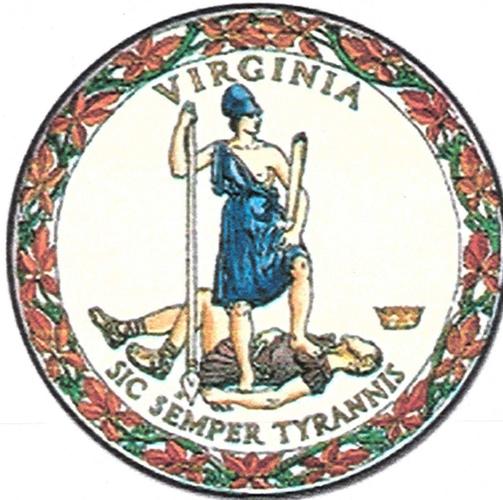


Virginia Board of Accountancy

Biennial Report Fiscal Years 2009–2010



Virginia Board of Accountancy
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Virginia Board of Accountancy (VBOA) Overview

About the VBOA

The Virginia Board of Accountancy (VBOA), established in 1910, regulates Certified Public Accountants (CPAs) in Virginia through a program of examination, licensure (individuals and firms), consumer protection (enforcement), continuing professional education and peer reviews.

Unlike most state agencies in Virginia, the VBOA is not funded by public tax dollars. The VBOA is an independent, non-general fund agency whose revenues are wholly dependent upon the fees established for CPA exam candidates, applicants and licensees.

The VBOA may impose penalties on persons using the CPA title in Virginia or firms providing attest services or compilation services to persons or entities located in Virginia, or on a person or firm who does not hold a Virginia license or who does not meet the requirements to use the CPA title in Virginia in accordance with the Board's statutes and regulations. All monetary penalties collected by the VBOA are deposited to the state literary fund – such funds are not available to the VBOA as operating funds.

VBOA's Mission and Values

The VBOA's mission is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of Certified Public Accountants (CPAs) and CPA firms.

The Board's commitment to excellence is demonstrated through the agency's values:

- High Ethical Standards and Integrity
Pledging principled and reputable conduct;
- Exceptional Customer Service
Demonstrating a courteous, empathetic and helpful attitude while assisting each customer to reach their goal;
- Honesty and Fairness
Acting with openness, impartiality, and consistency;
- Teamwork
Excelling mutually, the Board will work together with citizens and licensees to achieve the shared vision;
- Competence
Striving for proficiency through creativity, innovation and diversity;
- Communication
Achieving enhanced understanding between the Board, the educational community, the regulated community and the public through effective communications, interactions, and service;
- Continuous Improvement
Striving to innovate and to change where change is needed; and
- Financial Stewardship
Maintaining frugality with respect to the expenditures of public funds.

Background Information

Board membership is defined in § 54.1-4402.B., of the Code of Virginia. In summary, the Board is comprised of four CPAs who have been actively engaged in providing services to the public using the CPA title for at least three years prior to appointment to the Board, one CPA for at least three years prior to the appointment to the Board shall have been actively engaged in providing services to the public using the CPA title or in providing services to an employer in government or industry using the CPA title, one educator in the field of accountancy who is a CPA, and one citizen member who may be an accountant who is not licensed as a CPA. Each member is appointed by the Governor to serve a four-year term and may not serve for more than two consecutive terms.

Board members during the period of this report:

Board Member	Term as of June 30, 2010	Term Expiration Date
Regina P. Brayboy, MBA, MPA (Citizen Member) Suffolk, VA	2nd	June 30, 2012
O. Whitfield Broome, Ph.D., CPA (Educator Member) Charlottesville, VA	** 2nd	June 30, 2011
Dian T. Calderone, MTX, CPA Williamsburg, VA	* 2nd	June 30, 2012
Tyrone E. Dickerson, CPA Richmond, VA	2nd	June 30, 2013
Stephen D. Holton, CPA Richmond, VA	2nd	June 30, 2011
William E. Hunt, Jr., CPA Lynchburg, VA	1st	June 30, 2010
Lawrence D. Samuel, CPA Midlothian, VA	2nd	June 30, 2012
* Board Chairman in FY09.		
** Board Chairman in FY10.		

Per § 54.1-4404 of the Code of Virginia, the Board shall employ an Executive Director who shall serve at the pleasure of the Board.

- **Executive Director as of April 2009:** Wade A. Jewell

The VBOA works closely with other associations and agencies to ensure consumer protection and the most efficient and effective operation, to include the American Institute of Certified Public Accountants (AICPA), the National Association of State Boards of Accountancy (NASBA), other individual State Boards of Accountancy, the Virginia Society of Certified Public Accountants (VSCPA), the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC), the State Corporation Commission (SCC), the Public Company Accounting Oversight Board (PCAOB), the Department of the Treasury, the Department of Education, and others as necessary.

