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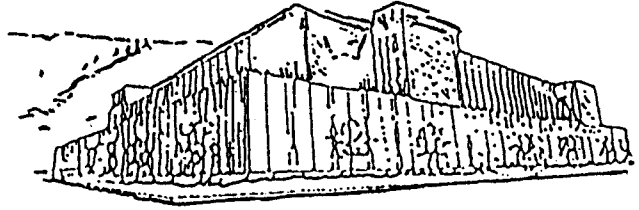
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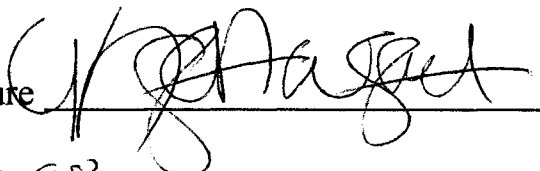
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Montana's Profession Monitoring Program

By

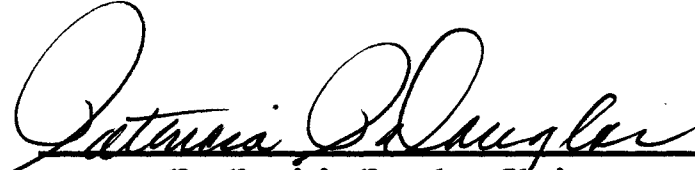
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A.B. University of Southern California, 1988

presented in partial fulfillment of the requirements for the degree of

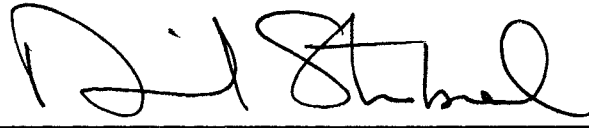
Master of Accountancy

The University of Montana
1998

Approved By:



Dr. Patricia Douglas, Chairperson



Dean, Graduate School

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Montana's Profession Monitoring Program (57 pps.)

Chairperson: Dr. Patricia Douglas 

The Profession Monitoring Program (PMP) mandated by the State of Montana began in 1987. The highest level of work produced by a public accountancy office, ie. audit, review, or compilation, is submitted once a year for review. Offices getting unqualified peer/quality reviews are treated as having fulfilled program requirements.

This study is intended to determine if the PMP is effective. To measure effectiveness an increase in total acceptable reports, peer/quality reviews and other intuitive measures are utilized.

Total acceptable reports have increased over the history of the program for all organizational units. Acceptable compilations and reviews have increased, however, audits submitted have not shown much improvement.

Audits and reviews submitted to the program have decreased significantly over the period studied while compilations have remained fairly stable. Quality/peer reviews submitted in fulfillment of program requirements have increased.

Sole proprietors make up the largest organizational group reviewed in the program followed by Professional Corporations and Partnerships. Compilations submitted by sole proprietors have remained fairly stable, reviews and audits have decreased and quality/peer reviews have increased. Professional Corporations participating in the program have decreased somewhat over the period. Professional Corporations continue to submit more quality/peer reviews compared to the other report types. Partnerships are a small percentage of the participants in the program and they mainly submit quality/peer reviews in fulfillment of the program.

According to the combination of statistical analysis and intuitive measures, the Profession Monitoring Program is successful in its efforts to ensure quality work in order to protect the public.

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SECTION I

Introduction

Purpose of the Study

The purpose of this study is to determine if the Profession Monitoring Program (PMP) developed and administered by the Montana State Board of Accountancy is effective in its efforts to perpetuate quality work from public accountants issuing reports. The focus of this study is to present the overall trends experienced in the program over the 1987 to 1996 period.

The major question, of course, is how to measure effectiveness. Several articles on the measurement of effectiveness were consulted as well as other state boards of accountancy and the American Institute of Public Accountants (AICPA)¹. Many state boards of accountancy officials who were contacted indicated their measure of effectiveness is more intuitive than objective. Consequently, neither a study nor a measure of effectiveness has been developed. Because of the lack of precedent and the differing programs in general, this study is designed specifically for Montana's program. Accordingly, the data are analyzed specifically based on Montana's program structure.

The analysis is broken into six sections. The first section includes a brief background and description of the Profession Monitoring Program. In the next section, the procedures used for the analysis of the program are outlined. Following this section is a description of the data: what kinds were used, how

they were gathered and the limitations. The results of the analysis follow the data section. Finally, the summary and conclusion section, with some recommendations, are at the end of the analysis.

SECTION II

Program Background

A brief background history and description of the program is necessary to understand how the PMP works. The procedures used to review submitted reports and how they are graded are also included. It is also necessary to understand other issues encountered throughout the history of the program.

The PMP was established by Montana state mandate in 1986, and began reviewing reports in 1987. The focus of PMP is to assure the generation of quality work by participating practitioners. Accordingly, all Certified Public Accountants (CPA) and Licensed Public Accountants (LPA) in the State of Montana who issue compilations, reviews or audits are required to submit a sample of the highest level of work performed in the office. Essentially the PMP is in place to review the work of offices not already monitored by the AICPA in order to protect the public.

Reports are reviewed by a team of volunteers who evaluate them for completeness and adherence to accounting principles, auditing standards, or governmental/nonprofit standards, whichever applies.

Practitioners who do not issue reports, for example those who have tax or consulting practices, are not required to submit a sample of their work. Because of this exclusion, practitioners who do not issue reports are eliminated from the study.

Offices with AICPA membership are another group of practitioners not reviewed in the program but still included in this study. The AICPA requires peer review as a condition of membership. Along with this requirement, the General Accounting Office also requires a peer review within three years of performance for any practitioner doing governmental audits. To fulfill these peer review needs, the AICPA offers quality and peer review programs for AICPA members. Any office getting a clean report from a quality or peer review is not subject to PMP; however, they are still included for the purposes of trend analysis.

Reviewers are separated into four groups assigned to specific areas of work. These areas, hereafter referred to as major groups, are: non-profit, construction and homebuilders, commercial, and state and local government. These major groups are only for organizational purposes and are not strictly adhered to.

A reviewed report receives either an acceptable or not acceptable rating. If a report is judged acceptable, the office is not required to submit another for two years. Offices receiving unacceptable designations are given guidance for improvement.

Each office receiving a deficient report receives individual attention. Offices are asked to comment on the deficiencies noted and submit a proposal for improvement. Generally, the PMP makes recommendations if the office itself has not submitted an acceptable plan for improvement. Continuing Professional Education (CPE) in the subject of the deficiency is the most common form of guidance assigned by the program. Successive not acceptable reports, three in

a row to be specific, are assigned more stringent requirements such as preissuance reviews.

Preissuance reviews require the office with the deficient rating to hire a board approved firm to review reports before they are issued. If an office has been mandated preissuance reviews, it must continue in this status until the reviewing firm indicates enough improvement to discontinue the reviews. Other forms of guidance, for example required peer reviews, are generally used sparingly and represent repeated problems with the work of the particular office.

Originally, a particular report could also receive a marginal or acceptable with comments rating along with acceptable or not acceptable. The marginal status was eliminated in 1993 due to perceived ambiguity. Not only was marginal ambiguous but also perceived as enough to pass the requirements.

To aid analysis, marginal statuses prior to 1993 are treated as deficient and acceptable with comments are treated as acceptable. Several factors support these treatment and are discussed in more detail in the analysis section. The impact, if any, on the program is assessed as part of the other intuitive measures of effectiveness discussed later.

The PMP was established primarily to ensure practitioners were creating quality work. Two ways of assuring good work are through the peer review program with the AICPA and the PMP which also acts as a form of peer review. Reviewers for the PMP examine submitted reports once a year. These reports are either deemed acceptable or not acceptable. Those offices with acceptable reports do not have to submit another sample. Those with not acceptable work

are treated according to their history. Actions such as mandating Continuing Professional Education, firm specified procedures, or preissuance reviews are the most common treatments for not acceptable reports.

SECTION III

Procedure for Analysis

The first part of this section encompasses how the program breaks down into components to facilitate analysis. The method of analysis is also part of this section along with some possible conclusions.

Program Breakdown

The first step in developing a measure is defining effectiveness. For the purposes of this study, effectiveness is defined as the improvement in the quality of work produced by practitioners issuing reports as a direct result of the influence of the PMP.

The statistical analysis used for this study will present information necessary to determine if effectiveness can be proven. It is possible the concept of effectiveness cannot be measured directly within the confines of this particular study what can be proven, however, is positive results. Positive results means, for example, increases in acceptable reports over time. Statistics will determine if positive results were achieved but first a description of the methods and procedures used to develop the statistical analysis is presented.

The first step in developing a measure is to separate the program into components and analyze them individually. Overall program results are then determined after all the components of the program, and other indicators of effectiveness, are analyzed.

Organizational Structure

Organization of an office is defined by its structure, which means the office is organized as a sole proprietor, partnership, professional corporation, etc. Henceforth when organization is used, it refers to the form the office takes.

Report Types

Three areas, or rather report types, are reviewed in the program: compilations, reviews and audits. Each office must submit its highest level of work. Accordingly, an office could issue compilations, reviews and audits, but only a sample of the audit is submitted.

For purposes of this study, compilations with or without disclosures are treated as compilations and work papers are treated as audits. Also included in report types are quality/peer reviews. Although not reviewed by the program, quality/peer reviews are used as a measure of improvement.

PROPOSED MODEL

Potential Indicators

Several indicators were suggested as appropriate measures of effectiveness according to an article written about the AICPA's peer review program². Audit failures, legal proceedings, and public confidence surveys, to name a few, were suggested as possible indicators of effectiveness. Compared to a peer or quality review the Montana program provides a smaller scale, lesser

in-depth examination. Accordingly, a better indicator is an increase in acceptable reports as a percent of total reports over time. Although the program has received fewer reports over the years, an increase in total acceptable reports should still be a good indicator of performance.

Along with acceptable report percentages over time, an analysis of each report type and organizational structure (ie. sole proprietor, partnership etc.) is done to determine if any particular group has improved. Organization results and other statistical data are used to determine effectiveness along with indicators of a more intuitive nature. Intuitive measures include for example, reviewers' impressions based on their experience with the program and the general appearance of effectiveness and positive results.

Any one of these potential indicators cannot be used exclusively to determine effectiveness because one might have a completely different result than another. Accordingly, indicators must be used together to ascertain if the program as a whole is considered effective or experienced positive results.

Although all indicators are important, the major one - used in the statistical analysis of the components - is the increase of acceptable reports over time by report type and organizational structure. While other indicators are necessary as backup, the overall level of total acceptable reports is the most appropriate statistical indicator.

Analysis - statistical

The data are organized to present the results for each report type by organization per year. For example, a total number of compilations submitted by sole proprietors are reviewed per year. Based on the percentage of total acceptable reports over time, results for each report type and organization is determined.

Organizations are ranked based on the percentage of total reports for each year, indicating which organization type submits the most reports per year. The group with the largest percentage of reports, in the majority of years, is considered the most significant in the program and given the most weight. The significance of any report type or organizational structure is determined by comparing it to total reports over time. Although an overall decline in total reports reviewed is experienced it will not present a problem because only percentages are compared.

