thursday, March 19, 2015  
 11:30 a.m.**

**Or Upon Adjournment of the Mobility Stakeholder Group Meeting**

**Wyndham Irvine-Orange County Airport  
 17941 Von Karman Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999**

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the SPC Chair. The meeting may be cancelled without notice. For verification of the meeting, call (916) 561-1716 or access the CBA's website at <http://www.cba.ca.gov>.

	<b><u>CBA Item #</u></b>
Call to Order, Roll Call, and Establishment of Quorum (Alicia Berhow, Chair).	
I. Approve Minutes of the November 20, 2014 SPC Meeting.	IX.E.
II. Discussion Regarding the Process to Develop the 2016–2018 Strategic Plan (Lauren Hersh, Information and Planning Manager).	VIII.B.2.
III. Public Comments.*	
IV. Agenda Items for Next Meeting.	
Adjournment	

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the SPC are open to the public.

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CBA members who are not members of the SPC may be attending the meeting. However, if a majority of members of the full board are present at the SPC meeting, members who are not SPC members may attend the meeting only as observers.



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
 COMMITTEE ON PROFESSIONAL CONDUCT (CPC)**

**CPC MEETING  
 AGENDA**

**Thursday, March 19, 2015  
 11:45 a.m.**

**Or Upon Adjournment of the Strategic Planning Committee Meeting**

**Wyndham Irvine-Orange County Airport  
 17941 Von Karman Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999**

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the CPC Chair. The meeting may be cancelled without notice. For verification of the meeting, call (916) 561-1716 or access the CBA's website at <http://www.cba.ca.gov>.

	<b><u>CBA Item #</u></b>
Call to Order, Roll Call, and Establishment of Quorum (Leslie LaManna, Chair).	
I. Approve Minutes of the January 22, 2015 CPC Meeting.	IX.D.
II. Discussion and Update Regarding the Pretesting of the Attest Study Survey Items and Delegation of Authority to Approve Necessary Changes.	VIII.C.2.
III. Public Comments.*	
IV. Agenda Items for Next Meeting.	
Adjournment	

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the CPC are open to the public.

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CBA members who are not members of the CPC may be attending the meeting. However, if a majority of members of the full board are present at the CPC meeting, members who are not CPC members may attend the meeting only as observers.



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
 LEGISLATIVE COMMITTEE (LC)**

**LC MEETING  
 AGENDA**

**Thursday, March 19, 2015  
 12:00 p.m.**

**Or Upon Adjournment of the Committee on Professional Conduct Meeting**

**Wyndham Irvine-Orange County Airport  
 17941 Von Karman Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999**

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the LC Chair. The meeting may be cancelled without notice. For verification of the meeting, call (916) 561-1716 or access the CBA's website at <http://www.cba.ca.gov>.

	<b><u>CBA Item #</u></b>
Call to Order, Roll Call, and Establishment of Quorum ( <b>Mark Silverman, Chair</b> ).	
I. Approve Minutes of the January 22, 2015 LC Meeting.	IX.C.
II. Update on Sunset Review Activities and Consideration of Position on Senate Bill 467 ( <b>Kathryn Kay, Legislation Analyst</b> ).	VIII.D.2.
III. Update on Legislative Proposals for Inclusion in the 2015 Annual Omnibus Bill ( <b>Kathryn Kay</b> ).	VIII.D.3.
IV. Review of Introduced Legislation and Consideration of Possible Position ( <b>Kathryn Kay</b> ).	VIII.D.4.
A. AB 12 – State government: administrative regulations: review.	VIII.D.4.a.
B. AB 19 – State government: regulations.	VIII.D.4.b.
C. AB 85 – Open meetings.	VIII.D.4.c.
D. AB 507 – Department of Consumer Affairs.	VIII.D.4.d.
E. AB 513 – Professions and vocations.	VIII.D.4.e.
F. SB 8 – Taxation.	VIII.D.4.f.

V. Additional Legislation Impacting the CBA Identified After the Posting of the Meeting Notice (**Kathryn Kay**).

VIII.D.5.

VI. Public Comments.\*

VII. Agenda Items for Next Meeting.

Adjournment

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the LC are open to the public.

\*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the LC prior to the LC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the LC. Individuals may appear before the LC to discuss items not on the agenda; however, the LC can take no official action on these items at the time of the same meeting. (Government Code section 11125.7(a).)

CBA members who are not members of the LC may be attending the meeting. However, if a majority of members of the full board are present at the LC meeting, members who are not LC members may attend the meeting only as observers.



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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
 ENFORCEMENT PROGRAM OVERSIGHT COMMITTEE (EPOC)**

**EPOC MEETING  
 AGENDA**

**Thursday, March 19, 2015  
 12:15 p.m.**

**Or Upon Adjournment of the Legislative Committee Meeting**

**Wyndham Irvine-Orange County Airport  
 17941 Von Karman Avenue  
 Irvine, CA 92614  
 Telephone: (949) 863-1999**

**Important Notice to the Public**

All times indicated, other than those identified as "time certain," are approximate and subject to change. Agenda items may be discussed and action taken out of order at the discretion of the EPOC Chair. The meeting may be cancelled without notice. For verification of the meeting, call (916) 561-1716 or access the CBA's website at <http://www.cba.ca.gov>.

	<b><u>CBA Item #</u></b>
Call to Order, Roll Call, and Establishment of Quorum ( <b>Kay Ko, Chair</b> ).	
I. Approve Minutes of the November 20, 2014 EPOC Meeting.	IX.B.
II. Discussion Regarding the CBA's Provisions for Language Assistance ( <b>Dominic Franzella, Enforcement Chief</b> ).	VIII.E.2.
III. Discussion Regarding Proposed Agenda Items for 2015 ( <b>Dominic Franzella</b> ).	VIII.E.3.
IV. Public Comments.*	
V. Agenda Items for Next Meeting.	

**Adjournment**

Action may be taken on any item on the agenda. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the EPOC are open to the public.

\*Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the EPOC prior to the EPOC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the EPOC. Individuals may appear before the EPOC to discuss items not on the agenda; however, the EPOC can take no official action on these items at the time of the same meeting. (Government Code section 11125.7(a).)

CBA members who are not members of the EPOC may be attending the meeting. However, if a majority of members of the full board are present at the EPOC meeting, members who are not EPOC members may attend the meeting only as observers.



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

**CBA MEETING  
AGENDA**

**March 19, 2015  
1:30 p.m. – 5:00 p.m.**

**March 20, 2015  
9:00 a.m. – 11:00 a.m.**

**Wyndham Irvine-Orange County Airport  
17941 Von Karman Avenue  
Irvine, CA 92614  
Telephone: (949) 863-1999**

**Important Notice to the Public**

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**Thursday,  
March 19, 2015  
1:30 p.m. –  
2:30 p.m.**

Call to Order, Roll Call and Establishment of Quorum  
(**Jose Campos, President**).

- I. Report of the President (**Jose Campos**).
- A. Introduction of Newly Appointed CBA Member, Kathleen Wright, CPA.
- B. National Association of State Boards of Accountancy (NASBA) Presentation Regarding Changes to the Uniform CPA Exam (**Colleen Conrad, NASBA Executive Vice President and Chief Operations Officer**).
- C. NASBA/American Institute of Certified Public Accountants (AICPA) Committee Interest Form (**Corey Riordan, Board Relations Analyst**).

- D. Proposed 2016 CBA Meeting Dates and Locations (**Corey Riordan**).
  - E. DCA Director's Report (**DCA Representative**).
- 2:30 p.m. – 2:50 p.m.**
- II. Report of the Vice President (**Katrina Salazar**).
    - A. Report on Activities Related to the Sunset Review Process.
    - B. Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee (EAC).
    - C. Recommendations for Appointment(s)/Reappointment(s) to the Qualifications Committee (QC).
    - D. Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee (PROC).
- 2:50 p.m. – 3:10 p.m.**
- III. Report of the Secretary/Treasurer (**Alicia Berhow**).
    - A. Fiscal Year 2014–15 Mid-Year Financial Statement and Governor's Budget.
    - B. Discussion and Possible Action to Initiate a Rulemaking to Propose Changes to Title 16, California Code of Regulations Section 70 – Fees (**Deanne Pearce, Assistant Executive Officer**).
- 3:10 p.m. – 3:25 p.m.**
- IV. Report of the Executive Officer (EO) (**Patti Bowers**).
    - A. Update on the Relocation of the CBA's Office.
    - B. Update on Staffing.
    - C. Update on BreEZe Project.
    - D. Update on the CBA 2013–2015 Communications and Outreach Plan (Written Report Only).
- 3:25 p.m. – 3:40 p.m.**
- V. Report on the Enforcement Advisory Committee, Qualifications Committee and Peer Review Oversight Committee.
    - A. Enforcement Advisory Committee (EAC) (**Jeffrey De Lyser, Chair**).
      - 1. Report of the January 29, 2015 EAC Meeting.
    - B. Qualifications Committee (QC) (**Robert Ruehl, Chair**).

No Report.

C. Peer Review Oversight Committee (PROC) (**Robert Lee, Chair**).

1. Report of the January 30, 2015 PROC Meeting.
2. Presentation and Approval of the 2014 PROC Annual Report.

3:40 p.m. –  
3:55 p.m.

VI. Report of the Enforcement Chief (**Dominic Franzella**).

- A. Enforcement Activity Report.

3:55 p.m. –  
4:05 p.m.

VII. Report of the Licensing Chief (**Gina Sanchez**).

- A. Licensing Activity Report.

4:05 p.m. –  
5:00 p.m.

VIII. Committee Reports.

A. Mobility Stakeholder Group (MSG) (**Katrina Salazar**).

1. Report of the March 19, 2015 MSG Meeting.
2. The MSG Decision Matrix and Stakeholder Objectives (Written Report Only).
3. Discussion Regarding the Consumer Protection Provisions of Business and Professions Code Sections 5096.2 – 5096.21.
4. Discussion and Approval of the MSG Annual Report.
5. Report on the New York Board of Accountancy's Practice Privilege Program.
6. Discussion and Recommendation to the CBA Regarding Approval of Timeline and Plan for Making Determinations Required Pursuant to Business and Professions Code Section 5096.21.
7. Discussion and Recommendation to the CBA Regarding the Basis for Making Determinations Required Pursuant to Business and Professions Code Section 5096.21.
8. Discussion Regarding the CBA's Practice Privilege Preliminary Determinations Report.
9. Discussion Regarding NASBA's Activities and CPAVerify.
10. Discussion Regarding Proposed Agenda Items for the Next MSG Meeting.

B. Strategic Planning Committee (SPC) (**Alicia Berhow**).

1. Report of the March 19, 2015 SPC Meeting.
2. Discussion Regarding the Process to Develop the 2016-2018 Strategic Plan.

C. Committee on Professional Conduct (CPC) (**Leslie LaManna**).

1. Report of the March 19, 2015 CPC Meeting.
2. Discussion and Update Regarding the Pretesting of the Attest Study Survey Items and Delegation of Authority to Approve Necessary Changes.

D. Legislative Committee (LC) (**Mark Silverman**).

1. Report of the March 19, 2015 LC Meeting.
2. Update on Sunset Review Activities and Consideration of Position on Senate Bill 467.
3. Update on Legislative Proposals for Inclusion in the 2015 Annual Omnibus Bill.
4. Review of Introduced Legislation and Consideration of Possible Position.
  - a. AB 12 – State government: administrative regulations: review.
  - b. AB 19 – State government: regulations.
  - c. AB 85 – Open meetings.
  - d. AB 507 – Department of Consumer Affairs.
  - e. AB 513 – Professions and vocations.
  - f. SB 8 – Taxation.
5. Additional Legislation Impacting the CBA Identified After the Posting of the Meeting Notice.

E. Enforcement Program Oversight Committee (EPOC) (**Kay Ko**).

1. Report of the March 19, 2015 EPOC Meeting.
2. Discussion Regarding the CBA's Provisions for Language Assistance.
3. Discussion Regarding Proposed Agenda Items for 2015.

5:00 p.m.

Agenda Item XII. Closed Session may discussed and action taken out of order at the discretion of the CBA President.

**Friday,  
March 20, 2015  
9:00 a.m. –  
9:10 a.m.**

IX. Acceptance of Minutes.

- A. Draft Minutes of the January 22, 2015 CBA Meeting.
- B. Minutes of the November 20, 2014 EPOC Meeting.
- C. Minutes of the January 22, 2015 LC Meeting.
- D. Minutes of the January 22, 2015 CPC Meeting.
- E. Minutes of the November 20, 2014 SPC Meeting.
- F. Minutes of the November 20, 2014 MSG Meeting.
- G. Minutes of the December 11, 2014 EAC Meeting.
- H. Minutes of the August 22, 2014 PROC Meeting.
- I. Minutes of the December 10, 2014 PROC Meeting.

**9:10 a.m. –  
9:20 a.m.**

X. Other Business.

- A. American Institute of Certified Public Accountants (AICPA).
- B. National Association of State Boards of Accountancy (NASBA).
  1. Report on Strategic Planning Task Force (**Michael Savoy**).
  2. Nominations for NASBA 2015-2016 Vice Chair (**Corey Riordan**).
  3. Proposed Responses to NASBA Focus Questions (**Corey Riordan**).

**9:20 a.m. –  
9:30 a.m.**

XI. Closing Business.

- A. Public Comments.\*
- B. Agenda Items for Future CBA Meetings.
- C. Press Release Focus (**Deanne Pearce**).

**9:30 a.m. –  
11:00 a.m.**

- XII. Closed Session.\*\*
  - A. Pursuant to Government Code Section 11126(c)(3), the CBA Will Convene Into Closed Session to Deliberate on Disciplinary Matters (Stipulated Settlements, Default Decisions, and Proposed Decisions).
  - B. Pursuant to Government Code Section 11126(e), the CBA Will Meet In Closed Session to Receive Advice from Legal Counsel on Litigation (*David Greenberg v. California Board of Accountancy, Orange County Superior Court, Case No. 30-2014-00751855-CU-BT-CJC*).

### Adjournment

\*\*Action may be taken on any item on the agenda. The time and order of agenda items, including closed session, are subject to change at the discretion of the CBA President and may be taken out of order.

In accordance with the Bagley-Keene Open Meeting 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)).



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**CBA Item I.C.**  
March 19-20, 2015

## **National Association of State Boards of Accountancy/American Institute of Certified Public Accountants Committee Interest Form**

**Presented by:** Corey Riordan, Board Relations Analyst

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### **Purpose of the Item**

The purpose of this agenda item is to provide the California Board of Accountancy (CBA) with information regarding opportunities to participate on national committees with the National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA). This participation assists in ensuring that California maintains an active presence nationally in the decision-making process related to the accountancy profession.

### **Action(s) Needed**

No specific action is required on this agenda item.

### **Background**

None.

### **Comments**

#### **NASBA**

NASBA's committee recruitment process will begin in the near future, at which time staff will provide the CBA with the committee interest form and the deadline for submitting interest forms. CBA staff will act as a liaison by receiving the interest forms from CBA members and forwarding them to NASBA.

The committee interest form, which includes a listing of committees and their respective charges, will be available on the NASBA website at [www.nasba.org](http://www.nasba.org). The appointments are decided by NASBA's Planning Committee.

CBA members with specific questions or needing further information regarding NASBA committees, may contact Anita Holt at (615) 880-4202 or [aholt@nasba.org](mailto:aholt@nasba.org).

The CBA currently has representation on the following NASBA committee:

Strategic Planning Task Force: Michael M. Savoy, CPA

## **National Association of State Boards of Accountancy/American Institute of Certified Public Accountants Committee Interest Form**

Page 2 of 3

### AICPA

The AICPA is accepting applications until May 15, 2015 for the 2015-2016 volunteer year. Members interested in volunteering can complete an application and upload a resume at <http://volunteers.aicpa.org>.

Participation on AICPA's volunteer groups begins every October. The AICPA maintains a website that provides significant information on its 200-plus volunteer groups at <http://volunteers.aicpa.org>. The volunteer groups consist of the AICPA's Governing Council, Board of Directors, committees, subcommittees, expert panels, resource panels, quality centers, boards, and task forces.

There are a handful of AICPA volunteer groups where there has been an agreement with NASBA to appoint state board members. These volunteer groups include the Auditing Standards Board (ASB), Board of Examiners (BOE) State Board Committee, Professional Ethics Executive Committee (PEEC), and National Peer Review Committee (NPRC). A listing of these volunteer groups with respective charges is provided as **Attachment 1**. NASBA nominates several state board members for each of these volunteer groups and the AICPA fills vacancies from that list. With exception of the NPRC and PEEC, the volunteer groups require a member to be a CPA and a member of the AICPA.

It is important to note that participation in one of the AICPA volunteer groups requires review and signature on the "AICPA Volunteer Service Agreement" a copy of which is provided as **Attachment 2**.

At this time, the CBA does not have members participating on any AICPA volunteer groups.

Additional information regarding AICPA volunteer groups may be obtained from AICPA Volunteer Services by contacting Heather Collins by telephone at (919) 402-4846, Catey Bullard by telephone at (919) 402-4997, Jaime Geary by telephone at (919) 402-4103, or by email at [AICPAVolunteerServices@aicpa.org](mailto:AICPAVolunteerServices@aicpa.org).

### Travel

Many of the AICPA and NASBA committees provide the opportunity for members to participate via teleconference. This is a cost effective way to represent California on a national basis. As a result of the Governor's Executive Order, only travel that is deemed mission critical to the mandate of the CBA is authorized. Please seek prior approval if you deem it necessary to travel to attend a NASBA or AICPA committee meeting.

### Fiscal/Economic Impact Considerations

There are no fiscal/economic impact considerations.

### Recommendation

Staff does not have a recommendation on this agenda item.

**National Association of State Boards of Accountancy/American Institute of Certified Public Accountants Committee Interest Form**

Page 3 of 3

**Attachments**

1. Overview of the AICPA Volunteer Environment
2. AICPA Volunteer Service Agreement

## Overview of the AICPA Volunteer Environment

**History of AICPA.** The American Institute of Certified Public Accountants and its predecessors have a history dating back to 1887, when the American Association of Public Accountants (AAPA) was formed. In 1916, the American Association was succeeded by the Institute of Public Accountants, at which time there was a membership of 1,150. The name was changed to the American Institute of Accountants in 1917 and remained so until 1957, when it changed to its current name of the American Institute of Certified Public Accountants. The American Society of Certified Public Accountants was formed in 1921 and acted as a federation of state societies. The Society was merged into the Institute in 1936 and, at that time, the Institute agreed to restrict its future members to CPAs.

**History of Committees.** The use of committees began even before the AAPA was formed in 1887. At the first meeting of what would become the AAPA on December 22, 1886 those present authorized the appointment of a committee to draft rules and regulations. Beyond this first preliminary committee the first Bylaws of the AAPA in 1897 established three committees: Finance and Audit Committee, Committee on Elections, Qualifications and Examinations, and the Committee on Bylaws. The number of committees grew continually over the years. In the 1940s there were 34 committees, by 1960, there were 89, and by 1970, the number had grown to 109. In 1999 the nearly 120 existing committees underwent a re-organization with approximately half of the standing committees being replaced with a volunteer group model that placed an increased emphasis on the use of task forces. The increased use of task forces allowed for more targeted efforts with the task forces being given a specific assignment then disbanding upon completion of that assignment. Also, in 1999 the first tracking and management of task forces began. Collectively, more than 2,000 volunteers contribute to the AICPA's fulfilling its mission.

**Need for Volunteer Groups.** The AICPA organization consists of volunteer groups and staff working together to achieve the Institute's objectives. Volunteer Groups help present the interests, needs' and attitudes of the membership; and assist the Institute in maintaining high standards of professional practice, promoting the interest of CPAs, serving as a spokesperson for the profession, and providing appropriate services to members. An effective volunteer group structure can generate sound group judgment, provide continuity of thinking, and help bring together a cross section of member knowledge and experience. It also provides for leaders of the profession. The most important reason for organizing a volunteer group is the need for member guidance and representation.

**Volunteering for Service.** Prospective volunteers can apply for service on a volunteer group via the <http://volunteers.aicpa.org> website. State Societies, firms, firm associations or other members of the AICPA often recommend candidates for volunteer service. New volunteers should be aware of the time commitment volunteer group service entails. Considering attendance at volunteer group meetings, travel, and time for assignments and other meetings, members can expect to spend about 60-80 hours on volunteer work during the first year. Of course, the amount of time each volunteer member spends on volunteer group activities varies;

with each year of service, a member's time commitment often increases. By accepting appointment to the volunteer group, a volunteer member shows his or her willingness to devote the necessary time and effort to volunteer work.

**Term of Appointment.** In most cases, a volunteer is appointed for a one-year term, which can be extended to three years. Each year, the chairperson and the staff evaluate each member's contribution to their volunteer group. Customarily, a member cannot be reappointed for a fourth term unless he or she is appointed as chairperson of the volunteer group.

**Appointing Volunteers.** The appointment of volunteers can be divided into three main categories. The first appointment category (approximately 900 volunteers) includes all committees, subcommittees, expert panels, resource panels, boards and centers, whereby appointment to one of these groups are made during an annual appointments meeting held in July. The second appointment category (321 volunteers) includes the Board of Directors, Council, Joint Trial Board and Peer Review Board – appointments being made typically in February. The third and last appointment category (approximately 500 volunteers) includes all task force members in which appointment to a task force can occur at any time throughout the year as needed.

**Volunteer Year.** The AICPA Volunteer Year runs from October through October of the following year. The beginning of the Volunteer Year "officially" begins immediately following the Fall Meeting of Council.

## **TYPES OF VOLUNTEER GROUPS**

All members of the Council, Boards, Committees, Subcommittees, Panels, Centers and Task Forces (hereinafter "**volunteer groups**")

**Advisory Group** – An advisory group is not responsible for policy-setting as are regular committees the purpose of an advisory group is typically to capture the views of membership groups or sections. There are currently six advisory groups, these groups usually meet virtually via conference calls although they may on occasion meet in person.

**Audit Quality Center** – The objectives of the Audit Quality Center include:

- Enhance the quality of member firms' audit practices in the specialized area.
- Provide a forum for member firms to address technical and regulatory matters involving the specialized area of audit practice.
- Develop relationships with, act as a liaison to, and communicate issues to regulators and others for the purpose of representing the auditing profession's views relating to the specialized area of audit practice.
- Advocate solutions and positions to regulators and standards-setters on behalf of member firms in the specialized area.

**Board** – Based on the Bylaws of the AICPA the term Board is used in conjunction with the following bodies:

- Board of Directors
- Board of Examiners
- Joint Trial Board
- Peer Review Board

**Board of Directors** - The Board of Directors acts as the executive committee of Council, directing Institute activities between Council meetings. The Board meets five times a year and is responsible for reporting to the Council as least semiannually. The Board of Director consists of:

- Chairman of the Board of Directors
- Vice Chairman of the Board of Directors
- Immediate Past Chair of the Board of Directors
- Regular Members of the Board of Directors (members of the AICPA)
- Public Members of the Board of Directors (non AICPA members)

**Board Committees** - Board committees are comprised of members of the Board of Directors. The Chair of the Board and the President are Ex Officio Members of all Board committees. The following committees are classified as Board Committees:

- Accounting Research Association – to provide best efforts commitment of financial support to the Financial Accounting Foundation.
- Political Action Committee – provides financial support for election campaigns of candidates for federal elective office whose views are consistent with AICPA goals.
- Audit Committee – is primarily concerned with the effectiveness of the audits conducted by the Institute’s Internal Audit Staff and independent certified public accountants.
- Compensation Committee – establishes and monitors compliance with compensation policies for AICPA staff.
- Finance Committee – purpose is to maintain the relevance of the Institute’s continuing objectives and contribute to their advancement by reviewing strategy, plans, budgets and material deviations in plans and budgets prior to discussion by the Board of Directors.

**Board of Examiners** - The Board of Examiners (BOE) is responsible for the supervision and preparation of the uniform CPA examination which may be adopted by state Boards of Accountancies for examining candidates for the certified public accountant certification. The BOE is also responsible for the conduct of the grading service offered by the Institute. The BOE forms the necessary rules and regulations for the conduct of its work, but all such rules and regulations may be amended, suspended, or revoked by the Board of Directors. The BOE may delegate to members of the Institute's staff or other duly qualified persons the preparation of examination questions and the operation of the grading service conducted by the Institute

**Council** - Council determines Institute programs and policies. It has approximately 263 members with representatives from every state and U.S. territory. The Council may exercise all powers requisite for the purposes of the Institute, not inconsistent with the AICPA Bylaws or with duly enacted resolutions of the membership, including but not limited to the authority to prescribe the policies and procedures of the Institute and to enact resolutions binding upon the Board of Directors, the officers, volunteer groups, and staff. The Council consists of the following members:

- At-Large Members of Council
- Board of Directors
- Designated Representatives of each state
- Elected Members of Council
- Ex-Officio Members (past Chairs of the Board)
- Members At Large of Council

**Expert Panel** - Following the AICPA's volunteer group restructuring effort in 1999 the Board of Directors approved the establishment of Expert Panels that focus on identifying industry-specific business reporting issues with an emphasis on audit and accounting. Panels have been established in areas in which the membership and the public have a high stake and in which the AICPA can add significant value. The Expert Panels enable standards setters, such as Accounting Standards Executive Committee, Auditing Standards Board, Financial Accounting Standard Board (FASB), and the General Accounting Standards Board (GASB) to continue to leverage the AICPA membership's industry expertise, as well as provide a means for the profession to liaise with outside groups, such as regulators. Current Expert Panels include:

- Depository Institutions Expert Panel
- Employee Benefits Plans Expert Panel
- Health Care Expert Panel
- Insurance (Life and P&L) Expert Panel
- Investment Companies Expert Panel
- Not-for-Profit Organizations Expert Panel
- State & Local Government Expert Panel
- Stockbrokerage and Investment Banking Expert Panel

**Executive Committee** - An executive committee is the standing parent group responsible for Policy-setting in an area of activity. The Board of Directors acts as the executive committee of Council, directing Institute activities between Council meetings. Other Executive Committees include:

- Accounting Standards Executive Committee
- Assurance Services Executive Committee
- Business and Industry Executive Committee

- Employee Benefits Audit Quality Center Executive Committee
- Forensic and Valuation Services Executive Committee
- Governmental Audit Quality Center Executive Committee
- Information Technology Executive Committee
- PCPS Executive Committee
- Personal Financial Planning Executive Committee
- Pre-Certification Education Executive Committee
- Professional Ethics Executive Committee
- Professional Practice Executive Committee
- Tax Executive Committee
- Women’s Initiatives Executive Committee

**Joint Trial Board** – The Joint Trial Board consist of 36 members elected for a three year term by the Nominations Committee and ratified by Council. The Joint Trial Board provides for uniform enforcement of professional standards by adjudicating disciplinary charges against state society and AICPA members. Its decisions affect both AICPA and state society memberships.

**Nominations Committee** - As outlined in the Bylaws of the Institute the Nominations Committee is to be composed of eleven members of the Institute, elected by the Council in such manner as the Council shall prescribe. The responsibility of the Nominations Committee is to make nominations for the following:

- At-large Members of Council
- Board of Directors
- Peer Review Board
- Joint Trial Board

**Peer Review Board** - The Peer Review Board is responsible for establishing and conducting a peer review (program) for firms enrolled in the program. Quality in the performance of accounting and auditing engagements by its members is the goal of the program. The program seeks to achieve its goal through education and remedial, corrective actions. This goal serves the public interest and enhances the significance of AICPA membership. The Board also reevaluates the validity and objectives of the program to ensure the program continues to enhance the quality of accounting and auditing practices of public accounting firms and to explicitly recognize that protecting the public interest is an equally important objective of the program.

**Senior Committees and Boards** - The following committees and boards are designated senior by virtue of resolution of Council implementing the AICPA Bylaws. Note: that in a few instances some of these committees may also be designated as Senior Technical Committees.

- Accounting and Review Services Committee
- Accounting Standards Executive Committee

- Assurance Services Executive Committee
- AICPA Peer Review Board
- Auditing Standards Board
- Board of Examiners
- CPE Advisory Committee
- Employee Benefits Audit Quality Center Executive Committee
- Governmental Audit Quality Center Executive Committee
- Information Technology Executive Committee
- Personal Financial Planning Executive Committee
- PCPS Executive Committee
- Personal Financial Planning Executive Committee
- Professional Ethics Executive Committee
- Tax Executive Committee

**Senior Technical Committees and Board** - The following senior technical committees and boards are authorized to make public statements - without clearance from Council or the Board of Directors - on matters relating to their area of practice:

- Accounting and Review Services Committee
- Accounting Standards Executive Committee
- AICPA Peer Review Board
- Assurance Services Executive Committee
- Auditing Standards Board
- Professional Practice Executive Committee
- Forensic and Valuation Services Executive Committee
- PCPS Executive Committee
- Personal Financial Planning Executive Committee
- Professional Ethics Executive Committee
- Tax Executive Committee

**Subcommittee** - A subcommittee is a standing group which may be entirely or partially composed of some of the members of the related executive committee or may be composed entirely of other persons. The work of a subcommittee is subject to overall review by its related committee or executive committee.

**Task Force** - Since the Volunteer Group restructuring effort that took place in the fall of 1999 there has been an increased emphasis on task forces rather than formal “standing” committees, panels or boards. Also, beginning in 1999 the Volunteer Services Team began tracking and

maintaining information on task forces. Task forces are intended to be fast paced groups that focus on a single issue or project.

Since the definition of what constitutes a task force has varied greatly from one individual to the next the following definition is provided:

*Task forces are working groups that typically focus on a single issue or project. They operate in support of and under the auspices of another volunteer group (committee, panel or board). While the duration of task forces may vary considerably, they should be organized to have relatively short lives, accomplishing their objectives on single issues or projects rapidly, and then being disbanded. Also for purposes of definition the Volunteer Services Team will only track a task force with an intended working life of over three months and if the task force meets separately from the volunteer group the task force supports.*

Since task forces do not follow the Volunteer appointments process the basic information on a task force must be provided to the Volunteer Services Team by the Staff Liaison as soon as the task force is created, members are added or removed, and notification must be provided when a task force disbands.

**Tax Technical Resource Panel** – Tax Technical Resource Panels (TRP's) act as a primary resource to the Tax Executive Committee (TEC) in representing members and the public interest by identifying issues, in developing technical and policy recommendations on those issues, and in suggesting or developing related practice aids to assist members in complying with the law; to recommend formation of task forces and assist the TEC and its constituent committees in monitoring task forces activities; and to maintain appropriate liaisons with government, industry and other professional organizations. TRP's are intended to be small and proactive, with members who are current and knowledgeable in the assigned technical areas.

Current Tax Technical Resource Panels:

- Corporations and Shareholders Taxation
- Employee Benefits Taxation
- Exempt Organizations Taxation
- Individual Income Taxation
- International Taxation
- Partnership Taxation
- S Corporation Taxation
- State and Local Taxation
- Tax Methods and Periods
- Trust, Estate and Gift Taxation

**Volunteer Group** - The term Volunteer Group is used as a general term to include the following types of groups; Committee, Subcommittee, Expert Panel, Technical Resource Panel, Board, Advisory Group and even Task Force (refer to their respective definitions for actual differences).

The most important reason for organizing a volunteer group is the need for member guidance and representation. Volunteer groups may be needed because staff do not have the authority for actions in a given area, or may be formed to insure that appropriate member interests are represented on a given issue or activity.

**Virtual Group.** Members may in some cases serve on a volunteer group in a virtual capacity, i.e. never meeting in person but rather conducting their work within an online internet / email based environment. One type of virtual member participation has entailed the online support to one or more specific volunteer group. A second form of virtual participation involves the online participation in various online surveys to provide targeted feedback in specialized areas.

## **PUBLIC STATEMENT AUTHORIZATION**

Most of the AICPA’s Volunteer Groups are composed of Institute members appointed by the chair of the board for a term of one year (reappointments may bring service total to three years). Of these Volunteer Groups, 16 have been designated as Senior Committees (appointments must be approved by the Board of Directors), and 12 of these 16 (known as Technical Committees) have the authority to make public statements on matters related to their areas of practice without clearance from the Council or the Board. The Senior Committees are listed in the following table.

**Public Statement Authorization**

	<b>YES</b>	<b>NO</b>
Accounting and Review Services Committee	<b>X</b>	
Accounting Standards Executive Committee	<b>X</b>	
AICPA Peer Review Board	<b>X</b>	
Assurance Services Executive Committee	<b>X</b>	
Auditing Standards Board	<b>X</b>	
Board of Examiners		<b>X</b>
CPE Advisory Committee		<b>X</b>
Employee Benefits Plans Audit Quality Center Executive Committee		<b>X</b>
Forensic and Valuation Services Executive Committee	<b>X</b>	
Government Audit Quality Center Executive Committee		<b>X</b>
Information Technology Executive Committee		<b>X</b>
Personal Financial Planning Executive Committee	<b>X</b>	
PCPS Executive Committee	<b>X</b>	
Professional Ethics Executive Committee	<b>X</b>	
Professional Practice Executive Committee	<b>X</b>	
Tax Executive Committee	<b>X</b>	
Women’s Initiative Executive Committee	<b>X</b>	

## **DEFINITIONS OF VOLUNTEER ROLES**

There are currently 35 volunteer roles available within the Volunteer System as shown below. In some cases a particular role, such as Treasurer should be self explanatory and therefore no definition is provided - where appropriate details on the functions of each role are provided.

## Current Roles

Administrative Support	Executive Director	Secretary
Alternate	General Counsel and Secretary	Secretary-Treasurer
Alternate Chair	Immediate Past Chair	Senior Vice President
Assist. Treasurer	Member	Staff Liaison
Board Chair	Member At Large	State Reps
Board Liaison	Non-Member	Technical Advisor
Chair	Observer	Technical Secretary
Chairman	Past Chair	Treasurer
Co-Chair	President	Unknown
Director	Primary Contact	Vice Chair
Elected Members	Project Manager	Vice President
Ex Officio	Public Member	

**Board Chair.** The Chairman of the Board of Directors presides at key meetings of members of the Institute, the Council, and the Board of Directors. The chairman is responsible to appoint volunteer group members as provided for in the Bylaws. The Chairman also acts as a spokesperson for the Institute and appears on its behalf before other organizations. The Vice Chair of the Board is normally appointed to be Chair of the Board during the annual meeting of the Nominations Committee (usually held in February).

**Board Liaison.** Acts as the ears of the Board of Directors to certain volunteer groups.

**Chair.** The Chair of a Volunteer Group is responsible for presiding over the meetings of the group and to provide direction over the activities of the group. With the exception of task forces the Chair is also responsible during the Volunteer Year to recommend individual's for succeeding years, evaluate members of the group, and communicate any changes in the objectives or membership of the Group to the Volunteer Services Team at [volunteerservices@aicpa.org](mailto:volunteerservices@aicpa.org).

**Elected Members.** Elected Members are members of Council who are directly elected by the membership in their respective states. The number of Elected Members is allocated in two ways, somewhat analogous to the allocation of senators and congressmen for each state whereby the first is a fixed amount and the second is based on population. First, each state by default is allowed to recommend one Elected Member of Council. Second, each state is allowed to recommend additional Elected Members, the number being based on the proportion of Institute members enrolled from each state. This second category of Elected Members based on proportion of AICPA members is set at 85 members, however the allocation of the seats is re-evaluated and adjusted if necessary every five years.

**Ex-Officio.** Past Chairs of the Board of Directors and Past Presidents of the AICPA.

**Member-At-Large.** Seven Institute members, without regard to the states in which they reside are elected annually by the Nominations Committee to serve as Members-At-Large to serve on Council.

**Member.** The term member is often used in a general sense to reflect any participant on a volunteer group.

**President.** The president of the AICPA has the responsibility for the execution of the policies and programs of the Institute, act as a spokesperson for the Institute, and perform such other services as may be assigned to the President by the Council and the Board of Directors

**Public Members.** Public Members are non-CPA volunteers who sit on the Board of Directors and various other volunteer groups.

**Secretary of Institute.** The secretary of the Institute has the usual duties of a corporate secretary and performs such other related duties as may be assigned by the president

**Staff Liaison.** The staff liaison is an AICPA staff member who assists the volunteer group at each meeting to the fullest extent possible by researching and providing background information. This includes providing appropriate reference materials for each meeting; identifying the elements of a problem; listing the questions that need answering; participating in the discussion; endeavoring tactfully to persuade members to adopt a sound decision; alerting the volunteer group when it is deviating from AICPA policy or exceeding its authority; and accepting whatever final decision is reached unless the issue is so important that a higher authority should be consulted. The staff liaison is responsible for preparing the agenda, drafting the minutes or highlights (including attendance), as appropriate, of each meeting (with review and approval by the volunteer group chair), and the staff liaison is responsible for coordinating volunteer group activities and sharing information with other AICPA volunteer groups and staff as appropriate. The staff liaison may also be called on to help the volunteer group identify goals, for us on major issues, create new programs, draft reports, and organize and implement activities approved by the volunteer group. The staff liaison should play an active role and can lead the volunteer group in the form of guidance and assistance toward a desired end.

**State Rep.** Each state society designates a single Institute member to represent it on the Council for a term of one year. A Designate Representative (state rep) can be reappointed each year for a combined term of service not to exceed six consecutive years.

**Vice Chairman of the Board.** The Vice Chairman of the Board shall be chairman- nominee of the Board of Directors and presides in the absence of the chairman at meetings of the Institute, the Council, and the Board of Directors. The Vice Chairman is currently assigned the responsibility to recommend appointments to all volunteer groups. These recommended appointments are subject to ratification during the annual Fall Council meeting. The Vice Chair is selected during the annual meeting of the Nominations Committee, usually held in February each year. Although there are no specific requirements to become the Vice Chair normally this individual will have been a member of the Board of Directors.

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## **AICPA Volunteer Service Agreement**

Volunteering with the American Institute of CPAs (“AICPA” or the “Institute”) provides an opportunity for you to network with your peers and serve your profession by working on various interesting and worthwhile assignments. Our Volunteers are organized into Volunteer Groups (senior committees and committees, subcommittees, boards, panels, centers, and task forces).

We know that you have many demands on your volunteer time. We appreciate your willingness to use a part of that time to serve our profession. We hope you benefit as much by your volunteer service as the AICPA benefits from having members willing to volunteer.

Your acceptance as a Volunteer and participation in a Volunteer Group comes with a responsibility to assist in achieving the objectives of the Volunteer Group, including but not limited to: attending and participating in meetings and deliberations, meeting preparation, and post meeting deliverables. All Volunteers will be evaluated by the Chair of their Volunteer Group regarding their attendance and participation at meetings during the year.

All volunteers are required to review and provide their signature to this AICPA Volunteer Service Agreement (the “Service Policy Agreement”), located at the end of this document. You may not perform any volunteer services until you have signed this Service Policy Agreement.

### **Confidentiality and Conflict of Interest**

Volunteers may have access to, or receive, information which is proprietary or confidential. For purposes of this policy, Confidential Information includes, but is not limited to: trade secrets, employee or AICPA member data, information related to the operations or plans of the Institute or of firms, companies or individuals or which is otherwise personal, proprietary, private or sensitive nature. Confidential Information does not include information that (i) is already known to the Volunteer at the time of its disclosure; (ii) is, as of the time of its disclosure, generally available to the public, or later becomes generally available to the public through no wrongful act of the Volunteer; (iii) is received by the Volunteer without restriction as to use or disclosure by a third party not known by the Volunteer to be under a confidentiality obligation to AICPA or its members; (iv) is approved for release by prior written authorization of AICPA; (v) is furnished by AICPA to a third party without restriction on the third party’s right of disclosure or (vi) is disclosed pursuant to any judicial or governmental requirement or order; provided, however, that the Volunteer notifies AICPA in writing of such required disclosure as much in advance as practicable in the circumstances and cooperates with AICPA to limit the scope of or prevent such disclosure. Confidential Information is the property of AICPA. Volunteer Group members must consider all information received or



discussed during their service as confidential, and members may not use or disclose any such information outside of the committee's deliberations without express written permission from the Institute's Office of the President & CEO or its General Counsel or as permitted elsewhere in this Service Policy Agreement.

In addition, members should avoid all conflicts of interest. Specifically, where a matter is the subject of discussion that may result in a personal financial benefit/opportunity to a member or his/her firm to the exclusion of the members generally, that conflict of interest should be disclosed and the member should not participate in the discussion or vote on the matter.

### **Communications**

During recent years, the activities of the Institute have increased rapidly in scope and variety. Many of these activities are conducted with the knowledge, input, or based on recommendations of volunteer groups. To avoid overlapping or duplication of effort and to maintain consistency in general policies, it is essential for all activities to be coordinated as effectively as possible.

It is also important that statements to the press or communications with outside groups, which may result in published statements attributed to the Institute, be screened for conformity with policies implemented by the Board of Directors. The Chairman of the Board, the President & CEO and designated members of senior management of AICPA have been delegated the responsibility for this function. With limited exceptions, press releases and communications with reporters and financial writers on behalf of the Institute must be channeled through or cleared with the Office of the President & CEO of the Institute. The Washington Office should receive advance information about statements to be made to any branch of the Federal Government.

The following Volunteer Groups are authorized to make statements, without clearance from Council or the Board of Directors, in matters related to its area of practice once adopted by the Volunteer Group:

- Accounting and Review Services Committee
- Assurance Services Executive Committee
- Auditing Standards Board
- Center for Audit Quality Governing Board
- Financial Reporting Executive Committee
- Forensic and Valuation Services Executive Committee
- Management Consulting Services Executive Committee
- Peer Review Board
- Personal Financial Planning Executive Committee
- Private Companies Practice Executive Committee
- Professional Ethics Executive Committee
- Tax Executive Committee



All statements concerning policy or technical matters issued on the authority of these Volunteer Groups should be clearly identified as such.

No other Volunteer Group may issue any outside communications without clearance by the Board of Directors prior to issuance.

### **Actions That May Discredit AICPA**

Volunteer members should not engage in, promote, or participate in any activities that can reasonably be anticipated to discredit or result in damage to AICPA's reputation or otherwise discredit the core standards and principles AICPA or the CPA Profession represents. When participating in Volunteer activities on behalf of AICPA, all Volunteers are expected to conduct themselves in a professional manner. Should a volunteer act outside the standards set forth, he/she may be immediately removed as a member of the volunteer committee.

### **Meetings**

Care should be exercised in the decision to call a meeting and the selection of meeting sites to ensure effectiveness and efficiency consistent with reasonable costs to the Institute and to the firms and other organizations of Volunteer Group members. Meetings should be scheduled in locations that are easily accessible, conducive to serious volunteer efforts, require a minimum of travel of Volunteer Group members and staff, and require the least expenditure of non-chargeable time compatible with Volunteer Group requirements. All offsite meetings are a representation of the Institute and should be reflected as such. Meeting venues should be consistent with the Institutes standards by conveying a professional and modest image. Consideration should be given to use of conference calls and computer technology, such as videoconferencing in lieu of a meeting, whenever possible.

The purpose of a Volunteer Group meeting is to obtain the input of members and decisions on Volunteer matters and where appropriate, produce material for use by the Volunteer Group and others. For effective Volunteer Group deliberations, and in fairness to other Volunteer members, each member should spend whatever time is necessary to prepare for the meetings and then actively participate. The Institute reserves the right to schedule and modify virtual and/or in person meetings as they see fit based on the needs of the volunteer group and the advancement of technology.

### **Ownership/Assignment of Copyright**

From time to time, a Volunteer may be tasked with preparing documents, guides, plans, standards and other materials, including updates and revisions thereof (the "Work"), for use by the Volunteer Group and/or others outside of the group.



To the extent that any Work created by a Volunteer shall constitute or contain copyrightable subject matter, the Work shall be considered a specially commissioned “work made for hire” for the benefit of AICPA to the fullest extent accorded the definition of those terms under the Copyright Laws of the United States, Title 17, United States Code § 101. Without limitation of the foregoing, the Volunteer agrees to assign and hereby assigns the Work, the copyright and all other right, title and interest in and to the Work to AICPA, and the Volunteer agrees to promptly execute any and all documents necessary or desirable to effectuate or otherwise evidence such assignment.

Accordingly, all of the rights comprised in the Work and the updates to the Work shall vest in AICPA, and its successors and assigns, as the sole and absolute owner. AICPA shall have the sole right and power to apply for any and all copyrights in its name, in order that all copyrights so obtained shall vest in AICPA, including the copyrights for any renewed or extended terms now or hereafter authorized by law. Whenever requested by AICPA, Volunteer shall perform such acts and sign all documents and certificates which AICPA may reasonably request in order to fully carry out the intent and purposes of this Paragraph.

Any questions regarding the Service Policy Agreement should be directed to Heather Collins at 919.402.4846, Catey Bullard at 919.402.4997, Jamie Geary at 919.402.4103, or via email at [VolunteerServices@aicpa.org](mailto:VolunteerServices@aicpa.org).

### **Verification and Agreement**

As a requirement of membership in an AICPA Volunteer Group (including without limitation, senior committees and committees, subcommittees, task forces, boards, commissions, panels, expert panels, centers and technical resource panels), I, the undersigned, hereby verify and state that I have read the above Service Policy Agreement, and I fully understand its terms. By accepting my volunteer appointment, I hereby agree to be bound by all of its terms and conditions including, without limitation, the sections dealing with Confidentiality and Conflict of Interest and Ownership/Assignment of Copyright as set forth above. I acknowledge that committees may be disbanded or suspended at any time as seen fit by the Institute. I confirm that the networking opportunities and professional recognition afforded by my volunteer services constitute good and valuable consideration for the undertakings made herein.

**Any questions or assistance needed, please contact** Heather Collins at 919.402.4846, Catey Bullard at 919.402.4997, Jamie Geary at 919.402.4103, or via email at [AICPAVolunteerServices@aicpa.org](mailto:AICPAVolunteerServices@aicpa.org)



Mission Driven - Member Focused

TO: State Board Members, State Board Executive Directors and NASBA Associates:

Deadline to Submit: April 29, 2015

As we begin planning for NASBA's 2015-16 committee cycle, we encourage you to volunteer your knowledge, abilities and time to NASBA by serving on a committee during the next committee year.

Once received, 2015-16 committee assignments will be made by Vice Chair Donny Burkett, based on the information contained in the submitted forms. Even if you currently serve on a committee, we request you indicate your interest in continuing to serve next year by submitting a completed form.

NASBA's committees are the bodies that keep NASBA a vital organization. They uphold the association's structure (like the Bylaws Committee, the Administration and Finance Committee, the Audit Committee, etc.), take ideas and convert them into practical strategies (like the Enforcement Resources Committee, Communications Committee, Compliance Assurance Committee, etc.), and create the vision for NASBA's future (like the Diversity Committee, the Legislative Support Committee, the Standard-Setting Advisory Committee, etc.).

Much of their work is accomplished via conference calls and email, but they may also require in-person meetings. Through NASBA committees, State Board Members share what they have learned with those from other states to further NASBA's mission: "To enhance the effectiveness and advance the common interests of the Boards of Accountancy."

As a reminder, all State Board Members and NASBA Associates are eligible to serve; however, note that Associate Members must meet rules and guidelines set forth in NASBA's Bylaws, which are described below. A link has also been provided to a full copy of these bylaws by clicking the button below.

[NASBA Bylaws](#)

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*Article III, Section 3. All former Delegates or persons who have been members of Member Boards shall be Associates of the Association provided that their dues, established in accordance with these bylaws, have been paid in full for the current fiscal year. Associates shall have the privilege of the floor and may propose motions, resolutions, or other actions at all meetings of the Association and shall be eligible for service as officers, directors and members of committees within the limitations established by these bylaws*

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**We are asking that this year's selection(s) be submitted directly online. Step-by-step instructions are as follows:**

**Under Member Center click on *Member Portal***  
<https://nasba.secure.force.com/>

**If you do not know your password, click on Retrieve Password and complete by entering your email address and a password will be immediately emailed directly to you. You may then choose your own password at this time.**

***Click on Committees* - A description of each committee is included on this page for your review.**

***Complete Interest Form* - Here, you will be able to choose up to three committee choices. *If you are presently on a committee and wish to continue, make that your first choice.***

***My Account* – Please check the Contact Information and Profile tabs for accuracy and make any needed changes or additions. Under Profile, you may submit your bio and any specialization, certifications, etc.**

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If you have any problems submitting your committee interest online, or have any questions, please contact either Anita Holt at [aholt@nasba.org](mailto:aholt@nasba.org) or Denise Flagg at [dflagg@nasba.org](mailto:dflagg@nasba.org).

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**CBA Item I.D.**  
 March 19-20, 2015

## Proposed 2016 CBA Meeting Dates and Locations

**Presented by:** Corey Riordan, Board Relations Analyst

### Purpose of the Item

The purpose of this agenda item is to provide the California Board of Accountancy (CBA) with proposed meeting dates for 2016. **Attachment 1** is a 2016 Meeting Dates and Locations Calendar for reference.

### Action(s) Needed

The CBA may choose to adopt or modify the 2016 CBA meeting dates and locations.

### Background

Business and Professions Code section 101.7 (**Attachment 2**) requires that the CBA meet at least three times each calendar year with at least one meeting in northern California and one meeting in southern California.

### Comments

The proposed 2016 CBA meeting dates and locations are identified below and have been selected to avoid major and religious holidays.

- January 21-22, 2016      Southern California
- March 17-18, 2016      Northern California
- May 19-20, 2016      Southern California
- July 21, 2016      Northern California
- September 15-16, 2016      Southern California
- November 17-18, 2016      Northern California

### Fiscal/Economic Impact Considerations

There are no fiscal/economic impact considerations.

### Recommendation

Staff does not have a recommendation on this agenda item.

## **Proposed 2016 CBA Meeting Dates and Locations**

Page 2 of 2

### **Attachments**

1. California Board of Accountancy 2016 Meeting Dates and Locations Calendar
2. Business and Professions Code section 101.7

## CALIFORNIA BOARD OF ACCOUNTANCY (CBA) 2016 MEETING DATES/LOCATIONS CALENDAR (CBA MEMBER COPY)

**JANUARY 2016**

S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21 SC	22 SC	23
24	25	26	27	28	29	30
31						

**FEBRUARY 2016**

S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

**MARCH 2016**

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17 NC	18 NC	19
20	21	22	23	24	25	26
27	28	29	30	31		

**APRIL 2016**

S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

**MAY 2016**

S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19 SC	20 SC	21
22	23	24	25	26	27	28
29	30	31				

**JUNE 2016**

S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

**JULY 2016**

S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21 NC	22	23
24	25	26	27	28	29	30
31						

**AUGUST 2016**

S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

**SEPTEMBER 2016**

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15 SC	16 SC	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

**OCTOBER 2016**

S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

**NOVEMBER 2016**

S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17 NC	18 NC	19
20	21	22	23	24	25	26
27	28	29	30			

**DECEMBER 2016**

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

**GENERAL LOCATION**

NC-NORTHERN CALIFORNIA  
SC-SOUTHERN CALIFORNIA

 CBA OFFICE CLOSED  
 CBA MEETING



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## Attachment 2

### Business and Professions Code Section 101.7

#### **101.7**

(a) Notwithstanding any other provision of law, boards shall meet at least three times each calendar year. Boards shall meet at least once each calendar year in northern California and once each calendar year in southern California in order to facilitate participation by the public and its licensees.

(b) The director at his or her discretion may exempt any board from the requirement in subdivision (a) upon a showing of good cause that the board is not able to meet at least three times in a calendar year.

(c) The director may call for a special meeting of the board when a board is not fulfilling its duties.

(d) An agency within the department that is required to provide a written notice pursuant to subdivision (a) of Section 11125 of the Government Code, may provide that notice by regular mail, email, or by both regular mail and email. An agency shall give a person who requests a notice the option of receiving the notice by regular mail, email, or by both regular mail and email. The agency shall comply with the requester's chosen form or forms of notice.