Significant Accomplishments

The VBOA has recently achieved numerous significant accomplishments:

- **Statutes** – The VBOA succeeded in working with the Administration and the General Assembly to enact comprehensive revisions to the accountancy statutes that became effective July 1, 2007 (§ 54.1-4400 et seq of the Code of Virginia). This initiative began in 2004 and was the culmination of cooperation between the VBOA, the Virginia Society of CPAs (VSCPA), the General Assembly and the Administration.
- **Regulations** - As a result of the comprehensive revisions to the accountancy statutes that became effective July 1, 2007, some new regulations were needed, and most of the current regulations were no longer needed. The comprehensive revisions to the accountancy statutes therefore required comprehensive revisions to the regulations. The old regulations were outdated, and in many cases, conflicted with the statutes (creating much confusion within the CPA community). The Board worked aggressively during the biennium to replace the outdated regulations. The new regulations became effective September 16, 2010, and met the Governor's intent of a more efficient and effective regulatory environment by simplifying and making the regulations evergreen. The regulations were reduced from 26 pages to nine pages.
- **New Licensing System** – The VBOA successfully implemented a new licensing software system in February 2009. The new system, with improved internal controls and developed by Systems Automation, is a generic licensing system that replaced an in-house system developed by former staff/consultants that could no longer grow and be maintained. Future plans include system enhancements in the areas of customer service, functionality and ease of use for our customers.
- **Executive Director/Staff** - Following a vacancy of the Executive Director position for approximately six months, the VBOA's current Executive Director joined the Board in April 2009, bringing extensive state government administrative, fiscal and operational experience (22 years with six state agencies, plus three years in the private sector to include a corporate controllership). Under the leadership of the Executive Director, costs have been significantly streamlined and a long-term business plan has been implemented to effect long-term growth and sustainability. The remaining Board staff bring numerous years of experience within state government, the private sector and related expertise within the VBOA to the daily Board operations. Staff expertise relative to the VBOA statutes and regulations, commitment, knowledge, skills and abilities are a major strength of the Board.
- **Shared Services Agreements and MOUs** – During the period of this report the VBOA implemented several shared services agreements/Memorandum's of Understanding (MOU). The VBOA serves as a model of efficiency for small state agencies, utilizing a shared services approach for its financial management needs (MOU with the Department of Accounts), human resources (MOU with the Department of Human Resource Management) and information technology (MOU with the Department of Health Professions). These agreements allow the VBOA to minimize costs and acquire necessary expertise, while maintaining its focus on its mission "to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of Certified Public Accountants (CPAs) and CPA firms."

Audit Report Summaries

The VBOA is required to prepare annual financial statements in accordance with generally accepted accounting principles and shall be audited annually by the Auditor of Public Accounts (APA), or his legally authorized representatives, or by a firm selected by the Board through a competitive procurement, in accordance with § 54.1-4420 of the Code of Virginia.

The following summaries are presented for the audit reports issued during this reporting period:

- **FY08 – FY09 Financial Statements** - The APA Audit Reports on the VBOA's Financial Statements, dated January 29, 2009 and 2010, *respectfully*, state "In our opinion, the financial statements . . . present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Board as of June 30, 2008 and 2009, *respectfully*, and the respective changes in financial position thereof for the years ended in conformity with accounting principles generally accepted in the United States of America."
- **FY08 – FY09 Internal Control Over Financial Reporting and on Compliance and Other Matters** – The APA Audit Reports on the Internal Control Over Financial Reporting and on Compliance and Other Matters, dated January 29, 2009 and 2010, *respectfully*, did not identify any deficiencies in internal control over financial reporting that were considered to be material weaknesses and disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
- **FY08 Audit Risk Alert** - Subsequent to June 30, 2008, the VBOA underwent significant changes in its general and accounting operations. The Executive Director position became vacant on November 7, 2008, and changes in accounting operations led the APA to issue a cautionary audit risk alert. The APA made five recommendations for improvement. The VBOA was able to address each concern prior to the FY09 audit, and as noted above, there were no audit risks or findings found.

