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October 1, 2010

Honorable Gloria Negrete McLeod, Chair
Senate Business, Professions, and Economic Development Committee
California State Capitol, Room 2053
Sacramento, CA 95814

Dear Senator:

In keeping with your memorandum requesting information and issues to be addressed for the 2010 Sunset Review, the California Board of Accountancy (CBA) is providing the attached information.

This report complies with the format provided, and with the reporting requirements mandated by statute. The information is intended to provide information regarding the Licensing, Enforcement, and Administrative activities of this CBA for each of the previous four fiscal years. The report also responds to questions and recommendations made to the CBA during the last Sunset Review Reporting period, in 2003, and presents three new issues the CBA wishes to discuss with the joint committees.

If you have any questions, or require further assistance regarding this report, please contact the CBA's Executive Office at (916) 561-1718.

Sincerely,

A handwritten signature in cursive script that reads 'Patti Bowers'.

Patti Bowers
Executive Officer
California Board of Accountancy

Attachment

C:

Members, Senate Business, Professions, and Economic Development Committee
Asm. Hayashi, Chair, Assembly Committee on Business, Professions, and Consumer Protection
Members, Assembly Committee on Business, Professions, and Consumer Protection
Secretary of the Senate
Assembly Chief Clerk
Manuel Ramirez, CPA, President, California Board of Accountancy
Members, California Board of Accountancy
Luis Portillo, Assistant Deputy Director, Office of Policy and Legislative Review

The California Board of Accountancy

2010 Sunset Review Report

Presented to the California Legislature

Senate Business, Professions, and
Economic Development Committee

October 1, 2010



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References

- *2008 Report on Peer Review*, prepared in compliance with Business and Professions Code Section 5076
[http://www.dca.ca.gov/cba/publications/peer review2008.pdf](http://www.dca.ca.gov/cba/publications/peer%20review2008.pdf)
- *A Manual of Disciplinary Guidelines and Model Disciplinary Orders*
<http://www.dca.ca.gov/cba/publications.dispman.pdf>
- *CBA's 2010-2010 Strategic Plan*
<http://www.dca.ca.gov/cba/publications/stratpln2010-2012.pdf>

INTRODUCTION

The contents of this report are the outcome of seven years of substantial effort toward satisfying and implementing the mandates which resulted from the California Board of Accountancy's (CBA) third sunset review in 2003. As directed by the Senate Business, Professions and Economic Development Committee, the CBA's *2010 Sunset Review Report* provides overviews of the Licensure and Enforcement Programs, discusses budget issues, and furnishes detailed statistics relative to the CBA's outreach and regulatory responsibilities.

This report is comprised of two sections, Part 1: Background Information and Overview of the Current Regulatory Program; and Part 2: CBA's Response to Issues Identified by and Former Recommendations Made by the Joint Legislative Sunset Review Committee (JLSRC).

Part 1 provides background information describing the function and history of the CBA, including its regulatory responsibilities, and discusses the CBA's composition. Major changes to the CBA (through legislation, new regulations, and program improvements) are described, and detailed tables depict licensing statistics, fee information, revenue and expenditures by program area, and a comparison of revenues, expenditures, and reserves.

Major segments within Part 1 are *Licensure Requirements*, including Uniform CPA Examination passage statistics in California; and *Enforcement Activity*, containing discussion and tables displaying complaint activity, disciplinary action data, and time frames for closing investigations. Part 1 also provides information concerning the CBA's Practice Privilege program, and a comprehensive section detailing enforcement expenditures and cost recovery.

Part 2 of the report discusses six issues related to recommendations made by the JLSRC, with respect to the CBA 2003 Sunset Review Report. Major categories include the CBA's ability to fine large firms, the implementation of a peer review requirement in California, and new licensing requirements enacted in 2002.

PART I

California Board of Accountancy

BACKGROUND INFORMATION AND OVERVIEW OF THE CURRENT REGULATORY PROGRAM

BACKGROUND AND DESCRIPTION OF THE BOARD AND PROFESSION

HISTORY OF THE CBA

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

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

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

FUNCTION OF THE CBA

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

The CBA has the authority to license and discipline not only individuals but also firms. As accounting practitioners, the Certified Public Accountant and the Public Accountant (PA) are proprietors, partners, shareholders, and staff employees of public accounting firms.

They provide professional services to individuals, private and public 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 that rely on the integrity of audited financial information.
- Governmental bodies, donors, and trustees of not-for-profit agencies that 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; local, state, and federal taxing authorities.
- Retirement systems, pension plans, and stock exchanges.

Current law stipulates that the CBA consist of 15 members, seven of whom must be CPAs, and eight of whom shall be public members who shall not be licensees of the CBA or registered by the CBA. The Governor appoints four of the public members and the seven licensee members. 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. Each member is appointed for a term of four years and holds office until they are reappointed, a successor is appointed, or until one year has elapsed since the expiration of the term for which they were appointed, whichever occurs first. The current CBA members are:

Table 1.1 CBA Officers and Members	
CBA Member, Appointing Power	Date Appointed/Term Expiration, Term Number
Manuel Ramirez, CPA, President Appointed by the Governor	May 3, 2007/November 26, 2010 1 st Term
Sally Anderson, CPA, Vice-President Appointed by the Governor	May 3, 2007/January 1, 2011 1 st Term
Marshal Oldman, Esq., Secretary/Treasurer Appointed by the Governor	March 1, 2007/January 1, 2010 1 st Term
Rudy Bermúdez Appointed by the Speaker of the Assembly	September 24, 2007/January 1, 2011 1 st Term
Diana Bell Appointed by the Senate Rules Committee	September 4, 2009/January 1, 2011 1 st Term
Michelle R. Brough, Esq. Appointed by the Governor	November 24, 2008/November 26, 2012 1 st Term
Angela Chi, CPA Appointed by the Governor	March 16, 2006/November 26, 2009 1 st Term
Donald A. Driftmier, CPA Appointed by the Governor	May 19, 2004/November 26, 2011 2 nd Term
Herschel T. Elkins, Esq. Appointed by the Senate Rules Committee	September 19, 2008/January 1, 2012 1 st Term
Louise Kirkbride Appointed by the Governor	March 18, 2008/January 1, 2011 1 st Term
Leslie LaManna, CPA Appointed by the Governor	January 12, 2007/January 1, 2012 2 nd Term
Robert Petersen, CPA, Appointed by the Governor	March 13, 2006/November 26, 2009 1 st Term
David L. Swartz, CPA Appointed by the Governor	May 17, 2004/November 26, 2011 2 nd Term
Lenora Taylor, Esq. Appointed by the Governor	May 3, 2007/November 26, 2010 1 st Term
Andrea Valdez, Esq. Appointed by the Speaker of the Assembly	September 30, 2009/January 1, 2013 1 st Term

The CBA has eight committees, five of which are statutory, and three are standing. The five statutory committees include the long standing Enforcement Advisory Committee (EAC), and the Qualifications Committee (QC). Three brand new committees were established by statute in January 2010, including the Accounting Education Committee (AEC), the Ethics Curriculum Committee (ECC), and the Peer Review Oversight Committee (PROC). The three standing committees are comprised solely of CBA members, and include the Committee on Professional Conduct (CPC), the Enforcement Program Oversight Committee (EPOC), and the Legislative Committee (LC).

The Enforcement Advisory Committee assists the CBA in an advisory capacity by providing technical expertise and assistance with investigations. The committee is authorized to report its findings from any investigation or investigative hearing but is not authorized to initiate any disciplinary action against a licensee. This committee is limited by statute to a membership of 13 licensees and meets four to five times a year, generally for one-day meetings, alternating between a northern and southern California city.

The Qualifications Committee assists the CBA in its licensure activities by reviewing the experience of applicants for licensure and making recommendations to the CBA. This responsibility includes initiating and conducting work paper reviews, with the applicant or the employer present, to verify that the responses provided are reflective of the requisite experience for licensure. This committee is limited by statute to a membership of 16 licensees who have extensive knowledge and experience in the preparation of audit and review reports. The committee meets four to five times a year, generally for one-day meetings, alternating between a northern and southern California city.

The Accounting Education Committee is a temporary committee established to advise the CBA on accounting study in order to enhance the competence of students as practitioners and promote consumer protection. The statute did not establish the number of committee members for the AEC, however, the CBA has established the AEC composition at eight. The AEC held its first meeting on April 8, 2010, and will sunset on January 1, 2012.

The Ethics Curriculum Committee is a temporary committee established to recommend to the CBA ethics study guidelines consistent with national and international ethical standards that are in the best interest of the investing and consuming public and the profession. The ECC will also issue two reports to the CBA on Accounting Ethics Course requirement regulations during and after the regulatory process. The reports will pertain to the effectiveness of the new requirements, whether they will implement the ECC's recommendations. The ECC will sunset no later than January 1, 2014, and is limited to eleven members appointed by various stakeholders.

The Peer Review Oversight Committee will assist the CBA in the oversight of the newly established Peer Review Program. The purpose of the PROC is to engender confidence in the California Peer Review Program by performing oversight of the program and providing recommendations to the CBA on the effectiveness and continued use of the program. The committee is limited by regulation to a membership of seven licensees.

The Committee on Professional Conduct is comprised of seven CBA members, and generally meets before CBA meetings. It assists the CBA in consideration of issues relating to professional conduct. Tasks include:

- Considering and developing recommendations on issues that apply to the practice of public accountancy and affect consumers.
- Considering, formulating, and proposing policies and procedures related to emerging and unresolved issues.
- Reviewing selected exposure drafts and developing recommendations to present to the CBA.

The Enforcement Program Oversight Committee is comprised of seven CBA members, and meets on a tri-annual basis, or as necessary. It assists the CBA in the consideration of issues relating to the CBA Enforcement Program by:

- Reviewing policy issues related to the Enforcement Program.
- Overseeing the program's compliance with CBA policies by performing periodic internal audits.

The Legislative Committee is comprised of seven CBA members, and generally meets before the CBA meeting. It assists the CBA by:

- Reviewing, recommending, and advancing legislation relating to the practice of public accountancy.
- Coordinating the need for and use of CBA members to testify before the Legislature.

The current committee members are:



Table 1.2
CBA and Committee Member Roster



CBA Members

Ramirez, Manuel, CPA, President
Anderson, Sally, CPA, Vice Pres.
Oldman, Marshal, Esq., Sec/Tres.
Bell, Diana
Bermudez, Rudy
Brough, Michele R., Esq.
Chi, Angela, CPA
Driftmier, Donald A., CPA
Elkins, Hershel T., Esq.
Kirkbride, Louise
LaManna, Leslie, CPA
Petersen, Robert A., CPA
Swartz, David L., CPA
Taylor, Lenora, Esq.
Valdez, Andrea L., Esq.

CPC

LaManna, Leslie, Chair
Anderson, Sally
Brough, Michele
Elkins, Hershel
Kirkbride, Louise
Oldman, Marshal
Swartz, David L.

EPOC

Elkins, Hershel T., Chair
Bell, Diana
Brough, Michele R.,
Kirkbride, Louise
Petersen, Robert A.
Taylor, Lenora
Valdez, Andrea L.

LC

Brough, Michele R., Chair
Andersen, Sally
Bell, Diana L.
Bermudez, Rudy
Chi, Angela
Taylor, Lenora
Valdez, Andrea

CBA COMMITTEES

CPC- Committee on Professional Conduct
EPOC- Enforcement Program Oversight Committee
LC- Legislative Committee

AEC

Davila, Ruben A., Chair
Anderson, Sherry
Chavis, Betty
Dalton, Thomas M.
Driftmier, Donald A.
Moore, Michael L.
Pieroni, Gary
Seyedin, Sara
Yuan, Xiaoli "Charlie"

ECC

Cornejo, Dave
Driftmier, Donald A.
Freixes, Gonzalo
McBride, Gary
Mikkelsen, Jon
Mintz, Steven M.
Pieroni, Gary
Shames, Michael
Ueltzen, Michael
Yetman, Robert
TBA by Asm. Speaker

PROC

Allanson, Katherine
Bong, Gary J.
Corrigan, Nancy J.
Lam, T. Ki
Lee, Robert A.
McCoy, Sherry L.
Sadat, Seid

EAC

Khanna, Harish, Chair
Gerhardt, Cheryl, Vice Chair
Beranek, Richard E.
Caine, Gary S.
Caras, Mary Rose
Lee, Robert A.
Petray, James P.
Rider, James
Sadat, Seid M.
Schwarz, Michael J.
Thielen, Arthur J.
Vacant
Vacant

CBA Liaison:

Petersen, Robert A. (North)
Swartz, David L., (South)

QC

Hinojosa, Fausto, Chair
Eckley, Maurice Jr., Vice Chair
Aguila, Carlos
Bong, Gary
Cates, Brian
Haas, Michael
Hales, Bobbie
Hester, Charles
Lee, Alan
Mapes, Kris
Moore-Hudnall, Cassandra
O'Krent, Gary H.
Ruehl, Robert
Shenouda, Ash W.
Smith, Jeremy
Woyce, James

CBA Liaison:

Chi, Angela (North)
Oldman, Marshal (South)

STATUTORY COMMITTEES

AEC- Accounting Education Committee
EAC- Enforcement Advisory Committee
ECC- Ethics Curriculum Committee
PROC- Peer Review Oversight Committee
QC- Qualifications Committee

WHO THE CBA REGULATES

The Accountancy Act is a combination of practice and title acts. Code Section 5051 defines the practice of public accountancy and specifies that accounting is the process of recording, classifying, reporting, and interpreting the financial data of an individual or an organization. In California, the accounting profession's licensed practitioners are the CPA and the PA. Only persons who are licensed can legally be called a Certified Public Accountant or a Public Accountant.

A CPA is a person who has met the requirements of California state law, including education, examination, and experience requirements, and has been issued a license to practice public accountancy by the CBA. As of June 30, 2010, 80,126 individuals held CPA licenses and 5,198 accountancy firms were licensed in California.

In California, shortly after World War II, the PA license was awarded to individuals who demonstrated experience in public accounting and possessed a specified educational background. As of June 30, 2010, 180 individuals held PA licenses. The last PA license was issued in 1968 and, as these particular licenses expire, California eventually will no longer have licensees with this designation.

CPAs and PAs provide a range of accounting, compilation, review, audit, tax, financial planning, and management consulting services. In California, only a CPA or PA with the authorization to sign reports on attest engagements can perform attestation services, including audits and reviews (per Section 5051). The attest is a formal statement by an independent accountant, as to whether financial statements fairly represent financial position and operating results. Concerning compilations, only a licensee can issue a compilation report under the professional standards for CPAs. Section 5051 states that a person shall be deemed to be engaged in the practice of public accountancy if he or she "...offers to prospective clients to perform for compensation, or who does perform on behalf of clients for compensation, professional services that involve or require an audit, examination, verification, investigation, certification, presentation, or review, of financial transactions and accounting records."

CHANGES TO THE CBA SINCE THE LAST SUNSET REVIEW

There have been a number of significant changes to the CBA's regulatory program since the last sunset review. The primary objective of legislation, rulemaking, and other initiatives has been to enhance the CBA's ability to accomplish its consumer protection mission in a cost effective manner. These initiatives include:

- Significantly reducing the backlog of licensing applications by augmenting Initial Licensing Unit staffing in FY 2007/08. Initial Licensing Unit staff now routinely meet their performance measure goal of processing completed applications within 30 days of receipt.

