An Audit Report on

The Board of Public Accountancy: A Self-Directed, Semi-Independent Agency

September 2003

Report No. 04-001

State Auditor's Office

Lawrence F. Alwin, CPA
State Auditor

An Audit Report on

The Board of Public Accountancy: A Self-Directed, Semi-Independent Agency

SAO Report No. 04-001
September 2003

Overall Conclusion

The Board of Public Accountancy's (Board) Combined Balance Sheet/Statement of Net Assets – Governmental Funds for fiscal year 2002 was substantially accurate with one exception: the Board did not report a liability it owed the State's General Revenue Fund. The unreported liability totaled $1,489,498, which is large enough to cause the Board's liabilities to be materially understated. Supporting documentation showed that the Board had raised questions as to the proper accounting treatment of this item during the year. The Board initially recorded the amount as an interagency liability in its monthly internal reports. At year end, the Board sought guidance from the Office of the Comptroller of Public Accounts (Comptroller's Office) as to the correct treatment of this amount and was advised, because of timing concerns involving the production of the State's Comprehensive Annual Financial Report, to report the amount as a fund balance rather than a liability. In an attempt to reconcile these alternative reporting positions and to provide full disclosure, the Board disclosed the need to repay the $1,489,498 in the notes to its financial statements.

The State loaned the $1,489,498 to the Board as start-up funds for the self-directed, semi-independent agency pilot project. According to Senate Bill 736, 77th Legislature, this loan is to be repaid as funds are available. As of August 31, 2002, the Board had $1,898,709 in cash that it could have used to repay the loan from the General Revenue Fund. By not correctly reporting these funds as a liability, the Board inaccurately showed these funds as unobligated. As a result, financial statement users could make incorrect decisions regarding the Board's finances if they rely on the Combined Balance Sheet/Statement of Net Assets – Governmental Funds.

Background

The Board regulates the practice of public accountancy. It certifies or registers individuals, professional corporations, partnerships, and sole proprietorships. The Board issued 67,763 licenses in fiscal year 2002.

The Board is one of three agencies that come under the Self-Directed Semi-Independent Agency Project Act (Vernon's Texas Civil Statutes, Article 8930). This pilot program, which also involves the Board of Architectural Examiners and the Board of Professional Engineers, removed these agencies from the State's appropriations process. Instead, these agencies establish their own budgets, which they have to support with the revenue they generate.

The 78th Legislature passed Senate Bill 1382 to continue the Self-Directed Semi-Independent Agency Pilot Project until September 1, 2009.

In addition, we audited two of the Board's key performance measures. The Board inaccurately reported the Percentage of Complaints Resulting in Disciplinary Actions for fiscal year 2002. Although the Board accurately reported the other key measure we audited (Number of Individuals Examined), it did not calculate the results in accordance with the measure definition.

Detailed Results

Chapter 1

The Board Should Report the $1.5 Million Liability It Owes to the State's General Revenue Fund as a Liability in Its Annual Financial Report

The Board of Public Accountancy's (Board) Combined Balance Sheet/Statement of Net Assets – Governmental Funds for fiscal year 2002 was substantially accurate with one exception: the Board did not report a liability it owed the State's General Revenue Fund. The unreported liability totaled $1,489,498, which is large enough to cause the Board's liabilities to be materially understated. In an attempt to report the liability accurately, the Board reported in its notes to the financial statements that it was to repay the General Revenue Fund $1,489,498. However, by not reporting this liability on its Combined Balance Sheet/Statement of Net Assets, the Board inaccurately showed these funds as unobligated. As a result, financial statement users could make incorrect decisions regarding the Board's finances if they rely on the Combined Balance Sheet/Statement of Net Assets – Governmental Funds.

For fiscal year 2002, each of the self-directed, semi-independent (SDSI) agencies was appropriated start-up funds equal to one half its fiscal year 2001 appropriation. The Board received $1,489,498, which is equal to 36.7 percent of its total assets. The Board has to repay this money to the General Revenue Fund as funds become available pursuant to Section 3 (b) of Senate Bill 736, 77th Legislature.

During the year, the Board correctly presented these funds as an interagency liability in its monthly internal reports. Management sought guidance from the Office of the Comptroller of Public Accounts (Comptroller's Office) regarding the correct presentation of these funds in the financial statements and was advised, because of timing concerns involving the production of the State's Comprehensive Annual Financial Report, to report the amount as a fund balance rather than a liability. This alternative reporting position resulted in a materially incorrect presentation in the Board's 2002 annual financial report. However, this accounting treatment did not result in a material misstatement in the State's 2002 Comprehensive Annual Financial Report, which according to the Comptroller's Office was its primary concern at the time.