Why would the program have received fewer reports over the years of its existence? One reason would be offices terminating the issuance of reports thereby eliminating them from program requirements. Another reason would be offices closing or becoming part of other offices. The increase in peer or quality reviews of AICPA members is also a possibility. A peer review is in-depth, time consuming and expensive. Many smaller practitioners issuing a limited number of reports find a peer review, and membership in the AICPA, impractical and prefer to send reports to the state. Accordingly, the PMP is the only feasible

form of review available for some offices.

Analysis - subjective

Several areas of intuitive measures specific to the program are assessed. First, a limited phone consultation of some long-time program reviewers regarding their perception of effectiveness is used. The reviewers are also important in determining if eliminating the marginal status has affected the program.

The second area of subjective analysis is a review of the basic procedures used to administer the program, specifically how they affect the program in general. Along with the procedures, some recommendations for program improvement, based on the analysis, are given.

Possible Conclusions

Three conclusions of this study are possible: yes the program is effective, no it is not, or the data are inconclusive. If the indicators are inconclusive in proving effectiveness, overall trends and other areas for study are still possible. All indicators are given weight in the analysis depending on how they compare to each other. In other words, if one indicator shows radically different results from the others it might be given less weight but still taken into account.

To facilitate analysis, the program is broken down and analyzed in its parts. The parts are described as the report types and organizations and

although the focus of the PMP is the quality of work, organizational structure is also analyzed. Different indicators are used to determine effectiveness of the program, specifically statistical and intuitive measures. These indicators are weighted and used to determine effectiveness.

SECTION IV

Data Collection

The methods of data collection are described in this section. The limitations of these data are also described.

The data for analysis are gathered from several different sources. The main source is the hard copy files kept for each participating office by year throughout the program's life. These files are the primary data source for this study. All the pertinent data for the statistical analysis are gathered from these files.

Another data source is the PMP computer database. In this database the history, by office number, of all the reports reviewed to date is displayed. As a secondary source, the database was used for 1989 because the hardcopy files were destroyed. Because the computer database did not have the detailed information necessary, it was not used for any of the other years.

Executive board minutes are also an important source of information. The executive board meets four times a year and discusses, among other things, the findings of the reviewers regarding not acceptable reports.

Limitations of the Data

Before discussing the results, the limitations of the data in this study must be understood. No data collection method is completely perfect. Therefore, the conclusions reached are a function of the quality and quantity of the available

data and the limitations of this data. Because of the record keeping methods and the program evolution in general determining if every piece of data available are included is difficult. Accordingly, the underlying assumption and foundation of the study is the majority of available data are included. Even though it is assumed the majority of available data is included, specific limitations of this data are necessary to understand.

One such limitation is the hard copy files. At times the files are not complete or items are removed and placed in other files for the same unit but for different years. Some pieces of information are not present and subsequent or previous years must be consulted in order to gather the necessary data. If the files are not in their boxes in the back room, they are located anywhere available. Some files are categorized in filing cabinets according to subject, such as CPE or preissuance reviews, etc., and others are in different areas of the office. Consequently, the location of all the files is not entirely known. This situation potentially limits the gathering of some information.

The computer data base is also limited. The only year this database was used is 1989. This is done because all the hard copy files for 1989 were destroyed prior to the study. Therefore, for 1989, to thoroughly search any comments or correspondences having a bearing on the data is impossible. The lack of hard copy for this year does not affect the results of the analysis because the data for this year did not show anything significant compared to the other years studied.

Another limitation relates to office structure. Because it is impossible to determine which individual accountants were responsible for preparing the report submitted for review, the assumption is all reports submitted are the responsibility of the particular office and not an individual in it. Consequently, without such specific preparation information, a review by office through time is of dubious value for the focus of this particular study due to changing employees and office structure.

Another limitation is the lack of consistency in the comments written by the reviewers. Every comment is written from the reviewer's perspective, which means individual interpretation of the rule in relation to the violation. Consequently a study of the comments cannot, and should not, be done at this time. The information garnered from such a study is not cost effective in this context in terms of the time necessary to understand the data. In fact, such an analysis constitutes a completely different project.

Another limitation, though not serious, is the rounding of the statistical data. Anything more than whole numbers suggests accuracy not possible with the available data. Such fractional information will not add to the understanding of the results and is therefore rounded.

A study of the methods used to treat deficient ratings was not performed. Basically, whether or not specific methods used to treat deficient ratings are working constitutes a different and more in-depth study. It would not be appropriate or necessary given the general focus of this study to perform a

deficient ratings study. Should this type of study be necessary, a different model and form of data collection are necessary.

The marginal designation was eliminated in 1993. Marginals are treated as not acceptable for the purposes of this study. To make the years in this study more comparable to each other this treatment of marginals is necessary. This treatment is justified for several reasons.

According to documentation, reports receiving the marginal designation prior to 1993 are considered not acceptable afterwards. Also, up to 1993 offices receiving repeated marginal designations are treated as not acceptable. Just as not acceptables, the treatment of marginals included some CPE for habitual offenders and others were tagged for extra attention. Because a significant jump in not acceptables, due to the marginal designation reclassification, is not evident, this treatment is supported from a theoretical standpoint.

Initially, a breakdown of habitual deficient reports was to be part of the study. Due to the condition of the files, the amount of time necessary to understand the data and the general focus of this particular project, a breakdown will not be included. A study of deficient reports would add little or nothing to this particular project because the focus is the overall program results. Specifically, this study is an analysis of the overall program and could be used as a starting point for other more in-depth studies. If an analysis of deficient reports is necessary, a different study specific to deficient reports should be performed as the amount of time necessary to trace organizational units and

collect other data is cumbersome.

The data for this study were collected from various sources. The main sources are the hardcopy files, program computer database, and the executive board minutes. The hardcopy files are relied on the most heavily. The limitations of these data and projects for further study are also important in the analysis.

SECTION V

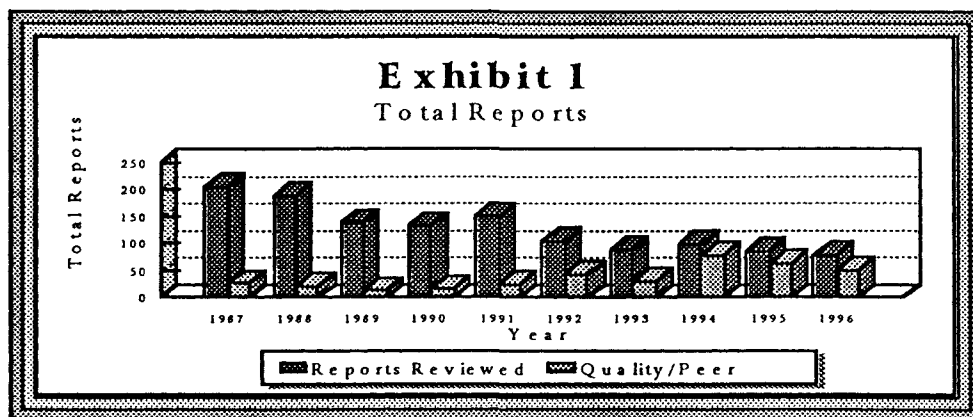
Results

The results of this study are presented in total and then in specific components. The first part of the analysis is by total reports and then report types. After the total program results, reports by organization are described in total and by report type. The next section focuses on results according to acceptable status by total reports and individual report types. The last part of the results section focuses on organizations and are presented in the same format as total reports i.e., in total, by report type and then by acceptable status.

TOTALS

Reports

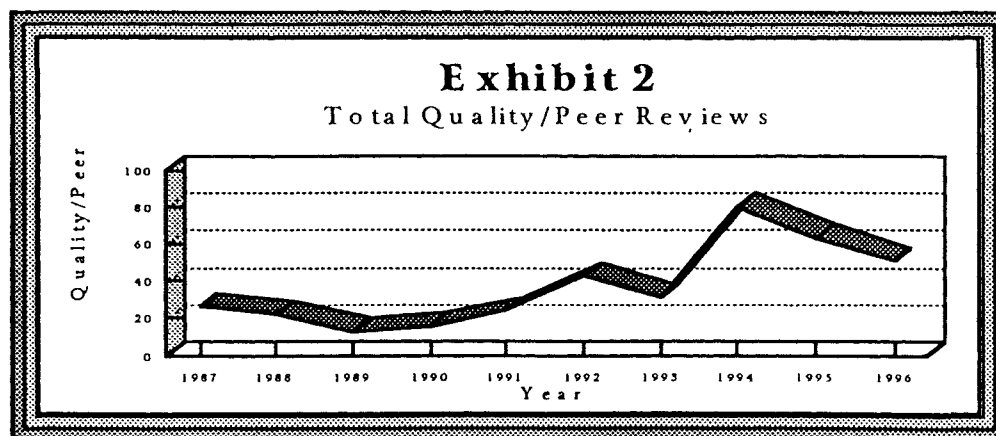
The total number of reports reviewed in the program has declined over the 1987 to 1996 period studied. Total reports reviewed decreased from 205 in 1987 down to 80 in 1996 which represents a -10 percent compound annual decline (Exhibit 1).



Total reports reviewed for 1987 seems excessive but in the first year of the program every practicing CPA and LPA in the state was required to submit a report. Because of the large amount more reports were submitted than reviewed. Reports not selected for review were chosen because a quick review deemed them acceptable enough to wait. The reports not selected were split and reviewed in 1988 and 1989. Reports not selected in 1987 are eliminated from the study in this year because they were picked up in 1988 and 1989.

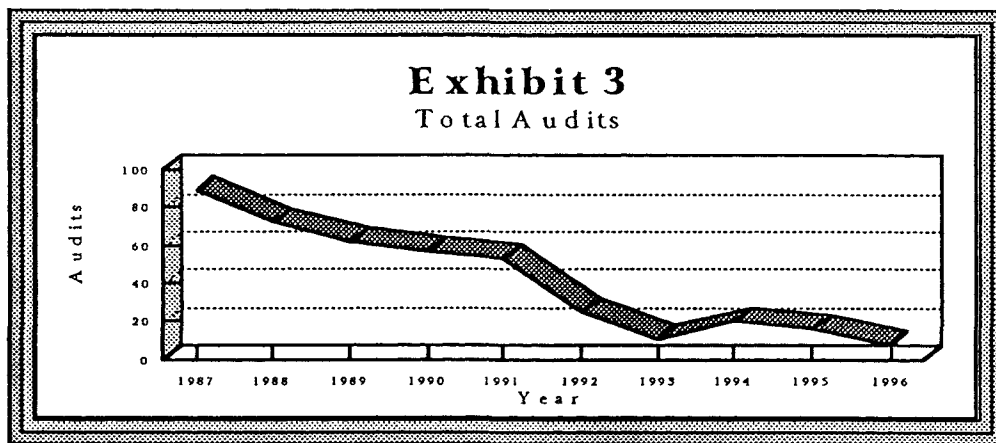
The eliminated reports are not considered a limitation because they are merely overflow picked up in the following years. Including these reports in the following years does not skew the results because they were spread over the years creating a more even number of reports. In fact, a continual downward trend in total reviewed reports is evident after and including these years, which compares sharply with the increase in quality/peer reviews.

In fact quality/peer reviews increased from 26 in 1987 to 51 in 1996 (Exhibit 2).

