

**CALIFORNIA BOARD OF ACCOUNTANCY
FISCAL YEAR 2010-2011
ANNUAL REPORT OF ACCOMPLISHMENTS AND ACTIVITIES**



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A NOTE FROM THE EXECUTIVE OFFICER

I am pleased to present the fiscal year (FY) 2010-11 *California Board of Accountancy (CBA) Annual Report of Accomplishments and Activities*. This report highlights the results of each division's operations as well as solutions that are under way to enhance and improve the CBA's commitment to California consumers and licensees.



Patti Bowers
Executive Officer

The past year has seen a number of major accomplishments and changes at the CBA, including:

- Coordinated with Assemblymember Ma to sponsor Assembly Bill 431, which will allow a retired status for California Certified Public Accountants.
- The completion of substantial staff work and research in support of the Accounting Education and Ethics Curriculum Committees.
- Implemented a reduction in Initial Licensure and License Renewal fees for all California CPAs.
- Successful staff augmentation for the newly implemented Peer Review Program.
- Created a CBA Workforce and Succession Plan.
- The continuation of an Executive Leadership Roundtable.
- Responded to 26 Information Practices Act/Public Records Act requests and 1,257 requests for certification of documents by licensees.
- Created and implemented an Employee Satisfaction Survey, which is designed to provide feedback from employees to management.
- Instituted "In the Loop" staff meetings that follow each CBA meeting, to provide staff with information regarding what happened at the CBA meeting, what is happening throughout the CBA as a whole and provide staff "face time" with all managers.
- Worked with the Department of Consumer Affairs (DCA) training staff to hold a "FISHing" team-building session that all staff were encouraged to attend.

All of these are valuable and mission critical changes to the CBA. However none of them fully illustrates the work staff has devoted to increase customer service to all stakeholders.

The State of California fiscal condition has resulted in multiple Executive Orders that affected the CBA. First was a limit on cell phones, which cut the number of cell phones assigned to staff to eight, a 50% reduction. The cell phone reduction was then followed by a hiring freeze and travel freezes. The freezes have been more difficult to implement, as normal attrition has sometimes led to staff resource shortages. Management worked to address these issues with work re-prioritization, and was successful in obtaining one Hiring Freeze Exemption for an Investigative CPA. There are currently more exemption requests at the Department of Finance, and I am encouraged that we will have a status update shortly.

In order to address future staffing changes, staff has worked to create a Workforce and Succession Plan. This plan helps to ensure that the CBA workforce has the right people in the right positions, at the right time. In order to provide the cross-training of management as outlined in the plan, in August 2011 all of the licensing managers rotated and began oversight of a new program. This will ensure that if a vacancy occurs, another manager will have the program knowledge to be able to absorb the workload until a replacement is found.

CBA management has worked to mitigate the effect of the hiring freeze on CBA staff morale as much as possible. Steps include completing an Individual Development Plan for all staff, so staff may work with management to identify areas for further development and identify resources to obtain additional skills; redeveloping the Alternate Work Program, so that employees may alter their work schedules to better suit their personal lives; and implementing additional employee recognition mechanisms, including the CBA Leadership's Award of Excellence and the CBA Managers' Distinguished Service awards.

Looking forward to FY 2011-12, I am confident in saying that California consumers and licensees, CBA stakeholders, and fellow agencies can count on continued exemplary services and consumer protection at the California Board of Accountancy.

Patti Bowers
Executive Officer

ABOUT THE CALIFORNIA BOARD OF ACCOUNTANCY

From its inception in 1901, the California Board of Accountancy 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, with 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 entry standards of qualification and conduct within the accounting profession, primarily through its authority to license. The CBA's enabling act is found at Section 5000 *et seq.* (Accountancy Act) of the Business and Professions Code, and the CBA's regulations appear in Title 16, Division 1 of the California Code of Regulations (CBA Regulations).

The CBA is unique among California licensing authorities, in that it has the authority to license and discipline not only individuals but also CPA firms. As accounting practitioners, the CPA and the Public Accountant (PA) are sole proprietors, partners, shareholders, and staff employees of public accounting firms. They provide professional services to individuals; private and publicly-held companies; financial institutions; nonprofit organizations; and local, state, and federal government entities. CPAs and PAs also are employed in business and industry, in government, and in academia.

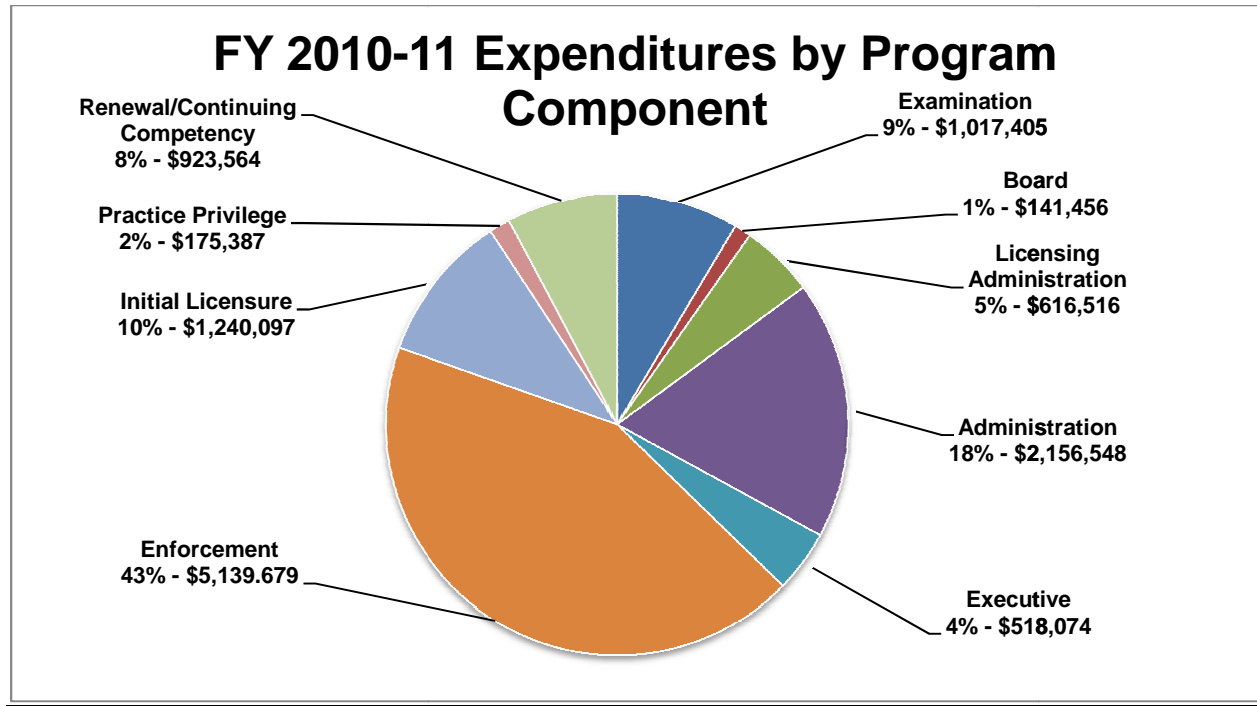
The CBA performs its consumer protection mission for many stakeholders, including:

