



Texas State Board of Public Accountancy

333 Guadalupe, Tower III Suite 900, Austin, Texas 78701-3900

William Treacy, Executive Director

January 4, 2012

The Honorable Jim Pitts
State Representative, Texas House of Representatives
Chairman, House Appropriations Committee
State Capitol, Room 1W.2
Austin, TX 78701

Dear Chairman Pitts:

Enclosed is the Texas State Board of Public Accountancy's FY 12 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act for the period of September 1, 2011 through November 30, 2011.

If you need any additional information, please call me at (512) 305-7801.

Sincerely,

TEXAS STATE BOARD OF
PUBLIC ACCOUNTANCY

A handwritten signature in black ink, appearing to read "William Treacy", is written over a faint, larger version of the same signature.

WILLIAM TREACY
Executive Director

Enclosure

PITTS25

Administration/ Accounting (512) 305-7800	Automated Information (512) 305-7870	CPE (512) 305-7844	Enforcement (512) 305-7866	Licensing (512) 305-7853	Qualifications (512) 305-7850 (512) 305-7851	Peer Review (512) 305-7853	FAX (512) 305-7875 (512) 305-7854
---	--	-----------------------	-------------------------------	-----------------------------	--	----------------------------------	---

www.tsbpa.state.tx.us

An equal opportunity, affirmative action employer



TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 12 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act

**1st Quarter
September 1, 2011 - November 30, 2011**

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 12 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act

1st Quarter
September 1, 2011 - November 30, 2011

Table of Contents

	<u>Page</u>
I. Legislature Transfers Fifth-Year Scholarship Fund to Board.....	1
II. Swearing In Ceremony	1
III. Unauthorized Practice of Public Accountancy	1
IV. Ethics.....	2
V. Enforcement – Major Cases.....	3
VI. Compliance Programs	3
VII. Constructive Enforcement.....	3
VIII. Sponsor Review Program (SRP)	3
IX. On-line processing for exam and license fees	3
X. Computer based testing.....	3
XII. Additional Information:	
Disciplinary and Administrative Rates for Actual Violations Chart.....	5
Financial Report	6
Scholarship Fund Activity	7
Performance Measure Report	9

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 12 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act September 1, 2011 - November 30, 2011

PROGRESS REPORT

1

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY FY 12 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act PROGRESS REPORT: September 1, 2011 - November 30, 2011

I. Legislature Transfers Fifth-Year Scholarship Fund to Board

The Texas Legislature passed House Bill 2440 (81st Legislature R.S. 2009) and SB 777 (82nd Legislature R.S. 2011) transferring administration of the accounting scholarship trust fund for fifth-year accounting students from the Texas Higher Education Coordinating Board (THECB) to the Accountancy Board. The funds are derived from a \$10 fee (also legislatively mandated) that is added to each Texas CPA's annual license renewal. Pages 7-8 of this report include the activity of the fund for the first quarter of fiscal year 2012.

The fifth-year scholarships were established in 1991 to aid disadvantaged students needing assistance in financing a fifth year of college often necessary to meet increasing educational requirements to take the CPA exam. Funds are allocated to Texas colleges and universities, whose financial aid offices make the decisions on providing scholarships to individual students.

The Board is implementing a plan to dedicate administrative penalties collected under SUBCHAPTER L of the *Public Accountancy Act* to the scholarship fund authorized under SUBCHAPTER N of *the Act*.

II. Swearing In Ceremony

The Swearing In Ceremony was held on Saturday, December 3, 2011, at the Parmer Events Center in Austin Texas. 956 candidates received CPA certificates at this ceremony consisting of 474 women and 482 men.

III. Unauthorized Practice of Public Accountancy

Bookkeepers and accounting grads alike (even those with accounting degrees who have passed the exam but not yet been licensed) are in violation of the Public Accountancy Act if they use terms that wrongly suggest that they are CPAs. This includes any derivations of the words *accounting* or *auditing*.

