

California Board of Accountancy



ANNUAL REPORT

FISCAL YEAR 2012-13

The mission of the California Board of Accountancy is to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards.

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EXECUTIVE OFFICER'S MESSAGE

I am pleased to present the *California Board of Accountancy Annual Report for Fiscal Year 2012-13*. This report highlights the results of each division's operations as well as solutions that are underway to enhance and improve the California Board of Accountancy's (CBA) commitment to California consumers and licensees.



Patti Bowers

The past year has seen important accomplishments and changes at the CBA, including:

- Established mobility for out-of-state certified public accountants (CPA), joining California with 48 other states and the District of Columbia that have mobility.
- Created a new database to support the implementation of mobility, providing increased access to consumers when selecting a CPA.
- Completed and began implementation of the CBA 2013-2015 Strategic Plan.
- Increased enforcement staffing, which yielded increased resolution of complaints, investigations, disciplinary actions, proactive enforcement activities and reduced processing timeframes.
- Received approval on the regulations defining the 20 semester units of accounting study developed by the Accounting Education Committee. This, along with Senate Bill (SB) 773 (Negrete McLeod) of 2011, defined the 30 semester units of additional education that will be required for CPA licensure starting in 2014.
- Pursued two legislative proposals under SB 823 intended to ease the transition to the new educational requirements. The first proposal would allow individuals who have passed all four sections of the Uniform CPA Exam (CPA Exam) by December 31, 2013, to apply for CPA licensure under the existing pathways through December 31, 2015. The second proposal allows individuals enrolled in five-year programs resulting in conferral of a baccalaureate degree at the end of the program to take the CPA Exam once they have completed all the baccalaureate degree requirements.
- Received approval on regulations requiring criminal background checks for all licensees who have not previously submitted fingerprints as a condition of licensure, or for whom no electronic record of the licensee's fingerprints exists within the Department of Justice's criminal offender record identification database. This background check is a condition of license renewal after December 31, 2013, and is important for the protection of consumers.

EXECUTIVE OFFICER'S MESSAGE

- Expanded and fine-tuned social media and creative technology solutions to reach stakeholders with important information on consumer protection issues, as well as new legislation and programs that would have a direct impact on consumers, students and faculty, applicants, and licensees.

CBA staff are known for their professionalism, dedication and enthusiasm, and their significant level of accomplishment is impressive. They are truly an asset in representing the CBA, and I believe California consumers, licensees, CBA stakeholders, and fellow agencies are well-served by the California Board of Accountancy.

Patti Bowers
Executive Officer

CALIFORNIA BOARD OF ACCOUNTANCY FUNCTION

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

The CBA has the authority to license and discipline not only individuals and partnerships but also CPA corporations. As accounting practitioners, the CPA and the Public Accountant (PA) are sole proprietors, partners, shareholders, and staff employees of public accounting firms. They provide professional services to individuals; private and publicly-held companies; financial institutions; nonprofit organizations; and local, state, and federal government entities. CPAs and PAs also are employed in business and industry, in government, and in academia. The CBA performs its consumer protection mission for many stakeholders, including:

- Consumers of accounting services who require audits, reviews, and compilations of financial statements, tax preparation, financial planning, business advice and management consultation, and a wide variety of related tasks.
- Lenders, shareholders, investors, and small and large companies who rely on the integrity of audited financial information.
- Governmental bodies, donors, and trustees of not-for-profit agencies, which require audited financial information or assistance with internal accounting controls.
- Regulatory bodies such as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Public Utilities Commission, and federal and state banking regulators; and local, state, and federal taxing authorities.
- Retirement systems, pension plans, and stock exchanges.

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

CBA 2013-2015 STRATEGIC PLAN

The 2013-2015 Strategic Plan, adopted in September 2012, identifies seven goals and 28 objectives developed to enable the CBA to meet its mandates identified in the Accountancy Act and CBA Regulations, as well as the policy directions of CBA members. Below is an overview of the work staff has begun as it works towards accomplishing each of the goals:

Goal 1 – Enforcement

Maintain an active, effective, and efficient program to maximize consumer protection.

The CBA has made significant improvements in the Enforcement Division, further reinforcing the CBA's mission of consumer protection. Reduction in internal investigative timeframes has meant more timely resolution of consumer complaints. Further prioritizing cases, streamlining processes and management oversight were all key factors on improving the process. The CBA will be working with the Attorney General's (AG) office to improve timeframes for cases that result in formal disciplinary action. Additionally, CBA staff continues to work towards expanding fieldwork of CBA investigators and educating licensees on the consequences of unprofessional conduct.

Goal 2 – Customer Service

Deliver the highest level of customer service.

The CBA continuously strives to offer the highest level of customer service to stakeholders. The CBA continues to monitor feedback from its customer service survey and ensures its staff maintains a high level of professionalism when interacting with those who contact the CBA office.

Goal 3 - Licensing

Maintain an active, effective, and efficient program that maximizes customer service to Uniform CPA Examination candidates, applicants for CPA licensure, and licensees.

CBA Licensing Division staff has been faced with numerous changes in the area of licensing. Since adoption of the 2013-2015 Strategic Plan, staff has successfully implemented a new practice privilege program to afford out-of-state licensees the authority to practice in California without notice or fee. As part of the implementation, the CBA launched the Practice Privilege database, referred to as Mobi, with the ability to manage both enforcement- and licensing-related practice privilege requirements. Additionally, Examination and Initial Licensing Unit staff has continued to focus on implementation activities for the new licensing requirements, which included Social Media events, *UPDATE* articles, live and webinar presentations, and increased resources on the CBA website.

CBA 2013-2015 STRATEGIC PLAN

Goal 4 – Outreach

Provide and maintain effective and timely outreach to all CBA stakeholders.

Staff keeps pace with social media platforms and evaluates the suitability of each as an education and outreach tool of the CBA. Staff currently engage with 2,300 plus Facebook fans, more than 1,100 Twitter followers, and have begun developing a following on Pinterest, which includes boards geared towards consumers, students and accounting professionals.

Goal 5 – Laws and Regulations

Maintain an active presence and leadership role that efficiently leverages the CBA's position of legislative influence.

The CBA continues to ensure an active presence and leadership role as it relates to legislation. This involved meetings with legislators in Spring 2013 to discuss the CBA and its mission of consumer protection. This will continue to be a high priority as the CBA monitors various legislative proposals that impact consumers and other CBA stakeholders.

Goal 6 – Emerging Technologies

Improve efficiency and information security through use of existing and emerging technologies.

The CBA leverages the use of technology to expand the ways it reaches stakeholders. Late in FY 2012-13, the CBA License Lookup was redesigned to provide increased access for consumers, not only to CBA records regarding practice privilege holders, CBA enforcement-related information, and SEC/PCAOB actions; but direct links to other state boards' of accountancy websites and the National Association of State Boards of Accountancy's (NASBA) CPAVerify. Additionally, the CBA continues to work towards an online application process for licensure and license renewal.

Goal 7 – Organizational Effectiveness

Maintain an efficient and effective team of leaders and professionals by promoting staff development and retention.

Management continues to emphasize training courses and cross-training of staff that can be useful for internal promotional opportunities. In addition, the Licensing and Enforcement Divisions are presently undertaking a review of all processes and procedures and documenting workflow to determine whether resource adjustments, staff augmentations, or both are needed. This review also provides an opportunity to determine if any adjustments can be made which will assist with the implementation of upcoming law changes (peer review, fingerprinting).

CUSTOMER SATISFACTION SURVEY

As identified in the 2013-2015 Strategic Plan, Goal 2, “Deliver the highest level of customer service,” CBA staff are expected to treat all stakeholders with a high level of professionalism. The CBA actively seeks feedback from stakeholders through the Customer Satisfaction Survey available on its website. In order to encourage participation, a link to the survey is posted to various outgoing email.