- Consumers of accounting services who require audits, reviews, and compilations of financial statements, tax preparation, financial planning, business advice and management consultation, and a wide variety of related tasks.
- Lenders, shareholders, investors, and small and large companies who rely on the integrity of audited financial information.

- Governmental bodies, donors, and trustees of not-for-profit agencies, which require audited financial information or assistance with internal accounting controls.
- Regulatory bodies such as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Public Utilities Commission, and federal and state banking regulators; and local, state, and federal taxing authorities.
- Retirement systems, pension plans, and stock exchanges.

Current law stipulates that the CBA consists 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 licensees. In appointing the seven licensees, the Governor must appoint members representing a cross-section of the accounting profession with at least two members representing small public accounting firms. A small public accounting firm is defined as a professional firm that employs a total of no more than four licensees as partners, owners, or full-time employees in the practice of public accountancy. The Senate Rules Committee and the Speaker of the Assembly each appoint two public members.

BUDGET



The CBA's budget in FY 2010-11 was \$11,928,725, which represents the maximum amount of money that the CBA can spend on annual operations. The chart above illustrates the resources allotted to each unit within the CBA. The CBA Administration Division is responsible for determining the budgets for each program; with the number and classification of personnel, specific contracts, and expected equipment purchases all considered when determining these amounts. Each year, staff submit the budgeted amounts to the DCA in December.

As part of revenue planning, in August 2010, staff submitted workload and revenue statistics to the DCA and the Department of Finance (DOF) to finalize projected revenue levels for the FY 2011-12 budget. These statistics will provide a preliminary estimate to use for projecting revenues for the FY 2012-13 budget.

In January 2010 a new Executive Order was given, which required departments achieve an additional 5% salary savings in FY 2010-11. Staff and management worked to meet the goal of saving approximately \$260,000 by holding four staff positions vacant.

In order to keep CBA members abreast of the CBA budget, staff provide quarterly financial reports and budget updates at CBA meetings. These reports give CBA members status updates on CBA spending levels. The final year-end financial report for FY 2010-11 will be presented at the September 2011 meeting.

As part of the FY 2011-12 California Budget Act, the Legislature approved three budget change proposals for the CBA in FY 2011-12, two of which provided additional staffing in the Enforcement Division. Staff provided a summary of the budget change proposals at the January 2011 CBA meeting and details are provided below.

- Authorization of 2.5 Associate Governmental Program Analysts to address new and existing non-technical enforcement workload, including probation monitoring, unlicensed activity, and continuing education audits, with the CBA absorbing all costs within its existing budget.
- Authorization of one two-year limited-term Office Technician to provide peer review clerical support, with the CBA absorbing all costs within its existing budget.
- A \$1M reduction in CBA budget.

Previously, the CBA was mandated to retain approximately nine months worth of expenditures in reserve. In FY 2010-11 the Legislature removed that requirement, and the CBA ended FY 2010-11 with 13.3 months in reserve as indicated in the table below.

ANALYSIS OF FUND CONDITION	FY 2010-11 (Actual)	FY 2011-12 (Projected)	FY 2012-13 (Projected)
Total Reserves, July 1	\$19,753,000	\$13,621,000	\$11,111,000
Total Revenues	\$13,091,000	\$9,716,000	\$9,905,000
Total Transfers	-\$10,000,000	-\$1,000,000	\$0
Total Rev. & Transfers	\$3,091,000	\$8,716,000	\$9,905,000
Total Resources	\$22,844,000	\$22,337,000	\$21,016,000
Total Expenditures	\$9,223,515	\$11,226,000	\$11,349,000
Unreimbursed Loans to General Fund	\$30,270,000	\$31,270,000	\$31,270,000
Reserve, June 30	\$13,621,000	\$11,111,000	\$9,667,000
MONTHS IN RESERVE	13.3	11.8	10.2

WORKFORCE, SUCCESSION, AND STRATEGIC PLANNING

STRATEGIC PLAN

Fiscal year 2009-10 began with CBA leadership deciding to take a proactive look at the CBA business processes and their functions. The process began with an update to the CBA Strategic Plan. The current plan, which covers 2010, 2011 and 2012 will help the CBA achieve its mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards. Staff continue to work toward completing the nine Goals and 45 Objectives. Some of the progress and successes in achieving strategic goals and objectives are outlined below.

- 1.4 Achieve an Investigative CPA staffing level to adequately address workload demands.
 - Revised the Investigative CPA Exam by eliminating the written portion of the exam, making the questions more relevant, and implementing continual testing.
 - Developed a budget change proposal for 2.5 additional Investigative Analysts to alleviate Investigative CPA workload demands. This budget change proposal was approved, and the positions are in the CBA FY 2011-12 budget.
 - Contracted with five expert consultants to assist Investigative CPAs with investigative matters.
 - Completed multiple Hiring Freeze Exemption requests to facilitate hiring additional staff.

- 1.6 Expand field work by Investigative CPAs.
 - Working to hire CPAs directly in the field, working remotely.
 - Increasing field assignments when the hiring freeze ends to provide more field presence.
 - Implementing a telework policy, allowing Investigative CPA staff to maintain a home office in other areas of the state.

- 2.1 Respond to all inquiries within a reasonable timeframe.
 - Information Technology (IT) staff worked with program staff to refine the CBA Information Practices Act/Public Records Act (IPA/PRA) request tracking system.
 - The system allows management to input the new request, automatically emails staff that an IPA/PRA request has been assigned to them, and to log the request as completed.
 - In FY 2010-11, the CBA received 26 IPA/PRA requests and 419 requests for certification of documents by licensees.

- 2.2 Maintain a secure and relevant Web site that provides enhanced interactive features.
 - Continually verifies access and usability to various Web site utility programs.
 - Created the E-news utility to allow greater outreach to CBA stakeholders.
 - Added a link on the Web site to the CBA Facebook and Twitter pages.
 - Created and posted the Peer Review Reporting Form.

