



# Texas State Board of Public Accountancy

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

William Treacy, Executive Director

June 21, 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 March 1, 2013 through May 31, 2013.

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 horizontal line.

WILLIAM TREACY  
Executive Director

Enclosure

PITTS31

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**

**3rd Quarter  
March 1, 2013 - May 31, 2013**

# TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

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

3rd Quarter  
March 1, 2013 - May 31, 2013

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# TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

## FY 13 3rd Quarter Report on the Self-Directed, Semi-Independent Agency Project Act March 1, 2013 - May 31, 2013

### PROGRESS REPORT

#### I. 83<sup>rd</sup> Legislature, Regular Session (2013)

Legislation passed by the 83<sup>rd</sup> Legislature, R.S. 2013, provides for several changes to the Self-Directed Semi-Independent concept.

- Transferred from Article 8930, Revised Statutes, to Subtitle E, Title 4, Government Code, redesignated as Chapter 472, Government Code, and retitled the Act to the Self-Directed Semi-Independent Agencies Act (eliminating the words Agency Project Act);
- changed the Sunset date of the SDSI Act to coincide with the SDSI agencies sunset dates;
- expanded the data in the reports required by the SDSI Act;
- clarified certain provisions of general law which apply to the SDSI agencies if not in conflict with their SDSI status;
- requires payment to the Sunset Advisory Commission in performing a review of the agency under the enabling legislation;
- requires use of the Comptroller's Uniform Statewide Accounting System; and
- requires SDSI agencies to remit all administrative penalties to General Revenue.

#### II. 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 (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 2013.

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 for FY 12 and \$74,310.21 for FY 13 through May 31, 2013, have been transferred to the scholarship fund.

**As noted in Section I of this report, due to legislation passed by the 83<sup>rd</sup> Legislature, R.S. 2013, beginning September 1, 2013, administrative penalties will be transferred to the General Revenue Fund.**



**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY**  
**FY 13 3rd Quarter Report on the Self-Directed, Semi-Independent Agency Project Act**  
**PROGRESS REPORT: March 1, 2013 - May 31, 2013**

**III. 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.

Swearing In Ceremonies were held on Saturday, December 1, 2012, and Saturday June 15, 2013, both at the Parmer Events Center in Austin, Texas.

**IV. 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.

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**  
**February 26, 2013 – April 29, 2013**

Open Files – Beginning	232
Files Referred To Behavioral Enforcement Committee	0
Files Opened	91
Files Closed	(97)
Open Files – Ending	<b>226</b>

UPPA Files Closed

Voluntary Compliance	79
Agreed Cease and Desist Orders	5
Cease and Desist Orders	6
Other	1
<b>Total</b>	<b>91</b>

Ratified by Board – March	12
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**PROGRESS REPORT: March 1, 2013 - May 31, 2013**

**V. 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, <http://www.tsbpa.state.tx.us/pdf/files/TodaysCPA20110708.pdf>.

**VI. 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.

**VII. 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.

**VIII. 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.

**IX. 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.



**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY**  
**FY 13 3rd Quarter Report on the Self-Directed, Semi-Independent Agency Project Act**  
**PROGRESS REPORT: March 1, 2013 - May 31, 2013**