Summary Statistics

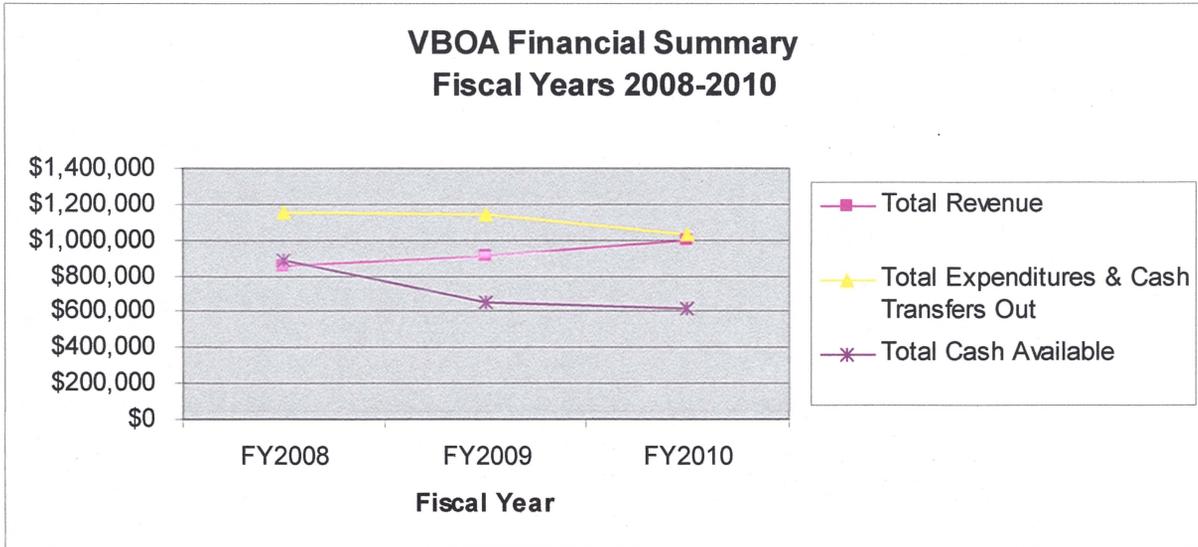
The VBOA's mission is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of Certified Public Accountants (CPAs) and CPA firms. The VBOA fulfills its mission through numerous programs and functions, to include financial management and accountability, CPA Examination, CPA Licensure, Continuing Professional Education (CPE), and Consumer Protection (Enforcement).

The following information provides summary data/statistics for each of these programs and functions:

Financial Summary – The VBOA is an independent, non-general fund agency whose revenues are wholly dependent upon the fees established for CPA Exam candidates, applicants and licensees. Ensuring the fiscal integrity of the VBOA's operations is an essential protection function. The VBOA has a responsibility to ensure that the fee structure generates sufficient revenues to cover the VBOA's ongoing operating expenses, to sustain growth and to ensure that the VBOA's Trust account balance is sufficient to protect its purpose.

The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for (i) its use in the study, research, investigation, or adjudication of matters involving possible violations of the provisions of this chapter or regulations promulgated by the Board or (ii) any other purpose that the Board determines is germane to its statutory purposes and cannot otherwise be funded through the Fund. The need for this fund has been amply demonstrated by the dramatic collapse of prominent publicly-held companies in the early 2000s, recent high-profile investment frauds, and the most recent economic recession, all of which testify to the importance of high ethical and professional standards and Accountancy Boards' vigilance in protecting the public.

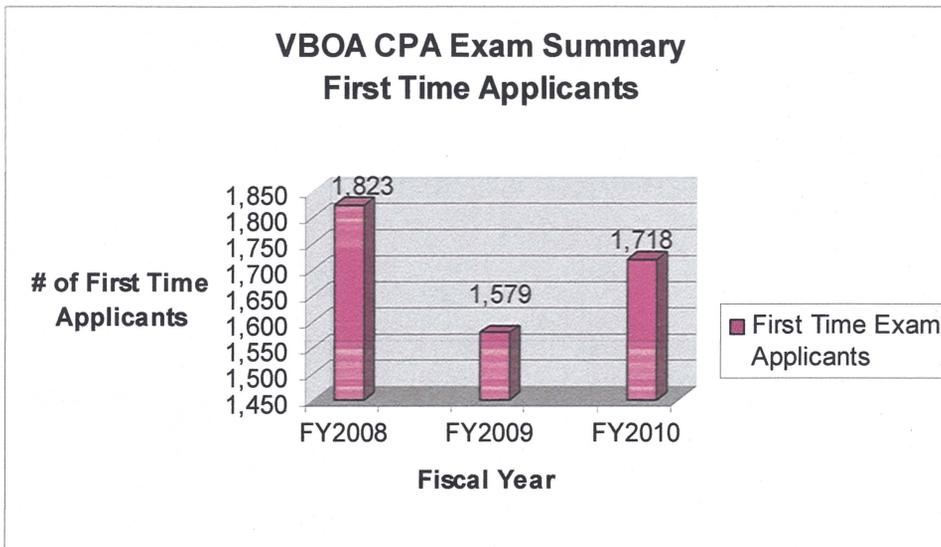
Virginia Board of Accountancy Financial Summary			
	<u>FY Ended June 30, 2008</u>	<u>FY Ended June 30, 2009</u>	<u>FY Ended June 30, 2010</u>
Fee Revenues	\$802,628	\$884,180	\$987,256
Interest Earned	\$50,370	\$18,431	\$4,262
Expenditures	(\$1,141,304)	(\$1,128,070)	(\$896,918)
Cash Transfers Out *	(\$9,100)	(\$11,720)	(\$134,390)
Deficit (Cash Decrease)	<u>(\$297,406)</u>	<u>(\$237,179)</u>	<u>(\$39,790)</u>
Appropriation	<u>\$1,157,506</u>	<u>\$1,128,836</u>	<u>\$919,454</u>
Cash Balances:			
Operating Fund	\$96,023	\$240,413	\$197,726
Trust Account	\$792,836	\$411,267	\$414,164
Total Cash Available	<u>\$888,859</u>	<u>\$651,680</u>	<u>\$611,890</u>
Cumulative Decrease in Total Cash Available since July 1, 2008	<u>(\$297,406)</u>	<u>(\$534,585)</u>	<u>(\$574,375)</u>
* Transfers required by the respective Appropriations Act for savings incurred by non-general fund agencies, expenses incurred by general fund agencies on behalf of non-general fund agencies and state budget shortfall contributions.			