- 4.3 Increase the CBA's visibility and reputation with the Legislature.
- Making regular contact, in accordance with legislative calendar, in order to stay apprised of issues impacting the CBA or the profession.
 - Conducting "Meet and Greet" meetings with Business and Professions Committee members at the start of every legislative session.
 - Meeting with author or staff of CBA sponsored legislation to stay apprised of the status of the bill.
 - Writing letters communicating positions following CBA meetings at which positions are taken.
- 5.1 Proactively work with the American Institute of Certified Public Accountants (AICPA), National Association of State Boards of Accountancy (NASBA), and Prometric on behalf of national Uniform CPA Examination candidates to resolve issues in a fair and expeditious manner.
- Finalized a contract with NASBA to continue services related to the Uniform CPA Examination (CPA Exam).
 - CBA Examination staff is in regular and frequent contact with NASBA's Candidate Care personnel to resolve issues identified by candidates who are taking the CPA Exam.
- 5.3 Monitor national association activities and respond as appropriate.
- Responded to three NASBA focus questionnaires.
 - Notified CBA members of exposure drafts that are open for comment in the Executive Officer's monthly report.
- 6.4 Maintain a plan to ensure that CBA has staffing and skill levels in response to employee retirement and attrition.
- Drafted and presented to the CBA part one of a Workforce and Succession plan for Senior Staff.
 - Drafted and presented to the CBA part two of a Workforce and Succession plan for Supervisory Staff.
 - Coordinating with management and IT staff to draft parts three and four, which focus on senior analytical staff and Information Technology staff.
- 7.2 Educate licensees about the peer review process.
- Developed Peer Review Brochure and posted to the CBA Web site.
 - Published various articles in *UPDATE* regarding peer review legislation.
 - Posted news releases regarding peer review.
 - Ran radio spots regarding peer review.
 - Developed two sets of FAQs and posted to the CBA Web site.
 - Sent letter to all impacted licensees informing them of their peer review reporting requirement.
 - Drafted a reminder, final notice, and deficiency letter to all impacted licensees.
 - Updated the renewal forms and initial licensing forms to include peer review information.

- 7.3 Explore the feasibility of conducting workshops in various regions of the state.
- Contacted multiple colleges to perform outreach to students.
 - Contacted the Franchise Tax Board and Board of Equalization for outreach opportunities.
 - Finalized presentations for use as educational tools. The presentations have been provided to CBA Member's for their use at various outreach events at colleges throughout the state.
 - CBA staff used the presentation once, prior to travel restrictions being imposed. Outreach staff is now exploring making the presentation materials available on the CBA Web site and staff is also exploring the use of Webinar technology to continue conducting educational workshops, without incurring travel costs.
- 9.1 Evaluate staff annually and provide essential training to maintain currency of knowledge and achieve optimum skill levels.
- CBA management completed Individual Development Plans (IDP) and Probation Reports for all staff.
 - Sixty seven percent of staff attended various training courses throughout the year
 - Held "FISHing" training for all staff, which is designed to transform a "status quo" work environment into an exciting, playful, and productive work environment.
- 9.4 Develop and implement a staff recognition program.
- CBA Management created a quarterly theme competition among CBA staff, including an employee appreciation quarter.
 - Reached out to CBA members in the March Executive Officer's report for input on additional ideas to provide recognition to staff.
 - Created new award programs for staff, consisting of the CBA Leadership's Award of Excellence, and the CBA Managers' Distinguished Service Award. The awards are given annually recognizing two staff members making outstanding contributions to the CBA over the past year.

WORKFORCE AND SUCCESSION PLAN

After the completion of a new Strategic Plan, CBA leadership began to turn an eye toward establishing a Workforce and Succession Plan. Succession planning is working to ensure the continued effective performance of an organization, division, or work group, by making a provision for the development and replacement of leaders over time. The goal of succession planning is to match the organization's available (present) talent to its needed (future) talent, to ensure that the lessons of organizational experience (institutional memory) will be preserved and combined with reflection on that experience to achieve continuous improvement in work results.

Staff has completed two of the four portions of the plan, with the third portion to be presented in the November 2011 EO Monthly Report. The first portion of the plan outlined steps for the CBA members to take if the Executive Officer were to vacate their position, and steps the Executive Officer should take if any other Senior Staff, which includes the Assistant Executive Officer and two Division Chiefs leave the CBA. The second portion of the plan outlined steps to take if any supervisory staff were to leave the CBA, and provides a plan to cross-train staff to better prepare the CBA for any vacancies. The second portion of the plan also outlines steps CBA leadership should take to prepare the next generation of supervisory staff.

Suggestions include promoting training, cross-training where appropriate, and emphasizing the DCA mentoring program for any interested staff.

Originally, when creating the project outline for the entire Workforce and Succession Plan, the IT and Senior Analytical sections were to be drafted and presented together. However, when exploring the IT portion of the plan it became apparent that due to the technical nature of Information Technology, outside assistance would be needed to adequately address the business process. Staff has met with representatives from other boards that have recently completed an IT succession plan, and will be utilizing their plan as a model. It is anticipated the analytical portion of the Workforce and Succession Plan will be presented to the CBA in late 2011, and the IT portion in 2012.

ADMINISTRATION DIVISION

INTRODUCTION

The Administration Division is comprised of twenty staff responsible for all CBA day-to-day administrative operations. Duties include assisting with the creation of the budget, facilitating requests for staffing augmentations, contracting with vendors, purchasing new equipment, serving as liaison to the DCA on personnel and travel matters, providing IT support, maintaining the CBA Web site, and providing timely outreach to all stakeholders.

PUBLIC AFFAIRS AND OUTREACH

Outreach continues to be a cornerstone of the CBA's 2010-2012 Strategic Plan, and the Outreach Committee (OC) continues to utilize the high level strategies outlined in the Outreach Plan to meet those strategic goals and objectives. The OC is comprised of staff from across the divisions and programs, and is intended to serve as a clearinghouse for input and resources related to outreach. The CBA Public Information Officer provides oversight and guidance to the OC in order to ensure that planning and executing communications and outreach efforts will be integrated with the goals of the Outreach Plan.