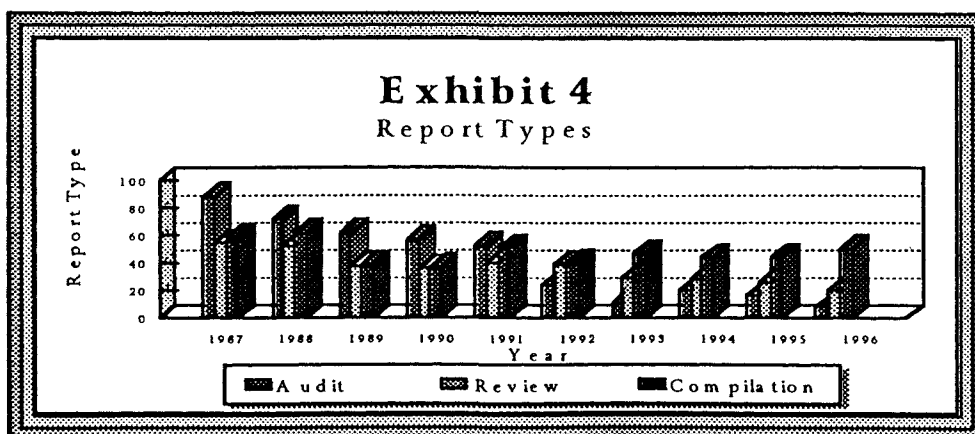


By 1996 quality/peer reviews made up the highest percentage, at 39 percent, of reporting offices. The overall increase in quality/peer reviews is 7.8 percent compounded annually. Although this increase does not seem drastic taken with the decrease in total reports actually reviewed it is significant.

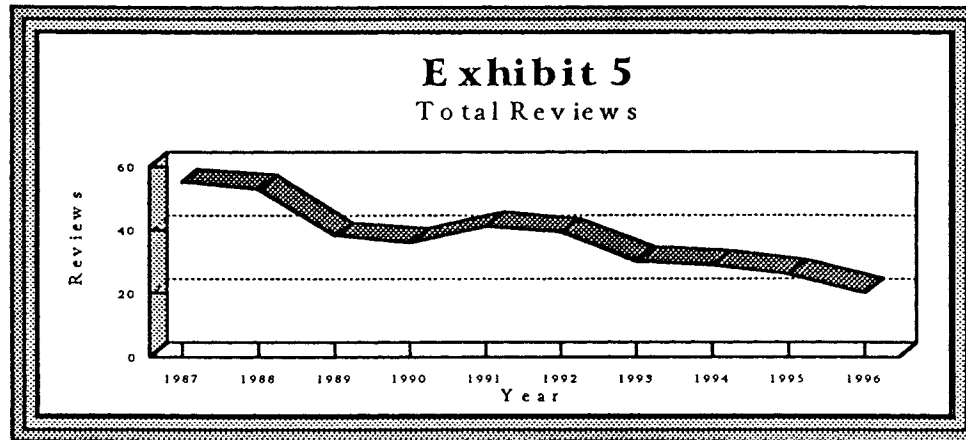
The largest decrease of any report type is experienced for audits. Audits reviewed have decreased significantly from 89 in 1987 to 8 in 1996 (Exhibit 3).



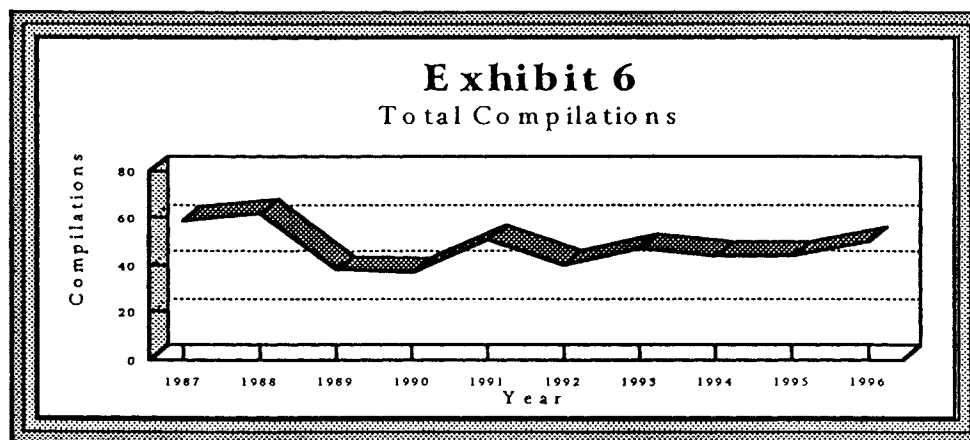
The annual decrease in audits submitted is approximately 23.5 percent over the period studied. No other report type decreased by such a large amount (Exhibit 4).



Compared to audits, reviews decreased by 10 percent compounded annually, from 55 in 1987 to 20 in 1996 (Exhibit 5).



Compilations have not decreased significantly and in fact remain fairly stable over the course of the program (Exhibit 6).



Compilations have always outnumbered reviews over the period and by 1991 overtook audits. In fact, by 1996, compilations made up 63 percent of reports reviewed compared to 29 percent in 1987. While total compilations submitted have increased, according to the percentage of total reports in 1996, actually an overall decline in other reports submitted for review is experienced as shown in Exhibit 4.

Several reasons exist for the drop in overall reviewed reports. The main reason is the increase in quality/peer reviews. Peer reviews are now a requirement for AICPA members and those offices performing governmental audits. Due to the peer review requirement, quality/peer reviews have increased significantly. Another reason for the drop is because some practitioners have discontinued issuing the other types of reports. A combination of office closures, retirements and choosing not to issue reports are also reasons for the decline. The preceding reasons are appropriate given the actual increase in the level of accountants licensed in the state of Montana to perform attest services over the period studied.

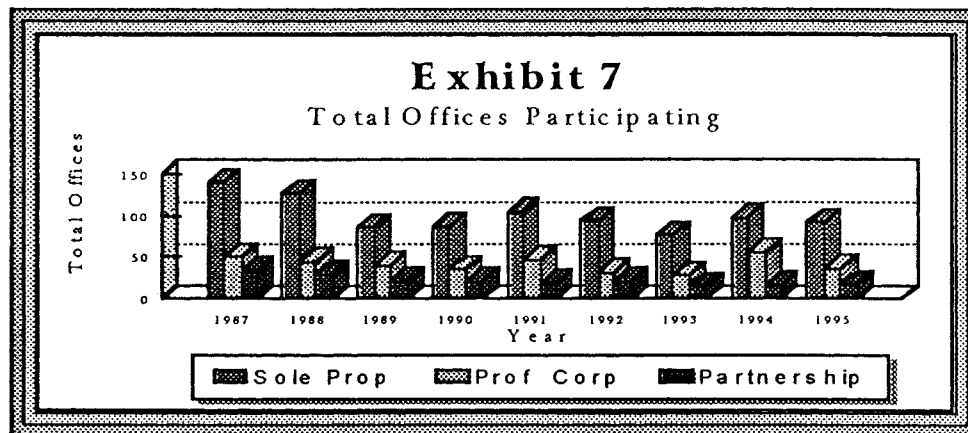
For the 1987 to 1996 period licensed CPA's have increased by approximately 8 percent compounded annually. Because the increase in licenses does not correspond to the 10 percent decrease in total reports and the increase of quality/peer reviews, it can be inferred fewer offices are issuing reports.

Organization

In the following breakdown, total offices by organization results are reviewed. This part is presented by organization which means actual reviewed reports have no relevance. All participant report types, including quality/peer reviews, are part of this section. The acceptable/not acceptable portion of this part is also presented by organization.

Throughout the history of the program, sole proprietors have constituted the majority of participants in the program. The percentage of sole proprietors

has consistently been over 50 percent of total participants. The actual number of sole proprietors has decreased somewhat, from 61 to 56 percent of the total participants, but has still been the largest portion of the participants (Exhibit 7).



Professional corporations are the second largest participant group in the program. This group has generally maintained over a 20 percent representation in the program. The actual percentage has increased slightly from 22 percent to 27 percent of total offices.

The group experiencing the largest drop is partnerships. Partnerships have decreased from 15 percent to 6 percent of total offices participating. In fact, by 1996 only eight partnerships were part of the program. Restructuring into other organizations is a possible reason for the decrease. A small increase in Limited Liability Corporations (LLC) and Limited Liability Partnerships (LLP) was experienced which might account for some of the drop in partnerships. Some partnerships might also have restructured to Sole Proprietors or Professional Corporations, however, the data do not support this.

The most defensible explanation is relating the decrease in partnerships to either eliminating report issuing or restructuring. The last group are called Other and consists of individuals in private and government work. For the purposes of this study, the Others are ignored as they are insignificant as part of the program and generally do not issue reports to the public.

Acceptable/Not Acceptable

Total Reports

In the previous results, the number of offices submitting reports for review by the program have decreased and quality/peer reviews have increased. Total results are only one part of the analysis, however. Another important factor in determining performance is the relationship of acceptable versus not acceptable reports.

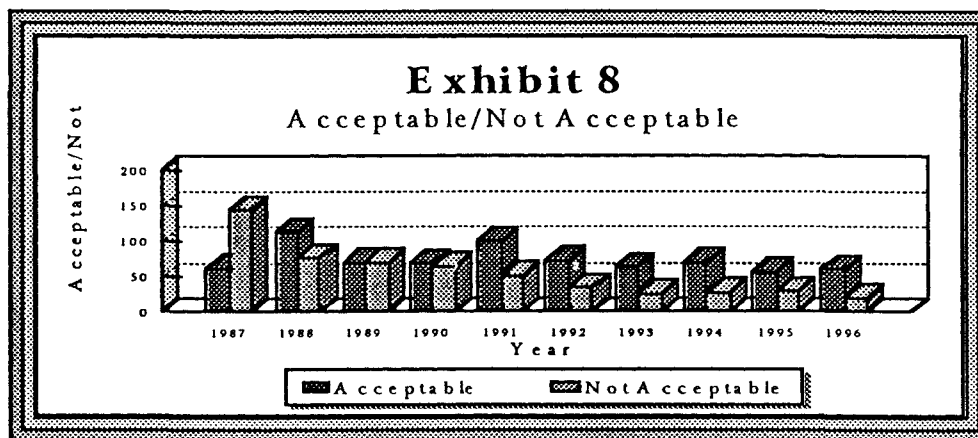
The program has gone through changes in the way it grades reports. Initially, four levels of grading were used, which were: acceptable, acceptable with comments, marginal, and deficient. Over time, these four categories were found to be confusing and somewhat difficult to control.

For example, marginal is a somewhat vague designation. It is neither acceptable nor deficient, which left those offices reports designated as marginal in somewhat of a difficult position. Offices did not understand what to do with a marginal status and some even considered it passing and were not interested in improving. Acceptable with comments also became a redundant designation as

very few reports were perfect enough to have no comments.

Accordingly, in 1993 these two designations were dropped in favor of acceptable or not acceptable. Therefore, in order to make all the years comparable in this study, the two designations are dropped from the beginning e.g. all reports are treated as either acceptable or not acceptable.

The deficient treatment of the marginal reports is somewhat of a concern. At first it was questionable what kind of impact this treatment would have on the results. However the data show no significant increase in deficient percentages, due to the reclassification, which in general supports the treatment (Exhibit 8).



