



Texas State Board of Public Accountancy

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

William Treacy, Executive Director

January 23, 2013

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 13 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act for the period of September 1, 2012 through November 30, 2012.

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

Sincerely,

TEXAS STATE BOARD OF
PUBLIC ACCOUNTANCY

A handwritten signature in blue ink, reading "William Treacy".

WILLIAM TREACY
Executive Director

Enclosure

PITTS29

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
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TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 13 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act

**1st Quarter
September 1, 2012 - November 30, 2012**

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 13 Quarterly Report on the Self-Directed, Semi-Independent Agency Project Act

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TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

FY 13 1st Quarter Report on the Self-Directed, Semi-Independent Agency Project Act September 1, 2012 - November 30, 2012

PROGRESS REPORT

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 (legislatively mandated) that is added to each Texas CPA's annual license renewal. Page 7 of this report includes the activity of the fund for 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 has passed a rule which will provide for the implementation of the process to dedicate administrative penalties collected under SUBCHAPTER L of the *Public Accountancy Act* to the scholarship fund authorized under SUBCHAPTER N of *the Act*. Since December 7, 2011, the effective date of Board Rule 519.8 (e), administrative penalties in the amount of \$74,501.88 have been transferred to the scholarship fund.

II. **New CPA Certificates Issued**

The Board has issued Texas CPA certificate number 100,000. It took 56 years, from 1915 to 1971, to license the first 10,000 CPAs in Texas, but it took just over 4 years to go from 90,000 to 100,000.

For the fiscal year ended August 31, 2012, 2,069 new CPA certificates were issued. Swearing In Ceremonies were held on Saturday, December 3, 2011, and Saturday June 16, 2012, both at the Parmer Events Center in Austin, Texas.

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.

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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).

UPPA Status Docket

October 16, 2012 - December 19, 2012

Open Files – Beginning	271
Files Referred To Behavioral Enforcement Committee	0
Files Opened	93
Total UPPA Files	364
Files Closed	(117)
Open Files - Ending	247

UPPA Files Closed

Voluntary Compliance	107
Agreed Cease and Desist Orders	7
Cease and Desist Orders	2
Agreed Consent Orders	0
Other	1
Total	117

Ratified by Board - November	9
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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.

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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.

V. Enforcement – Major Cases

SDSI has allowed the flexibility to meet the demands for the prosecution of major cases. The prosecution of these cases involves increased numbers of CPAs investigated, individuals interviewed, and consultants hired. The files that are examined and the possible litigation increase the Board's need for resources to carry out its responsibilities.

SDSI has enabled the Board to timely address major case events and to maintain the needed resources to fulfill its mandate. The Board contracts with the Office of Attorney General on an as needed basis to assist in the prosecution of these major cases. 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 an active 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 99% 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 92% of the total renewals.

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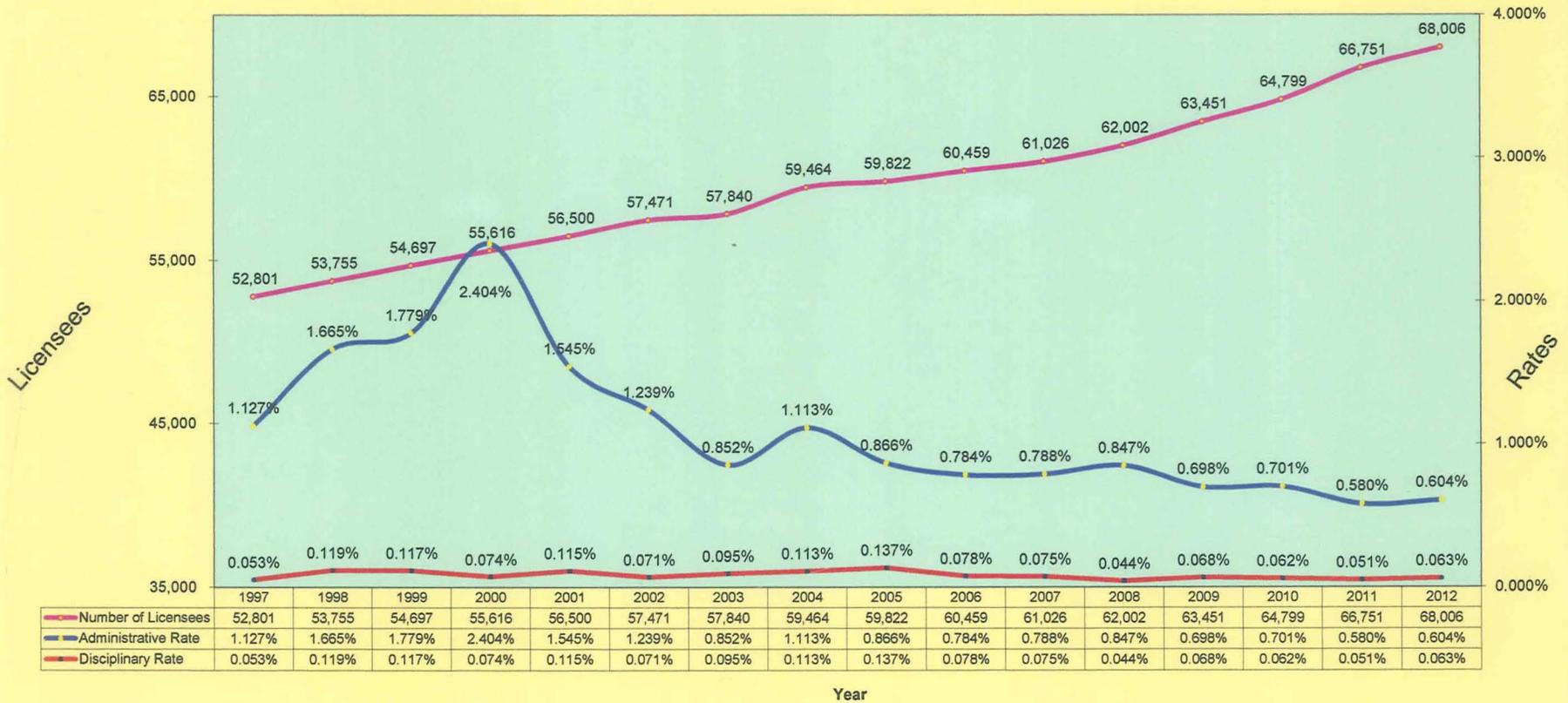
X. Computer based testing