(e) An agency that plans to Web cast a meeting shall include in the meeting notice required pursuant to subdivision (a) of Section 11125 of the Government Code a statement of the board's intent to Web cast the meeting. An agency may Web cast a meeting even if the agency fails to include that statement of intent in the notice.

*(Amended by Stats. 2014, Ch. 395, Sec. 1. Effective January 1, 2015.)*



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**CBA Item II.B.**  
March 19-20, 2015

## **Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee**

**Presented by:** Katrina Salazar, CPA, Vice President

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### **Purpose of the Item**

The purpose of this agenda item is to recommend that Thomas Gilbert, CPA, (**Attachment 1**) be appointed as a member to the California Board of Accountancy (CBA) Enforcement Advisory Committee (EAC).

### **Action(s) Needed**

It is requested that the CBA adopt the recommendation.

### **Background**

The EAC assists the CBA in an advisory capacity with enforcement activities. The committee reviews closed investigation files, offers technical guidance on open investigations, and participates in investigative hearings. The committee also considers, formulates, and proposes policies and procedures related to the CBA Enforcement Program.

### **Comments**

For all appointments to a committee, I work with the current chair to discuss knowledge and skills to ensure that the appointment will contribute to the committee's function and enable it to carry out its mandated activities. A matrix identifying the present members and areas of expertise is included as **Attachment 2**.

I also confer with the CBA Executive Officer to verify that the potential appointee has met the appropriate requirements for license renewal, including continuing education requirements and peer review (if subject). A check is also made to ensure there are no pending enforcement actions.

Prior to making a decision to recommend Mr. Gilbert for appointment to the EAC, I performed all the steps previously mentioned. I believe Mr. Gilbert has demonstrated the skills and knowledge to serve on the EAC, which will allow the EAC to assist the CBA with its Enforcement Program.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

## **Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee**

Page 2 of 2

### **Recommendation**

Based on the information above, and in consultation with Jeffrey De Lyser, Chairperson of the EAC, I recommend that Thomas Gilbert be appointed for two years to the EAC, effective March 20, 2015 until March 31, 2017.

### **Attachments**

1. Curriculum Vitae of Thomas Gilbert, CPA
2. California Board of Accountancy Enforcement Advisory Committee Skill Matrix



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**CBA Item II.B.**  
March 19-20, 2015

## **Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee**

**Presented by:** Katrina Salazar, CPA, Vice President

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### **Purpose of the Item**

The purpose of this agenda item is to recommend that William Donnelly, CPA, (**Attachment 1**) be reappointed as a member to the California Board of Accountancy (CBA) Enforcement Advisory Committee (EAC).

### **Action(s) Needed**

It is requested that the CBA adopt the recommendation.

### **Background**

The EAC assists the CBA in an advisory capacity with enforcement activities. The committee reviews closed investigation files, offers technical guidance on open investigations, and participates in investigative hearings. The committee also considers, formulates, and proposes policies and procedures related to the CBA Enforcement Program.

### **Comments**

For all appointments to a committee, I work with the current chair to discuss knowledge and skills to ensure that the appointment will contribute to the committee's function and enable it to carry out its mandated activities. A matrix identifying the present members and areas of expertise is included as **Attachment 2**.

I also confer with the CBA Executive Officer to verify that the potential appointee has met the appropriate requirements for license renewal, including continuing education requirements and peer review (if subject). A check is also made to ensure there are no pending enforcement actions.

For current members who are being reappointed, I review prior attendance records and review the evaluations that may have been completed by the current Chairperson, Vice-Chairperson, CBA Liaisons, and the Enforcement Chief. The evaluation requests feedback in the areas of interpersonal skills, communication, leadership, preparedness, and participation. Should a member have attendance or performance issues, they may be subject to review and removal from the committee, at anytime, by action of the CBA.

Prior to making a decision to recommend Mr. Donnelly for reappointment to the EAC, I performed all the steps previously mentioned. I believe Mr. Donnelly has exhibited a

## **Recommendations for Appointment(s)/Reappointment(s) to the Enforcement Advisory Committee**

Page 2 of 2

high level of professionalism during the performance of his duties and has demonstrated the skills and knowledge to serve on the EAC, which will allow the EAC to assist the CBA with its Enforcement Program.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

### **Recommendation**

Based on the information above, and in consultation with Jeffrey De Lyser, Chairperson of the EAC, I recommend that William Donnelly be reappointed for two years to the EAC, effective April 1, 2015.

### **Attachments**

1. Curriculum Vitae of William Donnelly, CPA
2. California Board of Accountancy Enforcement Advisory Committee Skill Matrix



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**CBA Item II.C.**  
March 19-20, 2015

## **Recommendations for Appointment(s)/Reappointment(s) to the Qualifications Committee**

**Presented by:** Katrina Salazar, CPA, Vice President

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### **Purpose of the Item**

The purpose of this agenda item is to recommend that the following individuals be appointed as members to the California Board of Accountancy (CBA) Qualifications Committee (QC).

- Eric Borigini, CPA (**Attachment 1**)
- David Collins, CPA (**Attachment 2**)
- Saboohi Currim, CPA (**Attachment 3**)
- Kristian George, CPA (**Attachment 4**)
- Jose Palma, CPA (**Attachment 5**)

### **Action(s) Needed**

It is requested that the CBA adopt the recommendation.

### **Background**

The QC assists the CBA in its licensure activities by reviewing the experience of applicants for licensure and making recommendations to the CBA. This responsibility includes conducting work paper reviews, with the applicant or the employer present, to verify that the responses provided are reflective of the requisite experience for licensure.

### **Comments**

For all appointments to a committee, I work with the current chair to discuss knowledge and skills to ensure that the appointment will contribute to the committee's function and enable it to carry out its mandated activities. A matrix identifying the present members and areas of expertise is included as **Attachment 6**.

I also confer with the CBA Executive Officer to verify that the potential appointees have met the appropriate requirements for license renewal, including continuing education requirements and peer review (if subject). A check is also made to ensure there are no pending enforcement actions.

Prior to making a decision to recommend the individuals for appointment to the QC, I performed all the steps previously mentioned. I believe the individuals have

## **Recommendations for Appointment(s)/Reappointment(s) to the Qualifications Committee**

Page 2 of 2

demonstrated the skills and knowledge to serve on the QC, which will allow the QC to assist the CBA with its Licensing Program.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

### **Recommendation**

Based on the information above, and in consultation with Robert Ruehl, Chairperson of the QC, I recommend that Eric Borigini, David Collins, Saboohi Currim, Kristian George, and Jose Palma be appointed for two years to the QC, effective March 20, 2015 until March 31, 2017.

### **Attachments**

1. Curriculum Vitae of Eric Borigini, CPA
2. Curriculum Vitae of David Collins, CPA
3. Curriculum Vitae of Saboohi Currim, CPA
4. Curriculum Vitae of Kristian George, CPA
5. Curriculum Vitae of Jose Palma, CPA
6. California Board of Accountancy Qualifications Committee Skill Matrix



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**CBA Item II.D.**  
March 19-20, 2015

## **Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee**

**Presented by:** Katrina Salazar, CPA, Vice President

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### **Purpose of the Item**

The purpose of this agenda item is to recommend that Kevin Harper, CPA, (**Attachment**) be appointed as a member to the California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC).

### **Action(s) Needed**

It is requested that the CBA adopt the recommendation.

### **Background**

The PROC assists the CBA in an advisory capacity in its oversight of the Peer Review Program. The committee ensures that Board-recognized peer review program providers administer peer reviews in accordance with standards, evaluates applications to become a Board-Recognized Peer Review Program Provider, collects and analyzes statistical monitoring and reporting data from each Peer Review Provider on an annual basis, and prepares an Annual Report to the CBA regarding the results of its oversight.

### **Comments**

For all appointments to a committee, I work with the current chair to discuss knowledge and skills to ensure that the appointment will contribute to the committee's function and enable it to carry out its mandated activities.

I also confer with the CBA Executive Officer to verify that the potential appointee has met the appropriate requirements for license renewal, including continuing education requirements and peer review (if subject). A check is also made to ensure there are no pending enforcement actions.

Prior to making a decision to recommend Mr. Harper for appointment to the PROC, I performed all the steps previously mentioned. I believe Mr. Harper has demonstrated the skills and knowledge to serve on the PROC, which will allow the PROC to assist the CBA with its Peer Review Program.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

**Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee**

Page 2 of 2

**Recommendation**

Based on the information above, and in consultation with Robert Lee, Chairperson of the PROC, I recommend that Kevin Harper be appointed for two years to the PROC, effective March 20, 2015 until March 31, 2017.

**Attachment**

Curriculum Vitae of Kevin Harper, CPA



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**CBA Item II.D.**  
March 19-20, 2015

## **Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee**

**Presented by:** Katrina Salazar, CPA, Vice President

---

### **Purpose of the Item**

The purpose of this agenda item is to recommend that Jeffrey De Lyser, CPA, (**Attachment**) be reappointed as a member to the California Board of Accountancy (CBA) Peer Review Oversight Committee (PROC).

### **Action(s) Needed**

It is requested that the CBA adopt the recommendation.

### **Background**

The PROC assists the CBA in an advisory capacity in its oversight of the Peer Review Program. The committee ensures that Board-recognized peer review program providers administer peer reviews in accordance with standards, evaluates applications to become a Board-Recognized Peer Review Program Provider, collects and analyzes statistical monitoring and reporting data from each Peer Review Provider on an annual basis, and prepares an Annual Report to the CBA regarding the results of its oversight.

### **Comments**

For all appointments to a committee, I work with the current chair to discuss knowledge and skills to ensure that the appointment will contribute to the committee's function and enable it to carry out its mandated activities.

I also confer with the CBA Executive Officer to verify that the potential appointee has met the appropriate requirements for license renewal, including continuing education requirements and peer review (if subject). A check is also made to ensure there are no pending enforcement actions.

For current members who are being reappointed, I review prior attendance records and review the evaluations that may have been completed by the current Chairperson, Vice-Chairperson, and the Enforcement Chief. The evaluation requests feedback in the areas of interpersonal skills, communication, leadership, preparedness, and participation. Should a member have attendance or performance issues, they may be subject to review and removal from the committee, at anytime, by action of the CBA.

Prior to making a decision to recommend Mr. De Lyser for reappointment to the PROC, I performed all the steps previously mentioned. I believe Mr. De Lyser has exhibited a

## **Recommendations for Appointment(s)/Reappointment(s) to the Peer Review Oversight Committee**

Page 2 of 2

high level of professionalism during the performance of his duties and has demonstrated the skills and knowledge to serve on the PROC, which will allow the PROC to assist the CBA with its Peer Review Program.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

### **Recommendation**

Based on the information above, and in consultation with Robert Lee, Chairperson of the PROC, I recommend that Jeffrey De Lyser be reappointed for two years to the PROC, effective April 1, 2015.

### **Attachment**

Curriculum Vitae of Jeffrey De Lyser, CPA



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**Amended**  
**CBA Item III.A.**  
March 19-20, 2015

## **Fiscal Year 2014-15 Mid-Year Financial Statement and Governor's Budget**

**Presented by:** Alicia Berhow, Secretary/Treasurer

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### **Purpose of the Item**

The purpose of this agenda item is to provide the California Board of Accountancy (CBA) with the mid-year financial statement.

### **Action(s) Needed**

No specific action is required on this agenda item.

### **Background**

CBA Financial Statements are prepared quarterly (October, January, April, and August) and are included in CBA meeting materials. These statements provide an overview of year-to-date receipts, expenditures, and the status of the Accountancy Fund Reserve.

### **Comments**

None.

### **Fiscal/Economic Impact Considerations**

There is no fiscal/economic impact considerations.

### **Recommendation**

Staff has no recommendation on this agenda item.

### **Attachments**

1. Second Quarter Financial Statement – Narrative
2. Second Quarter Financial Statement – Statistics
3. CBA Budget Allocation History
4. CBA Total Revenue and Expenditures



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**CALIFORNIA BOARD OF ACCOUNTANCY**  
**FISCAL YEAR 2014-15**  
**MID-YEAR FINANCIAL STATEMENT - NARRATIVE**  
(For period of 7-01-14 through 12-31-14)

**Attachment 1**

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**BUDGET**

The fiscal year (FY) 2014-15 budget is currently set at \$13,413,000. The Governor's budget released on January 9, 2015 is estimated to provide the CBA with a budget of \$14,161,000 for FY 2015-16.

**REVENUES/TOTAL RECEIPTS**

The CBA collected approximately \$3.1 million in total receipts in the second quarter of FY 2014-15. Total revenues decreased by approximately 44 percent from the same period last year. This significant decrease was anticipated with the CBA entering the first year of a two-year reduction in the license renewal and initial permit, examination, and license application/registration fees. It is projected that the CBA will bring in approximately \$5.4 million in receipts over the entire FY 2014-15 which will be almost \$5 million less than what was received the previous year.

The penalties and fines line item reflects a significant decrease, resulting from fewer citations being issued for failing to respond to the CBA in regards to peer review. This is likely due to streamlining the peer review reporting to coincide with the license renewal date, which began in January 2014.

**EXPENDITURES**

Total expenditures through the second quarter reflect an approximate 11 percent increase over the same period last fiscal year. Much of this increase can be attributed to higher personal services costs, including a two percent salary increase. Lastly, 2014 rates for employer paid health insurance and retirement premiums rose significantly over 2013 levels.

Personnel costs have further increased as the remaining vacant Investigative CPA positions were filled in November and December. Rate increases for employer paid health insurance and retirement premiums are expected again in 2015.

Most of the operating expense line items (general expense office supplies, communications, facilities costs, etc.) are expected to increase due to the additional equipment and resources necessary to provide to new staff.

**CALIFORNIA BOARD OF ACCOUNTANCY**  
**FISCAL YEAR 2014-15**  
**MID-YEAR FINANCIAL STATEMENT – NARRATIVE**  
(For period of 7-01-14 through 12-31-14)  
**PAGE 2 OF 2**

The CBA is projected to spend a significant amount on temporary help this year, largely based on additional staffing brought on to address the CBA's anticipated transition to BreEze. As a result of new information received in February 2015, indicating that the CBA's transition to BreEZe is uncertain, the CBA has released many of its temporary employees. Therefore the anticipated temporary help expense line item will decrease by the end of FY 2014-2015.

Higher printing costs can be attributed to a number of CBA-specific printed materials for fingerprint and license renewal inserts. Additionally, the hardcopy UPDATE publication continues to account for a significant portion of the CBA's printing expenses. Printing costs for each UPDATE ranges between \$40,000 to \$50,000 depending on the size of the publication.

Costs in the training expense category have increased significantly as the CBA is requiring all current and new investigative staff to take a national certification course in investigation and inspection techniques and procedures. The course is also a prerequisite for enrollment in the Department of Consumer Affairs' Enforcement Academy.

Enforcement costs (Attorney General, Office of Administrative Hearings, and court reporting expenses) have risen significantly due to the larger number of investigations the CBA is able to complete with its increased staffing resources. An increasing number of investigations have also been referred to the Attorney General's Office resulting in higher costs. The CBA is also expecting to continue utilizing its consulting resources. Two expert consultant contracts have been extended through FY 2014-15 to assist in the more complex enforcement matters.

**RESERVES**

The CBA ended the second quarter with 9.7 months in reserve. Second-quarter expenditures have already exceeded total revenues by approximately \$3.4 million and staff project that over the course of the entire FY 2014-15, expenditures will exceed total revenues by more than \$8 million. This will decrease the Accountancy Fund Reserve (Reserve) from approximately \$14.2 million to approximately \$6.5 million or 5.8 months in Reserve.

It is also anticipated that an additional \$750,000 in BreEZe costs will be needed in the next three fiscal years. If approved by the Legislature, this cost will come from the CBA's Reserve.

**CALIFORNIA BOARD OF ACCOUNTANCY**  
**FISCAL YEAR 2014-15**  
**Mid-Year Financial Statement**  
(for period of 07/1/14 through 12/31/14)

**Attachment 2**

	FY 2014-15 Received/Expended 07/01/14 - 12/31/14 (6 months ) [7]	FY 2013-14 Received/Expended 07/01/13 -12/31/13 (6 months ) [7]	% Change FY 2014-15 to FY 2013-14 to	FY 2014-15 Annual Governor's Budget 7/01/14 - 6/30/15 (12 months) [8]	FY 2014-15 Receipts/Expenditures Over/Under Budget	FY 2014-15 Annual Projections (12 months) [9]
<b>RECEIPTS</b>						
<b>Revenues:</b>						
Renewals [1]	1,697,019	3,209,249	-47.1%	2,816,637	-39.8%	2,961,899
Examination Fees	1,038,533	1,437,657	-27.8%	2,171,707	-52.2%	2,166,857
Licensing Fees	70,630	763,470	-90.7%	211,480	-66.6%	114,324
Miscellaneous [2]	50,852	18,564	173.9%	45,090	12.8%	73,964
Penalties and Fines	25,400	135,280	-81.2%	187,850	-86.5%	43,049
<b>Total Revenues</b>	<b>2,882,434</b>	<b>5,564,220</b>	<b>-48.2%</b>	<b>5,432,764</b>	<b>-46.9%</b>	<b>5,360,093</b>
Interest	7,453	8,294	NA	0	NA	22,359
<b>TOTAL NET RECEIPTS</b>	<b>2,889,887</b>	<b>5,572,514</b>	<b>-48.1%</b>	<b>5,432,764</b>	<b>-46.8%</b>	<b>5,382,452</b>
<b>EXPENDITURES:</b>						
<b>Personal Services:</b>						
Salaries & Wages	2,381,617	2,167,936	9.9%	5,566,801	-57.2%	5,189,337
Temporary Help	298,346	151,194	97.3%	200,000	49.2%	683,877
<b>Total Salaries &amp; Temp. Help</b>	<b>2,679,963</b>	<b>2,319,130</b>	<b>15.6%</b>	<b>5,766,801</b>	<b>-8.0%</b>	<b>5,873,214</b>
<b>Benefits</b>						
Health Insurance	421,087	323,711	30.1%	1,037,763	-59.4%	877,593
Other Insurance and Miscellaneous	52,349	118,830	-55.9%	112,644	-53.5%	109,101
State Retirement	577,207	413,157	39.7%	1,135,344	-49.2%	1,202,965
Social Security	148,341	133,796	10.9%	397,190	-62.7%	309,159
<b>Total Benefits [3]</b>	<b>1,198,984</b>	<b>989,494</b>	<b>21.2%</b>	<b>2,682,941</b>	<b>-224.8%</b>	<b>2,498,818</b>
<b>Total Personal Services:</b>	<b>3,878,947</b>	<b>3,308,624</b>	<b>17.2%</b>	<b>8,449,742</b>	<b>-54.1%</b>	<b>8,372,032</b>
<b>Operating Expenses:</b>						
Fingerprints	26,186	10,872	140.9%	122,954	-78.7%	52,372
General Expense	129,488	74,424	74.0%	215,920	-40.0%	276,032
Printing	127,264	89,992	41.4%	95,608	33.1%	305,434
Communications	14,308	7,627	87.6%	59,614	-76.0%	57,064
Postage	140,130	139,654	0.3%	141,872	-1.2%	233,900
Travel	77,936	65,910	18.2%	135,886	-42.6%	189,190
Training	31,349	18,412	70.3%	28,012	11.9%	39,980
Facilities Operations	756,780	681,529	11.0%	642,818	17.7%	761,780
Consultant & Professional Services	34,672	160,313	-78.4%	242,076	-85.7%	62,000
Departmental Services	681,232	705,746	-3.5%	1,363,516	-50.0%	1,362,440
Consolidated Data Center	42,634	32,760	30.1%	40,770	4.6%	80,290
Data Processing	16,937	3,237	423.2%	50,103	-66.2%	40,649
Central Administrative Services	247,699	207,982	19.1%	495,398	-50.0%	495,398
Exams	68,800	137,400	-49.9%	0	NA	37,400
Enforcement	363,866	320,837	13.4%	1,463,551	-75.1%	883,411 [10]
Equipment	32,152	12,621	154.8%	161,160	-80.0%	112,765
<b>Total Operating Expenses:</b>	<b>2,791,433</b>	<b>2,669,316</b>	<b>4.6%</b>	<b>5,259,258</b>	<b>-46.9%</b>	<b>4,990,105</b>
<b>TOTAL EXPENDITURES</b>	<b>6,670,380</b>	<b>5,977,940</b>	<b>11.6%</b>	<b>13,709,000</b>	<b>-51.3%</b>	<b>13,362,137</b>
Less Scheduled Reimbursements	113,771	59,836	90.1%	296,000	-61.6%	296,000
<b>TOTAL NET EXPENDITURES</b>	<b>6,556,609</b>	<b>5,918,104</b>	<b>10.8%</b>	<b>13,413,000</b>	<b>-51.1%</b>	<b>13,066,137</b>
<b>RECEIPTS IN EXCESS OF EXPENSES PLUS COST RECOVERY</b>	<b>-3,666,722</b>	<b>-345,590</b>		<b>-7,980,236</b>		<b>-7,683,685</b>
<b>BEGINNING RESERVES JULY 1 [4]</b>	<b>14,185,000</b>	<b>15,361,000</b>		<b>14,185,000</b>		<b>14,185,000</b>
<b>Total Resources</b>	<b>10,632,745</b>	<b>15,064,278</b>		<b>6,204,764</b>		<b>6,501,315</b>
<b>PROJECTED ENDING RESERVES</b>	<b>10,632,745</b>	<b>15,064,278</b>	<b>-29.4%</b>	<b>6,204,764</b>		<b>6,501,315</b>
<b>GENERAL FUND LOAN 2002 [5]</b>	<b>(6,000,000)</b>	<b>(6,000,000)</b>				
<b>GENERAL FUND LOAN 2003 [5]</b>	<b>(270,000)</b>	<b>(270,000)</b>				
<b>GENERAL FUND LOAN 2008 [5]</b>	<b>(14,000,000)</b>	<b>(14,000,000)</b>				
<b>GENERAL FUND LOAN 2010 [5]</b>	<b>(10,000,000)</b>	<b>(10,000,000)</b>				
<b>GENERAL FUND LOAN 2011 [5]</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>				
<b>MONTHS IN RESERVE (MIR) [6]</b>	<b>9.5</b>	<b>13.5</b>		<b>5.6</b>		<b>5.8</b>

**CALIFORNIA BOARD OF ACCOUNTANCY**  
**FISCAL YEAR 2014-15**  
**Mid-Year Financial Statement**  
(for period of 07/1/14 through 12/31/14)

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**Footnotes:**

- [1] Includes biennial renewals, delinquent and prior year renewals, and initial licenses.
- [2] Includes miscellaneous 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] The following line items are part of the total benefits figure:  
Health Insurance - health, dental, vision.  
Other insurance and Miscellaneous - worker's compensation, unemployment insurance, transit discount.
- [4] FY 2013-14 and 2014-15 beginning reserve amount was taken from Analysis of Fund Condition statement, prepared by the Department of Consumer Affairs (DCA) Budget Office.
- [5] 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 .389% for 2011, .515% for 2010, 2.78% for 2008, 1.64% for 2003 loan, and 2.64% for 2002). "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." Outstanding General Fund loans total \$31,270,000.
- [6] Calculation: Net projected expenditure authority for FY 2014-15 (\$13,413,000) divided by twelve months equals monthly expenditure authority (\$1,117,750). Total ending reserves divided by monthly authority equals "Months in Reserve" (MIR).
- [7] Received/Expended amounts through December 31, 2014 for FY 2014-15 and December 31, 2013 for FY 2013-14 include encumbrances, and are from DCA Budget Reports.
- [8] Figures reflect projected revenues from FY 2014-15 Workload and Revenue Statistics, expenditures are provided by the Department of Consumer Affairs Budget Office.
- [9] This column reflects CBA's annual revenue and expenditure projections for Fiscal Year 2014-15 based on six months of actual data.
- [10] Annual expenditures projected for the Enforcement line item are based only on what the CBA has spent to date. No other factors are used in determining this projection. This estimate is not indicative of the number or type of enforcement cases the CBA anticipates being involved in or is currently investigating.

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 Accountancy Fund Reserve.

### CBA Budget Allocation History

Second Quarter FY 2014-15	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Board
<b>\$ Budgeted</b>	<b>\$13,413,000</b>	117,089	863,931	1,366,664	476,883	1,227,169	6,687,876	2,151,256	446,673	75,459
<b>\$ Spent</b>	<b>\$6,556,609</b>	62,524	500,004	691,816	298,666	798,103	2,688,530	1,124,643	315,816	76,509
<b>Authorized Positions<sup>2</sup></b>	<b>93.9</b>	1.0	6.0	13.0	4.0	11.0	39.5	16.4	3.0	0.0

<sup>1</sup> Dollars spent through the first quarter ending December 31, 2014.

<sup>2</sup> 17 Enforcement positions and one Initial Licensing position were added as a result of 3 successful FY 2014-15 BCPs. 11 of the 17 Enforcement positions are limited-term and will expire in two to three years

FY 2013-14	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Board
<b>\$ Budgeted</b>	<b>\$11,557,852</b>	127,993	860,445	1,332,593	533,006	1,550,464	4,580,456	2,056,711	437,199	78,985
<b>\$ Spent</b>	<b>\$11,518,942</b>	69,862	886,921	1,266,414	582,303	1,592,579	3,956,921	2,218,063	834,781	111,098
<b>Authorized Positions<sup>1</sup></b>	<b>75.9</b>	1.0	6.0	11.0	4.0	11.0	22.5	17.4	3.0	0.0

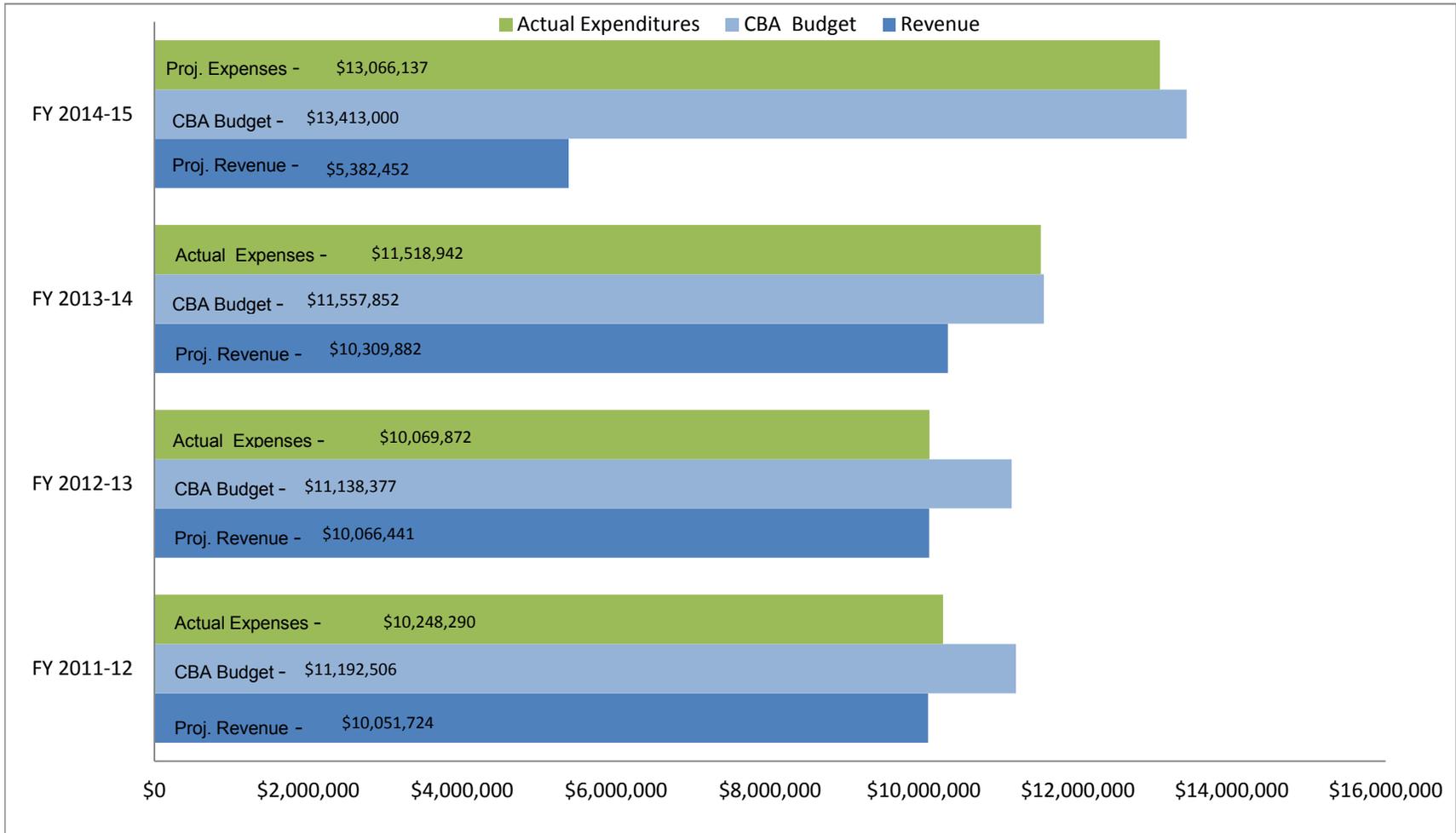
<sup>1</sup> Three limited-term positions expired as of June 30, 2013. One permanent Practice Privilege office assistant position was eliminated via a negative BCP.

FY 2012-13	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Board
<b>\$ Budgeted</b>	<b>\$11,138,377</b>	210,426	866,598	1,300,985	605,291	1,155,907	4,462,554	2,000,197	417,059	119,360
<b>\$ Spent</b>	<b>\$10,069,872</b>	173,158	811,677	1,182,577	563,050	1,299,912	3,442,237	2,129,545	470,587	122,987
<b>Authorized Positions<sup>3</sup></b>	<b>79.9</b>	2.0	6.0	12.0	5.0	11.0	22.5	18.4	3.0	0.0

<sup>3</sup> The elimination of salary savings required by the Department of Finance in FY 2012-13, required the CBA to eliminate 3.6 authorized positions.

FY 2011-12	Total Budget Act	Practice Privilege	Exam	Initial Licensing	Licensing Administration	RCC	Enforcement	Administration	Executive	Board
<b>\$ Budgeted</b>	<b>\$11,192,506</b>	223,850	783,475	1,455,026	559,625	1,119,251	4,365,077	2,126,576	447,700	111,925
<b>\$ Spent</b>	<b>\$10,248,290</b>	169,721	957,906	1,217,073	555,507	1,016,342	3,552,814	2,093,066	586,124	99,736
<b>Authorized Positions</b>	<b>83.5</b>	2.0	7.0	12.0	5.0	11.0	22.5	20.0	4.0	0.0

## CBA Total Revenue and Expenditures





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**CBA Item III.B.**  
March 19-20, 2015

## **Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations, Section 70 Regarding Fees**

**Presented by:** Deanne Pearce, Assistant Executive Officer

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### **Purpose of the Item**

The purpose of this agenda item is to provide the California Board of Accountancy (CBA) with updated information regarding a proposed fee levels which would set fees and revenues at a level that will ensure a strong Accountancy Fund Reserve (Reserve) for future years.

### **Action(s) Needed**

The CBA will be asked to approve a fee proposal and direct staff to initiate the rulemaking process.

### **Background**

As part of the CBA's Sunset Review in 2011, the Legislature stated that the CBA was unable to control its Reserve level. Specifically, it was concerned that the CBA had excessive reserve funds which conflicted with the then present requirement that the CBA not exceed nine months of authorized expenditures. This requirement was subsequently eliminated through the passage of Senate Bill 80 of 2011.

As a result of this finding during the Sunset Review hearings, the CBA initiated two fee reductions in an effort to reduce its Reserve levels.

In July 2011, the CBA reduced fees to \$120, which was a significant reduction from its pre-fiscal year (FY) 2011-12 biennial license renewal and initial permit fees of \$200. The reduction was the CBA's initial attempt to lower the Reserve as it was approaching historically high levels of around 17 months in Reserve (MIR<sup>1</sup>). The first year of lowered renewal fees did not have the anticipated impact to the Reserve because of several unanticipated cuts in spending and hiring freezes, mandated by the Governor due to the economic downturn.

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<sup>1</sup> MIR is a calculation of the number of months' of anticipated budgeted expenditures the CBA has in the Accountancy Fund Reserve.

## Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations Section 70 Regarding Fees

Page 2 of 6

In mid-2012, past President Marshal Oldman convened a subcommittee to review the CBA's budget and fund condition levels and make recommendations regarding whether further fee reductions were necessary.

Following multiple subcommittee meetings, guidance was provided to staff on possible fee reductions for consideration by the CBA. In September 2012 staff provided the CBA with a number of fee reduction options to reduce the Reserve to a three MIR level over a gradual four-year time period. The CBA directed staff to bring back a more aggressive strategy for its consideration at the November 2012 to include a more substantial fee reduction further reducing the license renewal and initial permit fees and reducing two additional fees over a two-year period instead of four.

The CBA's plan intended to reduce the Reserve to a three MIR level by the end of FY 2015-16 by creating a \$6M negative annual cash flow in FY 2014-15 and FY 2015-16. At that time, it was believed that the three MIR level would provide enough funding in the event the CBA needed to exercise its emergency \$2M annual contingency budget clause for litigation or enforcement activities.<sup>2</sup> During deliberations members expressed that they did not want the significant fee reductions to negatively impact the CBA's daily operations.

The fee reduction regulations were adopted by the CBA in January 2013, approved by the Office of Administrative Law in January 2014, and became effective in July 2014. Only the following three fees were reduced, as any other fees would have had negligible impact on cash flow given their small amounts.

- License Renewal and Initial Permit Fees – reduced from \$120 per biennial period to \$50
- Examination Fees – reduced from \$100 for new candidates and \$50 for repeat sitters to \$50 and \$25, respectively
- Licensing Application/Registration Fees – reduced from \$250 for individual certified public accountants (CPA) and \$150 for CPA Firms to \$50 and \$30, respectively

At the November 2014 meeting, CBA members approved a fee restoration beginning July 1, 2016, in an attempt to increase target MIR closer to six. The basis of targeting six months was to ensure the CBA had, at a minimum, a sufficient amount in its Reserve to carry out its consumer protection mandate while being responsive to prior CBA discussions regarding the need to lower the CBA's Reserve.

CBA members agreed to adjust license renewal and initial permit fees from \$50 to \$185. This would be an increase over pre-fiscal year (FY) 2014/15 levels of \$120, but a

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<sup>2</sup> Section 5025.2 of the California Business and Professions Code authorizes the CBA to spend up to an additional \$2M annually in excess of its budgeted expenditure authority for urgent litigation and enforcement matters.

## Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations Section 70 Regarding Fees

Page 3 of 6

decrease from pre-FY 2011/12 levels of \$200. Examination and licensing application/registration fees would be maintained at \$50/\$25 and \$50/\$30, respectively, to continue assisting prospective licensees.

### Comments

Following the November 2014 CBA meeting, staff became aware of additional information that the CBA should consider prior to initiating the rulemaking process to change fee levels.

### Expenditures

Updates were made to the CBA's expenditure projections for current year that will lower the anticipated year-end surplus subsequently impacting the CBA's Reserve. Specifically, adjustments were made to the budget line items for temporary help, enforcement, and the funds targeted for the CBA's planned relocation. Additionally, the loan interest amount that was identified for the FY 2015/16 \$6M loan repayment was calculated incorrectly.

### General Fund Loan Repayments

In January 2015, the Department of Finance (DOF) released its Loan Obligation Report, which identifies target dates for repayment of a portion of the CBA loans made to the General Fund. The targeted loan repayment dates are not confirmed and can be adjusted as necessary by the DOF. The CBA presently has approximately \$31M in loans outstanding. The Loan Obligation Report reflects the following repayment schedule:

Fiscal Year 2015/16	\$6,000,000
Fiscal Year 2016/17	\$270,000
Fiscal Year 2017/18	\$11,000,000

Once the above loans are repaid, the CBA will have an additional \$14M in loans outstanding.

### BreEZe

As will be discussed under **Agenda Item IV.B.**, the CBA has been notified that an additional \$750,000 will be needed in the current and next two fiscal years to support the development of the BreEZe system. Depending on the outcome of the Legislature's discussion on this topic, it is unknown whether funds will be drawn from the CBA's current year budget, Reserve, or both.

### Legislative Feedback

During the most recent meetings with members of the Legislature, concern was expressed over the CBA's low Reserve. The uneasiness was focused on whether the CBA has sufficient resources to carry out its consumer protection mandate and if a sufficient amount would be available in the Reserve to cover its emergency \$2M annual contingency funding for litigation or enforcement activities as permitted by Business and Professions Code (BPC) section 5025.2(b).

## Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations Section 70 Regarding Fees

Page 4 of 6

### Sunset Review Issue

One of the issues identified in the Background Paper prepared by the Senate Business and Professions Committee for the upcoming Sunset Review Hearing also focused on concerns with the CBA's Reserve level. Specifically, it was recommended that the CBA provide information to the Legislature regarding how it will maintain a prudent Reserve level of approximately 24 months. This further underscores possible legislative support for the CBA to return to a higher Reserve level to ensure it has adequate monies to meet its consumer protection mandate.

### Consideration of Fee Levels

With this additional information, the CBA may wish to reconsider the proposed fee level. In considering what level to set fees, it is important to know that Government Code section 128.5 establishes a 24 MIR ceiling. The proposed fee level scenarios, which are described below, do not exceed this limit, even with the aforementioned scheduled loan repayments.

#### *Scenario 1 – Adjust license renewal and initial permit fees to \$250 (Attachment 1)*

- This would take the fee level to the CBA's statutory maximum, as established in BPC section 5134(f).
- This would be an increase over pre-FY 2011/12 levels of \$200.
- Maintain reduced examination and licensing application fees of \$50/\$25 and \$50/\$30 respectively to continue assisting prospective licensees.
- Increase target MIR levels, providing a much stronger and robust reserve.
- Ensures the CBA will have the financial resources it needs in carrying out its mission of consumer protection
- Is projected to bring the CBA's Reserve to approximately 20 months in FY 2019/20.
- Demonstrates the CBA's responsiveness to the Legislature regarding increasing the CBA's Reserve.

#### *Scenario 2 – Restore license renewal and initial permit fees to \$200 (Attachment 2)*

- This would be an increase over pre-FY 2014/15 levels of \$120 but consistent with pre-FY 2011/12 levels of \$200.
- Maintain reduced examination and licensing application fees of \$50/\$25 and \$50/\$30 respectively to continue assisting prospective licensees.
- Increase target MIR levels, providing a much stronger and robust reserve.
- Ensures the CBA will have the financial resources it needs in carrying out its mission of consumer protection
- Is projected to bring the CBA's Reserve to approximately 12 months in FY 2019/20.

#### *Scenario 3 – Adjust license renewal and initial permit fees to \$185 (Attachment 3)*

- This would be an increase over pre-FY 2014/15 levels of \$120 but less than the pre-FY 2011/12 levels of \$200.

## Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations Section 70 Regarding Fees

Page 5 of 6

- Maintain reduced examination and licensing application fees of \$50/\$25 and \$50/\$30 respectively to continue assisting prospective licensees.
- Increase target MIR levels, providing a much stronger and robust reserve.
- Ensures the CBA will have the financial resources it needs in carrying out its mission of consumer protection.
- Is projected to bring the CBA's Reserve to approximately 10 months in FY 2019/20.

Should the CBA not act to restore or adjust fees to one of the above mentioned levels, all fees will automatically revert to pre-FY 2014/15 levels as identified in **Attachment 4**. This fee level is insufficient for fiscal year 2016/17 as it brings the CBA to insolvency, absent repayment of additional loans.

Should the CBA approve the fee level of \$250, this would consistently increase the Reserve for future years as revenues would be outpacing expenditures. The CBA would likely need to make a fee adjustment in the future to bring revenues and expenditures in balance.

It should be noted that language included in the Government Code states that fees should not be increased as a result of loans. The CBA has received guidance from the Department of Consumer Affairs (DCA) that adjusting the fees to \$200 would be considered a fee restoration and not a fee increase. It is unknown if DOF would approve a regulatory proposal to increase fees above \$200.

The CBA is required to operate within its legislatively established budget and it must maintain a sufficient Reserve should the CBA need to augment its budget. An increased MIR level would provide the CBA with enough funding at any given time to allow for expenditure variances without the need to adjust fees or rely on general fund loan repayments. Additionally, it will provide sufficient reserves to cover its emergency \$2M annual contingency funding for litigation or enforcement activities.

The CBA has received an indication from DCA that an additional \$4M may be repaid to the CBA in 2015/16 or 2016/17, however, it has yet to be included in the DOF Loan Obligation Report. This loan repayment will likely be based on the status of the CBA's Reserve level.

Once a definitive date is set for repayment of the outstanding General Fund loans, staff will provide updated financial information for the CBA to review and act on accordingly. Proposed regulatory language is provided for CBA member review and approval.

**Attachment 5** is proposed language to set the renewal and initial permit fee level to \$250, as described in Scenario 1. **Attachment 6** is proposed language for a renewal and initial permit fee adjustment to \$200, as described in Scenario 2. **Attachment 7** is proposed language for a renewal and initial permit fee restoration to \$185, as described in Scenario 3. As previously stated, all proposals maintain reduced examination and licensing application fees.

## **Discussion on Initiating a Rulemaking to Amend Title 16, California Code of Regulations Section 70 Regarding Fees**

Page 6 of 6

### **Fiscal/Economic Impact Considerations**

Increasing the license renewal and initial permit fees will eliminate the current unsustainable state of negative cash flow and would provide the CBA a strong future Reserve level.

### **Recommendation**

Although the CBA previously approved a fee adjustment to \$185 at its November meeting, staff are recommending that the CBA consider approving the fee level of \$250, and direct staff to initiate the rulemaking process in order to conduct the regulatory hearing at the May 2015 CBA meeting.

### **Attachments**

1. Fee Increase Proposal – \$250
2. Fee Increase Proposal – \$200
3. Fee Increase Proposal – \$185
4. Fee Increase Proposal – \$120
5. Proposed Regulatory Language, CBA Regulation Section 70 (\$250)
6. Proposed Regulatory Language, CBA Regulation Section 70 (\$200)
7. Proposed Regulatory Language, CBA Regulation Section 70 (\$185)

**California Board of Accountancy**  
**Fee Increase Proposal - Analysis of Fund Condition**  
(Dollars in Thousands)

**ATTACHMENT 1**

<b>Enter the % Increase:</b>		<b>Current Fees</b>		<b>Proposed New Fees to Start July 2016</b>	
<b>400%</b>	<b>Renewal Fee/Initial Permit Fee</b>	<b>\$50</b>		<b>\$250.00</b>	
<b>0%</b>	<b>Exam App Fee</b>	<b>\$50</b>	<b>\$25</b>	<b>\$50.00</b>	<b>\$25.00</b>
<b>0%</b>	<b>Lic App/Registration Fee</b>	<b>\$50</b>	<b>\$30</b>	<b>\$50.00</b>	<b>\$30.00</b>

Prepared 02/11/15

**Start of Fee Increase**

	<b>Actual 2013-14</b>	<b>CY 2014-15</b>	<b>BY 2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<b>BEGINNING FUND BALANCE</b>	\$ 15,122	\$ 14,239	\$ 4,313	\$ 2,372	\$ 5,528	\$ 19,840	\$ 22,809
Prior Year Adjustment	\$ 239	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted Beginning Balance	\$ 15,361	\$ 14,239	\$ 4,313	\$ 2,372	\$ 5,528	\$ 19,840	\$ 22,809
<b>REVENUES AND TRANSFERS</b>							
Revenues:							
125600 Other regulatory fees	\$ 278	\$ 230	\$ 166	\$ 278	\$ 278	\$ 278	\$ 278
125700 Other regulatory licenses and permits	\$ 4,826	\$ 2,665	\$ 2,616	\$ 4,826	\$ 4,826	\$ 4,826	\$ 4,826
125800 Renewal fees	\$ 4,968	\$ 2,453	\$ 2,461	\$ 11,943	\$ 11,943	\$ 11,943	\$ 11,943
125900 Delinquent fees	\$ 199	\$ 82	\$ 80	\$ 199	\$ 199	\$ 199	\$ 199
141200 Sales of documents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142500 Miscellaneous services to the public	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150300 Income from surplus money investments	\$ 33	\$ 35	\$ 37	\$ -	\$ -	\$ -	\$ -
160400 Sale of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
161000 Escheat of unclaimed checks and warrants	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
161400 Miscellaneous revenues	\$ 2	\$ 2	\$ 2	\$ 4	\$ 2	\$ 2	\$ 2
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues	\$ 10,310	\$ 5,471	\$ 5,366	\$ 17,254	\$ 17,252	\$ 17,252	\$ 17,252
Transfers from Other Funds							
F00001 GF loan repayment per Item 1120-011-0704, Loan of 2002	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -
Interest of \$6 million loan at 2.523% through 7-1-2014	\$ -	\$ -	\$ 151	\$ -	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2003	\$ -	\$ -	\$ -	\$ 270	\$ -	\$ -	\$ -
Interest on loan at 1.64%	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2010	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -
Interest on loan at .515%	\$ -	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2011	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -
Interest on loan at .389%	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
T00001 GF loan per Item 1120-011-0704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues and Transfers	\$ 10,310	\$ 5,471	\$ 11,517	\$ 17,528	\$ 28,307	\$ 17,252	\$ 17,252
Totals, Resources	\$ 25,671	\$ 19,710	\$ 15,830	\$ 19,900	\$ 33,835	\$ 37,092	\$ 40,061
<b>EXPENDITURES</b>							
Disbursements:							
8860 FSCU (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0840 State Controller (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8860 Financial Information System for California (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8880 - FISCAL	\$ -	\$ 10	\$ 23	\$ -	\$ -	\$ -	\$ -
1110 Program Expenditures (State Operations) [1]	\$ 11,371	\$ 13,776	\$ 13,865	\$ 14,142	\$ 14,425	\$ 14,713	\$ 15,008
Architectural Revolving Fund (ARF)	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BCEPs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enforcement	\$ -	\$ 940	\$ -	\$ 660	\$ -	\$ -	\$ -
Fingerprinting	\$ -	\$ 923	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 11,721	\$ 15,649	\$ 13,888	\$ 14,802	\$ 14,425	\$ 14,713	\$ 15,008
Less Scheduled Reimbursements	\$ (203)	\$ (178)	\$ (296)	\$ (296)	\$ (296)	\$ (296)	\$ (296)
Total Net Expenditures	\$ 11,518	\$ 15,471	\$ 13,592	\$ 14,506	\$ 14,129	\$ 14,417	\$ 14,712
Plus Cost Recovery	\$ 86	\$ 74	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134
<b>ENDING FUND BALANCE</b>							
Reserve for economic uncertainties before BreEZe	\$ 14,239	\$ 4,313	\$ 2,372	\$ 5,528	\$ 19,840	\$ 22,809	\$ 25,483
BreEZe Costs [2]	\$ -	\$ -	\$ 310	\$ 310	\$ -	\$ -	\$ -
Reserve for economic uncertainties	\$ 14,239	\$ 4,313	\$ 2,062	\$ 5,218	\$ 19,840	\$ 22,809	\$ 25,483
<b>Months in Reserve</b>	11.0	3.8	1.7	4.4	16.5	18.6	20.0

**NOTES:**  
[1] ASSUMES APPROPRIATION GROWTH OF 2% IN BY AND ONGOING. BREEZE COSTS INCLUDED  
[2] ASSUMES PROJECTED BREEZE COSTS

**California Board of Accountancy**  
**Fee Increase Proposal - Analysis of Fund Condition**  
(Dollars in Thousands)

**ATTACHMENT 2**

<b>Enter the % Increase:</b>		<b>Current Fees</b>		<b>Proposed New Fees to Start July 2016</b>	
<b>300%</b>	<b>Renewal Fee/Initial Permit Fee</b>	<b>\$50</b>		<b>\$200.00</b>	
<b>0%</b>	<b>Exam App Fee</b>	<b>\$50</b>	<b>\$25</b>	<b>\$50.00</b>	<b>\$25.00</b>
<b>0%</b>	<b>Lic App/Registration Fee</b>	<b>\$50</b>	<b>\$30</b>	<b>\$50.00</b>	<b>\$30.00</b>

Prepared 02/11/15

**Start of Fee Increase**

	<b>Actual 2013-14</b>	<b>CY 2014-15</b>	<b>BY 2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<b>BEGINNING FUND BALANCE</b>	\$ 15,122	\$ 14,239	\$ 4,313	\$ 2,372	\$ 3,158	\$ 15,100	\$ 15,698
Prior Year Adjustment	\$ 239	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted Beginning Balance	\$ 15,361	\$ 14,239	\$ 4,313	\$ 2,372	\$ 3,158	\$ 15,100	\$ 15,698
<b>REVENUES AND TRANSFERS</b>							
Revenues:							
125600 Other regulatory fees	\$ 278	\$ 230	\$ 166	\$ 278	\$ 278	\$ 278	\$ 278
125700 Other regulatory licenses and permits	\$ 4,826	\$ 2,665	\$ 2,616	\$ 4,826	\$ 4,826	\$ 4,826	\$ 4,826
125800 Renewal fees	\$ 4,968	\$ 2,453	\$ 2,461	\$ 9,572	\$ 9,572	\$ 9,572	\$ 9,572
125900 Delinquent fees	\$ 199	\$ 82	\$ 80	\$ 199	\$ 199	\$ 199	\$ 199
141200 Sales of documents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142500 Miscellaneous services to the public	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150300 Income from surplus money investments	\$ 33	\$ 35	\$ 37	\$ -	\$ -	\$ -	\$ -
160400 Sale of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
161000 Escheat of unclaimed checks and warrants	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
161400 Miscellaneous revenues	\$ 2	\$ 2	\$ 2	\$ 4	\$ 2	\$ 2	\$ 2
Totals, Revenues	\$ 10,310	\$ 5,471	\$ 5,366	\$ 14,883	\$ 14,881	\$ 14,881	\$ 14,881
Transfers from Other Funds							
F00001 GF loan repayment per Item 1120-011-0704, Loan of 2002 Interest of \$6 million loan at 2.523% through 7-1-2014	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2003 Interest on loan at 1.64%	\$ -	\$ -	\$ -	\$ 270	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2010 Interest on loan at .515%	\$ -	\$ -	\$ -	\$ 4	\$ 10,000	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2011 Interest on loan at .389%	\$ -	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ -
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -
T00001 GF loan per Item 1120-011-0704	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -
Totals, Revenues and Transfers	\$ 10,310	\$ 5,471	\$ 11,517	\$ 15,158	\$ 25,937	\$ 14,881	\$ 14,881
Totals, Resources	\$ 25,671	\$ 19,710	\$ 15,830	\$ 17,530	\$ 29,095	\$ 29,981	\$ 30,579
<b>EXPENDITURES</b>							
Disbursements:							
8860 FSCU (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0840 State Controller (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8860 Financial Information System for California (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8880 - FISCAL	\$ -	\$ 10	\$ 23	\$ -	\$ -	\$ -	\$ -
1110 Program Expenditures (State Operations) [1]	\$ 11,371	\$ 13,776	\$ 13,865	\$ 14,142	\$ 14,425	\$ 14,713	\$ 15,008
Architectural Revolving Fund (ARF)	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BCPs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enforcement	\$ -	\$ 940	\$ -	\$ 660	\$ -	\$ -	\$ -
Fingerprinting	\$ -	\$ 923	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 11,721	\$ 15,649	\$ 13,888	\$ 14,802	\$ 14,425	\$ 14,713	\$ 15,008
Less Scheduled Reimbursements	\$ (203)	\$ (178)	\$ (296)	\$ (296)	\$ (296)	\$ (296)	\$ (296)
Total Net Expenditures	\$ 11,518	\$ 15,471	\$ 13,592	\$ 14,506	\$ 14,129	\$ 14,417	\$ 14,712
Plus Cost Recovery	\$ 86	\$ 74	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134
<b>ENDING FUND BALANCE</b>							
Reserve for economic uncertainties before BreEZe	\$ 14,239	\$ 4,313	\$ 2,372	\$ 3,158	\$ 15,100	\$ 15,698	\$ 16,001
BreEZe Costs [2]	\$ -	\$ -	\$ 310	\$ 310	\$ -	\$ -	\$ -
Reserve for economic uncertainties	\$ 14,239	\$ 4,313	\$ 2,062	\$ 2,848	\$ 15,100	\$ 15,698	\$ 16,001
<b>Months in Reserve</b>	11.0	3.8	1.7	2.4	12.6	12.8	12.5

