



## OREGON BOARD OF ACCOUNTANCY

### Peer Review Committee Minutes

October 8, 2015

**Present:**

Jessie Bridgham, CPA, Chair  
Brad Bingenheimer, CPA  
Terry Griffin, CPA  
Phyllis Barker, OSCPA Representative

Susan Bischoff, Board Counsel  
Candi Fronk, CPA, Board Liaison  
Martin Pittioni, Executive Director  
Kimberly Fast, Licensing Manager

**Excused:**

Ryan Kramer, CPA, Vice Chair  
Stuart Morris, PA

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#### 1. Introductions of Committee Members and Call to Order

Ms. Bridgham called the meeting to order at 10:02 a.m. and announced the meeting was being recorded.

#### 2. Minutes for July 29, 2015

The minutes of July 29, 2015 were reviewed. There was one grammatical correction.

#### 3. Old Business

##### A. Division 050 Proposed Amendments / Consecutive Failed Reports

*Although different agenda items, the committee discussed topics together*

Committee members reviewed the proposed rule amendments and comments on possible discussion items. Ms. Bridgham noted that her concern lies with the AICPA and NASBA Guidance which basically boils down to not making the peer review process educational any longer. Their stance is that firms should know what is supposed to be happening with peer review, and if you are not following the peer review standards than there should be some punitive action.

Ms. Barker commented that she believes the peer review program remains educational. What everyone is agreeing with, if there is history of non-compliance or non-cooperation, then some action may be necessary. She believes that the AICPA is really saying that if there is a firm with a history of non-compliance then there are issues. The program will contact the firm after two

consecutive non-pass, it used to be three consecutive non-pass and was just recently shortened. When the firms are contacted, it doesn't necessarily mean that there will be action, but rather that there needs to be consideration of whether the non-passes are related to the same issues.

The term non-cooperation in terms of peer review means that a firm who has received a non-pass for one issue and then repeats the same errors on their subsequent peer review. Non-cooperation can also mean a firm has not submitted the forms to begin a peer review or not choosing their peer reviewer. There are several ways for a firm to be deemed non-cooperative.

If the firm is showing improvement, for instance, they have received two pass with deficiencies, however they were for different items that is considered improvement and would not fall into the category of non-cooperative.

If the Review Acceptance Board (RAB) forwards a firm's peer review to the AICPA for non-cooperation the firm has an opportunity to go through a hearing. The RAB has the discretion to forward a firm to the AICPA. However, the AICPA has a copy of all the reports and if they determined there is cause, they can do something without RAB referral.

Ms. Barker explained, that firms, especially small firms, may have life events that interfere with their practice and therefore results in a non-pass peer review result. If it can be determined by the RAB the results of a second non-pass are not the same issues or that there were life events effecting the firm, they may choose not to refer to the AICPA. The RAB tries to determine why the problems are happening.

Ms. Bridgham questioned the timeframe for a firm that has been found to be making the same mistakes time and time again. Ms. Barker explained that the RAB would then refer to the AICPA. Ms. Fronk asked what the RAB does in these instances when the firm is a non-AICPA member. Ms. Barker replied that the RAB considers what the action will be, however, there are not many that fall into that category. She also said that often times the Board has already noticed and may have compliance case open.

Ms. Bridgham asked staff if consecutive failed reports or pass with deficiencies are tracked. Ms. Fast replied that all peer review information and outcomes are entered into the database and tracked.

It was noted that the Board will not open a complaint against a firm solely based on a peer review result, however, if there are multiple non-pass results or a firm has an open complaint, it may be necessary to consider the peer review results. Mr. Pittioni addressed the fact that there is no process in place on how to deal with consecutive non-pass. Unless there is an active compliance case open, the Board does not look at peer review results. This committee needs to determine if that should change. One option is to determine if the PROC should be reviewing results and determine if there is more that the Board should look at.

The committee discussed a rule in Division 050 that states that the PROC shall emphasize education and appropriate remedial procedures. In the event a firm does not comply with

professional standards, or the firm's work is so inadequate as to warrant disciplinary action, the Board shall take appropriate action to protect the public interest. With that being said, the committee agreed that notice of a single non-pass result in of itself, would not constitute Board action.

