OREGON BOARD OF ACCOUNTANCY
January 21, 2005

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

Board Members Present
Stuart Morris, PA, *Chair*
Lynn Klimowicz, CPA, *Vice-Chair*
Kent Bailey, CPA *Secretary-Treasurer*
Jens Andersen, CPA
Ray Johnson, CPA
Anastasia Meisner, *Public Member*

Excused
James Gaffney, CPA

Staff Members
Carol Rives, *Administrator*
Noela Kitterman, *Investigator*
Joyce Everts, *Committee Coordinator*

Guests Attending
Christine Chute, Asst. Attorney General
Don Loster, CPA (California and Arizona) phone
Sandra Suran, CPA
Neal West, CPA
John Barker, Attorney for Moss Adams
Mike Rogoway, The Oregonian

1. CALL TO ORDER

The meeting was called to order at 1:00 P.M.

A. Appoint Process Observer

Ray Johnson was appointed process observer.

B. Introduction of Guests

2. REPORT OF CHAIR

A. None

3. NEW BUSINESS

A. Investigation Report, Moss Adams

Don Loster, CPA (California and Arizona) joined the meeting by phone. He presented a summary of his investigation report, and responded to questions from the Board. The report provided background information about Capital Consultants Inc. (CCI) and Wilshire Financial (Wilshire) -- companies that were involved in or affected by the appraisal and audit services performed by Moss Adams. Loster described apparent violations by CCI of the prudent man standard under ERISA, and deficiencies in quarterly appraisals that were performed by a division of Moss Adams under the terms of a loan agreement between CCI and Wilshire. Loster also described deficiencies in audit planning and testing performed by Moss Adams for the CCI audit in 1997 and 1998 that, if recognized, should have resulted in an adverse audit opinion.

Loster noted that the audit involved a complicated relationship of parties and revenues, and that he did not find sufficient evidence that Moss Adams performed a thorough audit of revenues or that Moss Adams used standard procedures relating to fair value reporting. Loster stated that if the values resulting from the appraisals were based on face value, and market value was less, the audit should have reflected the lower value. Loster did not review any other audit work by Moss Adams and did not consider the question whether this was a single audit failure or an indication of systemic failure. Loster's report concludes that the firm failed for this one particular audit. Loster disconnected from the phone conference at 2:40 P.M.

Board Discussion: James Gaffney, a Moss Adams employee and Board member, has not been present during any conversations regarding this investigation. The Board does not believe it would be an appropriate use of limited Board resources to expand the investigation to include individual licensees or to review other audits performed over the past five (5) years. In favor of Moss Adams, there is no evidence to support a systemic problem. The Board has not received any complaints or allegations regarding other audit work by Moss Adams, and the firm has been continuously enrolled in a peer review program. Legal counsel has reviewed Moss Adams' most recent Peer Review Reports. Moss Adams paid a large settlement to resolve civil litigation that was filed. Recently Moss Adams was commended by NASBA for implementation of an internal firm wide Ethics review program.

The Loster report provides a thorough discussion of audit deficiencies with references to the applicable professional standards and notes several indicators that Moss Adams should have considered in performing the audit. Loster notes deficiencies in the appraisals performed by Moss Adams, and points out information that was available as a result of the appraisal engagement that should have been considered when Moss performed the 1997 and 1998 CCI audits. The report raises concerns that the methods used for revenue recognition and risk assessment were inadequate.

John Barker, attorney for Moss Adams, stated that he came to the Board meeting in hope of settling this matter. Chute summarized the terms of a proposed settlement agreement that she and Barker have discussed. The proposed terms include payment of a $25,000 civil penalty or contribution to something designated by the Board; a requirement that specific personnel in the Portland office attend two (2) hours of CPE in audit and attest within the year; agreement that Moss Adams will review its corporate culture; and that the public record of this investigation will include the original Loster report, Moss Adams rebuttal and Loster's response to the rebuttal.

The Board observed that there is no evidence of gross or continuing negligence by Moss Adams, and that a consent agreement can be drafted to provide public protection. The maximum authorized civil penalty during the time of the 1997 and 1998 audits was $1,000 per violation. The Board considered the proposed settlement terms with the following revisions: that 8 additional hours of continuing education in revenue recognition and/or risk assessment be required for the two licensees who were involved with this audit and who are still employed by Moss Adams, that the civil penalty should be no less than $30,000. The penalty must be related to a specific violation, rather than a lump sum with no violation attached, and the penalty must be related to audit deficiencies rather than deficiencies found in the appraisals that were performed. The Loster report is a public document and the Board believes they need to address the Board's concerns regarding revenue recognition and audit planning. The Board requested to review Moss Adams' recent Peer Review Reports.