**X. 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 93% of the total renewals.

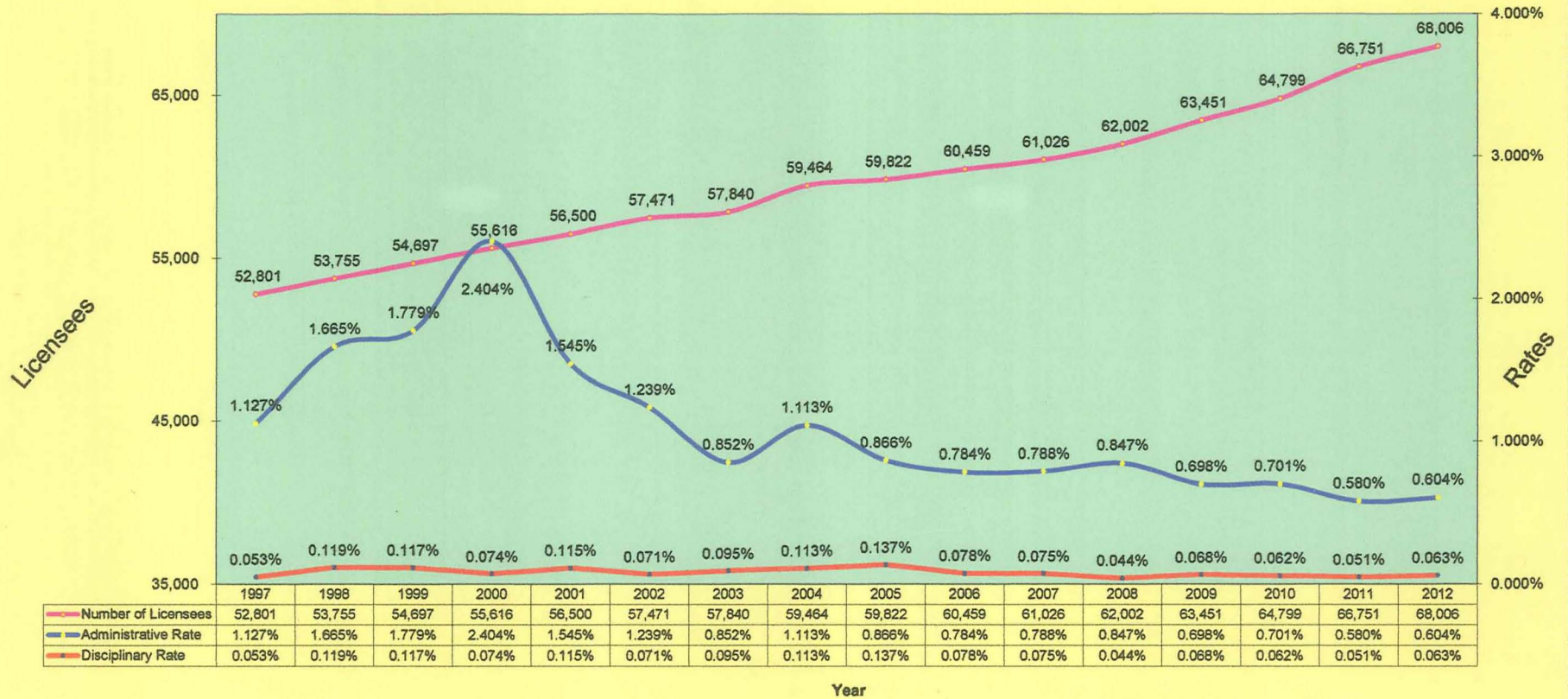
**XI. Computer based testing**

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.

**XII. 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 13 3<sup>rd</sup> Quarter Budget - Revenues and Expenditures

Funds 2858 and 1009, Board of Public Accountancy Local Operating Funds (USAS D23 Funds: 2858 & 1009)  
For the Nine Months Ended May 31, 2013

	Actual	Annual Budget	Variance	Actual as a Percent of Budget 75%
<b>Revenues:</b>				
CPA License Fees	\$ 1,867,801	\$ 2,849,722	\$ (981,921)	66%
CPE Sponsor Fees	289,100	439,373	\$ (150,273)	66%
Practice Unit Fees	563,024	728,592	\$ (165,568)	77%
Penalties - License Fee Late Payment	497,378	839,523	\$ (342,145)	59%
Examination Fees	391,125	584,478	\$ (193,353)	67%
Other	298,094	295,384	\$ 2,710	101%
<b>Total Revenues (Note A)</b>	<b>\$ 3,906,523</b>	<b>\$ 5,737,072</b>	<b>\$ (1,830,549)</b>	<b>68%</b>
<b>Expenditures:</b>				
Salaries and Wages	1,729,725	\$ 2,448,077	718,352	29%
Payroll Related costs	465,045	568,259	103,214	18%
Professional Fees & Services	335,276	1,024,604	689,328	67%
Travel	54,862	73,529	18,667	25%
Materials and Supplies	161,599	237,897	76,298	32%
Communication and Utilities	39,778	58,388	18,610	32%
Repairs and Maintenance	21,147	33,834	12,687	37%
Rental and Leases	102,554	133,084	30,529	23%
Printing and Reproduction	60,574	95,873	35,299	37%
Other Operating Expenditures	424,386	575,348	150,962	26%
Public Assistance Payments	90,000	91,800	1,800	2%
Capital Outlay	5,430	29,374	23,944	82%
<b>Total Expenditures (Note A)</b>	<b>\$ 3,490,375</b>	<b>\$ 5,370,066</b>	<b>\$ 1,879,691</b>	<b>35%</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>416,148</b>	<b>367,006</b>	<b>49,142</b>	
<b>Other Financing Sources (Uses):</b>				
Net Change in Reserve for Inventories	13,291		13,291	
Refunds	(8,772)		(8,772)	
Transfer Out (Fund 7106) Board Rule 519.8 (e)	-		-	
Transfers Out (Fd 0001) Article 8930 Sec. 6 (c)	(703,344)	(703,344)	-	
<b>Total Other Financing Sources (Uses):</b>	<b>(698,825)</b>	<b>(703,344)</b>	<b>4,519</b>	<b>1%</b>
<b>Net Change in Fund Balance</b>	<b>(282,677)</b>	<b>(336,338)</b>	<b>53,661</b>	
Fund Balance, September 1, 2012 (Note B)	3,414,281	3,414,281	-	
<b>Ending Fund Balance, May 31, 2013 (Note C)</b>	<b>\$ 3,131,603</b>	<b>\$ 3,077,942</b>	<b>53,661</b>	<b>2%</b>

