

December 23, 2021

Lourdes M. Castro Ramirez, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Board of Accountancy submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Patti Bowers, Executive Officer, at (916) 561-1711, Patti.Bowers@cba.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Board of Accountancy (CBA) regulates the accounting profession for the public interest by establishing and maintaining entry standards of qualification and conduct within the accounting profession, primarily through its authority to license. The CBA currently regulates over 114,000 licensees, the largest group of licensed accounting professionals in the nation, including individuals (Certified Public Accountants and Public Accountants) and accounting firms (partnerships, corporations, and out-of-state accounting firms). Many of the accounting firms that the CBA regulates have national footprints and some have footprints worldwide. Certified Public Accountants (CPAs) work in a wide range of areas including accounting firms, private industry, government, and academia, and provide services to clients of all sizes and needs.

The CBA is self-funded, supported by fees imposed upon the professional community it regulates. The CBA draws no monies from California's General Fund.

The CBA's mission is:

"To protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards."

The CBA's vision is that all consumers are well informed and receive quality accounting services from licensees they can trust.

One of the ways the CBA achieves its mission and vision is through the development and implementation of its Strategic Plan. The CBA's 2019-2021 Strategic Plan contains 20 objectives that are designed to accomplish the seven goals, which consist of:

- Maintain an active, effective, and efficient Enforcement program to maximize consumer protection.

- Maintain an active, effective, and efficient Licensing program to maximize consumer protection.
- Deliver the highest level of customer service.
- Provide and maintain an effective and timely outreach to all CBA stakeholders.
- Maintain an active presence and leadership role that efficiently leverages the CBA's position of legislative influence.
- Improve efficiency and information security through the use of existing and emerging technologies.
- Maintain an efficient and effective team of leaders and professionals by promoting staff development and retention.

The CBA is presently updating its Strategic Plan and anticipates the approval of a 2022-2024 Strategic Plan in March 2022.

Control Environment

The CBA sets the foundation for a strong control environment through its mission and vision, which were previously discussed, through guidance and policy directives from the 15-member board appointed by the Governor and Legislature, and through strong leadership by the Executive Officer and CBA management. The CBA's values include consumer protection, integrity, quality and professionalism, transparency, initiative, respect, accountability, and teamwork, which are practiced daily by all employees.

Provided below are an overview of the controls that are followed:

Demonstrating a Commitment to Integrity and Ethical Values

Senior Management establishes the tone at the top in demonstrating the importance of integrity and ethical values and sets the expectations of standards of conduct within the CBA. Staff are required to annually sign and acknowledge adherence to specified employee expectations that address matters involving conduct, customer service, and equitable treatment amongst staff and those the CBA serves. Management and staff alike are required to adhere to specified policies that ensure an appropriate work environment and identify procedures to follow should there be concerns regarding any matter.

Additionally, mandatory training is provided to all levels of management to ensure values and ethics are being practiced.

Oversight by the CBA

The CBA is governed by a 15-member board, comprised of seven members who are CPAs, and eight members of the public who are not licensees of the CBA. The Governor appoints four of the public members and all of the licensee members with individuals representing a cross section of the accounting profession. The Senate Rules Committee and the Speaker of the Assembly each appoints two public members.

The CBA sets policy directives that are aligned with the CBA's consumer protection mission. The development and implementation of the CBA's directives are accomplished by staff under the direction of the Executive Officer.

Organizational Structure and Documentation to Achieve Business Objectives and Consumer Protection Mission

The CBA's organizational structure ensures appropriate levels of responsibility and authority are being exercised in accordance with California Department of Human Resources (CalHR) and State Personnel Board laws, rules and guidelines. In addition, the CBA maintains documentation of control systems through policies and procedures, desk manuals, office guidelines and expectations and other written communications.