The survey asks respondents to categorize themselves as licensees, applicants for practice privilege, consumers, exam candidates, or applicants for licensure; indicate which unit they contacted, and answer six questions by choosing the selection that best describes their experience in each case. The following questions are asked in the survey:

- Overall, did the service you receive from the CBA meet your expectations?
- How satisfied were you with the service received from CBA staff?
- Were you satisfied with how quickly CBA staff responded to your inquiry?
- When contacting the CBA by email, were you satisfied with staff's ability to answer your question(s)?
- When contacting the CBA by telephone, were you satisfied with staff's ability to answer your question(s)?
- Are you satisfied with how information is organized and presented on the CBA website?

The chart on page 7 illustrates the responses received between July 1, 2012 and June 30, 2013. Overall, approximately 82 percent of survey respondents were very satisfied or satisfied with their experience. The information gathered from the survey enables the CBA staff to focus on improving specific service components where needed, and to ensure that all stakeholders receive the highest level of customer service possible.

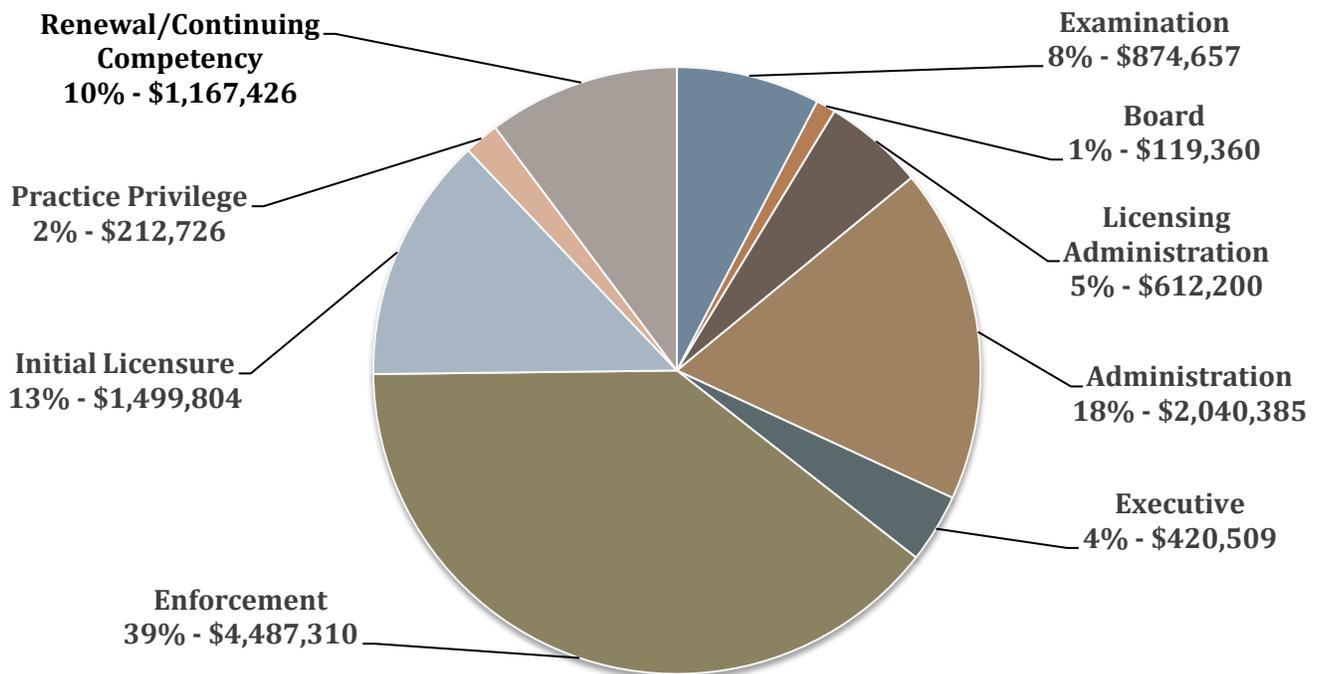
CUSTOMER SATISFACTION SURVEY

CUSTOMER SATISFACTION SURVEY RESULTS						
FY 2012-13						
Customer Type	CPA/PA	Practice Privilege Applicant	Consumers	Exam Candidates	License Applicants	Total Number of Respondents
	99 (60.4%)	2 (1.2%)	11 (6.7%)	31 (18.9%)	21 (12.8%)	164
Unit Contacted	Renewal	Practice Privilege	Enforcement	Exam	Initial Licensing	
	92 (55.8%)	3 (1.8%)	12 (7.3%)	27 (16.4%)	19 (11.5%)	165 <i>(12 did not indicate a unit)</i>
Possible Ratings	Very Satisfied	Satisfied	Neutral	Not Satisfied	Not Applicable	
Overall, did the service you receive from the CBA meet your expectations?	111 (68.9%)	21 (13.0%)	4 (2.5%)	25 (15.5%)	0	161
How satisfied were you with the service received from CBA staff?	117 (72.7%)	16 (9.9%)	3 (1.9%)	22 (13.7%)	3 (1.9%)	161
Were you satisfied with how quickly CBA staff responded to your inquiry?	121 (74.2%)	14 (8.6%)	8 (4.9%)	16 (9.8%)	4 (2.5%)	163
When contacting the CBA by telephone, were you satisfied with staff's ability to answer your question(s)?	75 (46.3%)	7 (4.3%)	5 (3.1%)	15 (9.3%)	60 (37.0%)	162
When contacting the CBA by email, were you satisfied with staff's ability to answer your question(s)?	100 (62.9%)	4 (2.5%)	6 (3.8%)	10 (6.3%)	39 (24.5%)	159
Are you satisfied with how information is organized and presented on the CBA website?	61 (38.1%)	47 (29.4%)	18 (11.3%)	17 (10.6%)	17 (10.6%)	160

CALIFORNIA BOARD OF ACCOUNTANCY BUDGET

The CBA's budget in fiscal year (FY) 2012-13 was \$11,434,377, which represents the maximum amount of money that the CBA can spend on annual operations. The chart below illustrates the resources allotted to each unit within the CBA. The CBA Administration Division is responsible for determining the budgets for each program with the number and classification of personnel, specific contracts, and expected equipment purchases all considered when determining these amounts.

FY 2012-13 Expenditures by Program Component Total Budget: \$11,434,377



Beginning FY 2011-12, the CBA reduced its renewal fees from \$200 to \$120 per biennial period in order to lower the Accountancy Fund Reserve (Reserve) to more appropriate levels. This temporary reduction continued through FY 2012-13. Despite this revenue reduction, the Reserve has remained relatively constant over the past year and has actually increased by approximately \$700,000 due to unusually high CBA cost recovery reimbursements.

In FY 2012-13 the CBA submitted another fee reduction proposal to more aggressively reduce the Reserve to approximately three months of annual expenditures. This will be accomplished by temporarily lowering exam, license application, initial licensing, and license renewal fees to \$50 or less. Applicants and licensees will benefit from paying lower fees. The fees are part of a two-year temporary reduction slated to begin July 1,

CALIFORNIA BOARD OF ACCOUNTANCY BUDGET

2014 and end June 30, 2016. The regulation package has been submitted to the Department of Consumer Affairs (DCA) and will need approval by the Business, Consumer Services, and Housing Agency (Agency); the Department of Finance (DOF); and the Office of Administrative Law (OAL) before becoming effective.

For FY 2012-13, no loans to the State's General Fund were made from the CBA Reserve; however, a total loan amount of \$31,270,000 from the Reserve remains outstanding. With current expenditure and revenue levels, staff project that there is no immediate need for these monies to be repaid. This does not preclude the CBA from requesting that specific repayment schedules be considered to avoid any future uncertainty in the fund balance.

CBA members are kept apprised of CBA budget updates and year-to-date expenditure and revenue data via quarterly financial reports at CBA meetings. These reports reflect revenues, expenditures, and reimbursements for the current quarter and are compared to the same quarter of the prior year. Additional charts included in the report show historical CBA data with year-end expenditure projections reflecting revenue and expenditure levels. The table below provides a general summary of the CBA Reserve including statistics for FY 2012-13 and staff projections for the next two years.