One of the most significant accomplishments of the OC was expanding the use of social media to reach additional stakeholders, and to create an online community through which the CBA could get feedback and foster communications that would be beneficial to those participating. In November 2010, staff launched a CBA Twitter page, @CBANews, which at this writing has more than 300 followers. The Twitter launch was followed by the creation of a CBA Facebook page, www.facebook.com/CBANews. The CBA Facebook page is "liked" by more than 600 people, making it a vital tool in the outreach to various stakeholders. Allowing for "amplification" and "reverberation", Facebook posts reach many more individuals than are signed up to "like" us, and public Twitter lists multiply our reach beyond those who are following the CBA on Twitter, as well as recruit new followers.

Facebook not only allows the CBA to provide information to stakeholders; it provides a forum for CBA staff to communicate directly with examination and licensure candidates, licensees, and consumers. In May 2011 the OC held a live "Facebook Event", which focused on Examination Candidates. The event was an hour long, and staff answered questions from more than 40 visitors related to the international delivery of the Uniform CPA Examination (CPA Exam), and applying for the exam. The committee built upon the success of the first Facebook event with another event related to Peer Review in August 2011.

In addition to social media, staff completed and mailed three editions of the *UPDATE* publication. Of particular interest, in the winter edition staff included an article related to the Investigative CPA positions available at the CBA. The article garnered significant feedback from licensees, and staff is encouraged that it could lead to new candidates. The Spring edition of *UPDATE* marks the last wholesale printing of *UPDATE*; a newly-designed online edition will give *UPDATE* a fresh contemporary look, allow for ease of access online, and yet still enable those who prefer to have a paper copy mailed to them to choose to do so by selecting that choice on the CBA Web site. Stakeholders have been encouraged to "opt-in"

online if they desire to continue receiving the *UPDATE* via mail, and staff continues to get the word out via prominent placement on the CBA Web site, social media and E-News. It is anticipated that with the migration to a digital format, not printing the *UPDATE* will save the CBA approximately \$100,000 per year.

As part of the 2010 CBA Member Guidelines and Procedures Manual, the CBA Vice President is designated as the CBA Ambassador, providing guidance on outreach requests from various stakeholders. In February, staff crafted a PowerPoint presentation for President Sally Anderson to deliver to the California Association of State Auditors. This was followed by a presentation in May to Chapman College, and in June with a presentation to the annual meeting of CalCPA.

In addition to the presentations created for President Anderson, OC staff gave a PowerPoint presentation at the University of the Pacific focused on the CPA Exam and initial licensing process. Subsequently, staff made a presentation to Consumnes River College faculty related to the upcoming changes in education requirements. Additional opportunities for presentations at colleges are presenting themselves, but the current restriction on staff travel, even within Sacramento, is hampering the ability of staff to continue this type of outreach. However, staff is creatively considering ways address the issue, including YouTube videos as online tutorials. The first YouTube video on how and when to report a Peer Review is currently in production, and subsequent videos are planned.

It is vitally important that the CBA liaison with the DCA and other regulatory agencies to increase exposure to consumers. To that end, in March the CBA partnered with the DCA, Contractors State License Board, and several other smaller boards to provide information at several outreach events. Staff has been in contact with the Outreach Coordinator at the Board of Equalization, and, along with the Franchise Tax Board, is considering a partnership for outreach activities which would be beneficial to CBA licensees.

Staff has made conscious and strategic efforts to expand CBA Communications and Outreach, and will continue to do so into the future. Outreach to all stakeholders is paramount to fulfilling the CBA vision that all consumers are well informed and receive quality accounting services from licensees they can trust.

LEGISLATION AND REGULATION

Sunset Review

Staff delivered the CBA 2010 Sunset Review Report to the Legislature on Friday, October 1, 2010. In April, CBA President Anderson and Executive Officer Patti Bowers testified before the Senate Business, Professions, and Economic Development Committee (Committee) as a part of the CBA's sunset review. Staff then provided the Committee with written responses to the issues identified in its background paper. The Committee made a number of recommendations, and incorporated those into Senate Bill (SB) 541, which will, among other things, extend the CBA's sunset date. The bill is currently on the Governor's desk awaiting signature.

Blue Book

The CBA Blue Book is a compilation of the Accountancy Act, the CBA Regulations, and other related California Codes. Staff updated the Blue Book, which is current as of January 1, 2011. The book was also consolidated electronically, and placed on the CBA Web site. This allows for easier searching/printing by CBA stakeholders and updating by CBA staff.

Pending Legislation

- **Assembly Bill 431 (Ma)**
This bill is sponsored by the CBA, and would authorize the CBA to establish, by regulation, a system for the placement of a license in a retired status for accountants who are not actively engaged in the practice of public accountancy or any activity which requires them to be licensed.
- **Senate Bill 306 (de León)**
This bill will make the Practice Privilege Safe Harbor period permanent in law. The previous safe harbor provision was in regulation and became inoperative on December 31, 2010. This bill will also carve out a licensing exemption for certain out-of-state licensees practicing under very specific conditions in California.
- **Senate Bill 541 (Price)**
This bill extends the sunset date for the CBA to January 1, 2016. In addition, it makes the Peer Review Program permanent and exempts certain restatements from the self-reporting requirements.
- **Senate Bill 773 (Negrete-McLeod)**
This bill would codify most of the ECC's recommendations regarding the 10 semester units of ethics study required for licensure starting in 2014.

Regulations Finalized and Filed

- **Peer Review (12/20/2010)**
This package made permanent the Peer Review Regulations, which were originally adopted as emergency regulations.
- **Peer Review Oversight Committee (12/21/2010)**
Established the qualifications and duties of the Peer Review Oversight Committee, and established an adjudication procedure for peer review programs which are denied CBA approval.
- **Continuing Education: Exemptions and Extensions (2/2/2011)**
This package was mostly cleanup correcting some numbering issues and cross-references. However, it did add a requirement that any Regulatory Review course must cover Article 6-Peer Review.

- **Fee Reduction (4/14/2011)**
This package reduced initial license and renewal fees by 40%, lowering these fees from \$200 to \$120. After four years, the CBA must reassess these fee levels; if it takes no action, the fees will return to their previous levels.
- **Peer Review Provider Requirements (4/25/2011)**
This package requires providers to provide the CBA with failed peer reviews within 60 days.

Regulations in Progress

- **Supervision and Disciplinary Guidelines**
This package will define supervision and incorporate by reference supervision verification forms. It will also incorporate by reference the CBA's revised Disciplinary Guidelines.

CBA WEB SITE

CBA staff has worked diligently to improve the CBA Web site. Coinciding with the launch of the CBA Twitter and Facebook pages, staff added a link to the CBA Web site allowing stakeholders to navigate directly to the CBA Facebook and Twitter pages. Staff also added a temporary link highlighting the inaugural Facebook event to the homepage, and created an online request for a paper version of *UPDATE*.

