



OREGON BOARD OF ACCOUNTANCY

Peer Review Oversight Committee Minutes

May 2, 2016

*The Board of Accountancy protects the public by regulating the practice and performance of all services provided by licensed accountants.*

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**Committee Members:**

Terry Griffin, CPA, Chair  
Ryan Kramer, CPA, Vice Chair (via phone from 10:00 – 11:00)  
Candi Fronk, CPA, Board Liaison (via phone)  
Brad Bingenheimer, CPA  
Stu Morris, PA  
Phyllis Barker, OSCP Representative  
Larry Brown, CPA, Board Member

**Staff:**

Martin Pittioni, Executive Director  
Kimberly Fast, Licensing Manager  
Angel Legler, Licensing Specialist

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**1. Call Meeting to Order and Announce Recording**

Vice-Chair Kramer called the meeting to order at 10:04 a.m. as the Chair position was vacated prior to the meeting. Mr. Kramer announced the meeting was being recorded.

**2. Review and Approval of PROC Minutes of January 20, 2016**

Committee members did not raise any issues requiring edits of the presented minutes.

**COMMITTEE RECOMMENDATION:** Move by Mr. Griffin and carried to approve the minutes as presented.

**VOTE:** 5 ayes

**3. Leadership Elections**

Ms. Bridgham has resigned her membership with PROC and BOACC, leaving a vacancy open for Chair. Mr. Griffin nominated himself, with no other nominations.

**COMMITTEE RECOMMENDATION:** Moved by Mr. Kramer and carried to appoint and approve Mr. Griffin as Chair.

**VOTE:** 5 ayes

Vice-Chair Kramer handed the meeting over to Chair Griffin.

#### 4. Vacancy Recruitments

Mr. Pittioni updated the committee after consulting with the Board Chair that there is one recruitment appointment, Rob Moody of TKW, who will be joining the committee. There may still be one more vacancy for the committee to recruit in the near future; one member of the committee may be appointed to serve on the Board. Any recommendations are requested to be forwarded to Mr. Pittioni, Mr. Griffin, Ms. Fast, and Ms. Fronk, who serves as the Board liaison.

Mr. Morris asked questions regarding the responses on license renewals in regards to interest on serving on Board committees. Ms. Fast clarified that there is plenty of response, but the forms are not designed to specifically state what committees the licensees are interested in serving on. Mr. Pittioni suggested that we might consider updating the renewal forms to better reflect specific committee interest, rather than generic interest. Ms. Fronk spoke in regards to the fact that she has narrowed down the responses, in that there weren't very many who were interested that do attest work, which left around 75 licensees that are also located in the valley. She also believes recruiting a member from a small firm and large firm would be beneficial to the committee.

Ms. Barker spoke in regards to the criteria for practitioners who wish to service on the PROC committee. There is now an online modular program offered by AICPA to help licensees better understand the peer review process. Current Board rules require that two members of the PROC have current experience in accounting and auditing, quality control practice and obtain 16-hours of CPE related to conducting peer review inspections OAR 801-050-0030(2)(c). The committee recommends changing the language by removing the requirement that a Peer Review Committee member has to take the specific CPE, since the course is no longer offered. Ms. Fast stated the general requirement to serve on the committee, as listed under OAR 801-050-0030.

#### 5. Old Business

##### a. Updated Guidance Document for Non-Pass Peer Review Results

Committee members reviewed and edited in detail the second draft version of the Peer Review Guidance document that incorporated PROC's work at its January 2016 meeting. This work by the committee is captured in the third draft of the Peer Review Guidance document, which is attached hereto and incorporated by reference into these minutes.

##### b. Review of Draft Letters to Firms with Non-Pass Peer Review Results

Mr. Brown noted that the language in the draft letter, pertaining to non-disciplinary inquiry, is not defined, and therefore should be taken out. Mr. Pittioni discussed the inquiry process being done at the staff level, and how much capacity does the staff have to resolve the inquiries alone, versus auditor experience input when it brought forward as a case. How do we structure the process internally to deal with meaningful review of the information and responses we receive from firms? Mr. Bingenheimer mentioned that the PROC would be the ones to make the decision of an inquiry of a firm, and if that direction is given, the PROC would be providing the information on specific things to be looking for. It would be identified by the PROC if an inquiry needed to be opened. This committee monitors, the staff investigates, and if that changes it creates issues with confidentiality. The inquiry process is confidential and the statutes provide that layer of privacy, and if it is brought to the PROC, then the information becomes public. Ms.

Fast suggested that if the staff were to remove the firm name from the reports and responses, then it would maintain confidentiality for the PROC to review documents.

