



NOTICE OF PUBLIC MEETING

OREGON BOARD OF ACCOUNTANCY 3218 Pringle Rd SE, Salem, OR 97302

PUBLIC WORK SESSION MEETING MINUTES

Sunday, October 19, 2014, 9:00 a.m.

Oregon State University
Austin Hall 4th Floor – Room 442

****WORKING LUNCH ****

Present:

Jessie Bridgham, CPA, Chair
Larry Brown, CPA, Vice-Chair
Scott Wright, CPA, Treasurer
Roger Graham, Public Member
John Lauseng, CPA

Al Crackenberg, PA
Candi Fronk, CPA
Martin Pittioni, Executive Director
Kimberly Fast, Licensing Manager
Susan Bischoff, Legal Counsel

Guests:

Mark Miedema, DAS Budget Analyst
Phyllis Barker, OSCPA
Harry Bose, CPA, OSCPA

1. **CALL TO ORDER/ANNOUNCE RECORDING¹/REVIEW AGENDA**

Vice-Chair Brown called the meeting to order at 9:00 a.m. and announced the meeting was being recorded.

2. **ADMINISTRATIVE RULES**

Mr. Lauseng did an overview of the activities of the Laws and Rules Task Force (LRTF) over the past year. The LRTF proposed changes to the statute which resulted in the Legislative Concept submitted for the upcoming legislative session. The group also has identified rule amendments that are most important to have in place and will be necessary to have a phase 2 of amendments. The Board is looking into forming a formal committee to deal with rule changes.

A. Division 001

Mr. Pittioni advised the Board that the amendments to Division 001 did not run through the LRTF. The changes are not policy level changes, but mostly technical issues recommended by Ms. Bischoff. The rule is being proposed to adopt the Attorney Generals Uniform Model Rules of Procedure with an effective date of January 1, 2015 which gives specificity. In addition, the rule currently provides language for the Hearing Panel Rules, the Board counsel advised that this section is no longer necessary due to the change mentioned above.

Members were not opposed to any of the proposed amendments.

¹ If arrangements can be made for you to participate in all or part of the meetings by phone, you are free to do so. There is no prohibition about participating by teleconference. If there is sufficient advance notice, you may appear by phone for all or part of the meetings. One or more members may be participating by teleconference.

B. Division 010

The proposed changes to Division 010 is substantially the educational requirements necessary to sit for the Uniform CPA exam and initial licensing requirement enhancements.

The Board agreed that there will be no rule changes to fees during this rulemaking process.

The amendments propose to allow only upper division accounting courses to meet the 24-hour semester (36-quarter) hour accounting requirement. The rule also proposes to limit internship credits to 4 semester or 6 quarter hours. This proposal puts the Board in line with what most states already require and also what is provided in the Uniform Accountancy Act (UAA).

The LRTF also proposed changing the requirements for supervisor licensees. The rules currently require that a supervisor licensee hold an active license for five consecutive years prior to the period of supervision and during the period of supervision. This has caused some supervisor licensees to be disqualified from signing off on an applicant when they had a short period of lapse. The LRTF and Board believe that is too restrictive. The LRTF proposed the removal of the word "consecutive", requiring only that a supervisor licensee be licensed for a period of 5 years prior to the supervision and during the period of supervision.

Board members were uncomfortable with the fact that the 5 years could have been 10 years prior and therefore recommended the language be changed to 5 years active status within the past 7 years. Staff will update the language in Division 010.

The experience rules have been revised, however, there is still more work to be done. The competencies for each path, audit/attest, tax, government and industry were all written with audit/attest overtones. Mr. Graham has been working to relate those competencies to the other paths. He has drafted a tax experience form that applicants have been receiving for the past year, which breaks down the attest competencies into tasks and experiences an applicant will have while working in the tax department. It is the goal to do this for each competency, however, it is not certain if that level of detail should be captured in rule or the forms for applicants.

The possibilities of how an applicant will gain the experience in industry is endless. It is difficult to imagine and capture all possibilities.

If working at a CPA firm, advisory services are acceptable, however, if not working in public accounting, advisory services will not qualify for the experience.

Competencies as written, and guidance for those in the forms.

Attest applicants will be required to submit written documentation outlining the duties performed and examples on how the competencies were met.

