

# **LSC Redbook**

**Analysis of the Executive Budget Proposal**

## **Accountancy Board**

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March 2011

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## **ATTACHMENTS:**

- Catalog of Budget Line Items
- Budget Spreadsheet By Line Item

# Accountancy Board

- Funding of about \$1.2 million per fiscal year
- Provides oversight for approximately 32,800 CPAs, PAs, and accounting firms

## OVERVIEW

The mission of the Accountancy Board (ACC) is to protect the public interest by requiring that all persons who desire to become Certified Public Accountants (CPAs) meet specific qualifications for entry into the profession and that CPAs and Public Accountants (PAs) maintain competence after they are licensed. The Board determines the level of knowledge of all applicants by a computer-based examination. Those who pass the examination and satisfy education and experience requirements are then licensed. They must thereafter meet continuing education requirements in order to remain licensed. The Board also registers public accounting firms.

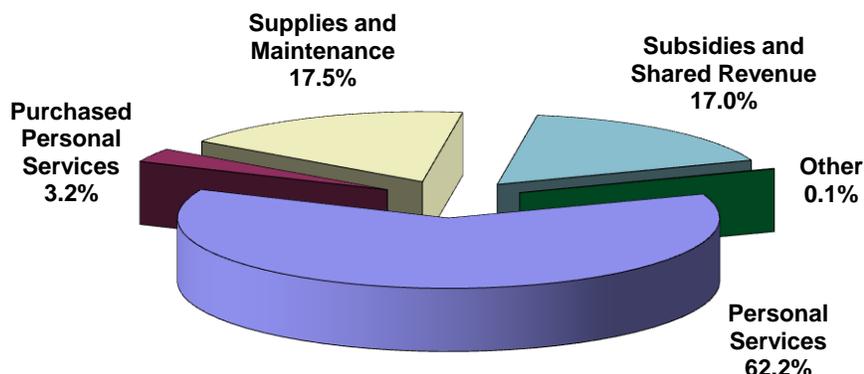
The Board's governing authority consists of nine members appointed by the Governor, including eight CPAs who must meet certain qualifications and one member representing the public. Board members receive a per diem in an amount fixed by state law as well as reimbursement for actual and necessary expenses. Day-to-day operations are managed by an executive director and eight additional staff members, including two investigators. The Board receives no funding from the GRF. Its operations are completely supported by fee revenue.

## Appropriation Overview

The executive recommends funding of \$1,177,200 in FY 2012 and \$1,177,500 in FY 2013. This funds most of ACC's request for \$1.2 million in each fiscal year. The Blue Book estimate of expenditures in FY 2011 is \$1.2 million.

Chart 1 below shows the recommended funding levels for ACC according to category of expense. As a regulatory agency, the Board's largest expense is personnel costs, accounting for 62.2% of the executive budget recommendations for the biennium. Another 17.0% is slated for the Board's CPA Education Assistance scholarship program, described in the **Analysis of Executive Proposal** section, and shown in the chart as subsidies and shared revenue. The remaining amount is allocated for supplies and maintenance (17.5%), purchased personal services (3.2%), and other (0.1%).

**Chart 1: Biennial Executive Budget Recommendations by Expense Category, FY 2012-FY 2013**



As with many other licensing boards and commissions, the Board obtains assistance from the Central Service Agency (CSA) within the Department of Administrative Services for various administrative support functions. The Board paid \$26,144 in CSA charges for these services in FY 2010, 2.5% of its total expenses in that year.

**Fee Revenues and Fund 4K90**

The Board issues permits (active licenses) and registrations (inactive licenses) to CPAs and PAs, and registrations to public accounting firms, which are generally renewed on a triennial basis. The statutory license fee for CPAs and PAs has not increased since 1991. In addition to the permit or registration fee, there is a surcharge of \$10 per license year, equating to an overall surcharge of \$30 for a three-year permit or registration. This amount provides funding for the Board's education assistance scholarship program. Three-year permits and registrations are the most commonly issued. Two-year licenses are issued to new CPAs. One-year permits and registrations are only issued in special circumstances.

