CALIFORNIA BOARD OF ACCOUNTANCY

MOBILITY STAKEHOLDER GROUP

ANNUAL REPORT 2014

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I. MESSAGE FROM THE CHAIR

I am pleased to present the California Board of Accountancy (CBA) with the Mobility Stakeholder Group's (MSG) 2014 Annual Report.

The MSG worked diligently throughout 2014 to fulfill its statutory mandate of ensuring the practice privilege law is protecting the consumers of this state. During 2014, the MSG defined who the stakeholders are in California's practice privilege program by adopting the broad definition of "stakeholder" as used in the CBA's 2013-2015 Strategic Plan, and clarified the stakeholder objectives. In addition, the MSG began its consideration of the consumer protection provisions of the practice privilege law, as well as established a firm foundation on how to proceed, and adopted policies and procedures, to include frequency of meetings and periodic reporting to the CBA.

As we approach the second year of the MSG's directive, we are ready for new challenges. The MSG will continue considering the consumer protection provisions, further discuss and clarify stakeholder objectives, and review the National Association of State Boards of Accountancy's (NASBA) national enforcement guidelines when they are released later this year.

It has been a pleasure to work on behalf of consumers, and I would like to thank the CBA for the opportunity to serve as Chair of the MSG. I would also like to express my appreciation for the dedication of those serving on the MSG. The MSG has made continuous strides towards enhancing consumer protection and will continue to strive to remain on the forefront of providing the best and most articulate information to consumers and licensees alike.

With the first year complete, I look forward to another successful year working on behalf of consumers with the highly qualified members of the MSG.

Katrina L. Salazar, CPA, CBA Vice President
MSG Chair

II. BACKGROUND

Legislation enacted in 2012 (Stats. 2012, ch. 411 (Senate Bill (SB) 1405)) rewrote the CBA's practice privilege provisions (Article 5.1, Chapter 1, Division 3 of the Business and Professions Code (BPC)), which became effective July 1, 2013 and shall become inoperative on January 1, 2019. The new provisions beginning at section 5096 of the BPC allow individuals, whose principal place of business is outside of California and are licensed in states that have licensing requirements substantially equivalent to California's, to practice in California under a practice privilege conferred by operation of law without providing a notice or paying a fee. Prior to the passage of SB 1405, individuals possessing out-of-state licenses to practice public accountancy were required to notify the CBA, as well as pay a fee in order to practice public accountancy in California.

BPC section 5096.21(e) creates the MSG and, in addition, states in part:

> The group, at its first meeting, shall adopt policies and procedures relative to how it will conduct its business, including but not limited to, policies and procedures addressing periodic reporting of its findings to the board.

Effective July 1, 2013, sections 26 – 35.1 of Title 16, Division 1 of the California Code of Regulations (CBA Regulations) became inoperative, and were simultaneously replaced by new sections 5.5 and 18 – 22 of CBA Regulations.

III. MSG RESPONSIBILITIES

The MSG derives its authority from BPC section 5096.21(e). The roles and responsibilities of the MSG, as defined by the law and the CBA, are as follows:

- Hold meetings as necessary in order to conduct business,
- Adopt policies and procedures relative to how it will conduct its business, including, but not limited to, policies and procedures addressing periodic reporting of its findings to the board,
- Consider whether the practice privilege provisions are consistent with the CBA's duty to protect the public in accordance with BPC section 5000.1,
- Consider whether the mobility law satisfies the objectives of stakeholders of the accounting profession, including consumers,
- Prepare an Annual Report to the CBA highlighting its activities.

IV. COMMITTEE MEMBERS

The MSG is comprised of seven members, which consists of members of the CBA, CBA enforcement staff, representatives of the accounting profession, and consumer representatives.

Immediate Past-President of the CBA Michael Savoy appointed the seven members of the MSG, including CBA member Katrina Salazar as Chair, and Harold Schultz as Vice-Chair of the MSG.

<u>2014 Membership</u>
Katrina Salazar, CPA, Chair and CBA member
Harold S. Schultz, CPA, Vice-Chair and accounting profession representative
Jose A. Campos, CPA and CBA member
Edward Howard, Esq. – consumer representative
Rafael Ixta – CBA Enforcement Division Chief
Joseph P. Petito, Esq. – accounting profession representative
Stuart Waldman, Esq. – consumer representative

V. LEGISLATION AND REGULATIONS

To further enhance consumer protection, the CBA pursued legislative and regulatory changes to the program in 2013 and 2014. Effective January 1, 2014, BPC section 5096(e)(10) was added to Article 5.1 by SB 822 (Stats. 2013, Ch. 319) to require practice privilege holders to notify the CBA of any pending criminal charges, other than minor traffic violations, in any jurisdiction. In 2014, the CBA sought a further change to that same section to clarify that the individual had to be exercising the practice privilege in order to trigger the requirement to report pending criminal charges. In addition, SB 1467 (Stats. 2014, Ch. 400) stated that such a report must be made to the CBA in writing within 30 days. These new provisions took effect January 1, 2015.