**NOTES:**  
[1] ASSUMES APPROPRIATION GROWTH OF 2% IN BY AND ONGOING. BREEZE COSTS INCLUDED  
[2] ASSUMES PROJECTED BREEZE COSTS

**California Board of Accountancy**  
**Fee Increase Proposal - Analysis of Fund Condition**  
(Dollars in Thousands)

**ATTACHMENT 3**

<b>Enter the % Increase:</b>		<b>Current Fees</b>		<b>Proposed New Fees to Start July 2016</b>	
<b>270%</b>	<b>Renewal Fee/Initial Permit Fee</b>	<b>\$50</b>		<b>\$185.00</b>	
<b>0%</b>	<b>Exam App Fee</b>	<b>\$50</b>	<b>\$25</b>	<b>\$50.00</b>	<b>\$25.00</b>
<b>0%</b>	<b>Lic App/Registration Fee</b>	<b>\$50</b>	<b>\$30</b>	<b>\$50.00</b>	<b>\$30.00</b>

Prepared 02/11/15

**Start of Fee Increase**

	<b>Actual 2013-14</b>	<b>CY 2014-15</b>	<b>BY 2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<b>BEGINNING FUND BALANCE</b>	\$ 15,122	\$ 14,239	\$ 4,313	\$ 2,372	\$ 2,446	\$ 13,677	\$ 13,564
Prior Year Adjustment	\$ 239	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted Beginning Balance	\$ 15,361	\$ 14,239	\$ 4,313	\$ 2,372	\$ 2,446	\$ 13,677	\$ 13,564
<b>REVENUES AND TRANSFERS</b>							
Revenues:							
125600 Other regulatory fees	\$ 278	\$ 230	\$ 166	\$ 278	\$ 278	\$ 278	\$ 278
125700 Other regulatory licenses and permits	\$ 4,826	\$ 2,665	\$ 2,616	\$ 4,826	\$ 4,826	\$ 4,826	\$ 4,826
125800 Renewal fees	\$ 4,968	\$ 2,453	\$ 2,461	\$ 8,861	\$ 8,861	\$ 8,861	\$ 8,861
125900 Delinquent fees	\$ 199	\$ 82	\$ 80	\$ 199	\$ 199	\$ 199	\$ 199
141200 Sales of documents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142500 Miscellaneous services to the public	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150300 Income from surplus money investments	\$ 33	\$ 35	\$ 37	\$ -	\$ -	\$ -	\$ -
160400 Sale of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
161000 Escheat of unclaimed checks and warrants	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
161400 Miscellaneous revenues	\$ 2	\$ 2	\$ 2	\$ 4	\$ 2	\$ 2	\$ 2
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues	\$ 10,310	\$ 5,471	\$ 5,366	\$ 14,172	\$ 14,170	\$ 14,170	\$ 14,170
Transfers from Other Funds							
F00001 GF loan repayment per Item 1120-011-0704, Loan of 2002	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -
Interest of \$6 million loan at 2.523% through 7-1-2014	\$ -	\$ -	\$ 151	\$ -	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2003	\$ -	\$ -	\$ -	\$ 270	\$ -	\$ -	\$ -
Interest on loan at 1.64%	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2010	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -
Interest on loan at .515%	\$ -	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2011	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -
Interest on loan at .389%	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
T00001 GF loan per Item 1120-011-0704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues and Transfers	\$ 10,310	\$ 5,471	\$ 11,517	\$ 14,447	\$ 25,226	\$ 14,170	\$ 14,170
Totals, Resources	\$ 25,671	\$ 19,710	\$ 15,830	\$ 16,818	\$ 27,672	\$ 27,847	\$ 27,734
<b>EXPENDITURES</b>							
Disbursements:							
8860 FSCU (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0840 State Controller (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8860 Financial Information System for California (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8880 - FISCAL	\$ -	\$ 10	\$ 23	\$ -	\$ -	\$ -	\$ -
1110 Program Expenditures (State Operations) [1]	\$ 11,371	\$ 13,776	\$ 13,865	\$ 14,142	\$ 14,425	\$ 14,713	\$ 15,008
Architectural Revolving Fund (ARF)	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BCEPs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enforcement	\$ -	\$ 940	\$ -	\$ 660	\$ -	\$ -	\$ -
Fingerprinting	\$ -	\$ 923	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 11,721	\$ 15,649	\$ 13,888	\$ 14,802	\$ 14,425	\$ 14,713	\$ 15,008
Less Scheduled Reimbursements	\$ (203)	\$ (178)	\$ (296)	\$ (296)	\$ (296)	\$ (296)	\$ (296)
Total Net Expenditures	\$ 11,518	\$ 15,471	\$ 13,592	\$ 14,506	\$ 14,129	\$ 14,417	\$ 14,712
Plus Cost Recovery	\$ 86	\$ 74	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134
<b>ENDING FUND BALANCE</b>							
Reserve for economic uncertainties before BreEZe	\$ 14,239	\$ 4,313	\$ 2,372	\$ 2,446	\$ 13,677	\$ 13,564	\$ 13,156
BreEZe Costs [2]	\$ -	\$ -	\$ 310	\$ 310	\$ -	\$ -	\$ -
Reserve for economic uncertainties	\$ 14,239	\$ 4,313	\$ 2,062	\$ 2,136	\$ 13,677	\$ 13,564	\$ 13,156
<b>Months in Reserve</b>	11.0	3.8	1.7	1.8	11.4	11.1	10.3

**NOTES:**

- [1] ASSUMES APPROPRIATION GROWTH OF 2% IN BY AND ONGOING. BREEZE COSTS INCLUDED
- [2] ASSUMES PROJECTED BREEZE COSTS

**California Board of Accountancy**  
**Fee Increase Proposal - Analysis of Fund Condition**  
(Dollars in Thousands)

**ATTACHMENT 4**

<b>Enter the % Increase:</b>		<b>Current Fees</b>		<b>Proposed New Fees to Start July 2016</b>	
140%	Renewal Fee/Initial Permit Fee	\$50		\$120.00	
0%	Exam App Fee	\$50	\$25	\$50.00	\$25.00
0%	Lic App/Registration Fee	\$50	\$30	\$50.00	\$30.00

Prepared 02/11/15

Start of Fee Increase

	Actual 2013-14	CY 2014-15	BY 2015-16	2016-17	2017-18	2018-19	2019-20
<b>BEGINNING FUND BALANCE</b>	\$ 15,122	\$ 14,239	\$ 4,313	\$ 2,372	\$ (635)	\$ 7,514	\$ 4,319
Prior Year Adjustment	\$ 239	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted Beginning Balance	\$ 15,361	\$ 14,239	\$ 4,313	\$ 2,372	\$ (635)	\$ 7,514	\$ 4,319
<b>REVENUES AND TRANSFERS</b>							
Revenues:							
125600 Other regulatory fees	\$ 278	\$ 230	\$ 166	\$ 278	\$ 278	\$ 278	\$ 278
125700 Other regulatory licenses and permits	\$ 4,826	\$ 2,665	\$ 2,616	\$ 4,826	\$ 4,826	\$ 4,826	\$ 4,826
125800 Renewal fees	\$ 4,968	\$ 2,453	\$ 2,461	\$ 5,779	\$ 5,779	\$ 5,779	\$ 5,779
125900 Delinquent fees	\$ 199	\$ 82	\$ 80	\$ 199	\$ 199	\$ 199	\$ 199
141200 Sales of documents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142500 Miscellaneous services to the public	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150300 Income from surplus money investments	\$ 33	\$ 35	\$ 37	\$ -	\$ -	\$ -	\$ -
160400 Sale of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
161000 Escheat of unclaimed checks and warrants	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
161400 Miscellaneous revenues	\$ 2	\$ 2	\$ 2	\$ 4	\$ 2	\$ 2	\$ 2
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues	\$ 10,310	\$ 5,471	\$ 5,366	\$ 11,090	\$ 11,088	\$ 11,088	\$ 11,088
Transfers from Other Funds							
F00001 GF loan repayment per Item 1120-011-0704, Loan of 2002	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -
Interest of \$6 million loan at 2.523% through 7-1-2014	\$ -	\$ -	\$ 151	\$ -	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2003	\$ -	\$ -	\$ -	\$ 270	\$ -	\$ -	\$ -
Interest on loan at 1.64%	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2010	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -
Interest on loan at .515%	\$ -	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ -
F00001 GF loan repayment per Item 1120-011-0704, BA of 2011	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -
Interest on loan at .389%	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
T00001 GF loan per Item 1120-011-0704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals, Revenues and Transfers	\$ 10,310	\$ 5,471	\$ 11,517	\$ 11,365	\$ 22,144	\$ 11,088	\$ 11,088
Totals, Resources	\$ 25,671	\$ 19,710	\$ 15,830	\$ 13,737	\$ 21,508	\$ 18,602	\$ 15,407
<b>EXPENDITURES</b>							
Disbursements:							
8860 FSCU (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0840 State Controller (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8860 Financial Information System for California (State Operations)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8880 - FISCAL	\$ -	\$ 10	\$ 23	\$ -	\$ -	\$ -	\$ -
1110 Program Expenditures (State Operations) [1]	\$ 11,371	\$ 13,776	\$ 13,865	\$ 14,142	\$ 14,425	\$ 14,713	\$ 15,008
Architectural Revolving Fund (ARF)	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BCEPs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enforcement	\$ -	\$ 940	\$ -	\$ 660	\$ -	\$ -	\$ -
Fingerprinting	\$ -	\$ 923	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 11,721	\$ 15,649	\$ 13,888	\$ 14,802	\$ 14,425	\$ 14,713	\$ 15,008
Less Scheduled Reimbursements	\$ (203)	\$ (178)	\$ (296)	\$ (296)	\$ (296)	\$ (296)	\$ (296)
Total Net Expenditures	\$ 11,518	\$ 15,471	\$ 13,592	\$ 14,506	\$ 14,129	\$ 14,417	\$ 14,712
Plus Cost Recovery	\$ 86	\$ 74	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134
<b>ENDING FUND BALANCE</b>							
Reserve for economic uncertainties before BreEZe	\$ 14,239	\$ 4,313	\$ 2,372	\$ (635)	\$ 7,514	\$ 4,319	\$ 829
BreEZe Costs [2]	\$ -	\$ -	\$ 310	\$ 310	\$ -	\$ -	\$ -
Reserve for economic uncertainties	\$ 14,239	\$ 4,313	\$ 2,062	\$ (945)	\$ 7,514	\$ 4,319	\$ 829
<b>Months in Reserve</b>	11.0	3.8	1.7	-0.8	6.3	3.5	0.7

**NOTES:**  
[1] ASSUMES APPROPRIATION GROWTH OF 2% IN BY AND ONGOING. BREEZE COSTS INCLUDED  
[2] ASSUMES PROJECTED BREEZE COSTS



DEPARTMENT OF CONSUMER AFFAIRS  
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## Attachment 5

### PROPOSED REGULATORY LANGUAGE CBA REGULATION SECTION 70 \$250 PROPOSAL

#### § 70. Fees.

(a)~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the application fee for the computer-based Uniform Certified Public Accountant Examination shall be \$50 for issuance of the Authorization to Test to first-time applicants and \$25 for issuance of the Authorization to Test to repeat applicants.

~~(2) Commencing July 1, 2016, the application fee for the computer-based Uniform Certified Public Accountant Examination shall be \$100 for issuance of the Authorization to Test to first-time applicants and \$50 for issuance of the Authorization to Test to repeat applicants.~~

(b)~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the application fee for issuance of a certified public accountant certificate shall be \$50.

~~(2) Commencing July 1, 2016, the application fee for issuance of a certified public accountant certificate shall be \$250.~~

(c)~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the application fee for registration as a partnership or as a corporation, including registration under a new name as a partnership or as a corporation, shall be \$30.

~~(2) Commencing July 1, 2016, the application for registration as a partnership or as a corporation, including registration under a new name as a partnership or as a corporation, shall be \$150.~~

(d)(1) From July 1, 2014 ~~to June 30, 2016~~, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be \$50.

(2) Commencing July 1, 2016, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be ~~\$120~~ \$250 ~~unless subsection (j) applies.~~

(e)~~(1)~~ ~~[Reserved]~~

~~(2)~~ For licenses expiring between July 1, 2014 and June 30, 2016, the fee to be charged each applicant for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be \$50.

~~(3)~~ For licenses expiring after June 30, 2016, the fee for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be ~~\$120~~ \$250 ~~unless subsection (j) applies.~~

(f) The fee for the processing and issuance of a duplicate copy of a certificate of licensure or registration shall be \$10.

(g) The fee for processing and issuance of a duplicate copy of a registration, or permit or other form evidencing licensure or renewal of licensure shall be \$2.

(h)(1) The fee for submission of a Practice Privilege Notification Form pursuant to Business and Professions Code Section 5096 with an authorization to sign attest reports shall be \$100.

(2) The fee for submission of a Practice Privilege Notification Form pursuant to Business and Professions Code Section 5096 without an authorization to sign attest reports shall be \$50.

(3) This subsection shall be inoperative until January 1, 2019.

(i)(1) The fee to be charged a licensee for submission of an application for a license in a retired status pursuant to Section 15.1 shall be \$75.

(2) The fee to restore a license from a retired status to an active status shall be \$50.

~~(j) By May 31, 2015, the Board shall conduct a review of its actual and estimated costs. Based on this review, the Board shall determine the appropriate level of fees for the initial permit to practice pursuant to subsection (d) and renewal of the permit to practice pursuant to subsection (e) in order to maintain the Board's contingent fund reserve balance at an amount equal to approximately three months of estimated annual authorized expenditures. If the Board determines that fees of less than \$120 are indicated, the Board shall fix the fees by regulation at the indicated amounts by July 1, 2016.~~

**NOTE:** Authority cited: Sections 5010 and 5134, Business and Professions Code. Reference: Sections 122, 163, 5070.1, 5096, and 5134 Business and Professions Code.



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## Attachment 6

### PROPOSED REGULATORY LANGUAGE CBA REGULATION SECTION 70 \$200 PROPOSAL

#### § 70. Fees.

(a) ~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the application fee for the computer-based Uniform Certified Public Accountant Examination shall be \$50 for issuance of the Authorization to Test to first-time applicants and \$25 for issuance of the Authorization to Test to repeat applicants.

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(d) ~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be \$50.

(2) Commencing July 1, 2016, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be ~~\$120~~ 200 ~~unless subsection (j) applies.~~

(e) ~~(1)~~ ~~[Reserved]~~

~~(2)~~ For licenses expiring between July 1, 2014 and June 30, 2016, the fee to be charged each applicant for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be \$50.

~~(3)~~ For licenses expiring after June 30, 2016, the fee for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be ~~\$120~~ 200 ~~unless subsection (j) applies.~~

(f) The fee for the processing and issuance of a duplicate copy of a certificate of licensure or registration shall be \$10.

(g) The fee for processing and issuance of a duplicate copy of a registration, or permit or other form evidencing licensure or renewal of licensure shall be \$2.

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**NOTE:** Authority cited: Sections 5010 and 5134, Business and Professions Code. Reference: Sections 122, 163, 5070.1, 5096, and 5134 Business and Professions Code.



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## Attachment 7

### PROPOSED REGULATORY LANGUAGE CBA REGULATION SECTION 70 \$185 PROPOSAL

#### § 70. Fees.

(a)~~(1)~~ From July 1, 2014 ~~to June 30, 2016~~, the application fee for the computer-based Uniform Certified Public Accountant Examination shall be \$50 for issuance of the Authorization to Test to first-time applicants and \$25 for issuance of the Authorization to Test to repeat applicants.

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~~(2) Commencing July 1, 2016, the application for registration as a partnership or as a corporation, including registration under a new name as a partnership or as a corporation, shall be \$150.~~

(d)(1) From July 1, 2014 ~~to June 30, 2016~~, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be \$50.

(2) Commencing July 1, 2016, the fee for the initial permit to practice as a partnership, a corporation, or a certified public accountant shall be ~~\$120~~ \$185 ~~unless subsection (j) applies.~~

(e)~~(1)~~ ~~[Reserved]~~

~~(2)~~ For licenses expiring between July 1, 2014 and June 30, 2016, the fee to be charged each applicant for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be \$50.

~~(3)~~ For licenses expiring after June 30, 2016, the fee for renewal of a permit to practice as a partnership, a corporation, a public accountant, or a certified public accountant shall be ~~\$120~~ \$185 ~~unless subsection (j) applies.~~

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**CBA Item IV.C.**  
March 19-20, 2015

## Discussion Regarding BreEZe Project

**Presented by:** Deanne Pearce, Assistant Executive Officer

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### Purpose of the Item

The purpose of this agenda item is to provide the California Board of Accountancy with the California State Auditor's report on the California Department of Consumer Affairs' (DCA) BreEZe system (**Attachment 1**).

### Action(s) Needed

No specific action is required on this agenda item.

### Background

The BreEZe system was created by DCA to serve as an on-line licensing and enforcement database for use by all DCA boards and bureaus. The primary purpose was to replace its present antiquated database systems, which house information on all DCA licensees. The multi-year, multi-million dollar project was anticipated to provide features, including:

- On-line license renewal capability
- Ability to pay with a credit card
- Option to submit, and track the status of, an application or licensing request
- Option to submit on-line address changes
- Real-time licensee information for consumers
- Opportunity to file and track the status of a complaint

Due to the large scope of the project, including the number of boards and bureaus that would be transitioning to the system and the number of license types that would need to be created, a plan was formed to transition the boards in three phases, over a period of years. The first phase was primarily focused on the healing arts boards, with remaining boards and bureaus being placed in phases two and three. The CBA was placed in phase three of the project and the initial target date for transition was 2013; however, this date was subsequently adjusted due to various timing elements of the project going beyond preliminary estimates.

In late 2014, DCA announced that the contractual relationship with the contractor working on the BreEZe project would be terminated following the transition of those boards and bureaus in phase two of the project. Phase two of the project has a proposed transition date of March 2016. It was conveyed by DCA that the boards and bureaus in phase three of project, would, at a future date, transition to the BreEZe system.

## **Discussion Regarding BreEZe Project**

Page 2 of 2

In February 2015, the California State Auditor released an audit of the BreEZe project, per the request of the legislature. This audit report stemmed from issues identified with the Board of Registered Nursing (BRN) during its transition to the BreEZe system in late 2013.

### **Comments**

Attached for CBA review is the California State Auditor's Report of the BreEZe project. The BreEZe audit report identifies several findings for and responses to the findings from DCA, BRN, and the California Department of Technology.

Also provided for review are BreEZe Costs and Funding (**Attachment 2**) reflecting both actual and projected costs for the CBA.

Should the CBA have specific questions regarding the BreEZe audit report, staff can either capture the questions and provide a written communication to DCA leadership requesting feedback, or a request can be made to have a representative from DCA attend a future CBA meeting to address any questions members may have.

### **Fiscal/Economic Impact Considerations**

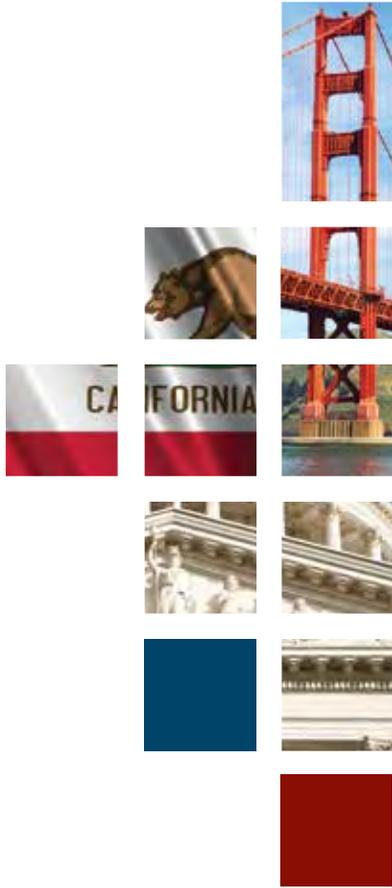
As noted in the attached BreEZe audit report, the preliminary information reflects that \$96 million has been expended towards this project. The CBA has already spent approximately \$388,000 and is projected to spend an additional \$730,000 in the next three fiscal years, without being transitioned to the system.

### **Recommendation**

Staff does not have a recommendation on this agenda item.

### **Attachments**

1. California State Auditor's Report: California Department of Consumer Affairs' BreEZe System
2. Department of Consumer Affairs BreEZe Costs and Funding



# California Department of Consumer Affairs' BreEZe System

Inadequate Planning and Oversight Led to Implementation at Far Fewer Regulatory Entities at a Significantly Higher Cost

Report 2014-116

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INTEGRITY  
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February 12, 2015

2014-116

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning how the California Department of Consumer Affairs (Consumer Affairs) planned, developed, and implemented BreEZe—an information technology (IT) system Consumer Affairs envisioned would support all of the primary functions and responsibilities of 37 of its 40 boards, bureaus, committees, and a commission (regulatory entities). This report concludes that the BreEZe project has been plagued with performance problems, significant delays, and escalating costs, which based on a January 2015 estimate were \$96 million—more than triple the original cost estimate—for implementation of a system at only half of the regulatory entities originally planned for BreEZe. As of that date, only 10 regulatory entities had transitioned to BreEZe, eight more intend to transition to it in March 2016, and it is unknown whether or when the remaining 19 will transition to the system.

Although doing so is critical to the successful development of IT systems, Consumer Affairs failed to adequately plan, staff, and manage the project for developing BreEZe. For example, while an up-to-date assessment of business needs is essential to developing adequate system requirements, Consumer Affairs failed to properly perform such an assessment for the regulatory entities when developing the system requirements for BreEZe, which specify what the system should do. Instead, Consumer Affairs relied on requirements from earlier projects that were abandoned and incorrectly assumed that the entities could use similar business processes to, for example, process license applications.

Further, although staff of the California Department of Technology (CalTech) in its oversight role raised nearly 180 significant and persistent concerns about the BreEZe project in monthly reports between December 2010 and September 2014 in areas including project management, staffing, system requirements, and vendor performance, it allowed the project to continue without significant intervention. We believe the volume and significance of these concerns should have prompted both CalTech and Consumer Affairs to analyze fully the costs and benefits of suspending or terminating the project versus proceeding.

Additionally, during the procurement process for the BreEZe project, the California Department of General Services (General Services) and Consumer Affairs approved revisions to the BreEZe contracts' terms and conditions proposed by the vendor, Accenture LLP, which transferred significant risk to the State. For example, the revised language limited Consumer Affairs' ability to terminate the contracts and eliminated protections Consumer Affairs otherwise would have had against the possibility of intellectual property rights violations. We question the prudence of some of the decisions General Services and Consumer Affairs made regarding the terms and conditions, as they substantially increased Consumer Affairs' financial risks related to these contracts.

Despite assertions by the Board of Registered Nursing (BRN) that it was exceeding maximum time frames for processing certain license applications since implementing BreEZe, we found little evidence that it tracks the information needed to support such claims. In addition, we interviewed executive officers of the 10 regulatory entities that have implemented BreEZe and most told us that they are generally dissatisfied with their BreEZe experience because it did not meet their expectations in a variety of ways, and eight including BRN reported that the system has decreased their operational efficiency.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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# Contents

Summary	1
Introduction	9
<b>Chapter 1</b>	
Poor Planning and Decision Making Have Led to Increased Costs and Extended Timelines and Have Placed the Future of BreEZe in Doubt	23
Recommendations	49
<b>Chapter 2</b>	
The State Entities Responsible Did Not Ensure That the BreEZe Contract Terms Sufficiently Protect the State	53
Recommendations	60
<b>Chapter 3</b>	
The Board of Registered Nursing Made Some Unsubstantiated Reports of Difficulties From Implementing BreEZe, and Other Regulatory Entities Also Report Challenges With BreEZe	63
Recommendations	78
<b>Appendix</b>	
Summary of Significant BreEZe Project Concerns Noted by Independent Oversight Reports, December 2010 Through September 2014	81
<b>Responses to the Audit</b>	
California Department of Consumer Affairs	99
California Department of Consumer Affairs, Board of Registered Nursing	107
California State Auditor’s Comments on the Response From the Board of Registered Nursing	113
California Department of Technology	115
California State Auditor’s Comments on the Response From the California Department of Technology	125

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## Summary

### Results in Brief

The California Department of Consumer Affairs (Consumer Affairs) encompasses 40 boards, bureaus, committees, and a commission (regulatory entities) that regulate and license professional and vocational occupations to protect the health, safety, and welfare of the people of California. Annually, these regulatory entities process more than 350,000 applications for professional licensure and an estimated 1.2 million license renewals. The regulatory entities establish the minimum qualifications and levels of competency for licensure, register or certify practitioners, investigate complaints, and discipline violators. Although these entities are responsible individually for activities related specifically to the professions they oversee and they are semiautonomous bodies whose members are appointed by the governor and the Legislature, Consumer Affairs establishes general administrative policies for them and provides them with administrative support.

Historically, the regulatory entities have used multiple computer systems to fulfill their required duties and meet their business needs. However, significant issues with these systems reportedly resulted in excessive turnaround times for licensing and enforcement activities, impeding the ability of the regulatory entities to meet their goals and objectives. In 2009, after undertaking several unsuccessful efforts to develop or procure an information technology (IT) system that would improve the capabilities of the regulatory entities it administratively supports, Consumer Affairs proposed, and the California Department of Technology (CalTech) approved, BreEZe—a system Consumer Affairs envisioned would support all of the primary functions and responsibilities of its regulatory entities.<sup>1</sup> Unfortunately, this has not been the case.

The work Consumer Affairs undertook on the BreEZe project has lacked adequate planning. Although an up-to-date assessment of business needs is critical to the successful development of an IT project, Consumer Affairs failed to properly perform such an assessment for its regulatory entities when developing the system requirements, resulting in requirements that did not

<sup>1</sup> Although Consumer Affairs consists of 40 regulatory entities, only 37 of these entities were originally scheduled to implement BreEZe. Specifically, the Bureau of Real Estate and the Bureau of Real Estate Appraisers were brought under Consumer Affairs as a result of the governor's reorganization plan, effective July 2013, after the BreEZe project was approved and underway. According to Consumer Affairs, it planned to implement BreEZe at these regulatory entities once the system was fully implemented at the 37 regulatory entities. Another entity, the Arbitration and Certification Program, does not issue licenses and will not be included in BreEZe.

### Audit Highlights . . .

*Our audit concerning the California Department of Consumer Affairs' (Consumer Affairs) planning, development, and implementation of BreEZe—an information technology (IT) system envisioned to support all primary functions and responsibilities of its regulatory entities—revealed the following:*

- » *Consumer Affairs failed to adequately plan, staff, and manage the project for developing BreEZe.*
  - *It did not effectively assess the regulatory entities' business needs to determine system requirements.*
  - *Inadequate system requirements led to significant delays at key stages of the project.*
  - *It relied on faulty assumptions in selecting a commercial "off-the-shelf" system as the foundation for BreEZe, which contributed to an increase in project costs—from \$28 million in 2009 to \$96 million as of January 2015 for half of the entities originally planned.*
  - *It did not have adequate staffing to execute and implement BreEZe through critical project phases.*
- » *Between December 2010 and September 2014, the California Department of Technology's (CalTech) independent oversight raised nearly 180 significant project concerns, yet both CalTech and Consumer Affairs' officials allowed the project to continue without significant intervention.*

*continued on next page . . .*

- » *Despite significant problems with the BreEZe project, CalTech approved additional funding for it.*
- » *The California Department of General Services and Consumer Affairs revised the BreEZe contracts' terms and conditions, at the request of the project vendor, in ways that significantly increased the financial risk to the State.*
- » *As of January 2015 only 10 regulatory entities had transitioned to BreEZe, eight more intend to transition in March 2016, and it is unknown if the remaining 19 regulatory entities will implement BreEZe.*
- » *Most executive officers of the 10 regulatory entities that had transitioned to BreEZe reported that it has decreased their regulatory entity's operational efficiency.*
- » *Due to lack of evidence, the Board of Registered Nursing's claim that the implementation of BreEZe caused inefficiency in processing applications could not be substantiated.*

adequately reflect their individual needs. According to our IT expert, system requirements define a business problem to be solved and specify what the system should do. For example, a system requirement for a regulatory entity could be that the system allow the entity to record the date it receives an application. In planning the BreEZe system, Consumer Affairs should have taken steps to ensure that the system requirements were based on the current business needs of its regulatory entities, so that the resulting system would aid the entities in conducting their business operations and in fulfilling their regulatory responsibilities. Instead, when developing the requirements for BreEZe, Consumer Affairs relied on requirements for earlier projects that were abandoned.

Because Consumer Affairs did not properly determine the business needs of its regulatory entities, it incorrectly assumed, for example, that the entities could use similar business processes to process applications and issue licenses. This misconception, coupled with the fact that Consumer Affairs wanted BreEZe to be developed quickly, informed Consumer Affairs' decision to select an existing commercial "off-the-shelf," or COTS, system as the foundation for BreEZe. Consumer Affairs believed that this type of product, rather than a custom-developed system, would require only moderate modifications and resources to implement. These faulty assumptions have led to significant project delays and a substantial increase in the estimated costs of the project, from \$28 million in 2009 to \$96 million as of January 2015, for implementation of a system that will include only half of the regulatory entities originally planned for BreEZe. Thus, it appears that Consumer Affairs' selection of this COTS product may not have been the most appropriate and most cost-effective decision.

In part, because the foundation of BreEZe—its system requirements—was inadequately developed, the BreEZe project has experienced delays at key stages of the project. The most extreme delay involved the key milestone of *user acceptance testing*—testing that future users of the system conduct to confirm that the system operates as its requirements specify. User acceptance testing for the 10 regulatory entities included in the first implementation of BreEZe (phase 1) was originally planned to occur over an eight-week period; instead it spanned 11 months, from the end of November 2012 to October 2013, significantly exceeding the original time frame. This likely occurred in part because the BreEZe system had almost 1,700 unresolved system defects at the beginning of user acceptance testing. According to our IT expert, many of these defects were likely attributable to the poor development of the system requirements. Although user acceptance testing is one of the final and more critical procedures undertaken before system implementation to ensure that the system operates appropriately, in this case it morphed into a redesign of the requirements and

a rework of the system. Specifically, in conducting the testing of the system, some of the 10 regulatory entities included in the first phase of implementation, as well as Consumer Affairs itself, learned that the system did not operate as they expected or needed. Had Consumer Affairs performed a complete, current assessment of the regulatory entities' needs when determining the system requirements for BreEZe, some of the delays the project has experienced might have been avoided.

Further, although CalTech began providing independent oversight of the BreEZe project approximately one year after the project's inception, neither CalTech nor Consumer Affairs responded appropriately to the significant and persistent concerns that the CalTech staff and consultants charged with overseeing the project were raising. In addition to having the statutory authority to suspend or terminate IT projects, state law assigns responsibility for IT project oversight to CalTech; this project oversight mainly consists of two types of independent oversight. *Independent verification and validation* (IV&V) is used to ensure that a system satisfies its intended use and user needs. *Independent project oversight* (IPO) is used to ensure that effective project management practices are in place and in use. In their reports from December 2010 through September 2014 on the BreEZe project, the CalTech IV&V consultant and the IPO specialist raised nearly 180 significant concerns relating to project management, staffing, system requirements, and vendor performance. According to our IT expert, the volume and significance of these concerns should have prompted both CalTech and Consumer Affairs to analyze fully the costs and benefits of suspending or terminating the project versus proceeding. However, although Consumer Affairs officials and CalTech management were fully aware of these concerns, neither group took sufficient action to ensure that these concerns were appropriately addressed; instead, they allowed the project to continue for more than three years without significant intervention.

Given CalTech's authority and the numerous concerns the IV&V consultant and the IPO specialist raised about the project, we question why CalTech did not take steps to ensure that Consumer Affairs heeded its advice. For instance, CalTech could have formally warned Consumer Affairs that it would suspend the project if Consumer Affairs did not bring the project back into alignment with its planned scope, cost, and schedule. As an example, the estimated cost to complete the project had almost tripled to \$78 million and the project had experienced significant delays in its schedule before completion of user acceptance testing. We believe these problems, along with the significant cost increases the project had already experienced, should have been enough to elicit

CalTech's greater involvement in the project. Instead, it approved Consumer Affairs' Special Project Report (SPR) 2, which requested additional funding for the project, in October 2013.<sup>2</sup>

Consumer Affairs submitted SPR 3 to CalTech in June 2014; in it, it requested additional funding and estimated the costs to complete the project through phase 2 at \$118 million. However, it was not until after Consumer Affairs informally estimated the cost of completing the project had risen to \$300 million that same month that CalTech changed its oversight approach on the BreEZe project.<sup>3</sup> Although CalTech approved SPR 3 in July 2014, according to the BreEZe project director, Consumer Affairs withdrew its submission of SPR 3 upon direction from CalTech and the California Department of Finance in September 2014.

As discussed previously, CalTech has the authority and responsibility to oversee IT projects. If CalTech had chosen to suspend the project, BreEZe development would have been paused temporarily, giving Consumer Affairs additional time to conduct a cost-benefit analysis and correct fundamental problems, such as requirements issues, that occurred during planning and development. However, in October 2014 the CalTech director—who has overseen the BreEZe project since Consumer Affairs executed its contracts with the project vendor, Accenture LLP (Accenture)—told us that CalTech has not halted BreEZe for several reasons: because BreEZe is moving in the right direction, because the system's problems are not incurable, and because the system is working and functional.<sup>4</sup> However, Consumer Affairs' SPR 3.1, which it submitted to CalTech in January 2015, indicates the project is not moving in the right direction and proposes a rescoping of the project because of significant concerns relating to staffing and increasing project costs, and because its contracts with Accenture are no longer financially feasible for Consumer Affairs.

For these reasons, among others, the future implementation of BreEZe is uncertain at best and, as it relates to the regulatory entities originally included in the final phase (phase 3), likely unfeasible. As of January 2015, 10 regulatory entities had implemented the system, with the first of three phases occurring in October 2013. Another eight regulatory entities are included

<sup>2</sup> An SPR provides a summary of proposed changes to the original project cost, schedule, or scope. An SPR is generally required when the project costs or total financial program benefits deviate or are anticipated to deviate by 10 percent or more, or a major change occurs in project requirements or methodology.

<sup>3</sup> The BreEZe project team developed the estimate informally and not in the same manner as an SPR requires.

<sup>4</sup> There are three contracts related to the BreEZe project—one contract for design, development, and implementation; another contract for maintenance support; and a third contract for the system license. When we discuss a specific contract, we identify it as either the *design, maintenance, or system license contract*.

in phase 2, which is currently planned for March 2016. However, Consumer Affairs has indicated that it needs additional staffing to successfully implement BreEZe at the phase 2 regulatory entities, and as of January 2015 lacked the funding to fill those positions. Additionally, it is unknown whether or when the remaining 19 phase 3 regulatory entities will implement BreEZe. Specifically, CalTech officials indicated that it completed renegotiating Consumer Affairs' design contract with Accenture on December 1, 2014, and according to Consumer Affairs' director, these 19 regulatory entities had been removed entirely from the project. Although the director of Consumer Affairs maintains that the department intends to implement BreEZe at those 19 regulatory entities, it lacks a plan to do so. In fact, SPR 3.1 indicates that the project will end after the phase 2 regulatory entities implement BreEZe, and only after its successful implementation of that phase will Consumer Affairs reassess the best implementation approach for the phase 3 regulatory entities. However, the director of Consumer Affairs acknowledged that the department has not assessed the extent to which the business needs of the 19 regulatory entities will require changes to the system. Moreover, Consumer Affairs has not conducted a formal cost-benefit analysis to determine whether BreEZe is the most cost-beneficial solution for meeting those needs.

Additionally, the contracts Consumer Affairs executed with Accenture for developing BreEZe do not adequately protect the State. Consumer Affairs executed the BreEZe contracts with Accenture in September 2011, under the direction of the California Department of General Services (General Services). Although its role at that time was to administer state IT procurements and conserve the fiscal interests of the State, General Services and Consumer Affairs agreed to revise the contracts' terms and conditions during the procurement process, at Accenture's request, in ways that significantly increased risk to the State. During the request for proposal (RFP) bidding period (RFP phase), General Services provided every potential bidder with the opportunity to submit a protest for issues such as the selection of prequalified bidders or RFP requirements before submitting a bid and to have General Services review its concerns. During the RFP phase in the BreEZe procurement process in January 2011, only Accenture submitted a protest, in which it proposed modifications to the State's standard IT general provisions and model contract language (standard IT contract).<sup>5</sup> Of the 44 modifications to the State's standard IT contract that Accenture proposed, General Services accepted 18, proposed its own revisions to 19, and rejected just seven. Subsequently in April 2011, in accordance with state law, Consumer Affairs entered into a negotiation with Accenture during

<sup>5</sup> At the time of the BreEZe procurement, General Services had several modules of standard contract language related to IT contracts.

which further changes were made to the contract, with General Services' approval. However, some of those accepted changes to the standard IT contract's terms and conditions decrease Consumer Affairs' ability to obtain rights to work product that Accenture builds if Consumer Affairs terminates the contracts early, and they reduce Consumer Affairs' financial protections in the event of intellectual property rights violations.

Although General Services cited reasons for approving the modified terms and conditions in the BreEZe contracts, we question the prudence of some of the decisions it and Consumer Affairs made, as they increased Consumer Affairs' financial risks related to these contracts. CalTech's current authority over procurements for IT projects, a role that was not in place at the time the BreEZe contracts were being negotiated, together with its authority for approving and overseeing IT projects, position it well to ensure that future IT procurements do not jeopardize the State's financial interests.

Various stakeholders of the Board of Registered Nursing (BRN), one of the 10 phase 1 regulatory entities, raised concerns about the timeliness with which it has processed applications after implementing BreEZe in October 2013. According to BRN, it has faced significant delays in processing license applications and has been forced to modify its business processes since implementing the BreEZe system. However, although BRN asserted that it was exceeding the maximum time frames for processing certain applications and was facing a backlog of applications after implementing the system, we found little evidence demonstrating that it consistently tracks the information needed to support such claims.

For the selection of applications we reviewed, BRN processed these applications, on average, well within the allowable maximum time frames. However, we did determine that as of September 2014, BRN had a significant number of applications that were pending its review—more than 7,000, of which 63 had already exceeded the respective maximum processing time frames. Yet because BRN does not formally track this information, it cannot adequately assess its workload.

Additionally, BRN indicated that it has faced, and continues to face, obstacles in its implementation of the BreEZe system; for example, the system requires that staff take additional steps to enter applicant information. However, BRN does not track the information needed to assess the impact of such obstacles. Further, because it believes its efficiency in processing applications has decreased since implementing BreEZe, it has requested additional staff it believes it needs to process applications within required time frames. However, this request is based on data from the two fiscal years preceding BRN's implementation of BreEZe. Thus, because the analysis BRN used to support its need for the additional positions

does not reflect its current workload and business processes since implementing the BreEZe system, the additional positions it requested are not adequately justified.

Most of the executive officers of the 10 phase 1 regulatory entities are generally dissatisfied with their BreEZe experience because it has not met their expectations. We interviewed the executive officers of each of the regulatory entities that have implemented the system regarding various aspects of their experience with the project, including their satisfaction with BreEZe and their overall experience with the system. Each regulatory entity reported experiencing issues with certain aspects of the BreEZe project. For example, the majority were unsatisfied with the testing they were able to conduct before implementing the system, and most found the training to be inadequate. In addition, all 10 of the executive officers indicated that BreEZe's reporting capability was unsatisfactory. Of greater concern, most executive officers reported that BreEZe has decreased their regulatory entity's operational efficiency.

## **Recommendations**

### ***CalTech***

To help ensure the success of the BreEZe project going forward, CalTech should ensure that Consumer Affairs responds promptly to, and adequately addresses, concerns the IPO specialist and the IV&V consultant raise.

If Consumer Affairs receives the necessary funding and resources to successfully implement BreEZe at the phase 2 regulatory entities and the project continues to face escalating costs, CalTech should require Consumer Affairs to analyze the costs and benefits of moving forward with the project as planned versus suspending or terminating the project.

To ensure that future IT project procurements do not jeopardize the State's financial interests, CalTech should document its reasons for approving any deviations from standard contract language.

### ***Consumer Affairs***

Consumer Affairs should develop a process to ensure that it undertakes all required oversight activities with respect to BreEZe so that it can prevent or identify and monitor any problems as they arise. This includes taking steps to sufficiently respond to any concerns the IPO specialist and the IV&V consultant raise.

To ensure that BreEZe is a cost-effective solution to meet the business needs of the phase 3 regulatory entities, should it elect to pursue implementing BreEZe at these entities, Consumer Affairs should first complete a formalized cost-benefit analysis. This analysis should include an assessment of the potential changes those regulatory entities may require be made to the BreEZe system and the associated costs.

Consumer Affairs should continue to work with the phase 1 regulatory entities to ensure that the issues they are facing with BreEZe are being resolved in a timely manner.

### **BRN**

To ensure that it has adequate data to effectively use its resources and manage its workload, BRN should do the following:

- Formally track and monitor the timeliness of its processing of applications by type and track the cause of any delays.
- Formally track and monitor the applications pending its review by type and original receipt date.

Conduct an analysis no later than June 30, 2015, of its application processing since implementing BreEZe to identify its workload capability. To the extent that it determines additional resources are necessary, BRN should submit a request for these resources that is appropriately justified.

### **Agency Comments**

Consumer Affairs and BRN agreed with our recommendations and outlined the actions they plan to take to implement them. Although CalTech states that our report's recommendations are for the most part appropriate and in line with actions and initiatives that it has already undertaken, it explained that it has general concerns with the report and did not indicate whether it agrees with our recommendations. Our comments on CalTech's response begin on page 125.

# Introduction

## Background

The primary function of the California Department of Consumer Affairs (Consumer Affairs) is to protect and serve consumers and ensure a competent, fair marketplace. Consumer Affairs encompasses 40 boards, bureaus, committees, and a commission (regulatory entities) that regulate and license professional and vocational occupations to protect the health, safety, and welfare of the people of California. The regulatory entities that comprise Consumer Affairs license doctors, dentists, contractors, and cosmetologists, among other professions. Each year these regulatory entities process more than 350,000 applications for professional licensure and an estimated 1.2 million license renewals. The regulatory entities also establish the minimum qualifications and levels of competency for licensure, register or certify practitioners, investigate complaints, and discipline violators. Although these entities are semiautonomous bodies that are responsible individually for activities related specifically to the professions they oversee and their members are appointed by the governor and the Legislature, Consumer Affairs establishes general administrative policies for them and provides them with administrative support. For example, Consumer Affairs processes payments for goods and services and travel reimbursements for the regulatory entities.

Historically, Consumer Affairs' regulatory entities have used multiple computer systems, referred to as *legacy systems*, to fulfill their required duties and meet their business needs. The Applicant Tracking System (ATS) and Consumer Affairs System (CAS) are the two database applications that Consumer Affairs uses to maintain its core licensing and enforcement information for regulatory entities. The ATS, which tracks and monitors activities for cashiering, initial license application, and examinations for 32 regulatory entities, was developed in the 1990s and last upgraded in 2003. The CAS, an enterprise licensing and enforcement system, was developed in the 1980s to track license-related activities such as initial licenses, renewals, complaints, investigations, and enforcement for 38 regulatory entities.

According to Consumer Affairs, significant issues with these legacy systems have resulted in excessive turnaround times for licensing and enforcement activities, thus impeding the ability of the regulatory entities to meet their business goals and objectives. In its November 2009 Feasibility Study Report (FSR) for the proposed BreZe system, Consumer Affairs identified many deficiencies within the existing systems that were affecting consumers. For example, Consumer Affairs reported that the existing licensing

and enforcement systems lacked automated workflow and case management functionality that could help staff ensure that licensing and enforcement activities are accurately and completely documented. Additionally, the existing licensing and enforcement systems did not interface with partner agencies, such as the California Department of Justice, to share information. Consumer Affairs stated that these deficiencies, among others, had resulted in various negative effects, including a prolonged licensing process, an average complaint resolution time of over two years for existing licensees, and lost documents.

In 2008 and 2009 Consumer Affairs and one of its regulatory entities, the Board of Registered Nursing (BRN), came under scrutiny from the media for delays in completing enforcement activities. The *Los Angeles Times* reported that BRN was facing significant enforcement backlogs that extended more than three years and thereby allowed nurses with criminal convictions or with documented histories of incompetence, drug theft, or abuse to continue working while action was pending. For example, the *Los Angeles Times* reported the results of an investigation it conducted that found more than 100 cases in which the State did not seek to revoke or restrict licenses until the nurses involved had accumulated three or more criminal convictions.

In July 2009 the governor stated that Consumer Affairs' enforcement backlogs were absolutely unacceptable. That summer Consumer Affairs initiated a major effort to reform its enforcement programs, which were plagued with various investigative, legal, procedural, and technical impediments. These impediments hindered Consumer Affairs' ability to process complaint and enforcement caseloads within a reasonable time, and in turn they diminished Consumer Affairs' ability to protect consumers and the integrity of the licenses it issued. This initiative, the Consumer Protection Enforcement Initiative (CPEI), intends to overhaul the enforcement process at the healing arts boards—boards that regulate a variety of professions from doctors and nurses to physical therapists and optometrists—through administrative improvements, increased staffing and information technology (IT) resources, and legislative changes. Once it has fully implemented the CPEI, which is largely dependent on its implementation of BreEZe, Consumer Affairs expects the healing arts boards to reduce the average enforcement completion time from 36 months to between 12 and 18 months.

## History and Evolution of the BreEZe System

Consumer Affairs began efforts to develop an updated IT system in 1993. More recently, beginning in 2000, it initiated several IT projects: the Professional Licensing and Enforcement Management System; iLicensing; and the Complaint Resolution Information Management System, a system that was formerly being developed by and for the Medical Board of California. According to the director for the BreEZe project, these projects were ultimately canceled during either the planning or request for proposal (RFP) stages. In 2009 Consumer Affairs modified the system requirements for the projects and combined them into one new, integrated, enterprisewide enforcement and licensing system, referred to as *BreEZe*. Consumer Affairs views BreEZe as a technological solution to assist it in achieving the goals the CPEI sets forth.

As stated in the 2009 FSR for BreEZe, Consumer Affairs believed that BreEZe, at an estimated cost of roughly \$28 million, would provide the regulatory entities with an enterprisewide system that supported all applicant tracking, licensing, renewal, enforcement, monitoring, cashing, and data management capabilities. BreEZe would also be Web-enabled to allow license application, license renewal, and payment processing on the Internet for applicants and licensees. Further, it would allow the public to file complaints and look up licensee information and complaint status through the Internet. Part of BreEZe's implementation, according to the 2009 FSR, would involve establishing interfaces to electronically share data with external and internal systems as well as converting existing data from ATS and CAS and migrating it into BreEZe, conducting user training, and creating system documentation. In its FSR for BreEZe, Consumer Affairs also stated its belief that a commercial "off-the-shelf" system (COTS) was the appropriate solution and would involve acquiring a *systems integrator*—a person or company that specializes in bringing together component subsystems into a whole and ensuring that those subsystems work together—to work with appropriate software and service providers to implement the COTS software package that meets all final functional and technical requirements for all participating Consumer Affairs' regulatory entities.<sup>6</sup> Table 1 on the following page presents the objectives of BreEZe.

<sup>6</sup> Although Consumer Affairs consists of 40 regulatory entities, only 37 of these entities were originally scheduled to implement BreEZe. Specifically, the Bureau of Real Estate and the Bureau of Real Estate Appraisers were brought under Consumer Affairs as a result of the governor's reorganization plan, effective July 2013, after the BreEZe project was approved and underway. According to Consumer Affairs, it planned to implement BreEZe at these two regulatory entities once the system was fully implemented at the 37 regulatory entities. Another entity, the Arbitration and Certification Program, does not issue licenses and will not be included in BreEZe.

**Table 1**  
**BreEZe Project Objectives**

OBJECTIVES
Track all licensing and enforcement activities within an automated system.
Reduce average initial license processing time by 15 percent.
Reduce average renewal license processing time by 50 percent.
Reduce average complaint resolution time by 5 percent.
Address existing backlog issues through proactive management of licensing timelines.
Provide accurate performance reporting to stakeholders.
Provide accurate enforcement cost reports.
Increase data usage during statistical analysis to 90 percent.
Reduce average statistical report turnaround time by 50 percent.
Reduce average information request turnaround time by 50 percent.
Centrally locate and protect licensee personal data.
Provide access to cross-entity data.
Provide ability for licensees to submit one information update for all licenses.
Allow consumers to access licensees' professional standards violations.
Allow legislative changes to be quickly implemented.
Reduce the number of cashiering systems from three to one.
Achieve 60 percent of applications and renewals submitted via the internet.
Enable applicants and licensees to submit, update, and pay via the Internet.
Provide the ability to view real-time licensing and enforcement action updates.

Sources: California Department of Consumer Affairs' Feasibility Study Report, November 2009.

In September 2011, after receiving approval from the California Department of Technology (CalTech) for its first Special Project Report (SPR) for the BreEZe system, Consumer Affairs entered into a nine-year contract overseen and approved by the California Department of General Services (General Services) with a systems integrator vendor—Accenture LLP (Accenture)—to assist Consumer Affairs in implementing the COTS.<sup>7</sup> As part of this agreement, Accenture subcontracted with Iron Data, the COTS vendor, to provide the BreEZe system for Consumer Affairs. In total, Consumer Affairs executed three contracts with Accenture, totaling \$45.7 million, to develop and implement the BreEZe system: a design, development, and implementation contract; a maintenance support services contract; and a software

<sup>7</sup> An SPR is a report that provides a summary of proposed changes to the original project cost, schedule, or scope. An SPR is generally required when the project costs or total financial program benefits deviate or are anticipated to deviate by 10 percent or more, or a major change occurs in project requirements or methodology.

license contract.<sup>8</sup> According to the project director, Consumer Affairs is not responsible for funding the project costs; rather, the total costs of the project are funded by the regulatory entities' special funds, and the amount each regulatory entity pays is based on the total number of licenses it processes in proportion to the total number of licenses that all regulatory entities process.

Consumer Affairs also executed contracts with other nonstate entities to provide services and expertise to assist with implementation of the BreEZe system. For example, Consumer Affairs contracted with private companies to obtain database consulting services and system testing managers. In total, Consumer Affairs awarded about \$6.3 million in contracts to these entities, in addition to the Accenture contracts. Table 2 on the following page lists each contract's purpose, duration, amount, and total expended as of September 30, 2014.

Initially, Consumer Affairs had planned for BreEZe to be implemented across the regulatory entities in five sequential phases, with a specified group of entities included in each phase. However, in its contract negotiations with Accenture, Accenture proposed—and Consumer Affairs agreed—that the number of phases be reduced to just three, with each phase containing its own separate design, configuration, and implementation work efforts while sharing project management processes and refined system requirements. As shown in Table 3 on page 15, 10 regulatory entities implemented phase 1 in October 2013, while another eight are scheduled to implement the system in March 2016 (phase 2), leaving 19 regulatory entities for phase 3. However, as we describe further in Chapter 1, CalTech and Consumer Affairs recently finalized negotiations with Accenture to exclude from the current design contract the phase 3 regulatory entities. Consumer Affairs indicated in SPR 3.1, which it submitted to CalTech in January 2015, that after the successful implementation of phase 2, it will reassess the best implementation approach for the remaining 19 regulatory entities; thus, the timing, benefits, costs, and feasibility of that implementation are unknown.