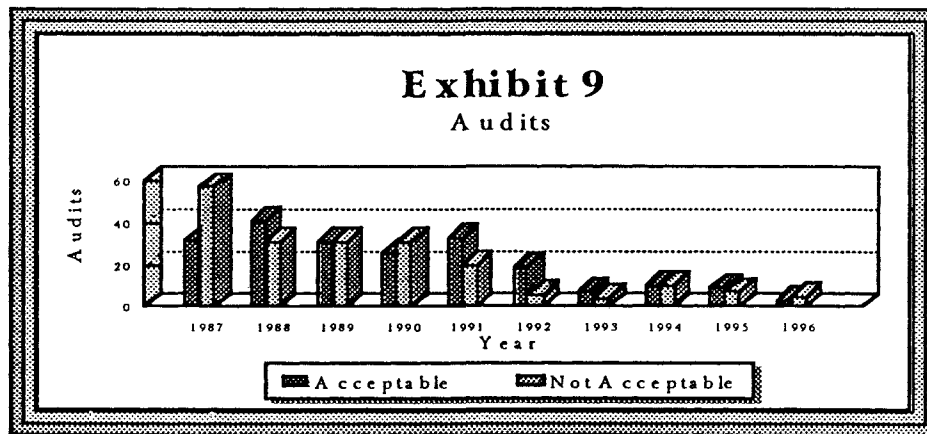
In fact, total acceptable ratings have increased over the 1987 to 1996 period from 30 percent to 75 percent of total reports; i.e., from 61 acceptable out of 205 in 1987 to 60 acceptable out of 80 in 1996. Even though the total number of reports reviewed has decreased, the number of acceptable reports has increased over the history of the program. Therefore, by 1996, the inference is the remaining participants in the program have improved the quality of work

submitted for review.

Report Types

Acceptable status trends are explained further according to report types. In other words the trends for audits, reviews, and compilations are examined individually.

Acceptable audit report rates fluctuated over the 1987 to 1996 period (Exhibit 9).

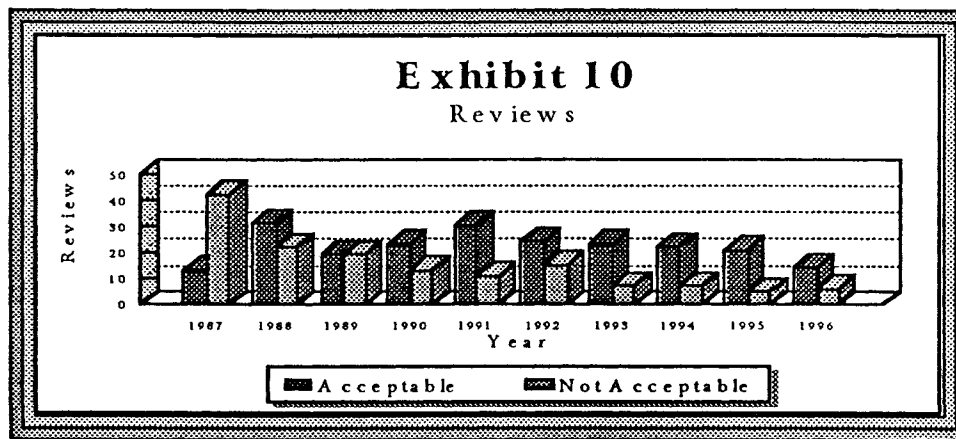


Initially, 36 percent of audits submitted were acceptable. The rate of acceptable audits increased to 76 percent in 1992 and then dropped to 38 percent in 1996.

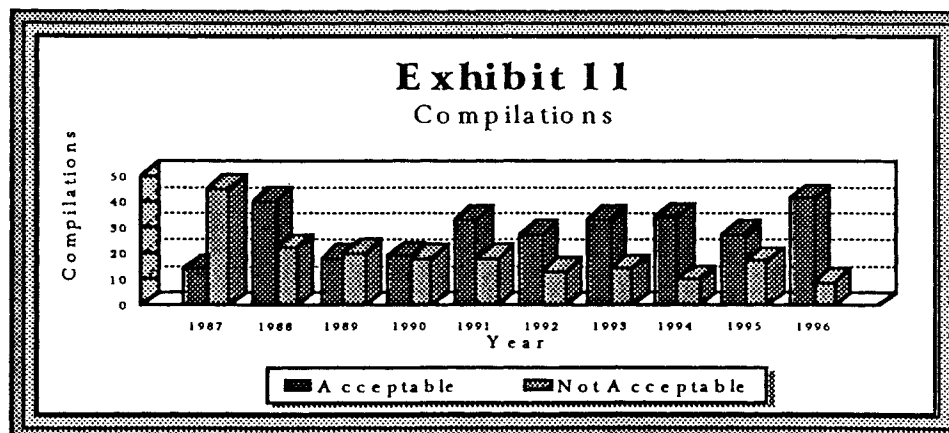
Granted, the number of audits submitted for review has significantly decreased. In fact the number of audits submitted for review has decreased more significantly than any other type of report. However, as seen by the previous results, the audits submitted are generally not acceptable. Not acceptable audits are a continuing problem over the period.

Acceptable reviews, on the other hand, have increased significantly over

the period. In 1987, acceptable reviews were only 24 percent of the total of those submitted. However, by 1996 this total had increased to 70 percent of all reviews submitted although 1996 was not the highest year. In 1995, 81 percent of reviews submitted were acceptable. Again the total number of reviews submitted has decreased somewhat but have generally improved (Exhibit 10).



Another improvement is seen with compilations submitted. The total number of compilations reviewed has not decreased significantly compared to audits or reviews, however, the percentage of acceptables has increased significantly (Exhibit 11).



Only 24 percent of submitted compilations were deemed acceptable in 1987. By 1996 the percentage of acceptable compilations increased to 82 percent. Although 1996 is a high year for acceptable compilations, they have traditionally ranged between 47 to 77 percent of the total reports submitted for review.

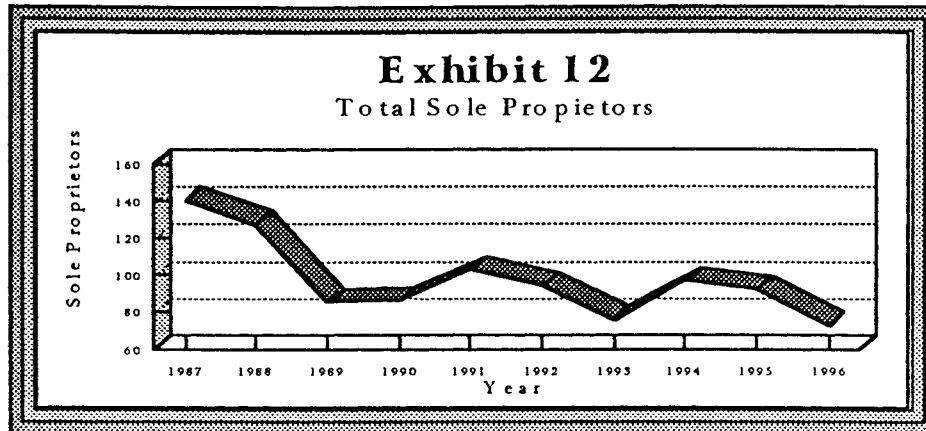
ORGANIZATIONS

Instead of looking at the program results as a whole, the individual parts are discussed, specifically the organizational structures. In this next section the results for each organization type are examined. The three main organization types are sole proprietors, partnerships, and professional corporations. The other organization types, LLC, LLP and Other are insignificant to the study at this time and are not analyzed in depth. Each organization result is presented by report type and then by acceptable and not acceptable status.

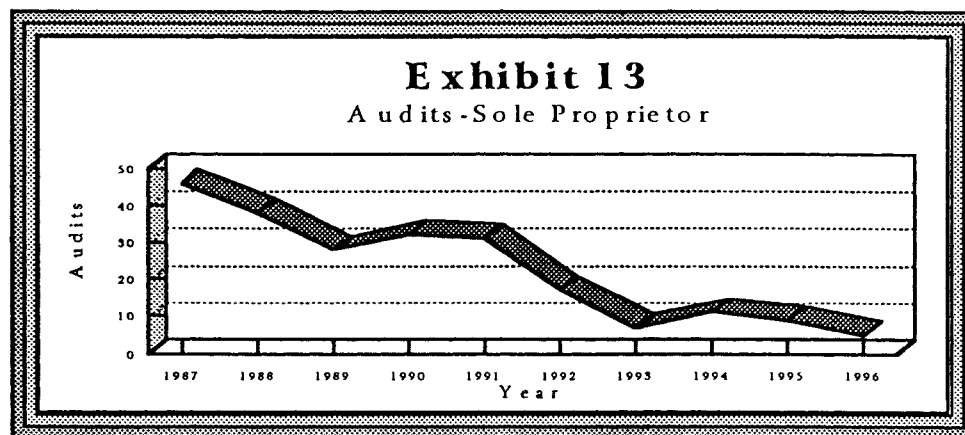
Sole Proprietors

Report Types

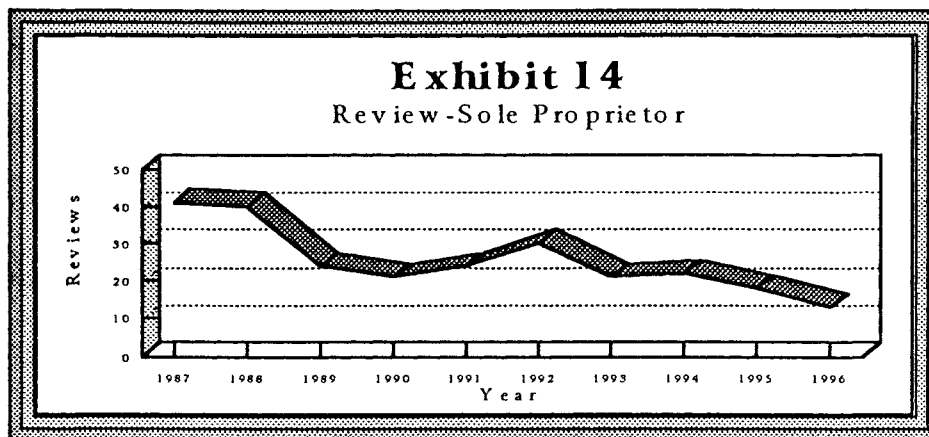
Sole proprietors make up approximately 60 percent of the units submitting reports. Although a decrease in overall sole proprietors submitting reports was experienced, this group is still the most significant (Exhibit 12).



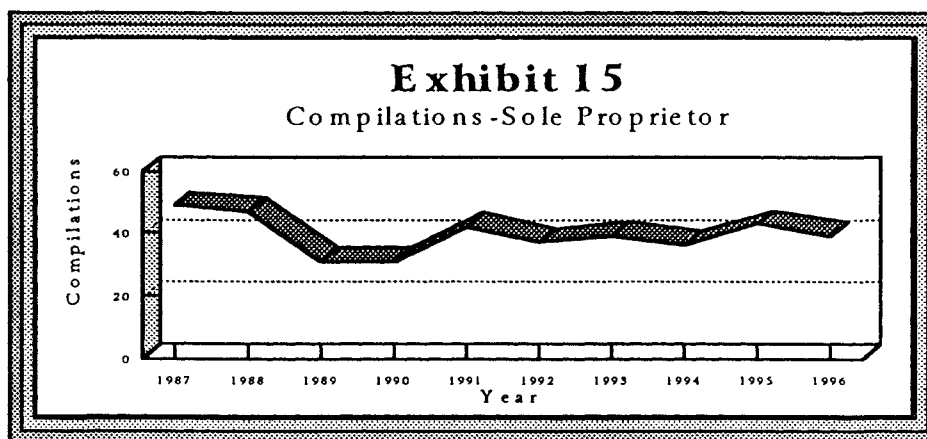
The number of audits submitted by sole proprietors has decreased over the period from 46 in 1987 to 5 in 1996 which represents a decline, of total reports submitted by sole proprietors, from 33 to 7 percent (Exhibit 13).



Reviews submitted by sole proprietors have also decreased but not quite as dramatically as audits. Specifically, 29 percent of reports submitted by sole proprietors were reviews in 1987. The number of sole proprietor submitted reviews decreased to 18 percent in 1996. The total number of reviews submitted by sole proprietors declined from 41 in 1987 to 13 in 1996 (Exhibit 14).



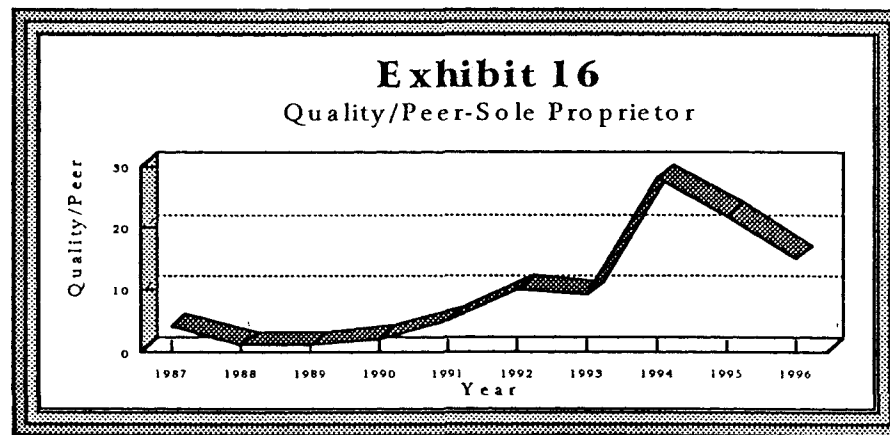
Compilations submitted by sole proprietors have increased over the period studied. Approximately 35 percent of reports submitted by sole proprietors in 1987 were compilations compared to 53 percent in 1996 (Exhibit 15).



Compilations remain somewhat consistent for sole proprietors, from 49 in 1987 to 39 in 1996. In fact, over the period, compilations have become the predominant type of report submitted by sole proprietors while the other report types decreased.

This trend in compilations traces to several factors. Considering the drop in audits and reviews, a corresponding increase in compilations was the most likely result. However, because of the increase in quality/peer reviews from sole proprietors, the reverse is actually true.

The percentage of sole proprietors submitting quality/peer reviews has increased from 3 percent in 1987 to 21 percent in 1996. Accordingly, the total number of quality/peer reviews submitted by sole proprietors increased from 4 in 1987 to a peak of 28 in 1994, then dropped to 15 in 1996 (Exhibit 16).



The overall increase in quality/peer reviews submitted by all organizations could explain the drop in audits and reviews. An overall decrease in audits and reviews could be due to an increase in quality/peer reviews because those offices performing the higher report types are either required to or desire a more in-depth review of their work.

The actual number of quality/peer reviews submitted by sole proprietors decreased somewhat over the three years period 1994 to 1996. After the

highest year of 28 quality/peer reviews for sole proprietors in 1994, the number dropped to 22 in 1995 and 15 in 1996. This decline seems significant; however, the corresponding drop in percentage is small suggesting, as a percentage of total sole proprietors, quality/peer reviews remain a significant portion of reports submitted.

The drop in quality/peer reviews submitted by sole proprietors is easily explained and does not signify a lesser number being performed for this group. Instead, once a quality/peer review has been submitted it is treated as an acceptable report, even though it is not the same as the other report types, and another one does not have to be submitted for three years. Therefore, the number of sole proprietors submitting quality/peer reviews should begin to increase again over the next several years.

Quality/peer reviews cannot replace audits and reviews as they are not reports issued to the public but evaluations of the practice itself. However, they can, and are, submitted in place of the higher reports, indicating a shift to these types of reviews.

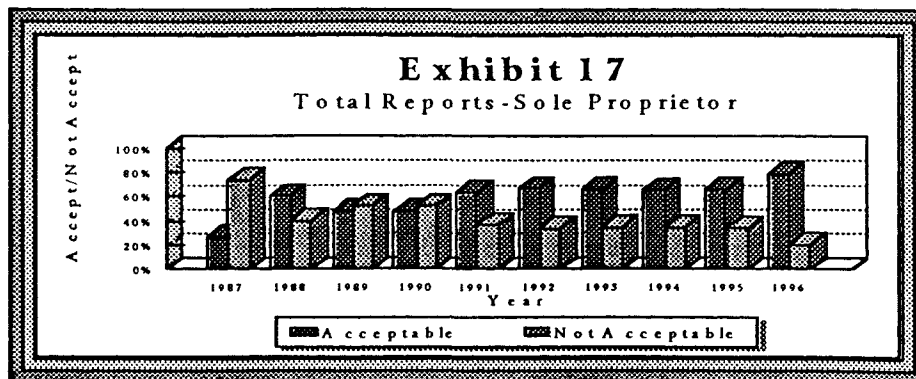
Theoretically, if quality/peer reviews were replacing the other report types seen in the program the number should increase incrementally with the loss of the others over the period. While it is true quality/peer reviews submitted have increased over the period its not enough to make up for the loss of the higher reports. In fact, because the total number of submitted quality/peer reviews has actually dropped over the latter part of the study, along with the higher report

types, replacement does not entirely explain the shift.

Another possible explanation for the drop in audits and reviews submitted by sole proprietors is a change in organizational structure, which would mean an increase in others such as partnerships and professional corporations. The data do not support this theory however. The only increase in organization type is in LLC and LLP. LLC's and LLP's have not increased enough to account for the decrease in audits and reviews submitted by sole proprietors. The only other explanation having merit is the number of sole proprietors actually performing audits and reviews has declined. In other words, many sole proprietors no longer perform audits and reviews and therefore do not submit these types of reports to the program.

Acceptable/Not Acceptable

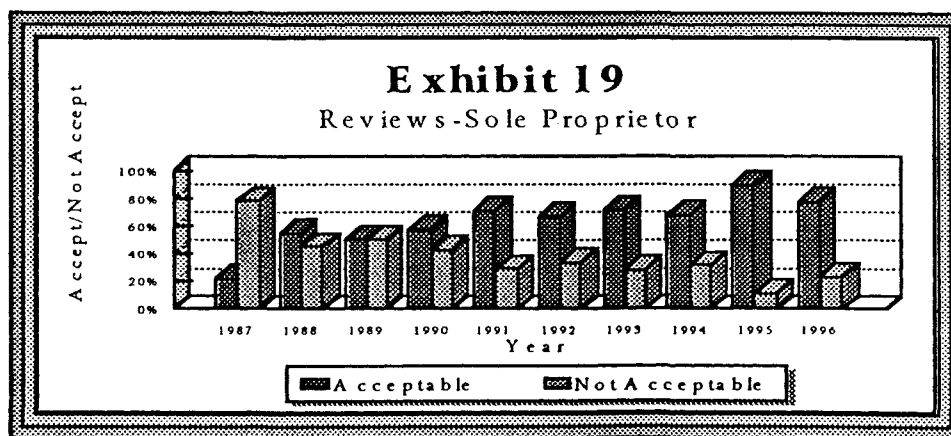
Acceptable reports for sole proprietors have increased fairly dramatically over the history of the program. In 1987, 26 percent of reports submitted by sole proprietors were acceptable. The acceptable rate generally stayed over 60 percent until 1996 when 79 percent of total reports submitted were acceptable (Exhibit 17).



Even though total audits submitted by sole proprietors have decreased significantly over the period, the percentage of acceptable audits submitted has ranged from a low of 27 percent in 1994 to 44 percent in 1995, except for 1988, 1991, and 1992. The actual percentage of acceptable audits has been somewhat erratic over the period. For example, 65 percent of audit reports submitted by sole proprietors were acceptable in 1992, the highest percentage for the entire period (Exhibit 18).

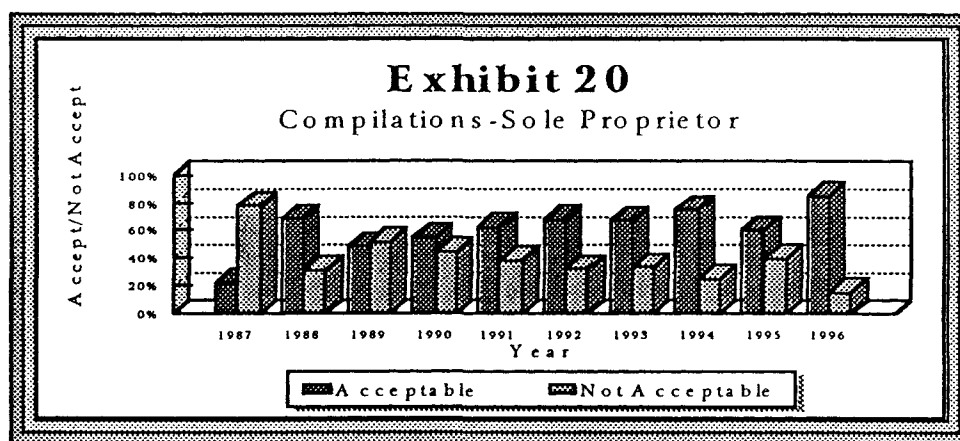


Acceptable reviews, on the other hand, have increased significantly over the period - from 22 percent in 1987 to 77 percent in 1996 (Exhibit 19).



The percentage of acceptable reviews submitted by sole proprietors was at a high of 89 percent in 1995. The low experienced in 1987 is not repeated in any other year. In fact, beginning with 1988, over 50 percent of reviews submitted by sole proprietors were acceptable.

Acceptable compilations are an equally large increase in the proportion of acceptable reports. Acceptable compilations constitute 22 percent of the total submitted by sole proprietors in 1987 (Exhibit 20).



In 1988 acceptable compilations jumped to 68 percent and this trend continued until 1996 when 85 percent of compilations from sole proprietors were acceptable. The highest percentage of acceptable compilations occurred in 1996; the other years were all over 50 percent, with the exception of 48 percent in 1989.

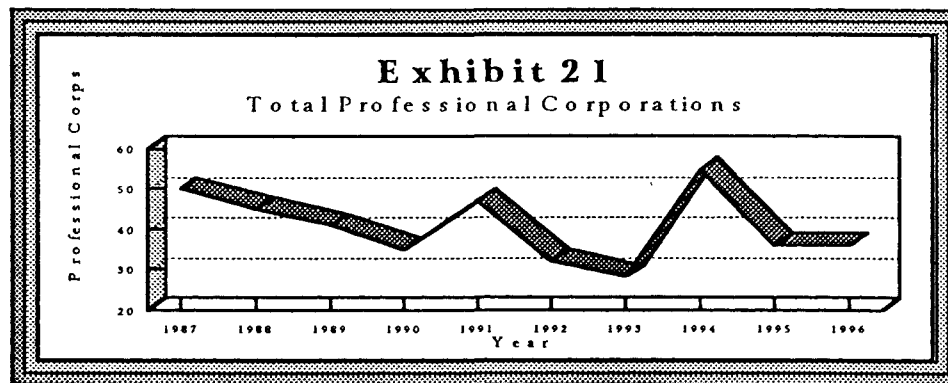
Generally, the trend in acceptable reports by type is easily explained. Because sole proprietors generally have limited resources and a small staff, if any at all, they have difficulty keeping up with changing regulations and standards and performing enough audits to do them properly. Accordingly,

audits are somewhat more difficult and usually not the primary part of the practice, explaining the low level of acceptable ones performed by sole proprietors. The other report types, reviews and compilations, are easier to do with limited resources and staff. These reports take less time to complete than audits due to their limited scope.

Professional Corporations

Report Types

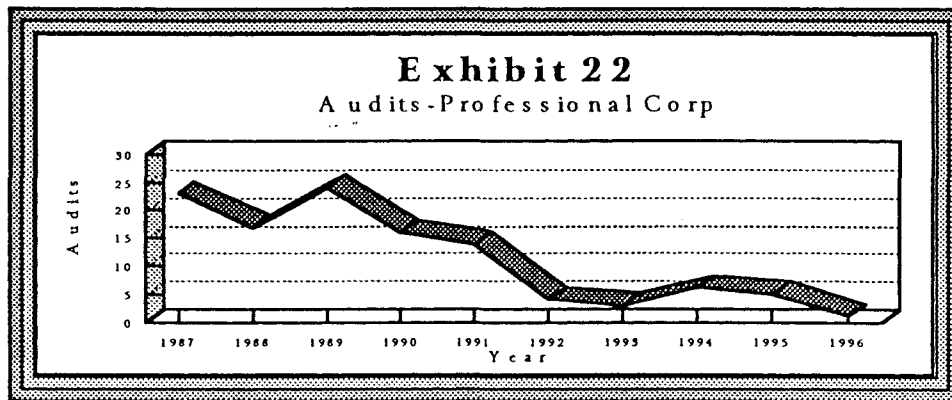
The total number of professional corporations (PCs) participating in the program was 50 in 1987, decreasing somewhat to 36 in 1996 (Exhibit 21).



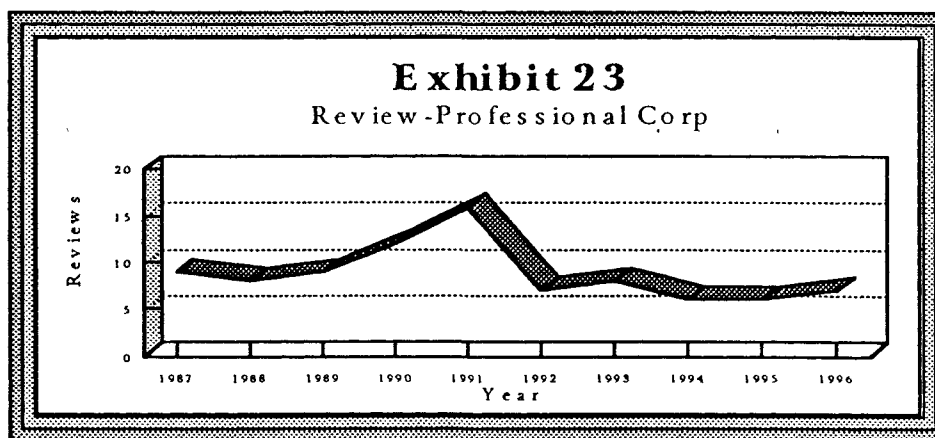
In 1993 the lowest number, over the period studied, of this organization type participated at 28 offices. In the other years of the program participating PCs ranged from 32 to 55 offices.

Professional corporations submitting audits decreased dramatically from 23 in 1987 to 1 in 1996. The decline in audits submitted by professional corporations represents a decrease from 46 percent in 1987 to 3 percent in 1996

(Exhibit 22).

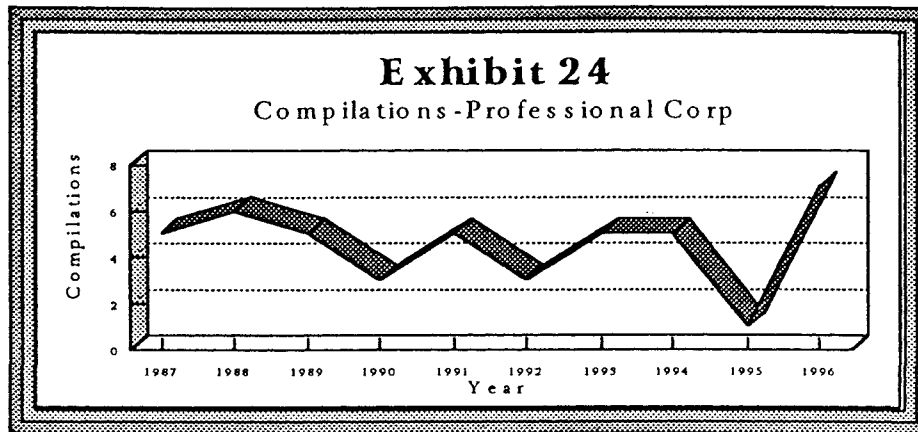


The number of reviews submitted by PCs has not changed significantly over the period and in fact has fluctuated. Reviews ranged from 11 to 34 percent of total reports submitted by PCs over the period with no trend apparent (Exhibit 23).

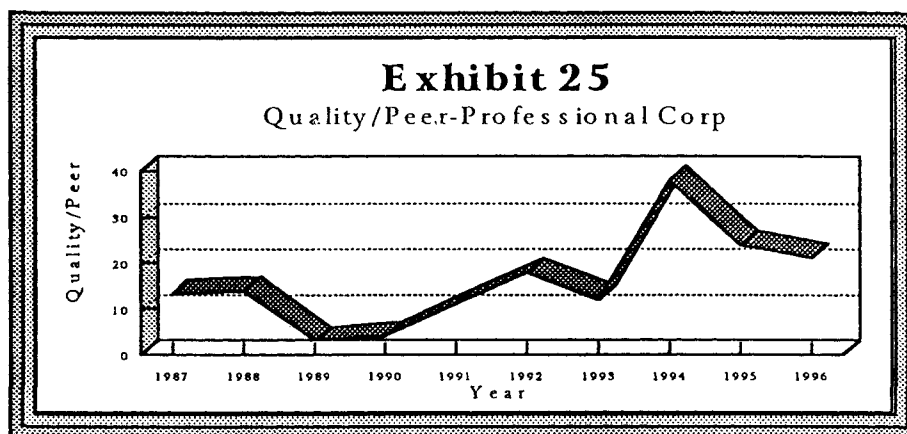


The total number of reviews fluctuated between 6 and 16 over the period.

Unlike sole proprietors, PC submissions of compilations were not a significant percentage. In fact, the percentage has ranged from 3 percent to 19 percent of total reports submitted by PCs, or from 1 to 7 compilations over the period (Exhibit 24).

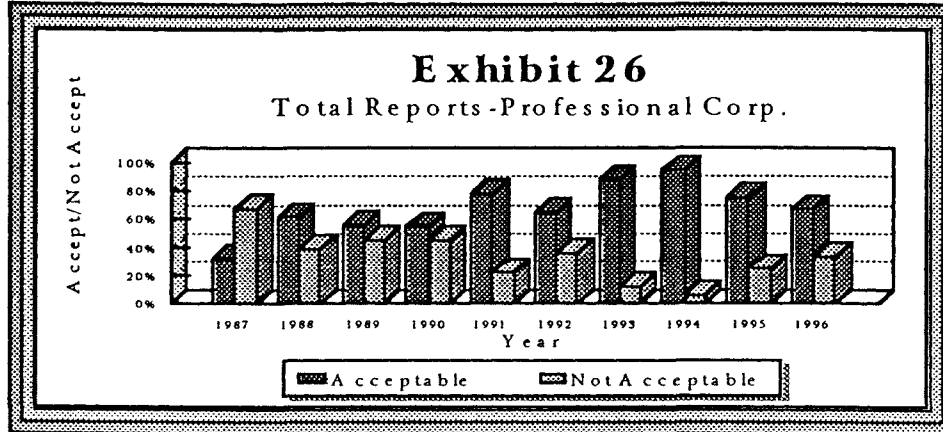


Generally a large portion of PCs submitted quality/peer reviews in the later years. For example 58 percent of PCs in the program submitted such reviews in 1996. The highest percentage of quality/peer reviews submitted by PCs was in 1994 at 69 percent. (Exhibit 25).



Acceptable/Not Acceptable

Generally, as with the entire program, acceptable reports for PCs have increased over the period. In 1987 only 32 percent of reports submitted by PCs were acceptable. The level of acceptable reports increased to 94 percent in 1994 then declined to 67 percent in 1996 (Exhibit 26).



The total number of reports submitted for review has decreased over the three year period from 1994 to 1996. Generally for PCs the unacceptable reports average 3 out of 7 reviews, or 43 percent, and 2 out of 7 compilations, 29 percent, over the period. Because the total number of reports submitted has decreased the results tend to be skewed, or appear more dramatic than they really were.

Although the number of audits submitted by PC's has dropped from 23 in 1987 to 1 in 1996, the majority were acceptable. After 1987, when 30 percent of the audits submitted by PCs were acceptable, the overall percentage of acceptable audits was over 50 percent. Similar percentages of acceptable reports for reviews were experienced over the period. For example, 33 percent of reviews by PCs were acceptable in 1987. For the majority of years after 1987 the percentage of acceptable reviews over 50 percent, which is similar to the experience for compilations.

In 1987, 40 percent of compilations submitted by PCs were acceptable.

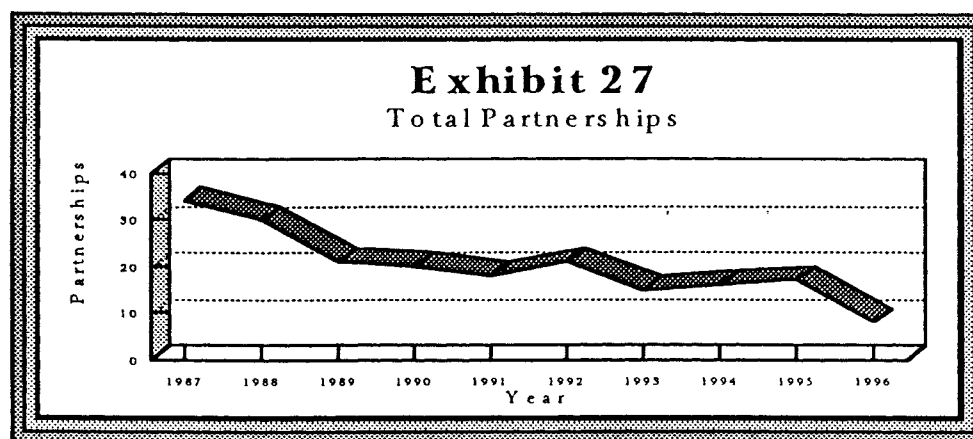
In 1990 not acceptable compilations were higher than acceptable, but generally in the other years submitted compilations were all over 60 percent acceptable. In general, the percentage of acceptable reports submitted by PCs have increased over the period studied.

