

Accountancy Board of Ohio

Senate Finance and Financial Institutions Committee

Jason Phillips, Budget Analyst

Legislative Service Commission

April 19, 2005

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LSC Redbook

for the

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April 19, 2005

Accountancy Board of Ohio

- Executive recommendation of \$1,279,286 for FY 2006
- Licensed and registered over 29,000 certified public accountants and public accountants in FY 2004
- Planned consolidation within the Department of Commerce in FY 2007

OVERVIEW

The Accountancy Board is part of the 4K9 Fund group. The 4K9 Fund (Occupational Licensing and Regulatory Fund) is a General Services Fund that is a repository for license fees and other assessments collected by the state's professional and occupational licensing boards. The 4K9 Fund was established by Am. Sub. H.B. 152 of the 120th General Assembly. Prior to the creation of the Fund, appropriations for each licensing board were made from the GRF. This created some problems as some boards contributed more revenues than they expended and others had to be subsidized by the GRF since the revenues generated did not meet their expenditures. The 4K9 Fund eliminated these problems. The philosophy of the Fund is that each board must generate enough revenues to cover their expenses. It is also quite common for the boards to develop a surplus in the Fund to cover unforeseen economic hardships.

The mission of the Accountancy Board of Ohio is to assure that the services received by Ohioans from Public Accountants (PAs) and Certified Public Accountants (CPAs) will be performed in an ethical, competent, and professional manner and in accordance with all appropriate laws and standards. The Board determines the level of knowledge of all applicants through means of an examination. Those who pass the examination are then licensed and regulated by the Board. The Board mandates a program of continuing education for its licensees.

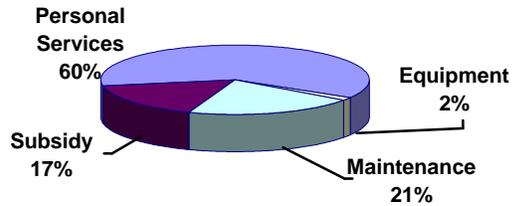
Executive Recommendation for FYs 2006-2007

The executive budget recommends that the 27 independent occupational licensing boards be absorbed into the departments of Health, Commerce, and Public Safety. As such, the Executive recommends no funding in FY 2007 for the boards and commissions. The specifics of the consolidation plan will be addressed during FY 2006 by a task force consisting of the agencies acquiring the boards, as well as the Department of Administrative Services, the Office of Budget and Management (OBM), and the Governor's Office. According to OBM's *Blue Book*, current staff will be retained through FY 2006 and a hiring freeze and early retirement incentives will be offered to regulatory board staff. These incentives should result in staff reductions. Effective July 1, 2006, all remaining regulatory board staff will be transferred to the relevant agency. Board and commission members for each agency will be retained and continue to serve in the manner in which they were appointed.

The Executive recommended funding for the Board of \$1,279,286 for FY 2006, representing an increase of 1.1% over estimated FY 2005 spending of \$1,265,088. The Executive recommends no appropriation in FY 2007 as the Accountancy Board is slated for consolidation within the Department of Commerce.

The following pie chart illustrates the Accountancy Board’s Executive recommendation for FY 2006-2007 by object code. Like many other licensing and regulatory boards, the majority of the Accountancy Board's expenses are for personal services, such as payroll, health care, and fringe benefit costs. The Governor’s recommendation includes an increase in personal services spending of 6.6% in FY 2006 over FY 2004 levels.