BOARD ACTION: Moved by Klimowicz and carried to direct legal counsel to draft a settlement agreement that includes a $30,000 civil penalty, requirement that John R. Hancock and Sonia L. Kingston complete eight (8) hours of CPE in revenue recognition and/or risk assessment in addition to the 80 hours required for license renewal, and append the Moss

Adams rebuttal and Loster response to the original Loster report as the public record of this investigation. Staff will obtain copies of the peer review reports from Moss Adams.
Vote: 6 ayes, 1 excused (Gaffney)

4. REPORT OF ADMINISTRATOR

A. Minutes, Peer Review Task Force, January 10, 2005

Alan Steiger, former Board Chair, and Sandra Suran, CPA both expressed concerns to the Board that the legislative concept to request confidentiality of peer review reports is contrary to the effort to achieve full transparency in the peer review system. The Board reviewed an e-mail message from Steiger and Suran appeared in person to describe her concerns to the Board. Suran was a Board member when the peer review requirement was implemented in Oregon in 1981. She noted that initially the peer review requirement was viewed as an educational tool with the understanding that reports would remain confidential between the firm and the peer review program. This was intended to provide a period of time for firms to understand both the level of quality required and their responsibility to the public when performing attest services. However Suran said that the Board also determined that it would be appropriate to revisit the peer review requirements after two or three peer review cycles to determine how best to achieve greater public protection. Suran and Steiger both expressed concern that the legislative concept to maintain confidentiality of peer review reports is not in line with national efforts to increase transparency in the peer review process. The report submitted by the task force does not address that issue because legislative concepts are determined by the Board. Rives stated that House Bill 2195 has not yet been heard by a legislative committee.

Board Discussion: The legislative concept was first considered two years ago and was viewed as a safeguard because the Board was unsure if the professional organization would support full transparency. There was also a strong feeling that the concept would not be approved in light of the policy in Oregon to have full public access to public records. In the months since the concept was submitted, the trend toward full transparency has found outspoken support by the AICPA. NASBA has always supported the efforts of state boards to achieve full transparency. The Board agrees with the positions presented by Steiger and Suran and questioned whether it was possible to withdraw that section of HB 2195. Chute stated that ORS 673 provides authority for the Board to request and review Peer Reviews.

BOARD ACTION: Moved by Klimowicz and carried to direct the Administrator to take the necessary steps to withdraw the section of House Bill 2195 that relates to confidentiality of peer review reports.
Vote: 6 ayes, 1 excused (Gaffney)

B. Gary Gorman Request

The Board reviewed a letter from Frank T. Mussell, Attorney for Gary R. Gorman, requesting the Board to correct the information on the licensee database that states that Gary Gorman is revoked. Mussell provided a detailed review of the events in 1995 when Gorman resigned his license, but failed to sign a consent agreement requested by the Board. Gorman did not renew his license at the next renewal period, and the Board did not formally accept his resignation, therefore, Mussell asserts, the Gorman permit lapsed June 30, 1995. The website currently indicates that Gorman’s license to practice public accountancy has been revoked.

Board Discussion: A consent agreement was signed by K. DeLorenzo, but was never signed by Mr. Gorman. In the absence of the agreement, his failure to renew caused his license to lapse. There was no order or consent agreement that revoked the license and the database should be corrected to reflect the lapsed status of Mr. Gorman's permit

BOARD ACTION: Moved by Klimowicz and approved to direct staff to change the database to reflect that the permit held by Gary Gorman lapsed June 30, 1995.
Vote: 6 ayes, 1 excused (Gaffney)

C. Jim Pike Co., Response Letter

Chair Morris, deferred this matter for consideration at the February 14 board meeting.

5. LEGAL

A. Report of Legal Items

1. Proposed Orders After Hearing

a. Robert Wynhausen

Board Discussion: The order proposed by the Administrative Law Judge provides for a civil penalty of $100 for an address change violation.

BOARD ACTION: Moved by Klimowicz and carried to adopt the ALJ proposed order.
Vote: 6 ayes, 1 excused (Gaffney)

2. Proposed Consent Orders

a. Donald Sherry

Board Discussion: Donald Sherry submitted a proposed consent order in which he agrees to stop using the advertising material that the Board questioned, without admission of any violation, and consents to attend 4 hours of continuing professional education in ethics. Approval of the consent order would not be consistent with similar cases in which the Board has assessed a penalty.

BOARD ACTION: Moved by Bailey and carried to reject the proposed consent order.
Vote: 6 ayes, 1 excused (Gaffney).

6. PROCESS OBSERVER REPORT

Ray Johnson stated that the issues of the meeting were well presented and the discussion was good. He was pleased with the development of the discussion from ground zero.

7. NEXT MEETING Date: February 14, 2005
Location: Phone conference
Dial-in number: 1-877-326-2337
Conference ID: 5559510

8. ADJOURNED

There being no further business, the meeting adjourned at 4:45.