PCs generally get more quality/peer reviews than any other organizational structure. PCs are usually larger in size, have more resources, and are most likely either AICPA members or perform governmental audits accounting for the significant number of quality/peer reviews.

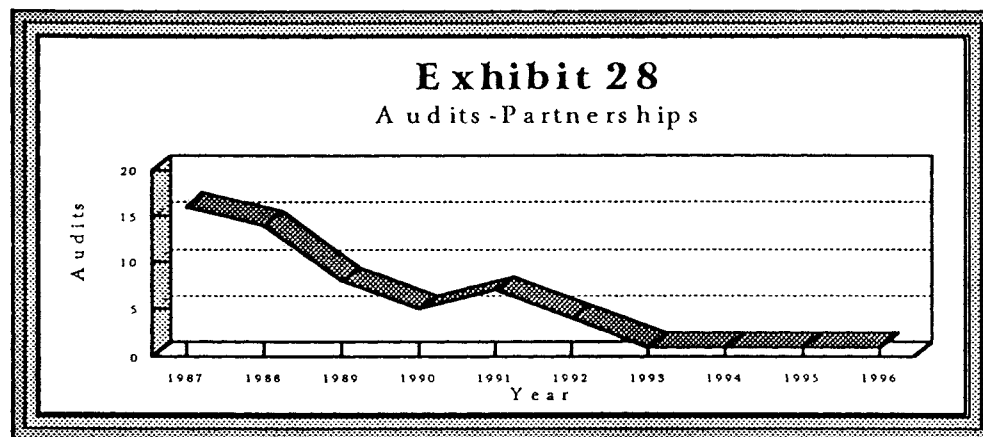
Partnerships

Report Types

Of the three main organizational structures, partnerships comprise the smallest number of offices participating in the program. Partnerships have not been over 15 percent of total reporting offices throughout the program history. Total reporting partnership offices dropped from 34 in 1987 to 8 in 1996 (Exhibit 27).

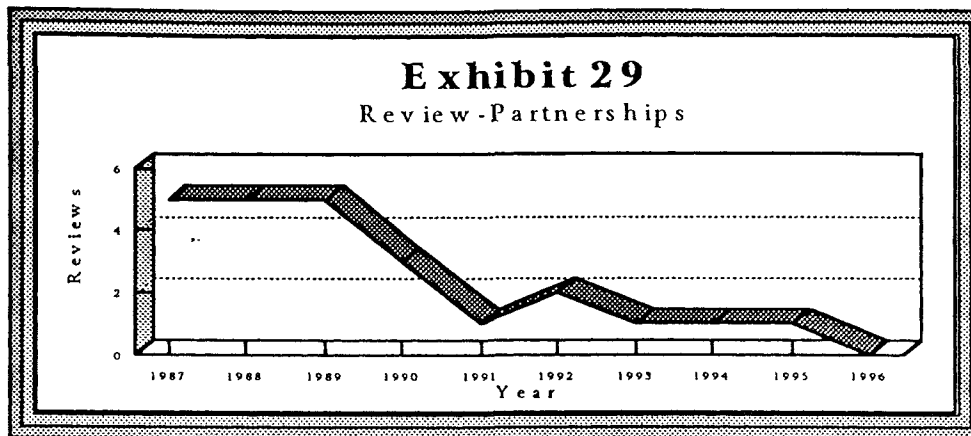


Initially, as with the other offices, audits were generally the largest number of reports submitted. The percentage of audits submitted dropped to 13 percent of total reports submitted in 1996 from 47 percent in 1987 (Exhibit 28).



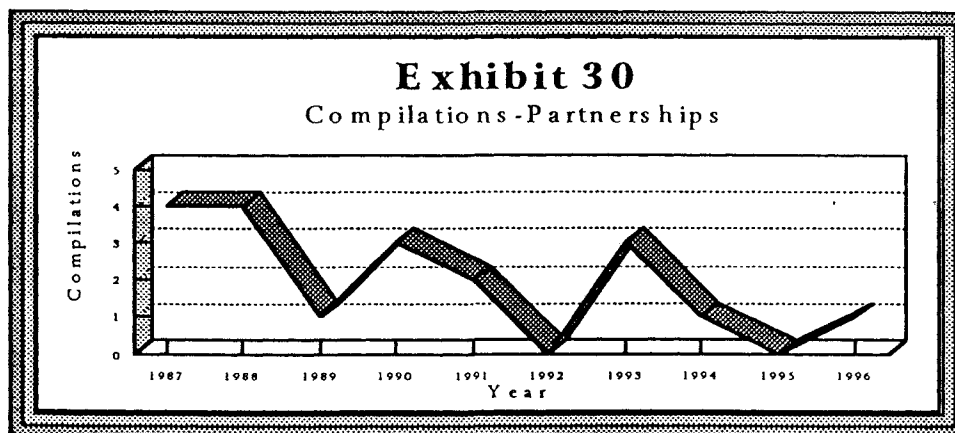
The actual number of audits submitted by partnerships was only 1 in each year from 1993 to 1996 translating into 6 to 7 percent of total reports submitted by partnerships. One audit corresponding to 6 or 7 percent of total reports illustrates the low number of partnerships participating. In 1996, the percentage of audits submitted is 13 percent even though only 1 audit was submitted as in 1993 to 1995. This result is because no reviews and only 6 quality/peer reviews were submitted in 1996 from partnerships for a total of 8 reports submitted by partnerships. In other words, 1996 had the lowest number of partnerships submitting reports which makes the percentage of audit reports submitted seem higher.

Partnerships submitting reviews have dropped over the period (Exhibit 29).

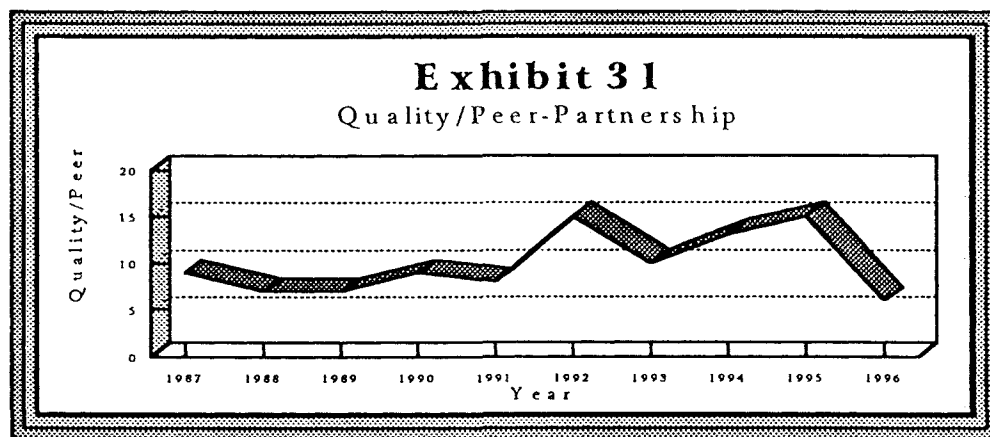


Reviews did not make up a great number of submitted reports from partnerships over the period. Only 1 review was submitted in each year from 1993 to 1995. As stated previously, no reviews were submitted by partnerships in 1996. The total number of reviews submitted by partnerships ranged from 0 to 5 over the period.

Similar rates were experienced for compilations. Compilations submitted by partnerships have consistently been low for all the years studied and numbered between 0 and 4 (Exhibit 30).

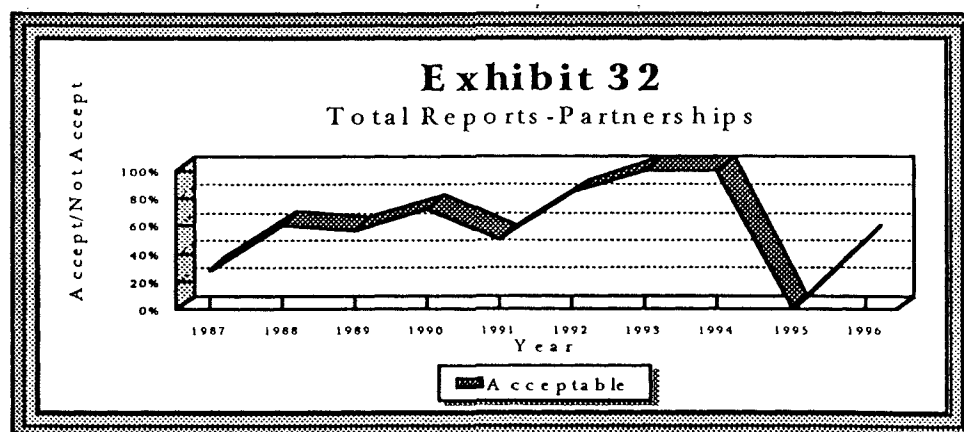


The level of reports submitted by partnerships has remained fairly stable but their use of quality/peer reviews increased in 1992 through 1995 (Exhibit 31). In these years the highest level of quality/peer reviews were submitted by partnerships, between 10 and 15. Quality/peer reviews by partnerships comprised 67 to 88 percent of reports submitted for 1992 to 1995 respectively.



Acceptable/Not Acceptable

Generally, the percentage of acceptable reports submitted by partnerships are consistently high for the period, except for 1995. The low number of reports submitted makes comparison difficult but in general acceptables are over 50 percent for the period (Exhibit 32).



As seen with the other organizations, total acceptable report percentages are low for the first year of the program and subsequently increase over the period.

Generally no discernable trend is experienced in the proportion of acceptable reports submitted by partnerships. However, in 1995 and 1996 none of the submitted reviews or audits were acceptable. Of course, because only one of each type of report was submitted for those years the lack of acceptable reports is not significant. In fact, as stated previously, the only discernable trend in partnership report submissions is the increase in quality/peer reviews.

Possibly the decrease in partnerships as an organizational structure is due to restructuring. As with the other organizational structures, quality/peer reviews submitted by partnerships have increased over the period studied. Partnerships generally have more resources and staff potentially performing more of the higher level reports compared to sole proprietors. Preparing the higher reports on a regular basis generally increases the chances of having a quality/peer review performed. Accordingly, the larger organizational units are more likely to be part of the AICPA or perform governmental audits thus requiring a quality/peer review.

Other, LLP, LLC

As previously stated these organization types are largely ignored. The Other category is very small and generally any offices falling into this category do not use their CPA designations and only issue reports for internal or

governmental purposes. These reports are not meant for the public only for management purposes.

LLP's are a growing form of organization. The first year of activity for this organization type is 1996. All eight reporting offices submitted quality/peer reviews and are therefore not subject to review by the program.

LLC's also do not represent an organizational form seen in the program until 1995. One audit and one quality/peer review was submitted in that year. The audit was deemed acceptable. In 1996 only one office organized as an LLC was identified and it submitted a quality/peer review.

These organization types are included in this study for review purposes only. The Other category will continue to be insignificant to the program as a whole although the LLP and LLC designations might start to increase in numbers.