In relation to the Enforcement Program, staff added all discipline actions to the summaries under the "Disciplinary Actions/License Restrictions" Web page. Further, all pending accusations are now posted on the homepage. In the licensing arena, staff created a "New Licensure Requirements" page, complete with a list of frequently asked questions, a document detailing the proposed changes, and a link to contact the CBA for more information.

Finally, the "CBA Regulations" page was migrated from a downloadable .pdf format to a web page. This allows for easier updating by CBA staff, and searching/printing by CBA stakeholders.

INFORMATION TECHNOLOGY

Over the past year, CBA IT staff have successfully completed several important projects that have enhanced internal operations and CBA outreach and communication with stakeholders. It is worth noting that in light of the State of California's fiscal crisis and the increased pressure on State agencies to reduce waste and operate more efficiently, these CBA IT projects were also completed with minimal expenditures by utilizing existing CBA resources.

In order to mirror DCA's migration from the antiquated Lotus Notes email servers to Microsoft Office, IT staff has migrated staff's email to Outlook. This allows the IT team to manage everyone's email accounts on one server and brings us closer to retiring the Lotus notes server and IMAP server. Outlook is now the primary staff email client. IT has also upgraded hardware and software for the staff, including anti-virus and security updates. The improvements are expected to enhance office functions and security.

The Disaster Recovery Plan (DRP) has been updated from last year to better reflect changes in personnel and information systems that the CBA relies on for mission critical processes. The DRP focuses on Maximum Allowable Outages to critical IT services that the CBA must maintain for operational integrity. Since information systems are used to augment CBA business processes, manual contingency processes are identified for outages exceeding allowable time limits. All personnel involved in planning and response to disaster recovery procedures have been issued a copy of the DRP and a copy has been placed in the "go bag" to accompany the Business Continuity Plan.

The DCA document imaging project Scanning and Records Retrieval System (ScanRRs) has been vetted and approved by the DCA Director and the Feasibility Study Report has been submitted to the State and Consumer Services Agency and is expected to continue to the California Technology Agency for final approval. The ScanRRs project is scheduled to launch in July 2012, just prior to the BreZEze project and is anticipated to be incorporated into the entire DCA-based licensing process.

TRAVEL

Executive Order B-06-11, issued on April 26, 2011 by Governor Brown, eliminated discretionary travel. No travel is permitted unless it is mission critical to specific exemption criteria and receives authorization by the DCA.

Management has looked for ways to manage travel expenditures and to reduce unnecessary spending. In FY 2010-11, one CBA meeting and nine Committee meetings were conducted in the CBA office in Sacramento in order to eliminate staff travel expenses.

PERSONNEL

CBA staff continue to participate in the Human Resource Modernization (HR Mod) Project, which streamlines hiring, rewards performance, and simplifies the State's system of job classifications. Participation requires CBA staff to submit to the DCA justifying statements when hiring for the Associate Governmental Program Analyst, Investigative CPA, and Staff Services Manager I classifications, and to submit probationary reports timely.

In May 2011, CBA management distributed an Office Operations and Staff Expectations memorandum to provide staff with a clear awareness of the CBA's expectations regarding conduct in the office. The memorandum serves as a reminder of some of the CBA's most important policies, including, but not limited to, proper handling of confidential information and discrimination and sexual harassment awareness. All CBA staff are required to annually review the memorandum and all associated policies.

In keeping with the CBA Strategic Plan Objective 9.1, staff are encouraged to attend training that will develop their professional and personal skills. In FY 2010-11, sixty seven percent of staff utilized training at the DCA, including the DCA "FISHing" program, the Enforcement Academy, the DCA mentoring program, and various other training offered by outside agencies.

ENFORCEMENT DIVISION

INTRODUCTION

The Enforcement Division is comprised of approximately 20 staff that are responsible for overseeing the enforcement of laws and rules governing the practice of public accountancy. Staff receive complaints from consumers, licensees, professional societies, law enforcement agencies, other government agencies and internal referrals. 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. Enforcement staff also regularly monitor the news media for information that may suggest licensees' violations of the Accountancy Act. Staff from the Licensing Division refer licensees who have not complied with license renewal requirements.

The CBA has significant responsibilities in the area of consumer protection. Workload is prioritized to ensure maximum consumer protection, and cases with the potential for ongoing consumer harm receive the highest priority and urgent attention. The options of interim suspension order or Penal Code Section 23 suspension are utilized whenever appropriate to restrict or suspend licensee practice rights to diminish potential consumer losses.

STAFFING AND ORGANIZATION

During FY 2009-10 the Enforcement Division overcame an employee turnover rate of approximately 70%. Fortunately, with the exception of a few Investigative CPA vacancies, all positions have now been filled and are stable. Training and developing of staff has been a time consuming process; however, a technical knowledge base has been established that can be nurtured and cultivated for the future long term growth.

Historically it has been difficult to recruit and retain Investigative CPAs, with below market salaries and the state testing process contributing to these challenges. This year, significant improvements were accomplished in both of these areas. While the CBA continued to utilize temporary incentives, such as a recruitment and retention bonus of 15% - 20%, the Investigative CPA union and DPA are discussing a permanent fix to increase salaries for Investigative CPAs. Hopefully, these discussions will lead to a permanent solution to the low salary issue which has hindered recruitment of Investigative CPAs.

In 2010 Senior Management implemented significant changes to the Investigative CPA civil service testing process, including acceptance of applications for the Investigative CPA exam on a continual basis, eliminating the written portion of the exam, and making exam questions more relevant to the duties of an Investigative CPA. Additionally, the Investigative CPA exam is routinely advertized in the *UPDATE* publication, which has become increasingly effective as Investigative CPA positions are now allowed to be filled anywhere in the state (e.g. no longer required to hire in Sacramento). These changes have yielded the following positive results.

	FY 2009-10	FY 2010-11
Number of applicants	28	80
Number of candidates meeting minimum qualifications	11	32
Candidates eligible to be hired	3	18

Similar to the impact on other CBA vacancies, the ongoing hiring freeze prevented the hiring of Investigative CPAs. Multiple hiring freeze exemptions were submitted, but only one position was approved, which resulted in an Investigative CPA being hired in June 2011.