The VBOA's current fee structure is insufficient to effect long-term growth and sustainability. The VBOA has projected that by the close of the current biennium, ongoing operating costs will exceed revenues, to include a total depletion of existing cash balances in both the operating and trust accounts. The VBOA is currently preparing a regulatory package that will implement a revised fee structure to address the long-term growth, sustainability and Trust Fund Account needs of the agency. While some fees have been reduced over the past decade, there has been no licensure fee increase since the early 1990s. The VBOA currently maintains one of the lowest fee structures among boards of accountancy in the United States. The proposed fee increase will ensure the fiscal integrity of the VBOA's operations and is an essential protection function to both individual CPAs and CPA firms.

CPA Examination – To be eligible to take the CPA Exam in Virginia, an individual must have obtained from one or more accredited institutions (or the National College) at least 120 semester hours of education, a baccalaureate or higher degree, and an accounting concentration or equivalent. It should be noted that CPA licensure in Virginia requires at least 150 semester hours of education, a baccalaureate or higher degree, and an accounting concentration or equivalent.

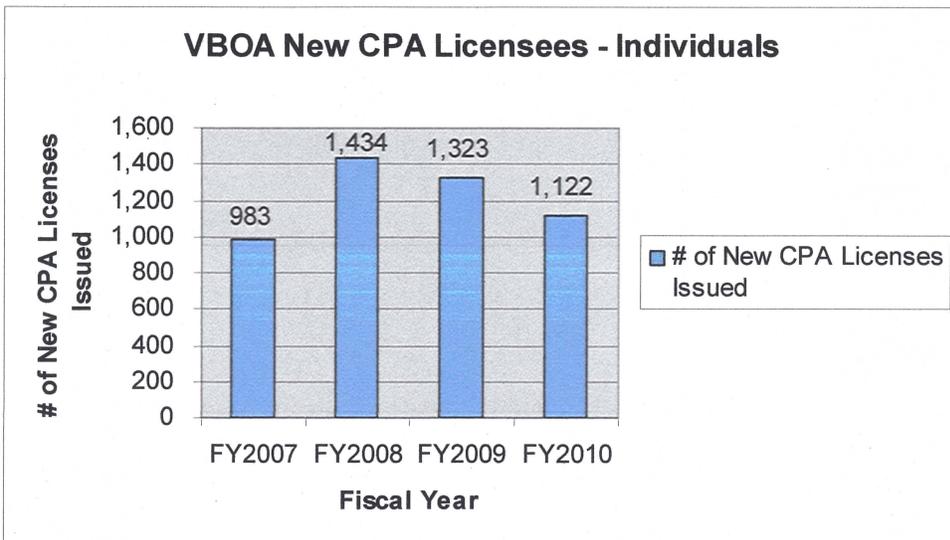
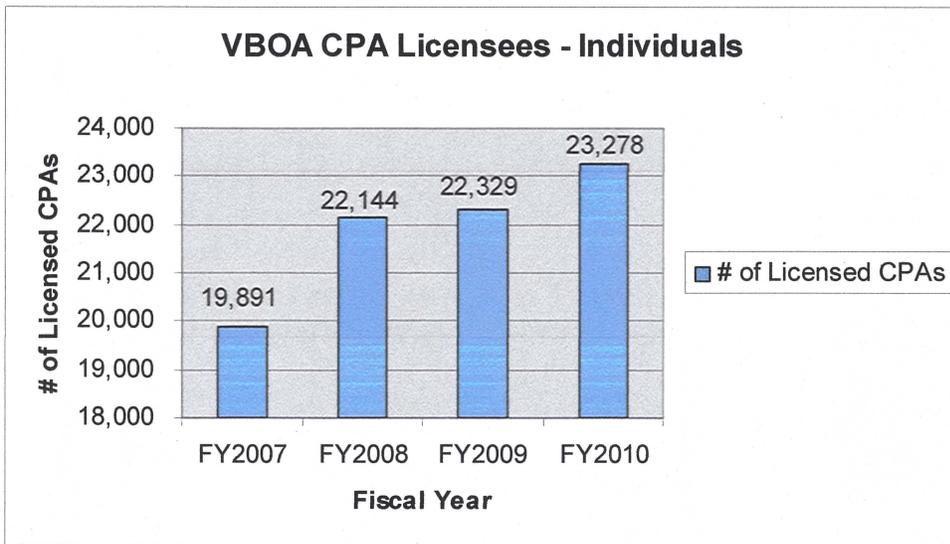
The following chart depicts the number of first time applicants to take the CPA Exam over the past three fiscal years. The VBOA experienced a 13% decrease in applications from FY08 to FY09. However, FY10 represents a 9% increase over FY09.