Recommendation

The Board should report the start-up funds that it owes the State as a liability to the State's General Fund and correspondingly decrease its unreserved, undesignated fund balance.

Management's Response

Generally Accepted Accounting Principles defines the subject item as a liability, as the State Auditor has appropriately concluded. However, our Agency's financial *statements are required to be reported, in our Annual Financial Report, in accordance with the State Comptroller's instructions, which we followed.*

Background

As indicated in the Auditor's report, the Board reported this item as a liability in its monthly financial statements during the fiscal year ended August 31, 2002. During the preparation phase of the Board's Annual Financial Report, an inquiry was made to the Comptroller's Office as to the Uniform Statewide Accounting System (USAS) reporting of this item. As the Auditor's report states, the Board was advised by that office to report the amount as a fund balance rather than a liability. To provide full disclosure, the Board deemed it important to disclose this amount in the notes to its Annual Financial Report, as an amount to be repaid to General Revenue "as funds become available" pursuant to Section 3(b), SB 736, 77th Legislature (2001).

The Board disagrees with the Auditor's statement that the Board had $1,898,709 in cash that it could have used to repay the loan from the General Revenue Fund. As a result of the Enron debacle, the Board was involved in significant enforcement issues which resulted in the revocation of the Texas practice license of Arthur Andersen, LLP. This and other enforcement issues required considerable resources which may have compelled the Board to utilize a significant amount of its available funds to effect the mandate of the Board in its prosecution of these major events. Thus, at the time, we were in no position to conclude that we had sufficient funds available to remit the amount to the State General Fund.

As our enforcement cases have since matured, we are in a better position to estimate our related needs. As of the date of this response, $1,117,123.50, or 75% of the total start-up funding, has been remitted to the State's General Revenue Fund.

Chapter 2

The Board Should Improve Its Performance Reporting

The Board used incomplete data to calculate one measure (Percentage of Complaints Resulting in Disciplinary Actions) and did not follow the Legislative Budget Board's measure definition to calculate the other (Number of Individuals Examined). Specifically:

- Because the Board used an incomplete activity report to calculate the Percentage of Complaints Resulting in Disciplinary Action, it inaccurately reported its performance for this measure as 23.9 percent for fiscal year 2002. The Board did not review the activity report data for accuracy before using it to calculate the measure.

  We certify performance measures as accurate if the recalculated result is within 5 percent of the reported result (in this case, 22.7 percent to 25.1 percent). The recalculated Percentage of Complaints Resulting in Disciplinary Actions in fiscal year 2002 is 22.6 percent, which is outside this allowable range. Although the Board narrowly missed the allowable range, the use of inaccurate data and poor review controls could cause greater discrepancies in future calculations.

- The Board's other performance measure that we audited, the Number of Individuals Examined, is certified with qualification. The Board accurately reported that it examined 6,023 individuals in fiscal year 2002. However, the Board did not follow the required methodology exactly, as required, to calculate the result.

  According to the *Guide to Performance Measure Management*—which was developed by the Governor's Office of Budget and Planning, the Legislative Budget Board, and the State Auditor's Office—the State Auditor's Office is to certify otherwise accurate performance measures with qualification if the entity being audited has calculated a performance measure using a methodology other than that required in the measure definition.

  The Board's current methodology calculates this performance measure as accurately as the required methodology and would be acceptable if it were the methodology specified in the measure definition.

Recommendation

To improve its performance reporting, the Board should:

- Institute a quality control process to check the data for the Percentage of Complaints Resulting in Disciplinary Action measure before reporting it.
- Contact the Legislative Budget Board to revise the definition and calculation methodology for the Number of Individuals Examined to incorporate its current methodology for calculating this measure.

Management's Response

With regards to Complaints Resulting in Disciplinary Actions, as the Auditor's report indicates, the Board narrowly missed the allowable range by .1%.

The error was a result of a single event data input coding mistake which occurred on one day of the reporting period. Immediately following the discovery of the error, the Board implemented a procedure which is intended to prevent re-occurrence of this anomaly.

With regards to the Number of Individuals Examined, the Board will revise the specific definition for calculating this measure, although it notes in the State Auditor's Report that the method used was also accurate.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

Our audit objectives were:

- To verify the accuracy of certain key financial statement balances and the effectiveness of key financial controls at the Board of Public Accountancy (Board).
- To verify the accuracy of certain key Board performance measures and the controls responsible for ensuring that they are accurate.