- Employed a number of strategies to address the CBA's continued difficulty in recruiting and retaining Investigative CPA staff, including:
 - Reorganizing the Enforcement Division to include Investigative Analysts. The analysts perform non-technical investigations that do not require a CPA license, including practice without permit, Continuing Education deficiencies, and practice with an expired license.
 - Providing continuous civil service testing for the Investigative CPA classification.
 - Re-classifying the Enforcement Chief position to that of a Career Executive Assignment, thereby expanding the available candidate pool.
 - Working with the Department of Personnel Administration to create a Pay Differential for the Investigative CPA series.
- Increasing transparency of all CBA activities. In 2009 the CBA began posting notice of all accusations to the CBA Web site in a single location, providing a live webcast of all CBA meetings, and posting the materials and minutes of all CBA meetings on the CBA Web site. In 2009 the CBA also debuted the E-News program, which allows any interested parties to sign up for e-mail notification of CBA news and events.
- CBA sponsorship of Assembly Bill (AB) 138, which requires an accountancy firm performing accounting and auditing services to undergo a peer review every three years as a condition of license renewal.
- Reinstating the CE Audit Program in June 2009 to ensure that licensees are complying with the CE requirements set forth in the Accountancy Act and CBA Regulations. The audits provide the CBA with an opportunity to remind licensees of the CE reporting requirements and hopefully lessen the number of license renewal deficiencies received in the future.
- The establishment of computer based testing for the Uniform CPA Examination, which decreased the application processing time, and the delay applicants experienced in receiving their scores.
- Modifying CBA licensure requirements to ensure California CPAs remains substantially equivalent according to the National Association of State Board of Accountancy. The CBA previously had three "pathways" to licensure. In accordance with SB 136 of 2004, on January 1, 2010 Pathway 0 was eliminated. Because of the recent signing of SB 819 in 2009, effective January 1, 2014 Pathway 1 will become inoperative, and all applicants for licensure will be required to fulfill the 150 hour education requirement.
- The creation of the Practice Privilege Program, which allows out of state licensees to practice in California, as long as they notify the CBA and meet requirements.

- The update of the CBA Strategic Plan, which included a change to the official mission and vision of the CBA, and changes to the goals necessary to achieve that mission. A copy of the 2010-2012 Strategic Plan is available on the CBA Web site, at <http://www.dca.ca.gov/cba/publications/stratpln2010-2012.pdf>
- The institution of the Ethics Education and Licensing Frequency Task Force, which was charged with the update and revision of the CBA's Professional Conduct and Ethics rules and requirements.
- The CBA was instrumental in the creation of the National Association of State Boards of Accountancy (NASBA) Accountant Licensee Database(ALD). The database became operational in early 2010, and by the middle of 2010 CBA staff began utilizing the database to ensure that CPAs applying for licensure from another state are actually licensed, and do not have any pending enforcement action in another state.

Legislative Changes Impacting the CBA:

- **SB 136 of 2004**

In 2004, Senate Bill (SB) 136 by Senator Figueroa (Chapter 909) implemented certain changes recommended by the Joint Legislative Sunset Review Committee pertaining to examinations, and included a number of provisions directly affecting the CBA. SB 136 extended the sunset date of Pathway 0 for licensure from January 1, 2006 to January 1, 2010. It gave candidates who fail the Uniform CPA Examination the right to re-examine under the provisions of existing law and regulations adopted by the CBA, and repealed the January 1, 2006 sunset date on the law providing for re-examination.

- **SB 1543 of 2004**

In 2004, SB 1543 by Senator Figueroa (Chapter 921) extended the sunset date of the CBA to January 1, 2012. Further, SB 1543 added §5025.2 to the Business and Professions Code to require the Department of Finance to authorize up to \$2 million in additional expenditures for the CBA's enforcement and litigation activities. It also added the Practice Privileges article, commencing with §5096, to the Accountancy Act.

- **SB 229 of 2005**

In 2005, SB 229 by Senator Figueroa (Chapter 658) implemented certain changes recommended by the Joint Committee on Boards, Commissions and Consumer Protection and had a provision which allowed an individual practitioner or public accounting firm holding a valid permit to practice in another state to provide specified tax-related services for Californians without a California license or a practice privilege, as long as they notify the CBA and meet the requirements.

- **AB 1868 of 2006**

In 2006, AB 1868 by Assembly Member Bermudez (Chapter 458) extended the sunset date of the Practice Privilege Program to January 1, 2011. It also allowed a practice privilege holder to practice in California, and sign the name of his or her firm even if the firm is not registered in California. Lastly, it authorized foreign accountants to engage in temporary and incidental practice related to engagements in the foreign country, regulated by the foreign country, and performed under the accounting or auditing standards of that country.

- **SB 503 of 2006**

In 2006, SB 503 by Senator Figueroa (Chapter 447) eliminated the requirement that fees charged for examinations, renewals, certificates, firm registration, and practice privilege be directly related to the actual administrative costs. It also extended the peer review reporting requirement to September 1, 2011.

- **AB 117 of 2009**

AB 117 requires that a CPA who has a license in an inactive status, must include the word “inactive” immediately following the CPA designation.

- **AB 138 of 2009**

AB 138 established the CBA’s mandatory peer review program. It also created the Peer Review Oversight Committee to advise the CBA on peer review matters.

- **AB 1005 of 2009**

AB 1005 requires the CBA to webcast all CBA meeting live over the Internet. It also requires that the minutes of CBA meetings be posted to the Web site once they have been finalized. Finally, it requires that notice of accusations be posted on the Web site along with related information.

- **SB 819 of 2009**

The CBA currently has two pathways to Certified Public Accountant licensure:

- Pathway 1 requires a baccalaureate degree and two years of experience.
- Pathway 2 requires a baccalaureate degree, a total of 150 semester units of education, and one year of experience.

SB 819 makes Pathway 1 inoperative as of January 1, 2014. It also requires that the 150 semester units of education required by Pathway 2 include 10 semester units of ethics study and 20 additional semester units of accounting study.

To facilitate the educational changes, SB 819 created the following committees:

- The Advisory Committee on Accounting Ethics Curriculum, referred to as the Ethics Curriculum Committee(ECC), which, within the jurisdiction of the CBA, is to be composed of 11 members. The committee is required to recommend guidelines for the ethics study requirement to the CBA by January 1, 2012.
- The Accounting Education Advisory Committee, referred to as the Accounting Education Committee(AEC), whose members are appointed by the CBA and must be experts in accounting education. The committee has been tasked with recommending to the CBA accounting study guidelines consisting of 20 semester units to be included as a part of the education necessary for licensure as a CPA.

The law also requires the CBA to adopt the ECC recommendations by January 31, 2013, and requires the CBA to adopt guidelines for the accounting study requirement by January 1, 2012.

Finally, SB 819 deleted the sunset date for the California Practice Privilege program.

Regulatory Changes Impacting the CBA

- **Regulations Filed on April 14, 2005**

Required that a client's permission to disclose confidential information be in writing and provided that, in the event confidential client information may be disclosed to persons or entities outside of the United States, the licensee inform the client in writing and obtain the client's written permission.

- **Regulations Filed on December 12, 2005**

Added Article 4 to the CBA Regulations to implement the Practice Privilege Program.

- **Regulations Filed on July 11, 2007**

Made the CBA's audit documentation requirements more consistent with the requirements of the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board. Specified the requirements that Group Internet-Based Programs must meet to be accepted as qualifying continuing education, and indicated how credit for these programs would be granted. Indicated that dishonesty or fraud of any kind, or any act or crime posing a risk to the safety or welfare of a client, co-worker, or other person encountered by the licensee in his or her professional capacity is substantially related to the qualifications, functions, or duties of a CPA.

- **Regulations Filed on February 15, 2008**

Extended the operative period of the practice privilege “safe harbor” provisions in compliance with a statutory mandate. Updated and improved the CBA’s citation and fine regulations by permitting the issuance of citations for a violation of a term or condition of probation, deleting a cumbersome schedule of fine amounts, and making the maximum fine amounts consistent with the maximum amounts authorized by statute.

- **Regulations Filed on September 19, 2008**

Identified specific subject matter areas for which the CBA requires 48 hours of continuing education (CE) when an applicant’s qualifying experience was obtained five or more years prior to application for CPA licensure. Identified specific subject matter areas that met CE requirements in cases where a licensee’s experience is not current. Ensured that licensees converting from inactive to active status are no longer required to complete certain CE courses more frequently than licensees with an active license.

- **Emergency Regulations Filed on December 18, 2009**

Established the parameters of the CBA’s mandatory Peer Review Program.

- **Regulations Filed on December 18, 2009**

Made changes to the CE requirements to require an ethics course every two years. Created a new course to cover the Accountancy Act and CBA Regulations to be taken every six years. Requires at least 20 of the 80 CE hours required for biennial renewal to be taken each year. Made other changes to requirements for licensees whose license is in a status other than active.

- **Regulations Filed on January 6, 2010**

Clarified and defined “attest services” and “attest report” as an audit, a review of financial statements, or an examination of prospective financial information, but excluded the issuance of compiled financial statements.

- **Regulations Filed on February 18, 2010**

Clarified that an attest client or prospective attest client must be notified about the ownership composition of an accountancy firm if none of the licensee owners are authorized to sign reports on attest engagements.

Regulations in Progress

- **Certificate of Compliance for Peer Review Emergency Regulations**

Will make the CBA’s emergency peer review regulations permanent.

- **Peer Review Oversight Committee**

Will establish the qualifications and duties of the Peer Review Oversight Committee and will establish an adjudication procedure for peer review programs which are denied CBA approval.

- **Continuing Education: Exemptions and Extensions**

Will add Article 6-Peer Review to the list of required course content for CBA approved regulatory review courses.

- **Fees**

Will reduce the fees for renewal and initial licensure for four years at which time the fees will return to current levels unless a determination is made by the CBA that some other fee level is appropriate.

Budget Change Proposals, FY 2005/06

- **Enforcement Program**

The CBA received two Investigative CPA positions to bolster consumer protection activities, focused on addressing accounting regulatory reforms and a workload backlog of open consumer complaints that had evolved over a two-year period.

- **Practice Privilege Program**

The CBA received two positions to implement SB 1543, which extended a "Practice Privilege" to out-of-state licensees whose principal places of business are not within California. The Practice Privilege Program requires that practice privilege holders notify the CBA of their intent to practice in California, and provide the CBA with information used to ensure that the individuals applying for practice privilege meet the requirements stipulated in California law.

Budget Change Proposals, FY 2007/08

- **Enforcement Program**

The CBA received three positions in the Enforcement Program to enhance consumer protection through increased investigative and support staff functions.

- **Licensing Program**

The CBA received six positions in the Initial Licensing Unit to address an increased number of CPA license applications, reduce the existing licensure application backlog, and reduce the time it took for an applicant to receive a CPA license.

- **Renewal & Continuing Competency Program**

The CBA received two positions to reinstate the Continuing Education Verification program and to review and approve prospective Professional Conduct and Ethics course providers. This function ensures that licensees meet prescribed coursework intended to maintain their currency of knowledge related to the practice of public accountancy.

- **Practice Privilege Program**

The CBA received three limited term positions in the Practice Privilege Program to address the unexpectedly large influx of practice privilege notifications submitted from out-of-state CPAs desiring to practice public accountancy in California. The additional staffing enabled the CBA to properly carry out all mandated practice privilege requirements, as specified in SB 1543, and allowed the CBA to achieve reasonable timeframes for processing notifications and responding to consumer and out-of-state licensee requests for information and assistance.

- **Administration Division**

The CBA received three positions to assist with administrative functions. The new positions included an augmentation to the information services section, and a cashier and mail room clerk to assist with a growing number of license applicants and Practice Privilege holders.

Budget Change Proposals, FY 2010/11

- **Enforcement Division**

The CBA received two positions in the Enforcement Division to work with the Peer Review Oversight Committee and process sub-standard peer review reports.

- **Licensing Division**

The CBA received two limited term positions in the Licensing Division to assist with the creation and implementation of the new licensure requirements resulting from changes made by SB 819. The positions are limited to three years, and will expire in FY 2013/14.

MAJOR STUDIES CONDUCTED BY THE CBA

Beginning in spring 2007 and continuing into 2008, the CBA reexamined the institution of a mandatory peer review requirement for California-licensed accounting firms. This continued a nearly decade-long look of mandatory peer review by the CBA. After extensive research and consideration, which included all recommendations outlined in the CBA's *2005 Peer Review Report* (submitted to the Legislature in August 2005), the CBA concluded that implementation of a peer review program would result in substantial benefits by consumers and the profession.

In fall 2008, the CBA submitted to the Legislature its *2008 Peer Review Report* (available at http://www.dca.ca.gov/cba/publications/peer_review2008.pdf) which outlined the history of the CBA's consideration of peer review, a review of policy issues considered by the CBA at the meetings, and a discussion on the need for peer review. The submission of the 2008 report came three years ahead of schedule as was required by Business and Professions Code 5076.

As the result of extensive consideration of peer review, the CBA elected to sponsor legislation – AB 138 (Hayashi) – which became law January 1, 2010, and implemented a mandatory peer review program for California. AB 138 requires firms, including sole proprietorships, providing audit, attest, or compilation (accounting and auditing) services to undergo a systematic review to ensure that work performed conforms to professional standards. Peer review is required for these firms every three years as a condition for license renewal.

ABOUT THE LICENSEES

The CBA is unique among California boards and bureaus in that it licenses not only accountants but accounting firms (corporations and partnerships). As will be discussed in the licensing section, California CPAs are required to obtain a baccalaureate degree or higher, including specific accounting and business courses, and a minimum of 12 months general accounting experience to be licensed. California accounting firms must register with the CBA prior to operating as such. The Public Accountant designation was granted shortly after World War II to certain individuals, and is no longer conferred. As these individuals cease practicing, there will no longer be a PA designation in California. California Practice Privilege is the vehicle the CBA utilizes to allow CPAs practicing in other states to practice in California.

As of June 30, 2010 there are 80,126 licensed CPAs in California. Table 1.3 provides licensing data for the past four years:

Table 1.3 Licensing Data				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
CALIFORNIA CPAs				
Total Licensed	71,801	74,500	76,800	80,126
Applications Received	2,855	3,182	3,516	3,677
Applications Denied	0	0	0	0
Licenses Issued				
Pathway 0	106	139	81	88
Pathway 1	835	1,167	918	1,043
Pathway 2	<u>1,647</u>	<u>2,645</u>	<u>2,419</u>	<u>2,638</u>
Total	<u>2,588</u>	<u>3,951</u>	<u>3,418</u>	<u>3,769</u>
Renewals Issued	31,176	32,320	34,007	34,112
Statement of Issues Filed	0	1	0	1
Statement of Issues Withdrawn	0	0	0	0
Licenses Denied	0	0	0	1
OTHER LICENSURE CATEGORIES				
Licenseses (By Type)				
Public Accountant	247	218	194	180
Partnership	1,416	1,437	1,461	1,506
Corporation	3,303	3,418	3,546	3,692
Practice Privilege Holder	<u>2,878</u>	<u>3,024</u>	<u>2,622</u>	<u>2,403</u>
Total	<u>7,844</u>	<u>8,097</u>	<u>7,815</u>	<u>7,781</u>
Licenses Issued (By Type)				
Public Accountant ¹	0	0	0	0
Partnership	117	103	82	109
Corporation	194	211	215	227
Practice Privilege Holder	<u>2,878</u>	<u>3,024</u>	<u>2,622</u>	<u>2,403</u>
Total	<u>3,189</u>	<u>3,338</u>	<u>2,919</u>	<u>2,739</u>
Renewals Issued (By Type)				
Public Accountant	73	51	50	30
Partnership	582	588	562	482
Corporation	1,316	1,386	1,380	1,217
Practice Privilege Holder ²	N/A	N/A	N/A	N/A
Total	1,971	2,025	1,992	1,729
¹ PA licenses are no longer issued				
² Practice Privileges are granted on a yearly basis, there is no renewal.				