ANALYSIS OF FUND CONDITION	FY 2012-13 (Actual)	FY 2013-14 (Projected)	FY 2014-15 (Projected)¹
Total Reserves, July 1	\$15,123,000	\$15,900,000	\$14,580,000
Total Revenues	\$10,066,441	\$10,254,000	\$5,903,000
Total Transfers	\$0	\$0	\$0
Total Resources	\$25,189,441	\$26,154,000	\$20,483,000
Total Expenditures	\$10,195,730	\$11,870,000	\$11,870,000
Scheduled Reimbursements	\$125,858	\$296,000	\$296,000
Investigative Cost Recovery	\$740,254	\$0	\$0
Reserve, June 30	\$15,859,823	\$14,580,000	\$8,909,000
MONTHS IN RESERVE	16.4	15.1	9.2

¹ The revenue figures for FY 2014-15 reflect revenue decreases from proposed temporary fee reductions submitted in FY 2012-13. The rulemaking file is still pending approval from DCA; Agency; DOF; and OAL.

CALIFORNIA BOARD OF ACCOUNTANCY BUDGET

The CBA received Budget Letter (BL) 12-05 from the DOF originating from the Governor's office, providing guidance to state agencies regarding submission of requests for out-of-state (OST) travel for 2012-13. Historically, the CBA has submitted travel requests for the CBA President and Executive Officer to attend two NASBA conferences. Over the past two years, OST was not permitted unless it was deemed mission-critical, met specific exemption criteria, and received pre-approval by the DCA. The CBA submitted one mission-critical OST request during FY 2012-13. The trip requested was for the Chair of the CBA Peer Review Oversight Committee (PROC) to attend a meeting facilitated by NASBA. Although this trip was not approved, the CBA continues to submit OST requests for trips it deems critical to its Enforcement responsibilities, litigation requirements, or those required by statute.

During the FY 2012-13, several actions were taken to achieve statewide cost savings. The CBA reduced its staffing totals by 3.6 positions as a result of DOF BL 12-03, which directed all state agencies to eliminate the salary savings line item and associated positions in departmental budgets. The CBA achieved the reduction in positions through attrition and no staff were displaced. In addition to losing permanent positions, the CBA had to terminate two Student Assistants and two Retired Annuitants by September 1, 2012 as a result of budget reductions. Employees were also subject to the Personal Leave Program which required employees to take one day off a month and receive a 4.62 percent pay reduction. The CBA redirected resources and used temporary staff to ensure there was no adverse impact to its operations.

FY 2012-13 was the first full year that the Enforcement Division was fully staffed with Investigative Certified Public Accountants since 2003. CBA filled 13 permanent position vacancies during FY 2012-13.

ADMINISTRATION DIVISION

The Administration Division is comprised of twenty staff responsible for all CBA day-to-day administrative operations. Duties include assisting with the development of the budget, facilitating requests for staffing augmentations, contracting with vendors, purchasing new equipment, serving as liaison to the DCA on personnel and travel matters, providing Information Technology (IT) support, maintaining the CBA website, and providing timely outreach to all stakeholders. Additionally, staff within the Administration Division coordinates the CBA's legislative and regulatory efforts.

Public Affairs and Outreach

FY 2012-13 was marked by growth and solid successes, particularly in the area of social media. As the influence of traditional media continues to wane, individuals are largely getting their information online and from social media. This paradigm shift has impacted the way staff primarily reaches audiences, and allows for flow of information from the CBA to stakeholders without the filter of news organizations. While staff continues traditional means of disseminating information to the media, the success of those efforts have been eclipsed by the gains made through social media.

As part of a strategy to increase the coverage for CBA's enforcement press releases, staff targeted geographic "micro communities," focusing on the towns and even neighborhoods where a disciplined individual or CPA firm provided services. Through an America Online wire service known as "Patch.com" staff saw releases gain traction that likely would have been passed over by news outlets in larger cities. Through these efforts, staff was able to alert communities that were most likely affected by the actions of the disciplined CPA and in doing so, provided enhanced consumer protection.

CBA Staff participated in an eight week social media "boot camp" training program, which involved evaluating which social media platforms were most compatible with the CBA's brand and the most effective vehicles for the CBA's goals. Staff subsequently employed social media best practices, including the timing of posts, tweets and content curation, in which content shared from other sources are carefully chosen for consistency with the CBA brand.

Training also involved learning best practices from leaders in social media and included metrics applied to several platforms to evaluate success. While measuring the number of fans on Facebook can be valuable, measuring both the reach (how many individuals saw a post) and "engagement" or interactions with fans is of greater value. By year's end, CBA reached a Facebook audience that was 50 percent greater than the 2,250 fans that followed it. While the CBA Facebook fan base grew by 800 in FY 2012-13, by the close of the year engagement reached 95 percent. At least half of the measured engagement was

ADMINISTRATION DIVISION

customer-service based, responding to questions from students, exam candidates and licensees. Providing real-time and often immediate responses in a professional manner and receiving real-time customer feedback, is in concert with the customer service goal identified in the CBA 2013-2015 Strategic Plan.

As part of the CBA's ongoing plan to reach students and teachers with information regarding the new educational requirements for CPA licensure set to take effect in 2014, the CBA held a live Facebook event, "Getting to Know the New Licensure Requirements." At the outset, positive response to this event was strong and the invitation was shared among college students.

Staff also added a Pinterest account in FY 2012-13, a social media platform suitable for providing static images that impart information, such as infographics. Groundwork was also being laid for expansion into other social media platforms, such as LinkedIn. The CBA's expertise and success in social media caught the attention of the DCA's Deputy Director for Communications, and CBA staff has served as a consultant on the DCA's Social Media Policy and Standards, as well providing social media guidance for the Office of Public Affairs staff.

Circulation of the CBA's *UPDATE* publication has also benefited from social media exposure, and several requests for permission to reprint the article "What You Want (and Need) to Know About Peer Review" from the Fall 2012 edition were received. The article was reprinted in the public accounting blog, [The Attestation Update A&A for CPAs](#).

Notably, with the exception of dedicated staff time and a very minor cost associated with staff training, all of the aforementioned outreach was accomplished without cost and within the prescribed restriction on state travel.

New Laws Effective January 1, 2013

Assembly Bill 1345 (Lara)

This bill required an audit for any local agency to be completed by a CPA or PA, licensed by, and in good standing with, the CBA. Additionally, this bill prohibited a local agency from employing a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner has primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years.

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Assembly Bill 1588 (Atkins)

This bill allowed licensees to have the biennial license renewal fee and continuing education (CE) requirements waived if he or she is called to active duty as a member of the California National Guard or the United States Armed Forces. The individual's license is considered current, but he or she may not practice public accounting and may not provide services to the general public. If, however, the licensee is required by the military to provide public accounting services while on active duty, the license will be considered to be in a military active status.

Assembly Bill 1904 (Block)

This bill required boards to expedite the licensure process for an applicant who holds a license in the same profession or vocation in another jurisdiction and is married to, or in a legal union with, an active duty member of the Armed Forces of the United States who is assigned to a duty station in California under official active duty military orders.

Assembly Bill 2570 (Hill)

This bill prohibited a licensee from including a provision in a settlement from prohibiting the other party in that dispute from contacting, filing a complaint with, or cooperating with the department, board, bureau, or program, or that requires the other party to withdraw a complaint, except as specified. A licensee in violation of these provisions would be subject to disciplinary action by the board, bureau, or program. The bill would also prohibit a board, bureau, or program from requiring its licensees in a disciplinary action that is based on a complaint or report that has been settled in a civil action to pay additional moneys to the benefit of any plaintiff in the civil action.

Senate Bill 1099 (Wright)

This bill required OAL to provide on its Internet website a list of, and a link to the full text of, each pending regulation filed with the Secretary of State. This bill also required a state agency to post on its Internet website each regulation filed with the Secretary of State.

