



# Texas State Board of Public Accountancy

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

William Treacy, Executive Director

July 2, 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 March 1, 2012 through May 31, 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 black ink, appearing to read "William Treacy", written in a cursive style.

WILLIAM TREACY  
Executive Director

Enclosure

PITTS27

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# **TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY**

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

**3rd Quarter  
March 1, 2012 - May 31, 2012**

# TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

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

3rd Quarter  
March 1, 2012 - May 31, 2012

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# TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

## FY 12 3rd Quarter Report on the Self-Directed, Semi-Independent Agency Project Act March 1, 2012 - May 31, 2012

### PROGRESS REPORT

#### I. Legislature Transfers Fifth-Year Scholarship Fund to Board

The Texas Legislature passed House Bill 2440 (81<sup>st</sup> Legislature R.S. 2009) and SB 777 (82<sup>nd</sup> 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 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*. The first transfer of administrative penalties since the December 7, 2011 effective date of Board Rule 519.8 (e) was in the amount of \$38,513.

#### 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.

The next Swearing In Ceremony is scheduled for Saturday, June 16, 2012, 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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**PROGRESS REPORT: March 1, 2012 - May 31, 2012**

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](http://www.tsbpa.state.tx.us).

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**PROGRESS REPORT: March 1, 2012 - May 31, 2012**

**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**

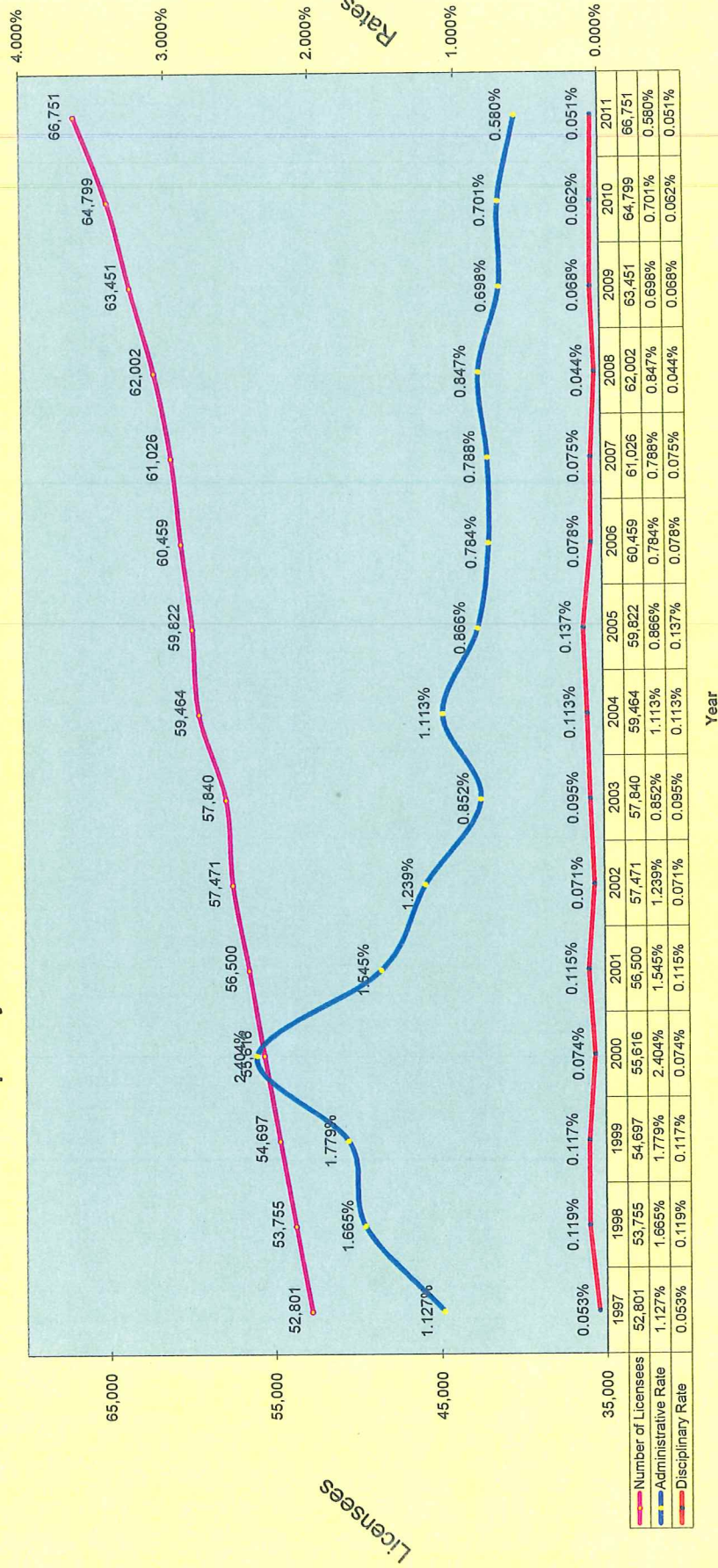
The Uniform CPA Examination is offered in a computer-based format which has improved the availability and delivery for all candidates. The launch on January 1, 2011 of CBT-e, the new 2011 Uniform CPA Examination, marks the next generation of the CPA exam. The CBT-e (Computer Based Testing – evolution)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