The Budget Act of 2014 required Consumer Affairs to submit a report to the Legislature on the status of the BreEZe project no later than October 1, 2015. The report was to include information on the implementation of BreEZe by the healing arts boards, funding allocations, preliminary usage information among new and existing licensees, and a workload analysis for the positions established to support this project. However, according to the BreEZe project director, because the project was not completed by that date Consumer Affairs did not submit the report.

<sup>8</sup> For purposes of our report, when we discuss a specific contract, we identify it as either the *design*, *maintenance*, or *system license contract*.

**Table 2**  
**All Contracts Related to the BreEZe Project and Expenditures Through September 30, 2014**

VENDOR	PURPOSE OF CONTRACT	DURATION	TOTAL CONTRACT AMOUNT	AMOUNT EXPENDED UNDER CONTRACT
Accenture LLP	Design development and implementation of the BreEZe system	9/22/2011–12/31/2020	\$34,303,065.43	\$5,704,000.00
Accenture LLP	BreEZe solution license support	9/22/2011–11/30/2021	7,853,489.75	515,000.00
Accenture LLP	Maintenance support services	9/22/2011–9/2/2017	3,544,050.00	519,000.00
LCS Technologies	Provide the California Department of Consumer Affairs (Consumer Affairs) with Oracle database administrator consultant—one consultant	5/11/2012–9/11/2012	226,840.00	186,000.00
LCS Technologies	Oracle database administrator consultant services—one consultant	7/15/2013–7/1/2014	242,000.00	242,000.00
LCS Technologies	Provide Consumer Affairs with Oracle database administrator—one consultant	7/7/2014–7/6/2015	220,000.00	36,000.00
LCS Technologies	Provide Consumer Affairs with a Crystal Reports Enterprise solution architect/Oracle PL/SQL information technology (IT) consultant—one consultant	7/16/2014–7/15/2015	172,480.00	24,000.00
Visionary Integration Professionals*	Provide Consumer Affairs with data conversion senior analyst services—one analyst	8/1/2011–2/28/2015 (plus one-year option to renew)	799,250.00	679,000.00
Sacramento IT Consulting	Provide Consumer Affairs with a Natural/Adabas data conversion consultant—one consultant	12/16/2013–8/15/2015	360,000.00	110,000.00
Informatix	Provide Consumer Affairs with project management consultant services—one consultant	6/1/2010–5/31/2015	1,148,760.80	865,000.00
Infiniti Consulting Group*	Provide Consumer Affairs with a user acceptance test manager senior analyst—one analyst	10/15/2011–10/31/2014 (plus one-year option to extend)	710,000.00	675,000.00
Infiniti Consulting Group	Analyze, document, and redesign license renewal forms to make them suitable for optical character recognition software—one management consultant and one forms design specialist	4/22/2013–4/21/2014	115,650.00	94,000.00
Infiniti Consulting Group	Provide Consumer Affairs with four IT interface systems analysts—four analysts	6/17/2013–6/16/2015	1,386,000.00	605,000.00
Infiniti Consulting Group	Provide Consumer Affairs with user acceptance testing (UAT) manager and software release manager consultant—two consultants, one UAT manager, and one software release manager	2/1/2014–8/31/2015	920,000.00	247,000.00
MetaVista Consulting†	Independent verification and validation (IV&V) consultant—one consultant	1/3/2011–8/31/2015	991,100.00	601,000.00
Interagency Agreement With the California Department of Technology (CalTech)	Independent project oversight consultant—one consultant	7/1/2013–9/30/2017	443,700.00	245,000.00
<b>Totals</b>			<b>\$53,436,385.98</b>	<b>\$11,352,000.00</b>

Sources: Contracts provided by Consumer Affairs and its accounting records.

\* These contracts include an option to extend the contract for an additional one-year period. In both cases, the additional cost to the State if the option is exercised is up to \$230,000.

† The MetaVista Consulting contract is a contract between CalTech and MetaVista to provide IV&V services specifically on the BreEZe project. As such, we included the costs for that contract here.

**Table 3**  
**California Department of Consumer Affairs' BreEZe System Release Schedule**

IMPLEMENTED		IMPLEMENTATION PLANNED		IMPLEMENTATION UNKNOWN	
PHASE 1		PHASE 2		PHASE 3 *	
RELEASE DATE: OCTOBER 2013	NUMBER OF LICENSEES	RELEASE DATE: MARCH 2016 (PLANNED)	NUMBER OF LICENSEES	RELEASE DATE: UNKNOWN	NUMBER OF LICENSEES
Board of Barbering and Cosmetology	484,420	Board of Optometry	26,500	Acupuncture Board	15,490
Board of Behavioral Sciences	90,600	Board of Vocational Nursing and Psychiatric Technicians	141,800	Board of Accountancy	134,670
Board of Podiatric Medicine	2,650	Bureau of Security and Investigative Services	1,290,960	Board of Chiropractic Examiners	46,430
Board of Psychology	20,950	California Board of Occupational Therapy	17,680	Board of Guide Dogs for the Blind	110
Board of Registered Nursing	514,640	Dental Board of California	178,420	Board of Pharmacy	257,810
Medical Board of California	153,820	Dental Hygiene Committee of California	28,970	Board for Professional Engineers, Land Surveyors, and Geologists	236,050
Naturopathic Medicine Committee	540	Physical Therapy Board of California	46,200	Bureau of Automotive Repair	149,530
Osteopathic Medical Board of California	7,890	Veterinary Medical Board	33,800	Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation	137,710
Physician Assistant Board	9,900			Bureau for Private Postsecondary Education	2,150
Respiratory Care Board	20,430			California Architects Board	47,540
				California Athletic Commission	2,780
				Cemetery and Funeral Bureau	35,330
				Contractors State License Board	286,620
				Court Reporters Board	13,030
				Landscape Architect Technical Committee	5,270
				Professional Fiduciaries Bureau	800
				Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board	32,720
				Structural Pest Control Board	118,240
				Telephone Medical Advice Services Bureau	60
<b>Totals</b>	<b>1,305,840</b>		<b>1,764,330</b>		<b>1,522,340</b>

Sources: The California Department of Consumer Affairs (Consumer Affairs), its BreEZe Web site, BreEZe Special Project Reports (SPR) 3 and 3.1, and interviews with Consumer Affairs' BreEZe project director.

Note: Although Consumer Affairs consists of 40 regulatory entities, only 37 of these entities were originally scheduled to implement BreEZe. Specifically, the Bureau of Real Estate and the Bureau of Real Estate Appraisers were brought under Consumer Affairs as a result of the governor's reorganization plan, effective July 2013, after the BreEZe project was approved and underway. According to Consumer Affairs, the plan was to implement BreEZe at these two regulatory entities once the system was fully implemented at the 37 regulatory entities. Another entity, the Arbitration and Certification Program, does not issue licenses and will not be included in BreEZe.

\* Consumer Affairs indicated in SPR 3.1, which it submitted to the California Department of Technology in January 2015, that the project will end after the phase 2 regulatory entities implement BreEZe, and only after that successful implementation will Consumer Affairs reassess the best implementation approach for the 19 phase 3 regulatory entities.

### Issues With BRN's Implementation of BreEZe

After BRN implemented BreEZe in October 2013, it reported experiencing significant delays in the processing of certain types of license applications, which stakeholders asserted had negatively affected the employment of both new and experienced nurses. This issue caused BRN to be the subject of news articles and legislative hearings. As the regulatory entity responsible for implementing and enforcing the Nursing Practice Act—the law pertaining to nursing education, licensure, practice, and discipline—BRN regulates registered nursing and advanced practice registered nurses to ensure consumer protection. State regulations require BRN to process applications for new and renewal licenses according to specific time frames, which we describe further in Chapter 3. BRN's deputy chief of licensing and administrative services reported that before implementing BreEZe, BRN processed an application to take a nursing examination, which is the first step in the process to receive an original license, in approximately three to eight weeks, using ATS and CAS. In contrast, BRN's 2014 *Sunset Review Report* stated that after the implementation of BreEZe, processing times for these application types had extended significantly beyond the 90 days (approximately 13 weeks) specified in regulation as the upper limit for such processing, and that this had contributed to a backlog of applications.

### Roles and Responsibilities of CalTech and General Services

CalTech and General Services have had certain responsibilities for overseeing the State's IT project procurements and, as shown in Table 4, each entity's roles have changed since the commencement of the BreEZe project in 2009. At the time that Consumer Affairs executed the BreEZe contracts in 2011, General Services had authority over state agencies' IT project procurements. Legislation effective in 2011 required General Services and CalTech to review all IT RFPs. Subsequent legislation effective July 2013 transferred General Services' share of this authority as well as General Services' authority over IT project procurement to CalTech. As shown in Table 4, presently CalTech is authorized to undertake all key responsibilities related to procuring large IT projects whereas General Services' responsibilities are limited to contracts for the acquisition of IT goods and services.<sup>9</sup> This shift of responsibilities

<sup>9</sup> According to state law, all contracts for the acquisition of IT projects exceeding specified thresholds—referred to as *reportable IT projects*—shall be made by or under the supervision of CalTech. According to CalTech's Web site, the specified thresholds vary by department and generally range from \$200,000 to \$5 million. Contracts for the acquisition of IT projects that fall below these specified thresholds are overseen by the respective department and must be reviewed by General Services on a selective basis.

from General Services to CalTech, and the increase in CalTech’s responsibilities, reflects the Legislature’s conclusion that the unique aspects of IT projects and their importance to state programs warrant a separate acquisition authority.

**Table 4**  
**Information Technology Oversight Roles and Responsibilities by Key Milestone of the BreZE Project**

KEY RESPONSIBILITY	FEASIBILITY STUDY REPORT (FSR), NOVEMBER 2009	INITIAL REQUEST FOR PROPOSAL (RFP), MAY 2010	FINAL RFP AND CONTRACT AWARD, SEPTEMBER 2011	FIRST IMPLEMENTATION OF BREEZE, OCTOBER 2013	FIRST CONTRACT AMENDMENT, FEBRUARY 2014	PRESENT
Information technology (IT) project approval and oversight*	California Department of Technology (CalTech) <sup>†</sup>	CalTech	CalTech	CalTech	CalTech	CalTech
Review of IT RFP	California Department of General Services (General Services)	General Services	CalTech and General Services	CalTech	CalTech	CalTech
Review of IT Project Procurement	General Services	General Services	General Services	CalTech	CalTech	CalTech

Sources: Deering’s California Codes Annotated, 2009–2014; California Government Code, sections 11545 and 11546 (2009, 2011, 2013, 2014); and California Public Contract Code, sections 12100 and 12104 (2009, 2011, 2013, 2014).

\* IT project approval and oversight includes numerous activities, such as evaluating IT projects based on the business case justification; resource requirements; proposed technical solutions; project management; oversight and risk mitigation approach; and compliance with statewide strategies, policies, and procedures.

<sup>†</sup> Until July 2013 CalTech was known as the California Technology Agency and prior to that the Office of the Chief Information Officer.

In addition to its authority to approve IT projects, CalTech is responsible for IT project oversight. Although CalTech’s project oversight policy defines both independent verification and validation (IV&V) and independent project oversight (IPO), CalTech generally provides IPO while state entities undertaking IT projects are responsible to contract for IV&V. However, on the BreZE project, CalTech has assigned a staff member to perform IPO and it contracted with a private firm to provide IV&V to Consumer Affairs. To ensure independence, contracting directly for IV&V is a practice that CalTech employs based on its assessment of a project’s risk, criticality, and complexity as well as the associated state entity’s staff experience. For purposes of our report, we refer to the individuals who performed these activities as the *IV&V consultant* and *IPO specialist*.

IV&V provides a client, such as Consumer Affairs, with technically proficient “eyes and ears” to oversee a system vendor while an IT system is being developed and implemented, and it also provides early warning of process and technical discrepancies, issues, and problems that might not otherwise be detected until late in testing or implementation. Without this early feedback, detection of anomalies and the resulting system changes required to correct them are typically delayed until later in the system development

process, resulting in greater costs and schedule delays. In contrast, IPO provides an independent review and analysis of project management practices to determine if the project is being well managed, will be completed within the estimated schedule and cost, and will provide the functionality the client requires, in this case, Consumer Affairs. IPO consists of three main components: review and assessment, reporting, and tracking.

### **Other Troubled IT Projects California Agencies Have Initiated**

Several California state agencies have experienced difficulty in developing IT systems. For instance, the California State Controller's Office's (state controller) 21<sup>st</sup> Century Project's MyCalPAYS system faced many difficulties and the state controller has twice terminated project contracts. According to a May 2009 SPR, MyCalPAYS was intended to replace existing statewide human resource management systems with a fully integrated solution, including organizational management and payroll functions, among many others. In April 2005 the state controller contracted with SAP Public Services, Inc. (SAP) for off-the-shelf software that would be customized to meet the State's needs. A year later the state controller hired BearingPoint Inc. as the systems integrator, the primary contractor, to customize the software as necessary to build the new system. According to an August 2013 California Senate Office of Oversight and Outcomes report, in January 2009 the State terminated the contract with BearingPoint Inc. because it failed to develop accurate, reliable data conversion programs and scripts.

In February 2010 the state controller hired SAP to develop, test, deliver, and implement the MyCalPAYS system. In June 2012 the first pilot of the project went live with 1,300 state controller employees and revealed numerous errors, including employees being paid too much or too little. In February 2013 the state controller terminated its contract with SAP, and the director of CalTech—the oversight authority for the project—suspended the project. The director of CalTech explained that the department took action on MyCalPAYS because the contractor refused to acknowledge issues on the project and to comply with contract provisions that required the vendor to cure defects the state controller documented. In May 2013 the Legislative Analyst's Office (LAO) reported that at the time of the contract termination, the State had spent over \$262 million on the project.

The California Department of Motor Vehicles' (DMV) IT Modernization Project also faced troubles and was ultimately terminated before its completion. According to an April 2013 LAO report, the goal of the project was to modernize DMV's driver license and vehicle registration system. In 2007

DMV awarded a \$76 million contract to Electronic Data Systems, with CalTech performing oversight. Electronic Data Systems was later purchased in 2008 by HP Enterprise Services. In May 2012 DMV informed HP Enterprise Services that it had serious concerns regarding HP Enterprise Services' ability to successfully complete the project. Specifically, according to the LAO report, DMV raised concerns regarding vendor staff experience, system delays, and programming language replacement delays. After observing a lack of progress between DMV and HP Enterprise Services for eight months, CalTech exercised its oversight authority to terminate most of the project, except for one nearly finished component. As the project was left incomplete, DMV and CalTech are collaborating to determine the best way to complete the remaining portions of the project. According to CalTech, the total cost of the project as of December 2014 was approximately \$208 million.

Another recent state IT project that faced challenges during its rollout is the Continued Claims Redesign subproject (subproject) of the Employment Development Department's Unemployment Insurance Modernization (UI MOD) project. The goal of the subproject was to enhance Web processes, provide claimants with increased self-service, increase efficiency, reduce mail processing costs, and provide for better detection of fraud. The contract for the subproject was awarded in February 2010 to Deloitte Consulting, LLP. According to status reports, the subproject experienced nine months of delays because of unacceptable levels of defects before its internal system was accepted. As of the October 2014 status report, the subproject was developing a new rollout strategy to use in implementing the online portion of the system. According to a May 2012 LAO report, the UI MOD project, including the subprojects, was initially estimated to cost \$96 million, with the Continued Claims Redesign subproject to be completed by June 2008. However, as of December 2014, CalTech listed the UI MOD project cost at nearly \$190 million and, according to the October 2014 project status report, the completion date of the Continued Claims Redesign subproject is unknown.

Finally, Covered California's California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) project faced difficulty before and after its implementation. In May 2012 the Covered California News Center announced its intent to award the CalHEERS contract to Accenture for \$359 million. The contract includes the initial development and implementation of the system and once the system is in place, the continued development and initial operating costs over approximately three and a half years. CalHEERS is a Web portal that provides eligibility information about affordable coverage and offers health plan choice information, among other things. Because Covered California is an independent public entity and is statutorily excluded from the regular oversight

of many state control agencies, CalTech officials explained that CalTech lacked statutory authority to provide oversight on the project. Rather, Covered California contracted with a private company to provide IV&V for CalHEERS. A May 2013 consultant report, before Covered California opened for business, raised various concerns regarding the project. These concerns included discrepancies between the schedule and key release dates as well as inadequate project management processes. According to a January 2014 progress report produced by the Nicholas C. Petris Center on Health Care Markets and Consumer Welfare at the University of California, Berkeley, after the system was implemented, Web site issues were reported including generally slow response times and repeated error messages.

### Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor (state auditor) to conduct an audit of Consumer Affairs' planning, development, and implementation of its online system for licensing and enforcement—BreEZe—to determine whether the chosen solution was justified and whether the solution is meeting the needs of Consumer Affairs' regulatory entities. The audit committee also asked the state auditor to determine the BreEZe system's effect on processing license applications at BRN. Table 5 outlines the audit committee's objectives and our methodology for addressing each objective.

**Table 5**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	<ul style="list-style-type: none"> <li>• Reviewed relevant laws, regulations, and other background materials.</li> <li>• Reviewed state policies regarding procurement and information technology (IT) projects.</li> </ul>
2 Assess whether the California Department of Consumer Affairs (Consumer Affairs) followed laws, rules, regulations, policies, and/or best practices when planning, developing, and implementing BreEZe, including the level of outreach provided to stakeholders and the adequacy of training provided to staff.	<ul style="list-style-type: none"> <li>• Interviewed key staff of selected Consumer Affairs' boards, bureaus, committees, and a commission (regulatory entities).</li> <li>• Reviewed BreEZe project oversight documentation, such as independent verification and validation (IV&amp;V) consultant and independent project oversight (IPO) specialist reports from January 2011 through September 2014.</li> <li>• Interviewed key staff at Consumer Affairs, California Department of Technology (CalTech), and the California Department of General Services (General Services).</li> <li>• Consulted an IT expert to identify IT best practices and assessed Consumer Affairs' compliance with the identified best practices.</li> <li>• Reviewed relevant project management planning documents for the BreEZe system.</li> <li>• Reviewed relevant documents related to the origin and development of the BreEZe system, including training materials for phase 1 regulatory entities.</li> </ul>

AUDIT OBJECTIVE	METHOD
<p>3 Review and assess Consumer Affairs' justification for selecting BreEZe.</p>	<ul style="list-style-type: none"> <li>• Interviewed the BreEZe project director to determine justification for selecting BreEZe.</li> <li>• Reviewed documentation regarding Consumer Affairs' justification for selecting BreEZe.</li> <li>• Reviewed BreEZe procurement documentation to determine if Consumer Affairs appropriately assessed and vetted bids.</li> </ul>
<p>4 Evaluate whether Consumer Affairs provided sufficient oversight and testing during the planning, development, and implementation of BreEZe, including whether the executive office was involved in making key decisions and ensuring that BreEZe met the needs of the Board of Registered Nursing (BRN).</p>	<ul style="list-style-type: none"> <li>• Reviewed BreEZe project documentation and evaluated whether the oversight Consumer Affairs provided adhered to its internal project planning documents and IT best practices during BreEZe planning, development, and implementation.</li> <li>• Interviewed key staff at Consumer Affairs and CalTech, including the BreEZe oversight consultant and specialists.</li> <li>• Reviewed IV&amp;V and IPO reports to determine whether those oversight services were provided consistently throughout the course of the project.</li> <li>• Reviewed documentation related to results of BreEZe system testing during system development.</li> </ul>
<p>5 Review and evaluate all contracts and contract amendments that Consumer Affairs entered into with BreEZe's developer and determine whether goals have been met based on the expenditures to date. To the extent possible, determine whether the State has adequate recourse in the event that BreEZe vendors and/or developers do not fulfill contract requirements.</p>	<ul style="list-style-type: none"> <li>• Interviewed key staff related to procurement and contract management at Consumer Affairs, General Services, and CalTech.</li> <li>• Reviewed the three contracts Consumer Affairs has with Accenture LLP related to the planning, development, and implementation of the BreEZe system—design, development, and implementation; maintenance support; and system license—all amendments, and related procurement documents, to determine the contract requirements and adequacy of recourse options.</li> <li>• Consulted an IT expert to assess the reasonableness of the contracts and adequacy of contract terms.</li> <li>• Reviewed 21 key deliverables Consumer Affairs accepted from November 2011 through June 2014. Based on this review, we did not find any reportable issues.</li> </ul>
<p>6 Determine the estimated and actual implementation timeline for BreEZe and Consumer Affairs' estimated and actual costs.</p>	<ul style="list-style-type: none"> <li>• Interviewed key staff at Consumer Affairs.</li> <li>• Reviewed documentation to determine the BreEZe estimated project implementation timeline and the actual implementation timeline as of January 2015.</li> <li>• Reviewed original and revised BreEZe project cost estimates through January 2015. These cost estimates are presented in Table 6 on page 35.</li> <li>• Obtained BreEZe's financial tracking documentation and reconciled the invoiced costs to the California State Accounting and Reporting System accounting records.</li> </ul>
<p>7 Determine and evaluate whether BreEZe's system design and requirements impacted BRN's implementation timeline and business processes. In addition, determine whether Consumer Affairs modified BreEZe as a result of the regulatory entities' business processes or whether BRN modified its business practices to conform with the implementation of BreEZe.</p>	<ul style="list-style-type: none"> <li>• Interviewed Consumer Affairs and BRN staff.</li> <li>• Reviewed BRN-specific changes made to the BreEZe system from November 2012 as part of user acceptance testing through phase 1 implementation in October 2013, and from implementation through July 31, 2014.</li> <li>• Identified the types of defects BRN noted or enhancements BRN requested and whether those defects were resolved or enhancements were accepted or rejected.</li> <li>• Determined whether enhancements were processed in accordance with established processes.</li> <li>• Observed changes BRN made to its processes following the implementation of BreEZe.</li> </ul>
<p>8 Determine the average amount of time it took BRN to process licenses before and after Consumer Affairs implemented BreEZe. If processing times increased after implementation, determine the causes for the increases.</p>	<ul style="list-style-type: none"> <li>• Reviewed BRN's available documentation regarding its tracking of application processing.</li> <li>• Interviewed key BRN executive staff to determine how BRN tracked its processing of license applications.</li> <li>• Obtained database reports from BreEZe and the legacy systems that identified all BRN applicants for licensure from July 1, 2011, through July 30, 2014.</li> <li>• Selected 30 license applications records before BreEZe implementation and 30 applications after BreEZe implementation, and calculated and compared BRN's time to process the applications before and after implementing BreEZe.</li> </ul>
<p>9 Assess the current backlog of license applications, if any, and determine what steps Consumer Affairs and BRN are taking or have taken to address any backlog and to provide services for new and renewing applicants.</p>	<ul style="list-style-type: none"> <li>• Because of BreEZe and legacy system information limitations, we counted by hand all of the applications BRN had on site that staff had not yet reviewed as of September 2014, and we calculated the number of days the application had been waiting to be processed.</li> <li>• Interviewed BRN and Consumer Affairs staff to determine steps taken to address BRN's backlog.</li> </ul>

AUDIT OBJECTIVE	METHOD
10 Determine and evaluate whether Consumer Affairs and/or BRN had contingency plans in place to address potential delays in implementing BreEZe and gaps in staff capacity or the processing of license applications.	<ul style="list-style-type: none"> <li>• Interviewed key staff at Consumer Affairs and BRN.</li> <li>• Documented Consumer Affairs' efforts to address any gaps in staffing, including reviewing Special Project Reports requesting additional staff.</li> <li>• Consulted with an IT expert to identify best practices relating to contingency plans.</li> </ul>
11 Review and assess any other issues that are significant to the audit.	<ul style="list-style-type: none"> <li>• Developed a questionnaire and interviewed the 10 phase 1 regulatory entities to identify whether their needs were considered in developing the BreEZe system, their satisfaction with their level of involvement in developing and testing the system, their perspective on the adequacy of training, and their overall satisfaction with BreEZe.</li> <li>• Conducted limited research of other state IT projects.</li> <li>• Obtained and reviewed Statements of Economic Interests for key staff involved in the BreEZe project from Consumer Affairs, CalTech, and General Services to assess whether any financial conflicts may exist. Our review covered the period 2009 through 2013, and we did not identify any reportable issues.</li> </ul>

Source: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2014-116, and analysis of information and documentation identified in the column titled *Method*.

# Chapter 1

## POOR PLANNING AND DECISION MAKING HAVE LED TO INCREASED COSTS AND EXTENDED TIMELINES AND HAVE PLACED THE FUTURE OF BREEZE IN DOUBT

### Chapter Summary

Although doing so is critical to the successful development of information technology (IT) systems, the California Department of Consumer Affairs (Consumer Affairs) failed to adequately plan, staff, and manage the project for developing BreEZe, an IT system it envisioned would support all of the primary functions and responsibilities of its 40 boards, bureaus, committees, and a commission (regulatory entities). For example, the foundation of any IT system is its *requirements*, which define the business problem to be solved and specify what the system should do. However, Consumer Affairs did not adequately assess its regulatory entities' business needs to determine BreEZe's system requirements; instead, it used high-level, overly general requirements that it had gathered for prior projects it had initiated but abandoned. As a result, the BreEZe project has been plagued with performance problems, delays, and escalating costs, which, based on a January 2015 estimate, were \$96 million—more than triple the original estimate—for implementation of a system that will include only half of the regulatory entities originally planned for BreEZe.

Moreover, staff of the California Department of Technology (CalTech), in its oversight role, raised significant concerns about the BreEZe project, ranging from the project's lack of adequate resources to the system's poor planning and development. Despite the seriousness of these concerns and the various points in the project's life when they could have used their authority to intervene, both CalTech and Consumer Affairs officials allowed the project to continue without adequately addressing these concerns. Had either party exercised its authority earlier than the summer of 2014—nearly five years after the project began—such as during the planning phase, BreEZe could have been suspended and either rescope, adequately resourced, or terminated, thereby avoiding potentially unnecessary costs.

Because of the many issues the BreEZe project has encountered, particularly its cost increases, Consumer Affairs and CalTech renegotiated the contract with the project vendor, Accenture LLP (Accenture), to remove the regulatory entities originally scheduled to implement the system in the final phase (phase 3). As of January 2015 only 10 regulatory entities had transitioned to BreEZe (phase 1); eight more intend to transition to it in March 2016, and it

is unknown whether or when the remaining 19 will transition to the system. Although Consumer Affairs has indicated it will reassess the best implementation approach for these 19 regulatory entities after the successful completion of phase 2, it has yet to assess the extent of the changes these entities may require be made to the system and it lacks an implementation plan. We believe that should Consumer Affairs elect to implement BreEZe at these 19 regulatory entities, it should include this assessment as part of an analysis of the costs and benefits of moving forward with this implementation to ascertain whether its proposed approach is feasible and cost-beneficial.

### **Consumer Affairs Did Not Adequately Identify the Business Needs of Its Regulatory Entities When Planning the BreEZe Project**

Consumer Affairs failed to properly assess the regulatory entities' business needs when developing the system requirements for BreEZe. According to our IT expert, system requirements define the business problem to be solved and specify what the system should do. For example, a system requirement could be that the system allows a regulatory entity to record the date it receives an application. In its 2014 *Chaos Report*, the Standish Group presented results of a survey of IT executives that identified a clear statement of requirements is one of the major factors leading to project success and that incomplete requirements are a main factor leading to impaired and ultimately canceled projects.<sup>10</sup> Therefore, Consumer Affairs should have taken steps to ensure that the system requirements for BreEZe were based on the current business needs of its regulatory entities so that the resulting system would be designed and built in a manner that would aid those regulatory entities in conducting their business operations and fulfilling their regulatory responsibilities. However, when developing the system requirements for BreEZe, Consumer Affairs relied on requirements from earlier projects that were abandoned.

***Consumer Affairs relied on system requirements from earlier projects that were abandoned when developing the requirements for BreEZe.***

According to the BreEZe project director, Consumer Affairs used the requirements it had identified from three earlier IT project initiatives; the first started as early as 2000 and the last abandoned in 2009. The project director stated that the regulatory entities had been involved in developing the requirements for those earlier unsuccessful initiatives. He also asserted that the system requirements for each of the initiatives were combined into one comprehensive project—BreEZe. Thus, it is likely that the requirements Consumer Affairs had identified for its previous

<sup>10</sup> The Standish Group is a primary research advisory organization that focuses on software project performance.

initiatives and used as the basis for BreEZe were outdated, further hindering Consumer Affairs' ability to develop a system that would sufficiently meet its regulatory entities' needs.

Although Consumer Affairs invited the majority of its regulatory entities to participate in refining the requirements for BreEZe during the request for proposal (RFP) process for the project, the BreEZe project director stated that only some regulatory entities participated. During this process in October 2010, Consumer Affairs held working sessions over a three-week period with the potential bidders and regulatory entities to review and modify the system requirements. Consumer Affairs revised hundreds of the more than 900 system requirements as a result of the working sessions. The text box presents the statistics of these revisions. However, according to the BreEZe project director, these sessions typically resulted in high-level requirements that described general functionality, not the specific business processes of the regulatory entities. As we discuss in Chapter 3, most of the executive officers of the phase 1 regulatory entities are generally dissatisfied with BreEZe because it did not meet their expectations in a variety of ways.

#### BreEZe System Request for Proposal Working Sessions Requirements Statistics

- Reviewed over 900 requirements with bidders in the working sessions.
- Deleted over 350 requirements.
- Revised nearly 500 requirements.
- Created approximately 230 new requirements.

Source: *BreEZe System Independent Project Oversight Report*, December 2010.

In addition, Consumer Affairs incorrectly assumed that the regulatory entities could all use similar business processes. For example, the BreEZe project team had the misconception that the regulatory entities used similar processes to collect and record licensing fees, process license applications, and issue licenses. The BreEZe project director explained that Consumer Affairs did not understand the depth and breadth of the regulatory entities' operations and licensing functions, nor did it understand the lack of flexibility within the regulatory entities to make changes to their processes. Further, he indicated that the assumption of these similarities in the regulatory entities' processes led Consumer Affairs to intentionally write the system requirements at a high level to attract a vendor with a commercial "off-the-shelf" (COTS)-based solution, such as the BreEZe system.

#### Pressure to Move the Project Forward Caused Consumer Affairs to Expedite the Planning Process and Choose an "Off-the-Shelf" Solution

The BreEZe project director stated that part of the reason the BreEZe project team, which is composed of Consumer Affairs staff and was responsible for developing the project's Feasibility Study Report (FSR) and its requirements, did not reach out to the regulatory entities before issuing the RFP was because of pressure the project team

received from Consumer Affairs' executive office, control agencies, and agency officials to expedite the development of the FSR for BreEZe, which it completed during October and November 2009. The RFP was released six months later, in May 2010.

The BreEZe project director perceived that much of the pressure resulted from an internal review of Consumer Affairs' enforcement processes at the healing arts boards, which regulate a variety of professions, from doctors and nurses to physical therapists and optometrists. Consumer Affairs undertook this review in 2009 in response to delays in certain investigation and enforcement actions that the governor described as "completely unacceptable." We describe this initiative, the Consumer Protection Enforcement Initiative, in the Introduction. However, when we inquired with Consumer Affairs' director and its current agency—the California Business, Consumer Services and Housing Agency—neither entity could confirm whether there had been pressure to expedite the FSR.

Because Consumer Affairs wanted BreEZe to be developed quickly, it identified as an alternative to its legacy systems a COTS solution, which is an existing, commercially available software product that can be put to use more quickly than a product designed from scratch. At least in part because of faulty assumptions that the COTS product would require only minor modifications and that minimal resources and time would be necessary to make these modifications, the estimated costs for the BreEZe project have drastically outpaced initial projections. Although Consumer Affairs initially estimated in 2009 that the project would cost about \$28 million, in January 2015 it estimated it could cost \$96 million for implementation of BreEZe and that implementation would include only half of the regulatory entities that originally planned to use the system.

***In 2009 Consumer Affairs estimated that BreEZe would cost about \$28 million. In January 2015 it estimated it could cost \$96 million for implementation and would include only half of the regulatory entities that originally planned to use the system.***

It appears that Consumer Affairs' selection of the BreEZe COTS product may not have been the appropriate and most cost-effective decision. In particular, according to the project director, the BreEZe project team believed that similarities in the regulatory entities' processes and their respective leadership's commitment to the project vision, including implementing a COTS solution and standardizing the regulatory entities' processes, would mitigate some of the issues created by using such high-level requirements. However, the BreEZe project director indicated that there was a disconnect between the expectations of the regulatory entities and the expectations of Consumer Affairs, in that Consumer Affairs expected that the regulatory entities would modify their business processes and the regulatory entities were not expecting to need to do so. In addition, Consumer Affairs' director noted that Accenture's approach to understanding the business needs of the phase 1 regulatory entities resulted in a system design that did not reflect the business requirements of the regulatory entities.

Consumer Affairs' director further stated that had Consumer Affairs known of these challenges at the time it was developing the FSR for BreEZe, which contained its analysis of the need for a new IT system and the proposal for a COTS, the department might have chosen to procure the development of a new, fully customized system to meet its needs.

Although Consumer Affairs described the development of a fully customized system as an alternative to a COTS in its FSR, it cited unacceptable risks for this type of system, stating that it would have the highest overall costs of any IT solution and would take the longest time to develop and implement. The BreEZe project director explained that Consumer Affairs estimated at the time it developed the FSR that it would cost about \$30 million to procure a COTS product, while the development of a new system would have cost around \$80 million. Nevertheless, as we previously stated, as of January 2015, the estimated cost of the COTS solution has more than tripled to \$96 million and will include only half of the regulatory entities as originally planned.

### **Consumer Affairs Failed to Maintain a Baseline of Requirements for the BreEZe Project**

A fundamental problem related to the BreEZe system design that the independent verification and validation (IV&V) consultant raised as early as February 2011 was that Consumer Affairs failed to maintain an effective *baseline of requirements*—the official agreed-upon set of requirements defining how the system should operate. According to our IT expert, these requirements define the scope of the solution to be delivered and are the basis for cost and schedule estimation, planning, execution, and monitoring. The RFP established the initial baseline of requirements for the BreEZe system, which was included in the design contract.<sup>11</sup> Subsequent development activities that refine the requirements must be documented and then they become the new baseline.

Our IT expert noted that establishing and maintaining a baseline of requirements is essential and that before a vendor builds a system, there should be a standard process to refine, confirm, and maintain the requirements baseline. This means that for the BreEZe project, Accenture and Consumer Affairs should have agreed to and documented clear and measurable requirements for the BreEZe system that must be satisfied so that both entities can determine

*Our IT expert noted that establishing and maintaining a baseline of requirements is essential and that before a vendor builds a system, there should be a standard process to refine, confirm, and maintain the requirements baseline.*

<sup>11</sup> There are three contracts related to the BreEZe project—one contract for design, development, and implementation; another contract for maintenance support; and a third contract for the system license. When we discuss a specific contract, we identify it as either the *design, maintenance, or system license contract*.

whether the system operates as needed. However, according to the BreEZe project director, Consumer Affairs intentionally did not maintain a baseline of requirements that reflected the requirements for the phase 1 regulatory entities because the design of the system was meant to be established through an iterative process as Accenture defined in its RFP response. According to our IT expert, although an iterative approach can be appropriate, because Consumer Affairs failed to maintain and update a system requirements baseline to reflect any changes identified during this iterative process, it did not effectively support the design and implementation of the system. Because establishing and maintaining a baseline of requirements is a critical process for effectively building a system, our IT expert believes the project should have been suspended when concerns were raised about the quality of the baseline of requirements, and that it should have been revised accordingly, as we discuss later in this chapter.

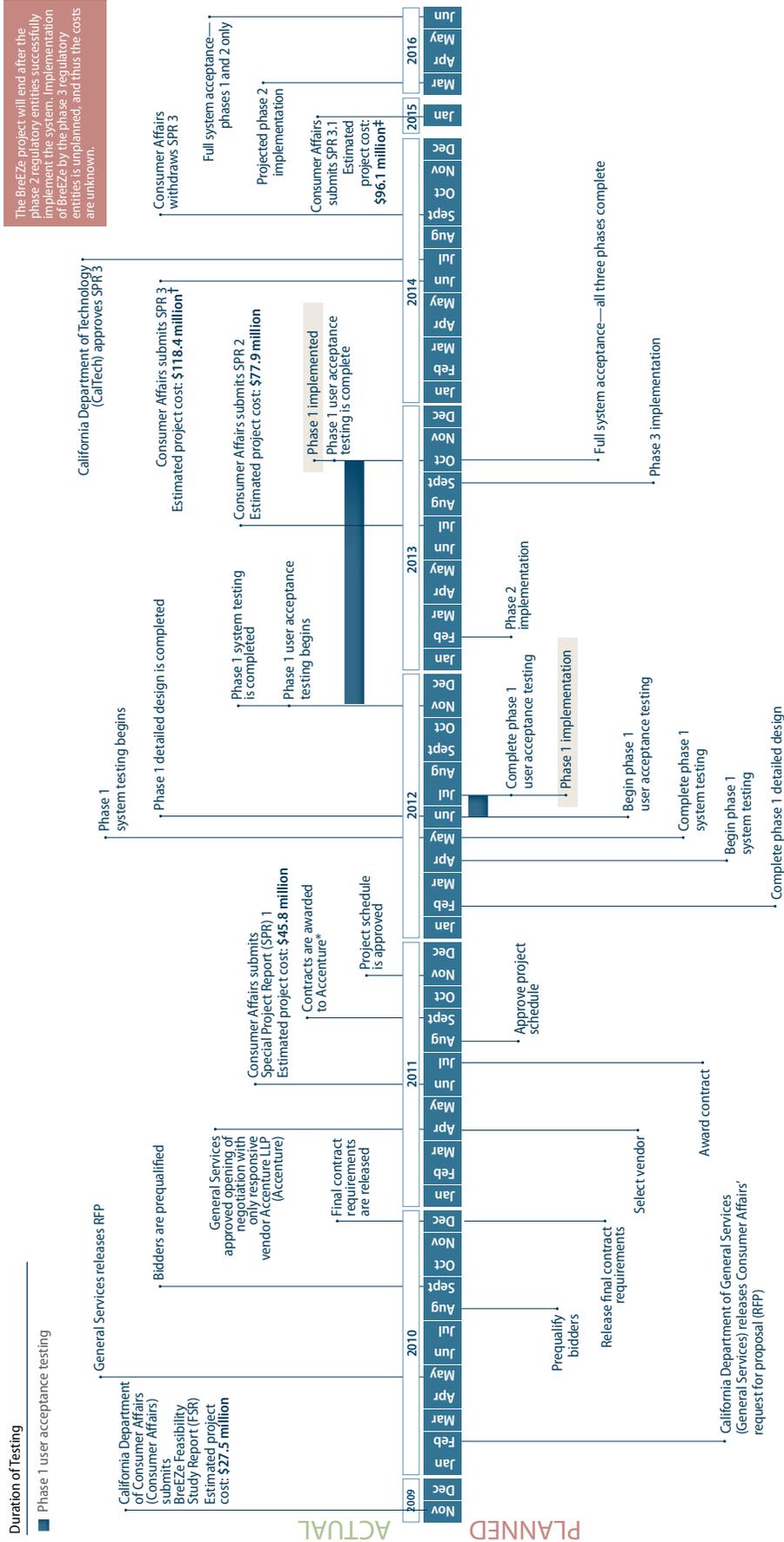
### The BreEZe Project Has Experienced Significant Delays

The BreEZe project has experienced significant delays at key stages of the project. Figure 1 displays the project's planned and actual key milestones since its commencement. As shown in the figure, the most extreme delay involved the key milestone of *user acceptance testing*—testing that future users conduct of the system that confirms that the system operates as the requirements specify. User acceptance testing for phase 1 regulatory entities spanned 11 months, from the end of November 2012 through October 2013, significantly exceeding the originally planned eight weeks. According to the IV&V consultant, this extensive testing period likely resulted in part from the BreEZe system having almost 1,700 unresolved system defects at the beginning of user acceptance testing.

According to our IT expert, the bulk of the defects were likely attributable to the poor system requirements. Although user acceptance testing is one of the final and most critical procedures undertaken before system implementation to ensure that the system operates appropriately, this phase morphed into a redesign of the requirements and a rework of the system. Specifically, in conducting the testing of the system, some of the 10 phase 1 regulatory entities as well as Consumer Affairs itself learned that the system did not operate as they expected or needed. For example, during user acceptance testing in January 2013, the average rate at which the system failed on the first attempt to provide the anticipated result was 61 percent. Had Consumer Affairs performed a complete, current assessment of the regulatory entities' needs to determine the system requirements for BreEZe, it is likely that user acceptance testing could have been completed within a more reasonable time frame, thus avoiding some of the 15-month implementation delay in phase 1.

***User acceptance testing for phase 1 regulatory entities spanned 11 months, significantly exceeding the originally planned eight weeks.***

**Figure 1**  
**BreZe Project Planned and Actual Key Milestones**



Sources: Consumer Affairs' BreZe FSR and SPRs; BreZe RFP; November 2011 *Independent Project Oversight Activity Report*; approved project schedule as of September 2014; and interviews with Consumer Affairs' officials.

\* There are three Accenture contracts related to the BreZe project—one contract for design, development, and implementation; another for maintenance support; and a third contract for the system license.

† The total cost estimate presented in SPR 3 captures only those costs Consumer Affairs projected through the implementation of BreZe at the phase 2 regulatory entities. Thus, this amount does not include the projected costs for implementing BreZe at the regulatory entities originally included in phase 3.

‡ SPR 3.1 was submitted by Consumer Affairs to CalTech after these entities concluded negotiations with Accenture on December 1, 2014, to remove phase 3 entirely from the BreZe project. Thus, this amount does not include the projected costs for implementing BreZe at the 19 regulatory entities originally included in phase 3.

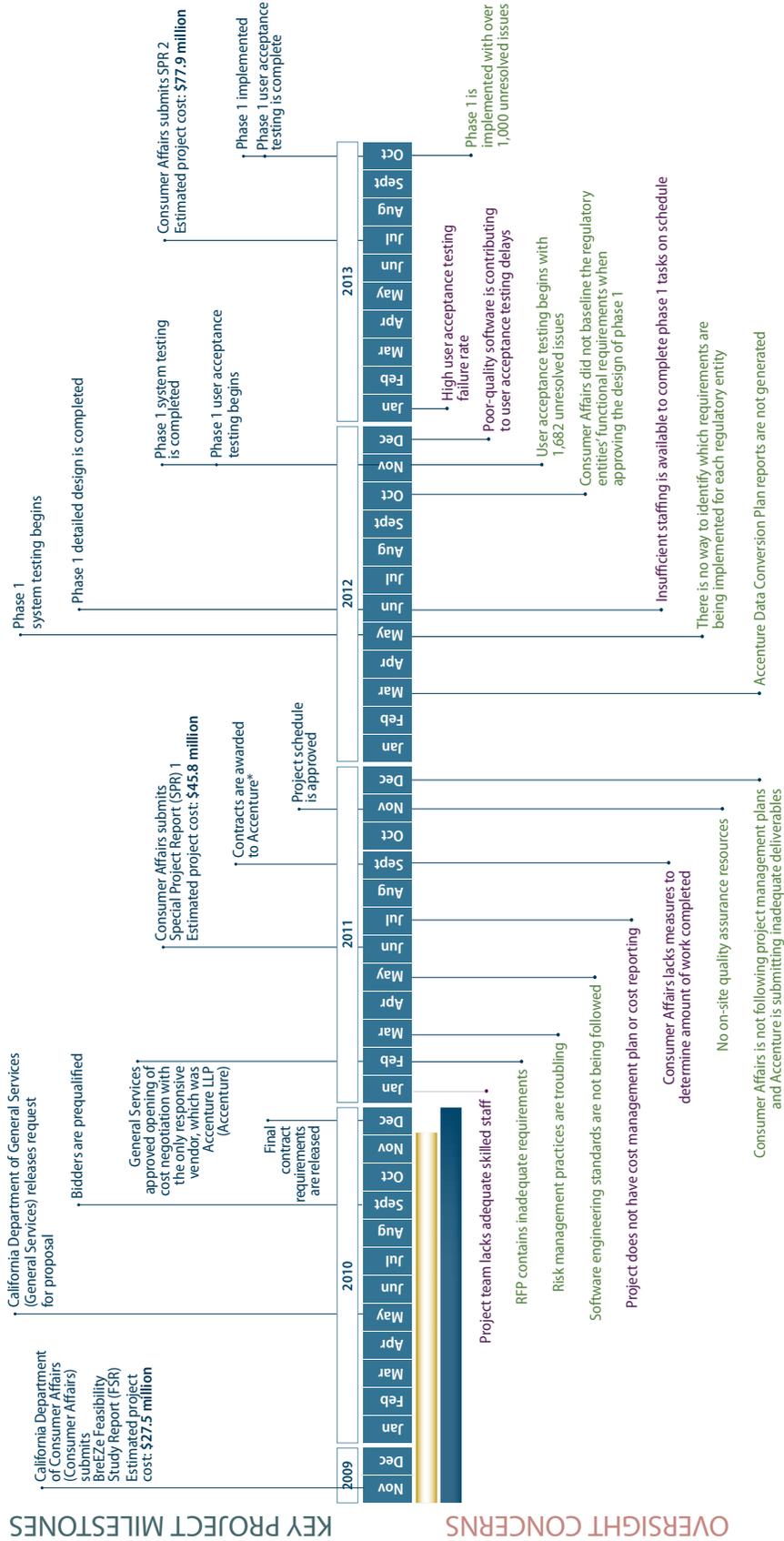
### **CalTech and Its Contractor Raised Significant Concerns About the BreEZe Project Throughout the Oversight Process**

CalTech did not begin providing independent oversight of the BreEZe project until roughly one year after it approved the FSR for the project. However, once oversight began, Consumer Affairs failed to respond appropriately to the significant and persistent concerns CalTech raised, while for its part, CalTech did not intervene to ensure that Consumer Affairs took corrective action. Under state law, CalTech is responsible for oversight of IT projects. CalTech generally uses two types of independent oversight: IV&V—used to ensure that a system satisfies its intended use and user needs—and *independent project oversight* (IPO)—used to ensure that effective project management practices are in place and in use. On the BreEZe project, which CalTech acknowledged is large, complex, and costly, its own staff have provided IPO services, whereas CalTech contracted with MetaVista Consulting—an IT consulting firm—to provide IV&V services.

As shown in Figure 2, the IV&V consultant and the IPO specialist raised significant concerns about the project from early 2011, after they began providing oversight, through phase 1 implementation in October 2013. Moreover, in their reports from December 2010 through September 2014, they collectively raised what our IT expert categorized as nearly 180 significant concerns in areas including project management, staffing, system requirements, and vendor performance. We present these concerns in detail in the Appendix. According to our IT expert, the volume and significance of these concerns should have prompted both CalTech and Consumer Affairs to analyze fully the costs and benefits of proceeding versus suspending or terminating the project. However, although the IV&V consultant and the IPO specialist presented these concerns to the BreEZe project team and CalTech management in monthly reports, neither entity took sufficient action to ensure that all concerns were appropriately addressed and CalTech allowed the project to continue for more than three years without significant intervention.

***The volume and significance of concerns raised by the IV&V consultant and the IPO specialist about the BreEZe project should have prompted both CalTech and Consumer Affairs to analyze fully the costs and benefits of proceeding versus suspending or terminating the project.***

**Figure 2**  
**BreZze Timeline of Key Milestones and Selected Key Oversight Concerns From BreZze Inception Through October 2013**



**California Department of Technology's (CalTech) Oversight**

- No independent project oversight specialist
- No independent verification and validation consultant

**Text Color Indicates Which Party Raised the Oversight Concern**

- Independent project oversight specialist
- Independent verification and validation consultant

Sources: Consumer Affairs' BreZze FSR and SPRs, and reports by the CalTech independent project oversight specialist and the independent verification and validation consultant.

\* There are three Accenture contracts related to the BreZze project—one contract for design, development, and implementation; another for maintenance support; and a third contract for the system license.

***The IV&V Consultant and the IPO Specialist Raised Concerns About Consumer Affairs' Decisions That Significantly Affected Phase 1 of the BreEZe Implementation***

One of the concerns the IV&V consultant raised in October 2012 was that Consumer Affairs was not maintaining an updated requirements baseline, as discussed previously, and this issue became a significant problem for the BreEZe project. For example, it prevented the IV&V consultant from conducting a critical oversight activity, in that the consultant could not verify whether the system being developed functioned as Consumer Affairs and the regulatory entities needed. This oversight activity, which the IV&V consultant reported as a concern in May 2012, is an ongoing process that occurs throughout the development of a system. The IV&V consultant reported that many of the problems identified during testing of the BreEZe system were related to specific functional requirements of the regulatory entities that Consumer Affairs had not included in the requirements baseline.

CalTech and the regulatory entities also expressed concern over Consumer Affairs ending user acceptance testing before all of the problems with BreEZe's operation had been addressed. Overall, more than 1,000 defects of various severity levels remained unresolved at the end of the testing period for phase 1. According to CalTech's IT project oversight and consulting division's (oversight division) branch chief (branch chief), given the severity of some of the outstanding issues, CalTech advised Consumer Affairs that user acceptance testing should be extended to allow Accenture time to resolve the most significant issues. Separately, several regulatory entities expressed concerns before they began using the system that BreEZe was not functioning as needed. However, Consumer Affairs asserted that it fixed the most critical system issues during the original extended user acceptance testing period and, despite the numerous concerns, it moved forward with the phase 1 implementation.

Given CalTech's authority and the significant concerns it had raised about the status of the project, we question why it did not take steps to ensure that Consumer Affairs heeded its advice to extend user acceptance testing. For instance, CalTech could have formally warned Consumer Affairs that it would suspend the project if the department did not bring the project back into alignment with its planned scope, cost, and schedule. As illustrated in Figure 1 on page 29, the estimated project costs had increased from roughly \$28 million to almost \$78 million and the project experienced significant delays in its schedule before Consumer Affairs ended user acceptance testing. In addition, CalTech could have required Consumer Affairs to conduct an analysis of the BreEZe project so

***More than 1,000 defects of various severity levels remained unresolved at the end of the testing period for phase 1 of the BreEZe implementation.***

that CalTech could determine whether the benefits of suspending or terminating the project outweighed the costs of moving forward as planned; however, it has not required such an analysis.

***The IV&V Consultant and the IPO Specialist Reported That Consumer Affairs Lacks Sufficient Staff to Adequately Manage the BreEZe Project***

One of the key concerns that both the IV&V consultant and the IPO specialist raised has been that the BreEZe project team lacks appropriate resources. For example, in a June 2013 report, the IPO specialist indicated that the project team was inadequately staffed to complete phase 1. In addition, the IPO specialist reported periodically, beginning in April 2012, that he also had concerns with the resources the regulatory entities committed before and during user acceptance testing for phase 1, as the staff were not assigned exclusively to the project and their availability was in question in the face of project delays. Further, a CalTech branch chief in the oversight division who oversaw the IPO specialist's work from May 2012 through February 2014 told us that Consumer Affairs did not and still does not have enough skilled personnel to handle the complex BreEZe contracts with Accenture. As a result of these combined factors, it appears Consumer Affairs has not had adequate staffing to execute and implement BreEZe through critical project phases.