Leave criteria in one place and then for each path provide high level interpretation of those in rule and more detail on the interpretation on the forms that applicants receive. The difficulty is how to write the high level interpretation for industry and government. Mr. Lauseng suggests having others help Mr. Graham to write those. Do we agree on the policy decision of this approach?

Mr. Brown likes the approach. He recommends that all forms be dated to ensure that applicants are using the most current version.

The proposed rule amendments to the tax experience Level of detail generally drafted, like tax, is that the high level interpretation. What is on the tax forms is exactly what is in rule. Is there a higher level. For industry, try to develop criteria for the form. Could leave generic for industry and government and then

finalized in phase 2 of rulemaking. Will have language considerations for the Qualifications committee to review at the November 14 meeting.

Forms are high level, tax competencies, so is that the level you want in rule. Provide the same level of interpretation of tax to the industry and government. Ms. Bischoff is happy to help with this.

Government portion can be tagged to the audit portion of the rules. Most of applicants that go through government path is Secretary of State Audit's division. They do not have a peer review, however, they are convinced that they are peer reviewed and it was decided to put them through the audit path.

If you come through government, then you reference the audit/attest standards. If you department of revenue, tax standards, city employee, industry standards.

What we will allow, the experience must be any CPA experience including page 10 (e) financial statement audits.

Take the advisory services out of the industry and government. Consulting portion on the UAA experience standards, what about replace this language with the UAA but consulting has to be contained within the context of the practice of public accountancy. Management advisory directly related to accounting practice. Move to UAA language with the understanding that it will be tweaked to put up boundaries.

There is a policy piece related to part-time hours and the hours connected to that. It is recommended that part-time be a total of 2000 hours rather than requiring at least 20-hours per week.

Mr. Lauseng addressed the change to plural firm name rules. The rule currently indicates that the use of the term "company" is used, the name is considered to be plural and therefore requires at least two CPAs employed at the firm.

Board staff will circulate the changes to Board members with both the suggested changes and also the clean version

C. Division 030 including Ethics Codification

Mr. Lauseng most the changes are addressing the ethics codification changes. Mr. Brown asked if there was any contentious areas the Laws and Rules Task Force struggled with; Mr. Lauseng stated there were none.

Mr. Pittioni addressed the change to the responsibility for the preparation of financial statements in conformity with GAAP, and the elimination of referencing inactive and lapsed licensees. Ms. Fronk stated that she believes inactive licensees should remain in the rule. There are inactive licensees working in industry that would prepare a financial statement conforming GAAP, although they are not opining on those. The Board members agree that inactive should remain in the rule.

Other changes include modifying the language regarding departures from established accounting principles to generally accepted accounting principles which is language that is currently used. Adding the work compilation in relation to the retention of assurance and working papers and update the retention period from 5 years to the current rule used by the PCAOB of 7 years.

It has been proposed that the section addressing firm names has been moved to Division 010 as noted earlier. This is for consistency purposes.

New language is being proposed for those licensees who may aid and abet another licensee when violating rules. Ms. Bischoff noted that she will work on this language and change the language to not use the term aid and abet as it relates to criminal conduct.

Board members agreed to open up Division 030 for rule amendments.

D. International Standards

Mr. Lauseng explained that the majority of the proposed changes are to incorporate International Standards in the rules. He reviewed all Divisions and suggested edits to Division 005, Division 010 and Division 030.

Mr. Lauseng noted that Mr. Steve McConnel, member of the LRTF, has spent a lot of time comparing our laws and rules to the UAA and made the suggestion to adopt UAA Model rule language and then refer back to the statute where the Board has already defined GAAS and GAAP.

The Board agreed to keep this suggestion on the table and address it again after the legislative concept has passed through the legislature.

E. Preview of Phase 2 for Rulemaking

Would like to establish a committee that will continually look at rules and propose changes to the Board. For instance, phase 1 of rulemaking did not address Divisions 040 and 050. There is still work that needs to be considered in those divisions. In addition, the Board has shown interest in moving to a birth month renewal process. If that is the case, there are items that will need to be addressed in rule that this ongoing committee can consider.

F. Minutes from October 7, 2014 LRTF

For information only.