The *Public Accountancy Act* applies to any business (including CPA firms) offering accounting services to the public. A business that does not offer bookkeeping or related services to the public may have an internal accounting department and refer to its employees as accountants, but this is the only exception allowed under the Act. If employees of such a business leave their positions and establish bookkeeping businesses on their own, they are not entitled to hold themselves out to the public as accountants even though they held that job title in their previous employment.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
FY 12 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act
PROGRESS REPORT: September 1, 2011 - November 30, 2011

In order to protect the public, the Texas Board pursues anyone believed or reported to be illegally using these terms in promotional materials, resumes, business cards, letterhead, or any other usage because it asserts an expertise in accounting that the person may not have. Using these terms constitutes the unauthorized practice of public accountancy (UPPA). The UPPA staff suggests these alternate terms for use by non-licensees:

Audit

- Internal Controls Analysis
- Internal Controls Examination
- Inventory Examination
- Inventory Analysis
- Forensic Examination
- Forensic Analysis
- Inspection
- Verification
- Inquiry
- Investigation

Accounting

- Financial Consulting
- Financial Advisory Services
- Bookkeeping
- Business Services

Non-CPA Staff

- Professional Assistant
- Professional Staff
- Professional Associate
- Senior Associate
- Senior Assistant
- Junior Associate
- Staff Associate
- Senior Staff
- Tax Associate
- Support Staff

IV. Ethics

The Board has extended its emphasis on ethics training to include exam candidates. Since July 1, 2005, initial exam candidates have been required to complete a Board-approved three-hour college ethics course.

The July/August 2011 issue of *Today's CPA* (pp. 32 – 35) reports results of a recent survey by Baylor University faculty members **Kathy Hurtt** and **C. William Thomas, CPA**, that asked the question, Is ethics education for CPAs in Texas working? The authors surveyed Texas CPAs licensed between 2005 and 2010 and received 2,696 completed questionnaires, for a 28.3% response rate. The majority of respondents answered positively to all questions, agreeing that the required college course improved their knowledge, skills, and abilities. Responses regarding the biennial update were slightly less enthusiastic, but still positive. Ethics education is believed to be at least partially responsible for a significant drop in enforcement actions in recent years. For a link to the complete article, go to the Board's website, www.tsbpa.state.tx.us.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
FY 12 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act
PROGRESS REPORT: September 1, 2011 - November 30, 2011

V. Enforcement – Major Cases

SDSI has allowed the Board to meet the demands for the prosecution of major cases. When Enron collapsed, the number of CPAs investigated, the individuals interviewed, the consultants hired, the files examined, and the litigation that ensued exponentially increased the Board's need for resources to carry out its responsibilities. The Board periodically experiences these events, but not routinely. (The Savings and Loan scandals of the early 1990's severely strained Board resources.)

SDSI has enabled the Board to timely address these "major case" events and to obtain the needed resources without emergency measures. The Board engages staff from the Office of Attorney General on an as needed basis to assist in the prosecution of these "major cases" events. This results in a substantial cost savings because it avoids the need to continuously maintain staff in anticipation of possible "major cases".

VI. Compliance Programs

The Board believes that the proactive programs such as continuing professional education, peer review, and enhanced ethics training are resulting in fewer violations. We believe there is a strong correlation between these programs and the downward trend in enforcement actions. See Disciplinary and Administrative Rates for Actual Violations chart, page 5.

VII. Constructive Enforcement

The Board has reactivated its Constructive Enforcement Committee. CPAs statewide serve as the eyes and ears for the Board in identifying CPAs who may not be complying with the *Public Accountancy Act* or orders of the Board.

VIII. Sponsor Review Program (SRP)

The Sponsor Review Program objective is to ensure that the CPE offered to Texas CPAs is relevant, that it is provided by qualified sponsors with the expertise in the particular area of study presented, and that the course objectives are presented in accordance with Board guidelines for content and presentation.

IX. On-line processing for exam and license fees

Exam candidates may apply for one to four sections of the exam through the Texas Online ePay system. On-line applications account for over 98% of the total applications.

Licensees utilize online payments for individual license renewals through the Texas Online ePay system. The online annual renewal process provides for the processing of fees and information online. Requirements for continuing professional education are integrated with the Board's Sponsor Review Program to ensure licensees are participating in quality education programs. Online individual license renewals account for over 90% of the total renewals.