Ms. Barker asked that if there is a clear issue from a firm's report, and the staff is possibly considering an inquiry needs to be opened, would it need to come back to PROC for any reason? Mr. Pittioni responded that the issue is capacity at the staff level to handle the issues and understanding the meaning of it all. If staff is unable to understand the response received, then there is the possibility of contacting a professional for assistance in deciding if the issue warrants going forward to the BOACC. An inquiry through staff level can provide the necessary steps to take with an inquiry, whereas if it were brought to the PROC, there is limited resources due to confidentiality concerns.

Mr. Bingenheimer suggested some language changes in the first non-pass peer review draft letter, including, achieve a pass instead of receive any further non-pass results, change the language mentioned the Board to say the PROC instead, and may refer to the Board to open an inquiry. With regards to the consecutive fail draft letter, there is no recommended changes, but there should be a third letter for the consecutive pass with deficiencies.

#### **c. Update on LRC review of Division 050 amendments**

Mr. Pittioni discussed that at the last LRC meeting, Division 050 was not discussed because of priorities with other issues. There is no significant changes that the committee hasn't already reviewed. Under 801-050-0030(2)(c) change the language of obtaining 16 hours of CPE to only state qualified peer reviewers. The committee discussed the difficulties of having at least two qualified peer reviewers who do not serve on the RAB, so it should be considered to have at least one, instead of two.

Under document retention, currently firms must retain all documents relating to peer review for five years, and after further discussion by the committee, most firms within the state have a seven year retention period for documentation. Should we change the retention rate in our rules to at least 6 years so that it covers two peer review cycles? Since we have a more meaningful process for follow up with reports, this would give it a purpose for the change in retaining records longer than originally set forth in our rules.

#### **d. Review of Meeting with Jim Brackens, AICPA Peer Review**

Mr. Pittioni spoke about his meeting with Jim Brackens and Mr. Griffin, and went over the highlights he wrote down for the committee to view. Mr. Brown asked about the difference between remedial versus educational in regards to AICPA's view on peer review. It would appear that it could be both, but peer reviewers have always seen it as a remedial process. The firms still appreciate the process and view peer reviews as educational. Mr. Pittioni's summary of the meeting with Mr. Brackens is attached hereto and incorporated into these minutes by reference.

### **6. AICPA Paper: Proposed Evolution of Peer Review Administration/ AICPA Potential Invite to Board Meeting**

Ms. Barker spoke about the overview with the changes of peer review administration that are currently being proposed. The idea is to create 8-10 administrative entities, rather than the current 40 or more entities. Each would have dedicated staff who would oversee about 1,000 reviews per year. There will be very specific proposed staffing levels, such as dedicated staff for just peer review, and specific administrative staff. They are currently taking comments until August 1<sup>st</sup>, and the ORCPA is willing to volunteer to be considered for one of the 8-10 remaining entities. The proposal completion of this change would be January 2019, but it is hard to say where this process is going until the feedback has been submitted and reviewed by the current jurisdictions.

#### **7. Policy Discussion Regarding Timing of Reports that are Peer Reviewed**

The committee discussed a memorandum provided by Board investigator Ms. Gahagan describing an incident, without providing names, that raised a timeline question as to what engagements are subject to peer review. Ms. Barker clarified that if the peer review year is a calendar year then were not looking at report date, the year-end of engagement has to be within that calendar year. This is an area that firms are not aware, they understand 12 months, and that it is not report date but period covered date. What they do not understand is the firms must select industries, such as employee benefits, broker/dealer, etc. because they must be reviewed by the peer review program. An ERISA engagement is usually not completed within the peer review year, so then the firm would be required to do a subsequent report.

#### **8. Recommendations to Board on Future Role of PROC**

Mr. Pittioni explains that this is a general item, so beyond the specific discussions throughout the meeting, if there is additional information being requested to be sent to the Board it would need to be given to Ms. Fronk. There was discussion on the need for more peer reviewers within the committee, and the Board can be involved with helping find suitable candidates, but it should initially be fulfilled by the committee.

#### **9. Schedule Next Meeting**

The committee members determined they will meet again on October 3 and will determine schedule the following meeting(s) at a later time.

#### **10. Announcements and Adjournment**

Mr. Griffin adjourned the meeting at 1:05 p.m.

