

December 31, 2019

Alexis Podesta, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Alexis Podesta,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Board of Accountancy submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Patti Bowers, Executive Officer, at (916) 561-1711, Patti.Bowers@cba.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Board of Accountancy (CBA) regulates the accounting profession for the public interest by establishing and maintaining entry standards of qualification and conduct within the accounting profession, primarily through its authority to license. The CBA currently regulates over 105,000 licensees, the largest group of licensed accounting professionals in the nation, including individuals (Certified Public Accountants and Public Accountants) and accounting firms (partnerships and corporations). Many of the accounting firms that the CBA regulates have national footprints and some have footprints worldwide. Certified Public Accountants (CPAs) work in a wide range of areas including accounting firms, private industry, government, and academia, and provide services to clients of all sizes and needs.

The CBA is self-funded, supported by fees imposed upon the professional community it regulates. The CBA draws no monies from California's General Fund.

The CBA's mission is:

"To protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards."

The CBA's vision is that all consumers are well informed and receive quality accounting services from licensees they can trust.

One of the ways the CBA achieves its mission and vision is through the development and implementation of its Strategic Plan. The CBA's 2019-2021 Strategic Plan contains 20 objectives that are designed to accomplish the seven goals, which consist of:

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

- Maintain an active, effective, and efficient Licensing program to maximize consumer protection.
- Deliver the highest level of customer service.
- Provide and maintain an effective and timely outreach to all CBA stakeholders.
- Maintain an active presence and leadership role that efficiently leverages the CBA's position of legislative influence.
- Improve efficiency and information security through the use of existing and emerging technologies.
- Maintain an efficient and effective team of leaders and professionals by promoting staff development and retention.

Control Environment

The CBA sets the foundation for a strong control environment through its mission and vision, which were previously discussed and through guidance and policy directives from the 15-member board appointed by the Governor and Legislature, and through strong leadership by the Executive Officer (EO) and CBA management. The CBA's values include consumer protection, integrity, quality and professionalism, transparency, initiative, respect, accountability, and teamwork, which are practiced daily by all employees.

Provided below are an overview of the controls that are followed:

Demonstrating a Commitment to Integrity and Ethical Values

Senior Management establishes the tone at the top in demonstrating the importance of integrity and ethical values and sets the expectations of standards of conduct within the CBA. Staff are required to annually sign and acknowledge adherence to specified employee expectations that address matters involving conduct, customer service, and equitable treatment amongst staff and those the CBA serves. Management and staff alike are required to adhere to specified policies that ensure an appropriate work environment and identify procedures to follow should there be concerns regarding any matter. Additionally, mandatory training is provided to all levels of management to ensure values and ethics are being practiced.

Oversight by the CBA

The CBA is governed by a 15-member board, comprised of seven members who are certified public accountants, and eight members of the public who are not licensees of the CBA. The Governor appoints four of the public members and all of the licensee members with individuals representing a cross section of the accounting profession. The Senate Rules Committee and the Speaker of the Assembly each appoints two public members.

The CBA sets policy directives that are aligned with the CBA's consumer protection mission. The development and implementation of the CBA's directives are accomplished by staff under the direction of the EO.

Organizational Structure and Documentation to Achieve Business Objectives and Consumer Protection Mission

The CBA's organizational structure ensures appropriate levels of responsibility and authority are being

exercised, in accordance with California Department of Human Resources (CalHR) and State Personnel Board laws, rules and guidelines. In addition, the CBA maintains documentation of control systems through policies and procedures, desk manuals, office guidelines and expectations and other written communications.

CBA Commitment to Attracting, Developing and Maintaining a Competent Workforce.

Applicants must apply for CBA job openings through the CalHR's CalJobs website. Applications are prescreened to established criteria specific to the position to ensure only the most qualified applicants are selected for an interview. During the interview, candidates are asked a set of questions focused on gaining an understanding of their knowledge and skills to ensure the most qualified candidate is selected. Following the interview, reference checks are performed prior to a job offer.

Once hired, staff begins an in depth onboarding program. The workforce is further sustained through training which could consist of on-the-job or external training through another State agency or training venue. The Department of Consumer Affairs (DCA) also conducts and provides job specific and job related training through its SOLID training center. The CBA also provides cross training to retain program knowledge and encourages eligible staff to take advantage of DCA's upward mobility program.