X. Computer based testing

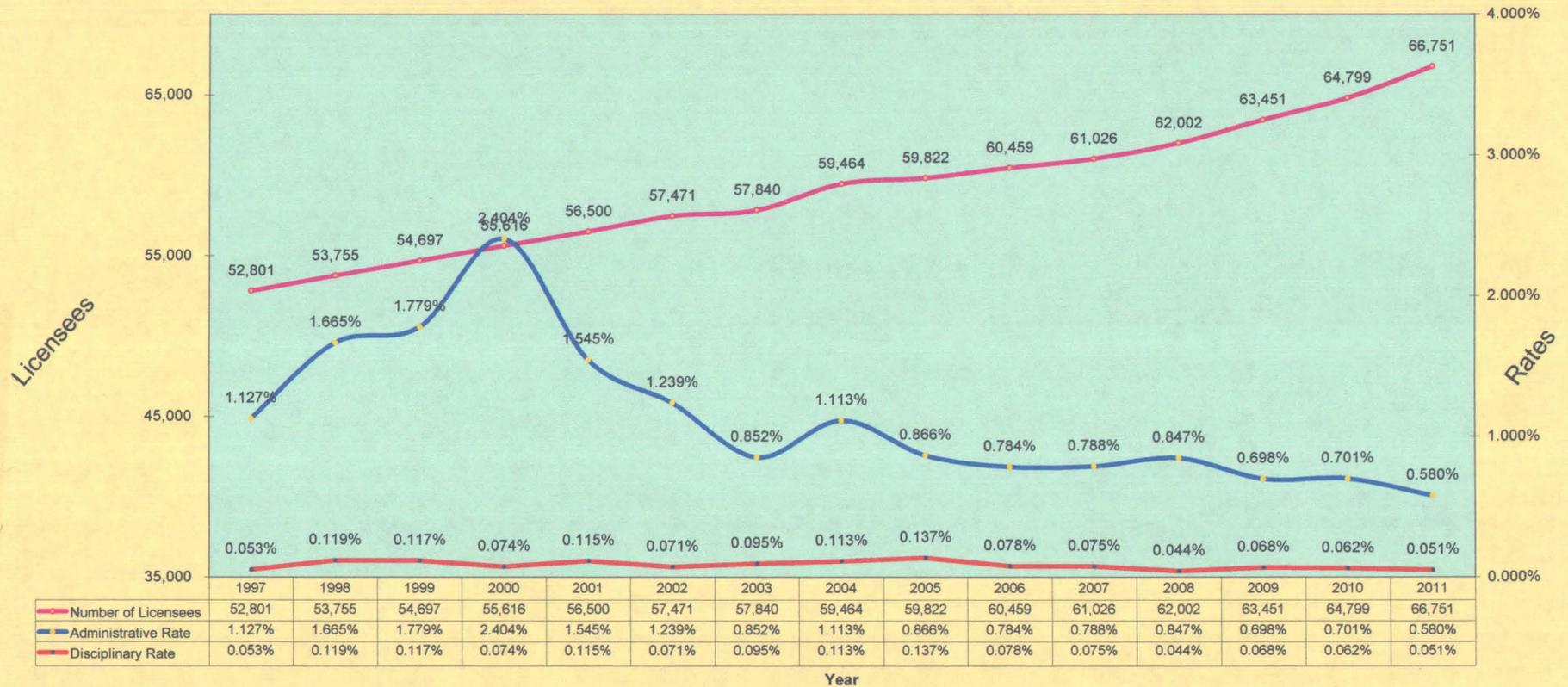
The Uniform CPA Examination is offered in a computer-based format which has improved the availability and delivery for all candidates. The launch on January 1, 2011 of CBT-e, the new 2011 Uniform CPA Examination, marks the next generation of the CPA exam. The CBT-e (Computer Based Testing – evolution) includes updates to content, exam structure, time allocations, scoring weights, and functionality.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
FY 12 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act
PROGRESS REPORT: September 1, 2011 - November 30, 2011

XI. Additional Information:

	<u>Page</u>
Disciplinary and Administrative Rates for Actual Violations Chart	5
Financial Report.....	6
Scholarship Fund Activity.....	7
Performance Measure Report.....	9

TSBPA Disciplinary and Administrative Rates for Actual Violations



* Disciplinary actions are distinguished from Administrative actions. Disciplinary actions represent violations of statutes and Board rules other than administrative violations for license and CPE violations.

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Unaudited

FY 12 1st Quarter Budget - Revenues and Expenditures

Fund 0858, Board of Public Accountancy Operating Trust Fund (USAS Fund 0858/8858)
For the Three Months Ended November 30, 2011

