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DEPARTMENT OF COMMERCE AND INSURANCE
TENNESSEE STATE BOARD OF ACCOUNTANCY
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Board Minutes

21 October 2011

The meeting of the Tennessee State Board of Accountancy convened in the Andrew Johnson Tower, Nashville, Tennessee on Friday, October 21, 2011 at 8:30 a.m. Board members present were: Stan Sawyer, Chair; Don Royston, Vice-Chair; Lisa Stickel, Secretary; Bill Blaufuss; Troy Brewer; Jennifer Brundige; Kenneth Cozart; Shannone Raybon; Casey Stuart; and Trey Watkins.

Absent: Doug Warren.

Staff members present were: Mark Crocker, Executive Director; Don Mills, Investigator; Laura Betty, serving as Staff Attorney; Sandra Cooper; and Kathy Riggs. Wendy Garvin was also present as representative of the TSCPA.

Mr. Sawyer called the meeting to order and made the following announcements: 1. The CPA Exam will be offered in Brazil beginning in February of 2012; 2. The Sixth (6th) Edition of the Uniform Accountancy Act was adopted by the NASBA Board of Directors on July 29, 2011 and by the AICPA Board of Directors on August 5, 2011; and 3. FAF had not taken the course of action recommended by the Blue Ribbon Panel but instead opted to create a PCSIC (Private Company Status Improvement Council). The PCSIC will identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by the FASB.

The Chair then asked the Board members to review the minutes from the meeting of July 29, 2011. Mr. Royston moved to accept the minutes as presented, seconded by Ms. Stickel. Nine members voted to approve the minutes, Mr. Blaufuss voted in the negative and read the following statement:

I have voted against the approval of the minutes of the 29 July 2011 TSBA meeting because they do not adequately address the objections I raised during that meeting regarding two matters.

The following comments are consistent with the objections I noted at the 29 July meeting. However, I have added some further observations on the two matters and request my statement in its entirety be made part of the record of this meeting.

Hiring a Second Investigator

- Mark Crocker, the TSBA Executive Director, acknowledged that the search for an additional investigator was continuing because the position had been approved by the Department of Finance not because the TSBA needed an additional investigator.
- In recent months and years, complaints under investigation have been significantly reduced and are being handled expeditiously. I extend my compliments to TSBA management for these results.
- Mr. Blaufuss expressed his objection to hiring an investigator when there was no acknowledged or demonstrated need.
- Mr. Crocker noted the hiring of an additional investigator had been unanimously approved at the 29 October 2010 TSBA meeting implying that I had approved the investigator hiring plan. It was later confirmed that I was not in attendance at the October 2010 meeting.
- Is the proposed hire of an unneeded second investigator at $69,000 plus benefits sensitive to the Haslam Administration's budget constraints?
- What commercial company or CPA firm would hire an investigator or auditor when there was no need, particularly in today's economic environment?
- Mr. Blaufuss recommended that if another investigator was to be hired, the investigator have significant commercial audit experience.
- Mr. Crocker has indicated in his current ED report he will be recommending for Board approval the hiring of Raymond P. Butler as the second investigator. Mr. Butler's resume does not demonstrate credentials to justify him being hired as an investigator even if we needed one.

Fiscal 2012 Operating Budget

- I suggested to Mr. Crocker an Excel spreadsheet format so the proposed 2012 budget could be compared to prior experience.
- Only at my suggestion were any budget explanations included.
- Experience would indicate budgeted 2012 revenues are being understated and expenses overstated. As a result, 2012 actual results will likely generate another very material surplus.
- During the last 3 fiscal years, the TSBA has produced an annual surplus ranging from 16 to 25% of revenues.
- There is no reason not to believe our reserve balance of over $600,000 at 06.30.11 will not be confiscated by the State as it has been in the past.
- This results in an additional tax on the CPAs of Tennessee. Should we consider reducing the license fees charged to the members?
- As will all State employees, the TSBA staff received 1.6% raises as of 01 July 2011.
- The 2012 budget includes an additional 5% raise for all TSBA staff. No rationale was provided to justify this budgeted amount. Any person around the TSBA for over a year knows this will never be approved by the Department of Finance.
- Would you encourage your clients to prepare a budget similar to the one submitted to the Board in July?
- The 2012 budget does not adequately reflect the conscientious work of CPAs.
- I therefore voted against the approval of the 2012 budget as proposed.