**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY**  
**FY 12 3rd Quarter Report on the Self-Directed, Semi-Independent Agency Project Act**  
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**XI. Additional Information:**

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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 12 3<sup>rd</sup> Quarter Budget - Revenues and Expenditures

Fund 0858, Board of Public Accountancy Operating Trust Fund (USAS Fund 0858/8858)

For the Nine Months Ended May 31, 2012

	Actual	Annual Budget (Note D)	Variance	Actual as a Percent of Budget 75%
<b>Revenues:</b>				
CPA License Fees	\$ 1,483,214	\$ 2,048,936	\$ (565,722)	72%
CPE Sponsor Fees	286,250	431,740	\$ (145,490)	66%
Practice Unit Fees	550,837	715,934	\$ (165,097)	77%
Penalties - License Fee Late Payment	550,817	824,938	\$ (274,121)	67%
Examination Fees	311,825	479,767	\$ (167,942)	65%
Other	382,145	331,761	\$ 50,384	115%
<b>Total Revenues (Note A)</b>	<b>\$ 3,565,088</b>	<b>\$ 4,833,076</b>	<b>\$ (1,267,988)</b>	<b>74%</b>
<b>Expenditures:</b>				
Salaries and Wages	1,712,180	\$ 2,400,076	687,896	29%
Payroll Related costs	433,028	557,116	124,088	22%
Professional Fees & Services	554,957	993,810	438,853	44%
Travel	45,548	72,088	26,540	37%
Materials and Supplies	162,053	248,820	86,767	35%
Communication and Utilities	12,056	54,533	42,477	78%
Repairs and Maintenance	6,312	33,171	26,859	81%
Rental and Leases	90,962	196,483	105,521	54%
Printing and Reproduction	56,912	111,876	54,964	49%
Other Operating Expenditures	424,201	472,221	48,020	10%
Public Assistance Payments	90,000	90,000	-	0%
Capital Outlay	193,171	178,018	(15,154)	-9%
<b>Total Expenditures (Note A)</b>	<b>\$ 3,781,379</b>	<b>\$ 5,408,211</b>	<b>\$ 1,626,832</b>	<b>30%</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(216,291)</b>	<b>(575,135)</b>	<b>358,844</b>	
<b>Other Financing Sources (Uses):</b>				
Net Change in Reserve for Inventories	(4,598)		(4,598)	
Gain (Loss) on Sale of Capital Assets			-	
Transfer Out (Fund 7106) Board Rule 519.8 (e)		(38,513)	38,513	
Transfers Out (Fd 0001) Article 8930 Sec. 6 (c)	(703,344)	(703,344)	-	
<b>Total Other Financing Sources (Uses):</b>	<b>(707,942)</b>	<b>(741,857)</b>	<b>33,915</b>	<b>5%</b>
<b>Net Change in Fund Balance</b>	<b>(924,233)</b>	<b>(1,316,992)</b>	<b>392,759</b>	
<b>Fund Balance, September 1, 2011 (Note B)</b>	<b>4,524,896</b>	<b>4,524,896</b>	<b>-</b>	
<b>Ending Fund Balance, February 29, 2012 (Note C)</b>	<b>\$ 3,600,663</b>	<b>\$ 3,207,904</b>	<b>392,759</b>	<b>12%</b>