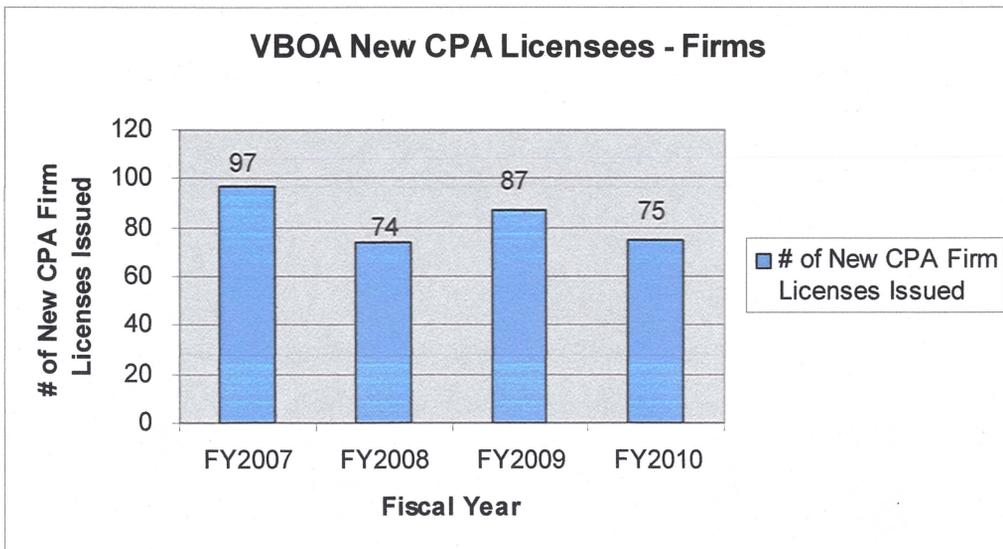
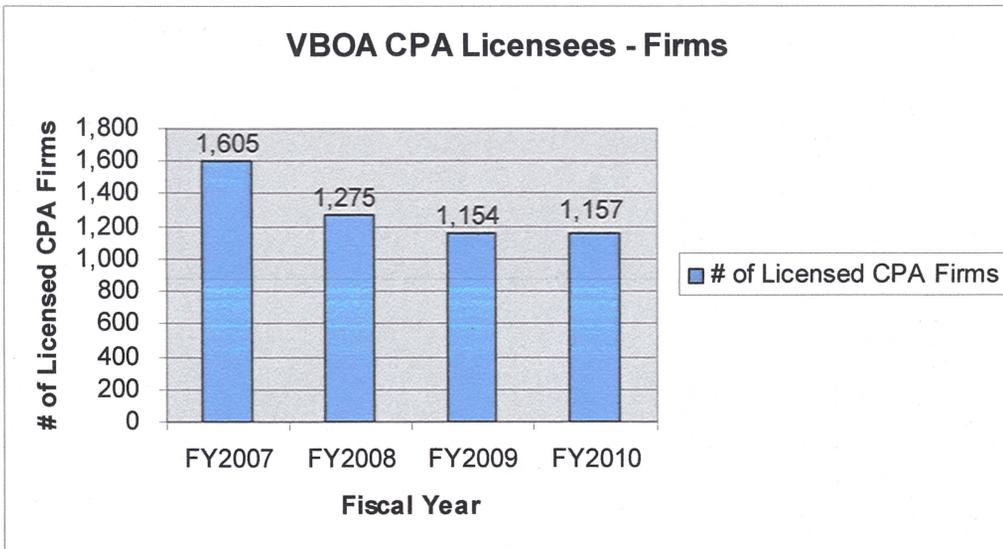
CPA Licensure – In order to become a licensed CPA in Virginia, a candidate must first meet the “3 E’s”: (1) Education, (2) Exam and (3) Experience. Once a candidate has met the education and experience requirements, and has passed the CPA Exam, he may apply for licensure in Virginia.

The following charts demonstrate the number of active licensed CPAs in Virginia for the past four fiscal years, as well as the number of new CPA licenses issued for each of the past four fiscal years.

While there has been a 22% decrease in new licenses issued between FY08 and FY10, the number of licensed CPAs has increased 5% during the same time period. This reflects that fewer Virginia CPAs are giving up their license. This may be due to the economic recession – finding fewer CPAs retiring or extending their retirement age/date.