Scope

The scope of this audit included examining data submitted by the Board to the 78th Legislature to fulfill the requirements of Vernon's Texas Civil Statutes, Article 8930 (8), Self-Directed Semi-Independent Agency Project Act.

Methodology

We gained an understanding of the Board's overall control structure (control environment, control procedures, and accounting systems) to determine the extent of our audit plan. We tested internal controls and significant accounts as deemed necessary to determine the accuracy of financial data in the 2002 annual financial statement. In addition, we tested select performance data that the Board was required to include in its report to the Legislature and the internal controls in the system that produced that data.

Tests of significant account balances and classes of transactions included tests of detailed supporting transactions. For performance measures, we gained an understanding of the performance measure definitions and compared actual results with reported results. In addition, we performed analytic procedures, interviewed Board personnel, and reviewed the annual financial statements.

Project Information

Fieldwork was conducted between April and June 2003. We conducted this audit in accordance with generally accepted government auditing standards. The following members of the State Auditor's staff performed the audit:

- Greg Adams, CPA, CGFM, MPA (Project Manager)
- Victoria Harris (Assistant Project Manager)
- Fred Bednarski
- Lori Field
- Gary Leach, CQA, MBA
- Jennifer Lehman
- Anthony Patrick, MBA (Quality Control Reviewer)
- Nick Villalpando, CPA (Audit Manager)
- Frank N. Vito, CPA (Audit Director)

Adjusted Financial Statements

Statement of Net Assets as of August 31, 2002

Account		Statement of Net Assets		Total Adjustments		Adjusted Statement of Net Assets
Assets						
Current Assets						
Cash and Cash Equivalents:						
Cash on Hand	$	90,240	$		$	90,240
Cash in Bank		4,000				4,000
Cash in Transit/Reimburse Due from Treasury						
Cash in State Treasury		1,851,147				1,851,147
Securities Lending Collateral						
Cash Equivalents						
Short Term Investments		1,581,054				1,581,054
Legislative Appropriations						
Due from Other Funds						
Due from Other Agencies		336,966				336,966
Consumable Inventories		93,818				93,818
Other Current Assets						
Total Current Assets	**$**	**3,957,225**	**$**	**0**	**$**	**3,957,225**
Noncurrent Assets						
Restricted						
Capital Assets:						
Depreciable						
Furniture and Equipment	$	405,969	$		$	405,969
Accumulated Depreciation		(312,702)				(312,702)
Vehicles, Boats, and Aircraft		16,348				16,348
Accumulated Depreciation		(13,351)				(13,351)
Other Capital Assets						
Accumulated Depreciation						
Other Noncurrent Assets						
Interfund Receivables				1,489,498 [b]		1,489,498
Total Noncurrent Assets	**$**	**96,264**	**$**	**1,489,498**	**$**	**1,585,762**
Total Assets	**$**	**4,053,489**	**$**	**1,489,498**	**$**	**5,542,987**
Liabilities and Fund Balance						
Current Liabilities						
Payables from						
Vouchers Payable	$	167,059	$		$	167,059
Accounts Payable		523,535				523,535
Payroll Payable		180,384				180,384
Other						
Due to Other Funds		500,000				500,000
Deferred Revenue		209,511				209,511
Employees Compensable Leave		66,638				66,638
Funds Held for Others						
Total Current Liabilities	**$**	**1,647,127**	**$**	**0**	**$**	**1,647,127**

Statement of Net Assets as of August 31, 2002

Account	Statement of Net Assets	Total Adjustments		Adjusted Statement of Net Assets
Noncurrent Liabilities				
Interfund Payables		1,489,498	b	1,489,498
Employees Compensable Leave	40,227			40,227
Total Noncurrent Liabilities	**$ 40,227**	**$ 1,489,498**		**$ 1,529,725**
Total Liabilities	**$ 1,687,354**	**$ 1,489,498**		**$ 3,176,852**
Fund Financial Statement—Fund Balances				
Fund Balances (Deficits):				
Reserved for:				
Encumbrances	$ 16,947	$		$ 16,947
Inventories	93,817			93,817
Imprest Accounts	4,000			4,000
Other		1,489,498	b	1,489,498
Unreserved Designated for:				
Other				
Designated		409,211	a	409,211
Undesignated	2,261,972	(1,898,709)	a, b	363,263
Total Fund Balance	**$ 2,376,736**	**$ 0**		**$ 2,376,736**
Total Liabilities and Fund Balance	**$ 4,064,090**	**$ 1,489,498**		**$ 5,553,588**
Government-wide Statement—Net Assets				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 96,264	$		$ 96,264
Restricted for:				
Unrestricted	(106,865)			(106,865)
Total Net Assets	**$ (10,601)**	**$ 0**		**$ (10,601)**