	Actual	Annual Budget	Variance	Actual as a Percent of Budget 25%
Revenues:				
CPA License Fees	\$ 514,518	\$ 2,048,936	\$ (1,534,418)	25%
CPE Sponsor Fees	116,900	431,740	\$ (314,840)	27%
Practice Unit Fees	148,317	715,934	\$ (567,617)	21%
Penalties - License Fee Late Payment	177,313	824,938	\$ (647,626)	21%
Examination Fees	99,060	601,246	\$ (502,186)	16%
Other	104,515	331,761	\$ (227,246)	32%
Total Revenues (Note A)	\$ 1,160,623	\$ 4,954,555	\$ (3,793,932)	23%
Expenditures:				
Salaries and Wages	569,648	\$ 2,400,076	1,830,428	76%
Payroll Related costs	141,232	557,116	415,884	75%
Professional Fees & Services	181,184	997,930	816,745	82%
Travel	12,569	72,088	59,518	83%
Materials and Supplies	62,542	248,820	186,278	75%
Communication and Utilities	7,507	34,829	27,322	78%
Repairs and Maintenance	2,253	33,171	30,917	93%
Rental and Leases	37,821	196,483	158,663	81%
Printing and Reproduction	18,473	111,876	93,402	83%
Other Operating Expenditures	156,607	472,221	315,614	67%
Public Assistance Payments	90,000	90,000	-	0%
Capital Outlay	11,880	50,000	38,120	76%
Total Expenditures (Note A)	\$ 1,291,716	\$ 5,264,608	\$ 3,972,892	75%
Excess (Deficiency) of Revenues Over Expenditures	(131,093)	(310,053)	178,960	
Other Financing Sources (Uses):				
Net Change in Reserve for Inventories	11,253		11,253	
Gain (Loss) on Sale of Capital Assets			-	
Transfers Out (Fd 0001) Article 8930 Sec. 6 (c)	(703,344)	(703,344)	-	
Total Other Financing Sources (Uses):	(692,091)	(703,344)	11,253	2%
Net Change in Fund Balance	(823,185)	(1,013,397)	190,213	
Fund Balance, September 1, 2011 (Note B)	4,524,896	4,524,896	-	
Ending Fund Balance, November 30, 2011 (Note C)	\$ 3,701,712	\$ 3,511,499	190,213	5%

Explanatory Notes:

A	Total Revenues - YTD (Budget)	\$ 1,160,623
	Adjustment	\$ 30
	Total Revenues - EXH II	\$ 1,160,653
A	Total Expenditures - YTD (Budget)	\$ 1,291,716
	Less: FY 12 Encumbrances	(6,585)
	FY 11 AP reversals	885
	Less: FY 10 AP reversals	
	Total Expenditures - EXH II	\$ 1,286,016
B	Fund Balance, September 1, 2011:	
	FY 11 Encumbrances	\$ 4,615
	Consumable Inventories	67,792
	Excess of Revenues & Other Financing Sources over Expenditures & Other Financing Uses	4,452,489
	Total Fund Balance, September 1, 2011	\$ 4,524,896

C The Board adopted a formal policy on May 18, 2006 to establish the appropriate level of the agency's unreserved/designated fund balance in the amount of \$3,000,000 to meet anticipated obligations. Included in this formal policy is an annual review of the unreserved/designated fund balance. The Board reduced the fund balance reserve to \$1,500,000 at its July 19, 2007 meeting, effective for FY 2009, beginning September 1, 2008.

**Texas State Board of Public Accountancy
5th Year Accounting Scholarship Payments FY 12
State Universities**

For the Month Ending November 30, 2011

	FY 2012
BEGINNING FUND BALANCE - September 1, 2011	\$ 1,098,001.91
Total Scholarship Fund Revenue	\$ 167,719.88
State Pass Through Expenditures (EXH A-2)	
State University Payments:	
Texas A&M University	19,858.00
University of Texas at El Paso	2,500.00
University of Texas at San Antonio	10,737.00
University of Texas - Pan American	7,500.00
Texas A&M University Kingsville	1,728.00
The University of Texas at Tyler	1,500.00
Sam Houston State University	14,544.00
University of Texas at Arlington	14,796.00
Texas State University - San Marcos	10,500.00
Midwestern State University	5,000.00
University of Houston - University Park	45,000.00
Stephen F. Austin State University	10,500.00
University of Houston - Clear Lake	2,500.00
University of Texas at El Paso	2,500.00
University of Texas at Austin	24,864.00
West Texas A&M University	5,346.00
University of Houston - Clear Lake	2,500.00
Total State University Payments	181,873.00
State University Refunds:	
University of Texas at Permian Basin	(5,500.00)
University of North Texas	(10,000.00)
Total State University Refunds	(15,500.00)
State Pass Through Expenditures (EXH A-2)	\$ 166,373.00

continued

Texas State Board of Public Accountancy
5th Year Accounting Scholarship Payments FY 12
State Universities

For the Month Ending November 30, 2011

FY 2012

Intergovernmental Payments (EXH A-2)

Junior College/ Private University Payments:

Houston Community College System	\$ 4,500.00
Dallas Baptist University	2,500.00
University of Incarnate Word	10,000.00
University of Incarnate Word	1,500.00
Southern Methodist University	22,126.00
Texas Lutheran University	3,914.00
Austin Community College	2,582.00
Texas Christian University	11,984.00
Houston Community College System	4,281.00
Southwestern Adventist University	5,000.00
Lone Star College System	4,390.00
St. Edward's University	6,764.00