Ms. Bridgham asked Ms. Fast how the Board knows if there is an out of state firm with no physical location in this state, if they are peer reviewed. Ms. Fast replied that it is addressed on the firm registration application and the firm is required to send proof of their most recent peer review and it is then entered into the database. All firms registered with the Board are also required to send peer review reports to the Board office and staff also has access to the Facilitated State Board Access website (FSBA).

Mr. Pittioni explained that there was a full firm audit performed in 2011-12 where all firm records were reviewed and updated properly in the database. The database is now completely up-to-date with historical and current information.

Mr. Bingenheimer asked the committee what the rule refers to when it asks, "'does the firm perform attest *in this state*". How does the Board determine that? For example, a review client in another state, where the CPA was never physically present in the other state. Ms. Fast stated that the Board assumes that Oregon based firms will perform their services in Oregon. However, a firm where the principle place of business is in another state, if they perform work in Oregon or for Oregon clients, they must register, however, the individual performing the services does not need to obtain an Oregon license.

Mr. Bingenheimer then asked if an out of state company who has operations in the state of Oregon, and the business has an Oregon subsidiary, do they have to register? Ms. Bischoff stated that it really depends on what they are doing in Oregon. For instance if they are doing outside sales, that would be different than if they had a physical presence. They then talked about a manufacturing company where the headquarters were in another state but all the manufacturing facilities was done in Oregon. So if the public accounting firm is doing services for those businesses, then do they have to register?

Ms. Fast noted that the firm registration rules are located in Division 010 and that the Board only requires an out of state firm to register in Oregon if they are performing attest work. If the firm is only performing review or compilation work they do not need to register. The Board basically only has partial firm mobility at this time. The Laws and Rules Committee (LRC) will be reviewing firm registration requirements. This committee should refer possible rule amendments to that committee for discussion.

Ms. Bridgham shifted gears and asked the committee to discuss what the mission of the PROC should be and referenced a flow chart created some time ago where it indicates that the PROC should be reviewing pass with deficiencies, failed or unusual peer review reports. So the committee needs to review the results and then there are two courses of action the PROC can take, if the PROC determines the acceptance letter from the OSCP A outlining the remedial

action is adequate, then there is not action. However, if the PROC determines the remedial action is not adequate, it is forwarded to the Board for further review.

Ms. Bridgham asked the committee on what their thoughts were. Ms. Fronk believes that if the committee is reviewing a first non-compliance report, we may look at it to determine if the remedial action seems appropriate.

Ms. Fast asked Ms. Barker if the OSCPA is able to tell the Board when the RAB has referred a firm to the AICPA, which she replied she is not allowed to provide that information to the Board. So the Board would not know. If the Board notices that there has been consecutive non-pass reviews a letter can be sent to the firm asking if the firm has been referred. In addition, if the PROC reviews the consecutive reports and determines the issues are the same in both reviews, they may choose to refer to the Board for further action.

Ms. Bischoff is concerned about the time period between peer review results being 6 years. By the time it reaches the Board, it may be a completely different picture or situation or the firm may not be performing the same services any longer.

Ms. Bridgham asked Ms. Barker if the RAB has a list of qualified pre-issuance reviewers for those firms who are required to have a pre-issuance review as a consequence of their failed or pass with deficiency peer review. Ms. Barker indicated that they do and that once the pre-issuance review is completed it is then reviewed by the RAB. The peer review remains "open" until all items listed as remedial action are satisfied.

The pre-issuance reviewer may suggest the firm change pieces of their report, however, it is not ever looked at to ensure the changes were made to the report as noted. The follow-thru with a pre-issuance review is based on the honor system. Ms. Barker was asked if the Board receives any information on problems with a pre-issuance review and she replied they are not. Mr. Bingenheimer suggested the Board simply ask the firm for the information they want to see. Perhaps Board staff could also track when a pre-issuance is due and if the Board has not received any reports from the RAB ask the Board the status of their peer review.

The committee then discussed the possibility of asking a firm for additional information regarding a pre or post issuance review and what that would mean as far as the confidentiality aspect of peer review. Mr. Pittioni explained the non-disclosure provisions applicable to complaints to the committee. Ms. Bischoff advised that her preliminary view, without yet having conducted a full analysis, is that the non-disclosure provisions in ORS 673.170 applicable to complaints would not cover any work conducted by the PROC as a follow-up to any peer review results.

