

**OREGON BOARD OF ACCOUNTANCY
2006 SPRING WORK SESSION
MINUTES**

Sunday, May 21, 2006

Mt. Bachelor Village Resort

Bend, Oregon

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

Board Members

James Gaffney, CPA, *Chair*
T. Lynn Klimowicz, CPA, *Vice Chair*
Kent Bailey, CPA, *Treasurer*
Anastasia Meisner, Esq., *Public Member*
Jens Andersen, CPA
Ray Johnson, CPA
Stuart Morris, PA

Staff Members

Carol Rives, *Administrator*
Noela Kitterman, *Investigator*
Kimberly Bennett, *Cmte. Coordinator*
Joyce Everts, *Cmte. Coordinator*
Heather Shepherd, *Cmte. Coordinator*

Guests

Johanna Matanich, AAG
Karey Schoenfeld, CPA, OSCP
Gerald Burns, CPA
Jim Aldrich, OAIA

1. CALL TO ORDER

Vice Chair T. Lynn Klimowicz called the meeting to order at 8:30 a.m., appointed Anastasia Meisner as Process Observer and introduced guests.

Work Session Topics for Consideration

The Board reviewed the list of 05-07 Work Session topics and noted topics highlighted for discussion in today's work session.

2. Professional Issues

A. Legislative Concepts

1. PA Board Position

Approved by Board at February 6, 2006 meeting. The Governor's office has accepted this legislative concept.

2. Substantial Equivalency

Approved by Board at February 6, 2006 meeting. The Governor's office has accepted this legislative concept.

3. Firm Ownership Requirements

Approved by Board at February 6, 2006 meeting. The Governor's office has accepted this legislative concept.

4. Non-disclosure Agreements

This concept is filed as a placeholder, and has not been accepted by the Governor's office at this time. It is essential for public protection for the Board to have access to evidence in disputed matters. The Board wants to assure that clients are not prevented from filing a complaint and also that a licensee is not in violation for reasons that the Board did not intend. There was discussion about including the language under definitions. The administrator will file this concept to meet the filing deadline, and work with legislative counsel on language..

B. Enhancing Ethics Requirement

1. Joint Committee Meeting

The Code of Professional Conduct and Continuing Education Committees met as a joint committee to review current Oregon Ethics requirements. The joint committee agreed that Ethics development may be addressed for applicants prior to licensure and also as continuing professional education requirements.

Board Discussion: *The recommendation for an eight hour program before completing the current AICPA Ethics exam would help to ensure that Oregon candidates have knowledge of Oregon statutes and rules. The Board suggested that an RFI may be helpful to determine whether a pre-licensure requirement could be administered through the Board office.*

The current continuing education rule should be broader and increased to eight hours. The committee did not discuss a time interval. The Board agrees that any changes to the current rules should include a principles based program that addresses ethical awareness, ethical reasoning, ethical analysis, and professional responsibility to the public. The Board reviewed the table of contents of a California program titled Professional Ethics Review.

The current rule should also be expanded for licensees who practice in private companies, education or government.

C. One-year Experience Requirement

1. NASBA 2004-05 Report

The Board rules state that Oregon applicants must have at least one year experience and achieve competency in seven core areas. The question was raised whether the rule is sufficiently clear for an applicant to understand that both requirements must be met, and that in some instances it may take more than one year to achieve the core competencies. The Board suggested drafting an FAQ for clarification.

D. Out-of-State Licensing Requirements

1. Proposed Revisions to California Practice Privileges

Proposed revisions allow individuals to prepare a tax return for a non-resident so long as they do not enter California.

2. Worksheet re: License Requirements in Oregon

ORS 673.320 governs public accounting services that require an Oregon license and also provides a limited exemption to the licensing requirement. Various situations that are unclear to licensees in other states were provided for Board discussion.

Board Discussion: *After extended discussion of the situations presented, the Board determined that each must be considered under the current licensing requirements in ORS 673, and then determine whether rules or FAQ can be developed to clarify the requirement. Does the Board have jurisdiction when an attest function is performed for an Oregon client, but all services are conducted outside the state of Oregon? This is especially true if the final audit report is submitted by electronic transfer. Advertising in the State of Oregon without performing any type of service is not considered a violation of Oregon Statutes or Rules. However if an individual or firm accepts an engagement, they need to license in Oregon. This topic should be included on the October agenda for further discussion.*

E. CPCAF Alert 93

Provided as information

F. Colorado Board Letter to FASB

Deferred to October meeting

- G. HB 2995 (2005) Refund Anticipation Loans** Provided as information
Board Discussion: This Bill was passed during the 2005 legislative session and exempts Oregon CPAs from the definition of "facilitator" which removes the CPA from regulatory oversight.