***Consumer Affairs has not had adequate staffing to execute and implement BreEZe through critical project phases.***

As of June 2014 Consumer Affairs' executive management acknowledged that primarily because of an expanded project scope, Consumer Affairs needs additional staff to manage the development and implementation of the project through phase 2. As explained in the Special Project Report (SPR) 3, since the inception of the BreEZe project in 2009, the project has been able to borrow from within Consumer Affairs and from the regulatory entities to fill critical project positions and keep the project moving.<sup>12</sup> It appears, however, that given the project's evolution, that is no longer possible.

Furthermore, Consumer Affairs did not have sufficient staff to conduct organizational change management at the phase 1 regulatory entities, which is critical for preparing the affected employees to adapt to changes. In the case of BreEZe, organizational change management, including business process analysis, would have identified the changes the regulatory entities

<sup>12</sup> An SPR is a report that provides a summary of proposed changes to the original project cost, schedule, or scope. An SPR is generally required when the project costs or total financial program benefits deviate or are anticipated to deviate by 10 percent or more, or a major change occurs in project requirements or methodology.

needed to make to their internal operations so that they could prepare for those changes. According to the BreEZe project director, Consumer Affairs did not undertake organizational change management because the department redirected the funding for that activity to support other higher-priority project needs, which he defined as every other activity that was completed for the BreEZe project. In other words, Consumer Affairs considered organizational change management to be a lower priority than everything else the project has completed. By ignoring this essential step in project management for phase 1, Consumer Affairs missed a key opportunity to improve the regulatory entities' transition to using BreEZe and may have contributed to the executive officers of several phase 1 regulatory entities indicating that they felt unprepared to implement the system.

Another negative effect of the BreEZe project team not having enough staff is that in August 2014, Consumer Affairs began considering making payments to Accenture to extend the project schedule to complete necessary work. Specifically, in two instances, Consumer Affairs requested that Accenture add a total of 28 days to the project schedule for designing phase 2 at an estimated cost to the State of nearly \$2 million. According to Consumer Affairs' documents requesting the additional days, it does not have sufficient resources available to review certain planning documents for phase 2 within the existing schedule.

***Despite Significant Cost Increases, CalTech Did Not Significantly Increase Its Involvement on the BreEZe Project Until Summer 2014***

***Although CalTech was well aware of the significant problems with the BreEZe project, it approved additional funding for it.***

CalTech was well aware of the significant problems with the BreEZe project, yet it approved additional funding for it. As shown in Table 6, estimated project costs have increased from an original estimate of approximately \$28 million in 2009 to more than \$96 million in 2015 for implementation of the system at only half of the regulatory entities included in Consumer Affairs' original cost estimate. Specifically, Consumer Affairs indicated in two SPRs it submitted in June 2011 (SPR 1) and July 2013 (SPR 2) that the project's estimated costs had increased by nearly 70 percent (SPR 1) and by more than 180 percent (SPR 2) from the original estimate of nearly \$28 million as reported in its 2009 FSR. According to CalTech's analysis of SPR 2, there were three key reasons for this increase as of June 2013. First, the single most important driver for the cost increase was the extended project duration of more than two years past the original completion date of October 2013. Second, the project team planned to hire additional project contractors because it had underestimated the complexity of the BreEZe system. Finally, Consumer Affairs increased the budget for Accenture to perform unanticipated tasks. However, as we discuss

later, CalTech did not ensure that Consumer Affairs addressed the CalTech director’s concerns about project management, project governance, and contract management before approving two SPRs that identified significant project cost increases.

**Table 6**  
**BreEZe Estimated Cost Increases Since the Project’s Inception From November 2009 Through January 2015**  
**(Dollars in Millions)**

DOCUMENT	DATE OF ESTIMATE	TOTAL COST ESTIMATE	AMOUNT CHANGE FROM INITIAL ESTIMATE IN 2009	PERCENTAGE CHANGE FROM INITIAL ESTIMATE IN 2009
Feasibility Study Report	November 10, 2009	\$27.5	\$0.0	0%
Special Project Report 1	June 22, 2011	45.8	18.3	66.5
Special Project Report 2	July 22, 2013	77.9	50.4	183.3
Special Project Report 3*	June 25, 2014	118.3	90.8	330.2
Special Project Report 3.1†	January 7, 2015	96.1	68.6	249.5

Sources: California Department of Consumer Affairs’ (Consumer Affairs) BreEZe Feasibility Study Report, and Special Project Reports (SPR).

\* The total cost estimate presented in SPR 3 captures only those costs Consumer Affairs projected through the implementation of BreEZe at the phase 2 regulatory entities. Thus, this amount does not include the projected costs for implementing BreEZe at the 19 phase 3 regulatory entities. Further, although SPR 3 was initially approved by the California Department of Technology (CalTech) in July 2014, Consumer Affairs withdrew the report in September 2014. According to the BreEZe project director, Consumer Affairs withdrew SPR 3 at the direction of CalTech and the California Department of Finance.

† SPR 3.1 was submitted by Consumer Affairs to CalTech after these entities concluded negotiations with Accenture LLP on December 1, 2014, to remove phase 3 from the BreEZe project.

At the time that CalTech approved SPR 2, it believed the additional project funding was necessary to help ensure BreEZe’s success. When we asked CalTech officials why the department did not become more involved in the project at the time it reviewed and approved SPR 2 in October 2013, CalTech’s oversight division deputy director (deputy director) pointed to CalTech’s analysis for approving SPR 2. In addition, she stated that the additional funding Consumer Affairs had requested was warranted so that the future phases of BreEZe would be better planned and executed than phase 1. Although this may have been the intent of the additional funding, it did not resolve the requirements issues that had negatively affected the BreEZe project. Moreover, in its approval of SPR 2, CalTech did not address all of the key problems it identified in its analysis of the SPR, such as inadequate resources assigned to the project. Thus, we believe that rather than approving SPR 2 and the significant cost increase, CalTech should have taken action to compel Consumer Affairs to address the requirements issues including, if necessary, suspending the project.

Furthermore, CalTech had not ensured before approving SPR 3 that Consumer Affairs had addressed the conditions CalTech established in approving SPR 2 in October 2013. For example,

when CalTech approved Consumer Affairs' SPR 3 in July 2014, it knew that Consumer Affairs should have provided it with a baseline workplan, which is essentially the project schedule, for phase 2 before starting design activities for phase 2, which began in December 2013, according to the BreEZe project director. However, according to an IPO report in June 2014, Consumer Affairs still had not provided the baseline workplan. Even though CalTech's analysis for SPR 3 acknowledged that Consumer Affairs had not met all of the conditions in CalTech's approval of SPR 2, CalTech nonetheless approved SPR 3, which increased the estimated cost of the project from roughly \$78 million to more than \$118 million, along with 14 conditions. Consumer Affairs was to address these conditions in exchange for CalTech's approval of SPR 3. Further, unlike the previous estimates that reflected the entire cost of the project, the \$118 million cost estimate only reflected the costs of the project through phase 2.

It was not until after Consumer Affairs estimated the cost of completing the project at \$300 million in June 2014 that CalTech changed its oversight approach on the BreEZe project.<sup>13</sup> According to the BreEZe project director, Consumer Affairs withdrew its submission of SPR 3 upon direction from CalTech and the California Department of Finance in September 2014. According to CalTech's oversight division deputy director, CalTech's vision going forward is to complete the project only for the phase 2 regulatory entities. In fact, she stated that CalTech finalized negotiations with Accenture on December 1, 2014, and removed phase 3 from the design contract, which we describe later.

***Despite the Serious Oversight Concerns, CalTech Allowed Consumer Affairs to Press Forward With BreEZe***

Both Consumer Affairs and CalTech acknowledge that they were aware of the oversight concerns raised about the BreEZe project. As was mentioned previously, Consumer Affairs officials were aware of the IV&V consultant's and the IPO specialist's concerns regarding the BreEZe project, but they did not take appropriate action to address all of the concerns. Similarly, CalTech did not require Consumer Affairs to remedy the problems the IV&V consultant and the IPO specialist raised, although according to the state chief information officer (CalTech's director), he has met with IT project teams, such as the BreEZe project team, and Consumer Affairs officials monthly since June 2012 to discuss the issues raised in the IPO reports and project status reports.

<sup>13</sup> The BreEZe project team developed the estimate informally and not in the same manner as an SPR requires.

Consumer Affairs' BreEZe project director indicated that he did not always act on the concerns raised in the IPO reports, largely because he believed many of the comments were factually inaccurate. According to the project director, Consumer Affairs communicated this concern regarding inaccuracy to CalTech management in 2013. However, when we asked CalTech's branch chief in the oversight division whether Consumer Affairs had discussed the accuracy of the reports with anyone at CalTech, she responded that Consumer Affairs had complained only about the sternness of the language in the IPO reports. The BreEZe project director stated that Consumer Affairs does act on concerns the IPO specialist raises that it believes are valid. He also explained that Consumer Affairs has not tracked the IV&V and IPO concerns from the inception of the BreEZe project. Rather, Consumer Affairs has chosen to respond to the concerns that CalTech has asked it about. The BreEZe project director indicated that Consumer Affairs has taken this approach because it lacks resources and he believes that the concerns raised in the reports are not very meaningful. Our IT expert believes that Consumer Affairs' failure to act in the face of the significant and persistent issues that the IV&V consultant and IPO specialist raised constitutes poor management of the project.

For its part, CalTech did not use its authority to ensure that Consumer Affairs addressed the significant and persistent warnings of the IV&V consultant and the IPO specialist, which would have better prepared Consumer Affairs to successfully complete a complex project such as BreEZe. Although state law provides CalTech with the authority to suspend, terminate, and reinstate technology projects, it did not take any of these actions on the BreEZe project or warn Consumer Affairs in writing that it would take one or more of these actions if the project did not meet specific performance measures. However, according to the CalTech director, in the February or March 2013 monthly portfolio meeting, he verbally cautioned officials at Consumer Affairs that CalTech had just suspended or terminated two other projects and that BreEZe would be next if CalTech did not see the department improve its rigor in project management, project governance, and contract management. Nonetheless, CalTech still had concerns in these three areas in July 2014, when it approved SPR 3.

According to CalTech's director, it views its role on a project that is in progress as providing oversight in a manner that supports a successful completion of the project. Separately, according to the branch chief in the oversight division, CalTech believes that departments can seek its assistance, particularly the assigned IPO specialist, with questions or issues that may arise on IT projects. She explained that CalTech also monitors a project to ensure that it is within budget and scope of resources and that a major crash is not imminent; to the extent that these issues do not arise,

***State law provides CalTech with the authority to suspend, terminate, and reinstate technology projects; however, it did not take any of these actions on the BreEZe project.***

CalTech will work with the department in a supportive role. Yet, we question why CalTech did not intervene instead of approving SPR 3, given that Consumer Affairs was not appropriately addressing the concerns the IV&V consultant and the IPO specialist raised; these concerns were numerous and were identified in CalTech's analysis of SPR 2 in 2013. Although CalTech was aware that Consumer Affairs was not heeding the concerns the independent oversight staff raised, it allowed Consumer Affairs to continue with the project.

Despite its awareness that Consumer Affairs has experienced noteworthy difficulties in developing the BreEZe system, CalTech demonstrated through its approval of SPR 3 in July 2014 that the BreEZe project should continue. However, we question this position and CalTech's decision to allow the BreEZe project to receive additional funding in light of the many concerns its oversight staff have raised. Further, CalTech does not have guidance that would help it evaluate whether projects should continue. Although there is no written guidance, the oversight division's deputy director explained that she developed a framework since arriving at CalTech in April 2014 for the oversight division to use in evaluating the health of projects. Depending on the magnitude and types of problems a project may have, such as experiencing significant delays in the project schedule or project cost increases, the oversight division escalates concerns through the monthly IPO reports, project steering committee reports, CalTech portfolio meetings, meetings with relevant agency leadership, and with the Governor's Office. She further stated that when the factors are not being resolved within a reasonable time frame, the oversight division will recommend to the director of CalTech that the project be placed in a pause, suspension, or termination status. Nevertheless, when we asked for the BreEZe project recommendations the oversight division has made to the CalTech director, the oversight division's deputy director stated that she has not seen any documentation about a recommendation concerning pausing the project or other action for BreEZe.

When we asked CalTech's director in October 2014 his thoughts on halting the BreEZe project, he cited several reasons for letting the project continue uninterrupted: BreEZe is moving in the right direction, the system's problems are not incurable, and Consumer Affairs and Accenture have been able to work through issues toward resolution. In addition, he stated that the BreEZe project is working and functional. However, according to the September 2014 IPO report, while BreEZe was in production for the 10 phase 1 regulatory entities, it identified that the project's overall health was poor. The IPO report also states that the online application feature, which the IPO specialist considers a key part of BreEZe, had not been "turned on" for some phase 1 regulatory entities. The IPO

specialist concluded that it was inefficient of these entities to not be using the online functionality one year after phase 1 implementation.

CalTech's reasons for approving SPR 2, which are shown in the text box, provide other reasons that it has allowed the BreEZe project to continue. However, CalTech's explanation for approving SPR 2 and allowing the BreEZe project to continue is perplexing given the actions CalTech and Consumer Affairs have recently taken to remove phase 3 of BreEZe from the design contract with Accenture. In fact, Consumer Affairs' SPR 3.1, which it submitted to CalTech in January 2015, indicated the project is not moving in the right direction and proposed a rescoping of the project to remove phase 3 because of significant concerns related to staffing and increasing project costs, and because its contracts with Accenture are no longer financially feasible for Consumer Affairs.

As discussed previously, CalTech has the authority and responsibility to oversee and approve IT projects. If CalTech had chosen to suspend the project, it could have temporarily paused BreEZe development and could have provided Consumer Affairs with additional time to conduct a cost-benefit analysis and to correct fundamental problems, such as the baseline of requirements and other requirement issues, it encountered during planning and development. However, according to the CalTech director in October 2014, who has overseen the BreEZe project since Consumer Affairs executed its contracts with Accenture, CalTech has not suspended BreEZe for several reasons, including the following: Consumer Affairs badly needs a new system, suspending the project could cause project delays that might result in Consumer Affairs needing to pay Accenture for those delays, and stopping the project now may affect fixes that were due after phase 1. In addition, CalTech's director told us that should CalTech terminate BreEZe, it would be abandoning Consumer Affairs. Specifically, the director indicated that although CalTech has the authority to terminate the BreEZe project, it cannot terminate the contracts Consumer Affairs has with Accenture and that terminating the project would leave Consumer Affairs without the means to meet its contractual obligations. We do not agree with the CalTech director's assessment that terminating the project will leave Consumer Affairs stranded with a contract. CalTech has the authority to terminate the project, and Consumer Affairs could subsequently terminate the contract with Accenture

#### California Department of Technology's Reasons for Approving the BreEZe System Special Project Report 2

- The BreEZe business case remained valid, and BreEZe could be a benefit to the State.
- The project had already completed one of the three phases, and the system continued to stabilize.
- The California Department of Technology (CalTech) expected that future phases would take advantage of the benefits of lessons learned and avoid some of the issues associated with phase 1.
- The project and Special Project Report (SPR) 2 underwent extensive scrutiny by all control agencies, and all open issues were receiving attention.
- Approving SPR 2 would give the California Department of Consumer Affairs (Consumer Affairs) the funding it needed to continue implementing BreEZe for the remaining regulatory entities, as well as pay for approved changes through the unanticipated tasks budget.

Source: CalTech's analysis of Consumer Affairs' SPR 2.

*In 2011, before Consumer Affairs awarded the BreEZe contracts, the IV&V consultant reported significant concerns with the system requirements, concluding they were inadequate and posed a high risk.*

for *convenience*—meaning that the State may terminate the contract at its own discretion even if the contractor has performed. In other words, Consumer Affairs could unilaterally terminate the contract, even if Accenture did not breach it, but it would be obligated to pay Accenture for certain costs, such as the costs of completed and partially completed work and winding down operations.

Despite CalTech's reasons for not intervening in the beginning stages of the BreEZe project, had it done so the project might have become more stable and might have better met the needs of the regulatory entities included in phase 1 of the system's implementation. For instance, in the spring of 2011, before Consumer Affairs awarded the BreEZe contracts, the IV&V consultant reported significant concerns with the requirements Consumer Affairs had defined for the system, essentially concluding that they were inadequate and posed a high risk. If CalTech had chosen to suspend the project at that time and required Consumer Affairs to address the issues with the system requirements, it is likely the project would not have faced the subsequent delays that it has experienced in its schedule.

### **CalTech Did Not Ensure Oversight for BreEZe Until More Than One Year After the Project's Commencement**

Consumer Affairs did not secure IV&V services for BreEZe and CalTech did not assign an IPO specialist to the project for over a year after CalTech approved the project's FSR. State IT policies require that IPO begin immediately following project approval and continue through project closeout. State IT policies hold state entities responsible for establishing required oversight activities, which include both IPO and IV&V services, and since CalTech approved the project's FSR in November 2009, it was aware of the need for this oversight and should have assigned an IPO specialist at that time, according to CalTech's oversight division deputy director, given that its practice at the time was to initiate an agreement to do so.

For IV&V services, CalTech defers to the corresponding standard of the Institute of Electrical and Electronics Engineers, Inc. (IEEE), which states that IV&V shall be performed in parallel with all system life cycle stages, starting at the very beginning of the process when the system requirements are being defined and continuing throughout the project.<sup>14</sup> However, the IPO specialist and the IV&V consultant did not begin work until December 2010 and

<sup>14</sup> The IEEE is a leading developer of international standards that support many products and services, including IT.

January 2011, respectively, more than a year after the FSR was approved. By that time, Consumer Affairs was about to issue the eighth of what would ultimately be 10 amendments to the RFP. CalTech noted that in state IT policy, the purpose of IPO is to identify and quantify any issues and risks affecting schedule, cost, and system functionality. Similarly, the IEEE standard for IV&V indicates that without early feedback from independent oversight, detection of anomalies and the resulting system changes required to correct them are typically delayed until later in the project, resulting in greater costs and schedule delays. Not surprisingly, cost increases and schedule delays are some of the problems that have plagued the BreEZe project.

The CalTech oversight division deputy director stated that CalTech's practice has been to add oversight staff by a project's start as identified in its FSR, which for the BreEZe project was December 2009. Moreover, she noted that before July 2014, CalTech assigned an IPO specialist to a project after initiating an interagency agreement with a department, whereas effective July 2014 departments submit service requests for IPO services. In addition, according to available documentation, Consumer Affairs canceled an existing agreement with a private sector IPO in June 2009 because CalTech informed Consumer Affairs that it would assume responsibility for providing IPO services in the following month, which did not occur. Thus, apparently CalTech was aware of the need for IPO services to begin early in the project, but it did not secure them until more than a year later. In July 2014 CalTech streamlined the IPO request procedure by changing it from a process requiring an interagency agreement to one that can be initiated simply by a service request, which the deputy director believes will help ensure that IPO oversight starts earlier than it did under the old system. The CalTech oversight division deputy director told us she is unaware of the circumstances concerning IV&V oversight on the BreEZe project before January 2011.

Separately, the BreEZe project director stated that the start of IV&V services was delayed for two reasons. First, he prepared the RFP for IV&V services at the same time that he was preparing the RFP for the overall project, and the project RFP was a higher priority. The BreEZe project director's need to prioritize among these RFPs is another result of Consumer Affairs' insufficient project resources, as discussed earlier in this chapter. Second, Consumer Affairs found the initial bids for its IV&V RFP to be higher than it expected, which led it to rescope the IV&V RFP and delay obtaining these services. While the BreEZe project director told us he found many of the IPO specialist's concerns to be of limited merit, had both forms of oversight been provided from the start of the project and had Consumer Affairs promptly addressed the concerns the

***Cost increases and schedule delays are some of the problems that have plagued the BreEZe project.***

oversight staff raised regarding the system requirements, the project would likely not have faced cost increases and schedule delays of the magnitude that it has.

### **Consumer Affairs Did Not Comply With the State's Policies for IT Project Management**

CalTech's California Project Management Methodology defines a series of IT project management plans that are meant to serve as a formal framework for managing a project, including its cost, scope, and staffing. These plans should be developed during the planning stage of a project. Table 7 shows the 12 necessary plans and indicates whether Consumer Affairs completed and followed each plan. As shown in the table, for the nine plans Consumer Affairs developed, four were not created until after it had awarded the contracts to Accenture, and in seven cases, they were not created until 21 months to 54 months after it received project approval. In September 2011 the IV&V consultant reported a concern that the BreEZe project still lacked a significant number of project plans that were key references for performing his oversight activities. Consequently, execution of the BreEZe project was under way before Consumer Affairs had fully determined some of the processes it would use to manage the project.

The completion of the project management plans is a key activity of the planning stage, and if properly completed, these plans would have defined the work that Consumer Affairs would complete in the contract execution stage of the project. As a result, delays by Consumer Affairs in completing the project management plans may have led to omissions on its part. According to CalTech officials, state entities are not required to submit these plans to CalTech; however, in its IPO role, CalTech does review, evaluate, and provide feedback on any such plans. Available documentation suggests that CalTech undertook these activities to some extent on the BreEZe project. In addition, according to CalTech officials, it monitors and provides feedback on a project's ability to execute these plans. Not surprisingly, in the areas in which Consumer Affairs failed to develop the plans entirely—costs, scope management, and human resources—CalTech's IPO specialist and the IV&V consultant identified significant concerns. In other cases, such as organizational change management, Consumer Affairs developed the plans but failed to implement them. Consequently, several of the phase 1 regulatory entities reported that they were ill-prepared to adjust to the effects of the new system on their business processes.

*Consumer Affairs failed to develop IT project management plans for costs, scope management, and human resources, raising significant concerns by CalTech's IPO specialist and the IV&V consultant.*

**Table 7**  
**California Department of Consumer Affairs’ Adherence to Necessary Project Plans**

	PURPOSE OF PLAN	WAS THE PLAN COMPLETED?	DATE PLAN WAS FIRST EFFECTIVE	MONTHS AFTER FEASIBILITY STUDY REPORT APPROVED (NOVEMBER 2009)	MONTHS AFTER CONTRACT AWARD (SEPTEMBER 2011)	IF COMPLETED, DID CONSUMER AFFAIRS FOLLOW THE PLAN?
<b>Project Management Plan</b>						
Scope management plan	Documents how the project scope will be defined, verified, and controlled, and how the work breakdown structure will be created and defined.	No	–	–	–	–
Configuration change control plan	Describes how to document, control, and manage any changes to key project components and deliverables throughout the project life cycle.	Yes	August 2011	21	0	No
Human resource management plan	Identifies how and when labor needs will be met to ensure that the project has sufficient staff with appropriate skill sets and experience.	No	–	–	–	–
Communication management plan	Determines the information and communications needs of project stakeholders and how to meet them.	Yes	September 2011	22	0	Partially
Risk management plan	Indicates how to approach, plan, and execute risk management activities for the project.	Yes	October 2011	23	1	Partially
Cost management plan	Used to plan, estimate, budget, and control costs so that the project can be completed within the approved budget.	No	–	–	–	–
Quality management plan	Identifies which quality standards are relevant to the project and describes how to satisfy them.	Yes	June 2010	7	0	No
Schedule management plan	Establishes how the project schedule will be managed and controlled by estimating the duration of activities.	Yes	August 2011	21	0	Yes
Procurement management plan	Determines which project needs can best be met by purchasing or acquiring products, services, or results outside the project organization, and which project needs can be accomplished by the project team during project execution.	Yes	May 2010	6	0	Partially
Contract management plan	Documents the products, services, and results requirements needed to meet the project’s objectives.	Yes	May 2014	54	32	Partially
<b>Other Necessary Plans</b>						
Organizational change management plan	Assesses stakeholders’ awareness and influence, describes any resistance or concerns, and identifies optimum communication and actions to be taken.	Yes	October 2011	23	1	No
Maintenance and operations transition plan	Describes how the project will be transitioned from the team executing development to the operations team.	Yes	December 2012	37	15	Partially

Sources: California Department of Technology’s *Statewide Information Management Manual*, interviews with California Department of Consumer Affairs (Consumer Affairs) officials, and California State Auditor’s review of Consumer Affairs’ BreZe project management plans and associated oversight reports.

The BreEZe project director cited various reasons for the deficiencies we identified in the execution of the project plans. He said that in a number of cases, inadequate staffing was the reason the project team did not complete project management activities. For some of these management activities, the project director claimed that other activities or reports provide functional equivalencies. For example, Consumer Affairs' configuration change control plan specifies that it is to complete seven reports regarding requests for changes to the system; however, rather than submitting these reports, the contract manager substituted one log tracking the requested changes. Although this log does contain most of the same information that would have been included in the seven separate reports, it is missing the information required for one of them. In another example of functional equivalency, the project director substituted informal daily interactions with Accenture for the periodic performance management reviews the contract management plan specifies. However, that plan notes that a number of other parties are expected to attend these meetings, including the entire project management team and other appropriate team members. These meetings would likely have offered the team an opportunity to address issues and concerns that were larger than those that arise day to day.

Another project management problem occurred when the project director officially acted as the project manager for the greater part of 2014 and thus was responsible for an even greater range of significant duties. Consumer Affairs combined the positions of project director and project manager in January 2014, following the implementation of phase 1 of BreEZe, because the former project director retired. This bundling of positions by Consumer Affairs during 2014 removed an important layer of management oversight, thereby reducing the effectiveness of project management. In fact, the IPO specialist identified this as a concern in January 2014, noting that the positions of project director and project manager are distinct roles that focus on different areas, with the project director overseeing and providing a second opinion on matters for the project manager. Consumer Affairs then separated the positions again in June 2014 following CalTech's direction that the combination of the positions was not supportable over the long term, and as of mid-September 2014, Consumer Affairs had hired a project manager.

***In 2014 the BreEZe project director officially acted as the project manager, resulting in the removal of an important layer of management oversight, thereby reducing the effectiveness of project management.***

Finally, the *State Administrative Manual* requires all departments to use the California Project Management Methodology for their large IT projects, and it also requires that all project managers and team leads receive training in this methodology. However, according to Consumer Affairs' chief information officer, the project director is the only one of the three Consumer Affairs' BreEZe project team leads who has met this requirement. When staff serving in

leadership roles do not fulfill the minimum project management training requirements, assurance is lacking that they have the knowledge necessary to successfully manage a large IT project. Further, this lack of training may have contributed to some of the problems the BreEZe project has encountered.

### **Implementation of BreEZe at All Originally Scheduled Regulatory Entities Is No Longer Planned**

The future implementation of BreEZe by the phase 2 regulatory entities is at risk, and it is unknown whether or when the 19 phase 3 regulatory entities will implement the system. As we explained in the Introduction, 10 regulatory entities implemented the system in October 2013 as part of phase 1, and another eight regulatory entities are included in phase 2, which is currently planned for March 2016. The remaining 19 regulatory entities—among them some of the largest in terms of licenses issued as we illustrated in Table 3 on page 15—were originally included in phase 3; however, it is now unknown whether or when these entities will begin using BreEZe. Specifically, CalTech informed us that it completed renegotiating Consumer Affairs' design contract with Accenture on December 1, 2014, and these 19 regulatory entities had been removed entirely from the design contract.

Under certain conditions, CalTech has the authority to negotiate IT contracts, including amendments, under Public Contract Code, Section 6611. This section of law pertains to contracts, such as the BreEZe contracts, that are conducted through a negotiation process. Although it has had this authority since July 2013, CalTech has not previously exercised it on the BreEZe project; however, according to the BreEZe project director, it did previously coach Consumer Affairs for earlier negotiations. According to CalTech's director, CalTech increased its involvement in 2014 because of the BreEZe project's increasing costs, large scope, and high risk. He also acknowledged various concerns with the design contract, described further in Chapter 2, and stated that the BreEZe project has been a learning experience with respect to contracts, vendors, and expectations. In terms of a new contract amendment that will remove phase 3, a CalTech deputy director explained that SPR 3.1 and a notification to the Legislature are required before one can be executed, and she does not expect to finalize these actions until the first quarter of 2015. In fact, SPR 3.1 indicates that the project will end after the phase 2 regulatory entities implement BreEZe, and only after the successful implementation of that phase will Consumer Affairs reassess the best implementation approach for the 19 phase 3 regulatory entities.

*Only after the successful implementation of phase 2 will Consumer Affairs reassess the best implementation approach for the remaining 19 phase 3 regulatory entities*

***Consumer Affairs is requesting over \$18 million in additional funding for 34 new dedicated staff and indicated that if it does not receive this funding, it will not be able to complete the BreEZe project.***

Consumer Affairs has explained that it needs additional staffing to successfully implement BreEZe at the phase 2 regulatory entities and to maintain BreEZe into the future; however, as of January 2015, it lacks the funding to fill these positions. In SPR 3.1, in which it is requesting additional funding of over \$18 million, Consumer Affairs is requesting 34 new dedicated staff resources. According to SPR 3.1, Consumer Affairs needs the additional dedicated staff in order to mitigate project risk and successfully complete the remaining phase 2 activities with high quality. In addition, Consumer Affairs states that these positions are needed as soon as possible. According to the SPR, these positions will fill critical project roles in areas such as data conversion support, organizational change management, and maintaining existing IT systems for the remaining regulatory entities not using BreEZe after phase 2 is completed. Further, Consumer Affairs indicated that if it does not receive the additional funding for the positions, it will not be able to complete the BreEZe project.

Consumer Affairs lacks a plan to implement BreEZe at the 19 phase 3 regulatory entities that were removed from its design contract with Accenture during recent negotiations. According to SPR 3.1, Consumer Affairs will reassess the best implementation approach for the phase 3 regulatory entities after the successful completion of phase 2; thus, Consumer Affairs does not yet have a plan to implement BreEZe for these 19 regulatory entities. In a December 2014 memorandum to the regulatory entities regarding the future of BreEZe, the director explained that Consumer Affairs anticipates a staggered transition to the BreEZe system for the phase 3 regulatory entities, as opposed to having all 19 make the transition at once. Further, the director stated that the current design contract was not sustainable in terms of both financial and human resources and that the decision to end the contract at the conclusion of phase 2 was the fiscally responsible thing to do, as it will allow Consumer Affairs to better manage and contain costs.<sup>15</sup> This perspective is echoed in SPR 3.1, in which Consumer Affairs states that following the implementation for phase 2 of continuous improvements identified during phase 1, it became apparent that the current contract structure presented resource and economic challenges that gave Consumer Affairs and its regulatory entities grave concerns about being able to accurately predict and control project costs and schedule beyond phase 2.

Moreover, in its analysis of SPR 3, CalTech highlights the complexity of phase 3 as a risk. Specifically, the analysis states that phase 3 contains some of the most complex and largest regulatory

<sup>15</sup> Consumer Affairs only renegotiated the design contract. The other two contracts that Consumer Affairs has with Accenture, the maintenance and system license contracts, remain in place.

entities, those with the highest number of license types—160 in total, more than the license types of the phase 1 and phase 2 regulatory entities combined. SPR 3 concludes that this makes phase 3 larger than all of the BreEZe work that will have been accomplished through the completion of phase 2. Despite this complexity, the director of Consumer Affairs acknowledged that Consumer Affairs has not determined the extent to which the business needs of the 19 regulatory entities will require changes to the BreEZe system. Because the magnitude of the changes that these regulatory entities may require is unknown and given the project's history of significant cost increases and schedule delays, it is likely that Consumer Affairs will encounter similar issues if and when it attempts to implement BreEZe at these phase 3 regulatory entities.

Consumer Affairs has also not conducted a formalized cost-benefit analysis, which would include assessing the magnitude of the changes required by those 19 regulatory entities, to inform its decision about implementing BreEZe at them. A cost-benefit analysis compares the benefits of a project's outcomes with the cost required to produce them as well as the costs and benefits of an alternative project. This analysis is of particular importance given that the Budget Act of 2014 mandates an ongoing department-wide budget reduction of \$500,000 for Consumer Affairs beginning in fiscal year 2017–18 in recognition of anticipated operational efficiencies resulting from the implementation of BreEZe by the regulatory entities. Consumer Affairs acknowledges in SPR 3.1 that based on the experience of the phase 1 regulatory entities, there will be no staffing or other operational efficiencies resulting from BreEZe that will produce cost savings. Thus, according to the director of Consumer Affairs, although it will be continuing its design contract with Accenture to complete phase 2, those phase 3 regulatory entities may not realize any operational efficiencies if and when they implement the system. The likelihood of such an outcome occurring underscores the importance of Consumer Affairs conducting an analysis of both the costs and benefits of moving forward with phase 3.

### **CalTech Is Developing a New Approach for Its Oversight Role in the Planning of IT Projects**

CalTech has initiated a project that, if fully implemented, will expand its role in the planning phase of IT projects and potentially contribute to an increase in the successful execution of reportable IT projects.<sup>16</sup> The State Technology Approval Reform (STAR)

<sup>16</sup> As of July 1, 2013, CalTech is responsible for all contracts for the acquisition of reportable IT projects with costs that exceed an agency's delegated cost threshold.

***In September 2013 CalTech initiated the STAR project, with a mission of improving the planning, quality, value, and likelihood of IT project success.***

project aims to transform CalTech's current IT project approval process and assist departments in identifying weaknesses in areas critical to IT project success. However, because CalTech has yet to fully implement the STAR project, it is too early to tell whether it will improve the success rate of IT projects.

In September 2013 CalTech initiated the STAR project, with a mission of improving the planning, quality, value, and likelihood of IT project success. According to CalTech's oversight division deputy director, the STAR project will revamp the current FSR process, which generally requires a department to document the need for a proposed IT project, along with the cost and benefits of the project, following instructions included in the *Statewide Information Management Manual*. The deputy director also indicated that the new process will bring greater coordination between CalTech and departments during the planning phase of reportable IT projects. She stated that in coordination with a department, CalTech will evaluate the department's readiness for its IT project using analyses of multiple stages: a business analysis, an alternatives analysis, a procurement analysis, and a solution analysis. According to a June 2014 presentation, CalTech decided to undergo this change for a variety of reasons, including the fact that the State's approval of IT projects has been identified by the Governor's Office, the Legislature, and the State's policy and IT communities as an area that needs to be revised and updated. CalTech believes this new process will reduce project risk, build collaborative partnerships, increase efficiency, better define project data needs, and improve project approval integrity. CalTech also believes it will provide the opportunity to redirect efforts or even stop projects earlier, when needed, before significant budget actions have been taken.

According to the deputy director, as of January 2015 CalTech was in the process of piloting the first two stages of the STAR project and plans to continue doing so through June 2015; however, CalTech had not yet finalized the list of IT projects that will be included in the pilot. She explained that CalTech would prefer to work with departments on a voluntary basis until at least January 2016, before mandating that departments use the new process for their IT projects. Again according to the Caltech's oversight division deputy director, the STAR project is currently developing procedures for examining an IT project's risk, its business value, and the department's organizational readiness to implement the project. As guidance for developing these procedures, CalTech is using, among other information, lessons learned from past IT projects, including lessons learned from BreEZe. As an example, CalTech's oversight division deputy director noted that on the BreEZe project, a decision was made to use standard commercial software requiring little customization, with insufficient consideration paid to the business needs of the regulatory entities,

the dependencies of their processes, and impediments to successful implementation. She explained that the initial planning for the BreEZe project depended on all of Consumer Affairs' regulatory entities being able to use the same system, which was unreasonable given their different needs.

As part of the STAR project, the oversight division deputy director indicated that CalTech also plans to address a lack of critical IT project management leadership experience in state departments. To remedy this issue, CalTech is developing as part of the STAR project a voluntary organizational self-assessment that will help a department understand its internal strengths and weaknesses in areas critical to IT project success. CalTech hopes these self-assessments will lead to more informed planning for IT projects, perhaps including the use of CalTech consulting services.

## **Recommendations**

### ***Legislature***

To ensure that it receives timely and meaningful information regarding the status of the BreEZe project, the Legislature should enact legislation that requires Consumer Affairs to submit a statutory report annually, beginning on October 1, 2015, that will include the following:

- Consumer Affairs' plan for implementing BreEZe at those regulatory entities included in the project's third phase, including a timeline for the implementation.
- The total estimated costs through implementation of the system at the remaining 19 regulatory entities and the results of any cost-benefit analysis it conducted for phase 3.
- A description of whether and to what extent the system will achieve any operational efficiencies resulting from implementation by the regulatory entities.

### ***CalTech***

To help ensure the success of the BreEZe project going forward, CalTech should do the following:

- Ensure that Consumer Affairs responds promptly to, and adequately addresses, concerns raised by its IPO specialist and its IV&V consultant.

- Require Consumer Affairs to develop and follow all project management plans and ensure that the BreEZe project team leads receive all required training.
- Document key discussions with Consumer Affairs in which significant concerns are raised about Accenture and assessments of the department's performance by the IV&V consultant and the IPO specialist.

If Consumer Affairs receives the necessary funding and resources to successfully implement BreEZe at the phase 2 regulatory entities and the project continues to face escalating costs, CalTech should require Consumer Affairs to conduct an analysis of the costs and benefits of moving forward with the project as planned or of suspending or terminating the project.

Continue implementing the STAR project for state departments and ensure that its framework maintains the following requirements:

- Undertakes detailed business process analyses before submitting FSRs to CalTech for approval.
- Uses those business process analyses to justify the type of IT solution they are proposing, such as a COTS or a fully customized system.
- Uses those business process analyses to inform the resulting RFPs and that they ensure that the RFPs contain adequate requirements.

To ensure that IT projects have the oversight needed to better position them for success, CalTech should do the following:

- Require state departments to follow its IT policies, including developing all necessary plans and receiving all required training.
- Ensure that departments obtain IPO and IV&V services as soon as an IT project is approved. Additionally, CalTech should document key discussions with any department in which the IV&V consultant and the IPO specialist raise significant concerns about a project, and ensure that the respective department responds promptly to, and adequately addresses, the concerns that the IPO specialist and the IV&V consultant raise.
- Require state departments to appropriately address deficiencies identified in CalTech's approval of any SPRs as conditions that must be met, and to do so according to specified timelines. If the deficiencies are not adequately addressed within the

specified timelines, CalTech should take action to suspend the project until the department has either resolved the identified deficiencies or adequately documented its justification for not addressing the deficiencies.

- Develop thresholds relating to IT project cost increases and schedule delays to inform and better justify its decision to allow an IT project to continue. If a department's IT project reaches or exceeds these thresholds, CalTech should require the department to conduct a cost-benefit analysis for the project and include this analysis in an SPR. CalTech should consider the results of this analysis in its decision to approve or deny the SPR and, if warranted, take action to suspend or terminate the project so that it does not allow projects with significant problems to continue without correction.

### ***Consumer Affairs***

To make certain that Consumer Affairs has a project team that consists of staff trained in managing IT projects, it should ensure that all the BreEZe project team leads obtain all required project management training.

Consumer Affairs should develop a process to ensure that it prepares all required project management documents and undertakes all oversight activities related to BreEZe as CalTech requires so that it can prevent or identify and monitor future problems as they arise. This includes taking steps to sufficiently respond to any concerns that the IPO specialist and the IV&V consultant raise.

To the extent that Consumer Affairs chooses to implement BreEZe at the phase 3 regulatory entities, it should first complete a formal cost-benefit analysis to ensure that BreEZe is a cost-effective solution to meet these regulatory entities' business needs. To make certain this analysis is complete, it should include an assessment of the potential changes these regulatory entities may require to be made of the BreEZe system and the associated costs. Consumer Affairs should complete the cost-benefit analysis before investing any more resources into the implementation of BreEZe at the phase 3 regulatory entities, and it should update this analysis periodically as significant assumptions change.

If Consumer Affairs determines that a new IT project is warranted in the future, it should develop a process to ensure the success of that project that includes, at a minimum, the following:

- System requirements that are specific to each regulatory entity as applicable.
- A project team that is qualified and experienced.
- Development of and adherence to all project management plans.
- Planning and implementation of effective organizational change management.
- Timely response to concerns that the IV&V consultant and the IPO specialist raise.
- Sufficient staffing.

## Chapter 2

### THE STATE ENTITIES RESPONSIBLE DID NOT ENSURE THAT THE BREEZE CONTRACT TERMS SUFFICIENTLY PROTECT THE STATE

#### Chapter Summary

In September 2011, under the direction of the California Department of General Services (General Services), the California Department of Consumer Affairs (Consumer Affairs) awarded three BreEZe contracts to Accenture LLP (Accenture). These contracts do not adequately protect the State.<sup>17</sup> General Services' role at that time was to administer state information technology (IT) procurements and conserve the fiscal interests of the State. However, during the procurement process for the BreEZe project, General Services and Consumer Affairs approved revisions to the contracts' terms and conditions proposed by Accenture that transferred risk to the State. In addition, the revised language limited Consumer Affairs' ability to terminate the contracts and eliminated protections Consumer Affairs otherwise would have had against the possibility of intellectual property rights violations. General Services' staff explained that the contract revisions reflect what Consumer Affairs was willing to accept. Consumer Affairs staff stated that they were concerned that if they did not agree to the changes Accenture proposed, Consumer Affairs would lose the opportunity to contract with Accenture. Nevertheless, General Services and Consumer Affairs approved contract terms and conditions that do not adequately protect the State's interests.

#### Although All Vendors Had the Opportunity to Protest the State's Standard IT Contract Language, Only Accenture Did So

General Services and Consumer Affairs agreed to changes to the State's standard IT general provisions and model contract language (standard IT contract) during two phases of the BreEZe procurement process. These changes are not beneficial to the State.<sup>18</sup> During the request for proposal (RFP) phase, General Services provided every potential bidder with the opportunity to

<sup>17</sup> There are three contracts related to the BreEZe project—one contract for design, development, and implementation; another contract for maintenance support; and a third contract for the system license. When we discuss a specific contract, we identify it as either the *design*, *maintenance*, or *system license contract*.

<sup>18</sup> At the time of the BreEZe procurement, General Services had several modules of standard contract language related to IT contracts.

submit a protest for issues such as the selection of prequalified bidders or RFP requirements before submitting a bid and to have General Services review its concerns. During this phase in the BreEZe procurement process, specifically in January 2011, only Accenture submitted a protest, in which it proposed 44 modifications to provisions of the State's standard IT contract. Of these proposed modifications, General Services accepted 18, proposed its own revisions to 19, and rejected the remaining seven. Subsequently, in April 2011, in accordance with state law, Consumer Affairs entered into negotiations with Accenture—deemed to be the only responsive bidder. According to its former director, Consumer Affairs believed these negotiations were a prudent and necessary next step to fully explore all possible options before it would consider canceling the BreEZe procurement.

The contracts that Consumer Affairs executed in September 2011 and that General Services approved with Accenture for developing BreEZe contained certain terms and conditions that are not included in the State's standard IT contract language. Specifically, General Services and Consumer Affairs accepted terms and conditions that decrease Consumer Affairs' ability to obtain a system that meets the needs of its boards, bureaus, committees, and a commission (regulatory entities) and that reduce Consumer Affairs' financial protections in the event Accenture performs poorly. According to Consumer Affairs' officials, some of the contract changes they accepted resulted in cost savings. General Services' chief procurement officer provided the department's perspective for why it agreed to the contract changes Accenture proposed. First, Consumer Affairs had unsuccessfully attempted to procure a licensing system at least twice before the BreEZe procurement. Second, Consumer Affairs described its legacy systems as broken because they had significant limitations. Consequently, General Services was willing to accept the risk of the contract revisions so that Consumer Affairs could replace its legacy systems. However, we still question the prudence of some of the decisions it and Consumer Affairs made regarding the terms and conditions, as they increased Consumer Affairs' financial risk related to these contracts.

***General Services and Consumer Affairs accepted contract terms and conditions that decrease Consumer Affairs' ability to obtain a system that meets the needs of its regulatory entities and that reduce its financial protections in the event Accenture performs poorly.***

***General Services Significantly Weakened the State's Financial Protections Should Consumer Affairs Relieve Accenture of Its Contractual Duties***

As a result of the changes to the State's standard IT contract that General Services accepted for the BreEZe contracts during the RFP phase, state money is not protected if Consumer Affairs decides to terminate the BreEZe contracts for *convenience*—meaning that the State may terminate the contract at its own discretion, even if the

contractor has performed. General Services' standard IT contract language establishes that the State will have rights to the work product that is delivered or required to be delivered to the State. However, General Services accepted language from Accenture that limits Consumer Affairs' ability to obtain rights to the work product Accenture builds unless the State pays the full amount due under the design contract. Specifically, Consumer Affairs could have to pay the remaining contract amount rather than only certain of Accenture's costs through the termination date to obtain rights to Accenture's work product, such as the source code that Accenture wrote for BreZE, so that it could be used in the future. This source code is critical because it is part of the programming instructions that operate BreZE. For example, if Consumer Affairs had terminated the design contract for convenience at the end of September 2014, it could have been required to compensate Accenture for the remaining design contract amount of up to roughly \$30 million of the total contract amount of \$34 million to obtain Accenture's work product, unless Accenture was willing to offer it for less. General Services' chief procurement officer stated that his reading of the amended contract language concerning Consumer Affairs' rights if it terminates the contract indicates that it provides the State greater flexibility than the standard contract terms because it narrows the scope of the payment Consumer Affairs would need to make in the event of a contract termination. However, unless the project were substantially complete, the amount due under this provision could significantly exceed what would be due under the standard IT contract.

Consumer Affairs also risks losing the maintenance contract and system license contract if it terminates the design contract in whole. As a result of their negotiations with Accenture, General Services and Consumer Affairs agreed to include a clause in the two contracts that makes those contracts contingent upon the design contract being in effect. Thus, any complete termination of the design contract terminates the remaining contracts, unless Accenture and Consumer Affairs agree otherwise. By including this clause in the maintenance contract and system license contract, General Services and Consumer Affairs have further impaired the State's ability to terminate the main design contract.

#### ***General Services Accepted Terms and Conditions That Place the State at Greater Risk of Business Losses and Legal Liability***

In addition to the problematic contract provisions just discussed, General Services also accepted contract language that affected the State's indemnification, or protection, from possible future damage, loss, or injury. General Services' standard IT contract language includes a section regarding intellectual property that requires

***General Services accepted contract language from Accenture that limits Consumer Affairs' ability to obtain rights to the work product Accenture builds unless the State pays the full amount due under the design contract.***

contractors to indemnify the State against third-party claims for violations of intellectual property rights. This language was in the original RFP for the BreEZe procurement; however, during the RFP phase, General Services accepted Accenture's proposal to delete a provision that required the contractor to certify that state funds would not be used to violate copyright laws. Further, General Services accepted additional contract language Accenture proposed that restricts the State to certain remedies for a contractor's possible violations of patents, copyrights, and trade secrets, which effectively prohibits the State from invoking other potential remedies elsewhere in the contract or in law. In our opinion, these changes increase the risk of Accenture violating intellectual property rights by reducing its potential liability, which is a key incentive to avoid such violations. Thus, if Accenture unlawfully used copyrighted software rather than writing its own code, Consumer Affairs could be liable to the copyright holder, depending on the facts of the case. Further, the revised contracts language limits the State's ability to recover its losses from a violation.

***Consumer Affairs' Ability to Protect Itself Against Poor Performance by Accenture May Be Hindered***

The maintenance contract for BreEZe lacks measures to help ensure that Accenture performs work as Consumer Affairs expects. The best practices contained in the 2011 Information Technology Infrastructure Library's *IT Service Design* recommend that a service-level agreement be created between an IT service provider and the IT customer to define the key service targets and responsibilities of both parties. According to our IT expert, this type of agreement should be included in the BreEZe maintenance contract. For example, a service target that we would expect the maintenance contract to include is the amount of time Accenture can take to respond to and resolve technical problems, based on the severity of the problem. CalTech's deputy director of the statewide technology procurement division (procurement division) agreed that this type of agreement is common. We also noted that although state agencies are not required to follow it, guidance from the U.S. Department of Health and Human Services indicates that a service-level agreement should also specify performance guarantees, with associated penalties should the service not be performed as contracted.

The BreEZe project director stated that as a means to reduce the contract cost, the maintenance contract did not include a service-level agreement. However, he did not recall the specific cost savings resulting from this omission. Lacking this agreement, Consumer Affairs is likely hindered from effectively managing the services Accenture should be providing under the maintenance

contract. For example, without a service target specifying the amount of time within which Accenture must make design changes to BreEZe, Consumer Affairs could face difficulty in holding Accenture accountable for correcting defects to the BreEZe system in a timely manner.

### **The State Entities Responsible Cited Various Reasons for Approving the BreEZe Contract, Despite Its Inadequacies**

Given the deficiencies with the BreEZe contracts we describe in this chapter, we question whether General Services adequately protected the financial interests of the State in its oversight role relating to these contracts. Until July 2013 state law required General Services to oversee all procurements for IT projects. As part of those responsibilities, state law at that time also specified that General Services develop and enforce policies and procedures to conserve the rights and interests of the State. In addition, the *State Contracting Manual* indicates that in approving contracts, General Services assists state agencies by conserving the fiscal interests of the State and preventing imprudent financial acts.

According to its chief procurement officer, although General Services will not approve agreements that are illegal or unethical in nature or that violate stated policy, each contracting department decides how much risk it is willing to accept. When we discussed with the chief procurement officer the BreEZe contract concerns we had identified, he explained that Consumer Affairs and the State retain a measure of protection from any poorly constructed contract sections by contract provisions that allow the State to terminate the project.<sup>19</sup> He agreed that some of the clauses in the BreEZe contracts with Accenture place the State at additional risk; however, he indicated that he relied on Consumer Affairs' attestation that it acknowledged the risks within the BreEZe contracts and would take proper steps to address those risks. However, General Services could not provide us evidence that it had ensured that Consumer Affairs had mitigated the risky provisions. When we asked General Services and Consumer Affairs whether their respective legal counsel had any concerns with the final terms and conditions in the BreEZe contracts, each department asserted that any such information is confidential and they would not consent to its disclosure in our report.

***General Services' chief procurement officer agreed that some of the clauses in the BreEZe contracts with Accenture place the State at additional risk.***

<sup>19</sup> For example, the BreEZe contracts have a section that allows Consumer Affairs to terminate the contracts if the Legislature does not appropriate funding for the BreEZe project.

*Consumer Affairs' BreEZe project director told us that if Consumer Affairs had not revised the BreEZe contract sections to include Accenture's proposed changes, it would have risked losing Accenture as a bidder and would have risked needing to restart the 18-month procurement process.*

Consumer Affairs' BreEZe project director provided two key reasons that the BreEZe contract changes we described in earlier sections were necessary. Specifically, he told us that if Consumer Affairs had not revised the BreEZe contract sections to include Accenture's proposed changes, it would have risked losing Accenture as a bidder and would have risked needing to restart the 18-month procurement process. Accenture's letter of January 2011 during the RFP process proposing contract revisions tends to support the project director's claim that Accenture would not bid on the proposal unless the original contract was significantly changed.

While Consumer Affairs' desire to keep the project moving forward is understandable, the numerous problems it has encountered with the project, as described in Chapter 1, illustrate the danger of rushing to implement a complex IT project without proper safeguards that ensure that the State's interests are protected and the project's goals can be achieved within reasonable time frames and costs.

### **General Services and the California Department of Technology Have Failed to Ensure That Consumer Affairs Complies With Contract Requirements**

Despite a provision in the BreEZe contracts requiring Consumer Affairs to forward all requests for changes to the BreEZe system to General Services for review, neither General Services nor its successor with regard to IT project procurement, the California Department of Technology (CalTech), could demonstrate that they had reviewed any of these requests. As described earlier, General Services approved the original BreEZe contracts. In addition, as of July 2013, CalTech had authority over and responsibility for procurements for IT projects such as BreEZe and was responsible for approving the first BreEZe contract amendment in 2014.<sup>20</sup> Provisions of the BreEZe contracts require that Consumer Affairs submit certain contract documentation to General Services for review.