Measuring Performance and Maintaining Accountability

Accountability and performance measures are regularly monitored and enforced within the CBA. Managers are required to receive training once appointed and then they must meet ongoing training requirements of 20 hours biennially.

Internally, managers communicate with Executive Management regarding performance matters and also work directly with the DCA's Performance Management Specialist. Should a staff member not meet performance expectations, the issue is addressed through preventive measures such as additional training and frequent meetings with their manager. If the issues persist, counseling, corrective, and disciplinary actions could be pursued.

Accountability is also monitored through workload. Monthly statistics are reported on Licensing and Enforcement workload to Executive Management and at CBA meetings.

The CBA maintains a strong internal control environment which provides management, the CBA, and stakeholders with assurance that the organization is operating in accordance with directives, policies, and legal requirements.

Information and Communication

The CBA understands the importance of communication with internal and external stakeholders and that the distribution of information to each of these groups is critical in ensuring the CBA can meet its consumer protection mission. Internal stakeholders could include both CBA and DCA staff. External stakeholders include, but are not limited to, consumers, applicants, licensees, colleges and universities, other government agencies, and professional associations.

Effective communication internally and externally is achieved by 1) ensuring the information to distribute is accurate and clear; and 2) identifying the audience to which the information will be shared.

Internal Communication

Internal communication is most often achieved through meetings, emails, memorandums, and telephone calls. The method of communication is often determined by the topic to be discussed and the staff members involved. The goal is to foster clear and interactive communication to ensure staff (or Departmental staff) understand the information being provided.

Employees are encouraged to speak with management to address any topic, especially concerns, suggestions, or for necessary clarification on assignments. However, employees also use email and employee surveys to report concerns, inefficiencies or inappropriate actions to management or other decision makers.

External Communication

The CBA uses multiple methods of communication with external stakeholders. In addition to the common methods of email and telephone calls, the CBA also actively participates in presentations at colleges and universities and attendance at consumer outreach events. The most frequent method and easiest way for external stakeholders to receive information is through the CBA's comprehensive website which contains easy to locate information, recent and upcoming events, laws and regulations, and many other sources of information to assist.

To further the CBA's reach, a newsletter is published on a triannual basis and the CBA uses a list service, known as "E-News," that allows stakeholders, including consumers, to sign up to receive emails regarding the CBA's triannual newsletter, updates on regulatory changes, CBA meeting agendas and materials, and much more.

The CBA leverages traditional and social media to increase consumer awareness of the CBA and its mission. In recent years, the CBA has grown its presence on social media and steadily increased its followers on Facebook, Twitter, and LinkedIn as we produce and share content relevant to our stakeholders. The CBA also uses social media to respond to questions and comments about its program requirements and processes. Links to its social media accounts are available on the CBA website.

An additional method to enable stakeholders to receive information on the CBA is by attending and participating in CBA meetings which are held six times per year. Each meeting provides numerous opportunities for the public to provide input regarding various policy discussions and provide comment for items that were not scheduled to be discussed.

Identification and Collection of Information

The CBA uses a variety of options to record pertinent operational, programmatic, and financial information that is distributed to internal and external stakeholders. The CBA houses all licensee data in DCA's Consumer Affairs System (CAS), which is operated by the California Department of Technology's Teale Data Center. CAS and other internal stand-alone databases provide applicant and licensee information that is necessary for workload monitoring and legislatively required reports. This information also often serves as a base when developing materials for outreach events to external stakeholders.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Board of Accountancy monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Patti Bowers, Executive Officer; Deanne Pearce, Assistant Executive Officer; and Dominic Franzella, Chief of Enforcement.

Monitoring Activities

Monitoring of the identified controls is performed on a continuous basis by managers. Monitoring can include meetings with staff, review of workload statistics and budget information and other activities as necessary to ensure awareness of identified risks. To ensure staff and management are actively working, when possible, to address the risks, a project outline is developed that identifies key steps, due dates, and assignments to ensure risks are monitored and mitigated to the extent possible. Frequent communication is conducted between Executive Management and management to assess project timelines until the risks have been eliminated or mitigated to acceptable levels.