G. Rulemaking Schedule Proposal

Mr. Lauseng outlined the schedule for the rulemaking process. The proposal includes an Administrative Rule Hearing on December 11, 2014 at the Board office. The Board will consider the written and/or oral comments at their meeting on December 15, 2014.

The Board can make any final edits necessary at that meeting and then vote on the adoption of proposed rules. After approval, Board staff will file the rules with the Secretary of State office for an effective date of January 1, 2015.

H. Consideration of Motion to open Rulemaking

5. REPORT OF TREASURER / FEE INCREASE SCENARIOS / POLICY DISCUSSION

Guest: Mark Miedema, DAS Budget Analyst arrived at 12:30 p.m.

This item was taken out of order and was considered after the rulemaking discussion.

Mr. Wright reported that the Board had received the 2013-15 cash flow statement. The projected cash balance is \$921,553. We started the biennium at 1.4 million so we are seeing about a \$500,000 burn down. Specifically, the revenue at this point is projected at \$1,740,915 and the Legislatively Approved Budget (LAB) had it projected at \$2,069,309, which is considerably higher.

Expenses, supplies and services, the LAB has been updated with the \$200,000 we got from the E-Board. You will please note however, we are still anticipating higher than expected attorney general fees and contractor fees.

The \$500,000 burn down led to considerations of what the future holds and then to fees and revenues. The main resource of funding is from our licensees and firms, both of which have their fees set in statute. We have received from DAS that our 2015-17 budget will look like. Mr. Pittioni produced a document that provides the Board with different scenarios to handle the revenue shortage the Board is facing in the next two biennia.

In 2015-17 assuming there are no additional revenue changes, we can estimate our revenues, however, the expenditures estimated by DAS for personnel services will be \$1.4 million and services and supplies will be just short of 1 million. This increases the burn down to around \$700,000.

In 2017-19, assuming there are no changes to fees and revenue is around \$1.7 million, with the preliminary information provided by DAS regarding increased service fees the Board will be looking at personnel costs around \$1.6 million and services and supplies to cost around \$1.3 million. That is a \$1 million plus burn down and then the Board has a deficit ending balance.

Mr. Wright asked the Board to discuss what the desired ending balance should be? If at the end of 2019 the Board would like a \$600,000 ending balance that would mean that the Board would need to cut costs or additional revenue we need at least an additional 1.5 million. How do we deal with this shortfall in the next 5 years?

In the past we have talked about refunding our licensees since we had quite a large ending balance and now considering raising fees to ensure the Board has a sufficient ending balance. Mr. Wright prepared a historical budget burn down which began in the 2009-11 biennium that clearly shows the revenues dropping and remaining flat and costs increasing. The Board is looking at a \$527,000 burn down for the current biennium.

Mr. Pittioni explained to Board members that regardless of what has already been talked about regarding the next two biennia, the need for additional money would have had to have been discussed just based on the policy packages the Board initiated for the continuance of the second investigator, additional money for the Attorney General Office and professional services. The change to previous biennia is the fact that the Board does not normally deal with services in the non-personnel side going up by 20+%.

DAS has announced that they will no longer "shield" government agencies the true cost of services. They claim that the larger state government agencies have been paying more than their fair share and the smaller agencies were not properly assessed at the correct level. Mr. Pittioni pointed out however, that even if there was a 0% increase in state government charges, we would still have an issue with our ending balance. Mr. Pittioni pointed out that right now the Board pays around \$150,000 in state government charges. For the next biennium, the equivalent number will be about \$284,000 with continued "shielding". For 2017-19, DAS has stated that shielding will stop entirely, so what hasn't been full cost will become full cost in 2017-19. What that means is that no one really knows what those numbers will look like.

Mr. Brown stated that it is a \$1.8 million issue over the next two biennia. Clearly the fees have not kept up with inflation. The current agency request budget asks for the continued position for the investigator and a separate package for increased Attorney General fees.

Mr. Miedema stated that they receive the agency request and review that and make a recommendation to the Governor, which is confidential until December 1, 2014. Mr. Brown asked if we will have to justify our needs which 1/3 of it is out of the Board's control. Mr. Miedema stated that DAS will have to justify that to the Legislature.

