Oregon Board of Accountancy
Public Board Work Session Meeting Minutes
August 11, 2013

Board Members:

Jessie Bridgham, CPA, Chair
Larry Brown, CPA, Vice Chair
Roberta Newhouse, CPA (9:00 a.m.)
Al Crackenberg, PA
Roger Graham, Public Member
John Lauseng, CPA
Scott Wright, CPA, Treasurer

Board Staff:

Martin Pittioni, Executive Director
Susan Bischoff, Assistant Attorney General
Noela Kitterman, Investigator
Bethany Reeves, Compliance Assistant
Kimberly Fast, Executive Assistant
Kristen Adamson, Licensing Specialist

Guests:
Sherri McPherson, OSCPA
Dr. Ray Johnson, CPA (2:35 p.m. by phone)

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1. CALL TO ORDER

Chair Brown called the public session meeting to order at 8:38 a.m. and announced the meeting was being recorded.

3. DOJ FLAT RATE AGREEMENT

Board members reviewed a proposed agreement between the Department of Justice and the Board of Accountancy for the Board to be charged a flat rate for legal services during the 2013-15 biennia, which would allow for a higher utilization rate in a given biennium to be recouped in future biennia through higher rates. This concept allows small Boards to better predict the budget necessary for their legal fees and decrease the need to request more money through the legislative emergency board.

The Board members, from an accounting standpoint, do not believe this type of arrangement is beneficial to the Board, or represents good policy. To the extent that agency legal costs increase or decrease, there is enough flexibility in the budget to cover those costs, and as such Board members expressed a preference for not moving forward with the flat rate arrangement.

6. LAW AND RULE TASKFORCE REPORT

The Board reviewed the comments and suggestions from the Law and Rule Task Force composed of Scott Wright, Jessie Bridgham and Ann Ferguson.

The Board would like to form a committee to use the information provided by the task force and begin to 'fix' the issues identified, specifically:

- Inconsistencies between rules and statutes
- Rules that are more restrictive than the statute
- AICPA rule changes that will ,statutes or rules

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- General modifications/amendments to rules and statutes

Mr. Lauseng agreed to chair the committee. Mr. Brown, Mr. Graham, Mr. Wright, and Ms. Newhouse, as well as Mr. Morris representing OAIA and a representative from the OSCPA will also join the committee. Mr. Pittioni noted that after the committee process concludes and the Board has reviewed a potential draft set of rules to propose, the Board could provide for appointment of a broad-based Rules Advisory Committee to further review any proposed rule changes before the Board commences the formal rulemaking process where there will be further opportunities for public comment in writing and at a Rulemaking Hearing.

7. NASBA INTERNATIONAL EVALUATION SERVICES

Mr. Pittioni reported that NASBA has developed an International Evaluation Service (NIES) that the Board could make a policy option for Oregon candidates. Currently the Board, by rule, only accepts international evaluations that are provided by organizations that are members of the National Association of Credential Evaluation Services (NACES). Reports from the NACES evaluation agencies vary with respect to quality and service. Mr. Pittioni asked if the Board would be open to consider, as part of its rule making process, to change Board rules to allow exam candidates to choose whether to go through a NACES provider or through NIES. Board members discussed the issue and advised that it appeared that the Board's rule with respect to NACES evaluation providers was written too restrictively, and that making the rule more permissive to allow options such as NIES should be addressed in the Board's rule re-write project.

BOARD OF ACCOUNTANCY WEBSITE FAILURE (pulled from the public session on August 12th)

Mr. Pittioni reported that on August 5, 2013, Board staff discovered that the Board's website had reverted back to an early 2012 version. At that time, staff were also unable to access SharePoint, the software that allows changes to be made to the website, and requested assistance the following morning from the Website help desk. After it became clear that the website could not be easily fixed or restored by the Department of Administrative Services contractor (NIC-USA), Mr. Pittioni requested that the website be shut down and a message notifying the public that the website was unavailable be posted to avoid confusion and a detrimental impact to the public and Board customers from presenting extremely outdated material on the Board's website.

Mr. Pittioni reported that Ms. Jorgensen of NIC-USA eventually contacted him to advise that during an August 3 – 4 weekend NIC-USA maintenance update of the SharePoint program that supports all Oregon.gov websites, errors were reported to NIC-USA limited to the Board of Accountancy (BOA) and Department of Corrections (DOC) websites. Ms. Jorgensen admitted to Mr. Pittioni that the NIC-USA incident protocol was not followed after the problem became clear to NIC-USA on Sunday August 4, 2013, yet did not immediately contact the two affected state agencies on Monday morning. Board staff were left to identify the problem on their own for days. Staff initiated contact with the Department of Administrative Services (DAS) on Tuesday morning and no disclosure as to the nature and scope of the problem occurred then, even though it appears as if at least one staff person at DAS ETS became aware on Monday that BOA – and DOC - were afflicted. Board staff were not involved in the decision to keep a very outdated version of the Board web site available to the public – and that decision should also

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not have happened without agency involvement. Mr. Pittioni advised that while keeping the outdated website up may have been a reasonable decision in the very short run, when NIC-USA thought they could restore the site within a very short time period that decision was not revisited once it became clear that it was a major problem that could not be resolved quickly.