Senate Bill 1327 (Cannella)

This bill required the Director of the Governor's Office of Business and Economic Development to ensure that the office's Internet website contains information to assist an individual with the licensing, permitting, and registration requirements necessary to start a business. The bill required a state agency that the Governor determines has licensing authority to provide accurate updated information about its licensing requirements, and prohibited a state agency from using this Internet website as the exclusive source of licensing information for the public. The bill also authorized the Governor to impose a reasonable fee, not to exceed the actual cost to provide the service, upon users of the Internet website.

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Senate Bill 1405 (De León)

This bill, effective July 1, 2013, eliminated the notice and fee requirements of practice privilege and reinstates them on January 1, 2019. It authorized individuals to do certain audit and review services through a firm licensed in California. It required a practice privilege holder to cease practice and notify the CBA if certain conditions apply. The bill required individuals who have met any of certain criteria within the prior seven years to notify the CBA regarding their intent to practice and required CBA authorization to practice. This bill authorized the CBA to revoke a practice privilege under certain circumstances including listed disqualifying conditions. The bill required the CBA to notify the individual's licensing boards and other entities if the practice privilege is revoked. The bill allowed the CBA to administratively suspend a practice privilege for specified reasons.

This bill, beginning January 1, 2014, will authorize a licensee to apply for a license in a military inactive status while he or she is engaged in active duty as a member of the California National Guard or the United States Armed Forces. It will exempt a licensee with that status from paying the biennial renewal fee or being subject to CE and peer review requirements. The bill will prohibit the holder of a license in a military inactive status from engaging in the practice of public accountancy. The bill will require the holder of a license in a military inactive status to pay the biennial renewal fee and meet CE and peer review requirements within a year after his or her discharge from active duty. It will also provide for conversion to active status prior to discharge from active duty.

Senate Bill 1576 (Senate Business, Professions and Economic Development Committee)

This bill changed an out-of-date provision requiring the Rules of Professional Conduct to be printed on the licensing application. This bill clarified that two public accounting corporations may form a public accounting partnership. This bill deleted obsolete language from the peer review code section. This bill removed an obsolete provision regarding the Ethics Curriculum Committee. This bill deleted obsolete provisions regarding the adoption of the accounting study guidelines and the California Research Bureau report. Additionally, this bill extended the length of time the CBA may grant to a licensee to repay investigation costs from one year to three years, and it allowed holders of canceled and delinquent licenses to apply for retired status.

Pending Legislation

Assembly Bill 186 (Maienschein)

This bill would allow boards within DCA to issue a temporary license to a spouse or the domestic partner of an active duty member of the armed forces stationed in California for up to 12 months after issuance, upon issuance of the expedited license, or upon denial of the application for expedited licensure by the board, whichever occurs first. The applicant must possess a current license to practice the profession, the applicant shall not have committed any act that would constitute grounds for denial, suspension, or revocation of the license, and the applicant shall not have been disciplined from a licensing entity in another jurisdiction. *(This is presently a two-year bill.)*

The CBA took a Support if Amended position on Assembly Bill 186, suggesting amendments to further clarify requirements for out-of-state applicants, which would enhance consumer protection.

Assembly Bill 258 (Chávez)

This bill would require every state agency that asks on any written document, or through its website, whether a person is a veteran, to instead ask, "Have you ever served in the United States military?"

The CBA took a Support position on Assembly Bill 258.

Assembly Bill 291 (Nestande)

This bill would establish the California Sunset Review Commission (CSRC) and eliminate the Joint Sunset Review Committee. This bill would require the CSRC to extensively examine each state agency, authority, board, bureau, commission, conservancy, council, department, division, and office to identify each entity's overall necessity, cost-effectiveness, and competency, and would require the CSRC to prepare a report to the Legislature with recommended changes. *(This is presently a two-year bill.)*

The CBA took an Oppose position on Assembly Bill 291. The CBA believes that the Legislature's present policy committees already perform a thorough assessment of the CBA and adding a second review is unnecessary.

Assembly Bill 1057 (Medina)

This bill would require boards, beginning January 1, 2015, to inquire in every application for licensure if the individual applying for licensure is serving in, or has previously served in, the military.

The CBA took a Support position on Assembly Bill 1057.

ADMINISTRATION DIVISION

Assembly Bill 1151 (Ting)

This bill would require a tax agent, as defined, to register with the Secretary of State in order to represent a taxpayer in reassessing their property tax before a county official. This bill would require the Secretary of State to semiannually publish a list of registered tax agents on its website and would provide the Attorney General the discretion to pursue civil fines for noncompliance or violations of this bill. This bill is intended to increase transparency to prevent improper property tax reductions. *(This is presently a two-year bill.)*

The CBA took an Oppose position on Assembly Bill 1151. While the CBA supports transparency and consumer protection, it does not believe this bill addresses the problem it is trying to solve and creates a duplicative registration requirement for CPAs who are already regulated by the CBA.

Assembly Bill 1412 (Assembly Accountability and Administrative Review Committee)

This bill would prohibit licensees from charging a contingency fee for the assessment of overpaid sales tax of \$50,000 or greater. *(This is presently a two-year bill.)*

The CBA took an Oppose Unless Amended position on Assembly Bill 1412. The CBA believes prohibiting a contingency fee for the assessment of overpaid sales tax of \$50,000 or greater does not advance consumer protection.

Senate Bill 176 (Galgiani)

This bill allows state agencies to file regulation documents with OAL electronically. It also requires state agencies to make a reasonable attempt to consult with stakeholders prior to initiating the rulemaking process. If no consultation takes place, the rulemaking record must explain why stakeholders were not consulted. *(This is presently a two-year bill.)*

The CBA took a Support position on Senate Bill 176.

Senate Bill 305 (Price)

This bill would, among other provisions, clarify that boards are authorized to receive documents needed to complete an investigation on an applicant or licensee.

The CBA took a Neutral position on Senate Bill 305.

Senate Bill 822 (Senate Business, Professions and Economic Development Committee)

This bill would provide the CBA with the authority to issue a citation to an out-of-state licensee exercising a practice privilege in California, and this bill would require an out-of-

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state licensee, who is exercising a practice privilege in California, to notify the CBA of any pending criminal charges in any jurisdiction other than a minor traffic violation.

The CBA took a Support position on Senate Bill 822.

Senate Bill 823 (Senate Business, Professions and Economic Development Committee)

This bill would allow applicants enrolled in a program that confers the baccalaureate degree at the completion of 150 units to qualify for the CPA Exam following completion of the baccalaureate degree requirements. Additionally, the bill would allow applicants to obtain licensure under the existing licensure requirements until January 1, 2016 if they complete the CPA Exam on or before December 31, 2013.

The CBA took a Support position on Senate Bill 823.

Approved Regulations

Accounting Study

This rulemaking placed the guidelines defining the 20 semester units of accounting study that were developed by the Accounting Education Committee and the CBA into regulation. This, along with SB 773, defined the 30 semester units of additional education that will be required for CPA licensure starting in 2014.

Safe Harbor

This rulemaking amended the safe harbor letters in CBA Regulations section 4 to clarify that the preparer of the financial statements attached to the safe harbor letter is not required to be licensed by the CBA for the preparation of the attached statements. The proposal added additional language to the letters to further clarify that the accompanying financial statements are not compiled.

Fingerprinting and Disclosure Requirements

This rulemaking requires that all licenses renewing in an active status after December 31, 2013, have a record of their fingerprints on file for purposes of securing a background check by the California Department of Justice or the United States Federal Bureau of Investigation. It also requires certain information to be disclosed on the renewal application.

Peer Review Reporting

This rulemaking clarified and changed the peer review reporting process for licensees. It revised the peer review reporting form and changed the peer review reporting date to coincide with a licensee's renewal date.

Practice Privilege (Emergency)

This rulemaking defined substantially equivalent states, defined terms, and created the forms necessary to implement the new practice privilege program as established in SB 1405 (De León) of 2012. In addition, it requires out-of-state registered firms to keep certain information current and to renew their registration every two years. It also provides for an appeals process, requires a notification of intent to administratively suspend, and modifies the CBA's Disciplinary Guidelines.