Fee increase scenarios were presented to the Board for review. Based on the assumption that the Board is aiming for a \$400,000 to \$600,000 ending balance, there are four scenarios, however, we can come up with others. If we were to raise both individual and firm renewals to \$300 (70% increase), we will raise \$1.5 million. Mr. Miedema cautioned against having too much of a fund balance for the legislature to sweep. Board members noted that many professions, including attorneys and medical doctors charge up to \$500 per year, where the Board currently charges \$160 for two-years.

The legislative concept as was presented removes the fees from statute. That would allow the Board in the future, January 1, 2016 to raise fees administratively. There is a significant piece that is at issue, in that the OSCPA would prefer that the language presented leave the fees in statute. They are willing to shoulder a fee increase with us, however, they would want the fees to remain in statute.

Although the Board would prefer to have the fees removed from statute, however, agreed to request the OSCPA to carry a fee bill separate from the current legislative concept.

3. **REPORT OF CHAIR**

Ms. Bridgham announced to the Board that there are three candidates for active consideration at the Governor's office for this Board. Larry Brown and Scott Wright are being considered to serve their next three-year term and Ms. Lynn Kingston is being considered as a new Board member to replace Jessie Bridgham, whose last meeting will be December 2014.

4. **REPORT OF VICE CHAIR**

Mr. Brown serves on the NASBA Enforcement committee and one thing just done was a survey as to the states enforcement process. He interviewed 3-4 states and at the end NASBA will distribute the findings. It will be nice to see how Oregon ranks. After talking with other states, no state is near our process. Idaho has only 8-12 complaints each year and are investigated by the Executive Director. California has about 2200 complaints per year and 12 full-time investigators.

Mr. Brown will be sending an evaluation for Martin Pittioni asking for feedback by the end of November.

6. **REPORT OF EXECUTIVE DIRECTOR**

Mr. Pittioni reported that the Board is now once again fully staffed. Joel Parks was hired full-time in September. Theresa Gahagan, Investigator attended a CLEAR training last week. CLEAR trainings are beneficial and we were lucky to have them come to the Portland area. Ms. Fast will be attending a project management course through Willamette University in the Spring.

The IT projects continue. Currently the examination gateway project which will alleviate staff from having to double enter candidate information is half-way done. The second piece is being worked on and will involve a download from the NASBA Gateway to the Board's database.

Mr. Pittioni addressed the substantial increase in DAS IT costs for the upcoming bienniums. Board staff is working with contractors to determine a strategy for breaking out of the DAS IT model and moving to a more cost friendly alternative.

The Board also discussed moving toward a birth month renewal. In order to move forward with this, the statute would need to be amended to remove the two-year renewal requirement. Reasons for this suggestion are to maintain an even revenue flow and to ease the burden on Board staff. Each year there is a huge crunch on staff to review, update and process each renewal, around 3500. If this was spread throughout the year, it would enable staff to focus on other urgent projects and processes.

7. **NEW BUSINESS**

- A. Exposure Drafts
 - 1. Ethics
 - 2. CPA Exam

The Board reviewed the two exposure drafts and had no comments or discussion.

- B. CPA Examination Performance

NASBA provided the Board with CPA exam performance data. This was for Board information only.

- E. NASBA Bylaws & Proposed Amendments

Board members reviewed the proposed Bylaw amendments and had no comments.

9. **LEGISLATIVE CONCEPT (LC0624)**

- B. Attest and Report Definition Discussion

Mr. Harry Bose representing the OSCP provided comments regarding the proposed changes to the definition of attest that is part of the Legislative Concept. Mr. Bose stated that the LC does not address the publishing date of SARS 21 which will significantly change what constitutes a financial statement and compilation are.

Mr. Steve McConnel, member of the Laws and Rules Task Force also provided comments on the definition of attest changes. He indicated that there was significant vetting by the AICPA and they recognized there were problems, but in the end went forward with the changes.

The LRTF agreed that the changes to this definition should wait until all the information is in and we can determine the next steps.

- C. 2015 Board Calendar – Development and Discussion

Board members were given a calendar of potential Board meeting dates for 2015. Board members stated that they would prefer to discontinue having meetings on Sunday. . If a two-day meeting is necessary, Board members would prefer they be held on Monday/Tuesday. Some meeting dates were changed and the staff will prepare a revised calendar for the Board.

10. **ADJOURNMENT**

The meeting adjourned at 4:45 p.m. The Board will meet for a social dinner event where no Board business will be discussed