The effects of the various furloughs and hiring restrictions have had a negative impact on casework backlog. Since January 2010, the number of pending investigations has increased by 70% to 334, and the average age of investigations has increase by 21 percent to 238 days. Furthermore, the number of investigations referred to the Attorney General's Office (AG) has decreased steadily over the past three years from 41 to 36 to 24.

Fortunately, there may be some relief in sight. CBA management has worked with the DCA to engage contract consultants for assistance on complex technical investigations. Management was successful in finalizing five new contract consultants, and it is anticipated this will help reduce the current backlog.

One other notable development that took place in the Enforcement Division during the past year was the posting of all pending accusations to the CBA Web site. The CBA acted on this issue at the September 2010 meeting, and staff have posted 15 pending accusations on the CBA Web site since October 1, 2010.

Additionally, Enforcement staff have begun assessing Administrative Penalties on an increasing basis. Administrative Penalties are considered when actual or potential harm to consumers or clients exists.

And finally, the Enforcement Division has begun drafting "At a Glance" articles for the *UPDATE*. These articles are designed to provide licensees with an update on current issues facing the profession, and give information on how a licensee can avoid or mitigate compliance issues.

Peer Review

During FY 2010-11, implementation of the mandatory peer review program was transitioned from the Licensing Division to the Enforcement Division. With the assistance of staff from the Licensing Division, enforcement staff began the arduous task of learning peer review laws and regulations, establishing peer review procedures, and working with the newly created Peer Review Oversight Committee (PROC). In order to adequately administer the program, staff performed the following tasks:

- Drafted and implemented a Confidentially Letter with the AICPA to allow PROC members access to peer review information.
- Mailed 28,000 initial letters and 9,000 reminder letters to licensees with a peer review reporting requirement of July 1, 2011.

- Drafted deficiency letters to be mailed to 3,500 licensees who did not report their peer review information by July 1, 2011.
- Worked with the California Society of CPAs (CalCPA) to establish procedures and communications with licensees requesting an extension to complete their peer review; resulting in 287 extensions being granted by CalCPA.
- Received 19,000 peer review reporting forms from licensees with a peer review reporting requirement of July 1, 2011.
- Received 25 failed peer reviews; opened an investigation, and are monitoring the licensees adherence to corrective actions imposed by CalCPA.
- Mailed 20,000 initial letters to licensees with a peer reporting requirement of July 1, 2012.
- Developed, deployed, and received 1,214 peer review surveys. These are voluntary surveys that will assist the CBA in collecting information from sole proprietors and small firms to prepare the report that is due to the Legislature and the Governor in 2014.
- Revised the renewal forms for individuals, corporations, and partnerships to include information regarding peer reviews.

PERFORMANCE MEASURES

As part of the Consumer Protection Enforcement Initiative, the DCA began posting Performance Measures for each board and bureau. Beginning in July 2010, each board and bureau began tracking performance measurement data and providing it to DCA for posting to its Web site. Following are the final performance measures for FY 2010-11:

Performance Measure	Target	Result
Number complaints and convictions received	NA	854
Average cycle time from complaint receipt, to the date the complaint was assigned to an investigator	10 days	5 days
Average cycle time from complaint receipt to closure of the investigation process. Does not include cases sent to the Attorney General or other forms of formal discipline	180 days	189 days
Average number of days to complete the entire enforcement process for cases resulting in formal discipline	540 days	642 days
Average number of days from monitor assignment, to the date the monitor makes first contact with the probationer	5 days	1 day
Average number of days from the date a violation of probation is reported, to the date the assigned probation monitor initiates appropriate action	15 days	2 days

COMPLAINT MANAGEMENT (STATISTICS)

	FY 2009-10	FY 2010-11
Complaints		
Received	630	722
Closed without Assignment for Investigation	369	132
Assigned for Investigation ¹	331	573
Average Days to Close or Assign for Investigation	25	5
Pending	0	17
Average Age of Pending Complaints	N/A	5
Convictions/Arrest Reports		
Received	75	132
Closed	63	100
Assigned for Investigation	15	27
Average Days to Close or Assign for Investigation	3	2
Pending	0	5
Investigations		
Initial Assignment for Investigation	346	601
Investigations Closed	280	464
Average Days to Close	212	130
Investigations Pending	196	334
Average Age of Pending Investigation	197	238
Enforcement Actions		
AG Cases Initiated	35	24
AG Cased Pending	41	37
Statement of Issues Filed	1	0
Accusations Filed	26	20
Disciplinary Orders		
Proposed Decisions Default Decisions Effective	8	10
Stipulations Effective	17	12
Average Days to Complete Proposed Decisions/Default Decisions/Stipulations ²	722	727
Citations		
Final Citations	14	30
Average Days to Complete	218	268
Administrative Penalties	\$0	\$20,000
<p>¹ There are two reasons for the increase in formal investigations opened from previous years. The first is the result of an internal change made by the DCA that defines an investigation as opened immediately following the initial review. The second is based on the number of "internal" investigations that have been referred within the CBA. During FY 2009-10 there were 215 "internal" investigations open and in 2010-11 there were 387 "internal" investigations open.</p> <p>² Average Days to Complete Proposed Decisions/Default Decisions/Stipulations is based on the number of days from receipt of complaint to the effective date of Disciplinary Order.</p>		

LICENSING DIVISION

INTRODUCTION

The Licensing Division is comprised of approximately 45 staff, who are responsible for ensuring: 1) applicants meet education requirements prior to taking the CPA Exam; 2) applicants for licensure have passed the Uniform CPA Examination (CPA Exam) and have met the education and experience requirements necessary for licensure; 3) accountancy partnerships and corporations are registered so they can offer services in California; 4) licensees have paid the required fees and have completed the required amount of continuing education hours in order to renew their license; and 5) out-of-state licensees seeking the privilege to practice public accountancy in California have notified the CBA of their intent.

Although the main focus of the Licensing Division is to regulate entry into the profession, Licensing Division staff are an integral part of the enforcement process as well. A significant number of enforcement complaints originate from within the Licensing Division, based upon information provided by the current or potential licensee. For instance, the Renewals and Continuing Competency Unit routinely refers complaints to the Non-Technical Unit in Enforcement related to licensees practicing with continuing education deficiencies, and practicing with expired licenses.

EXAMINATION UNIT

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

Beginning January 1, 2011, the American Institute of Certified Public Accountants (AICPA) launched changes to the CPA Exam, which were referred to as CBT-e. The changes to the CPA Exam are a direct result of the AICPA's 2008 Practice Analysis, which was undertaken to ensure the validity of the examination.