H. AICPA proposed revisions to PR program

The Board reviewed a letter from Susan Coffey, CPA, Senior VP, Member Quality and State Regulations of AICPA.

Andersen suggested that the Board respond to the letter stating that Oregon has developed policies based on current AICPA terminology. If AICPA wants to change the language, the Oregon BOA will be required to revise administrative rules. Rule revisions require approximately six months to complete, and frequent changes can be confusing to licensees who are trying to comply with our requirements. Express appreciation for AICPA continued interest in increasing transparency in the peer review reporting process.

3. Staff and Board Reports

A. Licensing and Exam

1. Exam Security: Biometric Identity Mgmt

Information was provided describing a new security process adopted by Thompson Prometric Testing Centers. The new technology improves candidate identity validation, increases security during check in and breaks, and provides additional protection of property. Candidates will use a fingerprint to begin and end breaks, creating a system generated time stamp.

2. 2005 Firm Registration Renewal Report

The Board reviewed statistics regarding firm renewals.

3. 2005 CPE Audit Report

The Board reviewed current CPE audit statistics.

4. 2005 Report, Licensees Who Accept Commissions

The Board reviewed statistics of licensees who accept commissions and/referral fees.

5. 2005-06 (FY-1) Report of Certificates Issued

The Board reviewed statistics regarding the number of licenses issued each month.

6. 2005 Customer Survey Report

The Board reviewed statistics from a survey that was sent to licensees regarding the renewal process in 2005.

7. Exam Scoring Error, July/August 2005 Window

There was a scoring error while processing grades from the July / August 2005 testing window. AICPA submitted information outlining the errors and corrective action taken.

B. Peer Review

1. Audit of Firms Claiming PR Exemption

Both the Peer Review Oversight Committee and the Peer Review Taskforce discussed the need to audit firms claiming exemption from peer review on their firm renewal application. The Board considered ways to conduct such an audit. One idea is to select a sample of the firms that indicate that they are not subject to peer review and ask the

Division of Audits to confirm whether or not these firms have conducted municipal audits. The investigator could review billings from firms that indicate claim an exemption from peer review. There does not appear to be a method of audit that would be both reliable and practical.

2. Audit Letter for Peer Review Reporting Requirement

The Board reviewed an audit letter to be directed to firms in July (Attachment A) and made the following changes:

The last sentence in paragraph one: *The underlying objective of peer review transparency is to assure compliance of licensees who perform attest and compilation services.*

The last sentence in paragraph two: *To that end the Board adopted administrative rules that require registered firms to submit copies of peer review reports.*

The last sentence in paragraph four: *The sample list only includes firms that did not submit a copy of a peer review report.*

Board staff will also include a notice about the firm peer review audit in BOA's June, 2006 Newsletter. Andersen suggested that OSCP also include information in their newsletter or send the information to licensees via e-mail. Schoenfeld will propose the idea to OSCP.

3. Procedure for Review of PCAOB Reports

The Board receives PCAOB reports and members of the Peer Review Oversight Committee (PROC) are reviewing the reports. The Committee is developing a review process checklist for Committee members to follow in their review (Attachment B). Rives suggested that use the PCAOB and AICPA peer review reports could be used as case studies or educational tools. The Board concurred.

The Committee would like to be assured that the local Oregon office of a national firm is receiving peer review results. If, for instance, there is a problem in the peer review report, it will be helpful, as a learning tool, for the local office to be apprised. Burns pointed out that when a firm responds to a peer review report and indicates that the firm has "corrected the problems", is that statement really true or does it mean that the firm will take corrective action in the future. The disclosures in the reports could be beneficial to all the firm branch offices. Our consideration is how to get the local firms in the loop.

The Board also concurred that they want to review the PCAOB peer review reports. The reports can be used as learning tools for the Board and for the local offices of the national firms.

It was suggested that one a member of the PROC might attend the NASBA Regional Conference (by phone) to listen to the discussion regarding peer review.