As seen in the previous sections, total reports reviewed by the PMP have decreased over the history of the program, specifically audits and reviews. The level of compilations has generally stayed the same over the period. Overall acceptable statuses have increased over the period although not acceptable audits continue to be a problem.

Total reports submitted by sole proprietors have decreased but this organizational structure continues to make up the majority of the program. Sole Proprietors, Professional Corporations, and Partnerships have shown increases in acceptable reports and quality/peer reviews. The other organizational structures are not considered significant to the results of the program. They are

included for the purpose of understanding the entire makeup of the program and show the possible increase of these organizational structures in the future.

CONCLUDING COMMENTS

The concluding comments are based on the indicators outlined in Section III. These indicators include; increased acceptable reports, increased percentage of offices getting quality/peer reviews, and other intuitive factors. The main indicator, increased acceptable reports, is reviewed first. In the next part quality/peer review results are described. The last section includes the more intuitive findings. After the concluding comments some recommendations for program improvement are discussed.

Initially several indicators were presented as possible approaches to determine if the Profession Monitoring Program was effective. The increase in acceptable reports is the first indicator.

As seen from the analysis, acceptable ratings have increased. For all the organizational units represented in the program, the number of acceptable reports has increased as a function of total reports submitted for review. In other words, acceptable reports as a percentage of total reports has steadily increased over the history of the program. Although the total number of reports has decreased over the period, the percentage of acceptable reports has increased, possibly indicating the effectiveness of the program.

Although acceptable reports have increased, individual report types could

show more improvement. Audits, for example, have a fluctuating acceptable level but generally show less improvement than compilations. Acceptable reviews as a percentage of total reviews have shown steady improvement over the period. The best level of improvement is in the compilations, thus balancing out the weaker level of acceptable audits. The level of acceptable reports is only one indicator another is an increase the level of quality/peer reviews.

The number of offices, in all organizational units, getting quality/peer reviews has increased over the period. Some increase in these types of reviews are a direct function of the AICPA and GAO standards. Even though some type of review for all practitioners issuing reports to the public is required, none must submit to the quality/peer review process unless they are members of the AICPA or perform governmental audits. If quality/peer reviews are replacing other reports, a downward trend in total participants would not be evident. Accordingly, the decrease in total reports, including quality/peer reviews, is due to other factors.

Initially, all practitioners issuing reports were required to submit a report unless they had a quality/peer review. Over the period a drop in total reviewed reports was experienced. An increase in quality/peer reviews was also experienced but not in relation to the drop in reviewed reports. The consensus of some long-time reviewers is the offices still participating are not members of the AICPA, issue only a small number of reports, or generally have continuing problems. Those offices performing quality work continue to do so and are therefore exempt from the PMP for the standard amount of time. The offices left

in the program are those who do not perform quality work and are considered problems or are small and continue to issue acceptable reports.

The offices still in the program issuing acceptable reports generally only perform a small number and are not members of the AICPA. They do not find it necessary to get a quality/peer review and use the PMP as a form of peer review. Offices submitting unacceptable work generally continue to do so. They can only do this for three years until they face a preissuance review or other mandate. Some stop issuing reports before this happens; others improve the quality of their work. Essentially the PMP works because it is part of state licensing and the disciplinary actions available could affect the practitioner's license. For some, the program is perceived to have authority over the practitioner's license because it is administered by the state board. Others consider the program a bother and government intrusion. Whatever the opinion, through the program, problem offices issuing reports are known and everyone has the opportunity to have others review their work.

The evolution of the program is apparent from the trends noted. Generally, the culmination of the program is: members of the AICPA and those performing governmental audits get quality/peer reviews; some offices have closed or stopped issuing reports; others continue to issue acceptable reports; and the rest do not perform quality work. Those offices not performing quality work, but still issuing reports, are the reason the percentage of acceptable reports have declined in the recent period. The offices not performing quality work are generally what is left after ten years of the program's existence.

Based on the indicators, general comments, and impressions the Profession Monitoring Program has been successful in its efforts. Considering the overall decreased number of offices reporting to the program, along with the increase in quality/peer reviews, it is possible many offices have discontinued issuing reports due to restructuring, or termination. However the program is still successful because it monitors, to some extent, the problem offices and provides needed feedback to those with no other access to peer review. The overall percentage of acceptable ratings has increased for those still participating in the program and an increase in quality/peer reviews has also been experienced.

The apparent success of the program does not necessarily mean it is effective. The statistical analysis does not prove effectiveness. What the analysis does prove is positive results. Positive results along with intuition show the strong probability of effectiveness and therefore the program is considered to be so.

RECOMMENDATIONS

Based on the initial research and subsequent analysis, several improvements might be considered to improve record keeping and information access. Because no cost/benefit studies have been done and no information regarding cost of implementation is available these are only recommendations based on experience with the data.

Record keeping entails all the pertinent information for each unit

submitting reports for a particular year. Part of this record keeping includes documents necessary for each unit, for example, office registration forms. At times, even though these registration forms are required, they are not in the files. Given the volume of work and the limited staff, these forms are at times missing or incomplete. In the past, some little note is put in the file as a reminder, but these became lost or forgotten. A checklist of required information for an office file is necessary.

The use of a checklist should help in getting all the pertinent information in a file prior to the actual review process. Information on these checklists should include the type of report, organizational unit, and a brief list of past experience with the unit. If this information is in one place, and easily accessible, some potential problem offices would not be missed. Checklists are already used extensively in the actual review process and should be considered essential for the preview documentation as well.

Along with information prior to review, a sheet should be put in each file to categorize correspondence. This sheet is especially important when a large amount of correspondence is collected which is usually the case with deficient reports. The listing will decrease the need to search through every letter and memo in the file to find something. A listing of the correspondence will also outline, in a timely fashion, pending items.

Another problem, generally occurring with deficient reports, is information from previous year's files has been removed and filed elsewhere.

Understandably, the circumstances behind a special case are easier to

understand when all the information is in one place. However, the removal of originals makes a mess of the files and increases the chances of losing or misplacing something important. Copies should be made for other purposes and the originals left in the files.

The overall location of files is also important. Current-year files and problem files from previous years are kept in various places. Some are categorized in the available cabinets others are kept wherever space is available, usually without labels. The problems with general record keeping make it difficult to follow everything a particular office has done with any kind of certainty.

Another recommendation is to use the computer more extensively. In place is a somewhat limited database with some pertinent facts. Also used is a word processing program to type up comments given by reviewers. These computer uses might be combined into one database, easily accessed and used. Right now the database is only accessible by one person who is the specialist for the entire professional licensing department. It might be useful, and in the long run easier, to have an accessible database or an extensive spreadsheet program to document information and use it for statistical and analytical purposes. Historical information about individual offices can be accessed and put into a brief form for reviewers and board actions. By using the computer more extensively, all pertinent information will be easier to access and it will not be necessary to rely entirely on the hard copy file.

Understandably, the administration of the records is a large job. The administrators have done the best they can with the limited time and space they

have. These record keeping recommendations are not criticisms, merely observations to make accessibility easier and less confusing.

Judging by the correspondence, some do not consider the program educational, only harassing due to the large number of picky comments. Perhaps the materiality of the comments could be reviewed by a second reviewer as part of the concurrence process. Comment reviews might keep the typing down to a minimum and provide more of an educational focus rather than perceived trivial intrusion.

SECTION VI

Summary

The purpose of this study was to determine if the Profession Monitoring Program developed and administered by the Montana State Board of Accountancy is effective.

The PMP was established primarily to ensure practitioners were creating quality work. Two ways of assuring good work are through the peer review program with the AICPA and the PMP which also acts as a form of peer review. Reviewers for the PMP examine submitted reports once a year. These reports are either deemed acceptable or not acceptable. Those offices with acceptable reports do not have to submit another sample for the next two years. Those with not acceptable work are treated according to their history. Actions such as mandating Continuing Professional Education, firm specified procedures, or preissuance reviews are the most common treatments for not acceptable reports.

The program is broken down and analyzed in parts to determine if the whole is effective. The parts of the program are described as the report types and organizations. Even though the focus of the PMP is the quality of work, organizational structure is also analyzed as part of determining effectiveness.

The data for this study were collected from various sources. The main sources are the hardcopy files, program computer database, and the executive

board minutes. The hardcopy files were relied on the most heavily. The limitations of the data include areas such as rounding, the destruction of 1989 hard copy files, and general record keeping.

Total reports submitted have decreased over the period, which includes quality/peer reviews. The number of quality/peer reviews has increased as a percentage of total reports. Therefore total reports actually reviewed in the program has decreased in relation to total offices. The reason for the decline in offices has been a combination of closures, retirements and the discontinuance of report issues.

Total reports submitted by sole proprietors have decreased but this organizational structure continues to make up the majority of the program. This group has also experienced an increase in submitting quality/peer reviews. The overall percentage of acceptable reports for this group has also increased. Professional Corporations and Partnerships have also shown increased acceptable reports and quality/peer reviews overall. The other organizational structures are not considered significant to the results of the program. They were included for the purpose of understanding the entire makeup of the program perhaps these organizational structures will become more important in the future.

The overall percentage of acceptable ratings have increased for those still participating in the program. Quality/peer reviews have also increased. The overall decrease in the number of offices reporting to the program suggest many

have discontinued issuing reports for one reason or another which accounts for the decrease in units. The small number of offices still having reports reviewed in the PMP either continuously do good work or generally have chronic problems accounting for the small decline in acceptable reports for the last three years of the program.

The offices issuing acceptable reports generally only issue a small number and are not members of the AICPA. They do not find it necessary to get a quality/peer review and use the PMP as a form of peer review. Offices submitting unacceptable work generally continue to do so. They can only do this for three years until they face a preissuance review or other mandate. Some stop issuing reports before this happens, others improve the quality of their work. Essentially the PMP works because it is part of state licensing and the disciplinary actions available could affect the practitioner's license.

Based on the indicators, general comments, and impressions, the Profession Monitoring Program outwardly seems to have been successful in its efforts. It is difficult to determine conclusively if the program is responsible for the decrease in the number of reports. In fact, it is possible the decrease is due solely to the mandate of peer review for GAO and AICPA or the increased threat of litigation or some other factor.

The downward trend of total offices participating is expected to continue in future years with the number actually reviewed dropping even more. Generally, the program is successful because of its natural evolution and

perceived disciplinary powers. Because of the peer review mandate by the AICPA and the GAO, quality/peer reviews have increased significantly. This mandate leaves the non-AICPA members and offices not performing governmental audits with only the PMP to monitor their quality of work. Some offices have restructured, retired or otherwise discontinued issuing reports. Those offices left generally issue a limited number of reports, continue to perform quality work or have on going problems.

The PMP is successful as a type of backup monitoring process for the quality/peer reviews and makes sure everyone is being reviewed by someone to keep performing good work. Those offices continuing to be a problem are known and monitored more closely by the Board of Public Accountants. The perceived threat to licensing helps to enforce the recommendations from the review process and continue to improve the quality of work by offices still participating.

ENDNOTES

1. Lewin, David and Peterson, Richard B. A model for measuring effectiveness of the grievance process, Monthly Labor Review, IRRR Papers, April 1982.

2. Alam, Pervaiz, CPA and Meier, Hylton, Heidi, Measuring the Effectiveness of the Peer Review Program, The Ohio CPA Journal, Autumn 1986.