BUDGET AND STAFF

CURRENT FEE SCHEDULE AND RANGE

The CBA is required by Business and Professions Code Section 5134(a) through (e), to charge and collect a fee from each applicant for the Uniform CPA Examination, for issuing the license of Certified Public Accountant, and for registration of a CPA partnership or corporation.

Section 5134(f) also requires that the reserve balance in the CBA's contingent fund, exclusive of examination and licensing related revenues, shall be equal to approximately nine months of annual authorized expenditures as a result of initial permit and biennial renewal revenues. To this end, the CBA has adjusted initial permit fees and biennial renewal fees four times since April 1995. The last adjustment being in July 2000, raised the renewal fee back from \$50 back to the April 1995 fee level of \$200.

Table 2.1 Current Fee Schedule		
	Current Fee	Statutory Limit
Application Fee	\$250	\$250
Exam Fee	\$50/\$100 ¹	\$75/\$600
Initial Permit Fee	\$100/\$200 ²	\$125/\$250
Firm Registration	\$200	\$250
Firm Initial Permit	\$150	\$250
Biennial Renewal	\$200	\$250
Delinquent Biennial Renewal	\$100	\$125
Practice Privilege	\$50/\$100 ³	\$100/\$125
Certification	\$25	\$25
¹ \$100 initial application fee, \$50 per repeat application ² License renewal occurs on a biennial cycle based upon the licensee's birth month and year. If the licensee is first licensed in a year that they would have to renew in the next calendar year, the licensee only pays one half the Initial Permit Fee ³ Practice Privilege Holders who would like the authority to sign attest agreements pay a higher fee.		

REVENUE AND EXPENDITURE HISTORY

The original Accountancy Act provided that "...the expenses of examination, issuance of certificates, and conducting the offices of the CBA must be paid from the current receipts, and no portion thereof shall ever be paid from the State Treasury." Today, 109 years later, the CBA fixes the fees in accordance with the provisions and limits of Section 5134 of the California Accountancy Act.

The collection of various fees underpins the CBA's ability to operate its Examination, Licensure, Enforcement, Renewal/Continuing Competency, and Practice Privilege Programs. The CBA also receives revenue through its Citation and Fine Program, in which citations and appropriate fine ranges are defined in regulations. All monies received by the CBA from any source and for any purpose must be accounted for and reported monthly to the State Controller. The monies must be remitted to the State Treasury to the credit of the Accountancy Fund.

Table 2.2 Revenue and Expenditure History/Projections						
	ACTUAL				PROJECTED	
REVENUES	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
Licensing Fees						
Initial Licensing	\$742,750	\$819,200	\$923,094	\$958,750	\$909,000	\$933,000
Uniform CPA Exam	\$2,050,994	\$2,243,804	\$2,795,383	\$2,943,056	\$3,022,000	\$3,022,000
Renewal Fees	\$7,608,784	\$7,962,047	\$8,238,710	\$8,457,550	\$8,646,000	\$5,366,000
Practice Privilege	\$221,300	\$214,100	\$186,700	\$176,650	\$176,000	\$176,000
Fines/Penalties	\$16,900	\$1,017,000 ¹	\$34,838	\$17,140	\$47,000	\$47,000
Miscellaneous						
Other ²	\$65,866	\$62,911	\$60,787	\$53,882	\$54,000	\$53,000
Interest	\$903,454	\$933,511	\$371,591	\$96,365	\$0	\$0
TOTALS	\$11,610,048	\$13,432,573	\$12,611,103	\$12,703,393	\$12,854,000	\$9,597,000

EXPENDITURES	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
Personnel Services	\$4,480,439	\$5,080,222	\$5,284,510	\$4,961,172	\$6,226,000	\$6,351,000
Operating Expenses	\$3,183,409	\$3,786,692	\$3,975,775	\$3,884,177	\$6,547,000	\$6,648,000
(-) Reimbursements ³	\$296,579	\$487,807	\$476,948	\$201,951	\$296,000	\$296,000
(-) Distributed Costs						
TOTALS	\$7,373,269	\$8,388,107	\$8,783,340	\$8,643,398	\$12,477,000	\$12,703,000

¹ Includes a \$1 million penalty from a single major case

² Includes: Misc. services to the public, certification fees, duplicate licenses, name changes, etc.

³ Includes: Cost Recovery and other reimbursements

EXPENDITURES BY PROGRAM COMPONENT

The majority of the programs that the CBA administers have been in existence for many years. As such, there is a certain degree of “maturity” to the programs, and they are not subject to unstable expenditure patterns sometimes evidenced in recently established programs such as Practice Privilege and Client Services. Enforcement-related efforts generally represent 40-45% of the CBA’s total budgeted expenditure authority, and the CBA believes that this is an appropriate amount to dedicate to these activities.

The CBA does not believe any discrepancies exist in the current dispersion of budgeted expenditure authority between its programs, or in the funds allocated to administrative operations. The current allocation of available resources is reasonable in terms of allowing the CBA to meet the many varied commitments underlying its mission: “to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards.”

Table 2.3 Expenditures by Program Component					
BUDGETED EXPENDITURES BY PROGRAM COMPONENT	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	Average % budgeted by program in FY 2009/10
Enforcement	\$4,489,699	\$4,867,490	\$4,985,374	\$4,970,946	41.3%
Licensing	\$3,359,861	\$4,482,483	\$4,601,549	\$4,234,804	35.2%
Administration	\$2,599,558	\$3,059,219	\$3,126,976	\$2,829,819	23.5%
TOTALS	\$10,449,118	\$12,409,217	\$12,713,899	\$12,035,569	

FUND CONDITION

Section 5134(f) of the Accountancy Act mandates that the CBA maintain a nine-month reserve of funds to cover “anticipated” administrative operating expenditures. The reserve is not discretionary in nature; it is essential in order to fund CBA operations in temporary instances in which expenditures exceed revenues or budgeted amounts.

As stated previously, approximately 40-45% of the CBA’s budget each year is allocated to Enforcement related functions. Most of the unspent funds in any given year are due to unused investigative resources such as external consulting, administrative hearing and expert witness fees, and Attorney General costs. All of these expenditures are unpredictable and the prosecution costs can be quite large when they do arise. Since the CBA cannot spend more than what is budgeted for that fiscal year, staff must “anticipate” or prudently “project” these expenditures to cover any unforeseen or unpredictable enforcement actions.

Unspent monies revert back to the Accountancy Fund Reserve (Reserve) causing a rise in the Months in Reserve (MIR). Continued excesses in the reserves resulted in adjustments to initial permit fees and biennial renewal fees four times since April 1995 in order to reduce the Reserve. The CBA’s effort to “control” the reserve level in the Accountancy Fund have been only marginally effective as Enforcement Program budget levels frequently result in unanticipated savings which, in turn, add to the MIR.

A reduction in fees was considered by members of the CBA for FY 2009/10. However, a weakening economy and difficulties in enacting a State budget in FY 2008/09 resulted in a CBA loan to the state’s General Fund in the amount of \$14,000,000. This large transfer resulted in a significant drop in the MIR bringing the CBA closer to the mandated nine months of reserve.

After further analysis of projected Accountancy Fund Reserve levels earlier this year the CBA determined the need to reduce renewal fees from \$200 to \$120. Pending approval of a regulation package, the fee reduction will begin in FY 2011/12.

Table 2.4 Analysis of Fund Condition						
	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11 (Projected)	FY 2011/12 (Projected)	FY 2012/13 (Projected)
Reserves, July 1	\$20,607,000	\$25,865,000	\$15,693,000	\$19,753,000	\$10,525,000	\$17,681,000
Revenues	\$13,433,000	\$12,611,000	\$12,703,000	\$13,249,000	\$9,860,000	\$9,929,000
Transfers to Other Funds	\$0	-\$14,000,000	\$0	-\$10,000,000	\$10,000,000	\$0
Total Rev. & Transfers	\$13,433,000	(\$1,389,000)	\$12,703,000	\$3,249,000	\$19,860,000	\$9,929,000
Total Resources	\$34,040,000	\$24,476,000	\$28,396,000	\$23,002,000	\$30,384,000	\$27,610,000
Total Expenditures	\$8,387,000	\$8,783,000	\$8,643,000	\$12,477,000	\$12,703,000	\$12,966,000
Total Unreimbursed Loans to General Fund	(\$6,270,000)	(\$20,270,000)	(\$20,270,000)	(\$30,270,000)	(\$20,270,000)	(\$20,270,000)
Reserve, June 30	\$25,653,000	\$15,693,000	\$19,753,000	\$10,525,000	\$17,681,000	\$14,644,000
MONTHS IN RESERVE	24.8	16.0	19.0	9.9	16.4	13.2

LICENSURE REQUIREMENTS

EDUCATION REQUIREMENTS FOR EXAMINATION

Applicants for a CPA license are required to pass the Uniform CPA Examination developed by the American Institute of Certified Public Accountants (AICPA). The AICPA is a professional organization of CPAs consisting of members in public practice, industry, government, and academia. The AICPA's Board of Examiners write and grade the examination, however the CBA contracts with the National Association of State Boards of Accountancy (NASBA) to administer the exam. In addition to delivering the examination, NASBA is responsible for ensuring the Uniform CPA Examination's continuing validity, reliability, and security. NASBA also collects fees related to the administration of the exam, and provides special accommodations to candidates with disabilities.

The Uniform CPA Examination is a four-part, computerized exam, which tests auditing and accounting knowledge areas and skills that are necessary for entry into the profession and are essential for practice as a CPA. Each candidate must pass all four sections of the examination prior to applying for licensure in any state. The four sections provide broad coverage of the skills and technical knowledge CPAs require in various areas of practice. The following briefly describes each section:

- The Business Environment and Concepts (BEC) section assesses candidates' knowledge of a CPA's professional responsibilities and the legal implications of business transactions, particularly as they relate to accounting and auditing.
- The Auditing and Attestation (AUD) section covers knowledge of generally accepted auditing standards and procedures and the skills needed to apply them in auditing and other attestation engagements.
- The Regulation (REG) section evaluates knowledge of principles and procedures for federal income, estate, and gift taxation, managerial accounting, and accounting for governmental and not-for-profit organizations.
- The Financial Accounting and Reporting (FAR) section appraises knowledge of generally accepted accounting principles for business enterprises, including financial accounting concepts and standards and their application in public accounting engagements.

In 2004, the Computer Based Testing (CBT) format replaced the paper and pencil examination. Application final filing dates were eliminated, allowing candidates who have met all of the educational requirements to apply throughout the year.

The CBA's Examination Unit is responsible for processing applications to sit for the Uniform CPA Examination, including the review of official transcripts and foreign credential evaluations to ensure that examination candidates meet the educational qualifications pursuant to Section 5081 of the Business and Professions Code. The process for qualifying a candidate to sit for the Uniform CPA Examination takes approximately 30 calendar days, which represents a zero backlog for this program.

To qualify to take the Uniform CPA Examination, all applicants must meet the following minimum educational requirements:

- A baccalaureate or higher degree from a degree-granting college or university accredited by a United States regional institutional accrediting agency or a national accrediting agency.
- 24 semester units of accounting subjects, including accounting, financial reporting, auditing, financial statement analysis, external or internal reporting, and taxation.
- 24 semester units of business-related subjects, including business administration, computer science/information systems, business communications, economics, business law, finance, business management, marketing, business-related law courses (offered by accredited law schools), mathematics, and statistics.

Degree conferral and all courses related to meeting the CPA Examination educational requirements must be completed prior to submission of the applications and documented on official transcripts or foreign credentials evaluation reports. Applicants must arrange for all official documents detailing completion of all educational requirements to be submitted directly to the CBA from the educational institution or CBA-approved foreign credentials evaluation service. Once an application is received, staff review the transcripts and/or foreign credentials evaluation reports to determine whether the educational requirements have been met.

Examination candidates passing an exam section with a score of 75 or higher, receive and retain credit for each section passed for a period of 18 months from the date earned. When a candidate has credit status for all four sections of the examination at the same time, the candidate has passed the Uniform CPA Examination.

Validation of the Uniform CPA Examination is conducted by the AICPA and, is a continuous process which includes:

- Periodic practice analysis.
- Question writing by content experts.
- Review and evaluation by independent content experts, testing specialists, and a professional editor.
- Annual evaluation of content specifications.
- Statistical analysis of examination results.
- Annual independent review by NASBA through its CPA Examination Review CBA.
- Evaluation and research studies of examination issues.

The last completed full-scale practice analysis of CPAs in public accountancy was done in 2008.

Table 3.1 Uniform Certified Public Accountant Examination				
NATION-WIDE			CALIFORNIA ONLY	
YEARS	TOTAL CANDIDATES	PASSAGE RATE	TOTAL CANDIDATES	PASSAGE RATE
2006	69,259	43.75	10,157	43.84
2007	77,236	47.33	11,505	45.93
2008	85,391	48.63	12,864	47.16
2009	93,245	49.10	14,216	47.38
Information is not available from NASBA in FY format, so data is shown by calendar year				

EDUCATION AND EXPERIENCE REQUIREMENTS FOR LICENSURE

Upon passing the Uniform CPA Examination, completion of any additional education needed and obtaining the required experience, a candidate may apply for CPA licensure with the State of California. Until December 31, 2009 there were three pathways for licensure in California, Pathway 0, 1, and 2.

Pathway 0 (Section 5083)

Applicants applying for licensure under Pathway 0 were required to meet one of five educational requirements to qualify to sit for the Uniform CPA Examination. Depending upon the education, each applicant was required to complete 24, 36 or 48 months of experience that included attest experience. As with Pathways 1 and 2, all experience must have been performed in accordance with applicable professional standards and under the supervision of a licensee holding a valid license to practice public accountancy.

Effective January 1, 2010, Pathway 0 was repealed. If an applicant did not apply and qualify for licensure by that date, the candidate must satisfy increased education requirements and apply for licensure under Pathway 1 or Pathway 2.

Pathway 1 (Section 5092), Pathway 2 (Section 5093)

Applicants applying for licensure under Pathway 1 or Pathway 2 shall present satisfactory evidence that they have completed a Baccalaureate or higher degree and a core course requirement of 24 semester units of business-related subjects and 24 semester units of accounting subjects.

Additionally, Pathway 1 applicants are required to have 24 months of general accounting experience, while Pathway 2 candidates are required to have 12 months of general accounting experience, and present satisfactory evidence that they have completed at least 150 semester units of education.

General Accounting Experience Requirement

All experience must be performed in accordance with applicable professional standards. Applicants must meet the requirements for “active” license status when they are approved for initial licensure. Therefore, it is required that the applicant have current knowledge of the practice of public accountancy. This knowledge is demonstrated by completion of the Uniform CPA Exam and/or license experience within the past five years.

General accounting experience includes providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills. General accounting experience obtained in public accounting must be performed under the supervision of an individual who holds a valid active license, or comparable authority to practice public accountancy in any state or country. General accounting experience obtained in non-public accounting must be performed under the supervision of an individual holding a valid active license to practice public accountancy in the United States or its territories. The person supervising the experience must verify, on the *Certificate of General Experience*, that the applicant satisfied the general accounting experience.