CBA Commitment to Attracting, Developing and Maintaining a Competent Workforce

Applicants must apply for CBA job openings through the CalHR's website. Applications are prescreened to established criteria specific to the position to ensure only the most qualified applicants are selected for an interview. During the interview, candidates are asked a set of questions focused on gaining an understanding of their knowledge and skills to ensure the most qualified candidate is selected. Following the interview, reference checks are performed prior to a job offer.

Once hired, staff begins an in-depth onboarding program. The workforce is further sustained through training, which could consist of on-the-job or external training through another state agency or training venue. The Department of Consumer Affairs (DCA) also conducts and provides job specific and job-related training through its SOLID Training Unit. The CBA also provides cross-training to retain program knowledge and encourages eligible staff to take advantage of DCA's upward mobility program.

Measuring Performance and Maintaining Accountability

Accountability and performance measures are regularly monitored and enforced within the CBA. Managers are required to receive training once appointed and then they must meet ongoing training requirements of 20 hours biennially.

Internally, managers communicate with Executive Management regarding performance matters and work directly with the DCA's Performance Management Unit. Should a staff member not meet performance expectations, the issue is addressed through preventive measures such as additional training and frequent meetings with their manager. If the issues persist, counseling, corrective, and disciplinary actions could be pursued.

Accountability is also monitored through workload. Monthly statistics are reported on Licensing and Enforcement workload to Executive Management and at CBA meetings.

The CBA maintains a strong internal control environment that provides management, the CBA, and stakeholders with assurance that the organization is operating in accordance with directives, policies, and legal requirements.

Information and Communication

Internal Communication

Internal communication is most often achieved through meetings, emails, memorandums, and telephone calls. The method of communication is often determined by the topic to be discussed and the staff members involved. The goal is to foster clear and interactive communication to ensure staff (or DCA staff) understand the information being provided.

Employees are encouraged to speak with management to address any topic, especially concerns, suggestions, or for necessary clarification on assignments. However, employees also use email and employee surveys to report concerns, inefficiencies or inappropriate actions to management or other decision makers.

External Communication

The CBA uses multiple methods of communication with external stakeholders. In addition to the common methods of email and telephone calls, the CBA also actively participates in presentations at colleges and universities and other outreach events. With the onset of COVID-19, many of these events are held via an online platform, which has enabled the CBA to increase participation as it eliminates many travel-related logistics. The most frequent method and easiest way for external stakeholders to receive information is through the CBA's comprehensive website, which contains easy to locate information, recent and upcoming events, laws and regulations, and many other sources of information to assist.

To further the CBA's reach, a newsletter is published on a triannual basis. An email is sent to licensees notifying them of the newsletter and also providing an option to receive a printed version. Further, the CBA uses a list service, known as "E-News," that allows stakeholders, including consumers, to sign up to receive emails regarding the CBA's triannual newsletter, updates on regulatory changes, CBA meeting agendas and materials, and much more.

The CBA leverages traditional and social media to increase consumer awareness of the CBA and its mission. In recent years, the CBA has grown its presence on social media and steadily increased its followers on Facebook, Twitter, and LinkedIn as it produces and shares content relevant to stakeholders. The CBA also uses social media to respond to questions and comments about its program requirements and processes. Links to its social media accounts are available on the CBA website.

An additional method to enable stakeholders to receive information on the CBA is by attending and participating in CBA meetings, which are held six times per year. Each meeting provides numerous opportunities for the public to provide input regarding various policy discussions and provide comment for items that were not scheduled to be discussed. Additionally, the CBA meetings are held via WebEx, an online platform that has expanded the opportunity for consumers to participate in the CBA's meetings.

Information and Communication

The CBA understands the importance of communication with internal and external stakeholders and that the distribution of information to each of these groups is critical in ensuring the CBA can meet its consumer protection mission. Internal stakeholders could include both CBA and DCA staff. External stakeholders include, but are not limited to, consumers, applicants, licensees, colleges and universities, other government agencies, and professional associations.

