

Accountancy Board of Ohio

Senate Finance and Financial Institutions Committee

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Legislative Service Commission*

May 2, 2007

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LSC Redbook
for the
Accountancy Board of Ohio

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May 2, 2007

Accountancy Board of Ohio

- Executive recommendation of \$1,417,246 in FY 2008 and \$1,442,000 in FY 2009
- Licensed and registered approximately 29,500 CPAs and PAs in FY 2006
- Increased appropriation for CPA Education Assistance program

OVERVIEW

The mission of the Accountancy Board of Ohio is to protect the public interest by requiring that all persons who desire to become Certified Public Accountants (CPAs) and Public Accountants (PAs) meet specific qualifications for entry into the profession and that CPAs maintain competence after they are licensed. This assures that the services received by Ohioans from CPAs and PAs 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 a computer-based 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.

The Accountancy Board is part of the Occupational Licensing and Regulatory Fund (Fund 4K9). The 4K9 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.

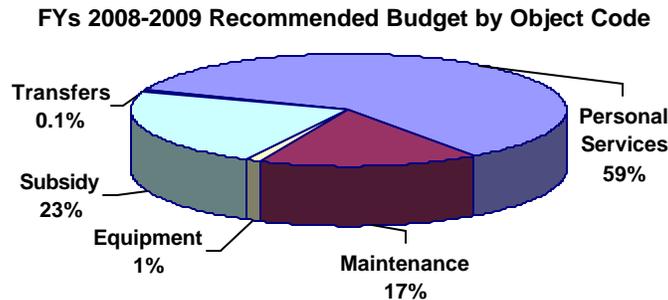
Executive Recommendation for FYs 2008-2009

The executive recommends funding for the Board of \$1,417,246 for FY 2008, representing an increase of 10.8% over FY 2007 appropriations of \$1,279,286. Much of the increase in the Accountancy Board's total recommended budget is attributable to an increase for the CPA Education Assistance program (see below). The executive recommends \$1,442,000 for FY 2009, representing a 1.7% increase over the FY 2008 recommendation.

The executive recommends \$1,092,246 in FY 2008 and \$1,117,000 in FY 2009 for the Accountancy Board's operating expenses, representing increases of 2.1% and 2.3%, respectively. The executive recommendation provides an additional \$22,470 in FY 2008 and \$47,224 in FY 2009 over what the Board requested for operating expenses. The Board plans to use the additional funding to pay for mandated salary increases and increased IT charges related to the e-Licensing system.

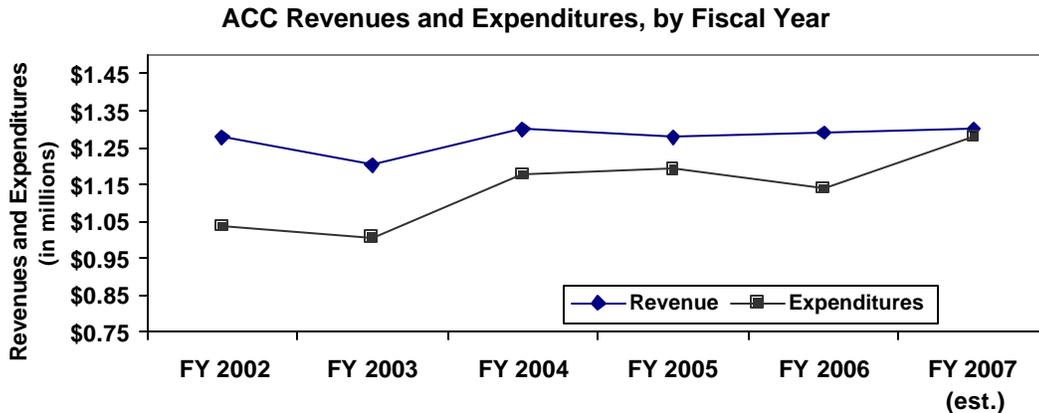
The following pie chart illustrates the Accountancy Board's executive recommendation for FY 2008-2009 by object code. Like many other licensing and regulatory boards, the majority of the Accountancy Board's expenses are for personal services, such as payroll, health care, and fringe benefit costs. The Accountancy Board's personal services spending includes an increase of 5.2% in FY 2008 over FY 2007 appropriations and a 5.4% increase for FY 2009 over that recommended for FY 2008 to

accommodate planned salary increases. Spending in the subsidy category represents the Board’s CPA Education Assistance Scholarship awards to students.