Regulations in Progress

Retired Status

This proposal would implement a retired license status as provided for in AB 431 (Ma) of 2011. It outlines the qualifications needed to obtain retired status, provides a form for application for the status, and provides for restoration of the license back to active status. In addition, it sets the fees and only allows for the status to be granted two times.

Continuing Education

This proposal would conform requirements for CE courses, in large part, to national standards. In addition, it will change the CE required for applicants whose experience was obtained five or more years prior to application for licensure and for reissuance of a cancelled license to be equivalent to the same standard of CE required for active license renewal.

The proposal also makes changes to the Fraud CE requirement for licensees who perform Governmental Auditing and Accounting and Auditing. The proposal reduces the number of Fraud CE hours from eight to four hours and expanded the scope of the course to include prevention in addition to the detection and reporting of fraud in financial statements. The reduction was based, in part, on the fact that this topic has become a regular part of the accounting education required for CPA licensure over the past decade.

Military Inactive Status

This proposal would create the form by which a license may apply for military inactive status as established in SB 1405. It also clarifies what sort of evidence the CBA would accept as proof of military service and discharge from military service. In addition, it would set forth the means by which a licensee could convert their license from a military inactive status to active status or inactive status.

Fees

This proposal would reduce several of the CBA's fees for a two-year period. These fees include the exam application fee, the license application fee, the initial permit fee and the

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renewal fee. The proposal would require the CBA to reexamine its actual and estimated costs by May, 2015, in order to determine appropriate levels for the initial license and renewal fees.

Practice Privilege

This proposal would make permanent the changes achieved in the emergency rulemaking regarding practice privilege. It would define substantially equivalent states, define terms, and create the forms necessary to implement the new practice privilege program as established in SB 1405. In addition, it would require out-of-state registered firms to keep certain information current and to renew their registration every two years. It also would provide for an appeals process, require a notification of intent to administratively suspend, and modify the CBA's Disciplinary Guidelines.

CBA Website

The CBA website has become a virtual “one-stop shop” for information regarding CBA activities, valuable information and resources for consumers, licensees and other stakeholders. Strategic Plan Objective 6.5 requires that the CBA maintain a secure and relevant website that provides enhanced interactive features. The CBA IT staff have been vigilant in protecting the security and integrity of the CBA website.

To assist CBA stakeholders, there have been additions to the CBA website in FY 2012-13 that reflect new information and resources. Among them:

- Modification of the existing Practice Privilege database to support consumer protection under mobility. Consumers may now use the CBA License Lookup to search registered out-of-state accounting firms; access NASBA's CPAVerify website, an online central repository of information about licensed CPAs and public accounting firms providing a single-search resource covering participating jurisdictions where a person or firm has been licensed; and a map with links to each state's board of accountancy website
- A new webpage dedicated to the new educational requirements effective January 2014
- The posting of citation orders, established by BPC section 27
- New information and resources for members and families of members of the military
- A link to an overview of the license renewal process

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The CBA homepage also offers links to several interactive features, including a central page with live links to online forms, and self-assessment worksheets for meeting the new educational requirements for CPA Licensure. More interactive capabilities are anticipated with the implementation of the BreEZe system.

Information Technology

During FY 2012-13, the IT staff have successfully completed multiple important projects that have enhanced CBA outreach and communication with stakeholders as well as internal operations. One of the projects included enhancements to the CBA's online Peer Review Reporting form. Following OAL approval of changes to the peer review reporting form, IT staff modified the online reporting form to coincide with the information licensees must report on the hard copy form. A majority of licensees have used the online reporting form to report peer review information to the CBA.

In preparation for the CBA's transition to the BreEZe system, which is expected to begin in late 2014, IT staff began a project to overhaul the internal database used to track applicants for CPA licensure. The updated database uses a new platform to support the system, streamlines the workflow for application approval, and offers easier access to statistical reports. The updated database will be beneficial when the applicant records are moved to the BreEZe system.

The most significant IT project during FY 2012-13, was the modifications and enhancements to the practice privilege database. The enhancements were required as a result of SB 1405 which created California's version of mobility. The updated database supports an out-of-state accounting firm registration requirement and includes a public "license lookup" system on the CBA's website for both out-of-state licensed individuals and out-of-state registered accounting firms. The new system launched at the end of June 2013.

Consistent with the CBA's goal of transparency, the CBA IT staff enhanced our webcasting system to add compatibility for Android and Apple iPhone/iPad devices to our archived CBA meeting webcasts on the CBA website. Additional enhancements continue into FY 2013-14.

The CBA successfully completed the migration to the State of California's vendor owned and managed California Government Enterprise Network from the Department of Technology's California State Government Network. This migration was mandated by AB 2408 (Smyth) of 2010 and the Governor's 2009 Reorganization Plan.

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As part of this migration, the CBA's Internet connection was also upgraded to improve the performance of our CBA meeting webcasts, the responsiveness of our connection to the California Email Service and to support the increased bandwidth requirements of DCA's BreZE system.

It is worth noting that in light of the State of California's fiscal crisis and the increased pressure on State agencies to reduce waste and operate more efficiently, these CBA IT projects were completed with minimal expenditures by using existing CBA resources.

ENFORCEMENT DIVISION

The Enforcement Division is responsible for overseeing the enforcement of California laws and rules governing the practice of public accountancy. Staff receives complaints from consumers, licensees, professional societies, law enforcement agencies, other government agencies and internal referrals. Enforcement staff also regularly monitors social media outlets for information that may suggest licensees' violations of the Accountancy Act and CBA Regulations. While historically consumers have been the main origin of complaints, licensees also have been a significant source, most often reporting unlicensed activity. This fiscal year, however, the main source of complaints has been internal referrals of licensees impacted by the mandatory peer review program implemented in 2010.

Consistent with the division's significant responsibilities in the area of consumer protection, workload is prioritized to ensure maximum consumer protection. Cases with the potential for ongoing consumer harm receive the highest priority and urgent attention. The options of Interim Suspension Orders (ISO) or Penal Code section 23 (PC 23) suspensions are used whenever appropriate to restrict or suspend licensee practice rights to diminish potential consumer losses. Additionally, enforcement staff seeks stipulated settlements when possible to expedite disciplinary decisions to provide consumer protection and promote cost effectiveness.

During FY 2012-13 the Enforcement Division maintained its full allocated staffing level achieved in FY 2011-12. The positive results of this achievement are reflected in the increased productivity experienced by the division. This fully staffed division yielded increased resolution of complaints, investigations, disciplinary actions, proactive enforcement activities, and a reduction in processing timeframes.

Organization

The Enforcement Division consists of 22 employees and is comprised of three business units:

Technical Investigations

Technical Investigations consists of one Supervising Investigative Certified Public Accountant and seven Investigative Certified Public Accountants who conduct the most complex investigations.

Non-Technical Investigations

Non-Technical Investigations consists of one Staff Services Manager and four analysts who conduct the less complex investigations.

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Program and Committee Support

Program and Committee Support consists of five analysts and three office technicians who provide assistance with program support activities such as issuing citations and fines, assigning and monitoring referrals to the AG's office, probation monitoring, and monitoring compliance with the mandatory peer review program. They also provide assistance to enforcement program committees including the Enforcement Advisory Committee (EAC), Peer Review Oversight Committee (PROC), and the Enforcement Program Oversight Committee (EPOC).

Complaints

The following matrix indicates the volume of complaints, convictions and arrest reports (Complaints) received during the FY 2012-13.