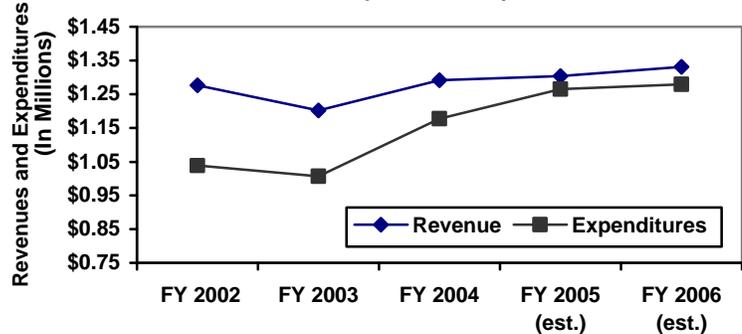
FY 2006-2007 Recommended Budget by Object Code



Revenues and Expenditures

The adjacent chart illustrates the Board's revenues and expenditures from FY 2002 to FY 2006 (FYs 2005-2006 numbers are based on estimates). The Board renews its licenses triennially. The Accountancy Board’s revenue for the triennial period FY 2002-2004 was \$3,469,934. The Board’s estimated expenditures for the same period were \$3,221,835, resulting in a net gain of \$248,099 over that span. As the chart shows, revenues have remained fairly steady, yet expenditures have increased at a faster pace. The increase in spending can be attributed to increased payroll and maintenance costs, which have increased by 13% and 21.3% respectively from FY 2002 to estimated FY 2005 spending.

ACC Revenues and Expenditures, by Fiscal Year

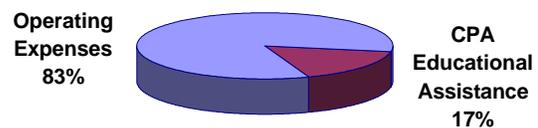


In addition, the Board, like many other occupational licensing and regulatory boards, must pay increased fees charged by the Department of Administrative Services, for central support services. Charges for these services amounted to \$20,547 in FY 2004 and are estimated at \$25,440 for FY 2005. The Board’s share of the cost for the new CAVU on-line licensing application, a licensing system used by many of Ohio’s boards and commissions, is not certain at this time as it will not be operational for the Board until March 2005. However, the Governor’s recommendation includes \$14,198 in additional funding to help offset these new costs.

Spending Authority for Educational Assistance (Fund 4J8)

The moneys in Fund 4J8 come from surcharges paid by licensees and are used for the Board’s scholarship program. The Fund was created as a result of FY 1993 legislation that increased the basic education requirements an individual must meet to become licensed as a Certified Public Accountant. The first disbursement was in FY 1998. As the adjacent chart indicates, the CPA Educational Assistance Scholarship currently comprises 17% of the Accountancy Board’s total budget. The Fund continues to provide educational assistance to qualified candidates. Previously a shortage of qualified candidates existed, limiting the funds that could be disbursed for the scholarship program. However, the Board states that there has been a marked increase in the number of

FYs 2006-2007 Recommended Budget by Program Series



applicants as a result of colleges more effectively advertising the availability of these scholarships. Therefore, the Board has run out of spending authority to give out scholarship moneys and indicates that it may go before the Controlling Board to seek an increased appropriation in the remaining months of FY 2005.

Increased Enforcement Power

The passage of the federal Sarbanes-Oxley Act of 2002 concerning corporate and accounting responsibilities has had little effect on the Accountancy Board to this point. The bill gives the Board added enforcement powers, but it is slowly being implemented as accounting firms have up to a year to begin complying with the laws. However, the Accountancy Board is now named as an appropriate state regulatory authority for purposes of sharing Public Company Accounting Oversight Board (PCAOB) investigative information. The Board also continues to experience an increased workload resulting from the added enforcement provisions of S.B 200 of the 122nd General Assembly, which redefined the practice of public accounting, added to the Board’s registration requirements, and added sanctions for the violation of these regulations. As a result of these changes, the Board continues to experience an increasing number of disciplinary hearings.

Staffing Levels

Ohio Accountancy Board Staffing Levels						
Program Series/Division	2002	2003	2004	2005	<i>Estimated</i>	
					2006	2007
Board Members	9	9	9	9	9	9
Administrative Staff	8	8	8	8	8	*
Investigators	3	3	3	3	3	*
Totals	20	20	20	20	20	*

*In FY 2007, the 27 occupational licensing boards will be consolidated into various agencies. According to OBM, current staff will be retained through FY 2006. However, significant staff reductions are expected as a result of the implementation of a hiring freeze and early retirement incentives. Remaining staff will be transferred to the departments of Health, Commerce, or Public Safety in FY 2007. Board and commission members will be retained.