That concluded Mr. Blaufuss' statement.

The minutes from the meeting on 13 September 2011 are not prepared, so that item was tabled until the meeting in January.

Executive Director's Report:

Mr. Crocker gave the Executive Director's Report. A copy is included as Attachment 1.

Mr. Royston moved to accept the report as presented, seconded by Ms. Brundige. Motion passed unanimously.

BOE Report:

In Mr. Warren's absence, Mr. Crocker noted that the BOE was concerned about an issue discovered in Texas. International firms are doing business in the United States without obtaining licensure. This will be an item on the agenda in January.

NASBA Committee Reports:

Communications Committee:

Ms. Stickel stated that the Communications Committee would be meeting at the NASBA Annual Meeting next week and that she would have more information in January. That concluded her report.

State Board Relevance and Effectiveness Committee:

Ms. Brundige stated that the committee had met via conference call on August 11, 2011. The AICPA/State Society Subcommittee has been working on a questionnaire to present to state society and board leaders about relationships between the two bodies. They are trying to determine how those relationships are working. The questionnaire has been developed, but the State Board Subcommittee has also developed a questionnaire and now the two subcommittees are working to combine the two. The State Board Subcommittee is trying to identify the characteristics of each state board so that the states can be categorized regarding their level of 'independence.' They are working with NASBA to develop a database to house this information. The Legislative Subcommittee, to which Ms. Brundige has been appointed, is developing a communications piece to be distributed to any interested parties. This communications piece will address some generic questions such as the number of complaints that have been opened and/or closed, number of licensees, etc. Ms. Brundige also stated that the Washington State Board had drafted a letter opposing a proposed "Fund Sweep" and stated that she would provide a copy of the letter to Mr. Crocker. This concluded Ms. Brundige's report, and since there were no action items, no motion was necessary.

Board Committee Reports:

Licensing Committee:

Ms. Brundige reported that the committee had reviewed four different courses for state specific ethics CPE. Those courses were: Continuing Academics CPE Tutor – a one hour State Specific Ethics Course; CCH, Inc. – a four hour State Specific Ethics Course; Lattimore, Black, Morgan and

Cain – a two hour State Specific Ethics Course; TSCPA – a two hour State Specific Ethics Course. Ms. Brundige moved that these courses be approved, second by Casey Stuart and passed unanimously.

Ms. Brundige then stated that the committee had reviewed a request by a licensee (Ms. Rhonda Rigsby, license 11759) to be granted CPE credit for the Certified Equity Professional Exam under Rule 0020-5-.04(8). Ms. Brundige stated that after review the committee agreed that approval should NOT be given because the approval was sought retroactively and because the material did not appear to be accountancy specific. She moved that the Board deny approval for CPE credit for Ms. Rigsby, second by Stan Sawyer, and approved unanimously by the Board.

Ms. Brundige concluded her report by stating that since the last board meeting 113 new licensees had been approved, 13 new firms had been approved, and the committee had reviewed the list of exemptions from peer review which had been approved by the Executive Director. She also stated that the CPE audit had gone extremely well and that only 4 licensees had not yet responded to the audit notice.

Probable Cause Committee:

Don Royston gave the report for the Probable Cause Committee. He reviewed the statistics on complaints as prepared by Mr. Mills, and asked the members to review the Legal Report. Mr. Royston moved to accept the Legal Report as presented, seconded by Ms. Brundige, and approved unanimously by the Board. The reports are included as Attachment 2.