Explanation of Adjustments

[a] Transfer of Special Revenue Fund balances from Undesignated to Designated, as done by Comptroller's Office

[b] To properly record the $1,489,498 liability owed to the State's General Revenue Fund

Statement of Activities for the Fiscal Year Ended August 31, 2002

Account	Statement of Activities	Total Adjustments	Adjusted Statement of Activities
Revenues			
Licenses, Fees, and Permits	$ 5,125,432	$	$ 5,125,432
Sales of Goods and Services	(473)		(473)
Interest and Investment Income	88,991		88,991
Other	250,135		250,135
Total Revenues	**$ 5,464,085**	**$ 0**	**$ 5,464,085**
Expenditures			
Salaries and Wages	$ 1,579,317	$	$ 1,579,317
Payroll Related Costs	395,833		395,833
Professional Fees and Services	402,518		402,518
Travel	57,687		57,687
Materials and Supplies	275,006		275,006
Communications and Utilities	33,576		33,576
Repairs and Maintenance	64,019		64,019
Rentals and Leases	212,553		212,553
Printing and Reproduction	133,311		133,311
Claims and Judgments			
Other Operating Expenditures	838,144		838,144
Capital Outlay			
Depreciation Expense	48,910		48,910
Total Expenditures/Expenses	**$ 4,040,874**	**$ 0**	**$ 4,040,874**
Excess of Revenue over Expenditures	**$ 1,423,211**	**$ 0**	**$ 1,423,211**
Other Financing Sources (Uses)			
Sale of Capital Assets	$	$	$
Net Change in Reserve for Inventories	30,785		30,785
Transfers In	3,107,598		3,107,598
Transfers Out	(2,621,562)		(2,621,562)
Legislative Transfers In			
Legislative Transfers Out			
Gain (Loss) of Capital Assets			
Increase/Decrease in Net Assets Due to Interagency Transfer of Capital Assets			
Total Other Funding Sources (Uses)	**$ 516,821**	**$ 0**	**$ 516,821**
Special Items	**$**	**$**	**$**
Extraordinary Items	**$**	**$**	**$**
Net Change in Fund Balances/Net Assets	**$ 1,940,032**	**$ 0**	**$ 1,940,032**

Statement of Activities for the Fiscal Year Ended August 31, 2002

Account	Statement of Activities	Total Adjustments	Adjusted Statement of Activities
Fund Financial Statement—Fund Balances			
Fund Balances, Beginning	$ 823,088	$	$ 823,088
Restatement			
Fund Balances, September 1, 2001, as Restated	823,088		823,088
Net Change in Consumable Inventories	(30,785)		(30,785)
Appropriations Lapsed	(357,017)		(357,017)
Fund Balances, August 31, 2002	**$ 2,376,736**	**$ 0**	**$ 2,376,736**
Change in Net Assets	**$ (1,418)**	**$ 0**	**$ (1,418)**
Net Assets—Beginning			
Adjustments to Beginning Net Assets	$	$	$
Convert from Fund Balances to Net Assets (CPA)			
FY01 Capital Assets Balances in GFAAG	567,933		567,933
Assets to Not Previously Reported Intra/CIP			
Reduce for Threshold Increase of Capital Assets	(164,285)		(164,285)
Accumulated Depreciation from Prior Years	(277,143)		(277,143)
FY01 Claims and Judgments Balance in GLTDAG			
FY01 Compensable Leave Balance in GLTDAG	(135,688)		(135,688)
FY01 Deferred Revenue Adjustment			
FY01 Reversals of Revenue and Accruals			
FY01 Reversals of Expense and Accruals/Prepaids			
Net Assets, September 1, 2001, as Restated and Adjusted	**$ (9,183)**	**$ 0**	**$ (9,183)**
Net Assets—August 31, 2002	**$ (10,601)**	**$ 0**	**$ (10,601)**

Distribution Information

Legislative Audit Committee

The Honorable Tom Craddick, Speaker of the House, Chair
The Honorable David Dewhurst, Lieutenant Governor, Vice Chair
The Honorable Teel Bivins, Senate Finance Committee
The Honorable Bill Ratliff, Senate State Affairs Committee
The Honorable Talmadge Heflin, House Appropriations Committee
The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Board of Public Accountancy

Chair and Members of the Board of Public Accountancy
Mr. William Treacy, Executive Director