FACTS AND FIGURES

Licensees

In FY 2004, the Board handled the administrative work for roughly 29,000 public accountant and certified public accountant licenses. The Accountancy Board of Ohio is one of two occupational licensing boards that operate on a triennial renewal cycle. The table below illustrates the number of licenses the Board has issued by license type in FYs 2002 and 2004.

Accountancy Board Licensees by License Type

License Type	FY 2002	FY 2004
Certified Public Accountant - Permit	18,860	18,889
Certified Public Accountant - Registration	10,225	10,160
Public Accountant - Registration	239	190
Public Accountant - Permit	43	30
Total	29,367	29,269

Fee Schedule

License fees for public accountants and certified public accountants were last increased in July 1991. Fees for firms were last increased in July 1993. The chart below demonstrates the license fees for the Accountancy Board by license type. Three-year licenses are the most commonly issued. Two-year licenses are issued to new CPAs and one-year licenses are only issued in special circumstances. Permits are licenses for active Certified Public Accountants (CPAs) or Public Accountants (PAs) whereas registrations are intended for inactive CPAs or PAs. A registrant may, upon the completion of continuing education requirements, receive a permit to regain “active” status.

Accountancy Board License Fees

License Type	1-Year	2-Year	3-Year
Permit	\$13	\$26	\$40
Registration	\$45	\$90	\$135

ANALYSIS OF EXECUTIVE PROPOSAL

Accountancy Board of Ohio

Purpose: Tests, licenses, and regulates the individuals and firms who practice accounting in this state

The following table shows the line items that are used to fund the Ohio Accountancy Board as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Services Fund				
4J8	889-601	CPA Education Assistance	\$209,510	\$0
4K9	889-609	Operating Expenses	\$1,069,776	\$0
General Services Fund Subtotal			\$1,279,286	\$0
Total Funding: Ohio Accountancy Board			\$1,279,286	\$0

The Accountancy Board operates two programs:

- **Operating Expenses**
- **Educational Assistance**

Operating Expenses

Program Description: (R.C. Chapter 4701.) The Accountancy Board of Ohio tests, licenses, and regulates individuals and firms who practice accounting in this state to ensure that the services being provided are ethical and professional in manner and in accordance with all appropriate laws and standards.

Funding Source: GSF Fund 4K9

Line Items: 889-609, Operating Expenses

Implication of Executive Recommendation: The executive recommendation fully funds the Accountancy Board's budget request for FY 2006. The recommendation includes an additional \$14,198 to help offset costs associated with the implementation of the CAVU licensing system.

Temporary Law: Board Consolidation (Section 315.03). The Executive's recommendation includes a provision that consolidates the Accountancy Board into the Department of Commerce beginning in FY 2006. The provision also includes the creation of a transition team to plan and effectuate the proposed merger of the Accountancy Board within the Department of Commerce. The temporary language states that the necessary statutory changes and appropriations needed for the consolidation will be introduced in FY 2006.

Educational Assistance

Program Description: (R.C. section 4701.26) In August 1992, the Ohio General Assembly enacted legislation that raised the basic educational requirements that individuals must meet to become licensed as CPAs. The CPA Education Assistance Program was established to reduce the burden of the increased

education requirement to low income students. The first scholarships were awarded in January 1998 and will continue through future bienniums. The Board awards funding in two tiers: tier one grants are awarded to minority students and tier two grants are awarded directly to Ohio colleges.

Funding Source: GSF Fund 4J8. Surcharge on license renewal is deposited into Fund 4K9. Money is transferred quarterly to Fund 4J8 to fund this program.

Line Items: 889-601, CPA Education Assistance

Implication of Executive Recommendation: The Executive's recommendation fully funds the Accountancy Board's budget request for the CPA Education Assistance Fund for FY 2006.