In accordance with subsection A of § 54.1-4412.1 of the Code of Virginia, only a firm can provide attest or compilation services to persons or entities located in Virginia. Therefore, any firm providing such services must have a firm license.



Continuing Professional Education (CPE) - In accordance with § 54.1-4409.2 of the Code of Virginia and Board Regulation 18VAC5-22-90, a person who holds a Virginia CPA individual license, applies for an initial license or applies to have their license reinstated is required to obtain CPE.

On a monthly basis the VBOA randomly selects licensed Virginia CPAs for CPE compliance. Licensees are notified by VBOA staff if they are selected for a CPE compliance review. If selected, licensees are required to submit acceptable supporting CPE documentation to verify compliance. As a function of this CPE review process, licensees may be required to provide additional documentation as requested by the VBOA to support compliance.

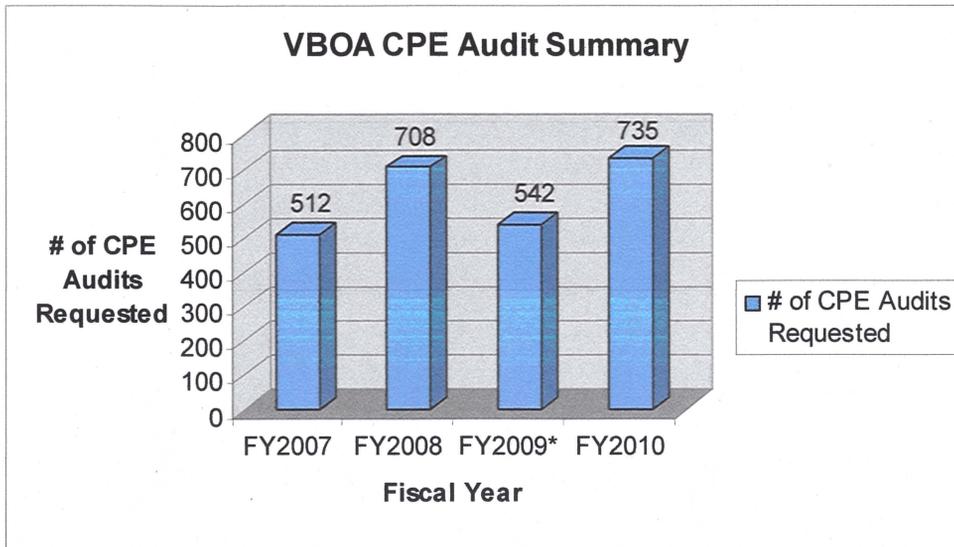
In addition to the random selection process, licensed Virginia CPAs will also be selected for a CPE compliance review as a component of any open investigation (Enforcement case), or in situations where the VBOA believes that a CPE compliance review is warranted.

As the result of a CPE Compliance Review, the VBOA may find that a licensee has violated the CPE requirements during the reporting period. In such cases Enforcement action will be taken and the licensee will generally be offered a consent agreement and be subject to disciplinary action.

The following chart exhibits the number of CPE audits performed over the past four fiscal years, with corresponding compliance percentages.

Virginia Board of Accountancy CPE Audit Summary				
	FY2007	FY2008	FY2009*	FY2010
# of CPE Audits Requested	512	708	542	735
# of CPE Audits in Full Compliance	450	697	517	382 *
% Compliant	87.9%	98.4%	95.4%	n/a *

* FY2010 review of CPE audits is still in process.



* The implementation of a new system application resulted in fewer CPE audits during FY2009.

Enforcement Activity

Authority

The VBOA's statutory authority is in Chapter 44 of Title 54.1 of the Code of Virginia (§ 54.1-4400 et seq). The VBOA's mission is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of Certified Public Accountants (CPA) and CPA firms.

Per § 54.1-4402.G., "The Board shall take such actions as may be authorized by this chapter to ensure that persons using the CPA title in Virginia and firms providing attest services or compilation services to persons or entities located in Virginia adhere to the standards of conduct and practice in § 54.1-4413.3 and regulations promulgated by the Board." Specific powers and duties of the VBOA related to the initiation and receipt of complaints can be found in § 54.1-4403.

The VBOA will investigate complaints against Virginia licensees, expired licensees or non-licensees using the CPA title or performing services in Virginia restricted to CPAs. The VBOA does not have any authority over non-CPA accountants or bookkeepers (unless they are using the CPA title or are performing services in Virginia restricted to CPAs).

The primary goals of the VBOA's enforcement activity include:

- To investigate complaints against licensees and unlicensed individuals that are within the jurisdiction of the VBOA;
- To coordinate investigations of matters with other agencies that involve significant loss or harm to Virginia citizens;
- To increase adherence to licensing requirements and professional standards by CPAs and public accounting firms;
- To resolve VBOA enforcement matters and adjudicate complaint cases in a timely manner;
- To maintain the confidentiality of information obtained during investigations;
- To monitor licensees disciplined by the VBOA; and
- To publicize disciplinary actions necessary to protect the public.