Executive Committee:

Mr. Sawyer began the report from the Executive Committee with a summary of a query from Ms. Paula Hunter regarding peer review. Ms. Hunter is a CPA who performs bookkeeping functions for a client, but has intentionally tried not to produce financial statements so that she would not be subject to peer review. However, she does provide the auditors with a complete QuickBooks file and posts the adjusting entries proposed by the auditors. The Committee felt that this was tantamount to producing financial statements and therefore she was subject to the peer review requirement. Mr. Sawyer moved to notify Ms. Hunter that she was subject to peer review, second by Mr. Cozart, the motion passed unanimously.

Mr. Sawyer next discussed the topic of an Advisory Board. Mr. Crocker had requested the Committee consider allowing him to pursue appointing an

Advisory Board to be composed of Accounting Professors across the state so that the Board would have input from educators. This Advisory Board would be a link to students and the future CPAs, and would help bring awareness to the Board of the issues facing the profession from a student's standpoint. This would be a strictly voluntary venture and the only expense associated with the Advisory Board would be Mr. Crocker's travel to meet with the various Advisory Board members. Mr. Crocker asked for the Board's approval to pursue this concept and determine if Legal would approve the idea. If so, he would then begin contacting various educators to determine their interest in serving. A slate of proposed Advisory Board members would be brought to the Executive Committee for approval before any official appointments were made. Mr. Royston moved to approve Mr. Crocker's plan, second by Mr. Cozart, the motion passed unanimously.

Mr. Sawyer informed the Board that he and Mr. Crocker had attended the Sunset Hearing with the Government Operations Committee on Wednesday, 19 October 2011, and related some of the inquiries to the Board. The result was that the Government Operations Committee would recommend the continuation of the Board of Accountancy until 30 June 2016.

The topic of Board Independence was the next issue discussed by the Committee. Mr. Sawyer indicated that it did not appear that the Board wished to actively pursue this topic at this time. He did note that the Independence Committee, chaired by Ms. Stickel, had met a couple of times but did not have a plan in place. After discussion, Mr. Cozart moved to table the topic until Mr. Crocker gathered facts to present to the Committee concerning the current law and the Department's interpretations and actions in regard to the law. Ms. Stickel seconded the motion and it passed with unanimous approval.

Mr. Sawyer then presented the Operating Results for the Board as of August 2011 (included as Attachment 3).

Hiring the second investigator was the next topic discussed. Mr. Sawyer stated that he and Mr. Crocker had interviewed the top three (3) candidates for the position and had agreed to offer the position to Raymond P. Butler, Jr. He accepted the position with a salary offer of $68,500.00 per year. Mr. Sawyer moved to accept Mr. Butler as the second investigator, seconded by Don Royston. Mr. Blaufuss asked that the vote be by roll call. Votes were cast as follows:

Trey Watkins	Yes
Troy Brewer	Yes

Bill Blaufuss	No
Case Stuart	Yes
Jennifer Brundige	Yes
Kenneth Cozart	Yes
Stan Sawyer	Yes
Lisa Stickel	Yes
Don Royston	Yes
Shannone Raybon	Yes

Mr. Butler's hiring is approved by the majority.

During the discussion Mr. Sawyer revealed a conversation he had with Trey Watkins regarding the hiring of Mr. Butler. He recounted the conversation to the best of his memory and stated that it did not have any effect on the deliberations regarding Mr. Butler.

The final topic brought to the Board by the Executive Committee is the Attorney General Opinion which was sought regarding the Board's ability to give the Executive Director and other professional staff an increase in salary. The Opinion states that the Board does have the authority if the increase is included in the budget approved by Finance and Administration.

A copy of the Opinion is included as Attachment 4.

Mr. Crocker presented the Revised CPE Standards for the Board to review (included as Attachment 5).

There being no further business to come before the Board, Ms. Brundige moved for adjournment, Ms. Stickel seconded, and the Board adjourned with a unanimous vote.

Chairman

Secretary