Complaints	FY 2011-12	FY 2012-13	Change
Received	1,765	3,094	+1,329
Closed – No Action	132	182	+50
Assigned for Investigation	1,600	2,919	+1,319
Average Days from Intake to Closure or Assign for Investigation	4	3	-1
Pending	9	2	-7
Average Age of Pending Complaints	22 days	6 days	-16
Convictions/Arrest Reports			
Received	146	177	+31
Closed – No Action	130	147	+17
Assigned for Investigation	16	32	+16
Average Days from Intake to Closure or Assign for Investigation	2	2	0
Pending	3	1	-2

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Approximately 90 percent, or 2,951², of the 3,271³ Complaints received were assigned for investigation. This is an increase from the prior year when approximately 85 percent of the Complaints received were assigned for investigation. Additionally, the Average Age of Pending Complaints decreased by 16 days. This is a further reduction from the prior year reduction of 17 days, reducing the average age of Complaints by 33 days over the past two years.

The Enforcement Division received an additional 1,360⁴ Complaints during FY 2012-13 than in FY 2011-12. Most of the additional Complaints received were internal referrals originating from the peer review program. The referrals were made since licensees failed to file the mandated Peer Review Reporting Form, received a substandard peer review, or filed a false Peer Review Reporting Form.

To facilitate the reporting of peer review information and to increase compliance, the CBA amended CBA Regulations sections 40 and 45 to require licensees to report their peer review information at the time of license renewal. This change should reduce the number of licensees who fail to file the Peer Review Reporting Form, which is the largest area of non-compliance.

Investigations

The following matrix illustrates the results achieved by the Enforcement Division during FY 2012-13 in the area of investigations:

Investigations	FY 2011-12	FY 2012-13	Change
Assigned for Investigation	1,626	2,951	+1,325
Investigations Closed	1,525	2,870	+1,345
Average Days to Close	85	73	-12
Investigations Pending	439	522	+83
Average Age of Pending Investigation	248 days	167 days	-81 days
Median Age of Pending Investigation	164 days	104 days	-60 days

² Complaints Assigned for Investigations consists of Complaints totaling 2,919 and Convictions/Arrest Reports totaling 32.

³ Complaints Received consists of Complaints totaling 3,094 and Convictions/Arrest Reports totaling 177.

⁴ Additional Complaints consists of additional Complaints totaling 1,329 and additional Convictions/Arrest Reports totaling 31.

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The average age and median age of pending investigations decreased by 81 and 60 days, respectively. The average and median age of investigations are 167 and 104 days, respectively. These are the lowest levels attained in the past three fiscal years.

Additionally, the number of investigations opened and closed increased by 1,325 and 1,345, respectively. The net effect is that Investigations Pending increased by 83, bringing the total number of pending investigations to 522. This number is the largest number of investigations pending in the past three fiscal years. This high number of investigations pending, as well as anticipated increases in enforcement workloads resulting from mandatory fingerprinting and peer review and investigative backlog, will strain investigative resources in the coming year.

As in the prior year, management is reviewing pending investigations and preparing aggressive action plans for complex cases that are over one year old and for all other cases that are over 100 days old. Additionally, staffing augmentation requests have been prepared seeking additional investigative resources to address future workload increases. These proactive managerial steps will aid in mitigating adverse impacts on the current and future investigative workload.

Disciplinary Actions

The matrix on page 26 illustrates the results achieved by the Enforcement Division during FY 2012-13 in fulfilling its consumer protection objective through referrals of matters to the AG's office, imposition of discipline, and issuance of citations.

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Attorney General	FY 2011-12	FY 2012-13	Change
Referrals	50	62	+12
Cases Pending	54	57	+3
Accusations Filed	37	50	+13
Statement of Issues Filed	2	3	+1
Petitions for Revocation of Probation Filed	3	3	0
Disciplinary Orders			
Stipulations Effective	19	39	+20
Proposed Decisions Effective	3	5	+2
Default Decisions Effective	4	14	+10
Average Days to Complete Proposed Decisions/Default Decisions/Stipulations ⁵	867	830	-37
Citations			
Final Citations	908	1,883	+975
Average Days to Complete	22	67	+45

During FY 2012-13, Disciplinary Orders increased from 26 to 58, an increase of 32 Orders or 123 percent from the prior fiscal year. At the same time, the average days to complete Disciplinary Orders decreased by 37 days.

The number of citations issued increased by 975 from the prior year. The largest increase is from licensees who failed to respond to CBA letters requesting the filing of the Peer Review Reporting Form. Licensees who failed to respond to the CBA were issued a citation and fine of \$250.

⁵ The average days to complete proposed decisions/default decisions/stipulations is from intake to final adjudication.

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Probation

Once the disciplinary process is complete, licensees placed on probation are monitored for compliance with the conditions of probation. A Petition to Revoke Probation is filed when the licensee fails to adhere to the probationary terms. Currently there are 53 licensees on probation. During the fiscal year, three Petitions to Revoke Probation were filed.

Other Enforcement Actions

Administrative Penalties

During the past three fiscal years the division has issued administrative penalties on an increasing basis. Administrative penalties issued for the past three years are \$20,000, \$302,500, and \$304,500, respectively. The increase in penalties for the past two years related directly to the number of citations issued to licensees for failing to respond to the CBA regarding Peer Review. The administrative penalties are issued pursuant to BPC section 5116 for actual and potential consumer harm.

Interim Suspension Orders

During FY 2012-13, the Enforcement Division was successful in issuing one ISO and three PC 23 suspension orders. These proactive enforcement measures provide immediate consumer protection by restricting a licensee from continuing to practice public accountancy.

Awareness of Unprofessional Conduct

In an effort to increase licensees' awareness of the consequences of unprofessional conduct, the Enforcement Division prepared several articles for the *UPDATE* publication. In FY 2012-13 articles on commissions, citations, engagement letters, and SEC Wells's submissions were published.

Performance Measures

Beginning in July 2010, the DCA, as part of the Consumer Protection Enforcement Initiative, began posting on its website, Performance Measures for each board and bureau. Following, on page 28, are the CBA's performance measures for the FY 2012-13:

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Performance Measure	Target	Result
Number complaints and convictions received	NA	3,271
Average number of days to complete complaint intake	10 days	3 days
Average number of days to complete closed cases not resulting in formal discipline	180 days	73 days
Average number of days to complete investigations for complaints resulting in formal discipline	540 days	830 days
Average number of days from the date a probation monitor is assigned, to the date the monitor makes contact	5 days	2 days
Average number of days from the time a violation is reported to the time the probation monitor responds	15 days	1 days

The CBA met all performance measures except for the “Average number of days to complete the entire enforcement process for cases resulting in formal discipline.” However, the average days decreased to 830 from 867 from the prior year, a decrease of 37 days. The CBA significantly decreased investigation timeframes and continues to work cooperatively with the AG’s office on ways to reduce the timeframes to complete the formal discipline process.

Enforcement Committees

Enforcement Program Oversight Committee

Enforcement staff act as liaisons to the EPOC. The EPOC assists the CBA members in the consideration of issues relating to the Enforcement Program. During FY 2012-13 the EPOC met four times and discussed the following issues: responsibilities of the CBA member liaison to the EAC, establishing guidelines for EPOC members to audit a closed and finalized case, adding a model petition for reinstatement checklist to the disciplinary guidelines, optional conditions of probation to be used in lieu of monetary administrative penalties, and proposed revisions to the Manual of Disciplinary Guidelines and Model Disciplinary Orders.

Enforcement Advisory Committee

Enforcement staff act as liaisons to the Enforcement Advisory Committee (EAC). The EAC assists in an advisory capacity by providing technical expertise and assistance with investigation.

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During FY 2012-13 the EAC met five times and assisted with 24 Investigative Hearings and reviewed 80 closed investigations. Of the 24 Investigative Hearings held, the EAC recommended 15 referrals to the AG's office for the filing of an Accusation, five closed with the issuance of a citation and fine, two to conduct further investigation, and two closed without findings.

Peer Review Oversight Committee

Enforcement staff act as liaisons to the Peer Review Oversight Committee (PROC). The PROC provides recommendations to the CBA on any matter upon which it is authorized to act to ensure the effectiveness of mandatory peer review.

During FY 2012-13, the PROC met five times. In March 2013, the PROC provided its Second Annual Report to the CBA on the results of its oversight. Other issues the PROC discussed during the year included collaboration with the AICPA and NASBA's Compliance Assurance Committee on oversight of the National Peer Review Committee, peer review legislative and regulatory changes, and the creation of new oversight checklists.