Common Complaints

The VBOA investigates approximately 75–100 complaints per year. Complaints may originate from the public, another CPA, a client, a previous client, a state or federal agency, and/or other sources. The VBOA itself may initiate a complaint. Some common complaints investigated include:

- CPA title use by expired licensees, non-CPA accountants, bookkeepers, or firms (unlicensed activity);
- Tax errors or failure to complete services;
- Failure to return client records or respond to clients;
- Embezzlement, fraud and/or theft;
- Disclosure of confidential information;
- Misrepresentations;
- Lack of independence;
- Audit failure;
- Insider trading;
- Failure to maintain competency;
- IRS sanctions;
- Felonies;
- Failure to provide due professional care;
- Ethics violations; and
- Violations of the respective Virginia statutes and/or regulations.

Some common complaints NOT investigated by the VBOA are:

- Fee disputes;
- Authority over non-CPA accountants or bookkeepers;
- Tax fraud (normally referred to the IRS Fraud Division);
- Minor errors or mistakes; and
- Cases currently in litigation.

Procedures

Once a complaint is received by the VBOA Office it is reviewed by the Enforcement Manager. If probable cause exists to initiate an investigation, the complaint is assigned a case number and the investigation process begins. Depending upon the type of complaint and/or violation of statute or regulation, the case may be administered by VBOA staff or referred to the VBOA Enforcement Committee for resolution.

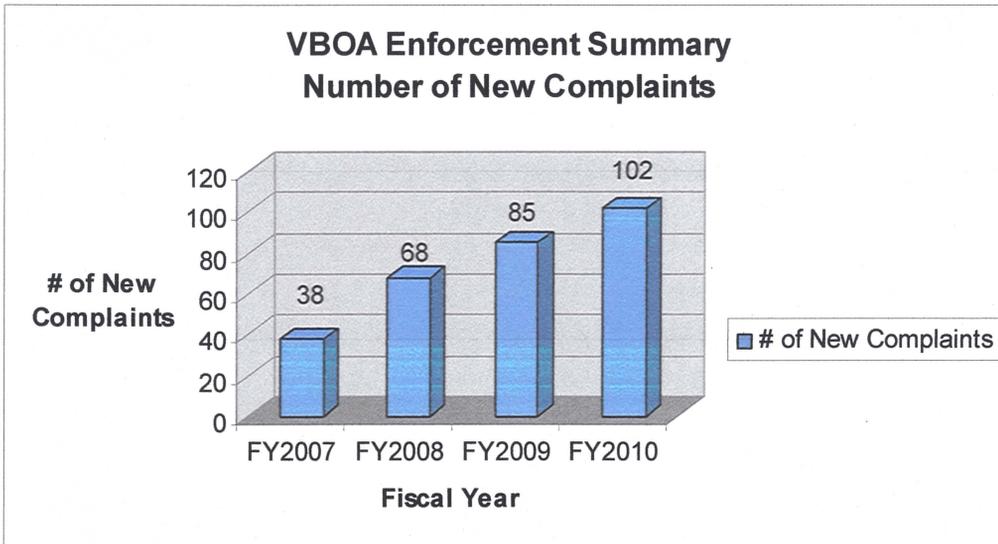
If sanctions are deemed appropriate, a potential resolution of the complaint is proposed in writing to the CPA, CPA firm, or unlicensed individual in the form of a consent order (order). If the individual signs the order, agreeing fully to the terms and conditions, the order is then brought before the full Board for approval. The Board may accept or reject the order in whole or in part. If the individual chooses not to sign the order, he/she may elect to be heard in an administrative Informal Fact-Finding (IFF) Conference before the Enforcement Committee. The Enforcement Committee will review the merits of the case and present the presiding officer’s recommendations to the Board for consideration. The Board may accept or reject the recommendations in whole or in part. The CPA, CPA firm, or unlicensed individual has 30 days to appeal the Board’s final case decision to the Courts.

All open cases are deemed confidential and are not made available to the public. However, closed cases are made available to the public upon a Freedom of Information Act request.