Mr. Bingenheimer does not want to second guess what the RAB deems appropriate remedial action, however, is interested in whether or not the firm completes the action required. Mr. Bingenheimer has concerns with the PROC reviewing additional material requested of the firm regarding their peer review or reports they have issued in a public forum or without a veil of confidentiality.

Mr. Pittioni explained that if the committee agrees to seek some sort of confidentiality carve out it would require a statutory change and would not be considered by the legislature until 2017.

The committee discussed whether any of the peer review documentation, including the peer review acceptance letters and/or completion letters should be made confidential. One option is to add this type of correspondence to the public records act of ORS 292 as an exemption and/or add to ORS 673 as the information not subject to public disclosure.

Mr. Pittioni would suggest bringing this to the LRC for review. Ms. Bridgham would like the committee's consensus on no longer giving firms the option to opt-out of having their results posted on the FSBA website. Ms. Barker asked the committee to consider, if going that route, to take out the requirement that firms need to provide the documents to the Board which would be duplicative.

The committee would like to move forward a public exemption piece for peer review and also move forward with the opt-out language. The burden should be on the firm to provide the information requested from the Board.

Ms. Fast discussed the rule that provides the Board may grant extensions to peer reviews. Ms. Barker stated that the OSCP/AICPA has their own guidelines on when an extension can be granted. This language may be there to let the Board know when an extension is granted to a firm. Ms. Bischoff believes the language should remain in rule.

### **C. Dropped Firms**

The Board reviewed the listing of dropped or terminated firms from peer review. Ms. Barker stated that if the firm is an AICPA member, this information is published and is part of public record. The OSCP does not notify the Board if a firm is dropped or terminated from the program.

A drop occurs before the review gets started, may not submit for to schedule or they do not choose a reviewer. A termination is once a review is in process and the firm does not comply. The list does not indicate dropped or terminated, staff must review the codes to figure that out.

The topic of what to do with the listing of consecutive pass with deficiency or failed peer review firms was brought back up to discuss. Ms. Bridgham would like to know what the committee thinks is appropriate to do or not to do. Mr. Bingenheimer stated that the qualitative nature of these comes into play on these reports. In terms of education, the committee may consider sending the firm a letter and include a copy of professional standards, the standard report they should be using. The letter would also state that it has come to the attention of the PROC that there were issues on a report submitted by the firm for peer review and that the committee will continue to monitor the peer review results.

Staff will draft a letter of concern for the committee to review at the next meeting.

## **NASBA Guidance on Failed Peer Reviews**

Ms. Bridgham asked members to read this document at the last meeting and be ready for discussion. She noted that she was not comfortable with the direction it is heading. The NASBA is trying to standardize what happens when a firm receives a certain type of peer review result. It appears that the motivator to this stance may be due to the movement of many states toward firm mobility. Ms. Bridgham asked members to review the NASBA paper and use it as a guide to form what Oregon would like their program to do. Members were asked to send any drafts to Ms. Fast and/or Mr. Pittioni.

### **D. Committee Participation at RAB Meetings**

Members were presented with the upcoming meeting dates for the RAB. Ms. Bridgham and Mr. Griffin agreed to attend the November 20, 2015 RAB meeting and Mr. Bingenheimer will attend the January 29, 2016 RAB meeting.

### **E. Firm Renewal / Initial Registration Application**

Committee members were give a copy of the firm renewal application and renewal forms. The only change made was adding the EIN number as requested at the last meeting. There were also questions on listing all CPAs working for the firm. It was mentioned that some of the larger firms could have a hard time on this piece. Maybe add as of the date of this submission the following is true, knowing that some things may change.

Other minor changes were noted and will changed on the registration applications.

### **F. RAB Independence Issues**

Ms. Barker stated anyone on the RAB that has a peer review that is being presented has to leave the room and are not part of the discussion. If the RAB needs clarification, they can ask the person question. Technical reviewers are also peer reviewers, so if the committee is discussion on of their reviews, they must also leave the room. Technical reviewers are members of the RAB but are non-voters.

## **5. Adjournment**

The members agreed to have another meeting on Monday, December 14, 2015 at 10:30 a.m.

The meeting adjourned at 2:16 p.m.