Effective communication internally and externally is achieved by 1) ensuring the information to distribute is accurate and clear; and 2) identifying the audience to which the information will be shared.

Identification and Collection of Information

The CBA uses a variety of options to record pertinent operational, programmatic, and financial information that is distributed to internal and external stakeholders. The CBA houses all licensee data in DCA's Consumer Affairs System (CAS). CAS and other internal stand-alone databases provide applicant and licensee information that is necessary for workload monitoring and legislatively required reports. This information also often serves as a base when developing materials for outreach events to external stakeholders.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Board of Accountancy monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Patti Bowers, Executive Officer; Deanne Pearce, Assistant Executive Officer; Dominic Franzella, Chief of Enforcement; and Michelle Center, Chief of Licensing.

Monitoring Activities

Monitoring of the identified controls is performed on a continuous basis by managers. Monitoring can include meetings with staff, review of workload statistics and budget information and other activities as necessary to ensure awareness of identified risks. To ensure staff and management are actively working, when possible, to address the risks, a project outline is developed that identifies key steps, due dates, and assignments to ensure risks are monitored and mitigated to the extent possible.

Frequent communication is conducted between Executive Management and management to assess project timelines until the risks have been eliminated or mitigated to acceptable levels.

Addressing Vulnerabilities

Vulnerabilities are addressed timely and discussed regularly in meetings with Executive Management so that the issues can be evaluated promptly. Executive Management will determine whether the deficiencies can be addressed internally, be escalated to DCA for further resolution or be raised to the CBA for deliberation and action.

Issues that require CBA deliberation will be identified on a publicly noticed agenda and voted upon (if necessary).

Executive Management may hold routine meetings with their managers to address issues brought to their attention. Managers will be responsible for evaluating and documenting issues brought to their attention and work with Executive Management to determine the appropriate corrective action for the identified deficiencies. Once identified, corrective action should be taken to resolve the deficiency in a timely manner.

Communication

Monitoring activities and results may be communicated to managers via regular manager's meetings, Action Plan meetings (following a CBA meeting to address actions taken during the meeting), monthly Executive Officer Reports, one-on-one meetings with managers and program staff, and emails. Each division of the CBA has a designated executive monitoring sponsor who will report on the effectiveness

of internal control systems as well as convey information to the Executive Officer of updates and changes. The Executive Officer is responsible for conveying information to DCA as well as the CBA.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Board of Accountancy risk assessment process: executive management.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, and other/prior risk assessments.

The following criteria were used to rank risks: likelihood of occurrence, and potential impact to mission/goals/objectives.

RISKS AND CONTROLS

Risk: Insufficient Revenues

The CBA is at risk of not being able to meet its consumer protection mandate. For nearly ten years, the CBA has been operating in a yearly negative cash flow as authorized expenditures are outpacing projected revenues. The negative cash flow has significantly reduced the CBA Reserve Fund putting the CBA at risk of not being able to carry out its consumer protection mandate.

Control: Rulemaking Initiated to Increase Fees

The CBA initiated a rulemaking to increase the license renewal and initial licensure fee to the statutory maximum of \$280. The rulemaking is anticipated to be submitted to the Office of Administrative Law by early 2022.

Control: Fee Analysis

To further address the CBA's insufficient revenue, the CBA engaged the services of a consulting firm to assess all fees to determine if the fee level is reflective of the costs incurred to perform the service. The CBA will use the results of the fee analysis to determine what, if any, changes need to be made to its present fee levels.

Risk: Investigative CPA Classifications

The CBA relies on highly qualified, specialized Investigative Certified Public Accountants (ICPAs) to perform its most technical and complex investigations. The CBA has previously and continues to experience problems in recruitment in the ICPA classification due to noncompetitive compensation associated with the series. If the positions are not adequately filled, investigations will not be completed timely and effectively. This issue impacts the CBA's Strategic Plan Goal relating to Enforcement.