*Explanatory Notes:*

A	Total Revenues - YTD (Budget)	\$ 3,906,523
	Adjustment	\$ (950)
	Total Revenues - EXH II	<u>\$ 3,905,573</u>
A	Total Expenditures - YTD (Budget)	\$ 3,490,375
	Less: FY 12 Encumbrances	
	FY 13 Encumbrances	(6,531)
	FY 12 AP expenditures/reversals	10,264
	Less: FY 10 AP reversals	
	Total Expenditures - EXH II	<u>\$ 3,494,108</u>
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	<u>\$ 3,414,281</u>

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 May 31, 2013

	FY 2013
<b>BEGINNING FUND BALANCE - September 1, 2012</b>	<b>\$ 1,252,692.97</b>
<b>Total Scholarship Fund Revenue</b>	<b>\$ 485,360.30</b>
<b>State Pass Through Expenditures (EXH A-2)</b>	
State University Payments:	
Angelo State University	\$ 3,000.00
Sam Houston State University	15,000.00
Stephen F. Austin State University	18,000.00
Texas A&M University	22,081.00
Texas A&M International University	22,081.00
Texas A&M University Corpus Christi	13,398.00
Texas A&M University San Antonio	2,954.00
Texas A&M University - Texarkana	5,200.00
Texas Southern	16,137.00
Texas State University - San Marcos	23,900.00
Texas Tech University	8,444.00
Texas Woman's University	2,581.00
University of Houston	7,500.00
University of Houston - Clear Lake	16,783.00
University of Houston - University Park	74,500.00
University of North Texas	5,000.00
University of Texas - Pan American	21,572.00
University of Texas at Arlington	16,500.00
University of Texas at Austin	62,597.00
University of Texas at Brownsville	2,775.00
University of Texas at Dallas	37,500.00
University of Texas at El Paso	18,916.00
University of Texas at San Antonio	11,000.00
University of Texas of the Permian Basin	7,119.00
West Texas A&M University	9,000.00
 Total State University Payments	 <u>443,538.00</u>
State University Refunds:	
 Total State University Refunds	 <u>-</u>
<b>State Pass Through Expenditures (EXH A-2)</b>	<b>\$ <u>443,538.00</u></b>

**Texas State Board of Public Accountancy  
5th Year Accounting Scholarship Payments FY 13  
State Universities**

For the Month Ending May 31, 2013

FY 2013
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**Intergovernmental Payments (EXH A-2)**

Junior College/ Private University Payments:

Austin Community College	\$	7,009.00
Abilene Christian University		10,533.00
Baylor University		10,000.00
Hardin Simmons University		1,500.00
Houston Baptist University		18,072.00
Houston Community College System		11,426.00
Lone Star College System		4,168.00
McMurry University		5,493.00
Southern Methodist University		22,662.00
Southwestern Adventist University		6,831.00
St. Edward's University		1,618.00
Texas Christian University		22,493.00
Texas Lutheran University		5,723.00
Trinity University		6,947.00
Wayland Baptist University		3,695.00
University of Incarnate Word		7,500.00