Table 1. Accountancy Board Fees			
Individuals			
License Type	1-Year	2-Year	3-Year
Permit	\$50	\$100	\$150
Registration	\$18	\$36	\$55
Firms			
Initial Registration	\$10 + \$5 per additional office		
Registration Renewal	\$30 + \$5 per additional office		

Fee revenues collected by the Board are deposited into the Occupational Licensing and Regulatory Fund (Fund 4K90) established by H.B. 152 of the 120th General Assembly. Twenty-eight occupational licensing and regulatory boards and commissions, including the Accountancy Board, use Fund 4K90 as their main operating fund into which receipts are deposited and from which expenses are paid. Although this is a common funding pool, each licensing board or commission is expected to generate enough revenues to cover expenses.

Table 2 shows ACC's revenues and expenditures over the FY 2008-FY 2010 period, and shows that, as they have in the past, revenues exceeded expenditures over this three-year span. Three-year license renewals, which account for the bulk of revenue, are staggered to ensure a regular cash flow year to year. Amounts shown are from Board annual reports.

<b>Table 2. Revenues and Expenditures, FY 2008-FY 2010</b>			
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Revenues	\$1,452,170	\$1,445,961	\$1,524,387
Office Expenses	\$948,045	\$910,880	\$929,815
Scholarship Payments	\$62,233	\$120,657	\$101,502
<b>Excess of Revenues over Expenses</b>	<b>\$441,892</b>	<b>\$414,424</b>	<b>\$493,070</b>

## ANALYSIS OF EXECUTIVE PROPOSAL

ACC's operations are funded by a single item appropriation from the General Services Fund Group. A second line item is used to fund CPA education assistance scholarships to needy students. The table below shows the Governor's recommended funding for each of these line items.

Governor's Recommended Amounts for the Accountancy Board				
Fund	ALI and Name		FY 2012	FY 2013
<b>General Services Fund Group</b>				
4J80	889601	CPA Education Assistance	\$200,000	\$200,000
4K90	889609	Operating Expenses	\$977,200	\$977,500
<b>General Services Fund Group Subtotal</b>			<b>\$1,177,200</b>	<b>\$1,177,500</b>
<b>Total Funding: Accountancy Board</b>			<b>\$1,177,200</b>	<b>\$1,177,500</b>

### Operating Expenses (889609)

This line item funds the Accountancy Board's operating expenses. It is supported by license fees and other assessments deposited in Fund 4K90. The recommended appropriations – \$977,200 in FY 2012 and \$977,500 in FY 2013 – are less than estimated expenditures in FY 2011 of \$1.0 million by 2.3% and appear adequate to allow the Board to maintain current service and staffing levels. ACC has eight full-time employees and one part-time employee to oversee just under 33,000 licensees. The Board notes in its budget request that it "has the highest ratio of licensees to staff and the lowest cost per licensee among accountancy boards with similar functions."

### Licenses

Table 3 shows the number of active licenses issued by the Board for FY 2010 compared with FY 2009 (as of year-end). Individuals engaged in the practice of public accounting in Ohio are required to hold a permit. Persons with a CPA or PA designation who are not engaged in the practice of public accounting may obtain a registration. All new licenses issued to individuals are CPA certificates; no new PA licenses have been issued since 1993.

License Type	FY 2009	FY 2010	% Change
Certified Public Accountant – Permit	19,937	20,201	1.3%
Certified Public Accountant – Registration	9,719	9,284	-4.5%
Public Accounting Firms	3,293	3,231	-1.9%
Public Accountant – Registration	126	111	-11.9%
Public Accountant – Permit	10	12	20.0%
<b>Total</b>	<b>33,085</b>	<b>32,839</b>	<b>-0.7%</b>

### Investigation and Enforcement Statistics

ACC's regulatory responsibility includes investigating complaints concerning alleged violations. The most frequent complaints include unethical conduct, unlicensed practice, firms operating without being registered, and retention of client records. According to the Board's FY 2010 annual report, a total of 92 cases were opened and 121 cases were closed, leaving 20 cases open at the end of FY 2010.

If a licensee or firm fails to renew a license, the Board sends its investigators on a field call to determine if an individual or firm is practicing without a license. If so, violators may be referred to county or city prosecutors. The Board made an average of one field call per day in FY 2010. To aid enforcement, ACC investigators prepare packets for local prosecutors with the relevant information on each case, helping prosecutors to follow up with charges.