Revenues and Expenditures

The chart below illustrates the Board's revenues and expenditures from FY 2002 to FY 2007 (FY 2007 numbers are based on the Board's appropriation for that fiscal year). The Board renews its licenses triennially. The Accountancy Board’s estimated revenue for the triennial period of FYs 2005-2007 is \$3,869,847. The Board’s expenditures for the same period are estimated to be \$3,611,486, resulting in an estimated net gain of \$258,361 over this 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.



Summary of FYs 2008-2009 Budget Issues

e-Licensing Expenses

The Accountancy Board reports that the cost of the e-Licensing system has been more than anticipated. The Board converted to the e-Licensing system in FY 2006. Under the old system, programming charges were included in total mainframe services costs, but they are extra for the e-Licensing system. For instance, mainframe services costs (which exclude charges for e-mail and network services and technical support) for the Board amounted to \$6,333 in FY 2004 and \$6,704 in FY 2005. In FY 2006, e-Licensing system charges were \$7,569 (for the nine months the Board was on the system) plus \$11,649 in expected programming expenses associated with the new system. FY 2007 e-Licensing charges are estimated to be \$9,899 plus \$9,438 in programming costs. For the upcoming biennium, e-Licensing system charges only (which does not include any programming costs) are expected to be

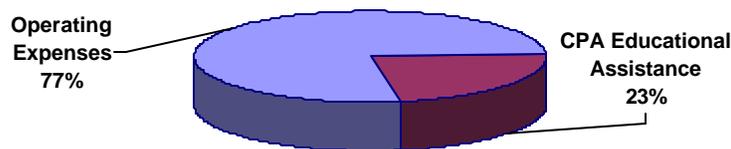
\$22,730 in FY 2008 and \$26,057 for FY 2009. The executive recommendation includes an additional \$22,254 in the maintenance object category in FY 2009, which will help to offset these increased costs.

Spending Authority for Educational Assistance (Fund 4J8)

The executive budget includes \$325,000 each fiscal year for the CPA Education Assistance program, which is a scholarship program established to reduce the burden of education requirements to low income students. 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 chart below indicates, the CPA Educational Assistance Scholarship currently comprises approximately 23% of the Accountancy Board's total FY 2008-2009 budget.

Fund 4J8 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

FYs 2008-2009 Recommended Budget by Program Series



program. However, the Board states that there has been a marked increase in the number of applicants as the number of students taking accounting courses and the number of CPA exam candidates has been steadily increasing after an initial drop once the requirements for CPA certification were increased in CY 2000. The Board reports that some colleges are reporting the highest number of accounting majors in years. Additionally, a record number of candidates sat for the computer-based CPA exam sections in CY 2006 and another record number of candidates is projected for CY 2007.

On March 28, 2005, the Controlling Board approved a \$75,000 increase in the scholarship program's appropriation for FY 2005. However, there has been a continuing shortfall in scholarship funds available given the greater number of applicants. As a result, the Accountancy Board voted in September 2006 to increase the surcharge on license fees from \$5 per license year to \$10 per license year (total of \$30 for a three year license). The increased fee will double the amount of scholarship money available to needy students to over \$300,000 per year.

Therefore, much of the increase in the Accountancy Board's total recommended budget is attributable to the increase for the CPA Education Assistance program brought about by the extra resources available through the surcharge increase. The amounts for scholarships vary due to the financial need of the applicants, but the Board, using ratios of approved applications to money committed for previous fiscal years, estimates that, in each fiscal year, it could fund approximately 41 scholarships with the \$325,000 granted in the executive recommendation. If the maximum assistance amount of \$9,320 were granted to all approved applicants, the Board could fund approximately 35 scholarships.

Increased Enforcement Power

The passage of the federal Sarbanes-Oxley Act of 2002 concerning corporate and accounting responsibilities is impacting the Board mainly through increased enforcement activities. The bill gave the Board added enforcement powers as the Accountancy Board is named as an appropriate state regulatory authority for purposes of sharing Public Company Accounting Oversight Board (PCAOB) investigative information. The PCAOB is a private sector, non-profit corporation created by the Sarbanes-Oxley legislation to oversee public accounting firms. After a long phase-in period for accounting firms to comply with the federal law, the Accountancy Board has begun to receive accounting firm inspection reports that are sub-standard and that are outside of the PCAOB grace period to fix errors. Consequently, the Accountancy Board expects its involvement in investigations and disciplinary activities to increase as a result of the PCAOB inspection reports.