Attest Experience Requirement

In addition to the general accounting experience requirements described above, CBA Regulation Section 12.5 requires that an applicant seeking licensure with the authorization to sign reports on attest engagements must obtain a minimum of 500 hours of attest experience and demonstrate an understanding of the requirements in performing the attest function, as it relates to financial statements. Experience must include all of the following activities:

1. Planning of the audit, including selection of the procedures to be performed.
2. Applying a variety of auditing procedures and techniques to the usual and customary financial transactions included in financial statements.
3. Preparing working papers in connection with the various elements of 1 and 2 above.
4. Preparing written explanations and comments on the work performed and its findings.
5. Preparing and reporting on full disclosure financial statements.

Fingerprint Requirements for Licensure Applicants

Pursuant to Section 144 of the B&P Code, applicants for a California CPA license are required to furnish their fingerprints for purposes of conducting a criminal history record check with the Department of Justice (DOJ) and the Federal Bureau of Investigation. Fingerprinting provides the CBA with vital information upon which to base licensing decisions. Once applicant fingerprints are submitted to the DOJ, the CBA receives subsequent criminal conviction information on the applicant or licensee.

In mid 2008, the CBA began work with the National Association of State Boards of Accountancy(NASBA) on the development of a national database to house licensing information for all 55 jurisdictions. CBA Vice President Sally Anderson and Executive Officer Patti Bowers serve on NASBA's Accountancy Licensee Database(ALD) committee, and were instrumental in the development and implementation of the project. The database is a centralized location that state boards of accountancy can go to review licensure and enforcement information for applicants. In the near future, consumers will have access to the database, and be able to verify that a CPA is licensed and in good standing prior to utilizing their services.

In early 2010, the CBA began transmitting California licensee information to the ALD and by mid 2010 began utilizing the ALD system as one way to verify licensure status and enforcement actions for applicants applying for licensure in California. This is one tool to ensure out-of-state licensees are not seeking licensure in California to avoid discipline in another state. There are presently 30 jurisdictions transmitting information to the ALD. As the system is still being developed, the CBA continues to utilize other methods to verify licensure status and enforcement actions of its licensure applicants. Once ALD becomes fully operational, the CBA will incorporate other ways to utilize its many functions to further streamline processing internally and to assist applicants with reducing the amount of license verification documents that accompany their application.

FIRM REGISTRATION

Accountancy firms must register with the CBA in order to offer accounting services in California. The CBA registers General and Limited Liability Partnerships, and Corporations. The timeframe for the initial licensure of firms is 30 days, and there is no backlog.

General or Limited Liability Partnership

A partnership may register with the CBA, providing the following requirements are met:

- At least one partner must be a CPA/PA licensed to practice in this state, or be an applicant for CPA licensure.
- Each partner practicing in California must hold a valid permit to practice in this state, or be an applicant for CPA licensure.
- Each partner not practicing in this state must be a CPA with a license in good standing from another state, or be a non-licensee owner as permitted by Business and Professions Code Section 5079.
- Each resident manager in charge of an office, must hold a valid permit to practice in this state, or shall have applied for CPA licensure.

Corporation

A corporation may register with the CBA providing the following requirements are met:

- Each director, shareholder, and officer of an accountancy corporation shall be a licensed person or a person licensed to render the same professional services in the jurisdiction or jurisdictions in which the person practices or may be a non-licensee owner as permitted by B&P Code Section 5079.

- At least one shareholder must be a CPA/PA licensed to practice in this state, or be an applicant for CPA licensure.
- The corporation must comply with all relevant Corporations Code sections.
- The corporation must maintain adequate insurance to provide security for claims, or the shareholders must execute either a written agreement to be jointly and severally liable for payment of claims arising out of the rendering of or failure to render professional services.¹
- Articles of incorporation have been filed with the Secretary of State.

Fictitious Name Permits

A sole proprietor who wishes to practice public accountancy using a fictitious name shall register and be approved by the CBA before practicing and holding out to the public. Licensees intending to operate using a fictitious name must meet the requirements established in Section 5060 of the Accountancy Act and Section 67 and 75.5 of the CBA Regulations. Licensees are also advised to review B&P Code Section 17500 concerning false and misleading advertising and B&P Code Sections 17900 – 17930 specifying general requirements for fictitious business names.

INITIAL LICENSURE APPLICATION PROCESSING

Provided in Table 3.2 are the average processing time frames for both examination and licensure applications. The processing time frames for examination applications has been steady over the past three fiscal years. Although there has been an overall increase in the volume of applications, continual streamlining of processes, automating internal functions, and educating applicants on how to submit completed applications has resulted in processing time frames below the CBA’s performance measure of 30 days.

Initial licensure application processing time frames decreased significantly beginning in FY 2008/09. This is a result of an augmentation of six staff to the Initial Licensing Unit. The processing time frames since this augmentation has been well below the CBA’s performance measure of 30 days.

Table 3.2 Average Processing Time frames				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Average number of days from receipt of a first-time application to approval to take the Uniform CPA Examination	10*	26	27	26
Average number of days to process a completed licensure application	104	87	26	22

* The CBA began collecting processing time frames in May 2007. Therefore, this number only includes the months of May and June 2007.

¹ Adequate is defined in Article 11 section 75.5(a)(1) of the CBA Regulations as: Insurance for each claim in an amount equal to at least \$100,000 per licensee, provided that the maximum amount for each claim shall not be required to exceed \$1,000,000, and that the minimum amount guaranteed for all claims during any one calendar year shall be at least an amount equal to \$250,000 per licensee, provided that the maximum amount shall not be required to exceed \$3,000,000.

RENEWALS AND CONTINUING EDUCATION/COMPETENCY REQUIREMENTS

The CBA presently requires CPAs, PAs, Accountancy Corporations, and Accountancy Partnerships, to renew biennially. The CPA and PA licenses expire every other year at midnight on the last day of a licensee's birth month. The year of expiration is based upon the licensee's birth year. If a licensee was born in an even year, the license expires each even year; if the licensee was born in an odd year, the license expires each odd year. To maintain a valid license, a CPA or PA is required to complete the license renewal application and have it postmarked, along with the renewal fee, by midnight on the license expiration date.

The license renewal cycle for Corporations and Partnerships is based on the month and year the CBA originally approved the Corporation or Partnership application. If approved in an even year, the registration will expire each even year on the last day of the month in which it was originally approved. If approved in an odd year, the registration will expire each odd year on the last day of the month in which it was originally approved.

At the time of license renewal, a CPA or PA who chooses to maintain a license in an active status must certify to the completion of 80 hours of CE in the two-year period immediately preceding his/her license expiration, including the completion of all required subject matter. For a course or program to qualify as CE, it must be a formal program of learning which contributes directly to the professional competence of a licensee in public practice. Licensees must complete a minimum of 40 of the 80-hour requirement in a technical subject matter. Courses that qualify as technical subject matter include auditing and accounting, computer and information technology, consulting, detecting and/or reporting of fraud in financial statements, financial planning, ethics, and taxation. Additionally, a licensee must complete a CBA-approved Regulatory Review course every six years as a condition of active licensure. The CBA approved Regulator Review course provides information on the provisions of the Accountancy Act, CBA Regulations, as well as an overview of historic and recent disciplinary actions taken by the CBA, highlighting the misconduct which led to licensees being disciplined.

A licensee who plans, directs, approves, or performs a substantial portion of the work on an audit, review, compilation or attestation service of a non-governmental agency must complete 24 of the 80 hours in courses focusing on auditing and accounting (A&A). Similarly, a licensee who plans, directs, approves, or performs a substantial portion of the work on an audit, review, compilation or attestation service of a governmental agency must complete 24 of the 80 hours in courses focusing on governmental auditing. A licensee required to fulfill the A&A or governmental auditing requirement must also complete eight hours of CE in subject matter specifically related to the detection and/or reporting of fraud in financial statements.

A licensee who no longer intends to practice public accountancy but who wishes to maintain his/her license may renew as inactive without completing any CE. To renew as inactive, the licensee must submit the license renewal application and fee to the CBA prior to the license expiration date. A licensee with a license in an inactive status may not practice public accountancy in California. A licensee may convert his/her license from an inactive to an active status prior to the next renewal date by submitting a status conversion form and completing 80 hours of CE in the appropriate subject matter.

Continuing Education Worksheet Review:

As reported in the CBA's 2003 Sunset Review Report, due to budget and staffing constraints, the CBA directed staff to discontinue review of the renewal applications and CE reporting worksheets submitted by licensees. The CBA submitted a Budget Change Proposal for FY 2007/08 requesting staff positions to reinstate the worksheet review and audit processes. The CBA received 2 analyst positions for the Renewal Unit which allowed the CBA, in June 2008, to resume 100 percent review of the license renewal applications and CE reporting worksheets to ensure licensees remain in compliance with the requirements set forth in the Accountancy Act and CBA Regulations.

The table below provides statistics on the CBA's CE worksheet review process, including the number of deficiencies identified and compliance responses received since resuming 100 percent worksheet review. The majority of deficiencies identified in FY 2009/10 fell into the following six categories; approximately 18% were incomplete renewal applications, 16% were a shortage of ethics CE hours, 12% were due to multiple errors, 11% were failure to submit the renewal application, 10% were a shortage of Fraud CE hours, and 8% were a shortage of CBA approved Professional Conduct and Ethics or Regulatory Review course hours.

	Table 3.3 CE Worksheet Review			
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
CPA/PA Applications Reviewed	N/A	2,714 ⁽¹⁾	30,849	29,914
Deficient Applications Identified	N/A	143	2,118	1,536
Compliance Responses Received (Including Requests for Inactive Status)	N/A	30	2,054	1,098
Enforcement Referrals	N/A	0	37	10
Outstanding Deficiencies (Including Abandonment)	N/A	0	27	428
¹ Worksheet review was reinstated June 1, 2008.				

Continuing Education Audit

In June 2009, the CBA reinstated the CE Audit Program to ensure that licensees are complying with the CE requirements set forth in the Accountancy Act and CBA Regulations. The audits provide the CBA with an opportunity to remind licensees of the CE reporting requirements and hopefully lessen the number of license renewal deficiencies received in the future. Licensees are randomly pre-selected and notified of the audit by mail approximately 90 days prior to their license expiration date.

At the time of license renewal, licensees renewing in an active status must submit certificates of completion, or equivalent documentation, for a minimum of 80 hours of CE. The certificates of completion will be reconciled against the CE reporting worksheet and license renewal application to verify the licensee completed the minimum amount and

appropriate type of courses during the license renewal period. Licensees will be required to remedy any deficiencies or discrepancies prior to their license being renewed.

Implemented Changes to Continuing Education Regulations

Effective August 2007, the CBA Regulations were modified to allow licensees to claim CE credit for Group Internet-Based Program (webcast) courses. The CBA defined a webcast course as a program that enables a licensee to participate from a computer in an interactive course presented by a live instructor at a distant location. The addition of webcast courses as an acceptable format for CE providers has allowed licensees greater flexibility in fulfilling the 80-hour CE requirement.

In order to qualify as acceptable CE, the webcast course must be taught by a live instructor and include a feature that allows participants to send questions and/or comments directly to the instructor and receive answers during the program. Additionally, the course provider must monitor attendance throughout the program by using attendance-monitoring devices such as polling, questions, or surveys. The program must include a minimum of two monitoring events each half-hour, at least one of which occurs at an irregular interval. The course provider must also have a written policy to address rescheduling and the granting of partial credit in the event of a technology failure.

Newly Enacted Continuing Education Regulations

In March 2008, the CBA established the Ethics Education and Licensing Frequency Task Force (Task Force), comprised of both CBA and non-CBA members, and tasked them with examining the CBA's Professional Conduct and Ethics (PC&E) course requirement and the two-year license renewal period. After careful consideration, the Task Force determined the current two-year license renewal period was satisfactory; however, the PC&E course requirement was found to be out-dated and in need of modification. At the recommendation of the Task Force, the CBA directed staff to draft proposed amendments to Title 16, Division 1, Article 12 of the California Code of Regulations.

On January 1, 2010 newly enacted regulatory amendments require that all licensees renewing a license in an active status complete the following: four hours of ethics education each license renewal period; a two-hour regulatory review course every six years covering the Accountancy Act, CBA Regulations and CBA enforcement actions; and a minimum of 20 hours of CE annually, with a minimum of 12 hours in technical subject matter, each year of the two-year license renewal period as part of the 80-hour CE requirement. Additionally, all licensees renewing or converting a license from an inactive to an active status must complete a minimum of 20 hours of CE, with a minimum of 12 hours in technical subject matter, in the one-year period immediately preceding the date of license renewal or status conversion.

COMITY/RECIPROCITY WITH OTHER STATES

Under the authority of the Accountancy Act, the CBA regulates the practice of public accountancy, ensuring that only qualified practitioners are permitted to practice and that appropriate standards of professional competency and practice are enforced. SB 1543, Chapter 921, Statutes of 2004, extended a "Practice Privilege" to certain qualified individuals whose principal places of business are not within California, thereby allowing these individuals to practice public accountancy in California although their licenses, certificates, or permits to practice public accountancy are issued by other states or jurisdictions.

Prior to implementation of the practice privilege provisions, out-of-state public accountants were allowed to temporarily practice public accountancy in California without notifying the CBA, provided the practice was incidental to his or her regular practice in another state. This practice was deemed "temporary and incidental." The term was subject to various interpretations among the nation's accounting profession, and it is believed the option was used more broadly in California than the CBA intended. This broad interpretation, combined with the fact that practitioners were not required to notify the CBA of their "temporary and incidental" practice, led to a significant concern regarding the CBA's ability to protect California consumers who use the services of practitioners not licensed or registered by the CBA.

To address this concern, SB 1543 was passed in September 2004 replacing the "temporary and incidental" practice with a requirement that qualified licensees notify the CBA of their intentions to practice in California. This legislation requires out-of-state licensees to submit a notification to the CBA with their license and other accounting profession related information. This requirement is known as California Practice Privilege and became effective January 1, 2006.

Requirements of California Practice Privilege

To be eligible for California Practice Privilege, an out-of-state licensee must meet one of the following requirements:

- Possess a valid and active license, certificate, or permit from a state deemed by the CBA as substantially equivalent; **or**
- Possess individual education, examination, and experience qualifications that have been determined by the CBA to be substantially equivalent; **or**
- Have continually practiced public accountancy as a CPA under a current, valid license issued by any state for four of the last 10 years.

In order to practice under California Practice Privilege, out-of-state licensees are required to submit the CBA's Notification Form, which is available for submission on-line or via hardcopy. Practice rights under the California Practice Privilege are automatic upon submission of the Notification Form; unless specific disqualifying conditions exist that require prior CBA approval. The fee for California Practice Privilege is due within 30 days of submission of the Notification Form. The privilege is valid for a maximum of one year

from the date of submission of the form, at which time the holder can either let the privilege expire or resubmit a new Notification Form.