In addition, direct oversight of the ICPAs is performed by Supervising ICPAs (SICPAs). Under the current Pay Differential 347 language, an individual who accepts a supervising ICPA promotion would be required to forfeit the prior bonus. This deters internal qualified candidates from applying for a SICPA position. If the positions are not adequately filled, investigations will not be reviewed timely resulting in significant delays in pursuing enforcement actions and adversely affecting the CBA's

consumer protection mission.

Control: Revision to Pay Differential 347 Language

The CBA has been working with DCA on this issue for several years and continues to work with DCA on revising the pay differential language.

As Pay Differential 347 is presently written, current ICPA employees are deterred from promoting within the ICPA classification series, as a promotion to the next classification level results in an effective pay decrease, by delaying the employees' eligibility to receive their bonus.

The proposed changes would include removal of the "maximum" and "consecutive" reference from all bonus criteria. They would also add language that would allow for an employee in an eligible classification, that upon promotion to a classification covered by this retention bonus, to continue to qualify for the retention bonus without a change in eligibility.

Control: External Consulting Services

The CBA may explore the use of external consulting services to provide expertise and review on enforcement cases should there be an influx in technical cases creating an excess backlog due to the loss of ICPAs through attrition.

Risk: Additional Automation and Online Features Needed

Some programs within the CBA continue to be impacted by the lack of a comprehensive technology infrastructure. The CBA has implemented a new online feature to apply and pay for a CPA license. The functionality needs to be expanded to eliminate manual functions by staff once the application, fee, and supporting documents are submitted.

The CBA also needs to update and add payment functionality to its online CPA Examination application. The lack of payment functionality bifurcates the application process by allowing the applicant to submit some information online but requires a hardcopy "remittance form" and payment via mail.

CAS is the universal licensee database system used throughout the CBA. The CAS database is limited in functionality and is difficult to modify. It presently serves as a repository for licensee data; however, it does not have any functionality for application or case management and limited capacity for report generation.

Control: Continue Business Modernization Project

The CBA is working collaboratively with DCA's Office of Information Services (OIS) on a Business Modernization Project. Prior accomplishments through this project include the online application and payment portal for applying for CPA licensure. The CBA is working with DCA OIS to implement additional automation and is presently undertaking a pilot project for submission of an online license renewal application and an online consumer complaint form. Once these components of the project are implemented the CBA will work with DCA OIS on the implementation of online payment for the CPA Examination and exploring options for enforcement case management and report generation.

Risk: Managing a Hybrid Workforce

As the CBA works to resume "normal" operations during the COVID-19 Pandemic, select CBA staff are participating in a hybrid work environment. This allows staff to both telework and work in the office. In facilitating a hybrid work environment, the CBA must ensure the security of information and equipment as both are transported between home and office. Additionally, staff must have the tools and equipment at home and at the office to successfully complete their work.

Control: Adherence to Relevant Policies and Procedures

DCA is revising its department-specific telework policy, which will provide extensive guidance and directives to ensure staff are aware of the requirements that must be met to effectively and securely work remotely.

Control: CBA Internal Tracking

The CBA manually and internally tracks the location of files and equipment. This provides CBA management assurance on the location; however, there is still inherent risk as information and equipment leave the CBA office.

Risk: Reliance on Hard Copy Documents

The CBA has taken initial steps to automate many of its processes. This has been supported by the transition to new information technology systems that facilitates the acceptance of electronic documents, enabling the CBA to have "soft" copies of documents and in some instances eliminating the need for physically printing materials. However, while this automation will help reduce hard copy documents going forward, the CBA has a large volume of hard copy documents for pending applications, enforcement documents, and licensee files.

Control: Explore Document Imaging

The CBA will be exploring options and costs to transition hard copy license files and other historical documents to a document imaging application.

CONCLUSION

The California Board of Accountancy strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Patti Bowers, Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency