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November 30, 2010

VIA FEDERAL EXPRESS

Senator Jeanne Kohl-Welles
Chair, Senate Labor, Commerce & Consumer Protection Committee
Senate Security
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304 15th Avenue SW
Olympia, WA 98504

Representative Jeannie Darneille
Chair, House General Government Appropriations
House of Representatives Security
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Senator Margarita Prentice
Chair, Senate Ways & Means
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Representative Steve Conway
Chair, House Commerce and Labor
House of Representatives Security
John L. O'Brien Bldg.
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Olympia, WA 98504

Re: Merger Report

Dear Senators Kohl-Welles and Prentice and Representatives Darneille and Conway:

In accordance with the amendment to Section 144 of the State of Washington's Supplemental Budget for fiscal year 2010/2011, and that certain Amendment #1 – Contract for Personal Services Between Washington State Board of Accountancy and Zwillinger Greek Zwillinger & Knecht PC (ZGZK), ZGZK was directed to conduct an independent investigation and produce ". . . a report that includes, but is not limited to, an evaluation of . . . the efficacy, economy, and accountability of merging the board into the department of licensing" (Merger Report).

This Merger Report includes the background for the report, a summary of the proposed legislation for the merger of the Washington State Board of Accountancy (WBOA) into the Washington Department of Licensing (WDOL), a summary of the current structures of both agencies, a summary of what we understand to be the proposed structure if WBOA were merged with WDOL, and evaluates the impact of a merger of WBOA into WDOL on the efficacy and economy of the operations and functions of WBOA, and the accountability of WBOA to the public and the profession.

We conclude that a merger would result in a significant decrease in the accountability of WBOA to the public and the profession, and little or no gain in the efficacy or economy of WBOA's operations and functions. Given the statutorily defined reason for WBOA's creation and existence, which is to provide public protection and to ensure the reliability of financial information, a merger is not recommended.

If you have any questions regarding this Merger Report, please call me at 602-224-7830.

Sincerely,

ZWILLINGER GREEK ZWILLINGER & KNECHT PC

Felecia Rotellini

Felecia A. Rotellini

FAR:sjs
Enclosures
cc: Senate Ways and Means Committee Members
Senate Labor, Commerce, and Consumer Protection Committee Members
House General Government Appropriations Committee Members
House Commerce and Labor Committee Members
Office of the Governor
Office of Financial Management - Budget Analysis and Policy
Washington State Board of Accountancy, c/o Robert G. Hutchins
Washington Department of Licensing, c/o Ralph Osgood

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A Report to the
Washington State
Board of Accountancy

MERGER REPORT

December 2010

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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

Page 8

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

Page 55

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.

II. BACKGROUND

A. General Background for Merger Report

This Merger Report is the result of an amendment to Section 144 of the State of Washington's Supplemental Budget for fiscal year 2010/2011 which allocates funds to allow WBOA to engage a consultant to conduct an independent investigation and produce ". . . a report that includes, but is not limited to, an evaluation of . . . the efficacy, economy, and accountability of merging the board into the department of licensing." This Merger Report was included in the amendment to Section 144, which originally provided for a report that included "an evaluation of the efficiency and effectiveness of [WBOA's] practices, policies and procedures. . ." (Performance Review Project Report). Based on our review of the practices, policies, and procedures of WBOA, we concluded that WBOA "is run properly and capably by the Executive Director and its staff with the guidance of its Board, and operates in full compliance with all applicable laws." The Performance Review Project Report is incorporated into this Merger Report by reference. A reader of this Merger Report may wish to obtain the Performance Review Project Report for specific findings and information related to WBOA's operations as an independent agency. This Merger Report is to be delivered to the appropriate committees of the legislature on or before December 1, 2010.

Both the Performance Review Project Report and this Merger Report appear to have been commissioned, in part, as a result of several years of complex litigation between the Board and one of its licensees who challenged the Board's handling of several public record requests and its investigation and adjudication procedures (Litigation).[1] The need for this Merger Report also appears to result from Senate Bill 6425 (Senate Bill), which is discussed in more detail in Section II.B., which relates to transferring WBOA to WDOL. Although it is not clear if the Senate Bill was drafted in light of the Litigation, the issues raised by the Litigation pertaining specifically to the efficiency and effectiveness of WBOA's practices, policies and procedures, are similar to the issues addressed in this Merger Report.

As discussed above, we concluded in the Performance Review Project Report that WBOA "operates exceptionally well and in accordance with all applicable laws." The recommendations we made in the Performance Review Project Report were founded on the principles of "best practices" that we believe will make WBOA function even more effectively in performing its ultimate mission of regulating its professional licensees and protecting the public. We also believe that the issues that led to the Litigation have been adequately addressed by WBOA.

Throughout this Merger Report, key terms and abbreviations are used for ease of reference. See Key Terms set forth in Exhibit 1.

B. History of Proposed Legislation

The Senate Bill had its first reading on January 14, 2010 during the 2010 Regular Session, and was referred to the Senate Committee on Government Operations & Elections. A public hearing on the Senate Bill was held on January 25, 2010. The Senate Bill was reintroduced by

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[1] From approximately December 2007 through October 2009, D. Edson Clark filed nine separate lawsuits against the Board alleging public records violations (related to 15 public records requests he filed), challenging the legality of a stipulated settlement agreement he entered into with the WBOA for unprofessional conduct, and various other civil and tort claims. Mr. Clark also lodged complaints against various staff members with the Board and various other governmental agencies. These matters were finally resolved by a mediated settlement agreement between the Board and Mr. Clark effective October 21, 2009.

resolution on March 25, 2010 during the 2010 1st Special Session. Essentially, the Senate Bill amends the Revised Code of Washington (RCW) 18.04, the Accountancy Act, transferring WBOA, and all of its files, books and records, tangible personal property, funds, credits, and other assets, to WDOL. The Senate Bill also changes the status of WBOA from a public authority to an administrative authority, gives the director of WDOL general authority over WBOA, including the authority to employ personnel, set fees, and issue licenses.

C. Scope of Merger Report

The scope of work for this Merger Report requires that we review the respective organizational structures of WBOA and WDOL and determine whether a merger of WBOA into WDOL would ". . . be more likely than not to produce a significant public benefit arising from: (1) regulatory cost savings that reduce licensing fees for accountants; (2) regulatory efficiencies that reduce waiting periods for actions affecting public accountants, such as rulemaking, examination results, license applications or determinations on disciplinary matters; or (3) increased accountability to the public and profession of the regulatory agency for accountants."

D. Scope and Methodology

As set forth in Section II.A., the objective of this Merger Report is to evaluate the efficacy, economy, and accountability of merging WBOA into WDOL. In order to do such an evaluation, we were required to make numerous assumptions, including what the proposed structure would look like, how WBOA would fit into the organizational structure of WDOL, how WBOA would be operated under WDOL's authority, and what would be the division of powers and functions between WBOA's Board and direct staff and WDOL management and other WDOL staff with regard to the operation of WBOA.

In order to make comparisons as to whether there would be any increased or decreased efficacy, economy, or accountability as a result of the merger, we had to make additional assumptions. For example, for comparing efficacy, we had to assume the processes by which WBOA would carry out its various functions under WDOL, including the processes for issuing licenses, rulemaking, notifying applicants of examination results, handling public records requests, and making determinations on disciplinary matters.

To determine whether there would be any economy gained by the merger, we had to assume what the expenditure budget for WBOA would look like under WDOL. In order to do this, we had to make numerous assumptions as to whether WBOA would maintain all of its current staff, what functions would be handled by WBOA's current staff versus WDOL staff, what costs would no longer be incurred under the WDOL structure, and what new costs would be charged to WBOA in terms of overhead.

Finally, to determine whether there would be any impact on accountability to the public and the profession, we relied on the representations of the AD and DAD as to WBOA maintaining its current staff and CPA investigator after a merger. We also assumed per the AD and DAD that the engineers / land surveyors board was the most similar disciplinary board that WDOL has under its authority to WBOA, although the AD and DAD could not say with any certainty that were, in fact, similar. Based on this assumption, we compared the enforcement statistics of the engineers / land surveyors board to those of WBOA. This Merger Report assumes the fairness of this comparison without verifying the fairness of the comparison in terms of examining the types of issues actually addressed by WBOA and the engineers / land surveyors board. In doing the accountability evaluation, we also compared enforcement statistics of independent agency accountancy boards to consolidated agency accountancy boards. In drawing our conclusions, we assumed WBOA would have a similar experience to the consolidated agency accountancy boards thereby seeing a decrease in enforcement activity. The final assumption we made with regard to the accountability evaluation pertains to the impact of losing direct contact with the Governor's office.

In making most of our assumptions, we relied on the information that was provided to us by WBOA and WDOL as to their current operations (we gained an in-depth understanding of WBOA's operation in the completion of the Performance Review Project, see Section II.A.), and we relied on the representations of the AD and DAD and the Executive Director of WBOA (ED). We have assumed the truth and accuracy of the representations made to us by each of them as to the proposed structure, and how their agencies currently operate and how they anticipate WBOA would be operated if merged with WDOL. During our interviews of the AD, DAD and ED, we discussed the major assumptions we would make in performing our evaluation of the merger and each of them agreed that the assumptions we would make were reasonable. If the merger takes place and proves our assumptions to have been wrong or the representations as to the proposed structure and operations prove not to have been accurate, the actual results of the merger may radically vary from the conclusions drawn in this Merger Report.

Based on the foregoing approach described in this Section, 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 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 CPA profession. In order to determine the effect of the foregoing, our review included the following:

- Reviewing the Senate Bill for background and understanding of the proposed structure for the merger of WBOA into WDOL.
- Reviewing all applicable statutes and rules including the Public Accountancy Act, RCW 18.04 *et seq.* and the relevant provisions of RCW governing WDOL. RCW 42.24 *et seq.* and 46.01.
- Conducting several interviews with the ED and the AD and DAD.
- Comparing processes that are employed by WBOA in carrying out various functions to the processes employed by WDOL with regard to the disciplinary boards including rulemaking, notification of examination results, license applications, issuance of licenses, handling of public records requests, and the average timeframe for carrying out such functions.
- Reviewing documents provided by WBOA and WDOL with regard to historical, budgeted, and anticipated future expenditures, complaints received and resolved, and internal organizational structures for both agencies.

- Reviewing information from WDOL with regard to its disciplinary boards and information provided by WBOA.
- Reviewing information provided by WBOA which was compiled from information gathered by the National Association of State Boards of Accountancy (NASBA) regarding other state boards of accountancy, as well as documents received from NASBA as it relates to the importance of independence for state boards of accountancy.
- Interviewing the President and Chief Executive Officer (CEO) and the Director of Advocacy of the Washington Society of CPAs (WSCPA) regarding the CPA profession's stance on the operation of WBOA as an independent agency versus a consolidated agency.
- Preparing a pro forma expenditure budget as if WBOA's operations were integrated into WDOL. This process included verifying with the AD, DAD, and ED that all significant assumptions in the pro forma expenditure budget were reasonable.
- Comparing the historical-adjusted, actual and current anticipated expenditures for WBOA with those of other disciplinary boards within WDOL's authority.
- Reviewing other financial operation benchmarks of WBOA and the disciplinary board's within WDOL's authority for comparative purposes.
- Considering the costs associated with integration of WBOA into WDOL.

- Comparing operation benchmarks from WBOA and WDOL related to complaints investigated in the applicable licensee community.
- Evaluating the effectiveness of regulation and discipline of other state boards of accountancy which are independent agencies as compared to those that are within the authority of a larger governmental agency.

The information obtained from WBOA and WDOL and the representations made during interviews of the ED, AD and DAD were taken as accurate without independent verification unless any portion of the information or representations seemed inconsistent with other information obtained from a different source. We found both WDOL and WBOA to be forthright and credible in their responses to our inquiries. The ED, AD and DAD were extremely generous with their time and resources in assisting us in completing our evaluation and this Merger Report.

III. CURRENT STRUCTURE

A. Washington State Board of Accountancy

1. General

WBOA is the duly authorized state agency that regulates the practice of public accountancy, CPAs and CPA firms in the State of Washington. The stated purpose of WBOA is to:

> "promote the dependability of information which is used for guidance in financial transactions or for accounting or for assessing the status or performance of commercial and noncommercial enterprises, whether public, private or governmental; and to protect the public interest ."

RCW 18.04.015. The primary functions of WBOA are to: (a) license qualified individuals and firms to practice public accountancy; (b) investigate and adjudicate complaints against licensed CPAs and CPA firms; (c) ensure the ongoing competence of its licensees through required continuing education and Quality Assurance Review or approved peer review; and (d) enjoin the unlicensed practice of public accountancy and the unauthorized use of the CPA designation, all in accordance with the Public Accountancy Act.

2. Authority of Board

The Board is comprised of nine members appointed by the Governor. Each member of the Board serves a staggered three-year term. RCW 18.04.035. Six members must be CPAs, licensed continuously in the State for the previous ten years. *Id.* The remaining three members of the Board are public members who must be "qualified to judge whether the qualifications, activities and professional practice of those regulated…conform with standards that protect the public interest." *Id.* Additionally, one of the public members must be qualified to represent the interest of clients of CPAs and CPA firms licensed by the Board. *Id.*

The Board has the authority to: (1) enforce applicable statutes and rules; (2) propose and enact new rules; (3) prescribe and assess qualifications of applicants; (4) issue licenses; (5) initiate and investigate complaints; (6) provide remedies for complaints; (7) issue orders directing licensees to conform to statutes and rules; and (8) issue consumer alerts and provide other public protection information. In addition to the foregoing powers, the Board has the authority to set all its fees at a level adequate to pay the costs of administering the purposes of WBOA.

3. Authority of Executive Director

WBOA is overseen by an ED who must be a licensee in good standing. The ED is appointed by and serves at the pleasure of the Governor. RCW 18.04.045. The statutory authority given to the ED includes employing all necessary and appropriate personnel to carry out the purposes of WBOA. *Id.* Currently, WBOA has nine staff members in addition to the ED and uses several volunteers and contracted consultants to carry out its duties. *See* Current WBOA Organization Chart attached at Exhibit 2.

The role of the ED, as defined by the job description issued by the Office of the Governor, includes suggesting law and policy changes and representing the Board to national and local professional, regulatory, and governmental organizations. The ED is also to serve as the Chief Administrative Officer for the Board and is responsible for devising program delivery plans, translating these plans into budget proposals, and directing their implementation. Given that the primary function of the Board is to regulate the practice of public accounting, the ED is charged with creating and maintaining a credible regulatory structure so as to assure the competency of those who report on financial information.

In addition to the powers provided to the ED under the Public Accountancy Act, and the responsibilities described by the Governor's office, the Board has formally delegated certain other powers to the ED under a Delegation of Authority, dated April 28, 2006, and a second Delegation of Authority, dated October 17, 2008 (Delegations of Authority). Under the Delegations of Authority, the Board delegated the majority of its statutory investigative and settlement authority to the ED, subject to ultimate Board approval. The Delegations of Authority give the ED the authority to settle, after obtaining the concurrence of a single Board member, certain enforcement actions (generally of an administrative nature) with a respondent through the issuance of Administrative Notices of Noncompliance.

The Delegations of Authority also contain specific administrative sanctions for each of these delegated matters to allow the ED to impose appropriate sanctions for these enforcement actions. The administrative sanctions vary for each matter but can include a specific fine or range of fines, cost recovery, applicable fees and other proof of completion of deficiency.

In addition to the delegated powers of the ED for administrative types of cases, the Board has also delegated certain settlement authority to the ED with regard to non-administrative cases. Both the Administrative Procedures Act (APA) and the Model Rules of Procedure strongly encourage agencies to establish rules and procedures for resolving matters through informal settlement. RCW 34.05.060; Washington Administrative Code 10-08-230. All non-administrative cases before WBOA are attempted to be settled informally by entering into a Stipulated Agreement and Order (SAO). The Board has specific authority to enter into SAOs pursuant to the Public Accountancy Act, and has delegated such authority to the ED subject to the concurrence of and final approval by the Board. RCW 18.04.045; Delegation of Authority, dated October 17, 2008.

4. Budget/WBOA Fund

All fees for licenses, registrations of nonlicensee partners, shareholders, and managers of licensed firms, renewals of licenses, renewals of registrations of nonlicensee partners, shareholders, and managers of licensed firms, renewals of certificates, reinstatements of lapsed licenses, reinstatements of lapsed certificates, reinstatements of lapsed registrations of nonlicensee partners, shareholders, and managers of licensed firms, practice privileges for out-of-state CPAs, and delinquent filings received by WBOA are deposited in a separate dedicated fund established by statute known as the CPAs' account (WBOA Fund). *See* RCW 18.04.105. Appropriation from the WBOA Fund is made for the cost of administering the provisions of the Public Accountancy Act. *See* RCW 18.04.065.

As discussed above, the ED is responsible for devising a management plan for WBOA and preparing a budget proposal for carrying out the plan. The Governor's office's description of the ED's key responsibilities includes preparing WBOA's budget and allotments, approving all agency expenditures, maintaining accounting controls and preparing quarterly budget status reports for the Board.

5. Information Technology Systems

The current information technology (IT) systems being utilized by WBOA include the following:

a) CPAWare. This is a custom-designed database, which includes information on all licensees, the history on each as to when they became licensed, complaints filed against them, and other details of their compliance history. This application is hosted internally on a 2005 SQL server using Win 2003 software. CPAWare is used to provide WBOA with investigation tracking through searches conducted on CPAWare, Crystal Reports, and Excel folders.

b) CPA Online Portal Secure. This is a custom-designed application, which primarily handles online licensing and renewals, but also provides continuing professional education (CPE) tracking, selfprinting of licenses, validations and registration credentials. It also integrates with and updates the CPAWare database. This application is composed of external constituent components accessed through Secure Access Washington, which is the state's security access portal, and an internal component for staff access. Both the external and internal components are hosted on "*a la carte*" database 2005 SQL servers at the Department of Information Services (DIS). With the online licensing and renewal system, licensees currently have four options for methods of payment: (1) paper check; (2) online check; (3) debit card; or (4) bank card. WBOA achieved a 93% online usage for renewals in the first renewal cycle (January 1, 2010) in which the CPA online system was available. For online initial licensing, WBOA achieved a 70% usage within the first three months of the system's availability.

c) Public Licensee Search. WBOA's public licensee search application runs on a shared DIS hosted SQL server. WBOA is also part of the national Automated Licensing Database, which allows access to other states' licensing databases and allows other states to view WBOA's data.

d) Website. WBOA also recently updated its website to bring it in line with current technology standards and to comply with Americans with Disabilities Act regulations. The website utilizes Adobe Dreamweaver and Contribute software. The web content was also recently reviewed and updated to comply with Executive Order 05-03, known as "Plain Talk."

B. Washington Department of Licensing

1. General

WDOL is the duly authorized state agency created for the purpose of administering laws:

> ". . . relating to the licensing and regulation of professions, businesses, and other activities in addition to administering laws relating to the licensing and regulation of vehicles and vehicle operators, dealers, and manufacturers. The laws administered by the department have the common denominator of licensing and regulation and are directed toward protecting and enhancing the well-being of the residents of the state."

RCW 46.01.011. The primary functions of WDOL are: (a) to administer all laws with respect to the examination of applicants for, and the issuance of, licenses to persons to engage in any business, profession, trade, occupation, or activity within its authority; (b) to prescribe the various forms of applications, certificates, and licenses required by law; (c) to adopt rules and regulations prescribing the method of conducting examinations of applicants for licenses under the authority of WDOL; (d) to establish the amount of all application fees, license fees, registration fees, examination fees, permit fees, renewal fees, and any other fees associated with licensing or regulation of professions, occupations, or businesses within WDOL's authority; and (e) to issue, renew, suspend, or revoke a license under its jurisdiction. *See generally* RCW 43.24 *et seq.*

2. Organizational Structure

WDOL is overseen by a director who is appointed by the governor with the consent of the senate, and serves at the pleasure of the Governor (WDOL Director). The WDOL Director supervises and administers the activities of WDOL and advises the Governor and the legislature with respect to the matters under WDOL's jurisdiction. RCW 43.24.005. The primary powers and duties of the WDOL Director include: (1) appointing a deputy director and assistant directors, special assistants, and administrators as may be needed to manage the agency; (2) adopting rules and performing all functions necessary to carry out the responsibilities of WDOL; (3) delegating powers, duties, and functions as the WDOL Director deems necessary for the efficient administration of the agency; (4) establishing advisory groups as may be necessary to carry out the responsibilities of WDOL; and (5) managing the internal affairs of WDOL, including employing such personnel as may be necessary to carry out the purposes of WDOL. RCW 43.24.016.

The Deputy Director assists the WDOL Director in overseeing the agency and reports to the WDOL Director. WDOL is divided into three operation divisions: (1) the Customer Relations Division; (2) the Programs and Services Division; and (3) the Business and Professions Division; and two administrative support divisions: (1) the Information Services Division; and (2) the Finance and Administration Division. Each operating division is overseen by an AD who reports to the Deputy Director.

3. Business and Professions Division

The businesses and professions that are within the authority of WDOL are governed by the Business and Professions Division. Currently, the Business and Professions Division is responsible for the oversight of over 30 licensing programs representing various licensed professions and occupations comprising approximately 264,000 licensees. The Business and Professions Division is overseen by its AD, who, through the delegation of authority by the WDOL Director, has defined signature authority for WDOL with regard to certain matters, as well as the authority to hire and terminate personnel. The DAD and the Executive Assistant, as well as two Senior Administrators report directly to the AD. The licensing programs are currently overseen by eight Administrators, who report to the two Senior Administrators. The eight Administrators have direct oversight of the various licensing programs. *See* Current WDOL Organization Chart attached at Exhibit 3.

The licensing programs fall within one of three general categories: (1) those that have their own disciplinary boards; (2) those that have advisory boards or commissions; and (3) those that do not have their own boards or commissions. There are currently six different licensing programs that have disciplinary boards: (1) architects; (2) landscape architects; (3) funerals and cemeteries; (4) geologists; (5) engineers and land surveyors; and (6) collection agencies. The disciplinary boards generally have both regulatory and disciplinary authority over their licensees.

4. Authority of Administrators

The Administrators are responsible for overseeing one or more of the licensing programs under WDOL's authority. There are currently three Administrators that are responsible for overseeing the six disciplinary boards as follows: (1) one Administrator is responsible for overseeing the architects, landscape architects, geologists, and funerals and cemeteries disciplinary boards; (2) another Administrator oversees the disciplinary board for engineers and land surveyors, as well as the other licensing programs for wastewater designers and driver training schools programs; and (3) the third Administrator oversees the collection agencies disciplinary board, and other licensing programs for the one-stop master licensing service for multiple business licenses, UCC (Uniform Commercial Code) services of

WDOL, as well as other licensing programs for hire vehicles and limousines, telemarketing, whitewater outfitters, and notaries.

Each of the Administrators has the responsibility of managing the licensing programs under their authority, which generally includes: (1) issuing and renewing licenses; (2) regulating licensees; (3) ensuring continuing education and licensing requirements are met; (4) conducting inspections and audits; (5) investigating and resolving complaints; and (6) taking administrative actions for their licensing programs.

5. Budget/Dedicated Funds

In general, most of the licensing programs are self-funded, meaning that they are required to collect fees from their licensees sufficient to operate and carry out the purposes of their programs. However, WDOL has the authority to establish the fees charged by the licensing programs. The disciplinary boards each have their own dedicated accounts, as required by statute. All of their costs and expenses for managing and operating their boards are paid for out of their own accounts, although they do not submit separate budgets to the state for purposes of obtaining their necessary appropriations. Each of the disciplinary boards is budgeted for separately within the Business and Professions Division. WDOL will then prepare one consolidated budget for the entire agency, including the Business and Professions Division, and is then responsible for obtaining appropriations for each of the licensing programs under the division's authority as well as to operate the Business and Professions Division as a whole.[2]

[2] See Section VI.A. and B. for a more detailed discussion of the budget and specific costs of expenses as well as overhead allocations charged to the licensing boards.

6. Information Technology Systems

The following IT systems are currently being utilized by all of the licensing programs within the authority of WDOL:

a) Venture System. This system contains all information pertaining to licensees of the various licensing programs, and it is responsible for providing a tracking system for compliance and licensee audit management.

b) License Query System. This is the application that provides WDOL's licensee search system.

c) SOLAR System. This is WDOL's online license renewal system. This system currently does not provide for online initial licensing.

d) Website. All licensing programs under WDOL's jurisdiction have a link within the WDOL website. There is consistency and uniformity in the appearance and structure of the pages for the various licensing programs.

IV. PROPOSED STRUCTURE

A. Background and Scope

The proposed structure of the merger described in this Merger Report, is garnered from a review of the Senate Bill, as well as interviews with the AD, DAD, and ED. The proposed structure described in this Section is by no means intended to represent the final structure that will result if WBOA is merged into WDOL. The described structure is based on assumptions we made from reviewing the Senate Bill combined with representations obtained from WDOL and WBOA representatives as to their understandings of what is being proposed, how their agencies operate, and their respective intentions as to how to carry out the various goals and needs of the agencies on a consolidated basis. During our interviews of the AD, DAD and ED the major assumptions made regarding the proposed structure were vetted and agreed to as reasonable.

B. Organizational Structure

The Senate Bill sets forth the proposed statutory changes necessary to merge WBOA into WDOL. The Senate Bill changes the status of WBOA from a public authority, which acts as a stand-alone governmental agency, to an administrative authority, which is under the authority of WDOL, and makes WBOA one of the many licensing programs over which WDOL has jurisdiction.

The general organizational structure described in Section III.B. for WDOL would remain intact under the proposed merger. It is our understanding, based on discussions with representatives at WDOL, that WBOA would become a new licensing program under the authority of WDOL, managed within the Business and Professions Division under the direction of the AD, and overseen directly by its own assigned Administrator. *See* Proposed WDOL-WBOA Organization Chart attached at Exhibit 4.

C. Authority of WBOA Board

Under the proposed structure, the composition of the WBOA Board will remain unchanged, and will consist of nine members who will continue to be appointed by the Governor. *See* SB 6425 Section 3 amending RCW §18.04.035. The Board will also retain all of its regulatory power and authority, including its authority: (1) to certify qualified applicants; (2)

ensure ongoing compliance with continuing education and other licensing requirements; (3) investigate and adjudicate complaints; (4) enforce all applicable statutes and rules; and (5) propose and enact new rules. *See generally* SB 6425. The Board will also continue to be charged with the responsibility for protecting the public from the unauthorized practice of accounting and unqualified or incompetent practitioners.

Based on our discussions with the AD and DAD, it is our understanding that WBOA would be structured as one of WDOL's disciplinary boards having full regulatory and rulemaking authority over its licensees. Therefore, it would appear that the basic functions and responsibilities of the Board would remain unchanged, although it would be unclear whether it would be appropriate for the Board to delegate any if its authority to the Administrator, as it did to the ED.[3]

D. Authority of WDOL

As one of its licensing programs, the WDOL will have authority to set all fees associated with WBOA, including fees for: (1) licenses; (2) registrations of nonlicensee partners, shareholders, and managers of licensed firms; (3) renewals of licenses; (4) renewals of registrations of nonlicensee partners, shareholders, and managers of licensed firms; (5) renewals of certificates; (6) reinstatements of lapsed licenses; (7) reinstatements of lapsed certificates; (8) reinstatements of lapsed registrations of nonlicensee partners, shareholders, and managers of licensed firms; (9) practice privileges for out-of-state licensees; (10) delinquent filings; and (11) registrations of offices. *See* SB 6425 Sections 6 and 12 amending RCW 18.04.065. Additionally, WDOL will have the authority to set fees for initial

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[3] See Section III.B.(4) for a detailed discussion of the authority and role of the Administrator.

examinations and reexaminations, as well as the evaluation of educational qualifications. *See* SB 6425 Section 7 amending RCW 18.04.105.

According to the Senate Bill, the WDOL Director will also have the authority to employ an executive secretary and such other personnel as is appropriate for carrying out the purposes of WBOA. *See* SB 6425 Section 4 amending RCW §18.04.045(5). The hiring authority for all licensing programs in the Business and Professions Division currently resides with the AD of the Business and Professions Division through a delegation of authority by the WDOL Director. Based on this existing delegation of the hiring authority, we assume for purposes of this Merger Report that the AD of the Business and Professions Division would have the hiring authority with regard to the executive secretary and other staff members necessary for WBOA to operate under WDOL's authority. It is our understanding, based on our interviews with the AD and DAD, that the current Administrator level positions are equivalent to the executive secretary level position described in the Senate Bill. For purposes of this Merger Report, we assumed that the ED of WBOA would be employed as the Administrator in charge of overseeing WBOA, as a WDOL licensing program. In addition to the foregoing powers, WDOL will also have the authority to issue licenses to any person certified by the Board. *See* SB 6425 Section 7 & amending RCW 18.04.105.

From a legislative standpoint, the specific powers to be granted to WDOL are to set fees, issues licenses, and to employ the required personnel to carry out the purposes of WBOA. From a practical standpoint, however, there would be numerous functions and responsibilities (generally administrative in nature) pertaining to the management and operation of WBOA that would be handled by WDOL on an agency-wide level (as it does for all of its licensing programs), as opposed to handled by WBOA designated staff on a program-specific level. As it does for its other licensing programs, WDOL will be responsible for handling some of WBOA's responsibilities currently handled by the ED, such as: (1) devising the overall operating plan for WBOA, which will provide the infrastructure and support to assist WBOA to carry out its functions and purposes; (2) preparing a budget that will support WBOA's operations; and (3) directing the proper implementation of WBOA.

E. Authority of WBOA Administrator

Under the proposed structure, and as discussed above, WBOA would become a disciplinary board under the authority of WDOL, which would be managed within the Business and Professions Division. It is the current intention that WBOA will be assigned its own Administrator, who will be responsible for overseeing the management and operation of WBOA and, potentially other licensing programs, as deemed appropriate by the AD. The Administrator would also act as the liaison between WBOA's Board and staff and WDOL management. The intent is that the Administrator would focus on the licensing functions of WBOA, while WDOL management would focus on administrative support. The Administrator would be responsible for determining the various needs of WBOA, such as staffing, budgetary requirements (including proposed amendments to budgets), IT needs, investigative needs, the need to raise fees, etc. The Administrator would then report to a Senior Administrator who would then report to the AD who would report to the Deputy Director, who would report to the WDOL Director with regard to WBOA's specific needs.

With regard to staffing, if the Administrator determined the need for a new hire, the Administrator would need approval of the AD.[4] After obtaining required approvals, the Administrator would have the authority to search for, interview, and identify the top candidate, and then seek final approval of the AD to hire the candidate.

It is our understanding based on representations of the AD and DAD that WDOL intends to retain WBOA's the current staff.[5] Although this is the assumed result of a merger, there is no assurance that such staff members would receive offers to join WDOL or that some staff positions would not be eliminated. If the merger were to occur, the AD, along with the other WDOL management team would assess the overall staffing requirements of WBOA, which could increase or decrease the overall allocation of full time equivalents (FTEs) for WBOA on a going forward basis.

F. Budget/WBOA Fund

Under the Senate Bill, all WBOA fees will be deposited into the WBOA Fund, which is created by statute. SB 6425 Section 6, amending RCW 18.04.065. All appropriations from the WBOA Fund are to cover the costs for the management and operations of WBOA. This is the same structure that currently exists for WBOA. This structure was confirmed by the AD and DAD who represented that the WBOA Fund would remain a separate dedicated account specifically designated and established for WBOA.

[4] It is our understanding that there is currently a hiring freeze in the State of Washington. Accordingly, any new hire by a governmental agency would have to be approved by the Washington State Department of Personnel prior to implementing the search.

[5] The possible absorption of current WBOA staff into WDOL is discussed in further detail under Section VI.A., including a discussion of the impact of the costs associated with such staff post-merger.

Under the proposed structure, WBOA would receive information regarding its licensing program's expenditures and allotments for previous years from the Finance and Administration Division. WBOA would make adjustments to the information provided to reflect its needs for the upcoming biennium and submit a proposed budget for its licensing program. Any proposed new expenditures for staff, equipment, technology systems, etc., are then vetted with the Senior Administrator, the Assistant Director, Deputy Director and Director before being included in the budget. After agreeing on all the budgetary needs of each of the licensing programs and the divisions of WDOL, one consolidated budget for all of WDOL is prepare by the Finance and Administration Division and submitted for approval by the legislature. Neither WBOA nor any of the other licensing programs have any further responsibility with regard to the budget for its licensing program after it is submitted to the Financial and Administration Division, including any responsibilities for obtaining approval of the budget. Even through the budget for WDOL is prepared on a consolidated basis, the budgets for the individual licensing programs include allocations of the overhead necessary to cover the needs of WDOL as a whole.[6]

G. Integration/Conversion of Information Technology Systems

Unlike the general statutory framework set forth in the Senate Bill as to the division of authority between the Board of WBOA and WDOL after a merger, there is currently no proposed plan or proposed structure for the integration or conversion of the IT systems of WBOA and WDOL should WBOA merge with WDOL. Neither WBOA nor WDOL have been asked or done any in depth analysis of the IT conversion/integration issue and,

[6] See Section VI.A. for a more detailed discussion of the overhead allocation.

therefore, neither agency is in a position to make any reasonable assumptions as to how the conversation/integration would occur or the likelihood of a successful integration if merged.

Without any detailed analysis of the IT requirements of WBOA, the general intent expressed by the AD and DAD is that WBOA would be fully integrated into WDOL's existing IT systems, as are the rest of the licensing programs under WDOL's authority, at some reasonable cost. The AD and DAD also stated that if a merger were to occur, they did not believe that there would be any immediate changes made to transfer, convert, or otherwise integrate WBOA's IT system to WBOL's. According to the AD and DAD, at least for some reasonable period of time (assumed to be a period of approximately three years), WDOL would leave WBOA's existing IT system in place. This would be done in order to ensure that there would be no interruptions or other issues with the operation and functions of WBOA resulting from the merger. Based on representations of the AD and DAD, WDOL would take the time necessary to fully understand the IT needs of WBOA, and the capabilities of WBOA's current IT systems, before attempting to do any type of conversion or integration.

One area in which the AD and DAD was able to make a reasonable assumption as to what would occur after a merger was with regard to the website for WBOA. It is the general intent of WDOL to have conformity and consistency within the agency, and, therefore, all licensing programs within WDOL's authority are currently integrated into WDOL's website. If merged, WBOA would no longer maintain its own separate website but its website would also be integrated into the WDOL's website in the same manner as the other licensing programs under WDOL's authority. Generally, each licensing program is found in a link on the main page entitled “Business and Professional”, which takes the user to a series of links, including one entitled professional licenses. Under the professional licensees link the user will find an alphabetical list of the thirty plus professional licenses under WDOL’s authority. The user can find the main page for the profession he or she is seeking by clicking on the name of the profession under the alphabetical list. The main page for the licensing programs generally includes links for obtaining or renewing a license, information regarding fees, forms, applicable laws and rules, information about the board (if the program is a disciplinary board), news, and a form to file a complaint.

The current WBOA website is very detailed and provides information that is helpful for consumers as well as licensees, and is organized in a manner that allows easy access to information (e.g. information pertinent to consumers is found in one area, whereas information pertinent to licensees is found in a separate area). The website provides a link to a form complaint, as well as information about the types of complaints that can be filed, and the procedure once a complaint is filed. As discussed in Section III.A.5., WBOA recently spent a fair amount of resources updating and improving its website.

Although this Merger Report is not intended to provide any sort of a detailed analysis of the IT currently being utilized by WBOA and WDOL or what would be required to either integrate or convert WBOA’s existing systems into WDOL’s, a brief discussion of IT issues seems necessary, at least, to bring attention to the fact that further analysis would be required if WBOA were, in fact, to merge with WDOL. See Section VI.D. for a more detailed discussion of potential costs of such integration/conversion.

V. ACCOUNTABILITY

One of the three main criteria for evaluation is the impact of merging WBOA into WDOL on WBOA's accountability to the public and the profession. This is the most significant criteria because the reason for the creation and existence of WBOA is specifically, as provided by statute, to protect the public and the integrity of the profession. See RCW 18.04.015. The majority of CPAs in the country have long maintained that state boards of accountancy should be independent agencies so that they can adequately regulate the profession and provide the public with reliability of financial information. According to our interview of the President and CEO and the Director of Advocacy of WSCPA, WSCPA strongly supports keeping WBOA an independent agency because it is in the best interests of the public and the profession.

WSCPA's position is that an independent agency is the best operation strategy for an efficient and effective regulatory system which is tantamount to a strong profession. The reasoning in this area is vast but is simply summarized by stating that an independent agency facilitates the relationship between the profession and the agency to ensure efficient and proper regulation as well as to communicate and address the needs and concerns of the profession. As an independent agency, WBOA has greater visibility and accessibility to the Governor and the legislature, and more control over the agency's and the profession's priorities, as well as the agency's use of resources and its processes. The WSCPA believes that all of these factors are essential to maintaining WBOA's accountability to the public and the profession.

NASBA also supports the independence of state boards of accountancy. NASBA's State Board Relevance & Effectiveness Committee made a presentation at its October 2010 national meeting urging states to make sure that their boards of accountancy maintain or seek to achieve their independency. One of the slides in the presentation reads as follows:

> "NASBA believes Accountancy Boards need a high level of autonomy in operational and financial matters and the authority to operate at a level that is commensurate with their responsibility to act in the public interest."

The U.S. Department of Treasury also recognizes the importance of the issue and has officially endorsed the independence of state boards of accountancy. In an October 2008 report entitled "Report of the Advisory Committee on the Auditing Profession" issued by the U.S. Department of Treasury, the Advisory Committee states the following:

> "The Committee is concerned about the financial and operational independence of state boards of accountancy from outside influence, such as other state agencies, and the possible effect on the regulation and oversight of the accounting profession. A number of state boards are under-funded and lack the wherewithal to incur the cost of investigations leading to enforcement. In addition, some other state boards fall under the centralized administrative "umbrella" of other state agencies and lack control of financial resources and/or operational independence necessary to carry out their mandate of public protection...The Committee believes that greater independence of state boards of accountancy would enhance their regulatory effectiveness. The committee recommends that, working with NASBA, states evaluate and develop means to make their respective state boards of accountancy more operationally and financially independent of outside influences."

Our evaluation was designed to look for evidence that would support or contradict the CPAs', NASBA's and The U.S. Department of Treasury's position that an independent board is superior to a consolidated board with respect to accountability. We evaluated the potential impact of merging WBOA into WDOL on WBOA's accountability to the public and the profession by performing the following analyses:

1. Obtaining and comparing information related to complaints investigated by boards of accountancy that are independent agencies versus those that are operating under the authority of other governmental agencies.

2. Comparing investigator resources per licensed individual of WBOA versus the various disciplinary boards under WDOL's authority.

3. Comparing complaints investigated per licensed individual by WBOA versus the various disciplinary boards under WDOL's authority.

4. Considering the impact that consolidation of WBOA with WDOL would have on WBOA's access to the State of Washington's Governor's Office.

A. Complaint Investigation and Resolution By Various Boards of Accountancy – Independent Versus Consolidated

In developing our work plan for this Merger Report, we assumed that information from various state boards of accountancy regarding the number of complaints investigated and resolved, and related information regarding the types and number of enforcement actions taken as a result of the complaint investigation and resolution process, would be readily available. We initially selected seven state boards of accountancy, all of which have a licensee base of similar size to that of WBOA for general comparability. In our review of the seven state boards' websites, we became aware that the information we were seeking was not publically available. We then attempted to contact each of the seven states' boards to request this information. Based on the results of our contacts with these states, we concluded that obtaining enough data to get a reasonable comparative sample through contacting individual boards of accountancy was outside of the scope of this engagement.

The proposal submitted related to the preparation of this Merger Report identified the following:

> "The cost proposal discussed in the following paragraph is being made under the assumption that the information we intend to obtain...is either publically available or readily available...To the extent that these types of information are not publically available or readily available, we will prepare our report based upon the information that we have available to us and, if required, make assumptions regarding any specific information that is required for the report...These assumptions, if any, would be identified in our report."

Given the timeframe of the project and the difficulty we encountered in accumulating a small sample, we asked that the ED utilize NASBA's "quick poll" system in an attempt to obtain the information we had originally sought. Through the ED's use of the this system, the ED received and forwarded to us responses from 17 state boards, Washington D.C.'s board, and Guam's board. Of these 19 responses, one response was deemed not timely received for inclusion in this Merger Report. We combined the 18 timely responses with the responses from four state boards that were obtained as a result of our initial efforts. We believe that these 22 responses are sufficient for us to draw reasoned conclusions about the accountability of independent agency accountancy boards and consolidated agency accountancy boards based on the differences in the investigation and resolution of complaints. See Exhibit 5 for a summary of the responses received from these boards.

As shown in Exhibit 5, independent agency accountancy boards averaged 26.17 complaint investigations and resolutions per 1000 licensees over a two year period (or 13.08 per 1000 licensees for a one year period) and consolidated agency accountancy boards averaged 14.15 complaint investigations and resolutions per 1000 licensees over a two year period (or 7.08 per 1000 licensees for a one year period).[7]

In a separate analysis, we reviewed the results for medium sized (10,000 to 20,000 licensees) boards with licensees comparable to Washington's 16,494 licensees. In this analysis, four independent agency accountancy boards averaged 24.24 complaint investigations and resolutions per 1000 licensees over a two year period (or 12.12 per 1000 licensees for a one year period) and four consolidated agency accountancy boards averaged 11.70 complaint investigations and resolutions per 1000 licensees over a two year period (or 5.85 per 1000 licensees for a one year period).

This accumulation of data clearly indicates that consolidated agency accountancy boards are obtaining and resolving complaints at about 50% to 54% of the rate of independent agency accountancy boards. The scope of this project did not allow us to determine the exact cause of these reduced rates of enforcement activity of the consolidated agency accountancy boards, however, the data does clearly indicate that independent agency accountancy boards are more effective at obtaining complaints and following up on them than consolidated agency accountancy boards. An additional study would

[7] All averages calculated in Exhibit 5 are the mean of the individual response rates from both independent agency accountancy boards and consolidated agency accountancy boards.

have to be undertaken to determine if this higher level of enforcement by independent agency accountancy boards was related to better outreach efforts, more available investigative resources, or operation priorities. Our experience would lead us to believe that it is a combination of all of these issues, but more often a factor of a lack of available resources for consolidated agency accountancy boards.

The AD and DAD have represented that there would be no noticeable change in WBOA's investigative resources or priorities upon consolidation and we have taken that representation as accurate. Despite best intentions, however, priorities can change, and if a merger were to occur, WBOA would be at the direction of those who are managing the same priorities for several licensing programs and disciplinary boards rather than managing these priorities for itself.

In connection with the "quick poll" request, we also asked the ED to request information on the number of disciplinary orders and the number of consent orders resulting from the examinations undertaken in the last two years. Unfortunately, given the timeframe in which the quick poll information was received, we were unable to adequately analyze the reported information regarding consent and disciplinary orders in the manner necessary to allow us to draw adequate conclusions.

Based on the operation benchmarks discussed herein, we conclude that the consolidation of WBOA into WDOL is not supported from the standpoint of accountability. A consolidation of WBOA into WDOL could have significant disadvantages to the public and the licensee community if WBOA's productivity, resources and/or priorities were changed as a result of the merger.

B. Investigator Resources per Licensee – WBOA Versus WDOL

In interviews of the AD and DAD it was noted that the only disciplinary boards under WDOL's authority which had dedicated investigators were the engineers / land surveyors board (3 FTEs) and the funeral / cemetery board (3 FTEs). The other four disciplinary boards that do not have dedicated investigators shared investigators with other disciplinary boards or licensing programs under WDOL's authority and rely on their volunteer board members to act as expert case managers.

Due to the dissimilarity of the funeral / cemetery board with WBOA and the previously discussed concurrence with WDOL (see Section II.D.) that the engineers / land surveyors board was the most similar to WBOA, we concluded that a comparison of investigator resources is most reasonably made only with the engineers / land surveyors board.

As can be noted at Exhibit 6, the engineers / land surveyors board had 42,920 licensees in fiscal year 2010 resulting in approximately 14,300 licensees per FTE investigator. WBOA has one FTE investigator and currently has 16,494 licensees. Accordingly, based on this operation benchmark, the engineers / land surveyors board is better resourced for investigations than WBOA. Yet, as noted in Section V.C., the engineers / land surveyors board performed 5.73 complaint investigations and resolutions per 1000 licensees over a two year period while WBOA performed 13.16 complaint investigations and resolutions per 1000 licensees over a similar two year period.

Despite the higher rate of enforcement activity by WBOA, our Performance Review Project Report concluded that WBOA was under resourced in the investigations area. In the Performance Review Project

Report, we made an overall recommendation that WBOA's investigative resources be increased and made several other recommendations that, if adopted, would increase available resources which WBOA could apply to the investigative process. Although the AD and DAD represented that they intend to maintain the current WBOA staff if merged, it is unclear whether a merger would inhibit an increase in resources.

One strong point for the consolidation of any licensing program is that it allows a licensing program to share resources with other licensing programs in times of need so that it does not fall behind on its critical path projects. Unfortunately, due to the highly technical and specialized nature of WBOA's investigations only qualified CPA investigators can be utilized to assist WBOA.

Given the relative comparability of the investigator resources between WBOA and WDOL's engineering / land surveyors board and WDOL's representation that there will be no change in WBOA's investigative resources (see Section V.A.), we believe that this operation benchmark provides no reason in favor of or against merger of WBOA with WDOL.

C. Complaints Investigated per Licensee – WBOA Versus WDOL

As shown in Exhibit 7, WBOA investigated and resolved 217 complaints in the calendar years 2008 and 2009. Over a similar two year period, WDOL's six disciplinary boards investigated and resolved 660 complaints.

WBOA handled 13.16 complaint investigations and resolutions per 1000 licensees over the two year period (or 6.58 per 1000 licensees for a one year period) and WDOL handled 11.80 (or 5.90 per 1000 licensees for a one year period). WDOL's disciplinary boards' complaint investigations and resolutions per 1000 licensee for the two year period ranged from a low of 5.73, for the engineers / land surveyors board, to a high of 178.57 for the collection agencies board. Based on the material difference between WDOL's disciplinary board's number of complaint investigations and resolutions and due to the fact that the AD and DAD deemed (as discussed in Section II.D.) the engineers / land surveyors board to be most similar to WBOA, we performed a comparison of complaint investigations and resolutions only with the engineers / land surveyors board. We did not analyze whether the engineers / land surveyors board and WBOA are, in fact, similar in the types of complaints and complexity of issues required to be addressed. We assumed the fairness of this comparison for purposes of performing this analysis.

The engineers / land surveyors board investigated and resolved 5.73 complaints per 1000 licensees during the two year period. This rate of investigation and resolution is 56% lower than WBOA's per 1000 licensees. While the scope of this engagement did not allow for us to determine the exact reasons for this reduced level of investigation and resolution per 1000 licensees, it is a significantly lower level of activity given that the engineers / land surveyors board is better resourced at the investigator level than WBOA (see Section V.B.).

Regardless of the reason for the differences in the rates of complaint investigation and resolution between WBOA and WDOL, we concluded that the results of this operation benchmark strongly support keeping WBOA as an independent agency.

D. Impact of Lack of Access to the Governor's Office

The consolidation of WBOA into WDOL would result in WBOA's administrative functions and related policies being managed by WDOL with WBOA's direct reporting responsibility to an assigned Senior Administrator, who, in turn, has reporting responsibility to the AD of the Business and Professions Division (see Exhibit 4 attached to this Merger Report). This reporting structure upon merger is in contrast to WBOA's current reporting structure, in which the ED reports directly to the State's Office of the Governor (see Exhibit 2 attached to this Merger Report). Although we cannot conclude that merely restructuring WBOA's reporting structure (such that it would have to go through an additional four supervisory levels before it obtained an audience with the Office of the Governor) will reduce WBOA's accountability to the public and to its licensee community, we can conclude that WBOA's visibility and ability to effectively communicate its needs and concerns to the same audiences will be reduced.

In our interview of the President and CEO of WSCPA, he stated that one of the CPA profession's concerns with consolidating WBOA into WDOL is that WBOA will no longer be able to attract high quality board members due to the perception of a lack of prestige of the Board and the CPA profession's conclusion that less resources will be available to WBOA thereby requiring more work of volunteer board members. The President and CEO of WSCPA indicated that he has seen this occur in numerous other states that have consolidated their boards of accountancy into larger administrative agencies. The CPA profession believes that the visibility of WBOA and its accessibility to the Governor's office and the legislature is critical to ensuring the protection of the public and the quality of practice within the licensee community.

The AD and DAD have represented that there would be no noticeable change in WBOA's investigative resources or priorities upon consolidation and we have taken that representation as accurate. Despite the best intentions of these representations, we believe that it would be an error to assume that these resources and priorities could not be changed due to a change in personnel or some other outside factors. If a merger were to occur, WBOA would be at the direction of those who are managing the same priorities for several licensing programs and disciplinary boards rather than managing these priorities for itself and its regulated community.

It is generally accepted that one who is in control of his own destiny has a better chance of reaching his goals than one who must convince others that his goals are appropriate and achievable. Based on the statutory purpose of WBOA, WBOA's mission statement and the work that we performed in the Performance Review Project, WBOA's goals are (and correctly should be) the protection of the public and the licensee community. It is hard for us to conceive how removing WBOA's access to the Office of the Governor without first clearing four separate supervisory levels would increase its opportunity to fulfill its statutory requirements and mission statement.

VI. ECONOMY

One of the three main criteria to be evaluated by this Merger Report is the economy of merging WBOA into WDOL. We have evaluated the economy of the proposed consolidation in the following manner:

- By preparing a pro forma expenditure budget as if WBOA's operations were consolidated into WDOL.

- By comparing WBOA's historical, adjusted, and current anticipated expenditures on a standalone basis with those of the other disciplinary boards currently under WDOL's authority.
- By reviewing the number of licensees per FTE of both WBOA and disciplinary boards currently under WDOL authority.
- By considering the impact of the cost of implementing the merger.
- By considering whether the merger would likely result in a reduction of regulatory costs.

A. Comparison of Expenditure Levels – Independent Versus Consolidated

In preparing our analysis of the economy of the merger, we obtained historical actual expenditure reports, currently budgeted expenditure information, and currently anticipated expenditure information from representatives of WBOA and WDOL. This information was utilized to compare current WBOA operation benchmarks with those of WDOL's disciplinary boards (see Section VI.B.) and to prepare a pro forma expenditure budget for WBOA under the assumption that it was fully merged with WDOL consistent with the structure represented to us in our meetings with the AD, DAD and ED (as described in Section IV.).

WDOL budgets and accounts for a disciplinary board's expenditures by accounting for all direct expenditures of the disciplinary board and then by allocating common expenses for Indirect Division Support and for Indirect Agency Support. Indirect Division Support, which basically consists of the costs of operating the administrative functions of the Business and Professions Division, is primarily comprised of physical facility costs, i.e. office rent, and the cost of salaries, benefits and related expenses associated with the AD, his support staff, and the Senior Administrators who oversee the various licensing programs within WDOL's Business and Professions Division. Indirect Agency Support consists of the costs of operating the administrative functions of the entire agency of WDOL, is primarily comprised of common expenses such as IT, human resources, and accounting (including payroll and budgeting). See Exhibit 8 attached to this Merger Report for a summary of WDOL's Fiscal Year 2010 budgets for its disciplinary boards.

The major assumptions we utilized to prepare the pro forma expenditure budget for WBOA's operations as a consolidated program within WDOL are as follows:

1. All employees at WBOA would become employees of WDOL. WBOA's current IT Manager and WBOA's current Lead Program Manager would be moved to the Indirect Agency Support section of WDOL thereby removing these employees' costs from WBOA's pro forma expenditure budget.[8] As shown in Exhibit 9 attached to this Merger Report, 100% of the salary and employee benefits of WBOA's IT Manager and 85% of the salary and employee benefits of WBOA's Lead Program Manager were removed in the calculation of the pro forma expenditure budget. The Lead Program Manager's salary and benefits were reduced by only 85% as the ED represented that 15% of this individual's time is spent in the area of license renewals and related issues, which is considered a direct service rather than an indirect service.

[8] See item 7. in this Section VI.A. for a discussion of our methodology for allocating Indirect Agent Support, which would include IT, finance, and other administrative related costs in the pro forma expenditure budget.

2. Under WDOL's operating model, indirect employees handle substantially all of the accounting, budgeting and lobbying functions.[9] This operating model is utilized to centralize these functions and save administrative time from being expended by the licensing programs' direct employees. In interviews of the AD and DAD, we were informed that WDOL's operating model does require the assigned Administrator of a disciplinary board to be involved in accounting, budgeting and lobbying functions of its disciplinary board from an advisory perspective; however, given that the actual responsibility of carrying out these functions lies with the indirect employees of WDOL, the Administrator is given additional responsibilities in their place such as the management of other licensing programs. During interviews of the AD and DAD, we agreed that a reasonable allocation of WBOA's ED's time that could be assigned to other licensing programs within WDOL upon consolidation was 30%. This assumed reduction in WBOA's salaries and benefits expenditures is reflected in the pro forma expenditure budget. See Exhibit 9 for a specific calculation of pro forma salaries and benefits.

3. The cost for each licensing program's office space is allocated through the Indirect Division Support allocation. As a result of this expense being recorded through the Indirect Division Support allocation, it was removed from the pro forma expenditure budget for comparative purposes.[10] The AD and DAD agreed that they did not currently have available office space for WBOA. WDOL also concurred that WBOA would stay in its

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[9] See item 7. in this Section VI.A. for a discussion of the types of costs that are allocated to the disciplinary boards.

[10] See item 7. in this Section VI.A. for a discussion of our methodology for allocating Indirect Division Support to WBOA, which would include office rent, in the pro forma expenditure budget.

current office space, at a minimum, until the June 30, 2012 expiration of the current lease.

4. The AD and DAD represented that, upon a completed merger, WBOA would no longer need the majority of the State's shared service programs currently being utilized. WDOL agreed that the major exception to this is the usage of services from the State's Office of the Attorney General. In reviewing historical expenditure reports of other WDOL disciplinary boards, we noted that amounts paid to the State's Office of the Attorney General were being classified as Direct Program Expenses. WDOL agreed that there was no reason to believe that it could obtain a better rate for WBOA with the State's Office of the Attorney General and that WDOL did not provide legal advice to its disciplinary boards. In preparing the pro forma expenditure budget, we removed all amounts currently being paid by WBOA to other state agencies with the exception of amounts being paid to the State's Office of the Attorney General.

5. The pro forma expenditure budget also reduces WBOA's current budget for outside IT support contracts and IT equipment needs as, per our interview of the AD and DAD, these costs would be included in the Indirect Agency Support allocation made by WDOL to WBOA.[11]

6. We also made a reduction in the pro forma expenditure budget for amounts being paid by WBOA to other state agencies for employee training classes on such matters as human resources, IT and public record requests. The ED estimated that approximately 75% of Employee Training and Tuition expenditures were paid to other state agencies. Per the AD and

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[11] See Footnote 8.

DAD, these types of training classes are provided internally to their disciplinary boards.[12]

7. The final adjustment in the pro forma expenditure budget was to include WDOL's allocations of expenses for Indirect Division Support and for Indirect Agency Support. The AD and DAD stated that they could not provide us with an estimate of these costs if WBOA were merged into WDOL as such costs were allocated to each disciplinary board on a specific utilization method. Nevertheless, these costs must be reflected in the pro forma expenditure budget to allow a reasonable comparison of the economic effects of the merger. As a result, we decided it was logical to base the assumed allocation of these costs on the historical allocation of such costs to other disciplinary boards within WDOL. As shown in Exhibit 10, the total expense allocation of common expenses to all of WDOL's disciplinary boards resulted in an average allocation of $40,319 per FTE. While the allocation to the engineering / land surveyors disciplinary board was $45,081 per FTE. In our interviews with the AD and DAD we agreed with their assumption that the engineering / land surveyors disciplinary board was probably the most similar to WBOA for purposes of comparison (see Section II.D.). Based on the average allocation per FTE of common costs to all disciplinary boards of $40,319 and the average allocation per FTE of common costs to the engineering / land surveyors disciplinary board of $45,081, we concluded that an average allocation of common costs to a merged WBOA of $42,500 per FTE would be reasonable. We discussed this allocation methodology with the AD and DAD and they agreed that our method was reasonable. As shown in Exhibit 9, WBOA's number of FTEs

[12] See Footnote 8.

after merging into WDOL is assumed to be 7.85.[13] Based on the allocation of common costs per FTE, the total allocation to WBOA by WDOL would be $333,600.

The pro forma expenditure budget demonstrates that there would be an annual savings of $63,200, or 5.4%, if WBOA were to merge with WDOL. See Exhibit 11 for the pro forma expenditure budget. While it may be argued that any savings may be a reason to conclude that merging WBOA into WDOL is a good idea, we believe that, based on the negligible savings assumed by the pro forma expenditure budget, that there is not enough evidence to conclude that WBOA should merge with WDOL. The pro forma is based on reasoned assumptions which have been vetted with personnel of WDOL and WBOA. Further, the savings calculated by the pro forma expenditure budget does not consider the actual costs of merging WBOA into WDOL as more fully discussed in Section VI.D.

Based on interviews of the AD and DAD, we understand that one of WDOL's objectives is to ensure that each of its licensing programs are operating as efficiently as possible. The pro forma expenditure budget does not reflect any reductions in FTE's due to potential current inefficiencies at WBOA. This is because our Performance Review Project did not identify any significant current inefficiencies within WBOA that would lead us to believe that there could be a reduction of work force for WBOA after a merger. Based on the work performed during our Performance Review Project, it is our conclusion that any direct reductions in personnel other than those identified in assumptions (1) and (2) above, would seriously impact

[13] WBOA's current FTE count is 10. As noted in items 1. and 2. of Section VI., the pro forma expenditure budget assumes that this FTE count would be reduced by 1.0 FTE for the Information Technology Manager, 0.85 FTE for the current administrative functions being performed by the Lead Program Manager and 0.30 FTE for the current administrative functions being performed by the ED.

WBOA's ability to operate in the best interest of the public and the licensed community.

B. Historical and Currently Anticipated Expenditures – WBOA Versus WDOL

The minimal savings from a merger, as discussed in Section VI.A., are also confirmed by WBOA's current level of expenditures. Using information obtained from WBOA and WDOL, we calculated the average expenditure per FTE for WBOA and for the disciplinary boards within WDOL. These comparative operational benchmarks show that WBOA's average expenditure per FTE is currently slightly less than the disciplinary boards within WDOL (see Exhibit 10 for detailed calculations). The average expenditure per FTE is summarized as follows:

Average Expenditure per FTE based on WBOA Actual Expenditures For FY 2010 (After Adjustment for Nonrecurring Items)	$137,085
Average Expenditure per FTE based on WBOA Anticipated Expenditures For FY 2011	$127,600
Average Expenditure per FTE based on WDOL Budgeted Expenditures For FY 2010 For all Disciplinary Boards	$140,189
Average Expenditure per FTE based on WDOL Actual Expenditures For FY 2010 For Engineers / Land Surveyors Disciplinary Board	$132,873

These operational benchmarks do not support a conclusion that WBOA should merge with WDOL to reduce the overall costs of operating WBOA.

C. Review of Number of Licensees per FTE – WBOA Versus WDOL

One operation benchmark that may indicate a substantial difference in operating economy between WBOA and WDOL is the average number of licensees per FTE that is currently being utilized by WDOL to operate its disciplinary boards as compared to the number of licensees per FTE that WBOA utilizes in its current operations. As shown in Exhibit 6, WBOA has 2,101 licensees per FTE whereas WDOL's disciplinary boards average 2,265 licensees per FTE.

While these operation benchmarks are fairly close, the engineers / land surveyors board has 3,732 licensees per FTE (see Exhibit 6). As discussed in Section II.D., we used the proposed assumption of the AD and DAD that the engineering / land surveyors board was the most similar to WBOA. In order to achieve a ratio of 3,732 licensees per FTE, WBOA would have to eliminate approximately 3.45 FTEs after merging with WDOL.

Based on our Performance Review Project, it is our conclusion that reducing WBOA's FTE count after merger to 4.40 (from the currently assumed 7.85 FTEs after merger with WDOL) would severely limit WBOA's ability to protect the public and serve its licensees.

D. Consideration of Costs of Implementing the Proposed Merger

The economy analysis discussed in Sections VI.A., B., and C., does not demonstrate significant cost savings from a merger of WBOA into WDOL. In addition, this calculation of no significant cost savings also ignores consideration of the costs that would be incurred in the implementation of the merger. Implementation costs include, but are not limited to, the costs of integrating WBOA's personnel into WDOL, and the costs of converting WBOA's IT applications to WDOL's systems.

In our meetings with the ED, AD and DAD, we were unable to obtain any estimate of the costs that would be incurred in the implementation of the merger as neither WDOL nor WBOA had been asked to develop such a cost estimate prior to our engagement to prepare this Merger Report.

The AD and DAD informed us that an existing disciplinary board had not been merged into WDOL in numerous years; however, other licensing programs, both existing (Home Inspectors in 2006) and new (Tattoo, Body Art, etc. in 2010), had been merged or started in the last five years. The AD and DAD estimated that the range of start-up / merger costs for these licensing programs was approximately $30,000 to $50,000, but they agreed that the cost of merging WBOA into WDOL would likely be much greater due to the complexity of the existing licensee base of WBOA, and the various existing technology applications that may not be easily integrated into WDOL's technology.

WDOL's policy is that all of its licensing programs, including the disciplinary boards, use the same technology. This policy appears reasonable as it is WDOL's operating philosophy to consolidate these licensing programs into an integrated system to develop economies of scale. While this objective makes sense from a high-level perspective, the landscape changes significantly upon a detailed look at consolidating entities with non-homogeneous needs.

One example is WBOA's website. WDOL intends to "unify" WBOA's website format and content to be consistent with and part of the current WDOL website. This would be done as WDOL's operating philosophy is that any individual seeking a license or information about a licensee for any profession or occupation should be able to go to one website and find what they are looking for. WBOA currently has a robust website that has many applications including online license applications, online license renewals, and online search of the status of any licensee. Any estimate of the actual costs of merging WBOA into WDOL would have to include an analysis of conforming WBOA's website to WDOL's website including the direct costs of training WBOA employees and WBOA licensees in the use of the new system.

Technology conversions can be time consuming and costly; significant advance planning, programming, and testing of conversions before "going live" is generally considered best practice. In our discussions with the AD and DAD, we agreed that a reasonable timeline to implement a seamless integration of WDOL's IT systems would be approximately two to three years from the date of the approval of the merger.

Given the information that we received from WBOA and WDOL, we believe that a reasonable "unsubstantiated" estimate of the cost of IT integration/conversion would likely be a minimum of $200,000 and as much as $500,000 or more. As noted in the preceding sentence, this estimate is unsubstantiated and is not based on any reasoned assumptions. The conversion of the IT systems from WBOA's current platforms to WDOL's would likely be the most time consuming and costly part of the merger. Our estimate of the cost to implement the integration and conversion of WBOA's IT systems into WDOL is based on our general experience with other systems conversions. We are comfortable that the minimum range of the cost of conversion is reasonably accurate; however, we cannot be certain that the maximum range of the cost is accurate, as it could be much higher. There would be additional costs of merging WBOA into WDOL for training of WBOA personnel related to WDOL's systems and policies, however, based on our experience, the personnel training costs would be a fraction of the IT costs.

Depending on the ultimate costs of implementing the IT systems integration and conversion, and the accuracy of our pro forma expenditure budget savings of $63,200 upon merger, it would take the State of Washington three to eight years to recover the actual costs of merging WBOA's information platforms and databases without regard to any other potential costs of the merger, i.e., employee training costs. By most private sector standards, this rate of return on investment would be considered marginal at the minimum range of our estimated cost and unacceptable at the maximum range.

E. Potential Reduction in Cost of Regulation

Given the lack of significant savings indicated by the pro forma expenditure budget (see Exhibit 11 and Section VI.A.), the relative efficiency of WBOA's operation benchmarks as compared to WDOL's (see Sections VI.B. and C.), and the potential costs of merging WBOA into WDOL (see Section VI.D.), it is our conclusion that merging WBOA into WDOL would not result in any significant reduction in the cost of regulation, if any. Currently, the costs of WBOA's regulatory and licensing functions are borne fully by WBOA's licensees through the payment of initial licensing fees, renewal licensing fees, and other regulatory fees charged directly to licensees. WBOA's licensees renew their licenses on a recurring three year schedule. A recent five year income projection by WBOA calculated that its average annual revenues would be $1,312,000. With a currently anticipated expenditure level of $1,181,300 and a pro forma expenditure budget of $1,118,100 it does not seem likely that any significant reduction in licensing fees would occur in the next several years with or without a merger of WBOA into WDOL.

WBOA's current fund balance is $2,380,000, which is based on various considerations including the current and estimated future licensee base to ensure the availability of adequate resources to provide for the agency's needs and to operate the agency effectively. Any disciplinary board requires a strong fund balance to ensure that it has the resources to properly investigate, resolve, and adjudicate all appropriate complaints. Complaints that may be presented to WBOA can be extremely complex and costly to investigate, resolve, and adjudicate given the highly technical nature of the potential issues. Many state boards of accountancy have faced the need to investigate, resolve, and adjudicate complaints over the last decade that cost several hundreds of thousands of dollars with some matters costing in excess of a million dollars. To be unable to investigate, resolve, and adjudicate pertinent complaints due to a lack of available funding would be a direct default of WBOA's main purpose – to protect the public interest. Regardless of whether WBOA is merged into WDOL, it would not be in the best interests of the public or the profession to reduce licensing fees, as maintaining a sound fund balance is necessary to protect the public and the profession.

VII. EFFICACY

One of the three main criteria to be evaluated by this Merger Report is the impact that merging WBOA into WDOL would have on the efficacy of WBOA's operations. As noted in Section II.C., the scope of work for this Merger Report identified efficacy as it relates to the regulatory areas of

WBOA's operations including rulemaking, the processing of examination applications and examination results, license applications and renewals, and determinations on disciplinary matters. Each of these matters is discussed in this Section.

We have also included a discussion in this Section of WBOA's operation efficacy related to the handling of public records requests. While the scope of work was limited to regulatory matters, we believe that it is a significant area of operations for any public agency in today's environment. Finally, it should be noted that we also comment on the efficacy of the WBOA's operations from a economy point of view in Section VI of this Merger Report.

A. Reduction of Waiting Periods for Actions

1. Rulemaking

Rulemaking authority will continue to be one of the statutorily granted powers of the Board of WBOA. During our interviews, the AD and DAD represented that the Board would not need to seek any approval from WDOL with regard to any rule proposal with which the Board determines to proceed. Based on these representations, and because rules are adopted by all governmental agencies in the State of Washington through the same process, which is mandated by law, as set forth in the APA, it would appear that there would be no change to the rulemaking process or the time it takes to complete the process as a result of a merger. *See* RCW 34.05.310 *et seq.* The APA sets forth the procedures required for an agency to adopt a new rule, or amend or repeal an existing rule.[14] Therefore, the rulemaking process will not change as a result of a merger with WDOL, nor will the

[14] Although different processes are provided for adopting or amending different types of rules, for purposes of this Merger Report, the basic overall process that applies to all rules is discussed.

time that it takes to complete the process. Generally, the basic process used to adopt a new rule, amend an existing rule, or repeal an existing rule involves three steps: (1) the pre-notice inquiry; (2) the development of the draft for the language of the rule; and (3) the final adoption of the rule.

Currently, the ED will meet with the officers of the Board to discuss any possible rule changes or adoption of new rules. Once the Board determines to proceed with the new rule or rule change, the Board will file a notice with the Office of the Code Reviser, a CR-101, explaining that it is considering a rule change or adoption, the reasons for the rule change or adoption, and its authority for taking the action. The notice is published by the Code Reviser in the Washington State Register, which is a document that contains all agency rule notices, public meeting notices, Governor Executive Orders, and Supreme Court Rules. WBOA will also hold a public Board meeting at which the ED describes the rule proposal orally, and interested parties may attend the meeting to provide any comments on the proposal. Generally, WBOA will take all comments received into consideration is either deciding to proceed with or make changes to the rule proposal.

If the rule proposal has general public support (as determined by comments from the public Board meeting and the publication of the notice), the ED will work with WBOA staff to draft language for the rule proposal. After developing draft language for the rule proposal, WBOA will hold another public Board meeting to present the draft language and receive comments from interested parties. Once WBOA is satisfied with the rule proposal and the draft language, it will file a "Notice of Proposed Rulemaking" (CR-102) and a copy of the proposed rule with the Code Reviser, which is published in the Washington State Register. WBOA will the notice to interested parties, and will schedule another public Board hearing at which interested parties can make comments about the proposal. Written comments can also be submitted by interested parties. WBOA will consider all comments received and make appropriate changes. If the changes are substantial, WBOA may revise the draft rule, file another Notice of Proposed Rulemaking, send out a new notice, and hold another hearing. In addition, if numerous objections are received, WBOA may decide against the rule proposal.

Once WBOA is satisfied with the rule proposal and addressing the comments received, it will adopt the rule by filing the final rule with the "Rulemaking Order" (CR-103) with the Code Reviser. Generally, rules will become effective 31 days after they are filed with the Code Reviser. The order and the final rule are published by the Code Reviser in the Washington State Register.

The overall process, according to the ED generally takes approximately six months, although it can take longer if the rule proposal receives a lot of comment or resistance. Per representations by the AD and DAD, there would be no change to this process as it is mandated by law. In addition, there would be no change in the time required to go through the process as the Board would continue to propose and enact rules as it deems fit with no substantive involvement from WDOL unless the Board desired to seek assistance from WDOL in getting support for a rule proposal. Therefore, there appears to be no efficiency gained or lost by a merger with WDOL from the standpoint of rulemaking and the time required to complete the process.

2. Examination Results

Although the Senate Bill provides WDOL with authority to administer laws with respect to examination of applicants and adopting rules and regulations prescribing the method of conducting examinations, the fact is that in the current CPA exam environment there is minimal involvement by WBOA, as NASBA handles the verification of education requirements and the notification of examination results. Under the assumption that WDOL would not require WBOA's agreement with NASBA to be altered, there would be no change in the timing of the receipt examination results by individual taking the CPA exam.

3. License Applications

As indicated in the preceding Section III.A.5, the large majority of license applications are currently submitted to WBOA via the new online licensing and renewal IT system. The online system has helped to reduce the timeframe in which initial license applications are approved (or denied), as the system requires most of the application to be complete before it can be submitted. After initial applications are received, they are reviewed by WBOA staff and any questions with regard to an application are addressed before approved. Issuance of initial licenses currently takes approximately two days after receipt and review of a complete application. The time required for review and approval of initial applications post-merger will depend largely on whether the same qualified staff is available to efficiently process the applications. Assuming such qualified staff will continue to be available post-merger, no change is anticipated in the timing of processing initial license applications.

Renewals of licenses are automatically issued by the online system after a system verification for completeness of the application. Currently, WBOA selects a random sample of renewals to perform audits of proper completion of CPE requirements through direct contact with the randomly selected licensees. However, this audit process has no impact on the timing for the approval or issuance of a renewal. Assuming the online renewal system currently employed by WBOA is available for use after merger with WDOL, or assuming WDOL is able to successfully convert WBOA to the online renewal system currently being utilized by WDOL (which we assume works in a similar manner with virtually instantaneous issuance of a renewal on the completion of the online renewal application), it is anticipated there would be no change to the time required for the issuance of renewals after a merger with WDOL.

4. Determinations on Disciplinary Matters

In preparing our analysis of the efficacy of the merger, we attempted to obtain from WBOA, WDOL and other state boards of accountancy detailed information on the types of disciplinary or non-disciplinary actions resulting from complaint closures. We attempted to obtain this information to prepare an analysis of the efficacy of actions taken on a quantitative (length of time to take action) basis and a qualitative (nature of action taken) basis.

Unfortunately, we were unable to obtain enough comparative information on a timely basis that would allow for any meaningful analysis. As discussed in Section V.A., our proposal for the Merger Report was made under the assumption that the information we intended to gather was either publically available or readily available. As the information that we sought was not publically or readily available, we were unable to come to any conclusion as to the effect that a merger would have on the efficacy of determinations on disciplinary matters.

B. Handling of Public Records Requests

The handling of public records requests, as discussed in Section II.A. of this Merger Report, appears to be an area of concern and may be part of the cause for the commission of this Merger Report. Further, as discussed in Section II.A., based on our Performance Review Project, we concluded that WBOA has made appropriate changes to address and be better equipped to handle the types of issues that were faced in 2009 when WBOA received a series of voluminous public records requests. Based on discussions with the AD and DAD, they acknowledged that such circumstances could have been problematic for any agency to address. They further acknowledged that should similar requests be made after a merger, that the bulk of the responsibility would still fall on WBOA dedicated staff (in part because of their knowledge of their files and organizational systems), but WDOL would have the ability to temporarily reassign resources from other areas due to the size of its agency, to assist in processing the requests. WDOL also acknowledged that it was reviewing and would be responsible on an agency-wide basis for establishing and continually reviewing and updating its policies on the handling of public records requests. Based on the results of our Performance Review Project, we believe WBOA is efficiently processing public records requests. Accordingly, we do not believe that there would be any reduction in the time required to process such requests as a result of a merger, unless WBOA received successive significant requests where WDOL's ability to reassign resources would be helpful.

VIII. CONCLUSION

Overall, we conclude that a merger of WBOA into WDOL should not be approved and is not in the best interest of the public or the profession.

Such a merger will result in a decrease in WBOA's ability to be accountable to the public and the certified public accounting profession. The utmost reason for WBOA's creation pursuant to its statutory requirements and mission statement is to protect the public by promoting the dependability of financial information and regulating the profession. CPAs are responsible for the accuracy of financial statements, which are relied on by Wall Street, lenders and financial institutions, pension funds, and both sophisticated and unsophisticated investors. CPAs have a professional duty to put the integrity of a financial statement before their own interests. The oversight of this profession includes the responsibility to oversee multi-million dollar international auditing and consulting firms (responsible for the financial disclosures of publicly traded companies) as well as the small "mom and pop" accounting practices (that audit local non-profits and small businesses) that have an impact on the economic security of our communities. Based on our conclusion that there would be a reduction in WBOA's accountability if WBOA is merged into WDOL, we conclude that such a merger is improper. Additionally, we found that merging WBOA into WDOL would not result in any significant change to the economy or efficacy of WBOA's current operations. The conclusions set forth in this Merger Report are founded on our understanding of the proposed structure resulting from the merger and what we believe to be reasonable assumptions from which we performed meaningful comparisons and analyses of the potential outcomes of the merger. We also considered the feasibility of operating WBOA in a homogenous manner like with other professions under the authority of WDOL given the unique nature of the oversight of CPAs and the complexity of regulation of the profession.

Specifically, we found that: (1) the merger would likely result in a reduction in accountability to the public and the profession as demonstrated by our analysis of: (a) the enforcement statistics of 22 other boards of accountancy comparing the effectiveness of consolidated agency accountancy boards to independent agency accountancy boards; (b) the proposed structure which would result in WBOA reporting to the Governor's office through several layers of WDOL management as opposed to currently reporting directly to the Governor's office; (c) the current level of disciplinary actions taken by WBOA as an independent agency exceeding the consolidated disciplinary boards of WDOL; and (d) the studies and the experiences of the Washington State CPA professionals (WSCPA), other state board of accountancy regulators (NASBA), and federal financial regulators such as the U.S. Department of Treasury; (2) there would be little, if any, economy resulting from the merger in that there would be only negligible cost savings for operating WBOA as a WDOL program rather than a standalone agency, and no cost savings to licensees in terms of fees paid to maintain their licenses; and (3) there would be no efficacy gained by a merger, as there would be no reduction in waiting periods for actions or functions of WBOA.

We reviewed all the information contained in this Merger Report with the ED of WBOA, and the AD and DAD of WDOL. We appreciate the excellent cooperation provided by both agencies throughout this process.

ZWILLINGER GREEK ZWILLINGER & KNECHT PC

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EXHIBIT 1

KEY TERMS

AD – Assistant Director of the Business & Professions Division of WDOL

APA – Administrative Procedures Act

Board – nine members appointed by the Governor who act as the Board of WBOA

Business and Professions Division – Business and Professions Division of WDOL

consolidated agency accountancy boards – boards of accountancy that operate under the authority of other governmental agencies.

CEO – Chief Executive Officer

CPA – Certified Public Accountant

CPE – Continuing Professional Education

DAD – Deputy Assistant Director of the Business & Professions Division of WDOL

Delegations of Authority - Delegation of Authority, dated April 28, 2006, and Delegation of Authority, dated October 17, 2008

DIS – Department of Information Systems

Disciplinary boards – regulatory or disciplinary boards or commissions under the authority of WDOL

ED – Executive Director of WBOA

FTEs – full time equivalents

independent agency accountancy boards – boards of accountancy that operate as independent agencies.

IT – information technology

Litigation – Nine separate lawsuits against WBOA alleging public records violations (related to 15 public records requests), challenging the legality of a stipulated settlement agreement entered into with WBOA for unprofessional conduct, and various other civil and tort claims filed by D. Edson Clark from approximately December 2007 through October 2009

Merger Report – this report

NASBA - National Association of State Boards of Accountancy

Performance Review Project – the project we conducted in July 2010 in which we evaluated the efficiency and effectiveness of WBOA's practices, policies and procedures

Performance Review Project Report – the report issued in July 2010 based on the Performance Review Project

RCW – Revised Code of Washington

SAO – Stipulated Agreement and Order

Senate Bill – Senate Bill 6425

UCC – Uniform Commercial Code

WBOA – Washington State Board of Accountancy

WBOA Fund – the CPA account created by RCW 18.04.105

WDOL – Washington State Department of Licensing

WDOL Director – the Director of WDOL

WSCPA – Washington Society of CPAs

EXHIBIT 2

Washington State Board of Accountancy Current Organizational Chart

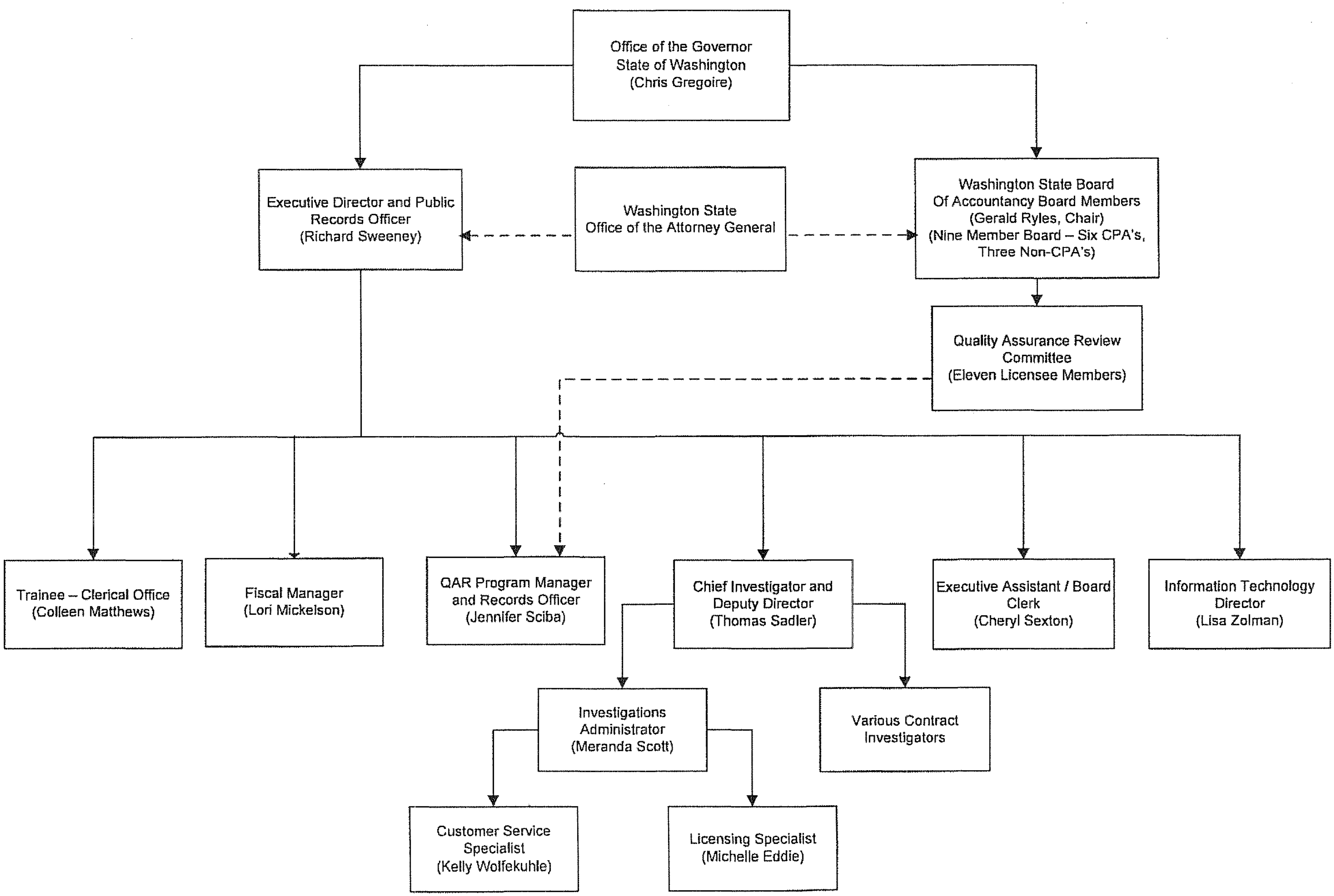


EXHIBIT 3

Merger Report
WDOL – Business and Professions Division

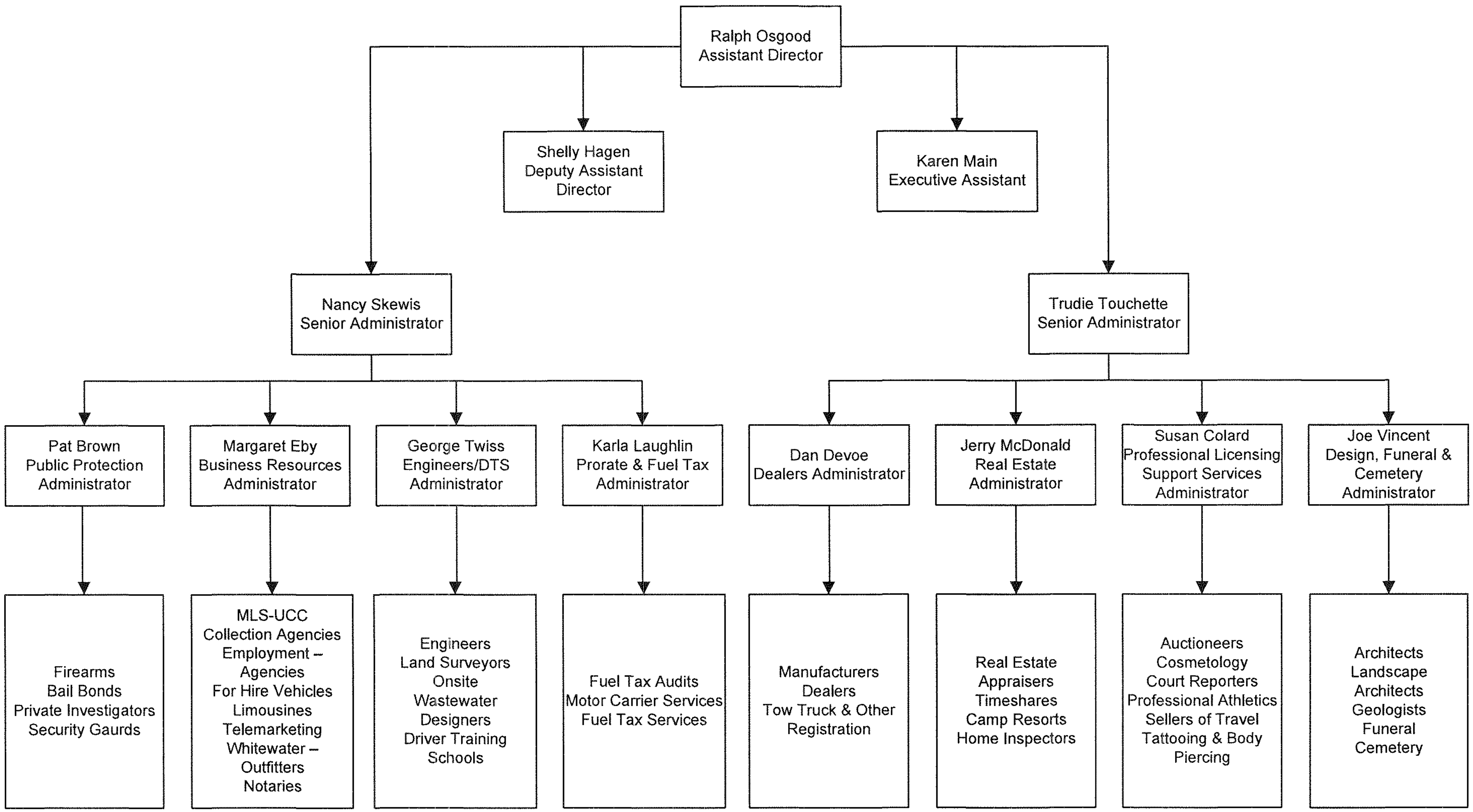
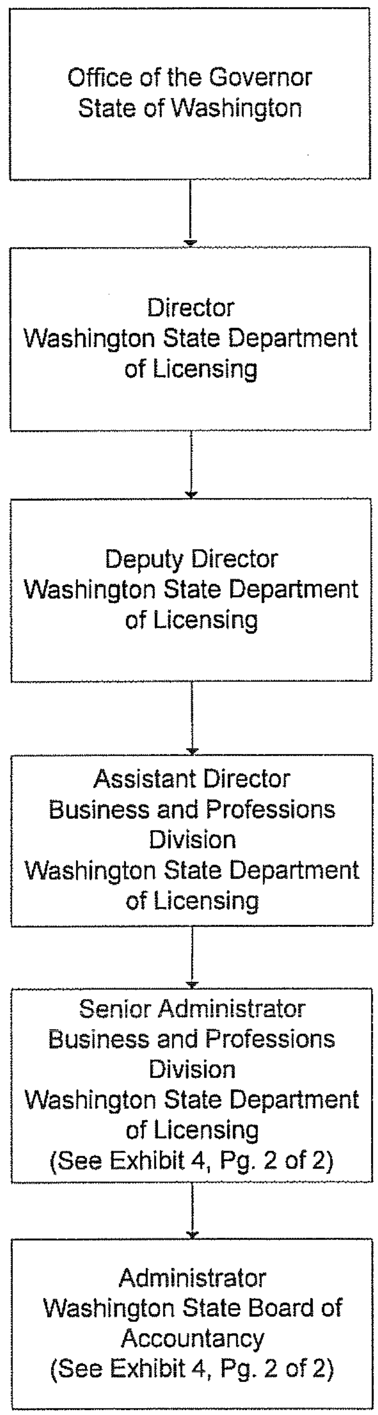


EXHIBIT 4

Washington State Board of Accountancy Proposed Organizational Chart If Merged With Washington State Department of Licensing (Page 1 of 2)



Washington State Board of Accountancy Proposed Organizational Chart If Merged With Washington State Department of Licensing (Page 2 of 2)

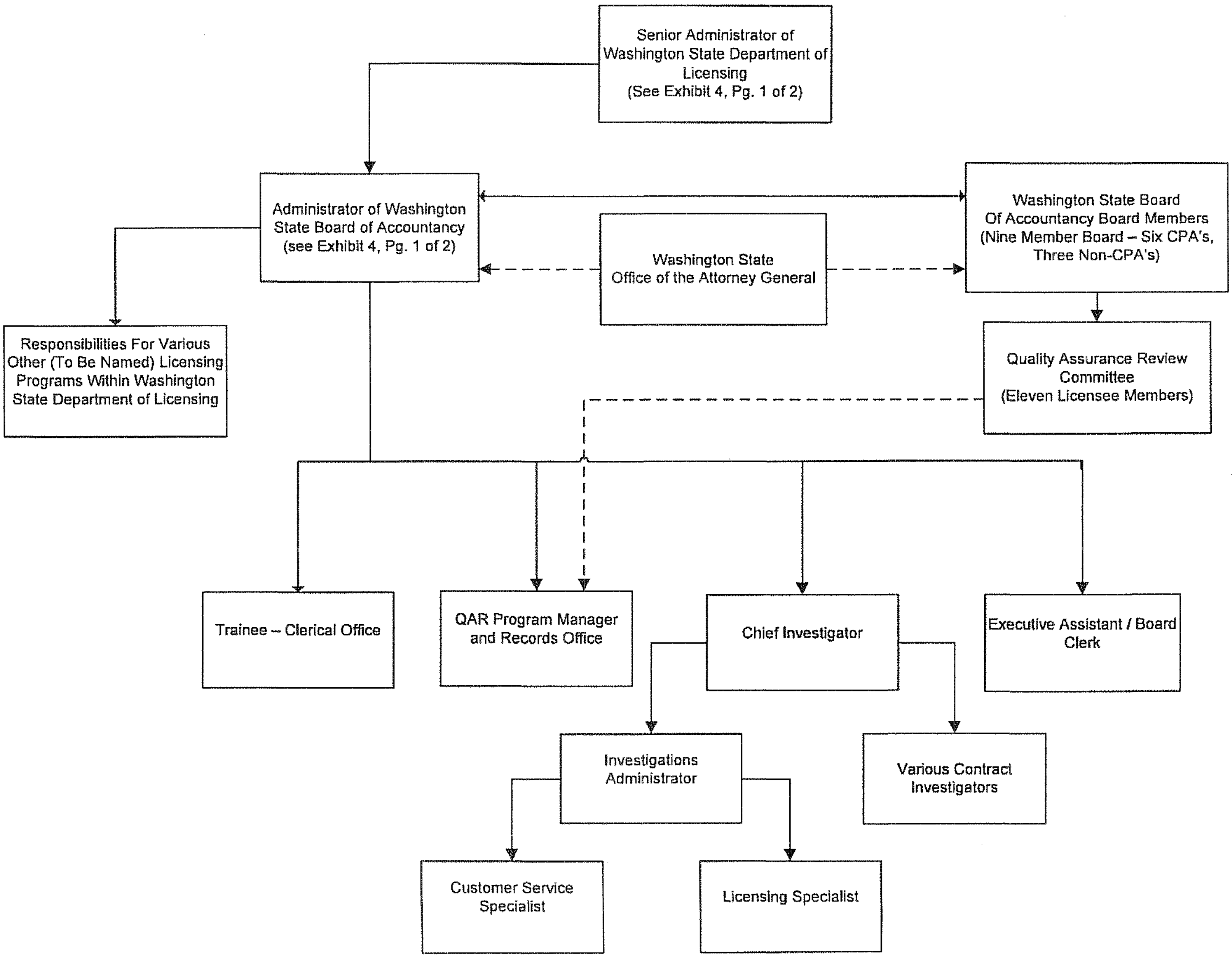


EXHIBIT 5

MERGER REPORT
SUMMARY OF VARIOUS STATE BOARD OF ACCOUNTANCY'S COMPLAINT INVESTIGATIONS AND RESOLUTIONS
INDEPENDENT BOARDS VERSUS CONSOLIDATED BOARDS

NASBA Quick Poll Results	**Number of Licensees**	**Number of Complaints Last Two Years**	**Number of Complaints per 1000 Licensees**	**Total**	**Average (Mean)**
Alabama (Ind.)	11,629	199	17.11		
Arizona (Ind.)	12,640	242	19.15		
Guam (Ind.)	1,360	2	1.47		
Idaho (Ind.)	3,153	21	6.66		
Minnesota (Ind.)	16,695	692	41.45		
Mississippi (Ind.)	5,070	259	51.08		
North Carolina (Ind.)	29,639	514	17.34		
North Dakota (Ind.)	3,400	13	3.82		
Ohio (Ind.)	33,882	293	8.65		
Texas (Ind.)	72,982	7,173	98.28	265.02	26.50
California (Dept Cons. Affairs)	81,489	1,580	19.39		
D.C. (Bus. & Prof. Lic. & Admin)	2,700	6	2.22		
Iowa (Prof. Licensing Bureau)	6,457	191	29.58		
Missouri (Div. of Prof. Reg & Lic.)	20,000	281	14.05		
New Mexico (Reg. & Lic. Dept)	4,000	91	22.75		
New York (Office of Professions)	44,085	562	12.75		
South Carolina (Dept Labor, Lic., & Reg.)	7,172	57	7.95		
Tennessee (Dept of Commerce & Ins.)	15,732	164	10.42	119.11	14.89

ZGZK Research	**Licensees**	**Number of Complaints Last Two Years**	**% Complaints per Licensee**		
Iowa (Ind)	6,411	191	29.79		
Oklahoma (Ind)	12,985	250	19.25	49.05	24.52
Colorado (Dept of Regulatory Agencies)	18,844	341	18.10		
Mass (Consumer Affairs & Bus. Reg.)	15,039	64	4.26	22.35	11.18

Total of Both			
	Independent - 12 Boards	314.07	26.17
	Consolidated - 10 Boards	141.46	14.15

EXHIBIT 6

MERGER REPORT
ANALYSIS OF WBOA LICENSEES PER FTE IF CONSOLIDATED WITH WDOL
VERSUS WDOL DISCIPLINARY BOARDS LICENSEES PER FTE

WDOL Disciplinary Boards	Number of Licensees in FY 2010	Number of FTE's in FY 2010	Number of Licensees Per FTE in 2010
Engineers/Land Surveyors	42,920	11.50	3,732
Geologists	2,308	2.50	923
Architect	6,530	2.70	2,419
Landscape Architect	777	1.40	555
Funeral/Cemetery	2,119	5.60	378
Collection Agencies	1,288	1.00	1,288
Totals	55,942	24.70	2,265
WBOA	16,494	7.85	2,101

EXHIBIT 7

MERGER REPORT
WBOA COMPLAINT INVESTIGATIONS AND RESOLUTIONS VERSUS WDOL DISCIPLINARY BOARDS

WDOL	Complaint Investigations and Resolutions in Fiscal Years 2009 and 2010	Number of Licensees In Fiscal 2010	Number of Complaint Investigations and Resolutions Per 1000 Licensees
Engineers/Land Surveyors	246	42,920	5.73
Geologists	14	2,308	6.07
Architect	65	6,530	9.95
Landscape Architect	12	777	15.44
Funeral/Cemetery	93	2,119	43.89
Collection Agencies[A]	230	1,288	178.57
Totals	660	55,942	11.80

WBOA	Complaint Investigations and Resolutions in Calendar Years 2008 and 2009	Number of Licensees Current	Number of Complaint Investigations and Resolutions Per 1000 Licensees
Certified Public Accountants	217	16,494	13.16

[A] WDOL did not provide us with the number of complaints investigated and resolved during Fiscal Year 2009 by the collection agencies disciplinary board. Accordingly, we doubled the 115 complaints WDOL provided to us for Fiscal Year 2010 so that the number of complaints was comparative.

EXHIBIT 8

MERGER REPORT
SUMMARY OF WDOL DISCIPLINARY BOARDS BUDGET INFORMATION FOR FISCAL YEAR 2010

	Number of FTE's in FY 2010	Direct Program Budget	Indirect Program Budget	Indirect Agency Budget	Total Program Budget
Engineers/Land Surveyors	11.5	$ 1,174,606	$ 111,689	$ 406,748	$ 1,693,043
Geologists	2.5	207,734	24,365	49,704	281,803
Architect	2.7	280,213	26,395	73,559	380,167
Landscape Architect	1.4	144,139	13,630	49,165	206,934
Funeral/Cemetery	5.6	551,692	54,050	101,494	707,236
Collection Agencies	1.0	108,410	36,001	49,067	193,478
Totals	24.7	$ 2,466,794	$ 266,130	$ 729,737	$ 3,462,661

EXHIBIT 9

MERGER REPORT
PRO FORMA CALCULATION OF WBOA ANNUAL WAGES AND BENEFITS IF CONSOLIDATED WITH WDOL

	WBOA Fiscal Year 2010 Amounts			Wages and Benefits Adjustments To Arrive	Anticipated Wages and Benefits if	Assumed FTE's
Position	Annual Wages	Benefit Burden	Total	at Pro Forma[A]	Merged With WDOL	After Merger
Executive Director	$ 95,000	$ 28,500	$ 123,500	$ (37,000)	$ 86,500	0.70
Deputy Director	85,000	25,500	110,500		110,500	1.00
IT Manager	87,100	26,100	113,200	(113,200)	-	0.00
Executive Assistant	70,600	21,600	92,200		92,200	1.00
Lead Program Manager	47,000	14,100	61,100	(51,900)	9,200	0.15
Internal Data Manager	47,000	14,100	61,100		61,100	1.00
Investigative Assistant	58,200	17,100	75,300		75,300	1.00
Customer Service Rep.	44,800	13,500	58,300		58,300	1.00
Customer Service Rep.	43,600	12,600	56,200		56,200	1.00
Trainee - Clerical Office	24,900	7,500	32,400		32,400	1.00
Total	$ 603,200	$ 180,600	$ 783,800	$ (202,100)	$ 581,700	7.85

[A] See accompanying DOL Merger Report, Section VI.A., for a detailed discussion of the adjustments utilized in the preparation of this pro forma calculation of annual wages and benefits if WBOA is consolidated with WDOL.

EXHIBIT 10

MERGER REPORT
ANALYSIS OF WBOA EXPENSES VERSUS WDOL DISCIPLINARY BOARD EXPENSES

	WBOA Biennium Budget For FY 2011	WBOA Actual Expenses For FY 2010 (Per WOFM Report AEF04)
WBOA Expenses	$ 1,276,000	$ 2,262,160
Adjust 2010 Actual Expenses for Nonrecurring Items:		
Independent Operations Review		(137,350)
Litigation Expense Settlement Expense		(500,000)
Excess Attorney General's Office Fees Related to Litigation Settlement		(158,000)
WBOA Expenses, As Adjusted	$ 1,276,000	$ 1,466,810
Total FTE's	10	10.7
WBOA Total Program Expense Per FTE	$ 127,600	$ 137,085
WDOL Average Program Expense per FTE for All Disciplinary Boards	$ 140,189	$ 140,189
WDOL Program Expense per FTE for Engineering / Land Surveyors Disciplinary Bd	$ 147,221	$ 147,221

MERGER REPORT
ANALYSIS OF WBOA EXPENSES VERSUS WDOL DISCIPLINARY BOARD EXPENSES

	Per Fiscal Year 2010 WDOL Budgets	
	All WDOL Disciplinary Boards	Engineers / Land Surveyors
Direct Program Expense	$ 2,466,794	1,174,606
Total FTE's	24.7	11.5
WDOL Disciplinary Board Direct Program Expense Per FTE	$ 99,870	$ 102,140
Total Indirect Program Expense	$ 266,130	$ 111,689
Total Indirect Agency Expense	729,737	406,748
Total WDOL Common Expense Allocation	995,867	518,437
Total FTE's	24.7	11.5
WDOL Common Expense Allocation per FTE	$ 40,319	$ 45,081
Total Program Expense	$ 3,462,661	1,693,043
Total FTE's	24.7	11.5
WDOL Disciplinary Board Total Program Expense Per FTE	$ 140,189	$ 147,221

EXHIBIT 11

MERGER REPORT
WBOA PRO FORMA EXPENDITURE BUDGET
AS IF CONSOLIDATED WITH WDOL

	WBOA Unconsolidated Anticipated FY2011 Expenses	Proforma Assumption Explanation[A]	Adjustments Due To Consolidation With WDOL	WBOA Consolidated Anticipated FY2011 Expenses
Salaries and Benefits	$ 738,900	(1), (2)	$ (202,100)	$ 536,800
Communications - Telephone	12,000			12,000
Communications - Postage	3,300			3,300
Communications - Internet	11,500	(4)	(11,500)	0
Total Communications	26,800		(11,500)	15,300
Office Space	69,200	(3)	(69,200)	0
Meeting Room Rentals	9,900			9,900
Equipment Rent/Lease	3,700			3,700
Facilities and Services	4,300			4,300
Total Office and Other Rental	87,100		(69,200)	17,900
Consolidated Mail	9,000	(4)	(9,000)	0
WDOP - Human Resource Services	8,100	(4)	(8,100)	0
WOFM - Financial Services	2,300	(4)	(2,300)	0
WOFM - Small Agency Accounting	35,000	(4)	(35,000)	0
Washington State Archival Agency	1,800	(4)	(1,800)	0
WDIS - Printing and Reproduction	16,100	(4)	(16,100)	0
Miscellaneous Shared Services	2,500	(4)	(2,500)	0
	74,800		(74,800)	0
Attorney General Sevices	75,000			75,000
Contract Services	25,500			25,500
Special Legislative Proviso Contract	67,500			67,500
IT Support Contracts and Hardware	30,000	(5)	(30,000)	0
Board Dues and Subscriptions	14,000			14,000
In State Travel and Mileage Expense	19,200			19,200
Employee Training and Tuition	12,300	(6)	(9,200)	3,100
Repairs and Maintenance	5,800			5,800
Supplies	3,600			3,600
Misscellaneous Expenses	800			800
Estimated WDOL Allocation of Common Expenses		(7)	333,600	333,600
	$ 1,181,300		$ (63,200)	$ 1,118,100

[A] See accompanying Merger Report, Section VI.A. for a detailed discussion of each major assumption utilized in the preparation of this pro forma expenditure budget.