An out-of-state licensee may not practice under a California Practice Privilege without prior approval of the CBA if the individual has, or acquires at any time during the term of the California Practice Privilege, a disqualifying condition. Examples of disqualifying conditions are:

- Conviction of a crime other than a minor traffic violation.
- Revocation, suspension, denial, surrender, placement on probationary status, or other sanctioned or limited license or other authority to practice a profession issued by a state, federal, or local agency or court or the Public Company Accounting Oversight Board (PCAOB) except for the following occurrences:
 - An action by a state board of accountancy in which the only sanction was a requirement that the individual complete specified continuing education courses.
 - The revocation of a license solely because of the failure to complete continuing education or failure to renew.
- Pendency of any investigation, inquiry, or proceeding by or before a state, federal, or local court or agency (including the PCAOB) involving professional conduct.
- Failure to respond to the satisfaction of the CBA to a request for information from the CBA regarding a matter related to a current or prior California Practice Privilege.
- Any judgment or arbitration award in an amount greater than \$30,000 entered against him or her in a civil matter involving the professional conduct of the individual.

An out-of-state licensee must report to the CBA any disqualifying conditions. The CBA reviews the reported information and notifies the individual in writing of its decision regarding the issuance of the practice privilege.

An out-of-state licensee can obtain a California Practice Privilege either with the authorization to sign a report on an attest engagement or without that authorization. To sign a report on an attest engagement under a California Practice Privilege, the holder must have completed a minimum of 500 hours of experience in attest services as required of California licensure applicants requesting licensure with the authority to sign attest reports.

Consumer Protection Elements of California Practice Privilege

There are two key consumer protection elements of the California Practice Privilege provisions.

- The CBA is authorized to take immediate action against anyone who runs afoul of the notification requirements or applicable laws: specifically, the CBA may suspend, without notice or hearing, an individual's practice privilege pursuant to Section 5096.4 of the Accountancy Act, Administrative Suspension of a Practice Privilege. A California Practice Privilege can be administratively suspended for the following reasons:
 - Conducting a disciplinary investigation, proceeding, or inquiry concerning representations made in the notice.
 - An individual's competence or qualifications to practice under the California Practice Privilege.
 - Non-payment of the Notification fee.
 - Non-response to a CBA inquiry.
- The California Practice Privilege is subject to denial or discipline for any violation of the practice privilege provisions, as well as for any act that would be cause for discipline against a California licensee, such as a violation of the Accountancy Act or CBA Regulations.

To ensure that these key consumer protection elements are effective, the CBA established a verification of qualifications procedure. To date staff have issued 53 Administrative Suspension Orders to California practice privilege holders not qualified to practice under the Practice Privilege Program.

ENFORCEMENT ACTIVITY

The CBA recognizes its significant responsibilities in the area of consumer protection. Within its Enforcement Program, workload is prioritized to maximize consumer protection and mitigate consumer harm. Cases with the potential for ongoing consumer harm receive the highest priority and urgent attention. The options of interim suspension orders or Penal Code Section 23 suspensions are utilized whenever appropriate to diminish potential consumer losses.

The CBA has historically used licensed CPAs to investigate complaints. These resources have been effective but difficult to recruit and retain as state salaries have not kept parity with compensation available elsewhere. To augment its licensed investigators, the CBA has expanded its Enforcement Program resources to utilize analysts to conduct investigations of non-technical matters. The expanded use of analytical staff has proven effective and allows the CPA investigators to concentrate on those cases that require the expertise and knowledge they possess.

The CBA's Enforcement Program receives complaints from consumers of accounting services, members of the accounting profession, professional societies, law enforcement agencies, other government agencies, and internal referrals from CBA committees and other programs. While historically consumers and internal referrals have been the main origin of complaints, licensees also have been a significant source, most often reporting unlicensed activity. CBA members and staff also regularly monitor the news media for information regarding licensees that may suggest violations of the Accountancy Act.

The CBA requests that complaints be submitted in writing. A detailed complaint form is posted on the CBA Web site and is available in both Adobe Acrobat and an interactive version, or a paper copy is available upon request to the CBA office. This form provides information about filing a complaint as well as explaining the CBA's statutory authority to act and the process that is followed when a complaint is filed. In lieu of the complaint form, complainants may also submit a simple letter identifying the name of the licensee who is the subject of the complaint and explaining the issues of concern.

As Table 4.1 shows, the number of complaints filed with the CBA has been increasing. The increase is first evident in FY 2007/08 due to the CBA's proactive efforts to identify potential continuing education and practice without permit violations. In FY 2008/09 a greater increase can be identified, again due to the CBA's proactive measures to investigate unlicensed activities and several special projects that were undertaken during this time period. The CBA utilizes various resources including contact with the Secretary of State's Office to identify accounting firms that have filed with that agency, and yet have failed to register with the CBA. The CBA will continue to employ these pro-active efforts using its non-technical investigative staff.

Table 4.1 Complaint Activity				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Complaints Received by Source				
Public	415	478	469	459
Licensee/Professional Groups	15	8	21	14
Governmental Agencies	12	17	17	13
Other ¹	75	128	368	219
Total Complaints Received and Opened	517	631	875	705
Complaints Received by Type				
Contractual	0	1	0	0
Competence/Negligence	49	93	93	84
Unprofessional Conduct	114	131	117	107
Fraud	4	8	19	8
Health & Safety	0	0	0	0
Unlicensed Activity	195	171	418	162
Criminal Convictions	0	0	0	75
Personal Conduct	1	8	2	2
Non-Jurisdictional	44	22	14	10
Productivity	3	12	2	3
Other	107	185	210	254
¹ Includes internal referrals from various CBA divisions, other DCA boards and bureaus, proactive efforts undertaken by the CBA and information received from other sources that do not fit in any of listed categories.				

The CBA's Enforcement Program processes all complaints received. The complainant is notified within five days that the CBA has received the complaint. Within ten days, the complaint is processed through "intake" in which one of the CBA's investigative staff reviews the complaint for jurisdiction, complexity, and availability of basic factual materials. At this point, the following actions may be taken:

- The complaint is assigned to an Investigative CPA or investigative analyst. Further contact with either the licensee or the complainant may be required to obtain additional information in order to continue the investigation.
- A complaint may be closed because the CBA lacks jurisdiction in the issues alleged, such as instances of fee or civil disputes or the lack of accountant/client relationship.

Cases are prioritized during complaint intake, with the highest priority assigned to cases in which it is believed consumer harm is ongoing, and therefore, the promptness of the investigation is paramount.

Gross negligence, unprofessional conduct, and practice without a valid license are the most frequent types of complaints against licensees. Competence and conduct issues are immediately referred for formal investigation to an Investigative CPA and cases that involve administrative violations, convictions, or sanctions by other agencies are referred

for investigation by an investigative analyst. Violations that are confirmed may result in citations with fines, mandated continuing professional education or, in the instance of more substantive violations, formal accusation.

The following table reflects Enforcement Compliance Actions that have taken place during the last four fiscal years. Cease and desist warning letters show a sharp increase in FY 2008/09, compared to other years. This increase was again the result of the CBA's proactive efforts in the area of unlicensed activity that was mentioned earlier. When a cease and desist letter is sent, the respondent is given 30 days to resolve the matter. If compliance is obtained, the complaint is closed. Failure of the respondent to resolve the complaint could result in the matter proceeding to additional investigation and possible formal discipline.

Table 4.2 Compliance Actions				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Continuing Education Mandated	14	19	23	12
Cease & Desist/Warning Un-Licensed	74	65	151	61
Cease & Desist/Warning Licensed	0	11	163	56
Referred for Informal Hearing	43	23	35	18
Compel Examination ¹	0	0	0	0
Public Letter of Reprimand ¹	0	0	0	0
Referred for Diversion ²	0	0	0	0
Total Compliance Actions	131	118	372	147
¹ The CBA does not utilize these compliance actions				
² The CBA does not have a diversion program				

As shown in Table 4.3, the average number of formal accusations filed and disciplinary actions taken during this reporting period show slight fluctuations over the four year period. These fluctuations can be attributed largely to the investigative staff changes within the Enforcement Program. During FY 2009/10 the Enforcement Program experienced significant staff turnover. Three of the five ICPAs and both the Supervising ICPA and the Enforcement Chief left the CBA. This, coupled with the creation and staffing of three analysts in the non-technical unit, created a "knowledge gap." It can take from 1-2 years to master the skills necessary to be proficient and productive in this type of position.

The majority of disciplinary actions continue to pertain to gross negligence and conduct issues. Regardless of the nature of the violation, nearly 70 percent of all disciplinary actions are resolved through stipulated settlement. Approximately 13 percent are heard by an administrative law judge and the remaining represent default actions due to the respondent's failure to request a hearing, object, or otherwise contest the accusation.

The CBA considers settlement in all types of cases, however, because the majority of disciplinary actions involve gross negligence and conduct issues, these are the types of cases most frequently settled. When considering settlement in a disciplinary case, it is

the CBA's policy to discuss and consider all options in all types of cases during the disciplinary stage.

From FY 2006/07 to FY 2009/10, a total of 102 cases resulted in stipulated settlements. In those 102 cases the following results were attained:

- 13 percent: Revocation.
- 12 percent: Voluntary surrender with discipline pending.
- 35 percent: Revocation stayed with suspension and probation.
- 35 percent: Revocation stayed with probation.
- 5 percent: License probation only.

The final results from stipulated settlements are often very similar to the results that would be accomplished should a matter proceed to a formal hearing with the Office of Administrative Hearings. However, the costs involved in settling a case prior to the hearing process are substantially less. Settlement results in saving both time and money.

Table 4.3 Disciplinary Actions				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
AG Office Activity				
Accusations Filed	42	33	29	27
Accusations Withdrawn or Dismissed	4	0	3	0
Statement of Issues	0	1	0	1
Total AG Office Activity	46	34	32	28
Disciplinary Actions				
Revocation	16	17	10	13
Voluntary Surrender	4	1	2	4
Suspension Only	0	0	0	0
Revocation Stayed with Suspension and Probation	14	11	10	5
Revocation Stayed with Probation	10	11	9	11
License Denied	0	0	0	1
Interim Suspension Order(s)	0	0	0	1
Other	1	0	0	0
Total Disciplinary Actions¹	45	40	31	35
Forms of Discipline				
Stipulated Settlements	29	27	24	22
Proposed Decisions	5	5	2	8
Default Decisions	11	8	5	5
Total Forms of Discipline	45	40	31	35
¹ Total Disciplinary Actions are measured by Total Number of Respondents.				

Beginning in FY 2010/11 and as part of the CBA's efforts towards greater transparency, the CBA will begin reporting statistical information related to violations of probation. This information will provide the number of licensees that are involved in subsequent disciplinary actions during the time they are on probation and give the CPA insight on how

to better educate and minimize repeat offenses. Table 4.4 illustrates formal discipline rendered for probation violations for the past four years.

Table 4.4 Probation Violations				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Suspension or Probation	0	1	0	0
Revocation or Surrender	2	0	1	1

Business and Professions Code Section 5063 requires licensees to self-report certain actions such as felony convictions, any crime related to the practice of public accountancy, and the cancellation, suspension, or revocation of the right to practice as a CPA or PA by another state, foreign country, and/or any government body or agency. Section 5063 was expanded effective January 1, 2003, to also require licensees to self-report civil action settlements and judgments over \$30,000, investigations by the Securities and Exchange Commission or the Public Company Accounting Oversight Board (PCAOB), and their involvement in issuing reports on restated financial statements concerning Governmental Agencies, Non-Profit charitable trusts that are required to file an amended tax return, and SEC registrants that file California tax returns.

Table 4.5 represents licensee complaints received, closed, and referred for investigation by Investigative CPA staff or investigative analysts, accusations filed, and disciplinary actions for the four-year reporting period. It should be noted that a complaint typically is not opened, investigated, and either closed or referred for disciplinary action in the same fiscal year. Further, an accusation may be filed in one fiscal year with the resulting disciplinary action occurring in a subsequent fiscal year.

As each complaint is opened, it goes through a preliminary review to determine the CBA's jurisdiction and evidentiary support. As provided in Table 4.5 for FYs 2006/07, 2007/08, and 2008/09, approximately 17 percent of all complaints opened are referred for investigation, and approximately 44 percent of the complaints referred for investigation proceed to accusation. A comparison of disciplinary actions made in relation to licensee complaints received shows that approximately eight percent of complaints against a licensee result in disciplinary action, a figure consistent with statistics reported during the previous review.

Beginning in FY 2009/10 there was a significant spike in formal investigations opened from previous years. This spike is the result of an internal change made by the DCA that defines an investigation as opened immediately following the initial review. In prior years, initial reviews allowed for an abeyance period for investigative staff to collect information on complaints that were lacking evidentiary documentation or other information to support the allegations. A large percentage of complaints were closed during the "abeyance" period and the time was not considered investigative time. Removal of this "abeyance" period and identifying the complaint as an investigation following the initial review accurately reflects the time period during which the complaint is under investigation.

Table 4.5 Licensee Complaint Outcomes				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Complaints Opened¹	341	473	612	561
Complaints Closed by Type:				
Competence/Negligence	57	81	85	86
Unprofessional Conduct	130	132	120	105
Fraud	7	6	10	13
Non-Jurisdictional	41	22	15	10
Criminal Charges/Convictions	0	0	0	63
Other	110	155	223	257
Unlicensed Practice	14	12	167	28
Total Complaints Closed:	359	408	620	562
Formal Investigation Opened	90	80	70	333
Formal Investigation Closed	95	64	88	243
Accusation Filed	42	33	29	27
Disciplinary Action²	45	40	31	35
¹ It is atypical for a complaint to be opened, investigated, and either closed or referred for disciplinary action in the same fiscal year.				
² Based on total number of respondents				

CASE AGING DATA

As mentioned earlier, cases are not typically opened, investigated, and prosecuted in the same fiscal year. However, for purposes of obtaining the most accurate data, Table 4.6 was compiled based on closed disciplinary cases for each of the fiscal years shown. Each of the separate phases of the investigation was extracted to come up with a true average. As shown, the Average Days to Process, Investigate, and Prosecute Licensed Cases has decreased by almost 100 days for the four years depicted. The average number of days ranged from a high of 777 days in FY 2006/07 to a low of 680 days in FY 2009/10.

The statistics for *Investigations* reflect the average number of days from assignment for investigation to completion of a final investigative report. As illustrated in the table, the average number of days for Investigations has decreased by over 100 days for the years depicted. The average number of days ranged from a high of 357 days in FY 2006/07 to a low of 232 days in FY 2009/10. It should be noted however, that in any given year, large complex investigations will impact the date range and the average number of days it takes to complete the investigation cycle.

The calculation for *Pre-Accusation* is the average number of days from referral of a case to the Attorney General's Office to the filing of an accusation. As depicted in Table 4.6, the average number of days of Pre-Accusation has remained relatively constant. The average number of days ranged from a high of 179 days in FY 2006/07 to a low of 152 days in FY 2009/10. This illustrates the quality and thorough factual development of investigations by CBA investigative staff.

The calculation for *Post-Accusation* is the average number of days from the filing of the accusation to a final disposition date. Final dispositions can include, but are not limited to, license revocation, probation, suspension, surrender of the license, and withdrawal of the accusation. Stipulated settlements generally are negotiated with the respondents and their attorneys by the CBA's Enforcement Chief, in consultation with a Deputy Attorney

General (DAG). Stipulated settlements are subsequently presented to the CBA for action. In cases moving to the administrative hearing process, the CBA utilizes Administrative Law Judges (ALJ) to preside over hearings and render proposed decisions. As shown in Table 4.6, the average number of days of Post-Accusation has increased by over 50 days during this period. The average number of days ranged from a high of 296 days in FY 2009/10 to a low of 241 days in FY 2006/07.