Explanatory Notes:

A	Total Revenues - YTD (Budget)	\$ 3,565,088
	Adjustment	\$ 30
	<b>Total Revenues - EXH II</b>	<b>\$ 3,565,118</b>
A	Total Expenditures - YTD (Budget)	\$ 3,781,379
	Less: FY 12 Encumbrances	(3,440)
	FY 11 AP reversals	5,183
	Less: FY 10 AP reversals	
	<b>Total Expenditures - EXH II</b>	<b>\$ 3,783,121</b>
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
	<b>Total Fund Balance, September 1, 2011</b>	<b>\$ 4,524,896</b>

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.

D As Amended

Texas State Board of Public Accountancy  
 5th Year Accounting Scholarship Payments FY 12  
 State Universities  
 For the Month Ending May 31, 2012

	FY 2012
<b>BEGINNING FUND BALANCE - September 1, 2011</b>	<b>\$ 1,098,001.91</b>
<b>Total Scholarship Fund Revenue</b>	<b>\$ 484,051.32</b>
<b>State Pass Through Expenditures (EXH A-2)</b>	
State University Payments:	
Midwestern State University	\$ 5,000.00
Sam Houston State University	14,544.00
Stephen F. Austin State University	10,500.00
Texas A&M University	36,662.00
Texas A&M University Kingsville	1,728.00
Texas State University - San Marcos	18,000.00
Texas Tech University	17,646.00
Texas Woman's University	4,086.00
University of Houston	10,000.00
University of Houston - Clear Lake	17,000.00
University of Houston - University Park	63,000.00
University of North Texas	15,000.00
University of Texas - Pan American	16,000.00
University of Texas at Arlington	21,546.00
University of Texas at Austin	49,728.00
University of Texas at Dallas	17,500.00
University of Texas at El Paso	15,000.00
University of Texas at San Antonio	20,859.00
University of Texas at Tyler	3,000.00
University of Texas of the Permian Basin	2,000.00
West Texas A&M University	7,128.00
<b>Total State University Payments</b>	<u>365,927.00</u>
State University Refunds:	
University of Texas at Permian Basin	(5,500.00)
University of North Texas	(10,000.00)
Texas A&M University - Texarkana	(7,468.00)
<b>Total State University Refunds</b>	<u>(22,968.00)</u>
<b>State Pass Through Expenditures (EXH A-2)</b>	<u><b>\$ 342,959.00</b></u>

continued

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

For the Month Ending May 31, 2012

FY 2012
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**Intergovernmental Payments (EXH A-2)**

Junior College/ Private University Payments:	
Austin Community College	\$ 5,163.00
Abilene Christian University	7,536.00
Baylor University	15,000.00
Dallas Baptist University	2,500.00
Dallas County Community College District	5,000.00
Houston Baptist University	7,525.00
Houston Community College System	11,781.00
Lone Star College System	4,390.00
Lubbock Christian University	1,500.00
McMurry University	3,854.00
Southern Methodist University	22,126.00
Southwestern Adventist University	5,000.00
St. Edward's University	6,764.00
Texas Christian University	35,000.00
Texas Lutheran University	5,870.00
Trinity University	5,228.00
University of Incarnate Word	11,500.00
Wayland Baptist University	3,000.00