### CPA Education Assistance (889601)

This line item funds the CPA education assistance program, which provides scholarships to low-income and minority students in their fifth year of accounting study required for the CPA certificate. The executive recommends \$200,000 in each fiscal year for this program, the same as estimated spending in FY 2011. This line item makes up about 17% of ACC's overall budget. The program is supported by a \$10 per year license surcharge. The amounts of each scholarship vary by the applicant's financial need.

Table 4 below summarizes the transfers made from Fund 4K90 to the CPA Education Assistance Fund (Fund 4J80) and the scholarship distributions paid from the fund in the last three fiscal years. FY 2008 transfers were lower compared to past fiscal years because the transfer did not occur until August 2008, which falls in FY 2009.

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Transfers-in	\$47,170	\$298,575	\$291,860
Distributions	\$62,233	\$116,137	\$101,502

A decline in distributions occurred in FY 2008 because the criteria to qualify for the scholarship changed to require all fifth-year candidates to show parent income, in keeping with the scholarship program's focus on needy students. This aligns the scholarship program with many student aid formulas that exclude parent income if a student is attending graduate school, but include parent income if a student is enrolling in a five-year undergraduate program, as is required for the CPA certificate. To be awarded funding, applicants are required by administrative rule to certify that they will take the CPA examination within two years of the final scholarship grant payment, or reimburse the Board.

**REQUESTS NOT FUNDED**

ACC's requests for the upcoming biennium were fully funded in the executive budget, with one exception. ACC requested appropriations for personal services in its operating budget of \$760,000 in FY 2012 and \$750,000 in FY 2013. The executive's recommended funding is \$737,200 in FY 2012, \$22,800 lower than requested, and \$727,500 in FY 2013, \$22,500 lower than requested. The Board's budget is higher than actual expenditures in recent fiscal years, and so appears adequate to fund ongoing operations.

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## Accountancy Board of Ohio

### General Services Fund Group

#### **4J80 889601 CPA Education Assistance**

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$62,233	\$116,137	\$101,502	\$200,000	<b>\$200,000</b>	<b>\$200,000</b>
	86.6%	-12.6%	97.0%	<b>0.0%</b>	<b>0.0%</b>

**Source:** General Services Fund Group: \$10 per license year surcharge on permits and registrations, the revenue from which is deposited into Fund 4K90 and subsequently transferred into Fund 4J80

**Legal Basis:** ORC 4701.26; Section 203.10 of Am. Sub. H.B. 1 of the 128th G.A. (originally established by Am. Sub. H.B. 215 of the 122nd G.A.)

**Purpose:** This line item funds the CPA Education Assistance Program, which provides scholarships to low-income and minority CPA students in their fifth year of school. The program reduces the financial burden of basic education requirements on low-income and minority students resulting from legislation enacted in August 1992 that raised the basic educational requirements for CPA licensure to 150 semester hours.

#### **4K90 889609 Operating Expenses**

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$948,045	\$907,991	\$902,386	\$1,000,000	<b>\$977,200</b>	<b>\$977,500</b>
	-4.2%	-0.6%	10.8%	<b>-2.3%</b>	<b>0.0%</b>

**Source:** General Services Fund Group: 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 Am. Sub. H.B. 1 of the 128th 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.

**FY 2012 - FY 2013 Introduced Appropriation Amounts**

**All Fund Groups**

Line Item Detail by Agency			FY 2010	Estimate FY 2011	Introduced FY 2012	FY 2011 to FY 2012 % Change	Introduced FY 2013	FY 2012 to FY 2013 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: As Introduced</b>					
<b>ACC Accountancy Board of Ohio</b>								
4J80	889601	CPA Education Assistance	\$ 101,502	\$ 200,000	\$ 200,000	0.00%	\$ 200,000	0.00%
4K90	889609	Operating Expenses	\$ 902,386	\$ 1,000,000	\$ 977,200	-2.28%	\$ 977,500	0.03%
<b>General Services Fund Group Total</b>			<b>\$ 1,003,888</b>	<b>\$ 1,200,000</b>	<b>\$ 1,177,200</b>	<b>-1.90%</b>	<b>\$ 1,177,500</b>	<b>0.03%</b>
<b>Accountancy Board of Ohio Total</b>			<b>\$ 1,003,888</b>	<b>\$ 1,200,000</b>	<b>\$ 1,177,200</b>	<b>-1.90%</b>	<b>\$ 1,177,500</b>	<b>0.03%</b>