Table 4.6 Average Days to Process, Investigate And Prosecute Licensed Cases				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Investigations	357	272	285	232
Pre-Accusation ¹	179	157	136	152
Post-Accusation ²	241	255	269	296
Total Average Days³	777	684	690	680
¹ From referral to the Attorney General's Office to filing of formal charges.				
² From formal charges filed to conclusion of disciplinary case.				
³ From date the complaint was received to date of the final disposition of the disciplinary case.				

For Table 4.7, the calculation for *Amount of Time for ICPA to Complete Investigation* is based upon the number of days from assignment of a case for investigation to completion of a final investigative report. The calculation for *Amount of Time for AG to Complete Case After Referral* is based upon the number of days from referral of a case to the Attorney General's Office to a final disposition date. In this table, the information provided demonstrates that the majority of the investigations closed are in the six-months to two-year time period.

The table shows that 90 percent of the cases closed during the last four years have been processed in less than two years. This is an improvement over the previous review period in which only 76 percent of cases were closed in less than two years. Again, the CBA's reengineering efforts have been significant in effecting more efficient case processing times.

As a matter of course, cases referred to the Attorney General's Office take from five to eleven months for the CBA to receive a completed accusation from the DAG. During this period, the progress of the DAG is closely monitored by enforcement staff. Once the draft accusation is received from the DAG, reviews and modifications may add additional time. Infrequently, supplementary investigations may be required prior to the completion of the accusation in order to acquire more detail to support the case.

Table 4.7 Licensed and Unlicensed Investigation Timeframes					
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	Average % Cases Closed
Amount of Time for ICPA to Complete Investigation					
Less than 90 Days	18	15	12	111	29%
90-180 Days	16	13	22	60	21%
180-365 Days	25	21	21	60	24%
1-2 Years	28	18	25	36	20%
2-3 Years	8	4	10	9	6%
Over 3 Years	0	0	0	4	<1%
Total Investigations Closed	95	71	90	280	100%
Amount of Time for AG to Complete Case After Referral					
0-1 Year	26	19	17	15	55%
1-2 Years	15	16	11	7	35%
2-3 Years	5	0	3	0	5%
3-4 Years	2	2	0	3	5%
Over 4 Years	0	0	0	0	0
Total Cases Closed¹	48	37	31	25	100%
Disciplinary Cases Pending	24	31	36	40	
¹ Includes Withdrawn Cases					

CITE AND FINE PROGRAM

Business and Professions Code Sections 125.9 and 5010 provides authority for the CBA to establish by regulation a system to issue licensees a citation which may contain an order of abatement or order to pay an administrative fine. The CBA may order any licensee to pay an administrative fine as part of any disciplinary proceeding.

The issuance of citations and fines is an essential enforcement tool used by enforcement staff. Citations are primarily issued to licensees determined to be in violation of practicing without a valid permit or other administrative violations that may include continuing education deficiencies or unregistered firm names. Citations are an effective means to sanction a licensee for violations that do not rise to the level of formal discipline.

On March 16, 2008, the CBA amended the CBA Regulations Section 95.2 to assess fine amounts of not less than \$100 or more than \$5000 for each investigation. The amendment provided the CBA latitude to impose fine amounts based upon mitigating or aggravating factors and removed the requirement to impose specific fine amounts associated with a particular violation.

Table 4.8 reflects citations and fines issued for the previous four-year period.

Table 4.8 Citations and Fines				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Total Citations	23	21	17	14
Total Citations With Fines	23	21	17	14
Amount Assessed	\$31,300	\$42,000	\$31,550	\$27,150
Reduced, Withdrawn, Dismissed	\$6,650	\$3,000	\$2,000	\$17,200
Amount Collected	\$16,900	\$17,000	\$14,838	\$13,970

RESULTS OF COMPLAINANT SATISFACTION SURVEY

To obtain a benchmark for the level of satisfaction with the CBA Enforcement Division, CBA staff created a survey to poll all individuals who filed a complaint that was closed in the past four fiscal years. Because the timeframe was so large, all complainants were included in the survey sample, with the only exception being internal complaint referrals. A letter was mailed to each complainant inviting them to take the survey online, or to contact the CBA office for assistance completing the survey if needed.

Unfortunately, the response rate to the survey was extremely low, less than twelve percent. With a response rate of less than twelve percent on a population size of approximately 1200, the statistical accuracy of the survey is 95%, +/- 20%². The margin of error for a sample this size is too large to accurately interpret the numbers. As such, there is some question as to the validity of the data as reflected in Table 4.9.

Further compounding the validity of the data is the reporting timeframe. The responses in Table 4.9 are for cases that were closed in a given fiscal year, but the majority of complaints are not opened, investigated, and closed in a year. There is a possibility that a significant number of complaints reflected in FY 2006/07 and FY2007/08 were received at an earlier date. This is evidenced by the large number of respondents who contacted the CBA to inquire against whom and when they filed a complaint.

² http://www.greatbrook.com/survey_accuracy.pdf

	Table 4.9 Consumer Satisfaction Survey Results			
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
# Surveys Mailed:	274	295	307	323
# Surveys Returned:	32	26	33	41
% of Surveys Returned:	12%	9%	11%	13%
1. Were you satisfied with knowing where to file a complaint and whom to contact?	78%	80%	91%	73%
2. When you initially contacted the CBA, were you satisfied with the way you were treated and how your complaint was handled?	59%	54%	58%	56%
3. Were you satisfied with the information and advice you received on the handling of your complaint and any further action the CBA would take?	47%	50%	39%	39%
4. Were you satisfied with the way the CBA kept you informed about the status of your complaint?	55%	46%	47%	51%
5. Were you satisfied with the time it took to process your complaint and to investigate, settle, or prosecute your case?	48%	46%	55%	40%
6. Were you satisfied with the final outcome of your case?	43%	33%	29%	25%
7. Were you satisfied with the overall service provided by the CBA?	50%	35%	39%	30%
* Boards under review may conduct a consumer satisfaction survey to determine the public's views on certain case handling parameters. A sample list of questions have been provided. You may use more or fewer questions. Boards may take a random sampling of closed complaints and disciplinary actions for a <u>four year period</u> . Consumers who filed complaints should be asked to review the questions and respond to a 5-point grading scale (i.e., 5, 4, 3 =satisfied to 1, 2 =dissatisfied). The percent of satisfaction for each of the past four years would be provided in the appropriate columns.				

Recognizing the potential inaccuracy in the survey data due to the low response rate, a telephone survey was initiated to corroborate or disprove the results. CBA staff focused on complaints from FY 2009/10, and began contacting complainants via telephone, believing these individuals would have the most current opinion of the Enforcement Division, and may provide the best feedback. The CBA also modified the survey that was provided over the telephone. In order to garner more responses, and to ensure the brevity of the survey, respondents were simply asked if they were satisfied with the service received. (Since the data is reflected in the percent of respondents that were satisfied, this will have no bearing on the data reflected from the survey.)

The telephone survey also omitted question number, “6) Were you satisfied with the final outcome of your case?” The question was deleted for two reasons. First, the survey was designed to measure the satisfaction rate with the service that was provided by the CBA Enforcement Division. As the outcome of the complaint is often outside of the control of the CBA Enforcement Division, this did not seem to be an appropriate question for this survey. Second, it quickly became apparent that if the CBA did not revoke the licensee’s permit to practice, and refund the fee charged, the complainant was often not “satisfied”.

Table 4.10 reflects the response from the follow-up telephone survey. With a 29% response rate, the telephone survey is accurate to approximately 15%.

Table 4.10 Consumer Satisfaction Survey Results	
FY 2009/10	
# Complainants Called:	100
# Complainants Unable to Reach¹:	21
# Surveys Completed:	23
% of Surveys Returned:	29%
1. Were you satisfied with knowing where to file a complaint?	78%
2. When you initially contacted the CBA, were you satisfied with the way you were treated and how your complaint was handled?	83%
3. Were you satisfied with the information you were provided regarding the CBAs process for handling your complaint?	68%
4. Were you satisfied with the way the CBA kept you informed about the status of your complaint?	68%
5. Were you satisfied with the time it took to process your complaint and to investigate, settle, or prosecute your case?	70%
6. Were you satisfied with the customer service provided by the staff at the CBA?	78%
¹ Includes hang-ups, deceased, and incorrect phone number	

In the future, it may be possible to increase the response rate by surveying complainants more quickly after a case is closed. The DCA recently created a survey that is mailed to all complainants when their case is closed, and the CBA is participating in this survey. It is anticipated the CBA will have a much larger and more trustworthy data set in the future.

ENFORCEMENT EXPENDITURES AND COST RECOVERY

AVERAGE COSTS FOR DISCIPLINARY CASES

As reflected in Table 5.1, the average aggregate cost for closed investigations and prosecution of cases has remained fairly constant over the last four years. Cases involving gross negligence in audit engagements or defalcations from clients or employers require the collection of much evidence and, accordingly, these cases are more costly to investigate and prosecute. As noted earlier in this document, the CBA's reengineered intake process has allowed only those substantive technical matters that warrant a formal investigation with Investigative CPA staff to move forward. Cases that involve administrative violations, such as continuing education deficiencies, practice without a valid permit and unregistered firm names are typically citation and fine matters and do not result in formal discipline. This process change has reduced the volume of non-technical cases referred for formal investigation by ICPAs, thereby allowing the assigned ICPA to concentrate on the more egregious matters.

In past years, it was not uncommon for the CBA to experience difficulty in the prosecution of major cases. Litigation expenses of these matters were extremely costly and required major changes in order to address the problem. In FY 1999/00 the CBA augmented its fiscal year spending authority through the complex deficiency request process. In order to avoid potential delays in prosecuting cases, the CBA secured authority under statute (Business and Professions Code Section 5025.2) starting in 2004 to increase its annual enforcement and litigation expenditure authority by \$2,000,000 when necessary for public protection. Since that time, the CBA has experienced minimal difficulty in investigating and prosecuting these high profile matters.

Table 5.1 Investigation Costs				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Average Cost for Closed Investigations				
Cost of Investigative CPA & DOI	\$118,949	\$88,021	\$121,389	\$399,309
Number of Cases Closed	95	64	81	243
Average Cost Per Case	\$1,252	\$1,375	\$1,498	\$1,643
Cost of Prosecution	\$359,468	\$733,127	\$220,655	\$257,351
Cost of Hearings	\$16,299	\$26,010	\$19,859	\$12,449
Number of Cases Referred	40	37	27	26
Average Cost Per Case	\$9,394	\$20,517	\$8,907	\$10,377
Total Average Cost per Disciplinary Case	\$10,646	\$21,892¹	\$10,405	\$12,020
NOTES:				
¹ The Cost of Prosecution for FY 2007/08 includes \$423,191 for a single major case. If this amount was not included, the Average Cost per Disciplinary Case would be reduced from \$21,892 to \$10,454.				

COST RECOVERY EFFORTS

The CBA's general practice has been, and continues to be, the pursuit of cost recovery where appropriate. All accusations include a plea for awarding costs. In the cases in which cost recovery is ordered but not collected due to a revocation of the license, it is the CBA's policy to require reimbursement of all reasonable costs for violations in which action was taken, should the respondent petition the CBA for reinstatement of the license.

Table 5.2 depicts actual cost recovery in relation to case expenditures. *Potential Cost Recovery Cases* excludes Default Decisions and Stipulations to Revocation. In these instances if the respondent attempts to Petition for Reinstatement, cost recovery efforts will be made. *Total Enforcement Expenditures* are the costs incurred in pursuing the *Potential Cost Recovery Cases* to conclusion. *Cases Recovery Ordered* are those cases which actual costs were ordered or part of the final decision. *Actual Cost Recovery Dollars* is the total amount collected regardless of the fiscal year the recovery was ordered.

Table 5.2 Cost Recovery Information				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Potential Cost Recovery Cases	28	25	19	17
Total Enforcement Expenditures on Potential Cost Recovery Cases	\$327,800	\$677,012	\$241,379	\$199,413
Cases Recovery Ordered	23	24	18	12
Amount of Cost Recovery Ordered	\$188,263	\$539,315	\$164,281	\$113,835
Actual Cost Recovery Dollars	\$270,353	\$474,902	\$378,546	\$101,321

¹There were 6 revocation/default cases in FY 2009/10. These cases and dollar amounts were not included in either the **Potential or Actual Cost Recovery Cases**. In the event the licensee attempts to reinstate the revoked certificate, cost recovery efforts will be made. The additional 8 cases that were included in the 20 Potential Cost Recovery Cases included several Voluntary Surrender cases and several cases that Stipulated to Revocation. In these instances cost recovery was not ordered however, if the Respondent attempts to Petition for Reinstatement, costs recovery efforts will be made.

RESTITUTION PROVIDED TO CONSUMERS

The CBA's practice is to pursue restitution to consumers on a case-by-case basis, a procedure that has been in place during all prior sunset review periods. The CBA's general policy is that restitution is appropriate when financial harm is identifiable and measurable. Restitution could be ordered in the proposed decision of an ALJ but is more likely to be the product of matters resolved via stipulated settlement.

During the current reporting period, no restitution was made directly by the CBA. However, on the more egregious licensees disciplined, it is not unusual for the licensees to be prosecuted criminally. In these instances, consumer restitution was sought in the criminal prosecution to the fullest extent possible.

ADMINISTRATIVE PENALTIES/MONETARY SANCTIONS

In September 2004, Business and Professions Code Section 5116 became operative, which allows the CBA to order any licensee or applicant for licensure or examination to pay an administrative penalty as part of any disciplinary proceeding. Any licensee who violates any provision of this chapter may be assessed an administrative penalty of not more than five thousand dollars (\$5,000) for the first violation and not more than ten thousand dollars (\$10,000) for each subsequent violation. In addition, any licensee who violates subdivision (a), (c), (i), (j), or (k) of Section 5100 may be assessed an administrative penalty of not more than one million dollars (\$1,000,000) for the first violation and not more than five million dollars (\$5,000,000) for any subsequent violation. Administrative penalties may be assessed in conjunction with other disciplinary / enforcement action.

Table 6.1 depicts the *Administrative Penalties/Monetary Sanctions* imposed for the past four-year periods. In FY 2007/08, a \$1,000,000 administrative penalty was imposed on a large accounting firm.

Table 6.1 Administrative Penalties/Monetary Sanctions				
	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Amount Ordered	0	\$1,020,000	\$1,000	\$0
Amount Collected	0	\$1,000,000	\$20,000	\$1,000

COMPLAINT DISCLOSURE POLICY

It is the CBA's intent to provide consumers with all information to which they are entitled under the California Public Records Act (CPRA). The table below denotes CBA enforcement related information that is available to consumers under the CPRA.

Consistent with the CPRA, information regarding open or closed complaints and investigations will not be released to the public. If the CBA's investigation substantiates a violation and the CBA takes action by issuing a citation or filing an accusation, the citation or accusation and resulting disciplinary action are matters of public record.

The expanded use of the CBA Web site in recent years has allowed for faster and more efficient consumer access to public documents. The CBA now posts notice of all formal accusations on its Web site with information regarding how to request copies of the charging document. In addition, once disciplinary action against a licensee is final, the CBA provides a summary of the allegations with a link to download a copy of the accusation and final decision.