# Oregon Board of Accountancy – Peer Review Oversight Committee

## Draft #3 Peer Review Report Guidance (Draft date May 5, 2016)

Initial Draft by Jessie Bridgham, CPA, former PROC Chair

Second Draft with proposed edits from PROC Consideration on January 20, 2016

Third draft with edits from PROC Meeting on May 2, 2016 (draft edits not yet reviewed by PROC for accuracy)

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This is draft guidance for consideration on how to deal with Pass with Deficiencies and Fail Peer Review Reports for the Oregon Peer Review Oversight Committee's (PROC) review and comments. Once we achieve consensus at the PROC level, we will pass these recommendations to the Oregon Board of Accountancy for its review, consideration, comment, and approval. We have read NASBA's report but as a committee, we have a different point of view.

### *Introductory comments by staff:*

*During the initial consideration of the draft by the PROC on January 20, 2016, one core theme that emerged as potential consensus for the PROC is to not duplicate the work of the RAB, and instead use PROC more generally to advise the firms that PROC is monitoring and encouraging compliance with the RAB recommendations.*

*A second related theme that emerged from the PROC discussion in January is that the PROC would thus not take on a monitoring but not an investigative role; instead any cases where there appeared to be lack of compliance with RAB recommendations would be referred to the Board for opening of an inquiry.*

*This documents reflects the attempt by staff to capture all edits drafted by PROC at its January 29 and May 2, 2016 meetings, in accordance with the above PROC-recommended policy direction. This draft has not yet been reviewed by PROC but is believed by staff to be consistent with the work done at the PROC.*

## **1) First Review Other Than A Pass**

### **• Pass with Deficiencies**

The Peer Review Oversight Committee (PROC) or its equivalent as designated by the Board should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter would be sent to the firm, notifying the firm that the PROC has reviewed the report, the firm's plan of action based on the RAB's recommendations. If it is deemed that the firm is uncooperative, the PROC would send all information gathered to the compliance officer for the Board of Accountancy (BOA) to open an inquiry.

### **• Fail**

The Peer Review Oversight Committee (PROC) or its equivalent as designated by the Board should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter will be sent to the firm, notifying the firm that the PROC has reviewed the report, the firm's plan of action, and will review the subsequent Peer Review Report. The PROC may also determine the deficiencies are so significant, the PROC may send the information directly to the BOA for further inquiry. If it is deemed the firm is uncooperative, the PROC would send all information gathered to the compliance officer for the Board of Accountancy (BOA) to open an inquiry.

## **2) Consecutive Non-Pass Review after a Review with Pass with Deficiencies**

- **Pass with Deficiencies**

If the firm has received a consecutive Pass with Deficiencies report, the PROC will review this report, comparing it to the first report, looking for repeat items. If there are significant repeat items, the PROC will consider the RAB's Plan of Action request for actions, the firm's compliance with timelines within the RAB's Plan of Action, the firm's documentation that the Plan of Action was actually put in place.

Firms with consecutive Pass with Deficiencies reports will be closely monitored by the PROC. If the firm is deemed uncooperative with the RAB recommendations, the PROC will refer the firm to the BOA for opening of an inquiry

- **Fail**

When a firm receives a failed Peer Review report after a Pass with Deficiencies, the reasons for both reports will be identified. If the Pass with Deficiencies report contains the same items as the Fail report, the PROC may refer the firm to the BOA's investigator.

If the items noted are different in the two reports, the PROC will consider the RAB's Plan of Action for the firm, the firm's compliance with timelines within the RAB's Plan of Action, the firm's documentation that the Plan of Action was actually put in place. The PROC may refer the matter to the Board for purposes of opening an inquiry to the firm.

If it is deemed the firm is uncooperative, the PROC would send all information gathered to the compliance officer for the Board of Accountancy (BOA) to open an inquiry.

### 3) Consecutive Review after a Review with Fail

- **Pass with Deficiencies**

If the firm receives a Pass with Deficiencies after a Fail Peer Review report, the PROC will review the items noted in the report as to the circumstances for the Pass with Deficiencies. Are they the same items that caused the firm to fail the prior peer review? If so, why hasn't the deficiency been corrected? Are there extenuating circumstances? The PROC will review the Plan of Action approved by the RAB. The PROC, in its capacity, will monitor the firm for compliance with the agreed to RAB Plan of Action and any other items that are deemed relevant under the circumstances. The PROC may refer the matter to the Board for purposes of opening an inquiry to the firm.

If it is deemed the firm is uncooperative, the PROC would send all information gathered to the compliance officer for the Board of Accountancy (BOA) to open an inquiry.

- **Fail**

If a firm receives consecutive Fail Peer Reports, the PROC will review the items that lead to the consecutive Fail report and refer the matter to the Board for purposes of opening an inquiry to the firm.

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