Addressing Vulnerabilities

Vulnerabilities are addressed timely and discussed regularly in meetings with Executive Management so that the issues can be evaluated promptly. Executive Management will make a determination on whether the deficiencies can be addressed internally, be escalated to DCA for further resolution or be raised to the CBA for deliberation and action.

Issues that require CBA deliberation will be identified on a publicly noticed agenda and voted upon (if necessary) at a regularly scheduled CBA meeting.

Executive management may hold weekly or routine meetings with their managers to address issues brought to their attention. Managers will be responsible for evaluating and documenting issues brought to their attention and work with Executive Management to determine the appropriate corrective action for the identified deficiencies. Once identified, corrective action should be taken to resolve the deficiency in a timely manner.

Communication

Monitoring activities and results may be communicated to managers via regular Manager's meetings, Action Plan meetings (following a CBA meeting to address actions taken during the meeting), monthly Executive Officer Reports, one-on-one meetings with managers and program staff, and emails. Each Division of the Board has a designated executive monitoring sponsor who will report on the effectiveness of internal control systems as well as convey information to the EO of updates and changes. The EO is responsible for conveying information to DCA as well as the CBA.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Board of Accountancy risk assessment process: executive management, middle management, and front line management.

The following methods were used to identify risks: ongoing monitoring activities, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, and timing of potential event.

In late April 2019, DCA's Internal Audits Unit conducted a risk analysis as part of its development of the Leadership Accountability Report. The CBA's EO, Patti Bowers, received a questionnaire from the Internal Audits Unit that contained a series of control environment questions. The questionnaire was then distributed to each CBA manager for input. Following completion, each manager's questionnaire was returned back to the Internal Audits Unit for review.

In September 2019, the CBA's EO received a follow up communication from the Internal Audits Unit that in order to meet the Leadership Accountability reporting deadline, each DCA entity would be given access to the Leadership Accountability Portal and be required to complete an individual Leadership Accountability Report. The first step was to identify Risks for inclusion into the Risk Matrix. The EO reviewed each manager's questionnaire to identify risks for inclusion into the Risk Matrix, which was due to DCA in October 2019. Following submission of the Risk Matrix, DCA, in coordination with the Department of Finance, conducted a Leadership Accountability training in which the Administration Manager and program staff attended.

The information gathered in the Leadership Accountability training was used to prepare a draft Leadership Accountability report. The draft Leadership Accountability report was submitted for review to CBA Senior Management, which consisted of the Deputy Enforcement Chief, Enforcement Chief, Assistant Executive Officer and EO. Upon final approval, the draft report was then submitted to DCA for review and submission to the Department of Finance.

RISKS AND CONTROLS

Risk: Funding-Lack of Resources

The CBA is at risk of not being able to meet its consumer protection mandate. Over the prior eight years, the CBA has been operating in a yearly negative cash flow of at least \$4 million per year as authorized expenditures are outpacing projected revenues. The negative cash flow has significantly reduced the CBA Reserve Fund creating insufficient resources to enable the CBA to carry out its consumer protection mandate. Although the CBA will be increasing its license renewal and initial licensure fees effective January 1, 2020, the yearly negative cash flow will continue and may impact the CBA's ability to carry out its function, including taking enforcement action against those who have violated the provisions of the Accountancy Act and harmed consumers.

Control: Legislative Approval to Increase Fees

The CBA has received legislative approval through its Sunset Bill (Assembly Bill 1521) to increase the license renewal and initial licensure fee from \$120 to \$250 and provides statutory authority to further increase the fee through regulation to a maximum of \$280. The \$250 fee level increases yearly revenue, but is not sufficient enough to cover its annual authorized expenditures, which will continue to reduce the CBA's Reserve Fund.

Control: Rulemaking Initiated to Increase Fees

The CBA initiated an emergency rulemaking to increase the license renewal and initial licensure fee to the new statutory maximum of \$280. The emergency rulemaking package was submitted to DCA's Legal Affairs Office and after consulting with the Office of Administrative Law, did not approve the rulemaking package. The CBA has proactively prepared a regular rulemaking package to continue with the request to increase the fee.