LICENSING DIVISION

Comprised of four units – Examination, Initial Licensing, Renewal and Continuing Competency, and Practice Privilege – and approximately 45 staff, the Licensing Division's primary responsibilities include ensuring: 1) applicants meet education requirements prior to taking the CPA Exam; 2) applicants for licensure who have passed the CPA Exam meet the education and experience requirements necessary for licensure; 3) accountancy partnerships and corporations are registered so they can offer services in California; 4) licensees have paid the required fees and have completed the required CE hours to renew their license and demonstrate minimum competency; and 5) out-of-state licensees seeking the privilege to practice public accountancy in California have notified the CBA of their intent.

Although the main focus of the Licensing Division is to regulate entry into the profession, Licensing Division staff maintains an integral part of the enforcement process as well. A large number of enforcement complaints originate from within the office, based upon information provided by the current or potential licensee. For instance, the Renewal and Continuing Competency Unit routinely refers complaints to the non-technical Enforcement Unit related to licensees practicing with CE deficiencies and practicing with expired licenses.

Consistent with the customer service goal of the 2010-2012 and 2013-2015 Strategic Plans to deliver the highest level of customer service, the Licensing Division staff strives to provide excellent service to all stakeholders including consumers, applicants, licensees, interested parties, and the CBA members themselves. As part of this effort, the report on Licensing Division activity provided at each CBA meeting was redesigned at the end of FY 2012-13 to provide members a fuller picture of Licensing Division activities throughout the year. The most significant change to the report was a shift away from providing a three-month snapshot of Licensing Division activities to providing three fiscal years of statistical data while still providing a narrative report highlighting recent activity within each program area.

As illustrated in the table on page 31, the Licensing Division receives a high volume of telephone calls and emails regarding all four program areas. Staff makes every effort to answer all telephone calls as they are received and respond to voicemail and email messages within 24 hours of receipt. There has been a significant increase in both telephone calls and emails within the Licensing Division. The CBA routinely receives comments via the online customer service survey regarding the high level of customer service and professionalism exhibited by Licensing Division staff.

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Telephone Calls Received	FY 2011-12	FY 2012-13
Examination Unit	20,511	22,610
Initial Licensing Unit	19,399	24,006
License Renewal/Continuing Competency Unit	21,579	20,958
Practice Privilege Unit	882	921
Total Telephone Calls	62,371	68,495
Emails Received		
Examination Unit	10,042	11,551
Initial Licensing Unit	7,913	9,670
License Renewal/Continuing Competency Unit	8,192	9,601
Practice Privilege Unit	1,516	583
Total Emails	27,633	31,405

Examination Unit

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

The Examination Unit strives to process CPA Exam applications for first-time applicants within 30 days and repeat applicants within 10 days from the date the application is received in the CBA mailroom. Although three Examination Unit staff were partially redirected to work on the Licensing Educational Changes Taskforce discussed later in this report, staff worked diligently to maintain the application processing timeframes well within the 10- and 30-day targets.

In addition to the CPA Exam applications, staff recently began tracking the workload and average processing timeframes involved with four types of special requests – conditional credit and notice to schedule extensions, educational qualification reconsiderations, and special accommodations.

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Staff tracks the receipt and processing of requests for conditional credit and notice to schedule extensions together as the circumstances under which an applicant may receive either one of these extensions are identical. These two types of extensions are applicable when an individual is prevented from sitting for an unpassed section of the CPA Exam due to one or more of the reasons listed in sections 7.1(e) and 8.1(e) of the CBA Regulations.

Educational qualification reconsiderations refer to individuals who believe CBA staff made an error in reviewing his/her transcripts and/or foreign education evaluation. Staff relies primarily on the official college or university transcripts when determining an individual's qualifications to sit for the CPA Exam which, out of necessity, include abbreviated course titles. When an individual believes an accounting or business-related course has been misinterpreted, he/she will submit the course catalog description, syllabus, or both providing the full course title and description of the course content for reconsideration.

Special accommodations are processed in accordance with the Americans with Disabilities Act and refer to any request for reasonable accommodation to take the CPA Exam due to a medical need, disability, or both.

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Examination Applications Received	FY 2011-12	FY 2012-13
First-time Sitter	7,243	7,175
Repeat Sitter	17,606	18,584
Total Applications	24,849	25,759
CPA Exam Scores		
Scores Processed	34,924	36,242
Special Requests*		
Conditional Credit and Notice to Schedule Extensions	--	114
Educational Qualification Reconsiderations	--	40
Special Accommodation	--	69
Average Processing Timeframes		
First-time Applications	21 Days	23 Days
Repeat Applications	6.5 Days	8 Days
Conditional Credit and Notice to Schedule Extensions*	--	16 Days
Educational Qualification Reconsiderations*	--	20 Days
Special Accommodation*	--	8 Days

* Statistics are not available for FY 2011/12 or prior to January 1, 2013 for FY 2012/13.

Initial Licensing Unit

Upon passing the CPA Exam, completion of any additional required education, and obtaining the requisite experience, a candidate may apply for CPA licensure. For FY 2012-13, the Initial Licensing Unit (ILU) received 3,654 applications for licensure. Staff reviews each application thoroughly to ensure applicants have met the required education, examination, and experience for licensure. Additionally, the ILU processes applications for partnership and corporation licensure, and Fictitious Name Permits.⁶

⁶ A sole proprietor choosing to practice using a name other than the name under which the person holds a valid permit to practice issued by the CBA may only do so under a Fictitious Name Permit.

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For FY 2012-13, ILU staff received 479 accountancy partnership and corporation applications.

CPA Licenses Issued	FY 2011-12	FY 2012-13
Pathway 0*	12	4
Pathway 1	904	959
Pathway 2	2,325	2,511
Total Licensed	3,241	3,474
Firm Registrations Issued		
Corporations	223	174
Partnerships	106	70
Fictitious Name Permits	156	105
Total Registered	485	349
Average Processing Timeframes		
CPA Licenses	15 Days	25 Days
Firm Registrations	8 Days	14 Days

* Pathway 0 was repealed in January 2010, however applicants seeking re-licensure following a cancelled license can be licensed under Pathway 0, that number is reflected above.

One of the other primary responsibilities for the ILU is processing requests for certification of CBA records. Although the majority of these requests are from California licensees or CPA exam candidates who are applying for licensure out-of-state, the CBA also receives requests from other interested parties. In FY 2012-13, ILU staff received 1,073 certification requests.

Renewal and Continuing Competency Unit

The Renewal and Continuing Competency (RCC) Unit is responsible for processing license renewals for CPAs, PAs, and accountancy partnerships and corporations. CPA and PA licensees are required to renew their licenses biennially, in conjunction with their birth month. For those licensees electing to renew their license in an active status, the RCC Unit ensures that licensees complete the required CE. Accountancy corporations and partnerships are also required to renew biennially, corresponding with their registration

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date with the CBA. Firms must submit information pertaining to their shareholders or partners.

The majority of the work completed by RCC staff involves the review of CE Reporting Worksheets, which are submitted by licensees at the time of license renewal. When deficiencies occur, RCC staff sends a letter to the licensee informing them of the deficiency and advising them how to gain compliance. The table on page 36 provides the CE worksheet review statistics, including the number of deficiencies that were referred to the Enforcement Division for further review. As the table indicates, during FY 2012-13 RCC successfully worked with 3,453 licensees to bring them into compliance with the CBA's CE requirements.

The table also reveals that RCC staff approved an additional two Regulatory Review courses. The total number of Regulatory Review courses remains at 21 since two providers elected not to renew their courses. Additional detail regarding the Regulatory Review course is available in the chart below.