Staffing Levels

Ohio Accountancy Board Staffing Levels						
	2004	2005	2006	2007	Estimated	
					2008	2009
Board Members	9	9	9	9	9	9
Administrative Staff	8	8	8	8	8	8
Investigators	3	3	3	3	3	3
Totals	20	20	20	20	20	20

FACTS AND FIGURES

Active Licenses

In FY 2006, the Board handled the administrative work for roughly 29,500 public accountant and certified public accountant licenses and 3,297 public accounting firms. The Accountancy Board of Ohio operates on a triennial renewal cycle. The table below illustrates the number of active licenses the Board oversaw in FY 2006. 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 gain “active” status.

Accountancy Board Active Licenses by License Type	
License Type	FY 2006
Certified Public Accountant – Permit	18,980
Certified Public Accountant – Registration	10,358
Public Accounting Firms	3,297
Public Accountant – Registration	174
Public Accountant – Permit	21

Fee Schedule

License fees for public accountants and certified public accountants were last increased in July 1991. Fees for firms, which renew triennially, 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.

Accountancy Board License Fees			
Individuals			
License Type	1-Year	2-Year	3-Year
Permit	\$45	\$90	\$135
Registration	\$13	\$26	\$40
Firms			
Initial Registration	\$10 + \$5 per additional office		
Registration Renewal	\$30 + \$5 per additional office		

ANALYSIS OF EXECUTIVE PROPOSAL

Single Program Series

Operating Expenses

Purpose: The Accountancy Board ensures that those who are licensed by the Board meet certain minimum education and training criteria to responsibly practice accounting in Ohio. The Board then monitors those licensees to ensure compliance with the laws and rules of the 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 2008	FY 2009
General Services Fund Group				
4J8	889-601	CPA Education Assistance	\$325,000	\$325,000
4K9	889-609	Operating Expenses	\$1,092,246	\$1,117,000
General Services Fund Group Subtotal			\$1,417,246	\$1,442,000
Total Funding: Ohio Accountancy Board			\$1,417,246	\$1,442,000

The Accountancy Board operates two programs:

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

Operating Expenses

Program Description: 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 2008 and FY 2009. The recommendation includes an additional \$22,470 in FY 2008 and \$47,224 in FY 2009 to alleviate mandated salary increases and increased IT charges related to the e-licensing system.

Temporary and Permanent Law Provisions

None

Educational Assistance

Program Description: 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.

Funding Source: GSF Fund 4J8. A surcharge of \$10 per license year on license renewals 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 2008 and FY 2009 and allows 35 to 40 scholarships to be funded each year.

Temporary and Permanent Law Provisions

None

REQUESTS NOT FUNDED

The executive recommendation fully funds the Accountancy Board's request for FY 2008 and FY 2009 at \$1,417,246 and \$1,442,000, respectively.

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General Services Fund Group

4J8 889-601 CPA Education Assistance

2004	2005	2006	2007 Estimate	2008 House Passed	2009 House Passed
\$264,921	\$266,023	\$173,058	\$209,510	\$325,000	\$325,000
	0.4%	-34.9%	21.1%	55.1%	0.0%

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

Legal Basis: ORC 4701.26; Section 203.10 of H.B. 119 of the 127th G.A. (originally established by Am. Sub. H.B. 215 of the 122nd G.A.)

Purpose: This appropriation was established to reduce the burden on low-income and minority students from increased education requirements. The funds in this line item are used to pay for scholarships awarded to CPA students in their fifth year of school.

4K9 889-609 Operating Expenses

2004	2005	2006	2007 Estimate	2008 House Passed	2009 House Passed
\$912,340	\$926,633	\$966,487	\$1,069,776	\$1,092,246	\$1,117,000
	1.6%	4.3%	10.7%	2.1%	2.3%

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 203.10 of H.B. 119 of the 127th 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 2008 - FY 2009

<i>Fund ALI ALI Title</i>	<i>Estimated 2007</i>	<i>As Introduced 2008</i>	<i>House Passed 2008</i>	<i>% Change Est. 2007 to House 2008</i>	<i>As Introduced 2009</i>	<i>House Passed 2009</i>	<i>% Change House 2008 to House 2009</i>
ACC Accountancy Board of Ohio							
4J8 889-601 CPA Education Assistance	\$209,510	\$ 325,000	\$ 325,000	55.1%	\$ 325,000	\$ 325,000	0.0%
4K9 889-609 Operating Expenses	\$1,069,776	\$ 1,092,246	\$ 1,092,246	2.1%	\$ 1,117,000	\$ 1,117,000	2.3%
General Services Fund Group Total	\$ 1,279,286	\$ 1,417,246	\$ 1,417,246	10.8%	\$ 1,442,000	\$ 1,442,000	1.7%
<hr/>							
Total All Budget Fund Groups	\$ 1,279,286	\$ 1,417,246	\$ 1,417,246	10.8%	\$ 1,442,000	\$ 1,442,000	1.7%