Table 7.1 Complaint Disclosure Policy			
	YES	NO	N/A
Complaint Filed		X	
Citation	X		
Fine	X		
Letter of Reprimand			X
Pending Investigation		X	
Investigation Completed		X	
Arbitration Decision			X
Referred to AG: Pre-Accusation		X	
Referred to AG: Post-Accusation	X		
Settlement Decision	X		
Disciplinary Action Taken	X		
Civil Judgment		X	
Malpractice Decision			X
Criminal Violation:			
Felony		X	
Misdemeanor		X	

CONSUMER OUTREACH, EDUCATION, AND USE OF THE INTERNET

One of the largest areas of emphasis for the CBA in recent years has been Public Affairs and Outreach. This concentration is evident in the creation of the new CBA 2010-2012 Strategic Plan, which contains a goal to provide and maintain effective and timely outreach to all CBA stakeholders.

The CBA is working to achieve that goal through the creation and implementation of its 2010-2012 Communications and Outreach Plan (Plan). The Plan identifies CBA's stakeholders and outlines the goals of the communication efforts to reach and inform each group. These high-level strategies and goals are intended to provide guidance in planning and measuring results of the current and future communications efforts.

In concert with these objectives, the CBA created an Outreach Committee comprised of CBA staff to provide input and resources from across divisions and programs. The Outreach Committee provides the oversight to ensure that planning and executing communications and outreach efforts will be integrated with the goals of the Plan.

The CBA maintains a comprehensive Web site, www.cba.ca.gov, which is updated daily. In May 2009, the CBA acted to make the full text of final enforcement decisions, including the accusation, available to the public via the license look-up feature available on its Web site. A consumer may look up a licensee by name and/or license number, and is provided with all information relevant to the final decision. Individuals without internet access may telephone the CBA to check on the status of a licensee or firm. The CBA also added a customer service survey to its Web site in order to obtain feedback from consumers, licensees, and applicants, and provide helpful input. The survey is a regularly referenced tool to assist in being more responsive to the public, and to ensure the highest level of customer service.

The CBA has worked diligently to facilitate online business with consumers and licensees. Along with the "license lookup" feature, the CBA Web site offers consumers an online complaint form, pamphlets on how to choose a CPA, how to choose a CPA over the internet, and information about the CBA in general.

Examination applicants often utilize the CBA Web site to access the Examination Handbooks, to apply for the Uniform CPA Examination, and to monitor their Client Accounts for examination results.

CPA licensees visit the CBA Web site to review the Continuing Education requirements, the CBA disciplinary guidelines, and to access various forms. Information technology staff are currently working on an online address change form, and it is anticipated the program will be functional within the next six months. The CBA does not currently offer online license renewals for licensees, however it is anticipated that the DCA *BreEZe* program will bring that functionality to the CBA Web site.

In accordance with AB 1005, all CBA meetings are now webcast live on the CBA Web site, and are stored for future viewing. The CBA also posts the approved minutes from each meeting. Further, in order to reduce copying and postage costs and to improve

accessibility of CBA meeting materials, all meeting materials are now available electronically on the Web site for interested parties to download as necessary.

One of the biggest additions to the Web site was the creation of the E-News service. Visitors to the CBA Web site are encouraged to sign up for an E-News subscription, and are e-mailed a link to any important Web site updates or changes. Thanks to the pervasiveness of "New Media," (social networking, blogs, etc.) staff have discovered that CBA's E-News is being "tweeted" by several Twitter users. The Twitter profiles indicate a variety of "tweeters," from individuals in the finance world to CPA Examination applicants. The use of Twitter is a good example of CBA's message "reach" exceeding our initial efforts. As of June 30, 2010 the CBA had approximately 1600 E-News subscribers.

Since the Fall of 1986 the CBA has published a newsletter called *Update*. The *Update* is utilized as a tool to inform licensees of regulation changes, enforcement actions, and other current events at the CBA. In order to increase contact with the licensee public, the CBA has recently increased production from a bi-annual to tri-annual publication.

In order to keep news organizations, and subsequently consumers, apprised of the activities of the CBA, staff has significantly increased the issuance of press releases during FY 2009/10. In FY 2009/10, the CBA issued 25 press releases, up from 12 in FY 2008/09.

In the 2003 Sunset Review Report, there was also a concern raised that tax preparers were outsourcing tax preparations to other countries without the knowledge of the consumer. The CBA sought to address this concern via SB 1543, which added Section 5063.3 to the Accountancy Act. It reads: "In the event that confidential client information may be disclosed to persons or entities outside the United States of America in connection with the services provided, the licensee shall inform the client in writing and obtain the client's written permission for the disclosure."

CONCLUSION

This report has been developed to not only meet all statutory reporting requirements reflected in Business & Professions Code Section 473, related to the sunset review process, but to present sufficient information to provide the Legislature with a clear picture of the major program areas within the California Board of Accountancy. The report details legislative, regulatory, programmatic, and administrative changes that have occurred since the CBA's last sunset review report in 2003. It also addresses all issues identified by the Legislature during the last review, as well as the Legislature's recommendations to the CBA.

The CBA would like to conclude this report with a brief discussion of the most significant challenge facing its programs: continued efficacy of its enforcement efforts due to a lack of specialized investigative staffing. As indicated multiple times in this report, due to pay inequities it is becoming increasingly difficult to hire competent CPAs to fill the CBA's vacant Investigative CPA positions. CBA management has reorganized the Enforcement Division to utilize analytical personnel to perform non-technical investigative work; however these staff lack the expertise to review CPA work papers to determine conformance to professional standards. In order to maintain the current level of consumer protection, the CBA is increasingly forced to utilize the services of outside consultants to perform work paper reviews, at a much greater expense to the CBA.

In spite of all the CBA's efforts to mitigate the loss of its technical Investigative CPA staff through the use of alternative enforcement personnel and hiring procedures,

it is clear that there is no alternative that matches the efficiency and effectiveness of in-house Investigative CPAs. It is readily apparent the practice of public accountancy is sufficiently complex that investigator must possess the technical knowledge and maintain a proficiency in accounting principals to be an effective investigator.

The California Board of Accountancy remains committed to its statutory mandate of consumer protection, and looks forward to working with the Legislature in the future to strengthen its programs, as needed, to ensure consumer protection continues unabated.

Any questions related to the California Board of Accountancy 2010 Sunset Review Report should be addressed to the CBA's Executive Office at (916) 562-1718.

PART II

California Board of Accountancy

CBA'S RESPONSE TO ISSUES IDENTIFIED AT PRIOR SUNSET REVIEW, AND NEW ISSUES TO BE PRESENTED

PREVIOUS ISSUE 1: Large Firm Enforcement

The Board continues to encounter problems associated with the policing and disciplining of accountants who work for large public accounting firms and in investigating and prosecuting these types of cases.

Summary of Board Response:

The principal difficulty regarding the investigation and subsequent prosecution of many large accounting firms stemmed from a lack of budget expenditure authority. This was remedied by Senator Figueroa, via SB 1543 of 2004 (Chapter 921). SB 1543 required the Department of Finance to authorize up to \$2 million in additional expenditures for the CBA's enforcement and litigation activities.

Discussion:

The CBA is unique in California insofar as it regulates both individuals and firms. The largest firms, known as the "Big Four", are not only some of the largest firms in this state and the United States, but in the entire world. In addition to the Big Four, a significant group of mid-size firms also exist. In their global efforts, the Big Four and mid-size firms may employ CPAs licensed by the 55 U.S. jurisdictions, as well as individuals licensed by other countries. Oversight of large firms, including individuals employed by those firms, presents considerable challenges in budgeting and funding for the extensive, ever-fluctuating investigative and legal resources required to pursue large matters. These barriers are compounded by a cumbersome state contracting process, the necessary acquisition and retention of outside legal resources and technical accounting expertise, lengthy legal procedural timelines, and the consumption of significant internal staff time in meeting all of the requirements of the state's administrative processes and procedures.

Confirming and proving an "audit failure" by a large firm is a rigorous undertaking, and investigations of complex audit engagements can consume several years and cost the CBA millions of dollars. With the chaptering of SB 1543, the majority of the budgetary constraints that the enforcement program once faced have been lifted. However, to meet the challenges of pursuing large matters, the CBA needs ready access to technical consultants on complex accounting issues, and outside legal counsel, as well as a technically proficient staff of Investigative Certified Public Accountants (ICPA)s.

Given the complex technical accounting issues that arise in large firm cases, it is critical that the CBA retain on staff a number of ICPAs who are skilled in both accounting and the nuances of enforcement. Currently, due to pay inequities with the private sector, the Enforcement Program encounters great difficulty attracting and retaining qualified ICPA staff. The CBA is currently working with the Department of Personnel Administration in an effort to address the pay inequities in the civil service classification, and thereby address the class' recruitment and retention issues.

PREVIOUS ISSUE 2: Additional Fining Authority

The Board needs to be granted additional fining authority to deal with violations of the Accountancy Act by larger accounting firms since the current options only provide a fine of not more than \$5,000, or for the suspension and/or revocation of the firm's license.

Summary of Board Response:

The CBA was granted increased fining authority with the chaptering of SB 1543. Subsequent to obtaining the increased fining authority, the CBA's Enforcement Program has seen fit to use said authority on a few occasions.

Discussion:

In the former disciplinary structure, no action existed between probation and license suspension/revocations. This structure created challenges when it came to disciplining large firms. Because a single "Big Four" accounting firm can employ thousands of CPAs, and possess a vast client base, revocation, or even suspension, of the firms permit to practice significantly impacts a large number of employees and clients, most of whom have no connection with the violation. The additional fining authority obtained by the CBA helped to address this challenge and provided the CBA with greater flexibility to impose appropriate disciplinary sanctions.

With the addition of B&P Code Section 5116.2, the CBA now employs a two-tiered fining structure. The first tier provides for fines of up to \$5,000 for the first violation, and up to \$10,000 for subsequent violations. These fines can be imposed on individuals or firms for any violation of the Accountancy Act. The second tier provides for significantly larger fines for violations such as criminal convictions, fraud, gross negligence, fiscal dishonesty, and embezzlement. For these violations, individuals can be fined up to \$50,000 for the first violation, and up to \$100,000 for repeated violations. Firms can be fined up to \$1 million for the first violation, and up to \$5 million for subsequent violations. To ensure that fines are assessed in a judicious manner focused on consumer protection, the CBA has adopted regulation that provides criteria for assessing fines, including the extent of consumer harm, and the severity of the violation.

PREVIOUS ISSUE 3: Deletion of Pathway 0 and its Impact on Candidates for Licensure

Substantial changes were made to the licensing requirements on January 1, 2002, including the creation of two new pathways to licensure. There is an indication that a significant number of applicants may be negatively impacted by provisions that prevent them from transitioning to the new requirements and by other changes regarding qualifications for licensure that will change as of December 31, 2005.

Summary of Board Response:

Senate Bill 136 of 2004, chapter 909, extended the sunset date of Pathway 0 from January 1, 2006 to January 1, 2010. It gave CPA candidates who fail the examination the right to re-examine under the provisions of existing law and regulations adopted by the CBA, and repealed the January 1, 2006 sunset date on the law providing for re-examination.

Discussion:

The statutory changes that became effective on January 1, 2002, resulted in significant changes to the education, examination, and experience requirements for licensure as a CPA. Most significantly, California began allowing options for obtaining a CPA license without satisfying an attest experience requirement. Prior to January 1, 2002, the only pathway to licensure (referred to as Pathway 0) required attest experience. With the elimination of Pathway 0 on January 1, 2010, California applicants can now choose from two pathway options for licensure (Pathway 1, and 2). Pathway 1 requires a Baccalaureate degree with a stipulated amount of coursework in accounting and business subjects, and 2 years experience. Pathway 2 requires a total of 150 semester units, including a Baccalaureate degree, and one year of experience. Both pathways to licensure include an option to obtain the authority to sign reports on attest engagements. Pathway 2 is considered consistent with the Uniform Accountancy Act and requirements of many other states.

While the new pathways (Pathway 1 and 2) provided applicants various options for becoming California licensees, there was a concern with applicants meeting all the examination, education and experience requirements to qualify for licensure before the current Pathway 0 was to be eliminated. It was intended by the legislature that few if any applicants be negatively impacted by the transition to the new licensing requirements. Extending the deadline for elimination of Pathway 0 by four more years (January 1, 2010) and permitting Pathway 0 applicants to demonstrate qualifying education when applying for licensure helped ensure that most if not all applicants have had a substantial opportunity to meet the qualifying examination, experience and education requirements to become licensed as a CPA in California.

To further ease any potential negative impact on applicants, the CBA, in anticipation of the January 1, 2010 sunset date, mailed letters to all pending applicants who had previously applied for licensure under Pathway 0 advising them of the impending elimination and outlining the deficiencies needed to complete the application process. In addition, Frequently Asked Questions (FAQs) regarding the elimination of Pathway 0 were posted to CBA's Web site and included in the Winter 2009 issue of *UPDATE*.

PREVIOUS ISSUE 4: Peer Review

It does not appear at this time that the Board should implement a mandatory peer review program in California for accountants.

Summary of Board Response:

In 2005 the CBA issued the *2005 Peer Review Report*. In it, the CBA's Peer Review Task Force recommended delaying the implementation of Peer Review, and recommended reconsidering the issue at a later date. In 2008, the CBA again considered mandatory peer review, and after meetings with the public and various CPA groups, the CBA decided to sponsor Assembly Bill (AB) 138 (Chapter 312, Statutes of 2009), which, on January 1, 2010, implemented a mandatory peer review program in California.

Discussion:

The CBA has examined and considered peer review as a front-line topic since 2000. As noted in the *2003 Sunset Review Report*, the CBA organized a Peer Review Task Force that held public meetings between 2002 and 2003, concluding with an interim peer review report that was folded into the *2003 Sunset Review Report*. The interim peer review report requested additional time to evaluate peer review, and an extension of time to submit a final peer review report in 2005.

Continuing in 2004, and completing in the middle of 2005, the CBA's Peer Review Task Force resumed work on peer review. At the conclusion of the Peer Review Task Force's meetings, the CBA issued its *2005 Peer Review Report*. This report supplemented the 2003 interim report and provided updated information and analysis pertinent to whether peer review should be mandated in California. The 2005 report concluded with a recommendation to delay implementing mandatory peer review and offered several recommendations related to future CBA consideration of peer review.

Between May 2007 and September 2008 the CBA began reexamining the merits of implementing a mandatory peer review program in California and reviewing recommendations outlined in the *2005 Peer Review Report*. During this time the CBA held several public meetings in an effort to pursue potential legislative action in the 2009-10 legislative session. Over the course of these meetings, the CBA evaluated issues that included, among others, participation, program oversight, and program administration. These meetings resulted in the issuance of the CBA's *2008 Peer Review Report* (available at http://www.dca.ca.gov/cba/publications/peer_review2008.pdf). This report outlines the history of the CBA's consideration of peer review, a review of policy issues considered by the CBA during these meetings, and a discussion on the need for mandatory peer review.

As the result of extensive consideration of peer review, the CBA elected to sponsor legislation – AB 138 (Chapter 312, Statutes of 2009) – which, on January 1, 2010, implemented a mandatory peer review program for California. AB 138 requires firms providing audit, attest, or compilation (accounting and auditing) services to undergo a systematic review (peer review) to ensure that work performed conforms to professional standards. Peer review is required for these firms every three years as a condition for license renewal.

The CBA established a phase-in period for undergoing and reporting peer review information. Firms with a license number ending in 01-33 must report peer review-related information no later than July 1, 2011; firms with a license number ending in 34-66 must report peer review-related information no later than July 1, 2012; and firms with a license number ending in 67-00 must report peer review-related information no later than July 1, 2013. Firms receiving a substandard peer review report (in essence a failed grade) will be required to submit the report directly to the CBA. These reports will be reviewed by the CBA's Enforcement Division to determine if CBA action is appropriate.