Among the requests for changes that General Services or CalTech should have reviewed were those that requested changes to the statement of work in the design contract or a work authorization (change requests); both of these actions could

<sup>20</sup> Although the contract refers to General Services, we believe the intent of the parties was to involve whichever state entity was responsible for overseeing IT project procurement during the period covered by the contract, which would be CalTech effective July 1, 2013.

amend a contract.<sup>21</sup> These change requests originate from project staff, vendor staff, or regulatory entities and seek to change aspects of the BreEZe design requirements. If Consumer Affairs and Accenture determine that a change request is an enhancement to BreEZe not covered by the original BreEZe contract or the system warranty, the regulatory entities must pay Accenture for applicable related costs, according to the BreEZe project director. However, as of late October 2014, neither General Services nor CalTech could demonstrate that they had collectively reviewed all of the more than 250 change requests that Consumer Affairs had considered for approval according to a log Consumer Affairs maintained. Specifically, during the time that General Services had IT project procurement authority, Consumer Affairs considered approximately 100 change requests, while under CalTech's IT project procurement authority it considered roughly 150. Of the approximately 250 change requests, Consumer Affairs approved 130 that have already or will result in additional payments to Accenture of almost \$3 million. In addition to these costs, without ongoing review by the responsible oversight entity, there is the risk that implemented change requests may improperly exceed the scope of the BreEZe contracts.

General Services could not explain why it had not reviewed the change requests. Specifically, General Services' chief procurement officer stated that, based on his review of the procurement file for BreEZe, it does not appear that General Services was aware of or reviewed the change requests. However, documentation that Consumer Affairs provided us showed that it had provided 11 change requests to General Services in April 2012, which General Services acknowledged receiving at that time. General Services' chief procurement officer did acknowledge that Consumer Affairs had previously entered into a large number of contractual agreements related to BreEZe in November 2011 without General Services' knowledge, for which General Services later admonished the department in January 2012. Given this history, we would have expected General Services to have been more diligent in ensuring that Consumer Affairs complied with its contract requirements for the nearly 18 months of General Services' remaining IT project procurement authority.

Separately, CalTech believes it is meeting the contract requirement to review the change requests through its independent project oversight (IPO) specialist for the BreEZe project, but we disagree. CalTech's deputy director of its procurement division stated that

***Of the approximately 250 contract change requests, Consumer Affairs approved 130 that have already or will result in additional payments to Accenture of almost \$3 million.***

<sup>21</sup> Consumer Affairs issues a work authorization after both it and Accenture accept a work request. According to the Accenture project director, work authorizations include requests for change after BreEZe is implemented and are handled under the BreEZe maintenance support services contract.

her division has responsibility for procurement approval and that CalTech's IT project oversight and consulting division (oversight division) is responsible for project approval and oversight. She explained that as a result, the oversight division holds the responsibility for reviewing the actual implementation of project management processes and procedures necessary for IT projects, which includes change requests and work authorizations. However, when we asked the deputy director of the oversight division for evidence of those reviews, she provided us a summary of two reviews that occurred in October 2013 and June 2014 rather than evidence of reviews occurring contemporaneously with the change requests. Thus, the reviews that she indicated her division had performed could not timely evaluate potential changes to the scope of the contract.

Although Consumer Affairs acknowledged that it has not sent the majority of the change requests to the appropriate entities, it still believes it is in compliance with the contract. Specifically, the manager for change requests for the BreEZe project stated that the IPO specialist, who is a CalTech employee, had access to all of the change request documents. She further explained that the contract does not state when Consumer Affairs will forward the change requests for review, nor does it state that the review is required for any subsequent action. Therefore, Consumer Affairs believes it would be appropriate to forward all the change request documents to CalTech when the contract is complete or upon request. We do not believe this interpretation reflects the intent of the language in the contracts concerning change requests, because submitting change requests after the contract is complete, or upon request, would eliminate the possibility that CalTech could intervene during the contract term if it thought a change request was outside the scope of the contract. Moreover, because neither General Services nor CalTech reviewed the vast majority of the change requests, the State lacks assurance that approved changes did not compensate Accenture inappropriately.

## **Recommendations**

### ***CalTech***

To ensure that future IT project procurements do not jeopardize the State's financial interests, CalTech's procurement division should do the following:

- Document its reasons for approving any deviations from standard contract language.

- Ensure that contract language gives departments the rights to the source code necessary to complete the project if a contract is terminated for convenience.
- Ensure that contract language contains assurances that state funds will not be used for unauthorized purposes.
- Ensure that contracting departments can appropriately manage IT maintenance support contracts by including service-level agreements in these contracts.

To ensure that contracting departments comply with requirements, CalTech should periodically monitor the status of contracts and enforce adherence to procurement requirements. For example, CalTech should ensure that contracting departments forward all change requests to it and that it conducts reviews of all change requests to determine whether the changes exceed the scope of the respective contract.

#### ***Consumer Affairs***

To ensure that it complies with all terms of the BreZE contract, Consumer Affairs should develop and follow a process for doing so, including documenting how it has met applicable contract terms, such as forwarding all change requests to CalTech.

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## Chapter 3

### THE BOARD OF REGISTERED NURSING MADE SOME UNSUBSTANTIATED REPORTS OF DIFFICULTIES FROM IMPLEMENTING BREEZE, AND OTHER REGULATORY ENTITIES ALSO REPORT CHALLENGES WITH BREEZE

#### Chapter Summary

The Board of Registered Nursing (BRN) indicated that since implementing the BreEZe system, it has faced significant delays in processing applications and has been forced to modify its business processes. However, although BRN asserted that it was exceeding maximum time frames for processing certain applications, we found little evidence that it tracks the information needed to support such claims. Our review of a selection of license applications found that BRN, on average, processed these applications well within allowable maximum time frames. Further, as of September 2014, BRN was facing a significant number of applications that were pending its review—more than 7,000. Because BRN does not track this information, it cannot adequately assess its workload and whether it is using staff appropriately.

BRN attributes its reported delays in processing applications to a variety of issues it has encountered in implementing BreEZe, including the cumbersome nature of entering applicants' information into the system. Although some of the issues it points to are valid, BRN does not track the information necessary to assess their impact. Further, BRN asserts that without additional resources, it will not be able to process license applications within applicable time frames; however, it has not adequately justified its recent request for additional positions.

Additionally, in September and October of 2014, we interviewed the executive officers of the regulatory entities the California Department of Consumer Affairs (Consumer Affairs) included in phase 1 of the BreEZe implementation and learned that few of them are generally satisfied with the system. In fact, most of the executive officers reported decreased operational efficiencies for their entities after implementing BreEZe. Nonetheless, most executive officers reported that they are hopeful the system will function adequately once their concerns are addressed.

***BRN reported that when it first implemented BreEZe, its staff could not complete an initial review of an application within the 90 days specified by its regulations.***

### **BRN Lacks Information Critical to Assessing Its Efficiency, and Its Claims About Increased Processing Times Are Unsubstantiated**

Various BRN stakeholders, including the media and members of the Legislature, have raised concerns recently about the timeliness with which BRN has processed applications since implementing the BreEZe system. Media reports regarding BRN, as mentioned in the Introduction, have largely focused on its untimely processing of license applications received from students who recently graduated from nursing programs and were seeking to take the nursing examination for licensure for the first time—referred to as the application for licensure by examination (examination application). BRN's 2014 *Sunset Review Report* indicates that the average processing times for examination applications more than doubled from 37 days in fiscal year 2011–12 before it implemented BreEZe to 82 days in fiscal year 2013–14 after implementing the system.<sup>22</sup> Additionally, BRN reported that when it first implemented BreEZe, its staff could not complete an initial review of an application within the 90 days specified by its regulations. Although BRN attributes its inefficiency in processing applications to the implementation of BreEZe, we found that it is unable to substantiate such claims because it does not track the amount of time it takes to process applications.

In fact, BRN could provide little evidence demonstrating that it tracks the timeliness of its application processing. For instance, BRN officials provided examples of some reports they said they had used before implementing BreEZe to track the timeliness within which BRN processed applications. However, we found these reports to be of limited value for assessing specific application processing times. For example, the reports generally presented information on the number of applications received and processed but did not contain the average number of days it took to process applications by type. Only one report that BRN provided presented information on the average number of days it took to process applications; however, again this report did not present these averages by type of application, thus hindering BRN's ability to identify which types of applications take staff longer to process than others. Further, in providing us with this report, BRN officials informed us that the average number of days for processing was overstated, calling into question the accuracy of the data.

Moreover, the assistant executive officer explained that since implementing BreEZe, BRN has been unable to track the timeliness of its processing of license applications using the BreEZe system

<sup>22</sup> BRN's *Sunset Review Report* is submitted to the Senate Business, Professions and Economic Development Committee and the Assembly Business, Professions and Consumer Protection Committee for their consideration.

because the system provides poor-quality data and does not track the receipt date identified in regulations as the starting point for time measurement. The assistant executive officer added that BRN is working with Consumer Affairs to update BreEZe in order to resolve the issue related to the receipt date. Without this ability, BRN's deputy chief of licensing and administrative services (deputy chief) said that staff perform a visual review of applications to gauge the length of time they have been pending review.

Further, although BRN included average application processing times in its *Sunset Review Report* for both pre- and post-BreEZe implementation, these averages were created specifically for the report, and the time frames are of limited value for evaluating BRN's ability to process applications within regulated time frames because of their lack of accuracy. For example, BRN officials acknowledged that the average processing times for license applications presented in the *Sunset Review Report* include time other than what BRN staff spent processing applications. Specifically, when BRN determines a license application does not contain all of the necessary applicant information, it should notify the applicant of this deficiency and the applicant may submit the information to resolve the deficiency. Because the averages provided in the *Sunset Review Report* include the time an applicant takes to provide the missing information to BRN, these averages should not be used in evaluating BRN's ability to process applications within regulatory time frames. In fact, BRN states in the Forward section of the *Sunset Review Report* that in many instances the data provided are a "best estimate" of the true data and consequently the fiscal year 2013–14 data should be viewed with caution, especially when attempting to compare them to data from previous years.

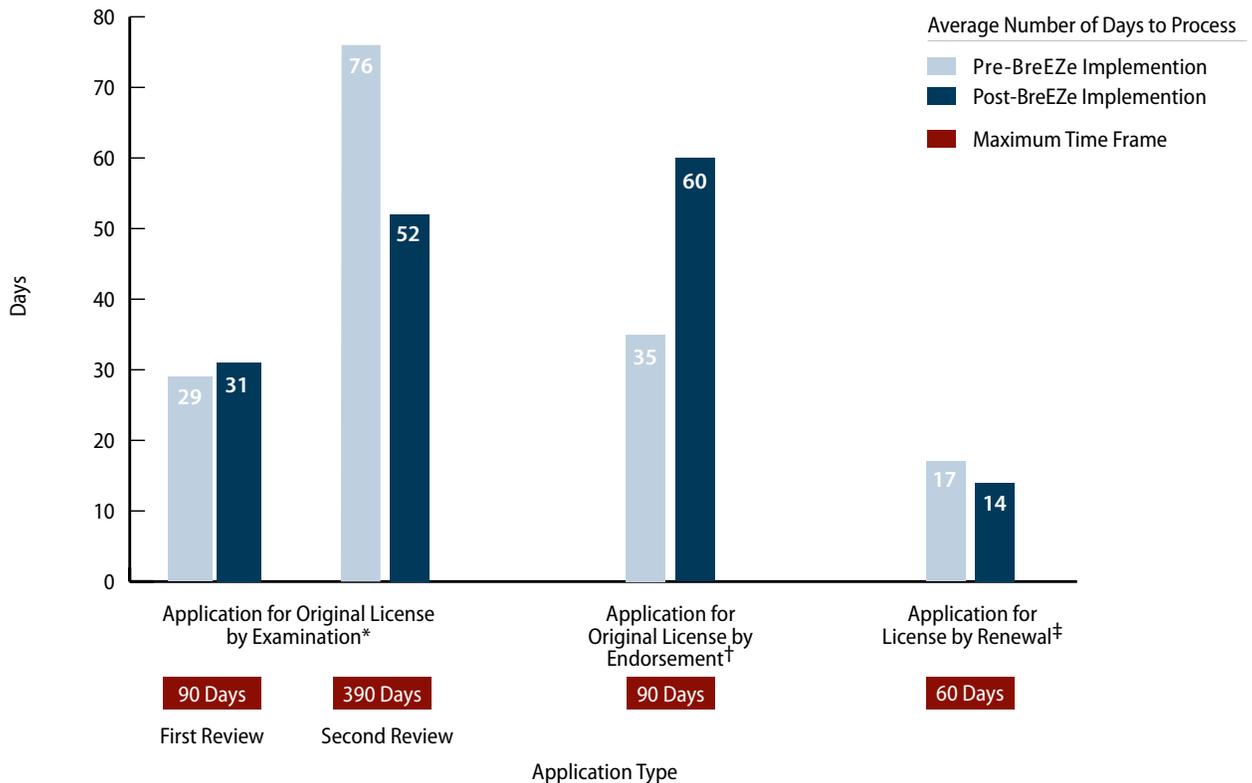
Regulations require BRN to review, within 90 days of receipt, whether an examination application is complete. From the point that BRN accepts an application as complete, it has another 390 days to evaluate whether the applicant meets licensure requirements and to notify the applicant of its decision regarding the application. Thus, BRN conducts its evaluation of this application type in two reviews. Two other ways individuals may apply for licensure are through licensure by endorsement (endorsement), which is similar to the examination application but for out-of-state registered nurses seeking a California license, and license by renewal (renewal), which is used to renew currently valid licenses for California registered nurses. According to the deputy chief, BRN's practice is to perform its review for completeness and licensure requirements simultaneously for these two application types, since these applicants are not required to pass an examination, as is the case with the examination application.

***BRN needs to formally track license application processing times to ensure it is properly identifying areas where it could improve its use of staff and its procedures for evaluating applications that are now taking longer to process.***

Lacking sound data from BRN to substantiate its claims of increased inefficiencies caused by BreEZe, we conducted our own review of selected license applications to get a sense of the impact BreEZe has had on the efficiency with which BRN processes applications. We selected 30 applications processed before, and another 30 applications processed after, BRN's implementation of BreEZe, for a total of 60 applications. As shown in Figure 3, our analysis of these applications indicates that BreEZe might not have significantly affected BRN's ability to process applications within maximum time frames; however, it might have delayed its processing of one application type. Specifically, for endorsement applications included in the applications we reviewed, BRN's processing time increased from an average of 35 days before implementing BreEZe to an average of 60 days after implementation. Nonetheless, the average processing times indicate that for the limited selection of applications we reviewed, BRN has processed the applications well within the maximum time frames. In the case of BRN's first review of examination applications, Figure 3 shows that BRN's average processing times for the applications we reviewed increased by only two days, from an average of 29 days before implementing BreEZe to an average of 31 days after implementation. On the other hand, BRN's average processing time for its second review of the examination applications we reviewed decreased since implementing BreEZe, from an average of 76 days to 52 days, which is significantly less than the maximum allowed time frame of 390 days. Similarly, BRN's processing of renewal applications we reviewed also decreased, from an average of 17 days before implementing BreEZe to 14 days after implementation. Although these results are based on a selection of applications, they highlight the need for BRN to formally track such information so it can ensure that it is properly identifying areas where it could improve its use of staff and its procedures for evaluating those applications that are now taking longer to process.

Because average processing times for the applications we reviewed did not align with the delays BRN reported facing in processing applications, particularly examination applications, for the first several months after implementing BreEZe in October 2013 we reviewed an additional six examination applications received during November 2013 through January 2014. We found that BRN took an average of 62 days to conduct the first review of these applications—double the average time it took BRN to conduct the first review of the examination applications we included in Figure 3, but still well within the 90-day maximum time frame. The increased processing time for the additional applications we reviewed is consistent with the reported difficulties BRN faced when first implementing BreEZe. Following Figure 3, we describe the reasons BRN stated that it faced delays in processing examination applications.

**Figure 3**  
**Board of Registered Nursing Average License Application Processing Times for a Selection of License Applications Before and After the Implementation of BreEZe**



Sources: California State Auditor’s analysis of 30 applications processed before BreEZe implementation, for the period July 1, 2011, through October 2, 2013, and 30 applications processed after BreEZe implementation for the period October 8, 2013, through July 31, 2014; the Board of Registered Nursing (BRN) Web site; and California Code of Regulations, sections 1410.1 and 1419.2.

Note: There are other types of applications the BRN processes that are included in Table 8 on page 69; however, those application types are not included in this table as they are not applications to obtain a California registered nurse license.

\* Applications for original license by examination have two reviews. Regulations require BRN to review, within 90 days of receipt, whether an examination application is complete. From the point that BRN accepts an application as complete, BRN has another 390 days to evaluate whether the applicant meets licensure requirements and notify the applicant of its decision regarding the application.

† An application for original license by endorsement is an application for a California registered nurse license for applicants who are already licensed in another state or Canada and do not need to take the registered nurse license examination.

‡ An application for license renewal is an application for renewal of a currently valid California registered nurse license.

While Figure 3 shows that on average BRN processed the applications that we reviewed within the time frames specified in regulations, there were two instances in which BRN exceeded the maximum time frame. One of these applications was an endorsement application that took 27 days longer than the required 90 days BRN has to complete its review. The second application was a renewal that took 73 days for BRN to review, which exceeded the 60-day maximum review period. When we asked BRN about these specific applications, BRN’s deputy chief offered several reasons for not meeting the review time frame for the endorsement application: the application was received during the time of year when the

largest number of applications are received, BRN was dealing with several issues related to BreEZe that slowed down application processing, and BRN was focused on examination applications. The deputy chief attributed the delay in BRN's processing the renewal application in question to a hold that the BreEZe system erroneously placed on the application; staff subsequently identified and corrected the error.

BRN reports it is unable to track the number of license applications it has received but has yet to review using BreEZe, and therefore it cannot adequately assess its workload with BreEZe. For the purposes of this report, we refer to applications BRN has received but not yet started to review as its *pending workload*. Because BRN lacks BreEZe data that would allow us to identify its pending workload, we manually counted the number of applications that made up BRN's pending workload on a specific day during the course of our audit work. As shown in Table 8, on September 2, 2014, BRN's pending workload was more than 7,000 applications. Of this number, just less than 1 percent, or 63 applications, of which 54 were applications for endorsement, had exceeded the processing time frame specified in regulations. BRN's deputy chief explained that some of the applications for endorsement, which comprised almost 40 percent of the applications in its pending workload, were not processed within the maximum 90-day time frame because BRN has focused its resources on processing a large number of examination applications submitted by recent nursing graduates in June, July, and August 2014. Such decisions further underscore the importance of BRN making decisions that are based upon actual data, in this case the amount, type, and age of applications pending review rather than estimating based on a visual review of its files.

### **BRN Asserts That It Has Faced Various Obstacles in Processing Applications Because of BreEZe**

*According to BRN's deputy chief, BRN provided system requirements to Consumer Affairs and Accenture, but the BreEZe system did not include all of these requirements.*

BRN reports that it has faced, and continues to face, obstacles in its implementation of the BreEZe system. BRN's deputy chief explained that BRN provided system requirements to Consumer Affairs and Accenture LLP (Accenture), but the BreEZe system did not include all of these requirements. As described in Chapter 1, system requirements define the business problem to be solved and specify what the system should do, which is critical to successful system development. Further, BRN told us it did not have adequate opportunity to test the BreEZe system before it was implemented, citing, for example, that the cashiering module did not work when BRN tested the system. The BreEZe project director disputed this claim, stating that each phase 1 regulatory entity had the opportunity to test the system before its implementation and that

BRN conducted this testing in June 2013, which included processing several complete transactions that BRN subject matter experts had identified as most important. Nevertheless, BRN’s deputy chief maintained that even the BreEZe sandbox—a version of BreEZe available during user acceptance testing that phase 1 regulatory entities (that is, 40 boards, bureaus, committees, and a commission) could use to simulate completing work in the system—did not provide simulation of real-world transactions. Rather, BRN staff tested subfunctions of the system, such as a new application being initiated by cashiering, in a controlled environment with planned results.

**Table 8**  
**Status of Applications Pending Review by the Board of Registered Nursing as of September 2, 2014**

TYPE OF APPLICATION	NUMBER OF APPLICATIONS PENDING REVIEW	NUMBER OF DAYS ELAPSED SINCE THE OLDEST APPLICATIONS WERE RECEIVED	AVERAGE DAYS ELAPSED SINCE APPLICATIONS WERE RECEIVED	MAXIMUM TIME FRAME TO EVALUATE A LICENSE APPLICATION FOR COMPLETENESS	NUMBER OF APPLICATIONS EXCEEDING THE MAXIMUM TIME FRAME
License by Examination	761	85	36	90	0
License by Examination (Web-Based)	337	107	34	90	3
License by Examination (Repeat)	438	103	36	90	5
License by Endorsement	2,865	92	45	90	54
License by Renewal	230	62	11	60	1
Advanced Practice Certification	1,206	154	48	NA	NA
Verification of License	1,325	70	24	NA	NA
Duplicate License Record	90	25	18	NA	NA
Re-Activation of License	3	8	8	NA	NA
Re-Activation of License (8+ years)	4	89	58	NA	NA
<b>Totals</b>	<b>7,259</b>				<b>63</b>

Sources: California State Auditor’s analysis of applications pending initial review by the Board of Registered Nursing (BRN), and California Code of Regulations, sections 1410.1, 1419.2, 1483, and 1493.

Note: As described on page 68, because BRN does not track the number of applications it has received but has not yet reviewed, we manually counted the number pending its review as of September 2, 2014.

NA = Not applicable.

The BRN deputy chief also indicated that the increased time BRN has reported it takes to process applications is due, in part, to new steps in the process as a result of BreEZe. For example, she explained that since implementing BreEZe, BRN must wait three to five days for Consumer Affairs’ central cashiering unit to produce a certain report that BRN must receive before it can begin to process a license application. Although this additional step in BRN’s process is a permanent change, some other steps will be resolved as BreEZe is updated in the future, such as an extra step BreEZe has caused BRN to take in its processing of temporary license applications, which we describe later. However, because

BRN has not been systematically tracking information pertaining to the timeliness of its application processing before implementing BreEZe or after, including which stages of the process might be contributing to any delays, BRN could not substantiate the effect of these additional steps on its application processing.

BRN's executive officer explained that BreEZe operates much differently than the previous legacy systems and that this has also contributed to delays. For instance, according to the BRN deputy chief, the number of screens within BreEZe requiring information from BRN staff has increased. To support its contention that BreEZe has increased application processing times, the deputy chief shared with us the results of a time study BRN staff conducted in January 2014 to determine the amount of time it takes to process applications in BreEZe compared to the legacy systems. BRN's time study indicates that entering information into BreEZe has taken anywhere from 2.5 minutes to 13 minutes longer for each application, depending on the type of application. However, BRN's time study is of limited value because it does not take into account the total number of applications it processes by type. Without including this information, BRN cannot adequately assess the impact the increase in processing times has had on its workload by application type and make necessary changes to its use of staff. Furthermore, the deputy chief indicated in November 2014 that the average application processing times with BreEZe have likely decreased from what they were in the time study because BRN staff have become more comfortable using BreEZe and some of the problems with BreEZe have been fixed. Thus, while the results of the time study may highlight differences in application processing times before and after implementing BreEZe, the results are apparently outdated.

Of additional concern to BRN is that it lacks confidence in the total number of licensed California nurses reported in BreEZe. The deputy chief explained that according to BreEZe data as of September 2014, the total number of licensed nurses in California was the same as the amount reported by its legacy systems about a year earlier. This is disconcerting to BRN because, according to the deputy chief, it expects annual growth of approximately 10,000 licensed nurses. However, the former business project manager for BreEZe explained that the legacy systems overstated the number of licensees because it sometimes double-counted certain individuals, whereas BreEZe counts each individual only once. Nonetheless, the deputy chief explained that BRN is not satisfied with this response and maintains that BreEZe is understating the number of licensed nurses.

*According to BRN's deputy chief, when BRN implemented BreEZe, the system did not notify BRN's examination vendor of applicants that BRN had determined were eligible to sit for the license examination.*

Further, according to the deputy chief, when BRN implemented BreEZe, the system did not notify BRN's examination vendor of applicants that BRN had determined were eligible to sit for the license examination, as BRN expected BreEZe to do, and it was several months before the problem was corrected. According to the deputy chief, this function did not work properly from the implementation of BreEZe in October 2013 until December 2013. She indicated that Consumer Affairs and BRN worked together and resolved the problem. Nevertheless, this issue caused significant delays for BRN in its processing of applications. Specifically, the deputy chief stated that because the examination vendor was not notified of applicants' examination eligibility, BRN and Consumer Affairs had to create new eligibility transactions for thousands of applicants. BRN cited this issue as the primary factor contributing to the delays faced by nursing program graduates applying for the examination application and in obtaining employment in October 2013 through January 2014.

According to BRN officials, BRN had to develop numerous workarounds in all areas of its operations because BreEZe was not fully functional when implemented. An example of such a workaround concerns temporary licenses that BRN issues to certain applicants. The deputy chief explained that from BRN's perspective, the system should expire temporary licenses automatically when the true license is approved, as this function was reportedly available in the legacy systems; however, this functionality was not included in the design of the BreEZe system, and staff have had to monitor and manually expire the temporary licenses. To resolve issues like these, BRN and all of the regulatory entities can submit issues they identify to Consumer Affairs for review. If necessary, Consumer Affairs logs the issue as a system investigation request (SIR). According to Accenture's BreEZe project director, Consumer Affairs and Accenture work together to determine if a SIR is a defect or an enhancement. A SIR is a defect when BreEZe is not operating as designed and, thus, Accenture is obligated to correct it. The SIR is an enhancement if BreEZe is operating as designed and to resolve such a SIR requires pursuing a change request. According to the BreEZe project director, regulatory entities pay for such enhancements. According to documentation Accenture's BreEZe project director provided, as of September 30, 2014, BRN had submitted the highest number of SIRs of any regulatory entity included in phase 1. Specifically, BRN had submitted over 1,000 SIRs, of which roughly 200 were submitted after implementing BreEZe. According to Consumer Affairs, BRN has paid a total of more than \$300,000 for enhancements. Our information technology (IT) expert believes that the sheer volume of the changes BRN requested suggest that Consumer Affairs may not have adequately planned the system.

***According to BRN officials, BRN had to develop numerous workarounds in all areas of its operations because BreEZe was not fully functional when implemented.***

### **Although BRN Has Taken Steps to Make Its Business Process More Efficient, It Also Is Requesting More Staff**

Since implementing BreEZe, BRN has taken some steps to review and modify its business process in order to increase its efficiency in processing applications. For example, BRN changed its practice of assigning license applications to evaluators based on the alphabetical order of applicants' names to having evaluators pull applications from a central location with applications stored according to receipt date, a change we observed. In addition, BRN told us it eliminated the support services duties of its application evaluators so they are able to focus on application reviews.

In February 2014 Consumer Affairs provided BRN with a team of employees from Consumer Affairs' consumer information center and the Bureau of Automotive Repair to assist BRN in processing license applications. The team ultimately spent nearly five months assisting BRN and in June 2014, at the request of Consumer Affairs' director, the team provided 13 suggestions to BRN's executive officer on how to increase efficiencies in processing applications. For example, to speed up application processing, the team suggested that BRN forward the fingerprint cards submitted by license applicants to the California Department of Justice for clearance once cashiering confirms payment of the applicable fee. As of November 2014, BRN's assistant executive officer indicated that it was considering this suggestion. When we asked BRN's assistant executive officer as to whether BRN has taken steps to implement the remaining suggestions, she told us that either the suggestions were too labor-intensive to consider implementing at that time or BRN's processes already reflected the suggestions. For example, although one of the suggestions was that BRN produce procedure manuals describing the process it uses to evaluate applications, it has had such procedure manuals in place since 2005.

According to BRN, it has requested additional resources it believes it needs to be able to process license applications within maximum time frames. Specifically, BRN's *Sunset Review Report* states that BRN submitted a request to the California Department of Finance for another 26 positions for fiscal year 2015–16. BRN explained that the additional staff would cost approximately \$2.6 million to hire. But as described earlier in this chapter, we found the data in the *Sunset Review Report* to be of limited value for evaluating BRN's ability to process applications within regulatory time frames. Further, because BRN did not support its request for the 26 additional positions in the *Sunset Review Report* with specific analysis, we asked BRN to provide us with this analysis. The analysis BRN provided to us was based on data from fiscal years 2011–12 and 2012–13, the two years preceding its implementation of BreEZe, which means the analysis does not reflect its workload and business

processes since implementing the BreEZe system. Thus, the additional positions it has requested are not adequately justified by this analysis.

### **Most Regulatory Entities That Implemented BreEZe More Than a Year Ago Report That They Continue to Face Significant Challenges With the System**

Most of the executive officers of the 10 phase 1 regulatory entities told us that they are generally dissatisfied with their BreEZe experience because it has not met their expectations in a variety of ways. Our interview questions addressed their satisfaction with BreEZe, including their experiences during user acceptance testing and whether they believe the training their staff received was adequate. Further, we inquired about the sufficiency of BreEZe's reporting capabilities and data accuracy, as well as the regulatory entities' overall experience with the system as of the date we conducted our interviews, which occurred in mid-September 2014 through mid-October 2014.

Table 9 on the following page presents responses to selected questions from our interviews with the executive officers, showing that each reported experiencing issues with certain aspects of the BreEZe project. For example, the majority were unsatisfied with the testing they were able to conduct before implementing the system, and most found the training for BreEZe was inadequate. Of greater concern is that eight of the 10 executive officers reported that BreEZe has decreased their regulatory entity's operational efficiency.

Our interviews indicated that Consumer Affairs and Accenture did not deliver the system that the regulatory entities expected based on the design phase of the BreEZe project. Most of the executive officers we spoke with indicated that they wanted a new system for a variety of reasons, including to better meet their business needs. For example, the executive officer of the Physician Assistant Board said board staff thought BreEZe would lead to efficiencies in the licensing and enforcement functions of the board. Most of the executive officers also indicated that Consumer Affairs did an adequate job of obtaining their buy-in to BreEZe. However, several commented that the system they were originally promised by Consumer Affairs officials is certainly not the system they received. Some of them had assumed that the BreEZe system would effectively perform the functions of the legacy systems in use by the regulatory entities. To illustrate, the Board of Psychology had expected BreEZe to include legacy-like system functions, such as the ability to manually enter data relating to school codes and

*Our interviews with 10 phase 1 regulatory entities indicated that Consumer Affairs and Accenture did not deliver the system that the regulatory entities expected based on the design phase of the BreEZe project.*

examination no-shows, but it found that BreEZe did not.<sup>23</sup> Similarly, several executive officers reported that the planning work they did initially for BreEZe, in which they described their business processes to Accenture and Iron Data (the builder of BreEZe and an Accenture subcontractor), appeared adequate. However, in hindsight, several other executive officers from different regulatory entities indicated that Accenture and Iron Data exaggerated what the system could accomplish.

**Table 9**  
Selected Responses From 10 Regulatory Entities to Questions Regarding Their Experiences With the BreEZe System

CALIFORNIA DEPARTMENT OF CONSUMER AFFAIRS (CONSUMER AFFAIRS) REGULATORY ENTITY	OVERALL SATISFACTION WITH BREEZE	SATISFIED WITH DESIGN PLANNING	SATISFIED WITH TESTING	SATISFIED WITH TRAINING	READY TO IMPLEMENT BREEZE IN OCTOBER 2013	SATISFIED WITH REPORTS AND DATA ACCURACY	EFFECT ON OPERATIONAL EFFICIENCY	CONCERNS ADDRESSED IN ADEQUATE AND TIMELY MANNER
Board of Barbering and Cosmetology	Fair	Yes	No	No	Yes	No	Decreased	No
Board of Behavioral Sciences	Fair	Yes	Yes	Yes	Yes	No	Decreased	Yes
Board of Podiatric Medicine	Good	Yes	Yes	Yes	No	No	Increased	Yes
Board of Psychology	Fair	No	No	No	No	No	Decreased	No
Board of Registered Nursing	Poor	Yes	No	No	No	No	Decreased	No
Medical Board of California	Fair	No	No	No	Yes	No	Decreased	No
Naturopathic Medicine Committee	Poor	No	No	No	Yes	No	Decreased	No
Osteopathic Medical Board	Poor	No	No	No	Yes	No	Decreased	No
Physician Assistant Board	Fair	No	No	No	No	No	Decreased	No
Respiratory Care Board	Very Good	No	Yes	Yes	Yes	No	Increased	Yes

Sources: The 10 Consumer Affairs' regulatory entities included in phase 1 of the BreEZe implementation.

Note: The column titled *Overall Satisfaction With BreEZe* presents the regulatory entities' responses to a question regarding their overall satisfaction with the BreEZe system as of the dates we conducted our interviews, which occurred in mid-September 2014 through mid-October 2014. Thus, this column does not represent a summary of the responses we received to the remaining questions presented in this table. Rather, the regulatory entities' responses to the remaining questions in this table represent their experiences with the BreEZe system at different points in time during the course of the project.

Some executive officers also commented that they had informed Iron Data or Consumer Affairs of their specific needs for BreEZe, yet BreEZe did not meet those needs at the time of implementation. For example, the executive officer of the Board of Barbering and Cosmetology (Cosmetology) told us that although Cosmetology communicated to Iron Data during the BreEZe design phase its need for an inspection module in BreEZe to include counting and adding features, Iron Data did not include these features in phase 1. The executive officer explained that Cosmetology found it necessary to submit a change request to have these functions implemented at a cost of \$116,000. Similarly, the executive officer

<sup>23</sup> In December 2014 the BreEZe project director furnished us with evidence that BreEZe now provides these functions.

for the Medical Board of California stated that it has had to use workarounds since BreEZe was implemented to meet a legal requirement to disclose malpractice settlements, because the system does not currently provide a feature that allows the Medical Board of California to access the information necessary to make the disclosures, despite Accenture and Iron Data knowing of this need from the beginning of the BreEZe project.

Seven of the 10 regulatory entities told us that they experienced a variety of problems during user acceptance testing. Some of the executive officers commented that testing had a significant impact on daily operations or noted they had to commit qualified staff to the process for many more months than originally planned. Several also noted that the BreEZe system they tested during user acceptance testing was not the system they had been promised during the design phase. As a result, the regulatory entities wrote and submitted many SIRs. According to data Accenture provided, Consumer Affairs and the regulatory entities submitted over 7,300 SIRs in total, including over 5,800 during user acceptance testing and nearly 1,500 following the phase 1 implementation of BreEZe. While the Accenture BreEZe project director provided an estimate that less than 30 percent of the SIRs closed during user acceptance testing were system defects and Accenture's data show that only 17 percent of the SIRs closed during implementation were system defects, the sheer number of instances—over 7,300—in which BreEZe did not function as its users expected or desired is an indication of the extent of the deficiencies in the system's design.

Another example of these design deficiencies is the approximately \$3 million that Consumer Affairs and its regulatory entities have approved for enhancements to BreEZe as of December 2014. According to the BreEZe project director, the regulatory entities had the opportunity to specify their needs during the design phase of the project, but he believes that Accenture did not document the information conveyed in related interviews with the regulatory entities; instead it proceeded with the design according to memory recall and incomplete informal notes. Further, he explained that during user acceptance testing, which occurred from November 2012 through October 2013, Consumer Affairs realized that the system Accenture built was not what Consumer Affairs had asked for. Consequently, the regulatory entities have had to pay extra for changes to the system in order to have it meet their functional requirements.

Some executive officers told us that they communicated their concerns about BreEZe to the director of Consumer Affairs throughout user acceptance testing, largely during weekly meetings the director held with the executive officers. Further, although the regulatory entities prioritize SIRs, a few executive officers stated

***The BreEZe project director explained that during user acceptance testing, which occurred from November 2012 through October 2013, Consumer Affairs realized that the system Accenture built was not what Consumer Affairs had asked for. Consequently, the regulatory entities have had to pay extra for changes to the system in order to have it meet their functional requirements.***

that Consumer Affairs or Accenture addressed minor concerns adequately and in a timely manner, but larger, more critical SIRs have remained unresolved, sometimes for months. In response, the BreEZe project director noted that SIRs of greater work effort and complexity, regardless of their criticality, naturally take more time to plan, design, develop, test, and implement than minor SIRs. Nonetheless, we believe this approach may negatively affect the regulatory entities because it can allow significant BreEZe deficiencies to persist for extended periods of time, which in turn interferes with the entities' ability to meet their business needs.

All but three of the regulatory entities we interviewed found that the BreEZe training that Consumer Affairs provided was inadequate. Many of these regulatory entities stated that the training was overly general rather than specific to their business processes, and some indicated that the BreEZe system available during training was of limited functionality and thus did not provide an appropriate training environment. Most of these regulatory entities also told us that the training was untimely, as it was provided roughly nine months before user acceptance testing was completed. Consumer Affairs' former organizational change manager stated that Consumer Affairs provided both high-level and specific training, distributed tip sheets and job aids, and offered refresher courses when new functionality was introduced. Nonetheless, training as a whole remained inadequate in the view of the regulatory entities.

Although more than half of the executive officers of the phase 1 regulatory entities indicated that they were ready to implement the system in October 2013, many nonetheless had concerns about the system itself. For example, the assistant executive officer of the Osteopathic Medical Board stated that while the board was ready, "the [BreEZe] system was not." In addition, although the executive officer of the Board of Psychology indicated that the board could have been much more prepared for implementation than it was, the board felt it best to proceed with implementation because of the extended user acceptance testing period; Cosmetology's executive officer expressed a similar belief.

***A few of the executive officers of the phase 1 regulatory entities commented that Consumer Affairs and Accenture pressured them to certify they were ready to implement the system.***

A few of the executive officers commented that Consumer Affairs and Accenture pressured them to certify that they were ready to implement the system. The director of Consumer Affairs noted that he held weekly meetings with the regulatory entity executives regarding the BreEZe project and that these executives approved the BreEZe design and later the product itself at the conclusion of user acceptance testing. In addition, as a matter of record, shortly before the BreEZe implementation, Consumer Affairs had the regulatory entities in phase 1 complete implementation readiness certifications, which were forms that list eight different readiness

areas for certification, such as regulatory entity staff have completed planning for business process adjustments following BreEZe implementation and staff are familiar with the procedures for processing work under BreEZe.<sup>24</sup> However, on these certifications, several executive officers indicated reservations regarding their readiness for BreEZe implementation. For example, the Osteopathic Medical Board executive officer did not indicate her board's readiness for external user support. In addition, the assistant executive officer of BRN wrote "concerned" along with her initials for two areas—business process adjustments and familiarity with workarounds needed to facilitate board business upon BreEZe implementation—and also included a statement noting her concern with the number of workarounds the system required.

While one of the key selling points of BreEZe was its ability to produce reports, all 10 of the executive officers agreed that its reporting capability remains unsatisfactory. According to some executive officers, at the time it was implemented, BreEZe could not produce any reports for their entities. However, according to a Consumer Affairs manager whose unit develops certain customized BreEZe reports, regulatory entities could generate some reports when Consumer Affairs implemented BreEZe, but they did not have the ability to create customizable reports as they had been able to do under the legacy systems. Several executive officers also told us that they do not believe that the data in BreEZe are accurate, including in some cases the number of licensees for their entities and in other cases amounts related to revenue. A Consumer Affairs cashing subject matter expert confirmed that BreEZe sometimes assigns revenue to the wrong fiscal year, which can result in boards' fund balances being misstated. Because of these reporting deficiencies, BreEZe is not always providing regulatory entities the information necessary to meet their business needs, such as managing their budgets and producing annual reports.

According to Consumer Affairs' director, BreEZe has reporting capabilities; however, the design process to get the reports to meet the business needs of the regulatory entities has been difficult. He also indicated that he assigned a business manager to oversee the planning and organization of the reports. The BreEZe project director explained that as of December 2014, of the 24 report development requests outstanding, 14 have clearly defined requirements and could be deployed within four to five months given current staffing levels, barring any higher priority requests being submitted. The BreEZe project director further explained

***Because of system reporting deficiencies, BreEZe is not always providing regulatory entities the information necessary to meet their business needs, such as managing their budgets and producing annual reports.***

<sup>24</sup> Two of the regulatory entities that Consumer Affairs included in BreEZe phase 1 did not sign this form. The executive officer of the Naturopathic Medicine Committee did not attend the meeting at which the forms were signed, and a staff member for the Medical Board of California attended in place of the executive director and did not sign the form.

that at the time of implementation, BreEZe produced all of the reports the regulatory entities approved during the design phase, although Consumer Affairs has no documentation of the approvals. The project director also indicated that because the regulatory entities make numerous requests for new reports and changes to existing reports, Consumer Affairs is considering IT solutions, such as business intelligence and data warehouse systems, which would provide them with the independent capability to produce the ongoing reporting changes they desire.

Most executive officers believe that once all of the remaining problems with the BreEZe system are fixed, it will meet their business needs. For example, the executive officer of the Board of Psychology stated that the BreEZe system does not yet efficiently serve all of its business needs, but it “can get there.” The project director stated he is unable to determine when all outstanding SIRs for the phase 1 regulatory entities will be resolved. The BreEZe project director added that focusing only on SIRs outstanding as of November 2014, he estimated these could be resolved by August 2015—nearly two years after the implementation of phase 1.

## Recommendations

### BRN

To ensure that BRN has adequate data to effectively use its resources and manage its workload, it should do the following:

- Formally track and monitor the timeliness of its processing of applications by type and the cause of any delays.
- Formally track and monitor its pending workload of applications by type and original receipt date.
- Conduct an analysis no later than June 30, 2015, of its application processing since implementing BreEZe in order to identify the workload capability of each of its units, such as the licensing support unit; to the extent it determines additional resources are necessary, BRN should submit a request for these resources that is appropriately justified.

To ensure that BRN continues to process applications within regulatory time frames, it should continue its efforts to refine its business processes to increase efficiency and reduce the amount of time applications are pending its review.

### **Consumer Affairs**

Consumer Affairs should continue to work with the phase 1 regulatory entities to ensure that the issues they are facing with BreEZe are being resolved in a timely manner, with particular attention to understanding their reporting needs and improving the system's reporting capabilities.

To ensure that future training for BreEZe system rollouts is timely and effective, Consumer Affairs should:

- Provide training on the BreEZe system as close to the rollout date as possible to ensure that staff retain the information for using the system as it is implemented.
- Work with the regulatory entities to develop training that is specific to each entity's business processes.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: February 12, 2015

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## Appendix

### SUMMARY OF SIGNIFICANT BREEZE PROJECT CONCERNS NOTED BY INDEPENDENT OVERSIGHT REPORTS, DECEMBER 2010 THROUGH SEPTEMBER 2014

As explained in the Introduction, the California Department of Technology (CalTech) is required to perform oversight of information technology (IT) projects. This consists mainly of two types of independent oversight: *independent verification and validation* (IV&V)—used to ensure that software conforms to requirements and satisfies user needs—and *independent project oversight* (IPO)—used to ensure that effective project management practices are in place and in use. On the BreEZe project, which CalTech acknowledges is large, complex, and costly, its own specialist provided IPO services whereas it contracted with MetaVista Consulting to provide IV&V services. During the course of the BreEZe project, the IV&V consultant and the IPO specialist produced monthly reports to document their findings regarding the project. Our IT expert reviewed these reports and produced a table summarizing nearly 180 of the most significant concerns that the IPO specialist and the IV&V consultant reported since they began providing oversight on the project in December 2010 and January 2011, respectively. Table A beginning on the following page presents these concerns and categorizes them according to one or more of the key project oversight areas under which they fall, such as project management and the contract. We describe in Chapter 1 some of the significant and persistent concerns the IV&V consultant and the IPO specialist raised.

**Table A**  
**Summary of Significant BreZE Project Concerns Identified by Independent Oversight Reports**  
**December 2010 Through September 2014**

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
December 2010	Independent Project Oversight (IPO)	Requirements were substantially modified during vendor review in November 2010.	X	X		X	X				X
		Issues with the quality of requirements.	X	X		X					X
January 2011	IPO	Project charter created and updated in September 2010 does not have information on project governance, and BreZE wants to wait until the design phase to create a project governance structure. IPO indicates that this creates a major risk and should be addressed immediately.			X						
	IPO	Concerns that architecture and system performance were inadequately defined.	X	X		X					
	IPO	Concerns that hiring freeze led to staff shortage and resulted in team performing tasks for which they had insufficient skill or training.		X	X				X		
	IPO	Project does not possess the skill level required to build an adequate schedule for a project of this size and complexity.			X			X	X		
	IPO	Project management processes are ad-hoc.			X	X					
	IPO	Schedule is slipping.						X			
	IPO	Project team appears to have underestimated project complexity.			X		X	X	X		
	Independent Verification and Validation (IV&V)	Raised concerns about limited information technology (IT) technical and security subject matter expert participation and input during development of requirements.	X	X					X		
	IV&V	Concerned that the BreZE project team does not have sufficient qualified resources to complete the work ahead.		X	X			X	X		

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
February 2011	IPO	No provision for an organizational change manager in the BreEZe Feasibility Study Report.	X	X		X	X				
	IPO	BreEZe request for proposals (RFP) functionality does not adequately address the individual needs of any board or bureau. It simply combines and creates a superset of requirements for all boards and bureaus making it inadequate as a baseline.	X			X	X				X
	IV&V	Risk assessment identifies RFP requirements as a source of risk.	X	X							X
	IV&V	The California Department of Consumer Affairs' (Consumer Affairs) first mitigation step for the risk associated with a lack of recent experience with large system acquisition and implementation was to require the winning vendor to include an experienced project manager in its bid.		X	X				X		
	IV&V	Team does not have experience with technologies associated with potential solution.		X					X		
	IV&V	Current interface documentation is out of date and incomplete. The current method used for documenting the interfaces is inappropriate.		X		X					
	IV&V	Lack of knowledgeable and experienced project staff resources are a major concern. The longer this goes without being addressed, the greater the likelihood that necessary tasks will not be done or will not be adequate to the project.		X	X		X		X		X
March 2011	IPO	Interface [analysis] group running behind schedule.			X			X			
	IV&V	Risk and issue management practices are troubling.			X						
April 2011	IPO	Insufficient resources threaten the project schedule significantly and will result in increased cost because of negotiations over contract language.			X			X	X		X
	IPO	IPO and IV&V concur that requirements are inadequate (ambiguous, incomplete, untestable).	X	X		X	X				
May 2011	IPO	Consumer Affairs seeks to lower costs by taking responsibility for interface development, despite resource shortage and lack of expertise.					X		X		
	IV&V	Notes that software engineering standards exist but are not being followed.				X	X				X

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA									
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
June 2011	IPO	Project is experiencing significant delays obtaining regulatory entity approvals.			X				X			
	IPO	Vendor proposes a more aggressive schedule than Consumer Affairs requested and Consumer Affairs accepts that schedule despite IV&V and IPO findings on insufficient numbers of skilled and experienced resources and an expansion of Consumer Affairs scope resulting from Consumer Affairs taking on additional work to reduce vendor price in the contract negotiation.			X			X		X		X
	IV&V	Risks are not being effectively managed.			X							
	IV&V	Change management process is not being followed.			X			X				X
	IPO	IV&V has expressed concern that the Consumer Affairs' IT team lacks the necessary experience to maintain the proposed system now that Consumer Affairs chose to change from OTech housed hardware/software configuration to one that is managed in the Federated Data Center (which allows more Consumer Affairs control in the management of patches).		X				X		X		
July 2011	IPO	Configuration management processes are not clearly identified. There does not seem to be an obvious way to determine which documents have been formally approved.			X	X	X					X
	IPO	Detailed technical and business requirements are not included in the BreZE RFP.	X	X								X
	IPO	Project does not have a cost management plan and does not have plans to put one in place. There is no cost reporting.			X					X		
	IPO	BreZE team has been refining requirements using requirements flow diagrams (RFDs); because RFD documents are not part of the contract, the vendor is not required to use the documentation.	X		X	X	X					X
	IV&V	A large number of identified risks are associated with the requirements in the RFP and subsequent contract and cannot be altered without serious negative impacts to the procurement.	X									X
August 2011	IV&V	Concerns about Consumer Affairs' organizational maturity, related to the lack of established and documented processes, for maintaining an IT system.		X				X		X		

KEY PROJECT OVERSIGHT AREA

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
	IV&V	Reports project management planning is running behind schedule.			X			X			
	IV&V	Project uses an approach to documenting interfaces that IV&V believes will result in a greater re-engineering effort to redesign the interface for BreEZe.		X		X					
September 2011	IPO	IV&V reiterates that interface documentation being produced is incomplete and the method used to document the interfaces is inappropriate.		X		X					
October 2011	IV&V	Concerned that Consumer Affairs lacks the ability to identify and define desired content in the deliverable expectation documents (DEDs) that are being negotiated with the vendor.		X	X	X	X		X		X
	IV&V	Statement of work (SOW) description of deliverables is poor and Consumer Affairs is responsible for defining exactly what should be included in each deliverable.		X	X	X					X
November 2011	IPO	BreEZe schedule is aggressive.			X			X	X		
	IV&V	Observes that during meetings between vendor and Consumer Affairs, Consumer Affairs' staff have displayed a significant amount of "thrashing." This means back-and-forth discussions between Consumer Affairs' staff that result in continually changing a decision that the vendor needs made to continue with development.			X					X	
	IV&V	According to the SOW, Accenture LLP's (Accenture) System Configuration and Development Plan (methodology) should describe its software development lifecycle (SDLC). However, according to the Consumer Affairs-approved DED, the methodology will not include SDLC processes beyond the build phase (resulting in the exclusion of the testing, implementation, and maintenance and operations phases). The description for the remaining phases are to be included in subsequent deliverables. According to the IV&V, this approach is in direct conflict with all recognized industry standards.			X	X	X			X	X
	IV&V	Vendor has no on-site quality assurance resources.		X						X	

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA									
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
December 2011	IPO	Notes functional requirements from RFP not specified in business context for any regulatory entity and, therefore, the required functionality specific to the regulatory entities was not clearly defined.	X	X		X	X				X	X
	IPO	Notes the project is one month in (from baseline schedule) and two months behind schedule.			X				X		X	
	IV&V	Project management plans that have been approved are not being followed. Many, if not most, project management activities occur outside of the defined processes. Project management tools defined in the approved plans (such as change, risk, issue, and schedule logs) are annotated after the fact or not at all.		X	X	X	X					X
	IV&V	Consumer Affairs is not reviewing vendor deliverables according to the deliverables management process. Additionally, deliverables are being rejected at a high rate. IV&V observes there have been significant gaps between Consumer Affairs' and vendor's expectations. At least one submitted deliverable was significantly incomplete and did not meet the required content of the DED.		X	X	X	X				X	X
January 2012	IPO	It is clear that Accenture may have oversold the Versa Migrate tool at the procurement stage. The data conversion effort will be larger than expected and automated tools may not help as much as anticipated.		X				X	X	X	X	
	IPO	Consumer Affairs lacks specificity in its requirements for the reports named in the RFP. This could delay the project and lead to additional costs.	X	X			X	X	X	X		
	IPO	A clear pattern has emerged of delays from both the vendor and Consumer Affairs.							X		X	
	IPO	Vendor asserts there is a robust internal and external quality assurance process, but a review of most of the deliverables suggest the process is not working or adherence to the process is at best spotty.		X	X	X					X	X
	IPO	Vendor deliverable quality issues persist and will likely lead to schedule delays.		X	X				X		X	X