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License Renewal Applications Processed	FY 2011-12	FY 2012-13
Certified Public Accountant	38,329	38,334
Public Accountant	20	25
Accountancy Partnerships	653	579
Accountancy Corporations	1,654	1,560
Total Licenses Renewed	40,656	40,498
Worksheet Review Statistics		
Number of CPA/PA Worksheets Reviewed	44,749	36,927
Number of 20/12 Deficiencies Received	1,231 (124)*	2,784 (609)*
Number of Deficiencies Received	4,233	4,064
Number of Compliance Letters Sent (including inactive response)	3,502	3,453
Number of Enforcement Referrals	56	53
Number of Outstanding Deficiencies (including abandonment)	675	558
Regulatory Review Courses		
Number of Courses Received (first time submission)	7	3
Number of Courses Returned for Corrections	8	1
Number of Revised Courses Received (initial submission returned for corrections)	5	4
Number of Courses Approved	6	2

*The number outside the parenthetical reference indicates the 20/12 CE deficiency was the only requirement not met. The number inside the parenthetical reference indicates a CE deficiency was also identified and this count is included in the CE deficiencies identified.

To address an accumulation of CE worksheet reviews and pending deficiency notifications, the RCC Unit restructured its review and processing procedures. As a result of these adjustments and the dedicated hard work of the unit, the RCC Unit has been able to process license renewal applications within an approximate four week period and issue deficiency notifications within two weeks of the deficiency being identified.

Military waiver status became effective in FY 2012-13. Staff included updated information in the *Licensee Renewal Handbook* and developed internal procedures for

this new status. Additionally, staff are actively working to address implementation procedures for the new military inactive status set to take effect January 1, 2014.

As the result of rulemaking activities over the past several years, three new license renewal-related changes take effect January 1, 2014. These changes involve the retroactive fingerprint, peer review reporting, and the Fraud CE requirement. Over the past fiscal year, RCC staff has worked diligently to develop implementation procedures designed to assist licensees with compliance and ensure staff received the necessary training regarding the new requirements. Activities undertaken during this past fiscal year associated with the upcoming changes include designing a mass mailing to all licensees focused on the license renewal-related regulatory changes, developing retroactive fingerprint notification letters, developing fingerprint-related frequently asked questions, and revising the license renewal applications to capture these new regulatory requirements. Staff continues to fine-tune these implementation procedures.

Also, RCC staff used the CBA publication *UPDATE* as another tool to further inform licensees of the new license renewal-related changes and items of interest pertaining to the license renewal process. In 2012-13, RCC staff produced two articles focused on retroactive fingerprinting and tips on how to file a successful license renewal application.

California Practice Privilege

On September 20, 2012, Governor Brown signed SB 1405, eliminating the practice privilege notification and fee requirement for most out-of-state CPAs effective July 1, 2013. Prior to the July 1, 2013 effective date CPAs were required to notify the CBA of their intent to practice public accountancy in California by submitting a notification form requesting a California practice privilege and paying the required fee.

Practice rights were automatic upon submission of the notification form unless specific disqualifying conditions existed that required prior CBA approval. Since these disqualifying conditions were self-reported, the CBA performed monthly audits of California practice privilege holders' qualifications and license status to ensure effective consumer protection.

As a result of the passage of SB 1405, Practice Privilege staff took focused significant attention on preparing for the implementation of the new practice privilege program. The Licensing Division took the lead in coordinating all internal planning meetings and played a significant role in all aspects of program implementation. During these meetings, CBA staff monitored various aspects of the rulemaking process, assessed outreach and training needs, made enhancements to the CBA website, and modified its

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existing Practice Privilege database. These preparations spanned across all three CBA Divisions – Administration, Enforcement, and Licensing – and represent a truly collaborative effort.

In furtherance of the CBA's outreach efforts, staff mailed over 7,800 letters to present and prior practice privilege holders notifying them of the new practice privilege provisions. Also, staff drafted an article for the winter 2013 *UPDATE* publication highlighting the new law. A new practice privilege handbook was posted to the CBA website to provide out-of-state CPAs highlights on the new provisions. The handbook provides considerable information on when and how individuals with various events must notify the CBA (whether pre- or post-practice under a practice privilege). Staff also developed a series of frequently asked questions to further aid out-of-state CPAs' understanding of the new provisions.

Practice Privilege Notifications	FY 2011-12	FY 2012-13
Practice Privilege Notification Forms Received	2,576	2,301
Disqualifying Conditions Received	36	20

Qualifications Committee

The Qualifications Committee (QC) is a legislatively established committee that acts as an advisory committee and assists the CBA in its licensure activities. The QC is comprised of California-licensed CPAs (16 in total), with a wide background of experience in providing accounting and auditing services, which include compilation/review, government, not-for-profit, pension plan, and tax. The primary focus of the QC is to perform advisory duties to the CBA by examining an applicant's experience and recommending applicants who fulfill the requirements for CPA licensure.

The QC has the authority to examine the qualifications of an applicant who personally appears before the committee by conducting an interview and reviewing the applicant's work papers. The QC can also interview employers (referred to as a CBA Regulations section 69 review) who signed an applicant's experience form, inquiring into the information provided on the experience form to ensure the employer signing the form has an appropriate understanding of the requirements for CPA licensure. Additionally, the QC performs an annual audit of licensure files. The QC conducts its business at regularly scheduled one-day meetings held four times yearly, alternating between northern and southern California.

ILU staff act as liaisons to the QC and performed significant support functions. From an administrative aspect, ILU staff secured locations for the meetings and assisted members with travel arrangements and reimbursements. Additionally, staff worked to develop agendas, minutes, and reports to aid the committee in its advisory functions for the CBA. For FY 2012-13, the QC met four times, conducting 36 appearances. As a result of these appearances, the QC recommended 25 applicants be approved for licensure and 11 applicants be deferred for additional experience.

In addition to conducting interviews of applicants, the QC concluded its discussions on peer training. As a result, the committee adopted a revised QC Manual, which now incorporates best practices identified from its discussions. The best practices serve as framework for current and new members when handling personal appearances and section 69 reviews.

Taskforce to Examine Experience for CPA Licensure

In March 2013, CBA President Leslie LaManna, CPA, established the Taskforce to Examine Experience for CPA Licensure (Taskforce). The primary purpose and goal of this Taskforce is to examine the experience requirement for CPA licensure, determine whether changes (if any) are necessary, and provide a recommendation to the CBA. The Taskforce is comprised of nine members.

ILU staff act as liaisons to this temporary Taskforce and performed significant support functions. During FY 2012-13, staff performed copious amounts of research to aid in the Taskforce's ongoing deliberation on this topic. Also, for the Taskforce's inaugural meeting, staff provided various background information to offer additional context for discussions.

New Educational Requirements

Beginning January 1, 2014, the educational requirements for CPA licensure will change dramatically. The CBA will fully transition to the 150 semester unit pathway for licensure, while also expanding the prescribed semester units for licensure from 48 to 78. These changes were a result of legislation passed in 2009 (SB 819, Yee) and 2011 (SB 773).

As reported in the 2012 CBA Annual Report, an internal taskforce comprised of Examination and Initial Licensing staff was established for the purpose of ensuring a smooth transition to the new educational requirements. The taskforce created a

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comprehensive project plan including an outline of the specific activities that would be undertaken in furtherance of fulfilling the taskforce's goal to increase outreach efforts, develop best practices for implementation, and develop training activities for Examination and Initial Licensing Unit staff. Activities undertaken by the taskforce over the course of the past fiscal year include the following:

- Creating and holding monthly training sessions with all Examination and Initial Licensing Unit staff discussing implementation, best practices, frequently asked questions, and performing hands-on transcript review sessions
- Publishing articles in the CBA publication *UPDATE*
- Holding live Facebook events in January 2013 and June 2013
- Sending an informational letter to multiple branches of the Beta Alpha Psi organization in May 2013
- Submitting an article for the American Accounting Association's Fall 2012 issue of *Accounting Education News*
- Sending an informational letter to all CBA-approved foreign credential evaluation services in October 2012 explaining the new educational requirements with specific emphasis on the ethics education requirement
- Creating an online self-assessment worksheet designed to assist applicants in evaluating the education they have already completed and planning for any future education needs

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