Total Junior College/ Private University Payments:	<u>79,541.00</u>
--	------------------

Junior College/ Private Univ. Refunds:

Total Junior College/ Private University Refunds:	<u>\$ -</u>
---	-------------

Intergovernmental Payments (EXH. A-2)

<u>79,541.00</u>

ENDING FUND BALANCE - November 30, 2011

<u><u>\$ 1,019,807.79</u></u>

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
 Performance Measures Report - FY 12
 For the Three Months Ended November 30, 2011

		Target	Sept. 11-Nov. 11	Dec. 11-Feb. 12	Mar. 12-May 12	June 12-Aug. 12	YTD	Variance	Target Variance	Explanation
		Target	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	YTD	Variance	Target Variance	Explanation
1-1-1 Licensing:										
Number of individuals licensed	Explanatory	65,000	66,696				66,696	103%	100%	
Number of business facilities licensed	Explanatory	9,875	9,911				9,911	100%	100%	
Key Individuals examined	Output	13,859	2,743				2,743	20%	25%	a
Sections Taken	Output	16,750	3,665				3,665	22%	25%	
Average Sections Taken per Individual	Output	1.21	1.34				1.34	102%	100%	
Key Average License Cost per Individual	Efficiency	\$ 10.77	\$ 11.09				\$ 11.09	103%	100%	
Key Average License Cost per Facility	Efficiency	\$ 8.33	\$ 9.67				\$ 9.67	116%	100%	b
1-2-1 Peer Review:										
Key Number of Peer Reviews Conducted	Output	1,275	220				220	17%	25%	c
1-3-1 Sponsor Review:										
Key Percentage of CPE sponsors receiving favorable review	Outcome	97%	100.0%				100.0%	103%	100%	
Key Number of CPE sponsors reviewed	Output	255	48				48	19%	25%	d
Key Number of CPE sponsors subject to sponsor review	Explanatory	670	636				636	95%	100%	e
2-1-1 Enforcement										
Average time for complaint resolution (days) - Admin.	Efficiency	150	151.2				151.2	101%	100%	
Key Average time for complaint resolution (days) - Disc.	Efficiency	242	189.0				189.0	78%	100%	f
3-1-1 Public Information:										
Key Number of Written Responses	Output	36,709	11,444				11,444	31%	25%	g

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Performance Measures Report - FY 12

For the Three Months Ended November 30, 2011

Explanations:

- a The number of individuals examined (2,743) was below the target level of 3,465 (25% of the annual target of 13,859). This is a result of a lower number of candidates applying to take sections of the exam, which may have been affected by the launch of CBT-e in 2011, a new Uniform CPA Examination. In addition, new education requirements in accounting research and business communication effective July 1, 2011, may have delayed many candidates' eligibility to take the exam.
- b The Average License Cost per Facility (\$9.67) was above the target of \$8.33 due to higher than projected expenditures and lower than projected facility licenses issued.
- c The Number of Peer Reviews Conducted (220) was below the target level of 319 (25% of the annual target of 1,275). The activity of this performance measure is reported to the Board of external entities. It should be noted that this number has traditionally been lower in the first quarter and higher in the second-quarter.
- d The number of CPE sponsors reviewed (48) was below the target level of 64 (25% of the annual target of 255) due to fewer than projected sponsors subject to review and fewer meetings between TSBPA staff and CPE sponsor reviewers during the quarter. Increased numbers of reviews in future quarters are expected to bring the annual number closer to the target by the end of the fiscal year.
- e The number of CPE sponsors subject to review (636) was below the target level of 670 because the number of sponsors whose courses are reviewed by other agencies, such as the National Association of State Boards of Accountancy (NASBA), has increased recently, and these sponsors are not subject to review by the Board.
- f The Average Time for Complaint Resolution (days) for disciplinary cases of 189 days was below the target level of 242 days. The nature of complaint resolution does not lend itself to comparison with a static target. While the target level of 242 days was established based on historical records, legal activities in the enforcement process, such as postponements, depositions, subpoena issuances, re-discovery, and exchange of interrogatories all vary on a case-by-case basis. The variations of these elements affect the amount of time required to resolve complaints.
- g The Number of Written Responses (11,444) was above the target level of 9,177 (25% of the annual target of 36,709). The increase in the number of written responses to other licensing authorities and the public may be attributable to the increase in public awareness of the ability to communicate with the Board via the internet using email.