KEY PROJECT OVERSIGHT AREA

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
	IPO	Profile reports, which are intended to show the functional requirements for each regulatory entity, are far from complete. Further, it appears they will be subject to additional iterations.	X	X		X	X			X	X
	IV&V	Schedule analysis shows schedule slipping.			X			X		X	
	IV&V	Deliverable process is not working well and most deliverables have required multiple reviews, updates, and resubmissions.		X	X		X			X	X
February 2012	IPO	Project is behind schedule.			X			X		X	
	IPO	Vendor is leaning on Consumer Affairs to assist with deliverables.			X		X		X	X	X
	IPO	Many deliverables have required significant revisions and were sent back to the vendor for rework. This has resulted in resource and schedule problems.		X			X	X	X	X	X
	IPO	There is evidence that incomplete tasks are being marked complete.		X	X	X				X	X
	IPO	Incomplete regulatory entity profile reports may cause regulatory entity staff to lose confidence in the system, jeopardizing overall acceptance of the completed system. The plan to address this risk is to allow additional time on the back end to conduct follow-on sessions.		X	X	X	X				
	IV&V	Analysis of vendor schedule shows over 60 percent of tasks have zero slack—the schedule is unrealistic.		X	X			X		X	X
March 2012	IPO	Concern that the proposed work plan updates do not shift the overall schedule. For example, the final implementation dates for phase 2 and phase 3 did not change. The changes increase the overlap between phase 1 and phase 2 without addressing structural issues in plan.			X			X		X	X
	IPO	Consumer Affairs is not adhering to processes described in its approved plans.		X	X	X					X
	IV&V	Consumer Affairs is responsible for data cleansing after vendor identifies issues with data. Vendor is not generating necessary reports to identify issues according to schedule.		X				X		X	
	IV&V	Interface specifications were reviewed. Documentation lacks details of what the interface will do and how it will perform that function. In addition, an analysis of the business rules of the legacy systems was not documented.		X		X	X				

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			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
April 2012	IPO	Gap between baseline work plan and phase 1 implementation date continues to grow.			X				X		
	IPO	Updated vendor work plan requires everything to go right for the project to stay on schedule. This assumes a best case scenario, which is not good project planning.		X	X				X		X
	IV&V	The detailed design deliverable that was submitted is inconsistent with DED. Lack of completeness is apparent.		X	X	X					X
	IV&V	User acceptance testing scripts are being prepared by an understaffed team of part-time workers.		X		X	X		X		X
	IV&V	Concerns that system testing scripts are incomplete.		X		X	X				X
	IPO	Evidence that some problems identified during the conference room pilot remain unresolved. Regulatory entities concerned that their issues are not being addressed.		X	X		X				X
	IPO	Because of the way Consumer Affairs is staffing user acceptance testing, it will likely exceed the time allocated.						X	X		
	IPO	California Department of Technology (CalTech) CalTech is getting involved because of concerns about vendor quality.		X			X				X
May 2012	IPO	Detailed design rejected twice for quality issues.		X		X		X		X	X
	IPO	Project remains behind schedule, and there is evidence of additional delays to come.			X			X			
	IPO	Furloughs will have an impact on the project.							X		
	IV&V	Data conversion continues to not follow the plan nor make progress necessary to be ready on time.			X	X		X			
	IV&V	Consumer Affairs modifying user acceptance testing to use more vendor-created system test scripts.		X		X	X				
	IV&V	Vendor anticipates starting system test without meeting the criteria outlined in its test plan.		X	X	X	X			X	X
	IV&V	Requirements are being traced to generic profile reports, not to specific functional requirements of the regulatory entities.	X	X		X	X			X	X

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
June 2012	IPO	Notes the BreEze project manager acknowledged resource pressure is beginning to jeopardize ability to deliver a quality product.		X			X		X		
	IV&V	Project still not following change management plan.		X	X		X				X
	IV&V	The project was supposed to create naming and coding standards, and this has not happened.		X	X	X	X			X	X
July 2012	IPO	Insufficient vendor progress in system testing, slowed by large number of open tickets (800 defects).		X		X	X	X		X	X
	IPO	The technical environment remains too unstable to begin user acceptance testing.		X			X	X			
August 2012	IPO	Over the course of the last three months, the BreEze project team has had to re-plan the schedule three times; it is likely they may have neglected to conduct a thorough analysis of all outstanding tasks.		X	X			X			
	IPO	IV&V review of detailed design finds it "replete with shortcomings."		X	X	X				X	X
	IPO	Vendor pauses phase 2 efforts to focus on phase 1 because phase 1 is too unstable.		X			X			X	X
September 2012	IPO	System test will not verify required business functionality. Vendor defers business functionality confirmation to Consumer Affairs during user acceptance testing.	X	X	X	X	X			X	X
	IPO	A number of system test cases do not have test scripts or a test execution record and there is evidence the vendor is not following its own test plan.		X	X	X	X			X	X
	IPO	Consumer Affairs needs to carefully control the requested changes by the regulatory entities to ensure that only the must-have changes are required to exit user acceptance testing. Otherwise, user acceptance testing could be prolonged indefinitely.		X	X	X	X	X			
October 2012	IPO	System test, originally scheduled for six weeks, remains ongoing after six months.						X	X		
	IPO	Remaining work increases in draft work plan from 17,725 hours on September 12 to 30,455 hours as of October 16.			X			X	X		
	IPO	Audit of requirements trace found 10 of 22 requirements not satisfied by the test case listed.	X	X	X	X	X			X	X

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			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
	IPO	Internal user training deliverable and work plan baseline deliverable returned to vendor due to structural issues, which is an indication of continued quality problems.		X	X	X	X				X	X
	IV&V	Issues being identified during testing trace to a lack of baseline requirements for the implementation of functionality specific to regulatory entities.	X	X		X	X					
	IV&V	Detailed system design approved without baseline requirements—represents significant risk that affects testing and traceability.	X	X	X	X	X				X	X
November 2012	IV&V	System test exited with 1,682 outstanding defects/incidents that must be closed before phase 1 implementation.		X	X	X	X				X	X
	IV&V	Consumer Affairs agreed to defer closure of priority 1 and priority 2 defects to allow system test exit.		X	X	X	X	X			X	X
	IV&V	User acceptance testing is entered with 1,682 outstanding defects.		X	X	X	X				X	X
December 2012	IPO	September work plan showed 75 percent of work complete. October work plan shows 63 percent. December work plan shows 75 percent.			X				X	X		
	IPO	Problems attributed to lack of testing impacting user acceptance testing.		X		X	X				X	X
	IPO	Consumer Affairs reports poor quality software is contributing to user acceptance testing delays.		X		X	X	X			X	X
	IV&V	2,204 open defects in the log at the end of December 2012.		X			X					
January 2013	IPO	High test failure rate due to defects—project expected 20 percent first pass failure rate; current rate is 61 percent. Second pass failure rate is 65 percent.		X		X					X	X
	IPO	Teams are resorting to mutual agreements that are not contractually binding.			X		X				X	X
	IPO	Precipitous drop in regulatory entity participation as user acceptance testing exceeds its estimate.						X	X			
	IPO	Subject matter experts were not trained in the use of the testing tool, which is resulting in double and sometimes triple data entry.			X		X	X	X			

KEY PROJECT OVERSIGHT AREA

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			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
	IPO	On January 11, 2013, Consumer Affairs management issued a letter to vendor project manager and management. In the letter, Consumer Affairs stated a litany of items that vendor was required to complete, including user acceptance testing, which remain outstanding. Vendor response was that they were conforming to the “mutually agreed” schedule, which is not the “contractual schedule”—the baseline and formally approved work plan.		X	X	X	X	X		X	X
February 2013	IPO	“... no one, not even the systems integrator, had realized BreEZe would be this complex to implement.”			X		X				X
	IPO	The fix/fail rate is 31 percent versus an expected 5 percent.		X		X				X	X
March 2013	IPO	Retest fail rate 18 percent.		X		X				X	X
	IPO	Unclear how maintenance and operations duties will be allocated between vendor and Consumer Affairs.					X			X	X
	IV&V	Assessment of a late start to user acceptance testing—optimistic task durations, no baseline of requirements, slow/delayed implementation and configuration of commercial off-the-shelf products, narrowing the scope of system test to only confirm [high-level] contract requirements, not regulatory entity-specific requirements. Consumer Affairs and vendor aggressively trying to start user acceptance testing as soon as possible. Consumer Affairs felt it did not have the contractual leverage to delay user acceptance testing start despite quality issues. Consumer Affairs asserts poor quality products delivered into test. User acceptance testing planning was not complete at entry—no baseline user acceptance testing scripts, no baseline requirements.	X	X	X	X	X	X		X	X
April 2013	IPO	The fix/fail rate, the rate at which elements that were identified as fixed failed a re-test, was approximately 25 percent.		X		X	X			X	X
	IPO	Vendor has stated that at go-live, only system investigation requests (SIRs), or “defect tickets,” considered to be in vendor’s domain will be fixed at no cost. Defects considered enhancements or within Consumer Affairs’ domain will attract additional costs. Consumer Affairs working with legal unit to clarify what constitutes “Consumer Affairs’ domain.”		X	X	X	X			X	X

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
May 2013	IV&V	Notes that SIRs are being reprioritized to defer corrective action until after phase 1 implementation.		X	X	X		X			
	IV&V	Vendor is concerned that regulatory entities do not know how their business processes will be affected by BreZE.			X			X			X
June 2013	IPO	Consumer Affairs' contract manager has no prior experience as a contract manager.		X					X		X
	IV&V	Number of open SIRs increases from May to June.		X							
July 2013	IPO	Vendor-embedded executive has made clear that his mandate is to deploy phase 1 without further delay.			X			X		X	
	IPO	Consumer Affairs allowed system test to exit before the exit criterion was met.		X	X	X	X				
	IPO	Vendor asserts that performance requirements were modified by technical architecture plan when it was accepted by Consumer Affairs. IV&V disagrees. IPO consultant encouraged the project to document this issue; no indication it has been documented yet.	X	X	X	X	X			X	X
August 2013	IPO	Project agrees to enter regression testing with 88 open SIRs that were previously agreed would be closed before final build.		X	X	X	X				X
	IV&V	Performance testing approach/goals significantly modified from pass/fail to "Consumer Affairs acceptable." IV&V concerned that the benchmarks chosen for future comparison may not be representative of Consumer Affairs' business needs.		X	X	X	X				X
September 2013	IV&V	Consumer Affairs has accepted deliverables that are incomplete, inconsistent, and incorrect.		X	X	X	X			X	X
	IV&V	Performance testing checklist asserted IV&V had verified the results. IV&V says he did not and that the assertion is false.		X	X	X	X				

KEY PROJECT OVERSIGHT AREA

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
October 2013	IPO	Consumer Affairs and vendor mutually agree to implement with 1,016 SIRs to be deferred.		X	X	X	X	X		X	X
	IV&V	Phase 1 user acceptance testing estimated to take 8 weeks, actually takes 211 state work days.						X			
	IV&V	Phase 1 went live with 1,016 open SIRs.		X	X	X	X	X		X	X
	IV&V	Business functionality not baselined until October 23, 2013. No traceability was performed to confirm that the 780 contractual requirements for phase 1 were tested by user acceptance testing. No evidence exists to confirm all of contractual phase 1 requirements were met.	X	X	X	X	X			X	X
November 2013	IPO	Quality issues persist with vendor deliverables.		X	X	X	X			X	X
	IV&V	Phase 1.01 is reported in production on October 25, 2013, although as of November 25, 2013, there are 31 SIRs open that were identified as belonging to phase 1.01. It is not clear what was contractually required in this phase.		X	X	X	X			X	X
December 2013	IPO	As a condition of approval of Special Project Report (SPR) 2, CalTech required completion of the methodology and a baseline work plan before the start of design but that requirement is being ignored. IV&V estimates that phase 2 design is 60 percent complete.		X	X	X	X			X	X
	IPO	There are already indications that the vendor's updated schedule is slipping.			X			X		X	
	IPO	Phase 1 ended up with 11,667 defects, some of which are not yet resolved.		X		X	X			X	
January 2014	IPO	Project is treating informal reviews as "formal reviews" as described in the Deliverable Management Plan.		X	X	X	X				X
	IPO	Consumer Affairs' project manager now assigned the dual role of project manager/project director (PM/PD). IPO consultant voices concerns that the PM/PD does not have the bandwidth to perform both roles effectively.			X				X		
	IPO	Per vendor's draft methodology deliverable (2.1), vendor plans to allow Consumer Affairs only 20 days for the first pass of user acceptance testing with another 10 days set aside for regression. IPO notes this is unrealistic given the history with phase 1 and the fact that phase 2 will implement more license types than phase 1.			X		X			X	X

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA									
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
	IPO	Consumer Affairs assigning SIRs for fixes (normally covered by the prepaid maintenance contract) to design, develop and implement (DDI) enhancement contract.			X		X			X		X
	IPO	The IPO consultant notes that using DDI to perform work that is not within the scope of the contract is a clear violation of state contracting practices.			X		X					X
	IPO	There are currently 1,300 SIRs (as of January 27, 2014). Critical defects identified after go-live have resulted in reprioritization of defects that remained open at go-live. Vendor maintenance team is not able to meet ongoing maintenance demands at the pace desired by the regulatory entities.		X			X				X	X
	IV&V	Request for Change (RFC) 150 moves deferred SIRs that were to be fixed at no cost to the State to DDI.			X		X			X	X	X
	IV&V	Project is not adhering to the approved methodology.			X	X					X	
	IV&V	Concern that the proposed user acceptance testing approach [for phase 2] will not provide sufficient diligence to verify that all requirements have been delivered.	X	X	X	X	X				X	X
	IV&V	Consumer Affairs' test manager indicates the State would rely upon the vendor's system testing to perform verification that all of the Consumer Affairs' approved requirements were delivered.	X	X	X	X	X					X
	IV&V	The approved test plan does not require the vendor to verify at the necessary level of detail to assure all approved design level requirements are met and it will be the vendor testers' opinion if tests are passed (without Consumer Affairs involvement).		X	X	X	X					X
	IV&V	The design component of the methodology is being revised in January while the design phase is ongoing.		X	X	X	X				X	X
	IV&V	Change request assessment found changes against unbaselined documents and changes to add scope that was already part of the project. Consumer Affairs is not in control of the baselines that document the approved changes. Traceability is insufficient.		X	X	X	X					X

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
February 2014	IPO	More defects and enhancements continue to be identified against phase 1.		X		X	X			X	
	IPO	Phase 2 slowing down because of resource redirection to fix phase 1 defects (there are now over 1,200 SIRs since October go-live).		X				X	X	X	
	IV&V	Consumer Affairs approved the requirements traceability matrix (RTM) without having yet approved the methodology. The approved RTM identifies 65 requirements for phase 2, and IV&V is concerned there should be more requirements for phase 2.	X	X	X	X	X			X	X
March 2014	IPO	IPO consultant believes a substantial increase in resources will be needed for phase 3.							X		
	IPO	"It is clear both the state and the vendor teams underestimated the level of maintenance effort required for phase 1 regulatory entities and additional maintenance efforts for the phase in production will be required."			X		X		X	X	X
May 2014	IPO	Vendor asserts that only 65 requirements must be tested for phase 2 (versus 1,900 in contract).		X	X	X	X			X	X
	IPO	In response to the IPO consultant's concern about the speed of consumption of the enhancement budget, project responds that it has no control over enhancement requests by the regulatory entities.			X		X				
June 2014	IPO	Completion of planning and baseline approval for all project phases was a condition of CalTech approval of SPR 2 in October 2013, but this condition has not yet been satisfied.			X						
	IPO	Phase 2 costs are expected to exceed estimates by \$32 million to \$45 million. A significant portion of this is for project resources and organization change management personnel. This cost increase does not address any phase 3 costs, but all indications are that phase 3 will cost even more than phase 2.			X				X		

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA								
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT
	IPO	The project is unable to control the high volume of regulatory entities' enhancement requests under the maintenance contract because of the semi-autonomous nature of the regulatory entities. This is resulting in faster consumption of available maintenance funds than the project expected. The project did not anticipate the degree of expectation misalignment [with the regulatory entities] that would result from failing to baseline the phase 1 design.	X		X		X		X		
	IPO	An examination of the BreEZe contract costs shows that project contract expense reporting is inaccurate.		X	X				X		X
	IPO	According to the project team, "Consumer Affairs cannot dictate what the boards and bureaus request for enhancements. If the regulatory entities desire to pay for the enhancements, Consumer Affairs tends to accommodate their demands because of their semi-autonomous nature, which makes it difficult to force the issue. Thus, the project is hostage to regulatory entities' needs only constrained by available resources."			X		X		X		
	IV&V	Total project costs for phase 3 implementation remain unknown.			X				X		
July 2014	IPO	Resources issues are being exacerbated by the aggressive implementation schedule developed by the vendor and approved by Consumer Affairs.			X			X	X	X	X
	IPO	Regulatory entities are pushing back on the vendor timetable and complaining about poor quality.		X	X			X	X	X	X
	IV&V	Delays in procuring organizational change management (OCM) resources may reduce the planned on boarding time before the design phase exit, which may limit the ability for all OCM deliverables to be completed by the phase 2 deployment date.		X	X		X	X	X		

REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA									
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
August 2014	IPO	There is a high rate of attrition on the project with a number of key resources assuming new roles unrelated to the project within the Consumer Affairs organization. Additionally, several business integration analysts (BIAs) have also been on the move forcing the project to reshuffle some positions to fill these important roles on the project. In one of the moves, the quality manager was redirected to assume the role of a BIA. IPO raised concerns about this move given that the project is undertaking and reviewing several key design deliverables that will have lasting impacts on the project.		X	X				X	X		
	IPO	According to the maintenance plan, Consumer Affairs team members were to shadow vendor maintenance staff and prepare to take over system maintenance. The project has not assigned any staff to participate in this knowledge transfer. IPO believes this is essential if Consumer Affairs is to take over maintenance at the end of phase 2 as planned, because Consumer Affairs staff are not currently prepared to support this public facing system.		X	X					X		
	IPO	Detailed systems design was delayed because of regulatory entities' resource contention.			X			X	X			
	IPO	Withdrawal of SPR 3 eliminates resources needed to support ongoing system maintenance.			X				X			
	IPO	Withdrawal of SPR 3 eliminates resources necessary to support the newly agreed-upon methodology.		X	X				X			X
September 2014	IPO	There is no quality assurance manager on either the state or vendor teams at this time.		X	X	X			X	X		
	IPO	Consumer Affairs (both project and regulatory entities) resource constraints are critical with no relief in sight after the withdrawal of SPR 3.			X				X			
	IPO	The project has still not assigned anyone to shadow the maintenance team.		X	X				X			

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REPORT DATE	TYPE OF OVERSIGHT	SUMMARY OF ISSUE	KEY PROJECT OVERSIGHT AREA									
			REQUIREMENTS	QUALITY	PROJECT MANAGEMENT	SYSTEMS ENGINEERING	SCOPE	SCHEDULE	RESOURCES	VENDOR	CONTRACT	
	IPO	The BreEZe project director has restated his commitment to bring on required resources necessary to successfully implement BreEZe. It is not clear how many of the resources requested in SPR 3 can be recruited.			X					X		
	IV&V	The additional project resources to support phase 2 that were articulated in SPR 3 increased total project costs from \$77 million (SPR 2) to \$118 million. SPR 3 funding supported an additional 24 project positions, organizational change management needs, maintenance and operations staffing increases, and increased the unanticipated task funding for phase 2 scope. Without the additional resources proposed in SPR 3, it appears highly unlikely that Consumer Affairs could redirect sufficient resources to accomplish phase 2 project goals.			X					X		

Sources: The California State Auditor's IT expert's analysis of reports by the CalTech IPO specialist and IV&V consultant dated December 2010 through September 2014.

February 2015



BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY • GOVERNOR EDMUND G. BROWN JR.

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January 22, 2015

Elaine M. Howle  
California State Auditor  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

RE: Response to the California State Auditor Draft Audit Report, "California Department of Consumer Affairs' BreEZe System: Inadequate Planning and Oversight Led to Implementation at Far Fewer Entities at a Significantly Higher Cost"

Dear Ms. Howle:

Thank you for the opportunity to respond to the Draft Audit Report (Audit) for the Department of Consumer Affairs' (Department) BreEZe System. The Department appreciates your office's review of the BreEZe System and agrees with its recommendations. The Audit findings reflect a number of areas of concern that the Department has been in the process of correcting, and in many instances, has already corrected.

The BreEZe project was approved in 2009, and development and implementation of the project began in 2011. In October 2013, the Department launched BreEZe for the ten Boards in Release 1, and the Department is currently working on implementing BreEZe for the nine boards and bureaus in Release 2. As of December 2014, project expenditures totaled \$34 million of the \$96 million total budget.

In November 2014, after lengthy negotiations with the vendor (Accenture), the Department arrived at a mutual agreement to end the Design, Development and Implementation (DDI) contract once Release 2 is completed. The Department took this action because the DDI contract was not sustainable in terms of both financial and human resources. The other two contracts with Accenture remain in place: Maintenance and Operations (M&O) and Software Licensing. Prior to beginning work on the remaining boards and bureaus, the Department will perform a formal cost benefit analysis after Release 2 is completed.

The Department is committed to building upon the foundation of Release 1 and completing the project in collaboration with the Department of Technology (CalTech). Since October 2013, the BreEZe system has allowed nearly 400,000 applicants to submit transactions online. Additionally, the BreEZe system has processed nearly \$137 million in total revenue for the ten Release 1 Boards.

Department Response to Draft BreEZe Audit  
January 22, 2015  
Page 2 of 8

The Department's responses included herein address specific findings and recommendations of your office and detail the continued efforts underway to improve the BreEZe System and Project operations.

Responses to the Audit's recommendations pertaining to the Board of Registered Nursing (BRN) will be sent under separate cover by BRN.

### **Department Response to Recommendations pertaining to the Department**

***Recommendation 1:*** *To make certain that Consumer Affairs has a project team that consists of staff trained in managing IT projects, it should ensure that all the BreEZe project team leads obtain the required project management training.*

#### **Department Response to Recommendation 1:**

The Department agrees with this recommendation.

The Department remains committed to ensuring that all BreEZe project team leadership staff receive appropriate project management training. In late 2014, all BreEZe business analyst leads and team members received five days of formal business analyst training to refine essential skills necessary for the project. The BreEZe Contract Manager, in accordance with CalTech's Special Project Report (SPR) 2 approval conditions, attended CalTech's Contract Manager training in early 2014.

To build upon the CalTech training and Project Management Professional (PMP) certifications held by the Project Director and the Project Manager, the Department is working with CalTech to identify the appropriate project management training for all staff throughout the project, including additional ongoing training for project leadership. For the new project staff identified in the Department's SPR 3.1<sup>1</sup>, the Department has included additional funding to ensure the project is prepared to sufficiently train all staff.

***Recommendation 2:*** *Consumer Affairs should develop a process to ensure that it prepares all required project management documents and undertakes all oversight activities related to BreEZe as required by CalTech so that it can prevent or identify and monitor future problems as they arise. This includes taking steps to sufficiently respond to any concerns raised by the IPO specialist and the IV&V consultant.*

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<sup>1</sup> SPR 3.1 is currently pending CalTech approval.

Department Response to Draft BreEZe Audit  
January 22, 2015  
Page 3 of 8

**Department Response to Recommendation 2:**

The Department agrees with this recommendation.

The Department acknowledges the critical and essential role that CalTech project oversight plays in promoting and enhancing the achievement of project success, as CalTech is equipped with a unique and broad perspective of the risks and successes of all State IT projects. In March 2013, in recognition of the increasing oversight findings pertaining to BreEZe's project management practices and the Department's ability to respond to oversight concerns, the Department began adding critical staff to the BreEZe Project Management Office (PMO). The first new PMO staff to arrive was the Contract Manager to assist the project in responding to oversight concerns regarding management of the Accenture contracts.

In order to address concerns raised by CalTech, the Department separated the Project Director and Project Manager roles in January 2014, and hired a full-time PMP certified Project Manager in August 2014. The new Project Manager immediately began work on one of CalTech's top concerns initiating a comprehensive update of the existing project management plans and developing new plans as necessary. This included updating processes to ensure oversight involvement is incorporated early for timely remediation of any concerns. This has been a collaborative effort with the CalTech Independent Project Oversight Consultant (IPOC) and Independent Verification and Validation (IV&V) oversight staff. The group has contributed more than 300 individual recommendations for improvement and clarification, which have been incorporated in the various plans.

Plans that have been completed to date include a complete revision of the project's Schedule Management, Risk Management, and Issue Management plans. The revised Risk Management and Issue Management plans instituted an ongoing Risk Management Committee and an ongoing Issue Management Committee, to better respond to project and oversight identified risks and issues.

Project Management plans currently in progress include a refresh and consolidation of the BreEZe Project Governance processes and procedures, and the creation of a Staffing Management and Cost Management plan. The Department will continue to seek CalTech's counsel regarding effective project management activities and documentation to ensure it takes necessary steps to promote project success.

Additionally in late 2013, the project team, including vendor and CalTech oversight staff, underwent a Continuous Improvement process. This process included the collection and analysis of lessons learned during Release 1 and identified over 75 items for improvement. The project team has implemented, or is currently implementing, all of the improvement items that can be made within the project's existing budget and/or contract authority. Implementation of the remaining improvements is contingent upon CalTech's approval of SPR 3.1.

In SPR 3.1<sup>1</sup>, the Department has requested additional PMO staff in the areas of quality management, cost management, release management, and schedule management to solidify the project's PMO. The goal is to ensure that consistent and timely interaction with all oversight entities occurs and all CalTech recommended or required project management activities are completed. These additional PMO staff will improve the project's ability to monitor, identify, and prevent any problems as they arise.

***Recommendation 3:*** *To the extent Consumer Affairs chooses to implement BreEZe at the regulatory entities that were originally included in phase 3, it should first complete a formal cost-benefit analysis to ensure that BreEZe is a cost-effective solution to meet the regulatory entities' business needs. To make certain this analysis is complete, it should include an assessment of the potential changes the regulatory entities originally included in phase 3 may require to the BreEZe system, and the associated costs. Consumer Affairs should complete the cost-benefit analysis before investing any more resources into the implementation of BreEZe at the regulatory entities originally included in phase 3, and it should update this analysis periodically as significant assumptions change.*

**Department Response to Recommendation 3:**

The Department agrees with this recommendation.

In November 2014, after the Department and CalTech negotiated with Accenture, the Department arrived at a mutual agreement to end the Design, Development, and Implementation contract once Release 2 is completed. The Department took this action because this contract was not sustainable in terms of both financial and human resources. The other two contracts with Accenture remain in place: Maintenance and Operations and Software Licensing. Prior to beginning work on the remaining boards and bureaus, the Department will perform a formal cost benefit analysis after Release 2 is completed.

Part of this formal evaluation will include a gap analysis of all existing BreEZe functionality as delivered at the completion of Release 2, to the Release 3 boards and bureaus' business needs and current systems' functionality. The results of this analysis will guide the Department's future efforts to implement BreEZe. In addition, the Department will ensure that the formal cost-benefit analysis is updated periodically as significant assumptions change.

***Recommendation 4:*** *If Consumer Affairs determines that a new IT project is warranted in the future, it should develop a process to ensure the success of that project that includes, at a minimum, the following:*

- *System requirements that are specific to each regulatory entity as applicable.*
- *A project team that is qualified and experienced.*
- *Development of and adherence to all project management plans.*
- *Adherence to organizational change management.*
- *Timely response to concerns raised by the IV&V consultant and IPO specialist.*
- *Appropriate staffing.*

**Department Response to Recommendation 4:**

The Department agrees with this recommendation.

The Department has established the Enterprise Project Services (EPS) section within its Office of Information Services to provide project planning and execution guidance to IT projects throughout the Department. However, EPS resources have been redirected to the BreEZe project to fulfill critical staffing shortages. Following the approval of SPR 3.1, the redirected resources will be returned to the EPS. In addition, the EPS will continue to collect and document lessons learned from BreEZe and incorporate needed changes to the Department's policies and procedures.

The Department has already undertaken a number of process and policy improvements to address these recommendations for current BreEZe project operations. To specifically address the bullets above in order:

- In December 2013, the Department worked with Accenture to completely revise and retool the system design process used during Release 1 to fully detail system requirements specific to each regulatory entity. CalTech's IV&V oversight reported in March 2014 that the revised design process is "anticipated to prevent the repeat of the lack of specificity that R1 [Release 1] experienced."
- As noted in the Department's response to Recommendation 1, SPR 3.1<sup>1</sup> includes additional staff resources and appropriate training funds. These new staff will become a resource that can be leveraged for department-wide IT projects.
- As noted in the Department's response to Recommendation 2, the BreEZe project is currently underway with an update to its entire project management plan library.
- As noted in the Department's response to Recommendation 7, beginning with the initial Release 2 planning activities in early 2014, the Department placed a priority on Organizational Change Management (OCM) and has put a skilled OCM team in place to assist the Release 2 boards and bureaus with the transition to BreEZe. This OCM team is charged with working with the boards

and bureaus to develop and execute training that is specific to each entity's business processes.

- As noted in the Department's response to Recommendation 2, the Department has instituted several BreEZe process and policy improvements to ensure timely response to concerns raised by CalTech's IV&V consultant and IPOC (IPO specialist).
- As noted in the Department's response to Recommendation 1, the Department's SPR 3.1<sup>1</sup> includes additional staff resources and appropriate training funds. These new staff will become a resource that can be leveraged for department-wide IT projects.

***Recommendation 5:*** *To ensure that it complies with all terms of the BreEZe contract, Consumer Affairs should develop a process to ensure that it is in compliance, including documenting how it has met applicable contract terms, such as forwarding all change requests to CalTech.*

**Department Response to Recommendation 5:**

The Department agrees with this recommendation.

The Department recognizes its fiduciary duty to ensure its boards and bureaus' licensing fees are spent responsibly. The Department is committed to providing clear documentation and sharing that documentation with contract stakeholders.

In recognition of the benefits of increased collaboration between the Department and CalTech, in the summer of 2014, the Department and CalTech partnered in the renegotiation of the Accenture contracts. The negotiated agreements aligned the Accenture contracts with the updated project goals as documented in the Department's SPR 3.1<sup>1</sup>. Execution of the renegotiated contracts is dependent upon SPR 3.1 approval.

***Recommendation 6:*** *Consumer Affairs should continue to work with the regulatory entities included in phase 1 to ensure that the issues they are facing with BreEZe are being resolved in a timely manner, with particular attention to understanding their reporting needs and improving the system's reporting capabilities.*

**Department Response to Recommendation 6:**

The Department agrees with this recommendation.

The Department's production IT systems, including the Release 1 BreEZe System, are critical to ensuring the Department's boards and bureaus are equipped to serve California consumers and licensed professionals and businesses. The Department has placed a priority on fulfilling the needs of the Release 1 boards on the BreEZe System.

In October 2013, following the initial launch of BreEZe, the Department faced a maintenance and enhancement demand from Release 1 boards for which it was inadequately staffed. To correct this, the Department immediately began negotiations with Accenture to significantly increase the maintenance capacity. In November 2014, the Department and CalTech successfully negotiated a nearly tenfold increase in Accenture's maintenance capacity – significantly increasing the Department's ability to address and resolve the Release 1 issues.

The Department established three user groups (Licensing, Enforcement, and Reports) and multiple forums for Release 1 executives and their staff to ensure the issues are clearly communicated to the Department and addressed in a timely manner. To further enhance the Department's ability to resolve Release 1 areas of concern, the Department's SPR 3.1<sup>1</sup> includes additional staffing to ensure the Department is ready to support all BreEZe boards and bureaus at the end of the Accenture contracts.

Moreover, specifically related to improving BreEZe's reporting capabilities and understanding each Release 1 entities reporting needs, the Department established a dedicated report development team in March 2013 to address the difficulties and deficiencies with the available BreEZe reports. This team works with the Reports User Group and is charged with developing, prioritizing, and standardizing reports. This group has developed a catalog of existing reports as a reference for the boards and bureaus. To further strengthen this team, the Department has included within its SPR 3.1<sup>1</sup> additional report analysts and report developers to address this critical board and bureau need.

**Recommendation 7:** *To ensure that future training for BreEZe system rollouts is timely and effective, Consumer Affairs should:*

- *Provide training on the BreEZe system as close to the rollout date as possible to ensure that staff retain the information for using the system as it is implemented.*
- *Work with the regulatory entities to develop training that is specific to each entity's business processes.*

**Department Response to Recommendation 7:**

The Department agrees with this recommendation.

The Department acknowledges the challenges and deficiencies encountered with the execution of the BreEZe training and lack of OCM activities that occurred in Release 1. The BreEZe training team is developing recurring training schedules for boards and bureaus to ensure that the timing of the training occurs as close to the rollout date as possible. Additionally, as part of Release 2 planning, the Department has ensured that training within Release 2 only begins when sufficient quality criteria has been met that demonstrates the system is mature and most closely represents the system and functionality that will be present upon go-live.

Beginning with the initial Release 2 planning activities in early 2014, the Department placed a priority on OCM and has deployed a skilled OCM team to assist the Release 2 boards and bureaus with their transition to BreEZe. This OCM team is charged with working with the Release 2 boards and bureaus to develop and execute training that is specific to each entity's business processes.

The Department of Consumer Affairs is committed to implementing the Auditor's recommendations to address the findings identified in the Audit. The Audit recognizes progress made by the Department to improve the BreEZe System and project processes that will enhance board and bureau program operations. Thank you for the opportunity for the Department to provide input to the Draft Audit. Please do not hesitate to contact me or Annecia Wallace, Chief, DCA Internal Audit Office at (916) 574-8190, if you have any questions.

Sincerely,



Awet P. Kidane, Director  
Department of Consumer Affairs

cc: Anna Caballero, Secretary, Business, Consumer Services and Housing Agency

February 2015



BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY • GOVERNOR EDMUND G. BROWN JR.

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Louise R. Bailey, MEd, RN, Executive Officer



January 22, 2015

Ms. Elaine M. Howle, CPA\*  
State Auditor  
Bureau of State Audits  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

Dear Ms. Howle,

Thank you for the opportunity to respond to the draft audit report. Enclosed is the Board of Registered Nursing's (BRN) response to the Bureau of State Audits draft report, "California Department of Consumer Affairs – BreEZe System" report 2014-116 February 2015.

The implementation of the BreEZe system went live during the 2013 winter graduation season for our California schools. This is the second largest graduation season of each year where the BRN can receive 5,000 to 7,000 applications within a two month period. The immediate outstanding workload that occurred caused a significant concern voiced by our applicants to our Board members, the Legislature, the Governor and the Department of Consumer Affairs Executive Office. The BRN's public phone lines exceeded 3,000 calls per day and numerous webmaster emails were from applicants inquiring about the status of their application.

In preparation for implementation of the BreEZe system, BRN staff, including managers, worked overtime during the week and on weekends for six months, and, although every effort was made to redirect Licensing staff as well as cross training other BRN staff, our efforts were not sufficient to meet the operational needs.

As with any major computer system conversion there must also be changes within the program in regards to workflow, processes and procedures. Beginning with system design and development all the way through today we continue to identify process improvements and submit necessary technical changes to customize a departmental general system to fit the BRN's business needs and regulations.

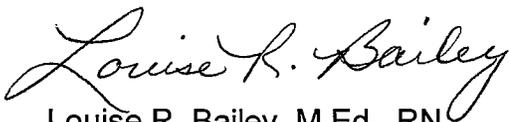
Historically, the BRN has disseminated a number of surveys, reports, and statistics that are utilized nationwide. BRN and other entities rely on the accessibility of this report data. In addition, the BRN receives over 25,000 initial applications for licensure, approximately 180,000 renewal applications, and approximately 8,000 complaints. Moving forward, the BRN would like to build on the scope of the audit to include analysis of international and advanced practice applicants.

\* California State Auditor's comments begin on page 113.

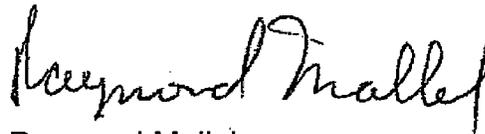
Ms. Elaine M. Howle  
January 22, 2015  
Page 2**The BRN would like to clarify the following information in the report:**

- ① In Chapter 3, Table 2 reflects the BRN has 514,640 licensees. Based on money collected for license renewals and initial licenses issued, the BRN estimates we have approximately 413,000 Registered Nurse licensees.
  - ② In Chapter 3 under Chapter Summary, paragraph one states the BRN had more than 7,000 applications pending review. As stated in Chapter 3, Table 7 only 4,631 applications were identified as applications for initial or renewal licensure which did not include initial international applications.
  - ③ In Chapter 3 it says the BRN overstates its processing times. The BRN used the postmark date which gives the applicant an advantage when calculating processing times. The BRN understands the importance of capturing the original receipt date and is collaborating with DCA to resolve this issue. This does not diminish the accuracy of the information provided.
- In Chapter 3 under Requesting More Staff, the BRN executive staff worked collaboratively with DCA and its Director to clarify and address all identified issues.
- ④ Throughout the report it states the BRN processes “on average” within time frames. The BRN understands the Application Processing Times regulation says all applications must be reviewed within 90 days.

We appreciate your feedback and will collaborate with the Department of Consumer Affairs to address these issues. Please contact Stacie Berumen, Assistant Executive Officer, at (916) 574-7600 if you have any questions.



Louise R. Bailey, M.Ed., RN  
Executive Officer  
Board of Registered Nursing



Raymond Malle  
President  
Board of Registered Nursing

Board of Registered Nursing (BRN) Response to the California State Auditor's Draft Report:  
"California Department of Consumer Affairs – BreEZe System"  
Report 2014-116  
February 2015

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**Board of Registered Nursing's Response to Recommendations**

**To ensure that the Board of Registered Nursing (BRN) has adequate data to effectively utilize its resources and manage its workload, it should do the following:**

- 1. Formally track and monitor timeliness of its processing of applications, by type, and the cause of any delays.**

The BRN agrees with this recommendation.

The BRN acknowledges the importance of formally tracking and monitoring timeliness of application processing. This data is important to gather but the current system is unable to provide automated reports. The BRN is required by regulation to notify an applicant that their application is either complete or deficient within 90 calendar days of receipt.

To meet the recommendations the BRN is currently doing the following:

- Licensing staff maintains a manual and visual workload analyses separated by month and week to monitor the age of all application types in process. With this analysis, staff are able to process the oldest application files in date receipt order.
- The Licensing and Enforcement User Groups collaborated to express the need for a Reports User Group that was created in or about September 2014 to work with DCA and other boards and bureaus to obtain reports from BreEZe. The Reports User Group has designed and is building a licensing statistical report to be used by all boards.
- The addition of temporary support staff has allowed the BRN to more fully utilize the evaluation staff to improve the processing times. This also provided the opportunity to streamline the support functions for the application review process.
- The BRN is using staff feedback of current procedures to reevaluate its business processes to identify additional ways to manually determine processing times.

The BRN plans to do the following to meet the recommendation:

- Staff members are working in partnership with the Department of Consumer Affairs (DCA) to design and develop reports and or adhoc queries to ensure applications are processed in a timely manner.
- Staff will initiate an enhancement request to track application processing at specified points within the application life cycle and the data will be used to track the timeliness of application processing by type.
- The BRN will work with DCA's SOLID Training Solutions to identify ways to document and improve business processes.

Board of Registered Nursing (BRN) Response to the California State Auditor's Draft Report:  
"California Department of Consumer Affairs – BreEZe System"  
Report 2014-116  
February 2015

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**2. Formally track and monitor its pending workload of applications by type and original receipt date.**

The BRN agrees with this recommendation.

The BRN acknowledges the importance of monitoring its pending workload. This data is important to gather but the current system is unable to provide automated reports. The BRN is required by regulation to notify an applicant that their application is either complete or deficient within 90 calendar days of receipt.

To meet the recommendations the BRN is currently doing the following:

- BRN staff members have been and continue to diligently work with DCA and other boards and bureaus to obtain reports from BreEZe to track pending workload.
- The addition of temporary staff, including an additional supervisor, has allowed the licensing supervisor to more closely monitor the age of each pending application.
- BRN maintains the workload in various locations sorted by month and week to determine age of pending applications in process. This allows us to monitor the number of pending applications in concise groupings to ensure applications are processed within the regulatory time frame.
- The BRN is using staff feedback of current procedures to reevaluate its business processes to identify additional ways to manually determine pending workload.

The BRN plans to do the following to meet the recommendation:

- BRN is working in collaboration with the BreEZe team to determine if work queues can assist our program in identifying pending applications. If it is possible to identify pending application workload, staff will collaborate with DCA to develop suitable work queues.
- As of July 1, 2015, in cooperation with DCA and other Release 1 and 2 boards, the BRN will be utilizing the "postmark date field" in BreEZe to track the original receipt date of the application.
- BRN subject matter experts have been working within the Licensing User Group to enhance the system in order to capture both the application's original receipt date and the postmark date in BreEZe.
- The BRN will work with DCA's SOLID Training Solutions to identify ways to document and improve business processes.

Board of Registered Nursing (BRN) Response to the California State Auditor's Draft Report:  
"California Department of Consumer Affairs – BreEZe System"  
Report 2014-116  
February 2015

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- 3. Conduct an analysis no later than June 30, 2015 of its application processing since implementing BreEZe to identify the workload capability of its units, such as the licensing support unit, and to the extent it determines additional resources are necessary, BRN should submit a request for these resources that is appropriately justified.**

The BRN agrees with this recommendation.

The BRN acknowledges the importance of appropriately justifying requests for additional resources. This data is important to gather but the current system is unable to provide automated reports.

To meet the recommendations the BRN is currently doing the following:

- The BRN has contacted DCA's SOLID Training Solutions and will conduct an analysis no later than June 30, 2015.
- The BRN continuously analyzes and accepts staff feedback regarding its business processes to develop new and implement revised procedures for the initial licensure application process.
- DCA provided 13 temporary staff from February through June 2014 and 2 additional temporary staff from September through December 2014. In July 2014 the BRN began hiring 16 additional support and evaluation staff to meet the needs of the current workload. The BRN looks forward to keeping this staff to ensure we maintain current processing time frames.

The BRN plans to do the following to meet the recommendation:

- The BRN is working with DCA SOLID Training Solutions to improve current documentation of its business processes, to assess efficiency and workload capability, and will identify additional resources needed.
- The BRN will analyze the information from the SOLID assessment to include in our existing request for additional resources.

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## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE BOARD OF REGISTERED NURSING

To provide clarity and perspective, we are commenting on the response to our audit report from the Board of Registered Nursing (BRN). The numbers below correspond to the numbers we placed in the margin of BRN's response.

BRN misunderstood the information presented in Table 3 on page 15, which is in the Introduction and not in Chapter 3 of our report. Specifically, for each of the 37 boards, bureaus, committees, and a commission (regulatory entities) that were originally scheduled to implement BreEZe, Table 3 shows their respective number of licensees. In the case of BRN, Table 3 shows that BRN has 514,640 licensees. This amount is not limited to registered nurse licensees, as BRN incorrectly understood; rather, it includes other types of BRN licensees, such as nurse practitioners and public health nurses.

①

We are perplexed as to why BRN is singling out certain application types in its response, when the amount of all application types pending its review is clearly a more accurate representation of its pending workload. Specifically, BRN emphasizes that Table 8 on page 69 states that it only had 4,631 applications for initial or renewal licensure, excluding initial international applications. Although this number can be determined from the data in Table 8 by combining the first five types of applications listed, it is not discretely presented. Furthermore, we clearly state on pages 63 and 68 that, as of September 2014, BRN was facing a significant number of applications pending its review—more than 7,000—an amount that includes all application types. Further, BRN incorrectly states that Table 8 does not include initial international applications. For presentation purposes, we included these applications in Table 8 under the respective type of application the international applicant submitted.

②

BRN is incorrect. Our report does not state that BRN overstates its application processing times. Rather, on page 64, we conclude that although BRN attributes its inefficiency in processing applications to the implementation of BreEZe, we found it is unable to substantiate such claims because it does not track the amount of time it takes to process applications. Further, as we point out on page 65, the BRN acknowledged in its 2014 *Sunset Review Report* that the data in that report concerning application processing times are in many instances “best estimates” and should be viewed with caution, which would lead one to question the accuracy of the data.

③

- ④ As we describe in Table 5 on page 21, objective 8 specifically asked us to determine the average amount of time it took BRN to process applications before and after the California Department of Consumer Affairs implemented BreEZe. On page 66 we explain that lacking sound data from BRN to substantiate its claims of increased inefficiencies due to BreEZe, we conducted our own review of selected license applications to obtain a sense of the impact BreEZe has had on the efficiencies with which BRN processes applications. For purposes of addressing the audit objective, we present the results of our review of the selected license applications as averages.



## CALIFORNIA DEPARTMENT OF TECHNOLOGY

January 22, 2015

Ms. Elaine M. Howle \*  
California State Auditor  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

Dear Ms. Howle:

Response to the California State Auditor Draft Audit Report,  
"California Department of Consumer Affairs' BreEZe System"  
BSA Audit Report No. 2014-116

Thank you for the opportunity to respond to the draft audit report, recognizing our review of the report is limited to the restricted information provided in our version of the draft report. The California Department of Technology (CalTech) appreciates the State Auditor's review of the BreEZe System and takes the issues raised in the draft report seriously. The CalTech provides independent project oversight to the BreEZe Project and has provided this service since inception of the project. This is within the scope of responsibility for the CalTech as noted within the context of the report. ①

While the recommendations made in the report are for the most part appropriate and in line with actions and initiatives that CalTech has already undertaken, we have general concerns with the report. First and foremost, the report does not recognize the current state of the system and therefore does not provide a clear picture of current status of BreEZe. It is important to acknowledge that the BreEZe system was successfully put into production in 2013. BreEZe is currently in daily use and is successfully processing licenses, collecting fees and handling customer service requests for the Boards and Bureaus that were included in Release 1. This is evidenced by the following production metrics for the period of October 2013-October 2014: ②

- Number of Registrations processed: 444,000
- Initial Applications Processed: 251,000
- Revenue Collected: \$137,000,000
- 50,000 complaints filed on-line.

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\* California State Auditor's comments begin on page 125.

Ms. Elaine M. Howle  
January 22, 2015  
Page 2

Without question, the project has experienced challenges which have required extensive coordination between the Department of Consumer Affairs (DCA) and CalTech. CalTech provided oversight, guidance and assistance to the project and this resulted in DCA modifying its approach to the second and subsequent phases of the project. The corrective actions and project revisions are reflected in Special Project Report (SPR) 3 and officially in SPR 3.1 as well as the subsequent amendments negotiated to the prime vendor contract.

③ The implementation of corrective measures, the development of a Special Project Reports and modification of contract terms take time. The effort includes repeated documentation of issues by the project oversight staff, collaboration with the department of Consumer Affairs and significant engagement by the CalTech executive team. The report implies that CalTech did not effectively engage until SPR 3 was submitted (June 2014). This is factually inaccurate. SPR 3 (formally 3.1) and the negotiated contract amendments were the result of extensive collaboration between CalTech and DCA on the BreEZe project.

④ The BSA concludes that CalTech should have suspended BreEZe and that by not suspending the project, CalTech was not exercising its oversight responsibilities. We disagree with both of these conclusions. CalTech thoroughly evaluated all alternatives on this project carefully considering a number of critical factors including: project status, costs implications, contractual constraints and limitations, potential impact to program operations and evaluation of potential and actual project risks. In our judgment, suspending the BreEZe project would not have been the appropriate action to take.

⑤ A unilateral decision to suspend would have exposed the state to potential contractual liability to the prime vendor contract at the rate of up to \$1.2 million per month up to the full value of the contract. In our judgment, such action could have also potentially exposed the state to a claim by the vendor for breach of contract. The report also concludes that the state could have exercised its right to terminate the contract with the prime vendor for convenience. This option also carried significant financial risk as the provisions of the contract could have allowed the vendor to claim potentially as much as \$38 million.

⑤ ⑥ In our judgment suspending the project as suggested by the report or terminating the contract for convenience would have resulted in additional costs to the state and would not have resulted in a new licensing system in production in 2013.

③ ⑦ The report concludes that CalTech did not become effectively engaged in project oversight until 2014 when the cost of completing the project was estimated at \$300 million. This is factually incorrect. The figure of \$300 million was never proposed, submitted or evaluated as an estimate of the cost of the BreEZe project. Further, as reported multiple times to the audit team, CalTech had extensive engagement with DCA from the beginning.

⑧ The draft report concludes that DCA did not act on CalTech's recommendations and guidance. This is factually inaccurate. DCA acted on a number of recommendations made by CalTech. These include adding dedicated contract management staff, adding staff resources to aid in project activities, modifying its approach to organizational change management and seeking

Ms. Elaine M. Howle  
January 22, 2015  
Page 3

modifications to the prime vendor contract. Further, DCA made changes to the second and third phases of the project based on lessons learned in the implementation of Release 1 of BreZEze.

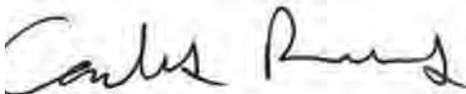
The draft report concludes that the CalTech never reviewed or acted on the 1,700 reported initial project defects after the system went into production. This is factually inaccurate. As we reported to the audit team, the CalTech assisted DCA in reviewing each one of these reported defects. In fact, through this joint review, it was determined that a large number of the items were not defects but rather requests for modifications or “new” functionality. ⑨

Both CalTech and Consumer Affairs have worked collaboratively in addressing the issues experienced with this project. In our role of providing oversight over the state’s IT portfolio we have observed that other departments and projects experience similar project challenges and issues. Much of this is linked to the fact many state departments lack the experience and expertise to take on and manage large, complex projects. Accordingly, the 2014-15 Budget includes resources to enable CalTech to establish a California Project Management Office (PMO) to address this fundamental issue that challenges state agencies. The establishment and implementation of a fully functional project management office will go a long way to resolve the challenge of effectively and efficiently managing projects in the state of California.

In addition to the PMO, the State Technology Approval Reform project (STAR), has begun implementing a new IT project planning and approval process called the Stage Gate process. It was introduced to State entities in 2013, with the release of Stage 2 on December 31, 2014, and these two combined will be critical steps in ensuring upfront documentation of the business needs, business processes, alternatives, and ultimately requirements for the new system.

We are attaching our detailed response to CalTech-related recommendations found in the portions of the draft report that were shared with us. We will provide additional responses as needed after the complete report is made available to CalTech.

Sincerely,



CARLOS RAMOS  
Director

Attachment

cc: Marybel Batjer, Secretary, Government Operations Agency

## California Department of Technology

### BSA Audit 2014-116-Audit Recommendations and CalTech Response

#### Chapter 1 Recommendations:

To help ensure the success of the BreEZe project going forward, CalTech should do the following:

1. Ensure that Consumer Affairs responds timely to, and adequately address concerns raised by the IPO staff and IV&V Consultant.

##### **Audit Response:**

CalTech refers to SPR 3 and 3.1 which reflect DCA's efforts to implement corrective actions directed by CalTech. This addressed the root cause of many of the issues and risks identified by the IPO and IV&V consultant. These actions included:

- Improving organizational change management through the addition of resources and augmenting capacity and expertise for Organizational Change Management with a contract for these services
- Increasing testing time
- Revising the financing strategy to make more funding available to address these needs
- Addressing contract issues with Accenture to modify specific terms and conditions
- Adding contract management resources to the BreEZe project

These specific actions were directly related to the need to strengthen the project's ability to successfully implement Phase 2 and were based on lessons learned from Phase 1. It should be noted that addressing such issues can take months as was the case with BreEZe. DCA began addressing these issues in December, 2013 which resulted in contract amendments and the submission of SPR 3 in June, 2014 which later became SPR 3.1 in the December 2014.

2. Require Consumer Affairs to develop and follow all project management plans and ensure that BreEZe project team receives the required training.

##### **Audit Response:**

This is a sound project practice and CalTech has been proactive in ensuring that departments (including DCA) do much more upfront planning and have access to training that will build project management skills. Through the new Stage Gate project approval process (which is being developed through the STAR project) CalTech introduced the Stage 1 Business Analysis as a requirement for all IT project proposals in September 2013. In December 2014, Stage 2 Alternatives Analysis policy was issued. Stages 3 (Requirements and RFP Development) and 4 (Procurement, Selection, Contract and final project readiness planning) will be issued in July 2015. Together these stages will ensure that Departments have workable plans before gaining project approval. CalTech also supports the goal that all departments have ready access to and take advantage of opportunities to continually improve project management skills. As such, CalTech has created the Project Management Academy, a series of project management specific courses offered on a monthly basis through the Training and Education Center. Through this program more than 1,500 individuals have received this training.