The Uniform CPA Examination is offered in a computer-based format which has improved the availability and delivery for all candidates. The introduction of the CBT-e 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.

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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 13 1st Quarter Budget - Revenues and Expenditures

Funds 2858 and 1009, Board of Public Accountancy Local Operating Funds (USAS D23 Funds: 2858 & 1009)
For the Three Months Ended November 30, 2012

	Actual	Annual Budget	Variance	Actual as a Percent of Budget 25%
Revenues:				
CPA License Fees	\$ 571,560	\$ 2,849,722	\$ (2,278,162)	20%
CPE Sponsor Fees	117,350	439,373	\$ (322,023)	27%
Practice Unit Fees	148,207	728,592	\$ (580,385)	20%
Penalties - License Fee Late Payment	158,640	839,523	\$ (680,884)	19%
Examination Fees	119,855	584,478	\$ (464,623)	21%
Other	192,802	295,384	\$ (102,582)	65%
Total Revenues (Note A)	\$ 1,308,414	\$ 5,737,072	\$ (4,428,658)	23%
Expenditures:				
Salaries and Wages	568,489	\$ 2,448,077	1,879,588	77%
Payroll Related costs	149,962	568,259	418,297	74%
Professional Fees & Services	102,292	1,024,604	922,312	90%
Travel	19,583	73,529	53,946	73%
Materials and Supplies	41,191	237,897	196,705	83%
Communication and Utilities	13,242	58,388	45,146	77%
Repairs and Maintenance	8,495	33,834	25,339	75%
Rental and Leases	30,968	133,084	102,116	77%
Printing and Reproduction	16,321	95,873	79,552	83%
Other Operating Expenditures	159,124	575,348	416,224	72%
Public Assistance Payments	90,000	91,800	1,800	2%
Capital Outlay	-	29,374	29,374	100%
Total Expenditures (Note A)	\$ 1,199,667	\$ 5,370,066	\$ 4,170,400	78%
Excess (Deficiency) of Revenues Over Expenditures	108,748	367,006	(258,258)	
Other Financing Sources (Uses):				
Net Change in Reserve for Inventories	(8,467)		(8,467)	
Refunds	(2,340)		(2,340)	
Transfer Out (Fund 7106) Board Rule 519.8 (e)	-		-	
Transfers Out (Fd 0001) Article 8930 Sec. 6 (c)	(703,344)	(703,344)	-	
Total Other Financing Sources (Uses):	(711,811)	(703,344)	(10,807)	-2%
Net Change in Fund Balance	(605,403)	(336,338)	(269,065)	
Fund Balance, September 1, 2012 (Note B)	3,414,281	3,414,281	-	
Ending Fund Balance, November 30, 2012 (Note C)	\$ 2,808,877	\$ 3,077,942	(269,065)	-9%

Explanatory Notes:

A	Total Revenues - YTD (Budget)	\$ 1,308,414
	Adjustment	\$ 427
	Total Revenues - EXH II	\$ 1,308,842
A	Total Expenditures - YTD (Budget)	\$ 1,199,667
	Less: FY 12 Encumbrances	
	FY 13 Expenditures	(162)
	FY 12 AP reversals	9,751
	Less: FY 10 AP reversals	
	Total Expenditures - EXH II	\$ 1,209,256
B	Fund Balance, September 1, 2012:	
	Consumable Inventories	55,266
	Excess of Revenues & Other Financing Sources over Expenditures & Other Financing Uses	3,359,015
	Total Fund Balance, September 1, 2012	\$ 3,414,281