Enforcement Statistics

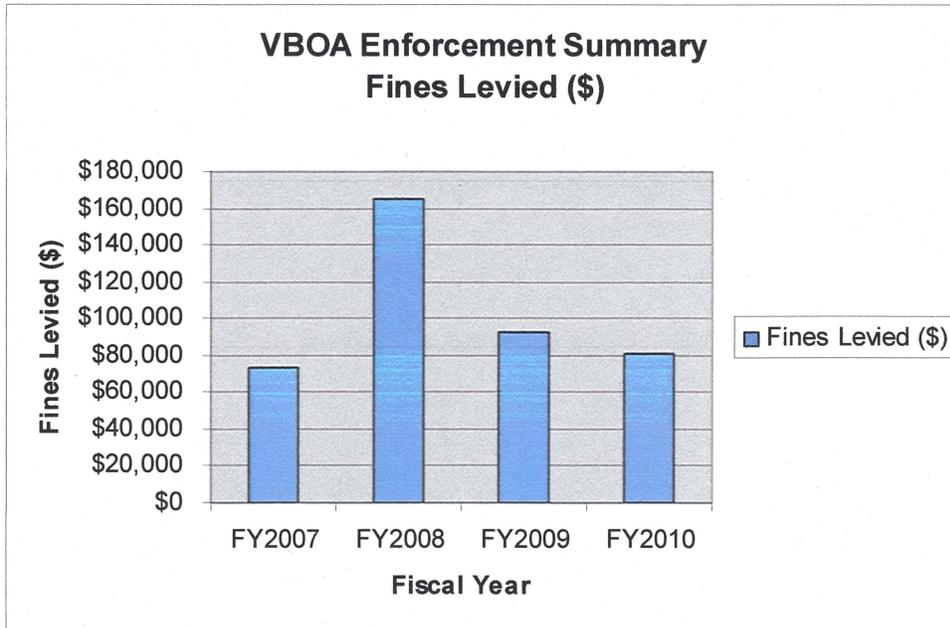
In carrying out its mission "to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of Certified Public Accountants (CPAs) and CPA firms," the VBOA is responsible for investigating complaints against CPAs, CPA firms and unlicensed activities. Complaints originate from numerous sources to include clients, other CPAs, federal or state regulators, or identified through agency oversight programs.

The following statistics represent a summary of new complaints and the dollar amount of fines levied during the FY2007 – FY2010 time period.



Penalties/Fines: Virginia licensees, expired licensees or non-licensees using the CPA title or performing services in Virginia restricted to CPAs in violation of the respective Virginia statute and/or regulations are subject to penalties by the Board. Penalties may include: restitution, reprimand, probation, fine, cost-recovery, additional or specific CPE, practice monitoring, and license or service suspension or revocation. All monetary penalties collected by the VBOA are deposited to the state literary fund – such funds are not available to the VBOA as operating funds.

In accordance with §54.1-4413.4. Penalties of the Code of Virginia, the VBOA may impose a monetary penalty up to \$100,000 for each violation of the provisions of Chapter 44 of Title 54.1 or regulations promulgated by the Board.



Summary of Closed Investigations - A summary of closed enforcement cases by source, allegation/issue, and resolution follows.

(Calendar Years Ended December 31, 2007 – 2009)

# of Closed Cases	Calendar Years		
	2007	2008	2009
	46	54	86

SOURCE:	2007		2008		2009	
	# cases	%	# cases	%	# cases	%
VBOA oversight programs	3	7%	12	22%	37	43%
Clients	19	42%	17	31%	15	17%
Employer/Employee	5	11%	2	4%	10	12%
Other CPAs	2	4%	3	6%	4	5%
Anonymous	7	15%	13	24%	12	14%
Federal, state, local or foreign agencies/jurisdictions (i.e., PCAOB, SCC, SEC, HUD, etc.)	2	4%	1	2%	0	0%
Non-governmental professional organizations (i.e., AICPA, VSCPA, etc.)	2	4%	4	7%	5	6%
Other	6	13%	2	4%	3	3%
TOTALS	46	100%	54	100%	86	100%

ALLEGATION/ISSUE:	2007		2008		2009	
	# cases	%	# cases	%	# cases	%
Unlicensed Activity	14	30%	8	15%	19	22%
Due Professional Care	13	28%	19	35%	22	26%
Tax Related Matters	4	9%	1	2%	1	1%
Acts Discreditable	6	13%	12	22%	6	7%
CPA Exam Candidates Issues	6	13%	2	4%	1	1%
CPE Deficiency	3	7%	12	22%	37	43%
Other	0	0%	0	0%	0	0%
TOTALS	46	100%	54	100%	86	100%

Summary of Closed Investigations (Continued):

RESOLUTION:	2007		2008		2009	
	# cases	%	# cases	%	# cases	%
Closed by Board Order or Consent Order:						
Reprimand	1	2%	13	24%	20	23%
Monetary Penalty	7	15%	7	13%	25	29%
Suspension	1	2%	1	2%	4	5%
Probation	1	2%	2	4%	2	2%
Revocation	1	2%	0	0%	2	2%
Other	3	7%	2	4%	1	1%
CPA Exam Candidates - Denial of Request	6	13%	2	4%	1	1%
No Violation Found	14	30%	25	46%	19	22%
Withdrawal	4	10%	0	0%	7	8%
Other	8	17%	2	4%	5	6%
TOTALS	46	100%	54	100%	86	100%