3. Document key discussions with Consumer Affairs in which significant concerns are raised about Accenture and assessment of the department performance by independent verification and validation (IV&V) consultant and independent project oversight (IPO) specialist.

**Audit Response:**

CalTech documents project issues, risks and concerns through both the IPOR and IV&V reports. These provide clear documentation of significant issues and risks. Those documented concerns are the basis of discussions with the department and vendor and guide efforts to remediate project issues and mitigate risks. They also guide discussions which take place between executive management of CalTech and the executive representatives of the state departments and project vendors. These discussions provide a forum for direct and clear communication regarding project issues and potential options for remediation. In the case of BreEZe, the actions DCA took as a result of CalTech's guidance included changes to the scope and schedule of the BreEZe project, the addition of staff and contract resources to the project, the modification of the terms of the contract with the prime vendor. These are documented in the BreEZe Special Project Reports (SPRs) and in amendments to the prime vendor contract.

⑩ ⑪

4. If Consumer Affairs does receive necessary resources to successfully implement BreEZe at those regulatory entities included in Phase 2 and the project continues to face escalating costs, CalTech should require Consumer Affairs to conduct an analysis of the costs and benefits of moving forward with the project or suspending or terminating the project.

**Audit Response:**

As part of any discussion pertaining to project issues and the potential need for an SPR, an analysis of planned costs, actual costs to date, and projected costs of various scenarios is conducted. This includes an assessment of the contract terms and conditions, the potential for litigation or the contractual ramifications of unilaterally suspending or terminating a contract. The assessment must also include the potential impact to departmental operations as well as the financial implications to determine the cost to suspend or terminate. The Department of Consumer Affairs in collaboration with CalTech, has completed an assessment of the remaining phases of the BreEZe project and made the determination to end the contract with Accenture following Release 2 implementation. The DCA will conduct a gap analysis which will guide the department's future efforts to address the needs of the Release 3 boards and bureaus.

⑩ ⑫

5. Continue implementing the STAR project and ensure its framework maintains the following requirements:
  - That state departments undertake detailed business process analyses prior to submitting FSRs to CalTech for approval
  - That departments use those business process analyses to justify the type of IT solutions they are proposing, such as commercial off the shelf (COTS) or fully customized systems.
  - That departments use those business process analyses to inform the resulting RFPs and that they ensure the RFPs contain sufficient requirements.

**Audit Response:**

CalTech initiated a reform of the process for approving projects in late 2012 by evaluating a number of alternative models. By April 2013, CalTech began to develop the selected alternative model. The

new model guides departments through a series of phased approval stages. In doing so, the Stage process fosters much more upfront planning and analysis. This effort was formally launched as the STAR project. The documentation required in each of the stages will be used to support the analysis and direction in the subsequent stages. This will include business needs analysis, business process analysis, alternatives analysis, organizational readiness assessment, procurement analysis and solution analysis. Stage 1 of the process was introduced in September 2013. Stage 2 was issued at the end of December, 2014. Stages 3 & 4 will be introduced in July 2015 and the entire process will completely replace the FSR process by January 1, 2016.

To ensure IT projects have oversight needed to better position them for success, CalTech should do the following:

6. Require state departments to follow its IT policies, including developing all necessary plans and receiving the training.

**Audit Response:**

- ⑩ CalTech initiated the STAR project in April 2013 to ensure departments do an adequate job of planning for projects. As stated above, when fully implemented, the Stage Gate process will require every department to conduct more intensive evaluations of their current circumstances – including assessing organizational readiness, business process review, the development of appropriately detailed requirements and the appropriate alternative solutions that take these into account. Departments will be developing plans starting in Stage 2 and completing them to a sufficient extent will be required before progressing to the next stage. As needed, CalTech will place additional conditions on departments before they will be approved to advance. Staff augmentation and training are examples of conditions CalTech may impose.

Through the Information Technology Project Oversight and Consulting Division (ITPOC) CalTech ensures departments adhere to sound project management practices. This starts with the project approval process which today involves detailed review of the FSR and will soon involve the stage gate process. Project plan review and adherence is initiated at the very beginning of the project. Once a project is approved, CalTech ITPOC Division assigns at least one full or half time (depending on project complexity) IPO manager to conduct reviews of project activity by comparing the activity to the original or updated project approval document. The IPO manager produces monthly Independent Project Oversight Reports (IPORs) and written reports to the Project Steering Committee. These reports identify the presence and status of any observed or reported risks and issues. CalTech also ensures that departments enter into contracts with qualified Independent Validation and Verification (IV&V) vendors. IV&V and IPO work closely together and share information as well as evaluation tasks. Together they cover all aspects of project oversight.

Through Consulting and Planning Division, CalTech provides assistance at the executive level for projects experiencing challenges, offering intensive consulting services aimed at restoring project equilibrium, and minimizing and mitigating risks hampering project success. The Consulting Section is comprised of IT professionals charged with resolving some of the most intricate challenges found in projects, particularly in the areas of schedule development and management, contract management and vendor negotiations, quality assurance and quality control, risk and issue identification and mitigation, data conversion and migration, testing, and planning for system deployment and implementation.

Through the State PMO, CalTech will provide centralized project management of IT projects so that strategic benefits are realized through standardized frameworks, education, training, and tools and techniques based on proven best practices and lessons learned. The California PMO's responsibilities include:

- i. Providing project management services to state entities to help manage their project initiatives.
  - ii. Developing a project management framework that embraces best practices in the field of project management.
  - iii. Developing a cadre of experienced project managers who are equipped to successfully lead technology projects throughout the state, and i.e., providing the project management technology infrastructure to the State of California.
7. Ensure that departments obtain IPO and IV&V services as soon as an IT project is approved. Additionally, Caltech should document key discussions with departments in which significant concerns are raised about the project by IV&V and IPO, and ensure that the department responds timely to, and adequately addresses, concerns raised by IPO specialist and IV&V consultant.

**Audit Response:**

As a general practice, CalTech assigns a criticality and risk rating to projects as part of the approval process. Projects assigned a risk/criticality rating of medium or high are required to have IPO and/or IV&V services. In the case of BreZE, IPOC services were initiated via an independent contractor in 2011. CalTech started IPOC Services in 2011 at the time that we received additional state IPOC staff in 2012. Further, CalTech provided DCA with recommendations and guidance on addressing project issues as they were identified. DCA's response to these issues and the corrective actions it took are reflected in the revised approach to the project as documented in SPR 2, SPR 3.1 and in modifications to the prime vendor contract. ⑩

8. Require state departments to appropriately address deficiencies identified in its approval of any Special Project Reports as conditions that must be met, and to do so by specified timelines. If the deficiencies are not adequately addressed within the specified timeliness, CalTech should take action to suspend the project unless the department has adequately documented its justification for not addressing the deficiencies.

**Audit Response:**

Special Project Reports are developed to address significant changes in the scope and schedule of a project. Many times those changes are driven by corrective actions taken by departments to address project issues or deficiencies. The decision to suspend a project must be made judiciously and only after careful consideration of all of the ramifications of unilaterally taking such an action. It should be noted that suspending a project or terminating a project are not without their own consequences and risks. The process for resolving contractual disputes including inadequate performance on a project by a vendor or a state department are typically governed by the provisions of the contract. There are also cost and staff resource implications to protect a project vendor when a project is delayed. Depending on the circumstances and provisions of the governing contract, the state could potentially incur unintended liabilities if the state triggers a delay. ⑩

There are typically constraints included in a project's contract and cost implications to a project vendor when a project is delayed. These in turn may be passed on to the State. Several factors must be considered such as:

- the state's contractual obligations and limitations
- the status of a project activities both at the time and going forward
- the potential impact to program operations
- the potential for litigation or financial liability
- the need for contract negotiations

While CalTech agrees that under certain circumstances (which take into account the unique attributes of the project), suspending or terminating an IT project is the appropriate course of action, CalTech also must consider and employ all other available mechanisms to assist and support the efforts of state departments to understand and effectively implement the corrective actions which CalTech recommends and requires. In our judgment, unilaterally suspending the project would not have been the appropriate course of action in the case of the BreZze Project.

- ④
9. Develop thresholds relating to IT project costs and schedule delays to inform and better justify its decision to allow an IT project to continue. If a department's IT project reaches or exceeds the thresholds, CalTech should require the respective department to conduct a cost-benefit analysis for the project and include this assessment in the Special Project Report. CalTech should consider the results of this analysis in its decision to approve or deny the Special Project Report and, if warranted, take action to suspend or terminate the project so that it does not allow projects with significant problems to continue without correction.

**Audit Response:**

⑩  
⑬ The State Administrative Manual Section 4947, Budget Letter 14-19, and Budget Control Section 11.00-Information Technology Project Reporting Requirements have established project thresholds. Specifically, Budget Control Section 11.00 is triggered by cost increases of \$5 million or 20 percent of the budgeted cost of the project, whichever is less. For purposes of Section 11.00 requirements, an IT project is considered subject to reporting until the department has submitted a Post-Implementation Evaluation Report (PIER) to the California Department of Technology (CalTech), as required by State Administrative Manual section 4947. Reporting Requirements for Control Section 11.00 must include all of the following:

1. The total change in project cost, scope, and schedule
2. The reason for the change or changes
3. A description of new or amended contracts required as a result of the project change or changes
4. A list of the risks and issues identified in the last two Independent Project Oversight and Independent Verification and Validation Reports, as well as any risks or issues that have been identified since publication of those reports
5. The department's planned mitigation of these risks and issues

Control Section 11 ensures that policy makers are engaged in the decision about the future of a project. CalTech's review of all of the information covered in number 8 as well as our knowledge of the actual strengths and weaknesses of the project contribute to our recommendation concerning the continuance, suspension or termination of the project. In turn, Department of Finance

evaluates the cost implications of the project variance factors. With this information, the Legislature is then positioned to determine whether or not the changes in cost, scope or schedule undermine the original intent of the legislature in approving funding for the project.

In the case of BreEZe, the Section 11 process is being followed. CalTech's recommendation is to continue support for the re-planned scope of BreEZe. SPR 3.1 along with the contract enhancements will effectively implement the necessary changes to the project. These changes will ensure that the investments already made in the new system are realized and that the work that will be completed in release 2 can also be leveraged to successfully add the remaining boards and bureaus at the appropriate time in the future. By not implementing the remaining boards and bureaus under this contract, CalTech and DCA will be able to identify more cost effective and customized approaches to the configuration and implementation of these remaining entities. This re-planning has been accomplished successfully without having to suspend the project. CalTech disagrees with BSA that the project should have been suspended.

④ ⑭

## Chapter 2 Recommendations

To ensure that IT Project Procurements does not jeopardize the state's financial interest, CalTech procurement division should do the following:

10. Document its reasons for any deviations from the standard contract language.

**Audit Response:**

CalTech's Statewide Technology Procurement Division was established in July of 2013 pursuant to enacted legislation. At that time, responsibility for IT project procurements and contracts transitioned to CalTech. The Statewide Technology Procurement Division (STPD) process reviews any state departmental requested standard contract language modifications, and requires state departments to justify the need to modify any standard contract language. Furthermore, any STPD approved standard contract language modifications are formally documented with rationale consistent with STPD approval criteria.

⑩ ⑮

11. Ensure that the contract language allows Consumer Affairs to own the source code if the contract is terminated for convenience.

**Audit Response:**

It is important for state agencies to have certain rights to use the software that is integral to any IT solutions that they acquire. This is currently provided for in General Provisions Section 37 (Right in Work Product) standard language required for all department projects. CalTech is in the process of updating the information in the General Provision to ensure that the state has perpetual, irrevocable, worldwide, royalty free, non-exclusive, license to use the software product in the contract. It should be noted that the vendor implementing the software is not always the owner of the software and as such could not negotiate terms and conditions specific to the software. They would, however, as a condition of a contract be required to obtain and provide this right from the software owner.

⑩ ⑯

12. Ensure that the contract language does not allow state funds to be used other than what the State's Contract language authorizes.

**Audit Response:**

⑩ ⑮ CalTech's STPD reviews contract language and the Statement of Work to ensure vendor contract responsibilities and invoice authorization strictly adheres to expenditure of state funds within contract limitations.

13. Ensure that contracting departments can appropriately manage IT maintenance support contracts by including service level agreements in these contracts.

**Audit Response:**

⑩ ⑮ CalTech's STPD current procedures includes working with state departments to ensure inclusion of Service Level Agreements (SLAs) requirements when technically necessary for both IT Design, Development, Implementation (DDI) and maintenance support contracts.

14. To ensure that contracting departments comply with requirements, CalTech should periodically monitor the status of contracts and enforce adherence to the procurement requirements. For example, CalTech should ensure that contracting departments forward to it all change requests and that it conducts reviews of all change requests to determine whether the changes exceed the scope of the respective contract.

**Audit Response:**

⑩ CalTech currently monitors the status of projects, contracts and procurements in a number of different ways. CalTech's STPD oversees and manages the process of completing IT project procurements and any amendments to the resulting project contract. CalTech's ITPOC Division monitors adherence to the project scope and requirements through participating or monitoring project governance as changes occur within the overall project including significant changes to the scope. It should be noted that contracts typically include language specific to the change request process and not all change requests impact scope.

## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA DEPARTMENT OF TECHNOLOGY

To provide clarity and perspective, we are commenting on the response to our audit report from the California Department of Technology (CalTech). The numbers below correspond to the numbers we placed in the margin of CalTech's response.

CalTech incorrectly states that it has provided independent project oversight (IPO) on the BreEZe project since inception of the project. As we point out on page 40 of our report, CalTech did not assign an IPO specialist to the project for over a year after it approved the project's Feasibility Study Report (FSR).

①

We disagree that our report does not recognize the current state of BreEZe and therefore does not provide a clear picture of the current status of the system. On pages 45 through 47 we provide information on the current status of BreEZe, including that future implementation of BreEZe by regulatory entities scheduled for phase 2 of BreEZe is at risk and it is unknown whether or when the 19 regulatory entities originally included in phase 3 will implement the system. In addition, as we describe on page 73, we interviewed the 10 executive officers of the phase 1 regulatory entities during mid-September through mid-October 2014 and found that eight reported that BreEZe has decreased their regulatory entities' operational efficiency. Further, we find it puzzling that CalTech asserts in its response that the BreEZe system was successfully put into production in 2013 when, as shown in the Appendix beginning on page 81, the IPO specialist and independent verification and validation (IV&V) consultant have identified nearly 50 significant issues with the project in their monthly reports following the implementation of BreEZe in October 2013 at the phase 1 regulatory entities. In fact, as we explain on page 38, the September 2014 IPO report identified that the project's overall health was poor and also states that the online application feature, which the IPO specialist considers a key part of BreEZe, had not been "turned on" for some of the phase 1 regulatory entities.

②

We state on page 36 that it was not until after the California Department of Consumer Affairs (Consumer Affairs) estimated the cost of completing the project at \$300 million in June 2014, the same month it submitted Special Project Report (SPR) 3 to CalTech for approval, that CalTech changed its oversight approach on the BreEZe project. According to the BreEZe project director, Consumer Affairs withdrew its submission of SPR 3,

③

which CalTech previously approved in July 2014, upon direction from CalTech and the California Department of Finance (Finance) in September 2014. This direction from CalTech was a change in its oversight approach in that it was the first time it had directed Consumer Affairs to take an action that significantly altered the project. We discuss CalTech's involvement in the BreEZe project beginning on page 30.

- ④ CalTech challenges our conclusion that it should have suspended BreEZe. We stand by our conclusion. As discussed in detail on pages 36 through 40, CalTech did not use its authority to ensure that Consumer Affairs addressed the significant and persistent warnings of the IV&V consultant and the IPO specialist. For example, on page 38 we question why CalTech did not intervene instead of approving SPR 3, given that Consumer Affairs was not appropriately addressing the concerns raised by the IV&V consultant and IPO specialist; these concerns were numerous and were identified in CalTech's analysis of SPR 2 in 2013. Further, on page 39 we explain that had CalTech chosen to suspend the project, it could have temporarily paused BreEZe development and could have provided Consumer Affairs with additional time to conduct a cost-benefit analysis and correct fundamental problems, such as requirements issues, it encountered during planning and development.
- ⑤ CalTech indicated that suspending the project as suggested by the report would have exposed the State to contractual liability to the prime contractor at a rate of up to \$1.2 million per month up to the full value of the contract. Our report indicates on page 40 that CalTech could have suspended the project while it was still in the planning phase, in the spring of 2011, prior to formation of the prime contract. Suspending the project at that juncture would not have exposed the State to any such liability. The requests for proposal contained provisions expressly reserving the State's right to cancel the solicitation prior to awarding the contract. Similarly, Consumer Affairs could have canceled the negotiations with Accenture LLP (Accenture) conducted under California Public Contract Code, Section 6611, at any time prior to awarding the contract without incurring any liability. This section of law pertains to contracts, such as the BreEZe contracts, that are conducted through a negotiation process. We recognize that suspending the project after the prime contract was awarded could make the State liable for certain costs. However, we believe there are mechanisms in the contract that allow for the containment of potential liability. In particular, there are provisions that allow for a partial or complete stop work order and they require the contractor to take all reasonable steps to minimize the resulting costs and they specify that the State is not liable for lost profits.

CalTech indicated that terminating the contract for convenience could have allowed the contractor to claim as much as \$38 million. However, our report does not recommend a termination for convenience. Instead, it recommends on page 50 that if Consumer Affairs receives the necessary resources to successfully implement BreEZe at the regulatory entities included in phase 2 and the project continues to face escalating costs, then CalTech should require Consumer Affairs to conduct an analysis of the costs and benefits of moving forward with the project as planned or suspending or terminating the project. Without this analysis, CalTech is not positioned to make an informed decision about whether Consumer Affairs' current plan to partially complete the project at a total estimated cost of \$96 million is the most prudent course of action.

⑥

We clearly state on page 36 that the \$300 million estimate was informally developed by the BreEZe project team and the estimate was not developed in the same manner as required by an SPR. Further, although CalTech reported it had extensive engagement with Consumer Affairs from the beginning of the project, it did not use its authority to ensure Consumer Affairs addressed the significant and persistent warnings of the IV&V consultant and the IPO specialist, as we discuss on pages 36 through 40.

⑦

CalTech misses our point. Although Consumer Affairs has taken some actions to address concerns raised by the IV&V consultant and the IPO specialist, our point on pages 36 and 37 is that Consumer Affairs did not take appropriate action to address all of the concerns raised and CalTech did not require Consumer Affairs to remedy the problems raised. In fact, on page 37 we describe that the BreEZe project director acknowledged he did not always act on the concerns raised in the IPO report. For instance, the IPO specialist raised concerns related to staffing and resources throughout the course of the project. Further, we explain on pages 34 and 35 that CalTech did not ensure that Consumer Affairs addressed the CalTech director's concerns about project management, project governance, and contract management before approving two SPRs that identified significant project cost increases.

⑧

CalTech is incorrect. We do not conclude in the report that CalTech never reviewed or acted on the 1,700 reported initial project defects after the BreEZe system went into production, as CalTech claims in its response. Rather, on page 28 we explain that according to the IV&V consultant, the extensive user acceptance testing period likely resulted in part from the BreEZe system having almost 1,700 unresolved defects at the beginning of the testing period. Further, in contrast to its assertion, we never received information from CalTech that it assisted Consumer Affairs in "reviewing each one of these reported defects."

⑨

- ⑩ Throughout its response, CalTech does not explicitly agree or disagree with our recommendations. Instead, in its responses to our recommendations, CalTech generally describes actions it has taken in the past and fails to explain what actions it intends on taking in the future to implement the recommendations. We look forward to CalTech's 60-day, six-month, and one-year responses to our report in which it should provide evidence of its progress in implementing our recommendations.
- ⑪ CalTech appears to miss the point of our recommendation. Although we agree that the IPO and IV&V reports document project issues, risks, and concerns raised on a project, these reports do not document key discussions CalTech may have with Consumer Affairs in which significant concerns are raised about the project vendor Accenture and Consumer Affairs' performance, or their proposed actions to address such concerns. For example, on page 37, we explain that, according to the CalTech director, in a meeting in February or March 2013, he verbally cautioned officials at Consumer Affairs that CalTech had just suspended or terminated two other projects and that BreEZe would be next if CalTech did not see the department improve its rigor in project management, project governance, and contract management. However, CalTech did not document this discussion or its outcome. By not documenting key discussions, we believe that CalTech is hindered in its ability to hold departments, such as Consumer Affairs, accountable for addressing significant concerns raised.
- ⑫ CalTech has misunderstood our recommendation. CalTech refers to the determination made to end the contract with Accenture following phase 2 implementation and a gap analysis that will guide future efforts to address phase 3 regulatory entities. However, our recommendation on page 50 is for a cost-benefit analysis to be conducted if the necessary resources are received to successfully implement phase 2 and the project continues to face escalating costs.
- ⑬ CalTech's response appears to indicate that it need not implement our recommendation because of existing thresholds for IT project reporting. In as much as these reporting requirements did not prevent the numerous problems with the BreEZe project we identified in the report nor spur CalTech to significantly intervene in the project earlier than it did, we believe they are insufficient for those purposes and our recommendation is needed.
- ⑭ Although CalTech did not suspend the BreEZe project, it did change its oversight approach in the summer of 2014, as we indicate on page 36, by directing Consumer Affairs to withdraw SPR 3.

This action, which is the type of action we expected CalTech to take sooner, led to SPR 3.1 and the replanning efforts it describes in its response.

In response to recommendations we made in Chapter 2 on pages 60 and 61, CalTech indicated that it has processes in place that address our recommendations. However, because our recommendations were based on issues we identified in reviewing the Consumer Affairs' BreEZe contracts with Accenture, which were executed under the direction of the California Department of General Services (General Services), we did not review and verify whether CalTech's current processes address our recommendations. Thus, we look forward to CalTech's 60-day, six-month, and one-year responses to our report in which it should provide evidence of its progress in implementing our recommendations, such as policies, procedures, or other relevant documentation.

⑮

CalTech indicated that the State's current General Provisions, Section 37, is required for all department projects and CalTech is in the process of updating the language. It is correct that the State's current General Provisions, Section 37, is required for all department projects. The issue, however, is that instead of using the standard language, the contractor for the BreEZe project proposed and Consumer Affairs and General Services approved a deviation from the standard language that increased Consumer Affairs' financial risks, as we explain on page 55.

⑯

**Department of Consumer Affairs  
BreZe Costs and Funding  
FY 2009-10 through FY 2016-17  
(amounts in whole \$s)**

	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		FY 2013-14		FY 2014-15	FY 2015-16	FY 2016-17
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Proposed*	Proposed*	Proposed*
<b>BreZe Costs</b>													
Solution Vendor - Accenture LLP		-		-	1,200,000	869,926	4,081,649	387,607	5,029,513	4,478,770	5,375,928	9,732,344	11,750,441
DCA Staff and OE&E	2,080,000	372,732	2,080,000	1,096,247	3,280,829	3,199,363	3,636,888	4,655,450	6,742,294	7,979,320	8,026,062	13,111,845	7,046,014
Data Center Services		-		-	1,101,843	147,645	1,667,899	138,410	136,072	137,472	155,376	156,096	156,096
Other Contracts		44,151		53,169	860,120	645,011	899,600	1,178,588	2,357,360	1,751,269	2,814,819	4,428,850	4,543,800
Oversight		10,168		345,993	537,276	488,034	537,276	393,232	559,920	478,328	563,234	643,512	
<b>Total Costs</b>	<b>2,080,000</b>	<b>427,051</b>	<b>2,080,000</b>	<b>1,495,409</b>	<b>6,980,068</b>	<b>5,349,979</b>	<b>10,823,312</b>	<b>6,753,287</b>	<b>14,825,159</b>	<b>14,825,159</b>	<b>16,935,419</b>	<b>28,072,647</b>	<b>23,496,351</b>
<b>BreZe Funding Needs</b>													
Total Costs	2,080,000	427,051	2,080,000	1,495,409	6,980,068	5,349,979	10,823,312	6,753,287	14,825,159	14,825,159	16,935,419	28,072,647	23,496,351
Redirected Resources	2,080,000	427,051	2,080,000	1,495,409	4,169,882	3,198,486	4,448,886	4,818,002	5,806,881	5,806,881	7,405,427	7,426,449	2,080,000
<b>Total BreZe BCP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,810,186</b>	<b>2,151,493</b>	<b>6,374,426</b>	<b>1,935,285</b>	<b>9,018,278</b>	<b>9,018,278</b>	<b>9,529,992</b>	<b>20,646,198</b>	<b>21,416,351</b>

Board / Bureau Name	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		FY 2013-14		FY 2014-15	FY 2015-16	FY 2016-17
	Budget	Actual	Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	Proposed	Proposed	Proposed
Accountancy Board	39,092	7,322	39,092	23,127	138,645	119,884	106,092	26,523	212,092	212,092	113,117	327,297	287,612

\* Figures identified in FY 2014-15 through FY 2016-17 are still pending approval



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**CBA Item IV.D.**  
March 19-20, 2015

## **Update on the 2013-2015 Communications and Outreach Plan**

**Presented by:** Lauren Hersh, Information & Planning Manager

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### **Purpose of the Item**

The purpose of this agenda item is to keep the California Board of Accountancy (CBA) 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.

### **Comments**

Staff continues to leverage outreach opportunities to: inform and educate students and faculty about the educational requirements for licensure; the general public as to best practices that enhance consumer protection; and licensees regarding the activities of the CBA.

### **Outreach Events**

CBA member Sally Anderson, along with Licensing Managers Veronica Daniel and Matthew Stanley, presented information on the 150 semester unit educational requirements to a gathering of approximately 60 accounting faculty from California State University Fullerton on Friday, January 30. The presentation was focused on providing faculty with the information they need to guide their students regarding the new educational requirements required for CPA licensure.

In conjunction with the California Society of CPAs and the University of California at Berkeley Haas School of Business, the CBA will hold an outreach event at the University on Tuesday, April 7, 2015 at 6:00 p.m. CBA President Jose Campos, along with CBA staff, will make a presentation which walks students through the process of becoming a CPA. Topics include the Uniform CPA Exam, fulfilling the educational requirements and applying for initial CPA licensure, and navigating the first CPA renewal. Students will also hear from newly-licensed CPAs and a successful, seasoned CPA about their experiences as a CPA.

## Update on the 2013-2015 Communications and Outreach Plan

Page 2 of 3

### UPDATE

As part of the CBA's outreach partnership with the State Controller's Office (SCO) the latest edition of UPDATE features an article submitted by the SCO regarding how CPAs can help clients meet unclaimed property reporting requirements. UPDATE was published on the CBA website on February 23, 2015 and will be mailed out March 13, 2015.

### Social Media

Tax season has presented ample opportunity to reach consumers and licensees with consumer protection messages via social media. The CBA continues to see steady growth on LinkedIn and Twitter, where the CBA was recognized 17 times since the January CBA meeting for "Great Government Tweets," by California Government Tweets as being among the most successful by a California government agency by virtue of link visits, re-tweets and engagement. This is more than a three-fold increase in the number of CBA tweets recognized previously. The CBA currently has 2,919 fans on Facebook, 1,587 followers on Twitter, and 1,034 direct connections on LinkedIn. The CBA maintains five boards on Pinterest: "On Your Way to CPA," "Tax Bracket," "Consumer Wise," "CBA Favorites," and "Women Making a Difference."

### Press Releases

There have been two news releases since the January CBA meeting, "CBA Approves Study of California's Attest Requirement" and "California Board of Accountancy Welcomes New Board Member." A Press Advisory regarding the March CBA meeting is scheduled to be issued March 16, 2015. News releases and press advisories are now being shared via social media and through traditional distribution methods. In addition to reaching reporters who follow us on Twitter, social media distribution provides the public with another opportunity to access information from the CBA.

### E-News

E-News subscriptions have increased by 157 since the last report. 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	9,546	57	9,603
Consumer Interest	4,435	62	4,497
Examination Applicant	2,890	47	2,937
Licensing Applicant	3,525	51	3,576
Out-of-State Licensee	2,316	51	2,367
Statutory and Regulatory	7,701	67	7,768
CBA Meeting Info & Agenda Materials	3,612	49	3,661
UPDATE Publication	7,290	30	7,320
<b>Total subscriptions</b>	<b>41,315</b>	<b>414</b>	<b>41,729</b>
<b>Total subscribers</b>	<b>13,155</b>	<b>74</b>	<b>13,229</b>

**Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

**Recommendation**

Staff does not have a recommendation on this agenda item.

**Attachment**

None.



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**CBA Item V.C.2.**  
March 19-20, 2015

## **Presentation and Approval of the 2014 PROC Annual Report**

**Presented by:** Sherry McCoy, CPA, Vice-Chair

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### **Purpose of the Item**

The purpose of this agenda item is to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2014 Annual Report (**Attachment**).

### **Action(s) Needed**

It is requested that members review and approve the 2014 PROC Annual Report.

### **Background**

Pursuant to CBA Regulations section 47(c), the PROC is required to report to the CBA annually regarding the results of its oversight, including the scope of work, findings, and conclusions.

### **Comments**

The 2014 PROC Annual Report includes all specifically mandated content. Additionally, the report includes information on the implementation of peer review, recent legislation and regulations affecting the peer review program, and an overview of the Board-recognized Peer Review Program Providers. The PROC activities and accomplishments, which represent the primary focus of this report, are outlined in Section VIII "Activities and Accomplishments," beginning on page five of the report.

### **Fiscal/Economic Impact Considerations**

There are no fiscal/economic impact considerations.

### **Recommendation**

It is recommended that the CBA approve the 2014 PROC Annual Report and continue to provide guidance to the PROC concerning its oversight activities.

### **Attachment**

2014 PROC Annual Report to the CBA



CALIFORNIA BOARD OF ACCOUNTANCY  
PEER REVIEW OVERSIGHT COMMITTEE  
2014 Annual Report



## Table of Contents

I.	Message from the Committee Chair .....	1
II.	Background .....	1
III.	PROC Responsibilities .....	2
IV.	Committee Members .....	2
V.	Legislation and Regulations .....	3
VI.	Reporting Requirements .....	3
VII.	Board-Recognized Peer Review Program Providers .....	4
	American Institute of Certified Public Accountants (AICPA) .....	4
	a. California Society of Certified Public Accountants (CalCPA) .....	4
	b. National Peer Review Committee (NPRC) .....	4
	c. Other State Societies .....	5
VIII.	Activities and Accomplishments .....	5
	a. Administrative Functions .....	5
	i. Committee Meetings .....	5
	ii. Oversight Checklists .....	5
	iii. Approval of Board-Recognized Peer Review Program Providers .....	6
	iv. Withdrawal of Board Recognition of a Peer Review Program Provider .....	6
	b. Program Oversight .....	6
	i. AICPA .....	6
	A. AICPA Peer Review Board (PRB) .....	6
	B. AICPA Peer Review Program Annual Report on Oversight .....	7
	ii. CalCPA .....	7
	A. Peer Review Committee .....	7
	B. Report Acceptance Body (RAB) .....	8
	C. Administrative Site Visit .....	8
	D. Sample Reviews .....	9
	E. Peer Reviewer Training .....	9
	F. CalCPA Annual Report on Oversight .....	9
	G. Oversight Visit Report of CalCPA .....	10
	iii. NPRC .....	10
	A. NASBA Compliance Assurance Committee (CAC) .....	10
	B. NASBA CAC Report on the AICPA NPRC.....	10
	iv. Other State Societies .....	10
	c. Other Activities .....	11
	i. NASBA PROC Summit .....	11
IX.	Statistics .....	11
X.	Findings .....	11
XI.	Conclusions .....	12

## **I. Message from the Committee Chair**

I am pleased to present the California Board of Accountancy (CBA) with the Peer Review Oversight Committee's (PROC) 2014 Annual Report. I would like to extend my sincerest appreciation to Nancy Corrigan, CPA, who served as the PROC's first-ever chair. Under Ms. Corrigan's leadership, coupled with the PROC members' unparalleled dedication, California's PROC grew from a start-up committee looking to establish best practice and protocols, to a nationally recognized leader in performing regulatory oversight of the peer review process.

The most recent recognition came when the National Association of State Boards of Accountancy's (NASBA) Compliance Assurance Committee (CAC) hosted its first inaugural open conference call for all board of accountancy peer review oversight committee members, board members, and staff which was initiated at the request of the California PROC. NASBA's CAC has agreed to continue to facilitate and host these calls twice a year in May and November.

The PROC continues to maintain an active presence on both a state and national level. The PROC participated in various American Institute of CPAs Peer Review Board conference calls that have allowed it to stay abreast of various relevant issues confronting the peer review process. And, as always, the PROC conducted its annual review of the California Society of CPAs, the administering entity responsible for administering the vast majority of peer reviews for California-licensed accounting firms.

I would like to thank the CBA for the opportunity to succeed Ms. Corrigan as Chair of the PROC. I look forward to another successful year and the opportunity to serve the CBA together with the highly qualified members of the PROC and CBA staff.

Respectfully,

Robert Lee, CPA  
PROC Chair

## **II. Background**

In 2009, the CBA sponsored Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009) implementing mandatory peer review. AB 138 was signed by Governor Arnold Schwarzenegger and became effective on January 1, 2010. AB 138 requires all California-licensed firms, including sole proprietorships, providing accounting and auditing services, to undergo a peer review once every three years as a condition of license renewal. Effective January 1, 2012, Senate Bill 543 (Chapter 448, Statutes of 2011) removed the sunset language included in the original enabling legislation, making mandatory peer review permanent in California. Peer review, as defined by Business and Professions Code (BPC) section 5076(b)(1), is a study, appraisal, or review conducted in accordance with professional standards of the professional

work of a firm, and may include an evaluation of other factors in accordance with the requirements specified by the board in regulations. The peer review report shall be issued by an individual who has a valid and current license, certificate, or permit to practice public accountancy from this state or another state and is unaffiliated with the firm being reviewed.

### **III. PROC Responsibilities**

The PROC derives its authority from BPC section 5076.1. The purpose of the PROC is to provide recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

The roles and responsibilities of the PROC, as defined by the CBA, are:

- Hold meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.
- Ensure that Board-recognized peer review program providers (Provider) administer peer reviews in accordance with the standards set forth in Title 16, California Code of Regulations (CCR) section 48:
  - Conduct an annual administrative site visit.
  - Attend peer review board meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend peer review committee meetings, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Attend meetings conducted for the purposes of accepting peer review reports, as necessary but sufficient to evaluate and assess the effectiveness of the program.
  - Conduct reviews of peer review reports on a sample basis.
  - Attend, on a regular basis, peer reviewer training courses.
- Evaluate any *Application to Become A Board-recognized Peer Review Provider* and recommend approval or denial to the CBA.
- Refer to the CBA any Provider that fails to respond to any request.
- Collect and analyze statistical monitoring and reporting data from each Provider on an annual basis.
- Prepare an Annual Report to the CBA regarding the results of its oversight.

### **IV. Committee Members**

The PROC is comprised of seven members, all of whom must possess and maintain a valid and active license to practice public accountancy issued by the CBA. Members are appointed to two-year terms and may serve a maximum of four consecutive terms.

On May 30, 2014, Robert Lee was appointed Chair of the PROC. Ms. McCoy served as the Vice-Chair during 2014.

<u>Current members</u>	<u>Term Expiration Date</u>	<u>Maximum Term Date</u>
Robert Lee, CPA, Chair	September 30, 2015	September 30, 2017
Sherry McCoy, CPA, Vice-Chair	July 31, 2015	July 31, 2017
Katherine Allanson, CPA	July 31, 2015	July 31, 2017
Nancy J. Corrigan, CPA	July 31, 2015	July 31, 2017
Jeffrey De Lyser, CPA	March 31, 2015	March 31, 2021
Seid Sadat, CPA	December 12, 2014	
Vacant		

## V. Legislation and Regulations

Effective January 1, 2013, BPC section 5076 was amended to allow licensees to renew their license in an inactive status without having a peer review. A peer review is required prior to licensees converting or renewing to an active status.

Effective January 1, 2014, Title 16, CCR sections 40 and 45 were amended requiring licensees to report specific peer review information on the Peer Review Reporting Form (PR-1) at the time of license renewal. The revised language also clarifies that any accounting firm that performs specific services for the first time, whether it is newly licensed or simply new to performing those services, must complete a peer review within 18 months of the date it completes those services.

## VI. Reporting Requirements

Pursuant to BPC section 5076(m)(1), on or before January 1, 2015, the CBA is required to provide the Legislature and Governor with a report regarding the peer review requirements that include, without limitation:

- The number of peer review reports completed to date and the number of substandard peer review reports which were submitted to the board.
- The number of enforcement actions that were initiated as a result of an investigation of a failed peer review report.
- The number of firms that were recommended to take corrective actions to improve their practice through the mandatory peer review process, and the number of firms that took corrective actions to improve their practice following recommendations resulting from the mandatory peer review process.
- The extent to which mandatory peer review of accounting firms enhances consumer protection.
- The cost impact on firms undergoing mandatory peer review and the cost impact of mandatory peer review on the firm's clients.
- A recommendation as to whether the mandatory peer review program should continue.
- The extent to which mandatory peer review of small firms or sole practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting enhances consumer protection.
- The impact of peer review required by this section on small firms and sole

practitioners that prepare nondisclosure compiled financial statements on an other comprehensive basis of accounting.

- The impact of peer review required by this section on small businesses, nonprofit corporations, and other entities that utilize small firms or sole practitioners for the purposes of nondisclosure compiled financial statements prepared on an other comprehensive basis of accounting.
- A recommendation as to whether the preparation of nondisclosure compiled financial statements on an other comprehensive basis of accounting should continue to be a part of the mandatory peer review program.

In keeping with its purpose, the PROC assisted the CBA in preparing the report for the Legislature and Governor. The CBA approved the report at its November 2014 meeting.

## **VII. Board-Recognized Peer Review Program Providers**

### **American Institute of Certified Public Accountants (AICPA)**

The AICPA Peer Review Program is currently the only Board-recognized Peer Review Program Provider. Through regulation, the CBA established that the AICPA Peer Review Program meets the standards outlined in Title 16, CCR section 48. Further, the CBA accepts all AICPA-approved entities authorized to administer the AICPA Peer Review Program.

The AICPA Peer Review Program provides for a triennial review of a firm's accounting and auditing services performed by a peer reviewer who is unaffiliated with the firm being reviewed to ensure work performed conforms to professional standards. There are two types of peer reviews. System reviews are designed for firms that perform audits or other similar engagements. Engagement reviews are for firms that do not perform audits but perform other accounting work such as compilations and/or reviews. Firms can receive a rating of pass, pass with deficiency, or fail. Firms that receive ratings of pass with deficiency or fail must perform corrective actions.

#### **a. California Society of Certified Public Accountants (CalCPA)**

CalCPA administers the AICPA Peer Review Program in California. As the administering entity, CalCPA is responsible for ensuring that peer reviews are performed in accordance with the AICPA's *Standards*. The CalCPA Peer Review Committee (PRC) monitors the administration, acceptance, and completion of peer reviews. CalCPA administers the largest portion of peer reviews to California-licensed firms.

#### **b. National Peer Review Committee (NPRC)**

The National Peer Review Committee (NPRC) administers the AICPA peer review program for firms that meet any of the following three criteria:

1. The firm is required to be registered with and subject to permanent inspection by the Public Company Accounting Oversight Board (PCAOB).
2. The firm performs engagements under PCAOB standards.
3. The firm provides quality control materials (QCM), or is affiliated with a provider of QCM, that are used by firms that it peer reviews.

The NASBA CAC provides oversight of the NPRC.

### **c. Other State Societies**

California-licensed accountancy firms with their main office located in another state are required to have their peer review administered by AICPA's administering entity for that state. In most cases, the administering entity is the state CPA society in that state.

## **VIII. Activities and Accomplishments**

Following are the activities and accomplishments of the PROC during 2014.

### **a. Administrative Functions**

#### **i. Committee Meetings**

The PROC holds meetings as necessary in order to conduct business and report to the CBA regarding the effectiveness of mandatory peer review.

The PROC held the following meetings:

- January 31, 2014 – Berkeley, CA
- May 2, 2014 – Los Angeles, CA
- August 22, 2014 – Sacramento, CA
- December 10, 2014 – San Diego, CA

A representative of the PROC attended each of the six CBA meetings to report on PROC activities.

#### **ii. Oversight Checklists**

The PROC has developed oversight checklists which serve to document the members' findings and conclusions after performing specific oversight activities. The present checklists, listed on the following page, are included in the PROC Procedures Manual and additional checklists will be developed as necessary. Members submit the completed checklists to the CBA for future reference.

Present Checklists:

- Summary of Peer Review Committee Meeting
- Summary of Peer Review Subcommittee Meeting
- Summary of Administrative Site Visit
- Summary of Peer Reviewer Training Course
- Peer Review Board Meeting Checklist
- Peer Review Program Provider Checklist
- Summary of Oversight of Out-of-State Peer Review Administering Entity

New Checklist under Development:

- Summary of Compliance Assurance Committee Meeting

**iii. Approval of Board-Recognized Peer Review Program Providers**

At such time that the CBA receives an Application to Become a Board-recognized Peer Review Program Provider, the PROC will review the application and documentation using the Peer Review Program Provider Checklist and determine if the program meets the requirements outlined in Title 16, CCR section 48. Based on the review, the PROC will provide a recommendation to the CBA that the application be approved or denied.

**iv. Withdrawal of Board Recognition of a Peer Review Program Provider**

The PROC has not made any recommendations to the CBA concerning the withdrawal of Board recognition of a peer review program provider.

**b. Program Oversight**

The PROC is charged with providing oversight of all Board-recognized peer review program providers to ensure that peer reviews are being administered in accordance with the standards adopted by the CBA. During 2014, the PROC performed several activities to assess the effectiveness of the AICPA's Peer Review Program and its administering entities in California, the CalCPA and the NPRC.

**i. AICPA**

**A. AICPA Peer Review Board (PRB)**

The AICPA PRB is responsible for maintaining, furthering and governing the activities of the AICPA Peer Review Program, including the issuance of peer review standards, and peer review guidance, while being mindful of the profession's covenant to serve the public interest with integrity and objectivity.

During 2014, PROC members observed AICPA PRB meetings, as follows:

- January 30, 2014 – conference call
- May 13, 2014 – conference call
- August 6, 2014 – conference call
- September 30, 2014 – conference call
- November 14, 2014 – conference call

## **B. AICPA Peer Review Program Annual Report on Oversight**

The AICPA Annual Report on Oversight provides a general overview, statistics and information, the results of the various oversight procedures performed on the AICPA Peer Review Program, and concludes on whether the objectives of the oversight process were met.

The PROC reviewed the report issued on September 27, 2013, for the calendar year 2012, at its January 2014 meeting. Based on the oversight procedures performed, the AICPA Oversight Task Force concluded that in all material respects (1) the administering entities were complying with the administrative procedures established by the Peer Review Board, (2) the reviews were being conducted and reported upon in accordance with standards, (3) the results of the reviews were being evaluated on a consistent basis by all administering entities and peer review committees, and (4) the information provided via the Internet or other media by administering entities was accurate and timely.

## **ii. CalCPA**

### **A. Peer Review Committee**

The CalCPA PRC is responsible for ensuring that the peer review program is performed in accordance with the standards and guidance issued by the AICPA's PRB. The CalCPA PRC meets in person twice a year. PROC members observe how the CalCPA PRC executes its duties in the meeting to determine whether or not this aspect of the peer review process is operating effectively in the State of California.

During 2014, PROC members attended each of the following CalCPA PRC meetings:

- May 22-23, 2014 – Dana Point, CA
- November 20-21, 2014 – Yountville, CA

## **B. Report Acceptance Body (RAB)**

The CalCPA holds multiple RAB meetings per year. The RAB meetings generally occur via conference call. RAB members review and present the peer review reports subject to discussion on a general call. PROC members observe how the RAB executes its duties in the meeting to determine whether the peer review process is operating effectively in the state of California.

During 2014, PROC members observed each of the following RAB meetings via teleconference or in person:

- February 25, 2014 – conference call
- March 19, 2014 – conference call
- May 22, 2014 – in person
- September 23, 2014 – conference call
- November 20, 2014 – in person

## **C. Administrative Site Visit**

The PROC is charged with conducting, at a minimum, an annual Administrative Site Visit of each Peer Review Program Provider to determine if the provider is administering peer reviews in accordance with the standards adopted by the CBA.

On July 29, 2014, the PROC reviewed CalCPA's administration of the AICPA's Peer Review Program as part of the oversight program for the CBA. As an administering entity, CalCPA is responsible for administering the AICPA Peer Review Program in compliance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, interpretations, and other guidance established by the CBA. The PROC's responsibility is to determine whether the peer review program complies with the minimum requirements for a Peer Review Program, pursuant to Title 16, CCR, section 48.

The following procedures were performed as part of the PROC's oversight responsibilities:

- Reviewed policies and procedures utilized by CalCPA to govern its peer review program process.
- Read correspondence and other available documentation from other oversight activities performed at CalCPA.
- Reviewed the RAB assignment binder.
- Selected a sample of peer review reports and associated files for review.

- Discussed the peer review committee member and individual peer reviewer qualifications process with CalCPA personnel and selected a sample for inspection of resumes and other documentation.

#### **D. Sample Reviews**

The PROC conducts reviews of peer reviews accepted by a provider on a sample basis. The review may include, but is not limited to, the peer review report; reviewers' working papers prepared or reviewed by the provider's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

This oversight activity was completed on July 29, 2014, in conjunction with the Administrative Site Visit.

#### **E. Peer Reviewer Training**

The PROC is responsible for ensuring that peer review providers develop a training program designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews. The CalCPA Education Foundation offers two types of peer reviewer trainings. Each year, the CalCPA Education Foundation offers a two-day course for new peer reviewers and a one-day refresher course for existing peer reviewers.

During 2014, PROC members attended the one-day training course *AICPA Peer Review Program Advanced Course* on May 21, 2014. A PROC member attended the two-day training course *How to Conduct a Review Under the AICPA Practice Monitoring Program* on June 26-27, 2014.

#### **F. CalCPA Annual Report on Oversight**

The AICPA requires that each administering entity perform oversight of its peer review program every other year, alternating with the year that the AICPA conducts its oversight visit. CalCPA's Peer Review Administrative Committee (PRAC) monitors the oversight process. Each member of the PRAC has been approved by the Council of CalCPA and has current audit experience.

The PROC reviewed the CalCPA Peer Review Program Annual Report on Oversight for Calendar Year 2012. The oversight report summarizes the results of the mandated oversight of two percent of all reviews processed during the year and verification of the resumes and continuing professional education of one third of peer reviewers.

## **G. Oversight Visit Report of CalCPA**

In years when the AICPA Peer Review Board does not perform oversight of the CalCPA, a member of the CalCPA PRC performs an Administrative Oversight Visit.

The PROC reviewed the report of the Administrative Oversight Visit to the CalCPA conducted by PRC Chair David E. Vaughn, CPA on December 3, 2013. The report had no findings or recommendations for the administration of the program.

### **iii. NPRC**

#### **A. NASBA Compliance Assurance Committee (CAC)**

The charge of the NASBA CAC is to promote effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the NASBA CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to Boards of Accountancy – PROCs. The NASBA CAC provides oversight of the NPRC.

The PROC reviewed a summary of the NASBA CAC meeting held on June 26, 2014 and two PROC members observed the September 10, 2014 CAC meeting via teleconference.

#### **B. NASBA CAC Report on the AICPA NPRC**

The PROC reviewed the NASBA CAC report on the AICPA NPRC dated March 31, 2014. During the period November 1, 2011 through October 31, 2012 two former state board members sat as members on the AICPA NPRC. These members participated in 18 of the 25 RAB meetings held during this time period which represented 72 percent of the total RABs.

Based on the oral reports provided at each CAC meeting by the NASBA representatives serving as members on the AICPA NPRC, as well as reviewing the comprehensive oversight report prepared by the AICPA NPRC and the administrative oversight report issued by a third party on October 26, 2012, the NASBA CAC is satisfied and can report that the AICPA NPRC has operated appropriately for the period of November 1, 2011 to October 31, 2013.

### **iv. Other State Societies**

Most California-licensed accounting firms use CalCPA or AICPA NPRC to administer their peer reviews. There are some California-licensed firms that

have their peer reviews administered by AICPA administering entities other than CalCPA and AICPA NPRC, meaning out-of-state CPA societies.

The PROC intends on reviewing the AICPA oversight visit report and the state PROC’s annual report, if available, for a selection of out-of-state administrative entities each year. All AICPA oversight visit reports are reviewed and accepted by the AICPA PRB Oversight Task Force.

**c. Other Activities**

**i. NASBA PROC Summit**

The PROC Summit is a conference held by the NASBA CAC every other year to support and promote Peer Review Oversight as a critical and valuable practice for all boards of accountancy. The conference is intended to assist boards of accountancy in learning how to establish a new PROC and also share experiences among existing PROCs to help each board of accountancy be more effective with peer review oversight. Sessions and content are formed based on the most requested information by accountancy board members and PROC members considering the goals and objectives of the NASBA CAC. A PROC Summit was not held in 2014.

**IX. Statistics**

The data in the following table reflects the number of peer review reports accepted by the CalCPA from 2012 through 2014, and provides perspective on the size of the peer review program in California. The table does not include statistics for peer reviews accepted by the NPRC or out-of-state administering entities.

<b>Peer Review Reports Accepted by the CalCPA*</b>				
<b>Type of Review</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
System	648	517	507	1,672
Engagement	1,253	1,184	1,102	3,539
Total	1,901	1,701	1,609	5,211

\*Data received from CalCPA as of October 17, 2014.

**X. Findings**

Based on PROC members’ attendance at the various peer review bodies’ meetings cited in this report, the PROC offers the following findings to the CBA.

**AICPA**

The PROC found the AICPA PRB to give ample consideration to the quality of the profession, and exhibit a high level of technical knowledge and diligence in striving

to improve the quality of the peer review program and peer reviewers through their handling of a variety of issues that the program faces. The PROC found the agenda items for the meetings to be relevant and appropriate, and AICPA PRB members to execute their duties in a knowledgeable and professional manner understanding the importance of the peer review program to the accounting profession and the public that it serves.

In 2014, the U.S. Department of Labor (DOL) requested that the AICPA verify that all public accounting firms conducting audits of pension plans under the Employee Retirement Income Security Act (ERISA) were enrolled in peer review. The AICPA conducted a matching program and determined that some firms may not have appropriately identified the performance of ERISA pension plan audits prior to the completion of the firm's peer review. As such, these types of engagements may not have been reviewed during the peer review.

The AICPA was found to be responsive to the DOL's concerns. The AICPA PRB approved new guidance requiring that an administrative entity "recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. The peer review information and peer review documents must be removed from view on Facilitated State Board Access, and the administering entity must notify the applicable state board(s) of accountancy of information allowed by the guidance."

### **CalCPA**

The PROC found the CalCPA PRC met expectations concerning knowledge of peer review acceptance procedures and corrective/monitoring actions. Through participation in five RAB meetings, the PROC found RAB members met expectations concerning knowledge of technical and procedural matters.

### **NPRC**

In 2014, the PROC began participating in NASBA CAC meetings and reviewing summaries of CAC meetings not open to PROC members.

## **XI. Conclusions**

Based on its oversight activities, the PROC concluded that the AICPA Peer Review Program, including its administering entities, CalCPA and NPRC, function effectively. The PROC recommends that the CBA continue to recognize the AICPA Peer Review Program as a Board-recognized Peer Review Program Provider.