Peer reviews will be performed by CPAs knowledgeable in generally accepted accounting principles and generally accepted auditing standards. The CBA will use outside organizations, such as the American Institute of Certified Public Accountants Peer Review Program, to assist in the administration of peer reviews. Firms will be required to enroll in a CBA-recognized peer review provider's program, which will work with firms to: select peer reviewers with a currency of knowledge of the professional standards related to the type of practice to be reviewed, review and accept peer review reports, and ensure timely completion of the peer review process. The Firm pays the Peer Reviewer for their services directly, thus ensuring no further administrative costs to the CBA or the licensee.

To ensure the effectiveness of mandatory peer review, AB 138 requires the CBA to establish a Peer Review Oversight Committee (PROC), the purpose of which will be to engender confidence in the peer review program from consumers and the profession. The PROC is authorized to request any information and materials deemed necessary to ensure that peer reviews are administered in accordance with the standards established by the CBA in regulation. The PROC will use these materials when performing peer review program provider site visits and participating in peer review program provider's peer review report acceptance meetings. At its July 2010 meeting, the CBA appointed six of the seven members to the PROC. The CBA anticipates that the PROC will hold its first public meeting in September/October.

The CBA believes that a mandatory peer review program will have significant benefits to the California accounting profession. First, improving the services provided by California-licensed firms. Firms going through the rigor of peer review will be better equipped to perform quality accounting and auditing engagements. In an ever-changing financial climate and with constant updates to generally accepted accounting principles and auditing standards, it is imperative that work products provided to consumers adhere to adopted professional standards. Firms preparing for and undergoing a peer review can refine and improve internal systems to ensure work products meet professional standards, as well as develop and refine the technical skills of their employees.

Second, mandatory peer review will help to increase consumer confidence, which is paramount to a healthy economy, both on a state and national level. In part, this is achieved when consumers feel that firms providing accounting and auditing services do so in accordance with the highest level of professional standards. By requiring peer review, the CBA demonstrates its commitment to enhance the quality of services provided by CPAs and accounting firms, which, in turn, contributes to the public's increased trust in the accounting profession.

Finally, and most importantly, peer review will provide increased consumer protection. Firms meeting minimum professional standards, but that could benefit from increased

education and training, will be required to complete specified remedial or corrective actions, such as continuing education. Firms determined not to have met minimum professional standards will receive substandard reports, which as noted earlier, require submission of the reports to the CBA to determine if CBA action is appropriate.

PREVIOUS ISSUE 5: Outsourcing Tax Returns Over the Internet

Accounting firms are currently outsourcing tax preparation, as well as other accounting and financing information, to other countries and it is unclear what security and disclosure requirements are currently required to assure clients that they are informed about the outsourcing of their confidential financial information and that their financial data is protected.

Summary of Board Response:

Senate Bill 1543 of 2004 added Section 5063.3 to the Accountancy Act. It added the following language: In the event that confidential client information may be disclosed to persons or entities outside the United States of America in connection with the services provided, the licensee shall inform the client in writing and obtain the client's written permission for the disclosure.

Discussion:

A number of companies solicit independent CPAs, large and small CPA firms and tax preparers to have tax returns prepared overseas. The typical outsourcing agreement involves the use of overseas workers who log on to secure servers based in the United States and retrieve scanned tax documents to complete. Formerly, in California there was a chance that the consumer was not aware of this practice since it was unclear whether CPAs or tax preparers had to disclose by whom the returns were completed. On March 9, 2004 the Senate Business and Professions Committee and the Senate Select Committee on International Trade Policy and State Legislation, both chaired by former Senator Liz Figueroa, held a hearing on the outsourcing of jobs, state contracts, medical, and financial information. According to witnesses who testified regarding the outsourcing of tax returns, general concern was expressed about whether consumers were being properly informed about having their tax information sent overseas. Senator Figueroa subsequently authored SB 1543, in order to mandate that the consumer be informed that their tax information may be sent to another country.

PREVIOUS ISSUE 6: Practice Privilege

Currently, CPAs from other states are allowed to practice in California on a very limited temporary basis, but the Board is unaware of when and the extent to which these CPAs may be performing accountancy work in this State. Also, because of the recent changes in the federal law related to partner rotation, it is anticipated that more CPAs may be required to practice on California on a temporary basis.

This issue was not part of the JLSRC's original recommendations with respect to the CBA's 2003 Sunset Review Report, but arose during the Sunset Review Hearings, and was included in the Final Recommendations for the California Board of Accountancy.

Summary of Board Response:

Acting upon the recommendation of the Joint Committee, the CBA has implemented a Practice Privilege Program in California. Complete discussion of the program, including its sunrise and sunset dates, may be found beginning on page 30 of this 2010 Sunset Review Report.

NEW ISSUE 1: Enforcement Staffing

The CBA works diligently to maintain investigative staffing in its Enforcement Program and actively recruits to fill Investigative CPA positions as vacancies materialize. However, these efforts frequently result in limited success, largely due to the non-competitive compensation package for Investigative CPAs compared to what CPAs can make in private practice, as well as the limited geographic dispersion of the CBA investigative staff. It is an ongoing challenge to adequately staff the Enforcement Division with investigative resources, and the problem is magnified in light of the Department of Consumer Affairs' agenda to reduce investigation processing times.

Discussion:

As discussed previously in this report, the CBA has historically used licensed CPAs to investigate complaints and maintain a high level of consumer protection. These resources have been effective but difficult to recruit and retain as Investigative CPA salaries have not kept parity with compensation available in other civil service classifications and in the private sector. To ensure continued efficacy of CBA enforcement efforts in light of recruitment difficulties tied to the Investigative CPA classification, numerous strategies have been employed over the past few years including:

- Reorganized the Enforcement Program to enable analytical staff to perform non-technical investigations, thereby allowing the Investigative CPAs to concentrate on cases that require their expertise and knowledge.
- Provided continuous civil service examination process for the Investigative CPA classification to reach a larger pool of potential employees.
- Worked with the Department of Personnel Administration to make the total Investigative CPA compensation package more competitive by creating a "recruitment and retention" pay differential.
- Entered into high-cost contracts with CPAs in private practice to assist in investigations.

Still, at the heart of this agency's ability to quickly and efficiently investigate most complaints is a core of seven Investigative CPA positions...and at present, four of those positions are vacant.

The difficulty the CBA has experienced in recruiting for vacant Investigative CPA positions has been well documented in numerous communications with the Department of Consumer Affairs (DCA) and Department of Personnel Administration (DPA) over the past eight years. Since 2002, the CBA has worked with the DCA in a myriad of ways to eliminate the barriers that stand in the way of effective recruitment into this classification.

In response to these efforts, in June 2007 the DCA and the DPA crafted Pay Differential 347, "Certified Public Accountant Retention Bonus" for the Investigative CPA classification. At the time Pay Differential was created, the CBA was informed that changes to the Investigative CPA base compensation would have to be completed through the collective bargaining process, and that the Pay Differential would serve as a stop-gap measure to assist the CBA in recruiting and retaining Investigative CPAs. Essentially, the Pay Differential was thought to be a temporary solution until such time as the underlying pay inequities could be addressed through collective bargaining.

However, in attempting to employ Pay Differential 347 as a recruitment tool, the CBA has become aware of a few problems. Principally, the Pay Differential does not count as base salary, and as such is not counted toward PERS retirement. Secondly, it is difficult for the CBA to advertise, and prospective applicants to understand, a bonus program comprised of two pages of verbiage such as: *"Upon recommendation by the appointing authority, employees in the Investigative Certified Public Accountant classification who have been at the maximum of the salary rate for twelve (12) consecutive qualifying pay periods are eligible for an annual payment of 15% of their current annual base salary payable thirty (30) days following the completion of every twelve (12) consecutive qualifying pay periods up to twenty-four (24) consecutive qualifying pay periods."* Consequently, the CBA has come to believe that for recruitment purposes, simply posting a monthly pay rate on recruitment flyers and advertisements would likely attract a significantly larger group of potential employees than posting information about a pay differential that candidates do not qualify for until they have been employed for a number of years.

In July 2010 the CBA communicated to the DCA its desire that the DPA address the issue of Investigative CPA pay inequity during the collective bargaining process. The CBA is hopeful that the DPA and Service Employees International Union local 1000 will come to an agreement that is beneficial to all parties, thereby enabling the CBA to adequately staff its Enforcement Program and regulate the CBA's 85,000 licensees in order to protect the citizens of California.

NEW ISSUE 2: Creating a Retired License Status

The Accountancy Act does not offer a license status for retirees. Over the past several years, the CBA has received inquiries from licensees requesting a retired license status option, as opposed to "inactive", "delinquent", or "surrendered".

Discussion:

Presently, licensees who wish to retire and no longer renew their license have only two choices available. Licensees may either allow their license to expire and eventually cancel, or they may voluntarily surrender their license. The primary complaint from licensees regarding these options is the negative connotation associated with "cancelled" or "surrendered". Neither of these options indicate that the licensee has elected to retire, but suggest the licensee was subject to some form of discipline. Licensees who have practiced for many years are proud of their service to the profession and believe a "delinquent", "canceled", or "surrendered" status is undignified.

The CBA hosts a Customer Satisfaction Survey on its Web site. Licensees have provided specific comments regarding a retired status, such as:

- Surprised to find out the board does not have a category called retired rather than showing the member as a deadbeat for non payment of membership dues.
- It is not reasonable to require full fees for retirees. Failure to pay fees for a retiree should not result in a "delinquent" status.
- I don't want my file to indicate my certificate was cancelled, but that it is retired.
- I am unhappy I have to pay the same fee as active. There should be a retirement status.

Currently, if a licensee elects not to renew and allow the license to expire, the license status will reflect "delinquent" on the CBA Web site License Look-Up.³ It will remain delinquent until five years from the license expiration date after which it will reflect "canceled." Licensees choosing to voluntarily surrender their license must submit a written request to the CBA, and prior to processing the request, staff verifies with the Enforcement Division that the license has not been suspended or revoked, and that there are no pending disciplinary actions or complaints. If a licensee chooses to voluntarily surrender the license, the license status will reflect "surrendered" on the CBA License Look-up.

Between January 1994 and December 1998, the CBA offered a retired option to licensees. This option allowed licensees to request a retired seal that would be affixed to their wall certificate. By requesting a retired seal, licensees were in fact voluntarily allowing their licenses to expire, but were afforded the ability to use the designation "Retired Certified Public Accountant" or "Retired Public Accountant."

Licensees were no longer allowed to practice public accountancy, but could continue to perform bookkeeping, tax, financial planning, or management consulting as described in Section 5051 (f) through (i) of the Accountancy Act, since these functions did not require individuals to maintain a CPA/PA license. Retired licensees intending to render tax preparation services were required to either register with the Internal Revenue Service as an enrolled agent, or register with the Tax Preparer Program.⁴

The issuance of a retired seal did not affect the status of the license. After the CBA issued a retired seal, licensees simultaneously held a retired seal and an expired license. As with all expired licenses, for a five-year period licensees could reinstate their license to an active or inactive status by paying all applicable license renewal fees, and fulfilling all continuing education (CE) requirements should the license be reinstated to an active status. After the five-year period had elapsed, the license was canceled, though

³ The CBA Web site License Look-up is a tool consumer and licensees can access to verify the status of a license. License Look-up was established in May 2000. License Look-up did not exist when the retired option was originally offered.

⁴ The Tax Preparers Program was regulated by the Department of Consumer Affairs, until the Tax Preparer Program was sunsetted in 1997, after which tax preparers were no longer regulated by a state agency. Tax preparers were then required to maintain a bond, complete continuing education and register with the California Tax Education Council.

licensees could continue to display the wall certificate with a retired seal and hold out as a retired licensee.

In 1996 the CBA became aware that some licensees were attempting to avoid disciplinary action by requesting a retired seal while a disciplinary matter or citation was pending. This was a cause for significant concern as the CBA had no legal mechanism to deny or delay the issuance of a retired seal to a licensee with a pending disciplinary matter. Additionally, licensees with revoked licenses were permitted to continue to display their certificate with the retired seal. This appeared inconsistent with the CBA's intent to provide the seal as a positive acknowledgement of licensees' years of service in the profession.

Based on these concerns, the CBA sponsored legislation to eliminate the retired option for licensees, and on January 1, 1999, Business and Professions (B&P) Code Section 5070.1 was repealed. Since that time the CBA has not issued retired seals or permitted licensees to use the designation "Retired Certified Public Accountant" or "Retired Public Accountant." Subsequent amendments to the B&P Code allow a retiring CPA/PA to continue to display the wall certificate, provided the license was not suspended or revoked, and retired licensees may use the CPA or PA designation in a social context, with or without the word "retired." Retirees, however, may not use the CPA or PA designation or perform any activity defined as the practice of public accountancy.

In light of the concerns raised by licensees, in July of this year the CBA began reconsidering a retired license status. The CBA believes that by building on past experience it is possible to create a retired status that is beneficial to all stakeholders. By crafting legislation that allows for a retired status, while still providing a legal mechanism for the CBA to deny a retired status based upon enforcement action, a compromise is possible between the licensees requesting a retired status, and the ability to protect California consumers from CPAs trying to avoid enforcement action.

NEW ISSUE 3: Sunset of the California Peer Review Program

Pursuant to B&P Code Section 5076(o), the California Peer Review Program will sunset on January 1, 2014. B&P Code Section 5076 also requires the CBA to submit a report to the Legislature and Governor on January 1, 2013 detailing the impact of peer review on small business, and the benefit to consumers that utilize those small business services.

Discussion:

The current Peer Review Program will sunset on January 1, 2014. Deleting the sunset date of the Peer Review Program would help protect California consumers because the program is instrumental to the CBA mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards. The Peer Review Program is designed to determine whether California firms are following professional standards.

The elimination of the program is troublesome for three reasons:

- In the event a CPA firm receives a substandard peer review report, there will be no way to ensure the corrective actions issued by the CBA recognized peer review provider were effective. If the sunset date were to remain, the firm may not be subject to peer review again.
- Continuing competency is an ongoing process. The Peer Review Program is an instrumental cog in that process, by acting as a check to CPA firms that are already in practice.
- Each CPA firm will only be peer reviewed once, it will be impossible for the CBA to establish and monitor any trend data on peer review passage rates. Any data that is received would not be replicable, and therefore of questionable value.

A healthy Peer Review Program is beneficial to all that are involved. There is an inherent benefit to the licensee firms, as they increase technical knowledge and learn where their areas of weakness are. The program also provides a benefit to the California consumer, as it engenders confidence that the CPA firm they have chosen to perform their audit or attest engagement has been reviewed by another, non-affiliated firm. It is also important to add that 42 other states currently have a Peer Review Program, and most find it to be an invaluable tool to ensure licensee competence.

On January 1, 2013 the CBA must submit to the Legislature and Governor a report outlining the impact of peer review on small business. Due to the highly specific nature of the report, the CBA anticipates that it will take one to two years to gather the necessary data. Unfortunately due to the CBA Regulation staggered reporting requirement, the CBA will have to base its report on information from less than half of the firms subject to peer review reporting requirements. The data returned from such a small sample size may not be indicative of the results should the report be crafted from the entire population. The Legislature and Governor would receive a report with much more reliable data if the due date were extended from January 1, 2013 to January 1, 2016.