Total Junior College/ Private University Payments:	<u>158,737.00</u>
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Junior College/ Private Univ. Refunds:	
University of the Incarnate Word	(1,500.00)

Total Junior College/ Private University Refunds:	<u>\$ (1,500.00)</u>
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<b>Intergovernmental Payments (EXH. A-2)</b>	<u><b>157,237.00</b></u>
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**Other Financing Sources/Uses**

THECB - Transfer In	75.06
Administrative Penalties - Transfer from Fund 0858	38,438.10

<b>Total Other Financing Sources/Uses (EXH. A-2)</b>	<u><b>\$ 38,513.16</b></u>
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<b>ENDING FUND BALANCE - May 31, 2012</b>	<u><u><b>\$ 1,120,370.39</b></u></u>
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TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY  
 Performance Measures Report - FY 12  
 For the Nine Months Ended May 31, 2012

Target	June 12-Aug. 12				Target Variance	Explanation
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.		

1-1-1 Licensing:

	Sept. 11-Nov. 11	Dec. 11-Feb. 12	Mar. 12-May 12	June 12-Aug. 12	YTD	Variance	Target Variance
Explanatory	65,000	67,263	67,710		67,710	104.2%	100%
Explanatory	9,875	9,995	9,988		9,988	101.1%	100%
Output	11,750	2,579	2,652		7,974	67.9%	75% a
Output	16,750	3,335	3,733		10,733	64.1%	75% b
Output	1.43	1.29	1.41		1.35	102.0%	100%
Efficiency	\$ 10.77	\$ 11.84	\$ 11.92		\$ 11.54	107.1%	100% c
Efficiency	\$ 8.33	\$ 9.25	\$ 7.97		\$ 8.83	106.0%	100% d

1-2-1 Peer Review:

Output	1,275	220	385	293	898	70.4%	75%
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1-3-1 Sponsor Review:

Outcome	97%	97.6%	96.7%		98.3%	101.3%	100%
Output	255	50	39		137	53.7%	75% e
Explanatory	670	647	637		637	95.1%	100%

2-1-1 Enforcement

Efficiency	150	154.5	152.1		152.1	101.4%	100%
Efficiency	242	189.0	99.0	218.4	185.7	76.7%	100% f

3-1-1 Public Information:

Output	36,709	11,444	10,139	10,014	31,597	86.1%	75% g
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A Revised

## TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

### Performance Measures Report - FY 12

For the Nine Months Ended May 31, 2012

#### Explanations:

- a The number of individuals examined (7,974) during the first nine months of FY 12 was below the target level of 8,813 (75% of the annual target of 11,750). The number of individuals examined is typically higher in the 4th quarter, which will make the measure more in line with the target level by the end of the reporting period.
- b The number of sections taken (10,733) during the first nine months was below the target level of 12,563 (75% of the annual target of 16,750) due to the lower number of individuals examined and candidates applying and testing for each part separately.
- c The Average License Cost per Individual License Issued (\$11.54) was above the target of \$10.77 due to higher than projected expenditures.
- d The Average License Cost per Facility (\$8.83) was above the target of \$8.33 due to higher than projected expenditures in the first two quarters.
- e The number of CPE sponsors reviewed (137) during the first nine months was below the target level of 191 (75% 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. One of the master reviewers was unable to meet during March and April due to his CPA practice workload. About 53% of CPE sponsors are CPA firms, and more sponsors than in prior years requested that the Board postpone reviewing their courses until after tax season. The Sponsor Review Program will be working to catch up during the 4th quarter of 2012.
- f The Average Time for Complaint Resolution (days) for disciplinary cases of 185.7 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 (31,597) for the first nine months was above the target level of 27,532 (75% 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.