

# **LSC Redbook**

**Analysis of the Executive Budget Proposal**

## **Accountancy Board**

Phil Cummins, Senior Economist  
Legislative Service Commission

February 2013

# TABLE OF CONTENTS

<b>OVERVIEW</b> .....	<b>1</b>
Appropriation Overview .....	1
Fee Revenues and Fund 4K90 .....	2
<b>ANALYSIS OF EXECUTIVE PROPOSAL</b> .....	<b>4</b>
Operating Expenses (889609) .....	4
Licenses .....	4
Investigation and Enforcement .....	4
CPA Education Assistance (889601).....	5
<b>REQUESTS NOT FUNDED</b> .....	<b>6</b>

## **ATTACHMENTS:**

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

# Accountancy Board

- Funding of about \$1.3 million per fiscal year
- Provides oversight for CPAs, PAs, and accounting firms in the state

## 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.

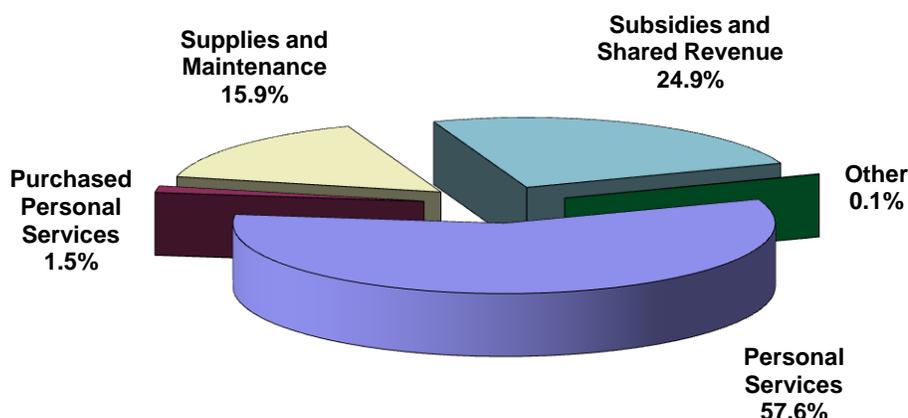
The Board's governing authority consists of nine members appointed by the Governor, including eight CPAs who must meet certain qualifications and one member representing the public. Board members receive a per diem in an amount fixed by state law as well as reimbursement for actual and necessary expenses. 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 \$1,302,500 in both FY 2014 and FY 2015. This matches the Blue Book estimate of expenditures in FY 2013.

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 \$750,000 each year, 57.6% of the executive budget recommendations for the biennium. Another \$325,000 per year, 24.9% of the total, 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 amounts are allocated for supplies and maintenance (15.9%), purchased personal services (1.5%), and other (0.1%).

**Chart 1: Biennial Executive Budget Recommendations  
by Expense Category, FY 2014-FY 2015**



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 \$27,670 in CSA charges for these services in FY 2012, 2.4% 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 base individual license fee for CPAs and PAs has not increased since 1991. The only increases in fees have been surcharges to support the Board's CPA 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.

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-seven 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 1 shows ACC's revenues and expenditures over the FY 2010-FY 2012 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, ensuring a regular cash flow from year to year. Amounts shown are from Board annual reports.

<b>Table 1. Revenues and Expenditures, FY 2010-FY 2012</b>			
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Revenues	\$1,524,387	\$1,611,581	\$1,508,750
Office Expenses	\$929,815	\$933,674	\$936,464
Scholarship Payments	\$101,502	\$210,000	\$240,000
<b>Excess of Revenues over Expenses</b>	<b>\$493,070</b>	<b>\$467,907</b>	<b>\$332,286</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 2014	FY 2015
<b>General Services Fund Group</b>				
4J80	889601	CPA Education Assistance	\$325,000	\$325,000
4K90	889609	Operating Expenses	\$977,500	\$977,500
<b>General Services Fund Group Subtotal</b>			<b>\$1,302,500</b>	<b>\$1,302,500</b>
<b>Total Funding: Accountancy Board</b>			<b>\$1,302,500</b>	<b>\$1,302,500</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 – \$977,500 in both FY 2014 and FY 2015 – match estimated expenditures in FY 2013.

#### Licenses

As of June 30, 2012, 21,228 individuals held active Ohio permits issued by the Accountancy Board. An individual engaged in the practice of public accounting in Ohio is 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. There were 1,629 peer review public accounting firms and 1,600 tax/consulting firms registered in Ohio.

#### Investigation and Enforcement

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 2012 annual report, a total of 68 cases were opened during the year and 36 cases were closed. As of June 30, 2012, 37 cases remained open including five from the previous year.

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 212 field calls in FY 2012. 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 Scholarship Program, which provides scholarships to low-income and minority students in their fifth year of accounting study 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. The executive recommends \$325,000 in each fiscal year for this program, the same as estimated spending in FY 2013. The program is supported by a \$10 per year license surcharge. The amounts of each scholarship vary by the applicant's financial need.

Table 2 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.

<b>Table 2. CPA Education Assistance Fund Summary, FY 2010-FY 2012</b>			
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Transfers-in	\$291,860	\$293,590	\$303,560
Distributions	\$101,502	\$210,000	\$240,000

**REQUESTS NOT FUNDED**

ACC's request for the upcoming biennium was funded in full. The Board's budget is higher than actual expenditures in recent fiscal years, so appears adequate to provide for ongoing operations.

ACC.docx/jc

**General Services Fund Group**

**4J80 889601 CPA Education Assistance**

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$101,502	\$210,000	\$240,000	\$325,000	<b>\$325,000</b>	<b>\$325,000</b>
	106.9%	14.3%	35.4%	<b>0.0%</b>	<b>0.0%</b>

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

**Legal Basis:** ORC 4701.26; Section 203.10 of Am. Sub. H.B. 153 of the 129th G.A. (line item originally established by Am. Sub. H.B. 215 of the 122nd G.A., fund originally established by Am. Sub. S.B. 165 of the 119th 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 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$902,386	\$933,674	\$936,464	\$977,500	<b>\$977,500</b>	<b>\$977,500</b>
	3.5%	0.3%	4.4%	<b>0.0%</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. 153 of the 129th G.A. (fund 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 2014 - FY 2015 Introduced Appropriation Amounts

# All Fund Groups

Line Item Detail by Agency			FY 2012	Estimate FY 2013	Introduced FY 2014	FY 2013 to FY 2014 % Change	Introduced FY 2015	FY 2014 to FY 2015 % 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	\$ 240,000	\$ 325,000	\$ 325,000	0.00%	\$ 325,000	0.00%
4K90	889609	Operating Expenses	\$ 936,464	\$ 977,500	\$ 977,500	0.00%	\$ 977,500	0.00%
<b>General Services Fund Group Total</b>			<b>\$ 1,176,464</b>	<b>\$ 1,302,500</b>	<b>\$ 1,302,500</b>	<b>0.00%</b>	<b>\$ 1,302,500</b>	<b>0.00%</b>
<b>Accountancy Board of Ohio Total</b>			<b>\$ 1,176,464</b>	<b>\$ 1,302,500</b>	<b>\$ 1,302,500</b>	<b>0.00%</b>	<b>\$ 1,302,500</b>	<b>0.00%</b>