Total Junior College/ Private University Payments:		<u>145,670.00</u>
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Junior College/ Private Univ. Refunds:

Total Junior College/ Private University Refunds:	\$	<u>-</u>
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**Intergovernmental Payments (EXH. A-2)**

<u>145,670.00</u>
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**Other Financing Sources/Uses**

Refund of Scholarship Revenue	(70.00)
Transfer In - Administrative Penalties	74,310.21

**Total Other Financing Sources/Uses (EXH. A-2)**

<u>\$ 74,240.21</u>
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**ENDING FUND BALANCE - May 31, 2013**

<u>\$ 1,223,085.48</u>
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TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Performance Measures Report - FY 13  
For the Nine Months Ended May 31, 2013

			Sept. 12-Nov. 12	Dec. 12-Feb.13	Mar. 13-May 13	June 13-Aug. 13	YTD	Variance	Target Variance	Explanation
Target	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.						
1-1-1 Licensing:										
Number of individuals licensed	<i>Explanatory</i>	66,519	68,841	68,867	68,972		68,972	104%	100%	
Number of business facilities licensed	<i>Explanatory</i>	9,977	10,111	10,029	9,935		9,935	100%	100%	
<i>Key</i> Individuals examined	<i>Output</i>	11,868	2,715	2,483	2,903		8,101	68%	75%	a
Sections Taken	<i>Output</i>	16,918	3,615	3,085	4,076		10,776	64%	75%	b
Average Sections Taken per Individual	<i>Output</i>	1.43	1.33	1.24	1.40		1.33	102%	100%	
<i>Key</i> Average License Cost per Individual	<i>Efficiency</i>	\$ 10.94	\$ 11.19	\$ 12.14	\$ 13.00		\$ 12.10	111%	100%	c
<i>Key</i> Average License Cost per Facility	<i>Efficiency</i>	\$ 8.50	\$ 9.58	\$ 9.46	\$ 8.87		\$ 9.20	108%	100%	d
1-2-1 Peer Review:										
<i>Key</i> Number of Peer Reviews Conducted	<i>Output</i>	1,242	223	409	286		918	74%	75%	
1-3-1 Sponsor Review:										
<i>Key</i> Percentage of CPE sponsors receiving favorable review	<i>Outcome</i>	97%	97.1%	96.2%	93.9%		95.8%	99%	100%	
<i>Key</i> Number of CPE sponsors reviewed	<i>Output</i>	256	51	57	41		149	58%	75%	e
<i>Key</i> Number of CPE sponsors subject to sponsor review	<i>Explanatory</i>	655	654	639	651		651	99%	100%	
2-1-1 Enforcement										
Average time for complaint resolution (days) - Admin.	<i>Efficiency</i>	150	148.2	149.1	151.2		149.7	100%	100%	
<i>Key</i> Average time for complaint resolution (days) - Disc.	<i>Efficiency</i>	242	168.3	256.8	187.8		194.4	80%	100%	f
3-1-1 Public Information:										
<i>Key</i> Number of Written Responses	<i>Output</i>	42,231	10,502	10,580	9,945		31,027	73%	75%	

## TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY

Performance Measures Report - FY 13  
For the Nine Months Ended May 31, 2013

### Explanations:

- a The number of individuals examined (8,101) during the first 9 months of FY 13 was below the target level of 8,901 (75% of 11,868). New exam requirements in accounting research and business communication effective in July, 2011 may have delayed many candidates' eligibility to take the exam.
- b The number of sections taken (10,776) during the first 9 months of FY 13 was below the target level of 12,688.50 (75% of 16,918) 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 (\$12.10) during the first 9 months of FY 13 was above the target of \$10.94 due to higher than projected expenditures.
- d The Average License Cost per Facility (\$9.20) during the first 9 months of FY 13 was above the target of \$8.50 due to higher than projected expenditures.
- e The number of CPE sponsors reviewed (149) for the first 9 months of FY 13 was below the target level of 192 (75% of the annual target of 256) due to fewer meetings between TSBPA staff and CPE sponsor reviewers during the first 9 months. Increased numbers of reviews in the last quarter are expected to bring the annual number closer to the target by the end of the fiscal year.
- f The Average Time for Complaint Resolution (days) for disciplinary cases of 194.4 days during the first 9 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.