C. CPE Audit Procedures Discussion

1. Random Selection of Licensees in Previous Renewals

Should a licensee whose name was chosen as part of the current CPE audit and who was included in the previous audit, which was complete upon first review, be removed and an additional licensee be chosen?

Board Discussion: *No, every active licensee has the same chance of being pulled for a random audit.*

2. Licensees Who Had Problems in Previous Renewals

Should a licensee whose name was chosen as part of the current CPE audit and

who was included in the previous audit, which was not complete upon first review, be included in the current CPE audit?

Board Discussion: *No, every active licensee has the same chance of being pulled for a random audit.*

D. Enforcement

The Board reviewed the Complaint History report (Attachment C). Kitterman commented that there are more complaints dealing with audit and financial procedures and projected that the complaint numbers for 2006 will be higher.

E. Administrative

1. Performance Measures

The Board staff is currently working on developing new performance measures for presentation to the Joint Legislative Audit Committee in July, as required by a budget note.

2. Review of Delegated Authority

a. Delegated Authority Inquiry

An attorney representing a licensee argued that a default order signed by the Administrator was invalid because there was no statutory or rule authorizing the administrator to sign default orders. The Board was satisfied that delegated authority was properly recorded and has been in place since 1985. Perhaps the language in the Notice should state that the administrator has authority to sign default orders.

3. Public Meetings Policy

a. Board Policy

The definition and requirement for a quorum will be added to the committee bylaws.

4. NASBA CPE Tracking Program

The Board would like to invite Yordanos Dumez of NASBA to present the CPE Tracking program at the August Board meeting by phone conference.

5. Database Upgrade

The Board will upgrade the database to allow modifications that will provide more information relating to enforcement actions.

6. On-line Licensing

This goal is in progress.

4. Administrative Rule Development

A. Improper Use of Designation

This rule needs to be considered in light of the *Ibanez* US Supreme Court decision, ruling that an individual who has a current active license in good standing issued by any state has the right to display the designation whether it is used in connection with a public accounting firm or another business. An individual may hold an active CPA license even though he or she is not in public accounting. The Board has been guided in its interpretation of this rule by the potential to mislead the public. Financial planning or other services that are typically provided by licensees may cause a member of the public to believe that the business is licensed to perform public accounting services. The second largest impact of financial planning is tax, and when tax advice is involved the individual is practicing public accounting

and the firm would have to be registered as a public accounting firm. The focus and restriction of the rule is on false and misleading use of the designation.

B. False and Misleading Firm Names

This rule addresses the continuation of the name of a past partner, etc in the firm name when the partner is no longer at the firm. What if a licensee whose name appears in the firm name is lapsed. The heart of the rule is whether a firm name is misleading, and if the lapsed partner is not in public accounting in the community, there is no risk of misleading the public. Many licensees who retire from active practice choose to have a lapsed license. The Board noted that often times, the original people whose names appear in the Firm name, are deceased and it is expensive to change a firm name. Each situation must be reviewed based on whether the name is misleading.

C. Assumed Business Names

May a firm operate a branch office using an assumed name? The principals of assumed business names are public record with the Secretary of State. The Board noted that use of assumed business names is common business practice and that the public has some responsibility to search public records if there are concerns or problems with a business office.

D. 51% Firm Ownership Requirement

See page one item 2.A.3.

E. Municipal Audit Rule

The current rules allow any member who is on the municipal roster to bid for municipal contracts in both the individual and firm name. The word "member" is defined as a partner, shareholder, member or employee of the firm.

Board Discussion: *The only individual who should be allowed to bid on a municipal contract is a partner, shareholder, or owner. Most employees do not have the authority to contract on behalf of a firm to provide professional services. The word "or" should be placed between (4)(a) and (b) in the revised rule.*

F. Supervisor Licensee Requirements

1. OAR 801-010-0065(2)

Board members reviewed the proposed rule change and modified the change to include "applicant's direct supervisor shall" instead of "applicant's employer shall".

G. Substantial Equivalency

1. Proposed Policy Setting Eligibility Standards

a. Board members reviewed and approved Board procedures to review and determine the eligibility of individuals applying for substantial equivalency from a non-substantially equivalent state.

H. Ethics CPE Requirement

Discussion under 2.B.1.

5. Process Observer Report

The meeting went really well. The Board and staff did a good job of prioritizing the items.

6. Adjournment The meeting was adjourned at 5:10 p.m.