Mr. Pittioni reported that Ms. Jorgensen advised him that back-ups were made of all websites prior to the start of the maintenance update so that in the event that the updates caused an issue, the website could be restored with the backup copy. Both the DOC and the BOA websites were negatively affected by the maintenance action. When NIC-USA could not locate the DOC back-up copy, they identified a major functionality issue and contacted DOC on Monday. Because the BOA back up file was found, it was assumed that restoring the Accountancy website with the data in the back-up would be a relatively quick process, so they left the outdated website from 2012 up as a placeholder and did not contact the Board of Accountancy to relay this information.

Instead, there were unexpected difficulties in achieving the complete restoration of the agency's data. Once NIC-USA was able to reconnect the Board's data to the SharePoint site, Board staff discovered that many of the site's PDFs were not actually recovered, or not recovered accurately, pointing to likely problems with the back-up process by the contractor. Mr. Pittioni reported that at that point he insisted that NIC-USA perform a full web site audit, restore what was possible from google caches, and then contact the agency with a list of documents that could not be restored through that process. Ultimately this resulted in two NIC-USA staff working at the Board office with agency staff on Friday, August 9, to restore those PDF documents identified to be most used by Google Analytics. After these were added and the site was reviewed for accuracy, the website went live to the public at about 4 p.m. on August 9, 2013. Mr. Pittioni advised that other restoration work of lesser-used documents and links would still be on-going, and that he would shift his focus to the issue of holding NIC-USA and DAS ETS accountable, now that the customer service and public protection issue of restoring the Board's web site was accomplished.

5. CPA APPLICANTS – QUALIFICATIONS COMMITTEE

A. Other Professional Standard Applicants

At the last meeting on July 22, 2013, there was discussion on the three "paths" an applicant can apply under to get licensed; audit and attest, other professional standards (OPS), and industry/government experience. Currently, applicants applying under the attest category are approved by Board staff and the supervisor licensee has little or no requirement for a write-up supporting the competencies. Industry and government applications are assigned to members of the Qualifications committee to review and discuss at their bi-monthly meetings before recommendations are given to the Board for final approval. The Committee carefully reviews each file and requests specific detailed examples from the supervisor licensee to demonstrate how the applicant met the competencies.

Applicants with experience through OPS have been reviewed by Board staff to date. It would be helpful for staff to have board guidance in developing objective criteria to use while evaluating applicants competencies. Mr. Graham volunteered to review the pending OPS applications and

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provide staff and the Board with his observations, in order to support the Board in its future decision making on how to handle applicants from the OPS and private industry routes to CPA licensure.

8. DEFINITION OF ATTESTATION – EXPOSURE DRAFT

The American Institute of CPAs (AICPA) has voted to amend the definition of attest. Currently, the Uniform Accountancy Act (UAA) includes audit engagements under Statements on Auditing Standards (SAS), reviews of financial statements under Statements on Standards for Accounting and Review Services (SSARS), audits under Public Company Accounting Oversight Board standards and also examinations of prospective financial information under Statements on Standards for Attestation Engagements (SSAE). The changes will come with SSAE standards. In the past, examinations of prospective financials were included in attest engagements, now it's being proposed that examinations, reviews and agreed upon procedures would also be included.

The Board noted the exposure draft deletes the reference to financial statements and replaces it with *any attest or compilation service* when defining "report". The public is often confused by the term "financial statements" and the change is an effort to avoid that confusion.

Mr. Pittioni noted that there is a public protection issue with respect to non-CPA firms and unlicensed individuals performing attestation services using AICPA language in their reports that implies the unlicensed firms and individuals providing the attestation service are CPA firms or licensees and are subject to the same educational, licensing and peer review standards as CPAs or CPA firms. Mr. Pittioni advised that this may be an issue where it would be better to seek statutory changes sooner rather than later.

The Board will discuss this issue further at the October work session and this will also be a topic for the laws and rules task force to discuss.

9. FINANCIAL REPORTING FRAMEWORK FOR SMALL-MEDIUM SIZED ENTITIES (FRF FOR SMEs)

The AICPA and NASBA have agreed to work together to release framework for financial reporting on small-medium sized entities. The goal is to develop a GAAP-based financial reporting model for all private companies, develop decision making tools and disclosures to clarify that the financial reporting framework (FRF) for SMEs is not authoritative and is not GAAP and to define small and medium sized entities and provide guidance as to when it is appropriate to use the FRF for SMEs to ensure that the use is suitable and transparent.