Temporary Law: None

REQUESTS NOT FUNDED

The executive recommendation fully funds the Accountancy Board for FY 2006 at \$1,279,286. There is no appropriation for FY 2007, as the Board is slated for consolidation within the Department of Commerce under the Governor's recommendations. An operating appropriation for FY 2007 would likely be made when this plan is finalized in FY 2006.

General Services Fund Group

4J8 889-601 CPA Education Assistance

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
\$157,246	\$103,945	\$264,921	\$209,510	\$209,510	\$209,510
	-33.9%	154.9%	-20.9%	0.0%	0.0%

Source: GSF: Surcharge to license renewals which is deposited into Fund 4K9 and then transferred quarterly into Fund 4J8

Legal Basis: Section 5 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 215 of the 122nd G.A.)

Purpose: This appropriation was established to reduce the burden of the increased education requirement to low income students. The funds in this line item will be used to pay for scholarships awarded to CPA students in their fifth year of school.

4K9 889-609 Operating Expenses

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
\$880,929	\$902,454	\$912,340	\$1,055,578	\$1,069,776	\$1,069,776
	2.4%	1.1%	15.7%	1.3%	0.0%

Source: GSF: License fees and other assessments collected by the state's professional and occupational licensing boards

Legal Basis: ORC 4701.02 and 4743.05; Section 5 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 152 of the 120th G.A.)

Purpose: This appropriation supports the general operating expenses, including payroll, supplies, and equipment for the Accountancy Board of Ohio, which licenses and regulates accountants and accounting firms.

LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>Estimated 2005</i>	<i>As Introduced 2006</i>	<i>House Passed 2006</i>	<i>% Change Est. 2005 to House 2006</i>	<i>As Introduced 2007</i>	<i>House Passed 2007</i>	<i>% Change House 2006 to House 2007</i>
ACC Accountancy Board of Ohio									
4J8	889-601	CPA Education Assistance	\$209,510	\$ 209,510	\$ 209,510	0.0%	\$ 0	\$ 209,510	0.0%
4K9	889-609	Operating Expenses	\$1,055,578	\$ 1,069,776	\$ 1,069,776	1.3%	\$ 0	\$ 1,069,776	0.0%
General Services Fund Group Total			\$ 1,265,088	\$ 1,279,286	\$ 1,279,286	1.1%	\$ 0	\$ 1,279,286	0.0%
Total All Budget Fund Groups			\$ 1,265,088	\$ 1,279,286	\$ 1,279,286	1.1%	\$ 0	\$ 1,279,286	0.0%

As Introduced (Executive)**As Passed by the House****(CD-424-ACC) Consolidation of Regulatory Boards****Section: 315.03**

Consolidates the occupational licensing boards into the departments of Health, Public Safety, or Commerce not later than July 1, 2006. In the case of the Accountancy Board of Ohio, the Board will be consolidated into the Department of Commerce. The directors of Budget and Management, Administrative Services, Commerce, Health, and Public Safety shall appoint representatives to a transition team. The team shall develop a plan for the smooth and timely consolidation of the boards and shall also address the details of the consolidation. The team shall submit a report containing recommendations and the details of the consolidation not later than December 31, 2005 to the Governor, Speaker of the House, and President of the Senate. A bill will be introduced in fiscal year (FY) 2006 that will include the necessary statutory changes and appropriations for consolidation. (See the item entitled "Consolidation of Regulatory Boards" in the Department of Commerce).

Fiscal effect: The Board will receive no appropriation in FY 2007. The total fiscal effect is unknown at this time since the specifics of the transfer will not be addressed until FY 2006.

Sections: 315.03, 203.03

Removes the Accountancy Board from the proposal to consolidate certain regulatory boards into the departments of Commerce, Health and Public Safety.

Fiscal effect: Establishes appropriations for FY 2007 at FY 2006 recommended levels. It may be that costs for central services may increase as there would be fewer boards benefiting from cost-pooling for human resources, accounting, and IT support services managed by DAS-Central Services Agency.