Significant changes made to the CPA Exam by the AICPA included:

- Change in the examination section structure, section time allocations, and the percentage value of examination components.
- New question formats will be introduced.
- New content and skill specifications will go into effect, including testing of International Financial Reporting Standards (IFRS).

Preceding the launch of CBT-e, the Examination Unit experienced a record high volume of 3,489 applications in June 2010. The increased volume of applications continued through November. Because of the changes to the exam, including the correlated study materials, and the inclusion of IFRS, candidates expressed their eagerness to sit for and pass the CPA Exam by November 30, 2010. With the assistance from Initial Licensing staff, the Examination Unit was able to maintain reasonable processing times under 45 days.

During a number of CBA meetings in FY 2010-11, the CBA considered the international delivery of the CPA Exam (iExam), most recently at the July 2011 CBA meeting. Over the course of these meetings, members raised many concerns, including grading, security of the examination, enforcement, and the Social Security Number requirement for licensure. Over the course of deliberations, the Examination Unit has assisted CBA members by researching and providing additional information addressing their concerns. Examination staff also contacted other states' boards of accountancy that have agreed to participate in iExam, specifically Texas and New York, and sought information as to whether those states' board members shared the same concerns. Staff provided the responses to CBA members at the July 2011 CBA meeting. Although a decision to participate in iExam was not made, staff will continue to monitor iExam following its launch by NASBA in August 2011 and will bring information back to CBA members in 2012.

One of the issues identified during discussions on iExam revolved around the CBA's CPA Exam pass letter. CBA members voiced concern that foreign candidates could fraudulently use the pass letter with a gold seal as evidence of a license to practice public accounting. Based on decisions reached by the CBA at the November 2010 meeting, the Examination Unit began issuing the revised CPA Exam pass letter that eliminated the gold seal. Examination staff also made revisions to the content of the letter providing more direction to the candidates regarding obtaining a California CPA license.

Also in FY 2010-11, Examination Unit staff worked closely with IT to make improvements to the system used to process scores. With the implementation of the new score posting system, as scores are received from NASBA, they are automatically posted into candidates' client accounts as a final score. Once a candidate has passed all four parts of the CPA Exam, a score sheet detailing the candidate's exam history is generated and placed into the candidate's file and a pass letter is issued. This eliminates the need to manually post each candidate's score and apply a label in each file, thus decreasing the time final scores are available to candidates.

Statistics

	FY 2009-10	FY 2010-11
Examination Applications Received		
First-time Sitter	7,666	7,109
Repeat Sitter	16,116	17,404
Totals:	23,782	24,513
Processing Time Frames	26 days*	28 days*
Scores Processed	37,993	40,261

* Average processing time frames for first-time applicants

INITIAL LICENSING UNIT

Upon passing the CPA Exam, completion of any additional required education, and obtaining the requisite experience, a candidate may apply for CPA licensure. The Initial Licensing Unit received 3,361 applications for CPA licensure during FY 2010-11. Staff review each application thoroughly to ensure the applicant has met the education, examination and experience requirements necessary for licensure.

In FY 2010-11 staff revamped the internal process for approving and issuing CPA licenses. Under the new system, once an application is approved the applicant is sent a letter informing them of their approval and the license fee amount due. The applicant is informed of the two-year application abandonment deadline, and an improved "personal data card" is included with the approval letter. The new process is more automated and streamlined than the previous process, which results in it taking less staff time to complete, being easier for applicants, and more accurate for tracking statistics surrounding application approval and licenses issued. Initial Licensing Unit staff continue to access the NASBA Accountancy Licensing Database (ALD) to expedite processing time for CPA licensure applicants. This database allows staff to verify the licensure of out-of-state CPAs who are providing supervision to California applicants. Presently, 35 states report licensing information to the ALD.

The Initial Licensing Unit is also responsible for registering General and Limited Liability Partnerships (LLP), Corporations and Fictitious Name Permits¹. There were 146 accountancy firm applications received during FY 2010-11.

Statistics

	FY 2009-10	FY 2010-11
Licenses Issued by Pathway		
Pathway 0	88	14
Pathway 1	1,043	1,070
Pathway 2	2,638	2,483
Total Licensed	3,769	3,567
Average Processing Timeframes	22 Days	15 Days
Pathway 0 was repealed in January 2010, however applicants seeking re-licensure following a cancelled license can be licensed under Pathway 0, that number is reflected above.		
Firm Registrations		
Corporations	227	184
Partnerships	109	66
Fictitious Name Permits	155	146
Total Registrations	491	396
Average Processing Timeframes	15 Days	11 Days

The Initial Licensing Unit is responsible for responding to requests for certification of CBA records. Although the majority of these requests are from California licensees or CPA Exam candidates who are applying for licensure out-of-state, the CBA also receives requests from other interested parties. In FY 2010-11 there were 1,257 Certification Requests.

¹ A sole proprietor choosing to practice using a name other than the name under which the person holds a valid permit to practice issued by the CBA.

One of the final projects Initial Licensing Unit staff worked on was modifying letters and handbooks to accommodate the reduced fees for CPA licensure applicants as well as accountancy firms. Initial licensure fees for CPA are \$60/\$120 and initial permit fees for accountancy firms are \$120.

RENEWAL/CONTINUING COMPETENCY UNIT

The Renewal/Continuing Competency (RCC) Unit is responsible for processing license renewals for CPAs, PAs, and accountancy firms. CPA and PA licensees are required to renew their licenses biennially, in conjunction with their birthday. For those licensees electing to renew their license in an active status, the RCC Unit ensures that the continuing education (CE) was completed in the appropriate manner. Accountancy corporations and partnerships are also required to renew biennially, corresponding with their registration date with the CBA. Firms must submit information pertaining to their shareholders or partners.

The biennial renewal fee was lowered for a four-year period; licenses expiring after June 30, 2011 will now pay a license renewal fee of \$120 rather than \$200 through the end of FY 2014-15. A delinquency fee of \$60 will be added to the total amount due if postmarked after the license expiration date. Staff have updated information on the CBA Web site to ensure licensees are able to reference accurate fee information.

In conjunction with the fee reduction, staff in the RCC and Enforcement Division collaborated to incorporate changes into license renewal applications to include a certification that a firm or sole proprietor acknowledges a peer review must be completed and reported to the CBA if they provide accounting and auditing services. Additionally, an informational insert detailing the peer review requirements and the reporting timeline is included with the license renewal application.

RCC staff continue to review and approve Regulatory Review courses as part of the new CE regulations that became effective January 2010. In FY 2010-11, RCC Staff reviewed and approved 12 courses.