In 2014, the CBA proposed an amendment to CBA Regulations section 19 to create a Practice Privilege Notification of Pending Criminal Charges form. This form will be used by individuals to report pending criminal charges.

VI. PROGRAM OVERVIEW

If a licensee's principal place of business is located outside California and he or she holds a valid and current license, certificate, or permit to practice public accountancy from another state, he or she may qualify to practice public accountancy in California under a practice privilege, without giving notice or paying a fee, provided one of the following conditions is met:

- They have continually practiced public accountancy as a CPA under a valid license issued by any state for at least four of the last 10 years.
- They hold a valid license, certificate, or permit to practice public accountancy from a state determined by the CBA to be substantially equivalent to the licensure qualifications in California under BPC section 5093.
- They possess education, examination, and experience qualifications which have been determined by the CBA to be substantially equivalent to the licensure qualifications in California.

A licensee is required to notify and receive written permission from the CBA prior to practicing public accountancy in California if, within the seven years immediately preceding the date on which he or she wishes to practice in this state, certain conditions apply as outlined in BPC Section 5096(i).

If any of those conditions apply, the licensee must submit a completed notification form and await written permission from the CBA prior to engaging in the practice of public accountancy in California.

If an individual exercises a practice privilege and subsequently acquires any condition disqualifying them from holding a California practice privilege, they

must cease practicing immediately and notify the CBA in writing within 15 days of the occurrence of the cessation event using the "Notification of Cessation of Practice Privilege Form" (PP-11(1/13)).

If an individual is exercising a practice privilege in California, they are required to notify the CBA in writing of any pending criminal charges, other than for a minor traffic violation, within 30 days of the date they have knowledge of those charges.

If an individual intends to provide audit or attestation services for an entity headquartered in California, they may only do so through an accounting firm registered with the CBA.

An accounting firm that is authorized to practice public accountancy in another state and that does not have an office in this state must register with the CBA prior to performing attest services for an entity headquartered in California.

To register an out-of-state accounting firm, while there is no fee, an applicant must first complete the "Out-of-State Accounting Firm Registration Form" (PP-13(1/13)). The out-of-state accounting firm registration must be renewed every two years in order for the out-of-state accounting firm to maintain practice rights in California. The out-of-state accounting firm must also notify the CBA of any change of address or change in ownership within 30 days of the change.

VII. STATISTICS

The following is statistical information for the Licensing, Enforcement, and Administration Divisions for the calendar year 2014 as it pertains to the new practice privilege program. The information listed below is categorized into sections detailing Out-of-State Accounting Firm Registration information, customer service and the volume of contact with consumers and licensees, enforcement-related referrals and investigations, and the CBA's use of the website to enhance consumer protection.

Licensing Division

The Practice Privilege Unit within the Licensing Division is responsible for two main functions associated with the practice privilege program: (1) processing out-of-state accounting firm registrations and (2) providing customer service in response to telephone calls and e-mails.

Out-of-State Accounting Firm Registration (OFR)
The practice privilege provisions require practice privilege holders providing certain attestation services to California-headquartered entities to do so only through a firm registered with the CBA. These accounting firms must submit a

registration form and obtain approval from the CBA prior to providing these services.

Below is the statistical data associated with processing OFRs for the 2014 calendar year.

Out-of-State Firm Registrations	2014 Totals
Total Registration Applications Received	300
Total Registration Applications Approved	280
Total Registration Applications Referred to Enforcement	10

Service to Stakeholders
The Practice Privilege Unit is the primary point of contact associated with the practice privilege program. Providing excellent service to stakeholders while effectively communicating the requirements of California's practice privilege law is an important part of the efficient functioning of the unit. Below is the statistical data for the total number of telephone calls and e-mails for the 2014 calendar year.

Stakeholder Contact	2014 Totals
Telephone	529
E-mails	401

Enforcement Division

The Enforcement Division is responsible for numerous consumer protection aspects of the practice privilege program, including processing pre-notification and cessation notification forms, reviewing the Securities and Exchange Commission's (SEC) and Public Company Accounting Oversight Board's (PCAOB) websites for CPAs that have been disciplined by those entities, reviewing OFR referrals from the Practice Privilege Unit, and reviewing complaints received against practice privilege holders. The following is statistical data associated with the various Enforcement Division activities for the 2014 calendar year.

Enforcement Division Activities	2014 Totals
Pre-Notification Forms Received	1
Cessation Notification Forms Received	0
SEC Discipline Identified*	33
PCAOB Discipline Identified*	14
Out-of-State Accounting Firms Referred by Licensing Division for Reported Other Discipline	10
Out-of-State Accounting Firm Registrations Denied	1
Complaints Against Practice Privilege Holders Received	7

*These numbers reflect discipline against licensees from all jurisdictions and is not limited to California licensees or practice privilege holders.