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 13
State Universities

For the Month Ending November 30, 2012

	FY 2013
BEGINNING FUND BALANCE - September 1, 2012	\$ 1,252,692.97
Total Scholarship Fund Revenue	\$ 168,103.84
State Pass Through Expenditures (EXH A-2)	
State University Payments:	
Angelo State University	\$ 1,500.00
Sam Houston State University	15,000.00
Stephen F. Austin State University	10,000.00
Texas A&M International University	22,081.00
Texas A&M University - Texarkana	5,200.00
Texas Southern	13,500.00
University of Houston	3,750.00
University of Houston - University Park	42,000.00
University of Texas - Pan American	4,805.00
University of Texas at Arlington	8,250.00
University of Texas at Austin	31,298.00
University of Texas at Dallas	30,000.00
University of Texas at El Paso	12,500.00
University of Texas at San Antonio	3,000.00
University of Texas of the Permian Basin	2,750.00
Total State University Payments	<u><u>205,634.00</u></u>
State University Refunds:	
Total State University Refunds	<u><u>-</u></u>
State Pass Through Expenditures (EXH A-2)	<u><u>\$ 205,634.00</u></u>
Intergovernmental Payments (EXH A-2)	
Junior College/ Private University Payments:	
Austin Community College	\$ 2,755.00
Houston Baptist University	3,000.00
Houston Community College System	4,000.00
Southwestern Adventist University	3,416.00
Texas Christian University	12,493.00
Total Junior College/ Private University Payments:	<u><u>25,664.00</u></u>
Junior College/ Private Univ. Refunds:	
Total Junior College/ Private University Refunds:	<u><u>\$ -</u></u>
Intergovernmental Payments (EXH. A-2)	<u><u>25,664.00</u></u>
Other Financing Sources/Uses	
Total Other Financing Sources/Uses (EXH. A-2)	<u><u>\$ -</u></u>
ENDING FUND BALANCE - November 30, 2012	<u><u>\$ 1,189,498.81</u></u>

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY
 Performance Measures Report - FY 13
 For the Three Months Ended November 30, 2012

		Target	Sept. 12-Nov. 12	Dec. 12-Feb. 13	Mar. 13-May 13	June 13-Aug. 13	YTD	Variance	Target	Explanation
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.			Variance	
1-1-1 Licensing:										
Number of individuals licensed	Explanatory	66,519	68,841				68,841	103%	100%	
Number of business facilities licensed	Explanatory	9,977	10,111				10,111	101%	100%	
Key Individuals examined	Output	11,868	2,715				2,715	23%	25%	
Sections Taken	Output	16,918	3,615				3,615	21%	25%	
Average Sections Taken per Individual	Output	1.43	1.33				1.33	102%	100%	
Key Average License Cost per Individual	Efficiency	\$ 10.94	\$ 11.19				\$ 11.19	102%	100%	
Key Average License Cost per Facility	Efficiency	\$ 8.50	\$ 9.58				\$ 9.58	113%	100%	a
1-2-1 Peer Review:										
Key Number of Peer Reviews Conducted	Output	1,242	223				223	18%	25%	b
1-3-1 Sponsor Review:										
8 Key Percentage of CPE sponsors receiving favorable review	Outcome	97%	97.1%				97.1%	100%	100%	
Key Number of CPE sponsors reviewed	Output	256	51				51	20%	25%	c
Key Number of CPE sponsors subject to sponsor review	Explanatory	655	654				654	100%	100%	
2-1-1 Enforcement										
Average time for complaint resolution (days) - Admin.	Efficiency	150	148.2				148.2	99%	100%	
Key Average time for complaint resolution (days) - Disc.	Efficiency	242	168.3				168.3	70%	100%	d
3-1-1 Public Information:										
Key Number of Written Responses	Output	42,231	10,502				10,502	25%	25%	

TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Performance Measures Report - FY 13

For the Three Months Ended November 30, 2012

Explanations:

- a The Average License Cost per Facility (\$9.58) during the first 3 months of FY 13 was above the target of \$8.50 due to higher than projected expenditures.
- b The Number of Peer Reviews Conducted (223) for the first 3 months of FY 13 was below the target level of 311 (25% of the annual target of 1,242). 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.
- c The number of CPE sponsors reviewed (51) for the first 3 months of FY 13 was below the target level of 64 (25% of the annual target of 256) due to 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.
- d The Average Time for Complaint Resolution (days) for disciplinary cases of 168.3 days during the first 3 months of FY 13 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.