The bulk of the work completed by RCC staff involves the review of CE reporting worksheets, which are submitted by licensees at the time of license renewal. When deficiencies occur, RCC staff send a letter to the licensee informing them of the deficiency and advising them how to gain compliance. Provided below are the CE worksheet review statistics including the number of deficiencies that were referred to the Enforcement Division for further review. As the table indicates, during FY 2010-11 RCC successfully worked with 2,380 licensees to bring them into compliance with the CBA's CE requirements.

Statistics

	FY 2009-10	FY 2010-11
License Renewal Applications Processed		
Certified Public Accountant	34,112	35,704
Public Accountant	30	33
Accountancy Partnerships	482	616
Accountancy Corporations	1,217	1,663
Total:	35,841	38,016
Regulatory Review Courses		
Number of Courses Received (first time submission)	12	12
Number of Courses Returned for Corrections	8	9
Number of Revised Courses Received (initial submission returned for corrections)	7	1
Number of Courses Approved	5	12
Worksheet Review Statistics		
Number of CPA/PA Worksheets Reviewed	29,914	31,336
Number of Deficiencies Received	1,535	3,086
Number of Compliance Letters Sent (including inactive response)	1,406	2,380
Number of Enforcement Referrals	27	70
Number of Outstanding Deficiencies (including abandonment)	102	636

CALIFORNIA PRACTICE PRIVILEGE

In order to practice under California Practice Privilege, out-of-state licensees are required to submit the CBA Notification Form, which is available for submission on-line or via hardcopy. Practice rights under California Practice Privilege are automatic upon submission of the Notification Form unless specific disqualifying conditions exist that require prior CBA approval.

To ensure that key consumer protection elements of the Practice Privilege Program are effective, the CBA established a verification of qualifications procedure. To date staff have issued 57 Administrative Suspension Orders to California Practice Privilege holders not qualified to practice under the Practice Privilege Program.

On January 1, 2011, Section 5050(b) of the Accountancy Act on temporary and incidental practice became inoperative. As a result, non-California CPAs who may have practiced public accountancy under Section 5050(b) are now required to file a practice privilege to allow them to practice public accountancy in California lawfully.

Additionally, California's Safe Harbor provision (CCR Title 16, Section 30), which allowed out-of-state CPAs five days in which to file a Practice Privilege Notification Form following the commencement of practicing public accountancy in California, expired on December 31, 2010. Beginning on January 1, 2011, a Practice Privilege Notification Form must be filed with the California Board of Accountancy (CBA) prior to practicing public accountancy in the state.

Staff worked in conjunction with DCA Legal Counsel to provide accurate information regarding these changes on the CBA Web site and to modify the on-line Practice Privilege Notification Form.

Statistics

	FY 2009-10	FY 2010-11
Practice Privilege Notification Forms Received	2,403	2,594
Disqualifying Conditions Received	39	37

COMMITTEE ACTIVITIES

Accounting Education Committee

The Accounting Education Committee (AEC) is a temporary, nine-member, legislatively-established committee under the jurisdiction of the CBA tasked with assisting the CBA in defining an additional 20 units of accounting study that will be required for applicants for CPA licensure beginning January 1, 2014. During FY 2010-11 the AEC met four times as a full committee and once in a joint meeting with the Ethics Curriculum Committee (ECC). At the joint AEC-ECC meeting on June 7, 2011, members reached final agreements and approved a proposal for the 20 units of accounting study, which was recommended to the CBA at the July meeting.

RCC Unit staff served as a liaison to the AEC and performed significant support functions. From an administrative aspect, staff assisted members with travel arrangements and reimbursements. Staff developed meeting agendas, reports and minutes, and assisted in research to enhance the AEC's ability to make informed decisions. For example, staff researched information from other state boards of accountancy, and from colleges and universities, including an in-depth review of one course catalog for each of the four main institutions of higher learning in California – community college, private college, California State University, and University of California. Additionally, as the committee approached drafting regulations, staff provided guidance on the rulemaking process in California.

Ethics Curriculum Committee

The ECC is a temporary, 11-member, legislatively-established committee under the jurisdiction of the CBA tasked with providing the CBA with guidelines on the 10 units of ethics study that will be required for CPA licensure beginning January 1, 2014. During FY 2010-11 the ECC met four times and one time in a joint meeting with the AEC. To further assist the committee, a subcommittee, which met twice, was established to draft a framework for the ethics study guidelines. At the joint AEC-ECC meeting on June 7, 2011, the ECC reached final agreements and approved a proposal for the 10 units of ethics study which was presented to the CBA at the July meeting.

RCC staff served as a liaison to the ECC, which also included providing numerous support activities and guidance on the rulemaking process in California. Staff researched information on ethics courses offered by colleges and universities throughout California, as well as ethics requirements for other state boards of accountancy. Staff also conducted a six-week study to track where licensees completed their education. Additionally, staff provided the subcommittee support in researching courses and assistance with drafting the framework for the ethics study guidelines.

AEC-ECC Joint Meeting

On June 7, 2011, the AEC and ECC conducted a joint meeting to expose stakeholders to the proposed increase in ethics and accounting study educational requirements for CPA licensure. In order to reach as many stakeholders as possible, RCC staff, working with the OC, publicized the meeting through e-mails, press releases, and the CBA's social media sites. Staff invited over 700 stakeholders to the meeting and sent a variety of flyers and formal invitations. Additionally, staff prepared a PowerPoint of the proposals which was presented at the joint meeting. Through these efforts, many stakeholders physically attended the meeting in addition to a record number of people who watched the meeting via webcast.

Qualifications Committee

Initial Licensing Unit staff act as liaisons to the Qualifications Committee (QC). The QC reviews selected applicants' audit work papers for sufficient experience for licensure as a CPA. During FY 2010-11, there were 45 appearances before the QC, resulting in 35 applicants approved for licensure and 10 applicants deferred for additional experience.

In addition to conducting interviews of applicants, there were three critical topics that the QC members discussed in FY 2010-11. Staff provided background information and served as a resource for the following topics:

- Continuing education requirements for applicants seeking reissuance of their CPA license, following its cancellation due to non-renewal.
- Continuing education requirements for applicants who have applied for CPA licensure and have experience that was obtained more than five years prior to application.
- Peer training guidelines for QC members to assist in establishing common practices and interview techniques amongst QC members, identifying methods for reviewing electronic records, understanding more of the internal staff processes with respect to applicant and employer interviews.

The discussions on these topics will continue during FY 2011-12.

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