Board members recognize this is in the preliminary stages and the information is vague at this point. Board members expressed their appreciation that AICPA and NASBA have agreed to resolve this matter collaboratively, and are determined to continue to monitor and discuss this issue as more information becomes available.

10. COMPLIANCE PLANNING

A. Compliance Recruitment and Possible Temporary Appointment

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Mr. Pittioni announced to the Board that interviews for the limited duration Financial Investigator 1 were held August 6th. There were 26 individuals who met the minimum qualifications and only 3 applicants who were CPAs. Background checks will be done later this week and the next, finalist phase will occur in late August.

Mr. Pittioni also discussed the possibility of hiring a temporary compliance position to help with cases such as holding out or other simple investigations that do not require a CPA license. Board members suggested considering an intern or a 3rd year law student with an accounting background to help with back-log.

B. Holding out violations

The Board receives complaints against individuals who use the CPA designation and are not licensees of the Board. The investigations generally take a minimum of 30 hours of investigation time, including presentation to the Complaints committee and the Board. For efficiency purposes, it would be helpful if delegation was given to the Board investigator and the Executive Director to determine if there is a violation and present to the Board as a consent agenda item. This process would save committee and board time and more effectively protect the public with a quicker resolution.

The Board would like to revisit this process change in connection with the delegated authority discussion at the October meeting.

C. Letter of Censure

Board counsel Ms. Bischoff explained that there are situations when a complaint is received and the respondent is found in violation where the circumstances surrounding the violation do not warrant the resources of a formal Stipulation and Order and an option to have an administrative hearing. In these cases, it would be helpful for the Board to consider adding an additional tool such as issuance of a letter of censure. This type of resolution is still considered disciplinary, but in this case the letter provides a fast-track option for the Respondent to acknowledge the problem and agree to a resolution. This option is considered more as a learning tool for the Respondent. Board members agreed to discuss this option further.

2. ETHICS CODIFICATION

Dr. Raymond Johnson joined the meeting by conference call at 2:35 p.m. to discuss the NASBA Ethics committee and AICPA Ethics Codification Project. The goal is to provide better guidance for members in business and make it easier for licensees to research answers to questions using the ethics codification. The Ethics and Professional Strategic Issues Committee (EPSI) believes that with the release of the codification that the UAA committee should take steps to adopt model rules that would suggest states adopt the AICPA code of professional conduct, with the exception of (1) identified rules that state adopt that differ from the AICPA Code and (2) identified rules that state adopt to add rules that are not addressed by the AICPA Code. This project is still in its early stages and the Board will follow its progress as well as assign to the laws and rules task force for possible rule amendments.

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12. LOCATION FOR OCTOBER WORK SESSION/BOARD MEETING

1. University Campus

The Board has discussed holding a meeting at a university campus. While this is still believed to be beneficial, the Board will defer this idea until the 2014 meeting planning.

2. Dan Dustin NASBA Government Relation Discussion

Mr. Dustin has expressed interest in attending a Board meeting and making a presentation to the Board regarding services provided by NASBA and the current issues that NASBA is dealing with. Board members would like to discuss the change in attestation language as well as discuss the use of private investigators and the new regulations.

11. PEER REVIEW OVERSIGHT COMMITTEE

A. July 18, 2013 minutes – for information only

B. OSCPA Contract

The committee made progress on the contract, however, an email was sent by Phyllis Barker, OSCPA with regards to Exhibit A, needs to be addressed by the committee.

C. Discussion of Consecutive Failed Peer Reviews

Mr. Pittioni attended the Peer Review Oversight Committee Summit in July. He reported that many states are struggling with how, and whether, to tie peer review, which is fundamentally educational and not disciplinary, to a regulatory follow-up. NASBA is collecting data on how Boards are responding to this issue.

In the past, the Board had a rule that firms must report if they had multiple failed peer reviews, however, that rule has since been removed. The Board office has the capability of accessing the AICPAs Facilitated State Boards of Accountancy website, where peer review reports can be viewed if the firm has agreed. Staff is tracking the history of peer review reports in the database record of firms.

D. Role of Peer Review Committee

Mr. Wright, Liaison for the PROC committee, reported the committee is interested in expanding its role and would like some guidance from the Board. The Board is not allowed to use information gathered from a failed peer review to open an investigation. However, the PROC is allowed to review financial statements. Board staff will run a list of consecutive failed reports and provide it to the Board.

The work session adjourned at 4:05 p.m.

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