

## **I. EXECUTIVE SUMMARY**

### **A. Summary Conclusion**

The purpose of the engagement was to evaluate the efficacy, economy and accountability of merging the Washington State Board of Accountancy (WBOA) into the Washington State Department of Licensing (WDOL). Based on the analysis that we performed in preparing this Merger Report, we conclude that WBOA should not merge with WDOL. Our analysis indicates that, as to efficacy and economy of operating WBOA, there are no significant reasons to warrant a merger of WBOA into WDOL. Our analysis also indicates significant reasons to conclude that WBOA should not merge with WDOL as it relates to WBOA's accountability to the public and the professional community that it regulates. Given that the stated reason for the creation and existence of WBOA is to promote the dependability of financial information and to protect the public interest, a reduction in the accountability of WBOA to the public and the profession would be a failure of WBOA's statutory purpose.

### **B. Scope and Methodology**

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The objective of this engagement was to determine the efficacy, economy, and accountability of merging WBOA into WDOL. In order to make such a determination, our review focused on: (1) understanding the current structure of WBOA and WDOL; (2) understanding the proposed structure of WBOA if merged into WDOL; (3) comparing the actual costs of operating WBOA as an independent agency as opposed to the estimated costs of WBOA as an integrated program within WDOL; (4) assessing the effectiveness of the regulation of the profession under the current and

proposed structures; (5) considering the impact that integrating WBOA into WDOL may have on WBOA's accountability to the public and to the Certified Public Accountant (CPA) profession.

### **C. Major Assumptions Utilized in Merger Report**

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In order to do an evaluation of the efficacy, economy, and accountability of merging WBOA into WDOL, we had to make certain assumptions as to the proposed structure of WBOA if merged with WDOL, the authority of WBOA versus the authority of WDOL, WBOA's staffing and operations, and what current functions of WBOA would be handled by WDOL.

These assumptions were generally based on information provided to us and representations made by WBOA and WDOL as to their current operations, and their understandings and intentions with regard to the proposed structure and operations of WBOA if merged with WDOL. The assumptions were also discussed with both agencies and both agencies agreed with the reasonableness and fairness of our assumptions. However, the assumptions may not accurately reflect the actual structure or operations of WBOA resulting from an actual merger with WDOL, or the actual costs that may be incurred to implement the merger or operate WBOA as a WDOL licensing program.

Our conclusions are based on these assumptions. If an actual merger takes place and any of the assumptions we made in our evaluation prove to be incorrect, the actual circumstances could have a significant impact on the accuracy of our conclusions.

## **D. Accountability**

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Our accountability analysis leads us to conclude that WBOA's accountability would be damaged, potentially by a significant amount, as the result of a merger with WDOL. Data obtained from 22 other boards of accountancy indicates that boards of accountancy which are operated as independent agencies (independent agency accountancy boards) investigated and resolved complaints at almost twice the rate of boards of accountancy that are operated under the authority of larger governmental agency (consolidated agency accountancy boards). Comparing the rate of investigation and resolution of complaints between WBOA and the Board of Registration of Professional Engineers and Land Surveyors (engineers / land surveyors board), which was deemed to be the most similar disciplinary board currently under the authority of WDOL per the Assistant Director (AD) and the Deputy Assistant Director (DAD) of the Business and Professions Division of WDOL (Business and Professions Division), indicates that WBOA is investigating and resolving almost twice the number of complaints as the engineers / land surveyors board. The scope of this project did not allow us to determine the exact cause of these differences but it is clear from the data accumulated that independent agency accountancy boards are significantly more active in disciplinary matters than consolidated agency accountancy boards.

Further, merging WBOA with WDOL would remove WBOA's direct reporting relationship with the State of Washington Governor's Office and replace it with a reporting relationship with a Senior Administrator of WDOL, who is responsible for delivering communications to the next reporting hierarchy within WDOL. Logically, this change in reporting

structure would decrease WBOA's visibility and accessibility to the State of Washington's top level of government, thereby reducing its effectiveness in carrying out its mission. Our analysis indicates that several "watchdogs" of the certified public accounting community, including the profession itself, have publically commented on the negative impact that consolidation of state boards of accountancy has on those boards' ability to be accountable for their most important functions of protecting the public and serving their licensed community.

## **E. Economy**

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Our analysis indicates that based upon the assumptions, there would be no significant changes noted in WBOA's economy as the result of a merger with WDOL. In assessing the overall economy of WBOA, we developed a pro forma annual expenditure budget for WBOA as if it were merged into WDOL. We also reviewed operation benchmarks to develop a conclusion regarding WBOA's operation efficiency as compared to similar regulatory agencies within WDOL.

Based on our analysis, we conclude that WBOA's annual expenditure budget would decrease by less than 6% after a completed merger with WDOL. This cost savings is based on representations from personnel of both agencies and upon various assumptions which were vetted with those personnel; however, it does not take into account the cost to the State of Washington of actually merging the operations, technology platforms, data and personnel of WBOA into WDOL. We conclude that the costs of implementing the merger would more than negate the projected annual expenditure savings.

We analyzed other operation benchmarks which indicate that WBOA is running its operation as efficiently as similar regulatory and disciplinary boards which are under the authority of WDOL.

## **F. Efficacy**

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Our analysis indicates that there would be no significant differences noted in WBOA's efficacy as the result of a merger with WDOL. In assessing the overall efficacy of WBOA, we focused on its current regulatory processes (including rulemaking, the processing of examination applications and examination results, license applications and renewals, and determinations on disciplinary matters), as well as, the current handling of public records requests. As a result of the statutorily defined processes for rulemaking, the recently completed (January 2010) dedicated online systems for license renewals, and outsourcing of examination applications and results, we conclude that a merger would have no significant impact on these items. Based on work we performed in connection with the Performance Review Project that we completed in July 2010 with respect to WBOA (Performance Review Project) and based on interviews of personnel from WDOL, we conclude that a merger would have no significant effect on WBOA's efficacy related to the handling of public records requests.

Due to the amount of time available to complete this analysis and deliver the resulting report and due to the lack of publically or readily available information regarding the types of disciplinary or non-disciplinary actions resulting from complaint closures, we were unable to obtain timely sufficient information to allow us to conclude whether a merger would have any impact on the efficacy of determinations on disciplinary matters.