Administration Division

Website Usage

One of the key components of providing widespread consumer protection is by continuously striving to ensure consumers and out-of-state CPAs are equipped with updated information regarding all laws, rules and regulations of the accounting profession in California. For this reason, the CBA created and maintains a robust website associated with providing information both to consumers and licensees regarding the practice privilege program to serve as an additional safeguard for consumer protection.

The CBA website contains a license lookup feature for out-of-state CPAs that contains all information in the possession of the CBA on such licensees. It also contains a license lookup feature for all OFRs registered in California. A user may also find links to the other board of accountancy jurisdictions and the CPAVerify website so that consumers can find information on CPA licenses throughout the United States.

The following information is statistical data for various web pages on the CBA website associated with the practice privilege program for the 2014 calendar year. The information details the total number of hits to each web page and is not necessarily indicative of unique visitors.

Webpage	2014 Totals
Out-of-State Licensed CPA Search	12,360
Out-of-State Registered Accounting Firms Search	2,043
Practice Privilege Reporting Requirements (Disqualifying Conditions, Pre- & Cessation Notification Requirements)*	2,669
Practice Privilege Handbook	10,368

*This page provides consumers and out-of-state CPAs specific information regarding the events and circumstances that necessitate out-of-state CPAs to: (1) pre-notify the CBA and receive approval prior to exercising a practice privilege, and (2) to cease practicing via a practice privilege, notify the CBA, and await approval to resume practice.

VIII. Activities and Accomplishments

The following are some of the major activities and accomplishments of the MSG during 2014:

- The MSG held meetings as necessary in order to conduct business and make periodic reports to the CBA. The MSG held three meetings in 2014 as follows:

  - March 20, 2014 – Pasadena, CA
  - July 23 and 24, 2014 – Sacramento, CA
  - November 20, 2014 – Pasadena, CA

  Ms. Salazar reported on MSG activities to the CBA at its meetings which followed each MSG meeting.

- The MSG voted to prepare a final report to the CBA to be presented in Summer 2017.

- The MSG adopted a definition of stakeholders, as previously defined in the CBA's 2013-2015 Strategic Plan:

  "Stakeholders include consumers, licensees, applicants, and professional organizations and groups that have a direct or indirect stake in the CBA because they can affect or be affected by the CBA's actions, objectives, and policies."

- The MSG discussed, and provided its initial considerations on, the consumer protection provisions of BPC sections 5096 and 5096.1. The MSG agreed the consumer protection provisions currently in place are a good start on a multi-year process of ensuring the MSG is doing all it can to protect consumers.

- The MSG identified initial stakeholder objectives and will continue to revise and define additional objectives throughout the duration of the MSG. The initially determined stakeholder objectives are as follows:

    - To help out-of-state licensees know and understand their self-reporting requirements; and
    - To assure the CBA that all states have adequate enforcement.

- The MSG posed the following questions to other state boards of accountancy to determine the volume of enforcement referrals experienced by other state boards of accountancy:

    - In the past five years, how many enforcement notifications or referrals did your board receive from other state boards of accountancy, either directly or through ALD?
    - Of those notifications or referrals, how many resulted in enforcement actions?
    - Of those notifications or referrals, how many remain under investigation?
    - In the past five years, how many matters has your Board notified or referred to other state boards of accountancy, either directly or through ALD?

- The MSG requested that staff ascertain what is being done to educate other governmental organizations which have an interest in the accounting profession, such as the State Controller's Office (SCO), regarding the fact that out-of-state licensees can perform services in California via a practice privilege.

  It was determined that through regular contact with the SCO and the Franchise Tax Board, the CBA already communicates significant changes in the law such as practice privilege. Currently, there is a request pending with the SCO that a link to the CBA Licensees webpage be added to the SCO website. The information on the CBA Licensee webpage includes significant information about the practice privilege program.

IX. 2015 Anticipated Topics for Discussion

The MSG will meet three times in 2015 in conjunction with the March, July and November CBA meetings. It is anticipated the following will be topics presented for discussion before the MSG:

- A state-by-state discussion as to whether allowing individuals from a particular state to practice in this state pursuant to a practice privilege as described in Section 5096, violates the board's duty to protect the public, and provide input on the CBA's Practice Privilege: Preliminary Determinations Report,
- NASBA's upcoming national enforcement guidelines and best practices,
- Further discussion and clarification of stakeholder objectives; and
- Continuing discussion and consideration of the consumer protection provisions of the practice privilege law.

X. Conclusion

Throughout 2014, the MSG was hard at work analyzing and conducting thorough analyses of the consumer protection provisions and the new practice privilege law, as well as defining stakeholders and identifying stakeholder objectives. Moving forward into its second year, the MSG will continue to focus on consumer protection as its primary concern as it continues to discuss the practice privilege law, stakeholder objectives and the NASBA national enforcement guidelines. The MSG stands ready to accept any additional charges that the CBA may wish to place upon it.