Control: Fee Analysis

To further address the CBA's insufficient revenue, in mid-2019, the CBA began seeking a vendor to perform a fee analysis to assess all fees to determine if changes need to be initiated. Although there was some difficulty in securing a vendor through the State's informal bidding process, the CBA worked with DCA on an Invitation For Bid and a vendor was selected in late December 2019. It's anticipated that a contract will be executed in January 2020.

Risk: Recruitment-Investigative CPA Classifications

The CBA relies on highly qualified, specialized Investigative Certified Public Accountants (ICPAs) to perform its most technical and complex investigations. The CBA has previously and continues to experience problems in recruitment in the ICPA classification due to insufficient compensation associated with the series. If the positions are not adequately filled, investigations will not be completed timely and effectively. This issue impacts the CBA's Strategic Plan Goal relating to Enforcement.

In addition, direct oversight of the ICPAs is performed by Supervising ICPAs (SICPAs). Under the current pay differential 347 language, an individual who accepts a supervising ICPA promotion would be required to forfeit the prior bonus. This deters internal qualified candidates from applying for a SICPA position. If the positions are not adequately filled, investigations will not be reviewed timely resulting in significant delays in pursuing enforcement actions and adversely affecting the CBA's consumer protection mission.

Control: ICPA Recruitment

The CBA advertises for vacant ICPA positions through continuous filing recruitment, which allows for candidates to apply on a continuous basis, as opposed to setting a final filing date which limits the candidate pool. For recruitment, the job postings are posted on CalHR's Cal Jobs website. In the past, letters were mailed to all active CPAs informing them of ICPA job opportunities and examinations, in efforts to encourage individuals to examine and apply for vacant positions. The CBA has also posted an article regarding ICPA job opportunities and examinations in the CBA's UPDATE newsletter publication.

Control: Revision to Pay Differential 347 Language

The CBA has been working with DCA on this issue for several years and continues to work with DCA on revising the pay differential language.

As Pay Differential 347 is presently written, current ICPA employees are deterred from promoting

within the ICPA classification series, as a promotion to the next classification level results in an effective pay decrease, by delaying the employees' eligibility to receive their bonus. The proposed changes would include removal of the "maximum" and "consecutive" reference from all bonus criteria. They would also add language that would allow for an employee in an eligible classification, that upon promotion to a classification covered by this retention bonus, to continue to qualify for the retention bonus without a change in eligibility.

Control: External Consulting Services

The CBA may explore the use of external consulting services to provide expertise and review on enforcement cases should there be an influx in technical cases creating an excess backlog due to the loss of ICPAs through attrition.

Risk: Inadequate IT Systems for Automation

All programs within the CBA are impacted by the lack of comprehensive technology infrastructure. The Consumer Affairs System (CAS) is the universal licensee database system used throughout the CBA. The CAS database is limited in functionality and is difficult to modify. It presently serves as a repository for licensee data; however, it does not have any functionality for application or case management and limited capacity for report generation. As a result, units must also use disparate secondary databases containing various applicant and licensee information to complete their tasks. The secondary database systems do not contain adequate electronic reporting tools, and all tracking is done manually.

For stakeholders, specifically applicants for the examination or initial licensure, they are impacted significantly as they are unable to apply online and must instead print out the application and submit the materials through mail. This is not only inconvenient, but creates delays in the processing of the applications.

Control: Acceptance of Online Payments

Because the CAS system only houses information on individuals who have already obtained licensure and is not able to manage applicant data, there is no opportunity to accept online credit card payments for those who are applying for examination or applying for initial licensure. Individuals who are not licensees must remit payment by check, money order, or cashier's check.

The CBA is working with DCA to implement acceptance of credit card payments for licensing and examination fees as part of the CBA's Business Modernization Project.

Control: Business Modernization Project

The CBA has retained subject matter experts through a staff augmentation for the CBA Business Modernization Project and is working with DCA on a technology system solution.

The Business Mapping process commenced in July 2019, with an anticipated rollout of a new and updated IT system that will streamline business process into a single source fully automated central repository by 2023. This matter is in line with the CBA's Strategic Plan.

CONCLUSION

The California Board of Accountancy strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Patti Bowers, Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency