



**STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
TENNESSEE STATE BOARD OF ACCOUNTANCY
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BOARD MINUTES

23 October 2009

The meeting of the Tennessee State Board of Accountancy convened in the Andrew Johnson Tower, Nashville, Tennessee on Friday, October 23, 2009 at 8:30 a.m.

Board Members present were: Vic Alexander, Chair; Stan Sawyer, Vice Chair; William Underwood, Secretary; William Blaufuss; Jennifer Brundige; Kenneth Cozart; Al Creswell; Don Royston; Lisa Stickel; and Doug Warren.

Also present were: Mark Crocker, Executive Director; Ed Scudder, Staff Attorney; Don Mills, Investigator; and staff members Sandra Cooper, Kathy Riggs and Gail York.

Absent was Board Member Shannone Raybon.

Mr. Alexander called the meeting to order and made the following announcements: Board Member Lisa Stickel has been appointed to NASBA's UAA (Uniform Accountancy Act) Committee;

The Legal Department is being reorganized. Wayne Pugh advised the Executive Committee that approval has been received to hire four new attorneys who will focus specifically on conducting formal hearings;

Mr. Scudder is leaving the Board of Accountancy as Staff Attorney. Mr. Alexander thanked him for his service to the Board and wished him well in his new endeavors; The new attorney to be hired for the Board is Mr. Tom Baines, who is a CPA as well as an attorney.

After the announcements Mr. Alexander asked the Board Members to review the minutes from the meeting on July 24, 2009. A motion to accept the minutes as presented was made by Mr. Royston and seconded by Ms. Stickel. Motion passed unanimously.

Executive Director's Report:

Mr. Crocker stated that applicants are still needed for the Peer Review Oversight Committee. A previous member of the committee has indicated interest in the position, but since he is also a member of the TSCPA RAB (Report Acceptance Body) he would be in a conflict of interest position as he would be reviewing his own work. We have no applicants from Middle or West Tennessee.

The NASBA Annual Meeting will take place in Phoenix, Arizona November 1 – 4, 2009. Ms. Stickel, Mr. Cozart, Mr. Crocker and Mr. Mills will be in attendance.

Renewal season is upon us again and all CPA licensees holding an odd-numbered license are due to renew by December 31, 2009. Dr. Riggs re-designed our renewal form making it more attractive and hopefully it will get the licensees' attention. Nearly 92% of our licensees renew on-line. In addition, notices will be placed in the newsletter, on the website, and TSCPA has agreed to help us spread the word by posting notices in their publications.

Normally our system does not allow the licensees to renew before November 1st (60 days prior to expiration), however modifications to the system allowed renewals as of the first of October and some have already taken place.

A letter has been mailed out to all universities offering a major in accounting. The correspondence offers a speaker for classes or for meetings outside of the classroom for all accounting majors. The goal is to make the students more aware of the role the Board of Accountancy plays in the profession. One request to address a class at MTSU has already been received and as more requests for speakers come in, staff may be soliciting Board Members to help cover the engagements.

The restructuring of the Legal Department will alleviate some of the responsibilities currently borne by the staff attorneys for the programs and should result in more cases being heard. This would clear up 12 formal hearings that we have not been able to address. The first litigator hired to join the department is Rick Averwater.

NASBA Focus Questions were received shortly after the last board meeting, and the timing of the responses will be brought to the attention of the NASBA Board of Directors. State Boards meeting on a quarterly basis frequently do not have time to respond to the questions based on the time they are released and the due date of the responses. NASBA is being asked to consider this timing when releasing these queries.

Future proposed Board meeting dates are:

- Friday, 22 January 2010
- Friday, 30 April 2010
- Friday, 23 July 2010
- Friday, 22 October 2010
- Friday, 21 January 2011

One or two of the Board Members have conflicts on the dates that are scheduled. It has been customary to have board meetings of the third Friday of the month. Please review your calendars to determine if moving the meeting to the fourth Friday would be possible. Committee meetings are scheduled for the Thursday afternoon before the Board meeting on Friday. Other days of the week are certainly possibilities for meeting days if those would better fit schedules.

The Federal Referral Reporting System put in place last year is improving as we keep the federal agencies up to date on the status of complaints they have filed with us.

An ALD mobility map was given to each Board Member allowing them a comprehensive overview of which jurisdictions have adopted mobility and which jurisdictions are participating in the ALD.

The State Specific Ethics course offered by the Board has to date served a total of 74 licensees. Another 9 presentations have been scheduled in all sections of the state giving board members an opportunity to participate. Board Members were asked to contact Dr. Riggs if they were interested in participating. This concluded the report. (Attachment 1)

Board of Examiners:

Mr. Warren gave a PowerPoint presentation explaining the proposed changes in the CPA exam. He indicated that the Board of Examiners would like to have stronger relationships with State Boards and have more input from them. The fees paid by the candidates actually go to three entities. Prometric received funds for seating and the use of the computers, NASBA is paid for registering and processing applications, and the AICPA is paid for the actual delivery and scoring of the exam. Proposed changes in the exam include eliminating two essays in the Audit section and adding three essays to the Business Environment and Concepts section. The time to take the Audit portion will be shortened and the time to take Business Environment and Concepts will be lengthened. Other changes in the exam are a new calculator, improved spreadsheets and a new research format allowing split screens. The exam is expected to go international in 2011 with Japan to be the first country to offer the exam outside the United States.

Forum of International Accountancy Regulators:

Mr. Crocker attended the Forum of International Accountancy Regulators sponsored by NASBA in San Francisco in September. IFRS (International Financial Reporting Standards) was a major topic of discussion. The roadmap developed by the SEC indicates that IFRS is expected to be in use by 2011 and to be mandatory by 2014. He gave a brief history of the development of IFRS. In 1973 the Secretary-General of the United Nations convened a group that recommended the creation of an internationally comparable system of standardized accounting and reporting. The United States was an integral part of that group. The primary rationale for the development of IFRS was to

assist emerging nations which did not have a uniform accounting policy in place. As a result, about 100 countries had adopted IFRS by 2005.

FASB (Financial Accounting Standards Board) is a non-profit organization, and develops accounting standards for the United States. The IASB (International Accounting Standards Board) develops the accounting standards for IFRS and are similar in nature to FASB but not as independent. They are funded by the profession and volunteer donations. GAAP is considered too complex for international application as it has approximately 23,000 pages of regulations as opposed to the 2,300 which IFRS has created. IFRS focuses more on the substance of transactions and evaluates whether the accounting presentation reflects the economic reality as opposed to the rules on which GAAP is based. This concluded Mr. Crocker's report.

Law and Rules Committee:

Ms. Stickel discussed several areas of the law and verbiage that needed to be reworded or deleted.

Rule 0020-1-.08(5) should be amended as follows:

The Board may request additional evidence from licensees for continuing professional education requirements including continuing professional education audits (which require CPE course completion documentation). **Listings of CPE courses on renewal forms are required; however, the listings are not considered evidence for this rule.**

The last sentence should be deleted as the online renewal system does not allow a licensee to list CPE courses.

Motion to approve by Doug Warren; second by Stan Sawyer. Passed unanimously.

Rule 0020-6-.04(1) and (2) should be amended as follows:

- (1) Each firm location required to hold a permit to practice under Tenn. Code Ann. Section 62-1-108, which performs attest services, shall be covered by a peer review at least once every three (3) years with a report of that review to be submitted to the Committee. **However, the initial review must be completed by August 31 of the next calendar year following the initial date of issuance of the firm permit.**

The last sentence should be deleted as the peer review program administered by the TSCPA outlines a different time frame for submission of peer reviews.

- (2) Each firm **location** that performs one (1) or more audit engagement(s) shall have an on-site peer review. Firm **locations** that perform only compilations or reviews in accordance with SSARS shall have either an on-site or off-site peer review.

The words in italics should be deleted for clarity.

Motion to approve by Bill Underwood; second by Stan Sawyer. Motion passed unanimously.

Rule 0020-5-.03(1)(b) should be amended as follows:

All license holders shall complete a board-approved four (4) hour ethics course designed to familiarize the licensee with the accountancy law and rules as well as professional ethics.

The rule shall delete the 4 hour requirement and replace it with a requirement of 2 hours of State Specific Ethics each renewal cycle. This is to be effective for licensees renewing in 2011.

Motion to approve by Doug Warren; second by Kenneth Cozart. Motion passed unanimously.

Rule 0020-1-.04(f) and (g) were to be amended as follows:

(f) ***Penalty*** for late filing of permit, \$50.00

The word penalty is to be deleted and the word **Fee** substituted.

(g) Application for reinstatement ***Two hundred dollars (\$200.00) plus past due late fees and fifty dollar (\$50.00) penalty.***

Words in italics are to be deleted and **Two hundred and fifty dollars (\$250.00)** substituted.

Motion to accept by Kenneth Cozart; second by Bill Underwood. Motion passed.

The committee also reported that Wendy Garvin of the TSCPA has written an article concerning Peer Review Transparency that appeared in the last TSCPA Journal. The issue is whether or not peer review results should be available to the Board and Board staff or to the public in general. The response to the article has been mixed, with the balance leaning toward the negative. Ms. Garvin stated that the results were expected, as people are more likely to voice opposition rather than support. Action on this topic was tabled.

This concluded Ms. Stickel's report.

Licensing Committee:

The Licensing Committee report was presented by Al Creswell. Mr. Creswell stated that requests for exemption relative to Rule 0020-5-.05(3)(a) (CPE sponsors) from the Murfreesboro Estate Planning Council and IIA Tennessee Chapters were approved. A recommendation was made that two candidates for licensure who reported legal infractions should be licensed but placed on probation. Mr. Louis Weissmuller, license number 21240 and Mr. Joseph Ingalise, license number 21276, were placed on probation for a twenty-four month period. An application from Dennis Dycus to teach a one hour State Specific Ethics course was approved. Mr. Dycus is approved to teach general ethics under sponsorship of an exempt organization. Any general ethics course taught outside exempt organizations must be NASBA approved. A decision concerning Corporate Transfer and Reciprocal Licensing indicates that a CPA from another jurisdiction must have an application for licensure in to the Board within 30 days of beginning work as a CPA or they may face disciplinary action. A request for a refund of late fees was granted to Kelly Hoggard due to the illness of her spouse. The CPE audit is complete for 2009 with the new audit beginning in early 2010. Dr. Riggs stated that 98% of licensees are in

compliance; some with penalties. The ability to do background checks on applicants and the costs were discussed. It was decided that more information was needed before a decision could be made to require background checks for applicants. The Board needs to review and make appropriate changes to the State Specific Ethics course outline to reflect new information (Mobility, etc.). The outline needs to be fluid to reflect any future changes in the law and/or rules. This concluded Mr. Creswell's report. Mr. Royston moved to accept the report with a second from Stan Sawyer. Motion passed unanimously.

Finance and Administration Committee:

Mr. Sawyer presented the report for the committee. He stated that we do not yet have a budget ready for approval. Some issues with the Edison system prevented proper recording of the Board's revenue for the last quarter of FY 09 and therefore revenues for FY 10 could not be projected. The problem has been resolved, but Mr. Crocker was not notified that the corrections had been made in time to prepare a budget for this meeting. Expenditures for July and August were reviewed.

The committee also reviewed the file of Mr. Thomas Burton, licensee number 10946. Mr. Burton's license had been suspended in 1996 pending payment of a \$500.00 civil penalty. The Board has no record that payment was ever received, although Mr. Burton asserts that payment was made. In addition, Mr. Burton has renewed his license every cycle and reported appropriate CPE. The committee felt that a 13 year suspension was sufficient discipline and recommends that his license be returned to an Active status.

There was also discussion regarding staff's current capability of tracking licensees' work history to determine if the owner of a new firm has appropriate experience to provide attest functions. The recommendation from the committee is to change the firm renewal form to determine if the owner and/or employees have proper experience to perform attest engagements.

This concluded Mr. Sawyer's report. Motion to accept the report by Stan Sawyer; second by Kenneth Cozart. Motion passed unanimously. (Attachment 2)

Executive Committee:

Mr. Alexander presented the report from the Executive Committee. He stated that the Committee had reviewed a white paper prepared on the topic of Firm Names. The paper presents a good summary of the issues and he recommended that each board member keep and use this as a reference tool.

The Committee also discussed legislation proposed by the IRS for the regulation of tax preparers. The proposal would require registration of all preparers of federal tax returns, and would require that all preparers take an initial examination to become registered. The AICPA and NASBA have voiced strong opposition to requiring CPAs to be subject to the test due to the comprehensiveness of the CPA exam and arguing that CPAs have

technically already been tested over this subject. Maryland passed legislation to create a separate board to register tax preparers, but was unable to fund it at this time. TSCPA has not taken a position on this topic. The Executive Committee recommends that this action be monitored on the state and federal level.

The Board received an inquiry from the California Board concerning substantial equivalency. California has recently passed legislation to eliminate the two pathways which are currently available for licensure in California. The elimination of the 'secondary' pathway is a requirement for California to meet substantial equivalency under NASBA's rules. California was inquiring as to whether or not Tennessee would recognize California as a substantially equivalent state if, at some point in the future, the 'secondary' pathway to licensure was reinstated. The Committee recommended that Mr. Crocker draft a letter to the Executive Director of the California Board indicating that if the 'secondary' pathway was reinstated, Tennessee would NOT accept California CPAs as substantially equivalent.

The Committee approved five (5) firms as exempt from Peer Review:

Firm # 1474 – Charles F. Smith, CPA

Firm #1966 – Springfield Tax Services

Firm #3054 – Carolyn Head Management and Consulting

Firm #3235 – Kara D. Marshall, CPA

Firm #3573 – The Vaden Group

The Committee also reviewed and recommends acceptance of a Mutual Recognition Agreement with New Zealand Chartered Accountants.

A motion was made by Doug Warren to accept the recommendations of the Executive Committee. Stan Sawyer seconded and the report was approved.

Probable Cause Committee:

The report was distributed by Mr. Scudder for review. Several of the Board members had questions about case number 3. Mr. Scudder stated that the case was being re-presented because the Respondent felt that the facts had not been presented accurately. The Respondent paid the amounts requested, felt that the matter had been resolved, and were of the opinion that any additional penalty would be considered 'double jeopardy.' Mr. Scudder indicated that the file had been reviewed by Counsel and that he recommended that the original disciplinary action was appropriate. The Committee agreed. Mr. Sawyer recused himself from voting on case number 3. Mr. Blaufuss recused himself from voting on cases 9 and 10. Mr. Warren reported that our total number of cases has dropped from 125 to 123 since the last Board meeting, and we currently have 12 cases approved for formal hearings.

A motion to accept the report of the committee was made by Al Creswell and seconded by Don Royston. Motion passed. (Attachment 3)

Report on NASBA CPE Expo:

Mr. Crocker and Dr. Riggs presented a report on the NASBA CPE Expo in San Antonio. Dr. Riggs stated that some of the CPE seminars she attended were well done, and the Ethics Seminar was spectacular. She also pointed out that the poorest presentation was a tax seminar. There were a total of 402 in attendance, including vendors, exhibitors and instructors. Of the 402, 210 were there to secure CPE. Mr. Crocker discussed the new attendance system utilized at the conferences. Electronic sensors were placed over the entrance doors and a sensor was also placed in the attendee's name tag. The door sensor recorded when the attendee entered and left the presentation. In order to obtain CPE credit, the attendee had to be present at least 45 minutes. Both Mr. Crocker and Dr. Riggs indicated that the event was clearly a NASBA sponsored event, and in light of how the funds were collected (all attendees remitted the fee to NASBA and the vendors also paid a fee to NASBA in order to be present), did the Board wish to send correspondence to NASBA expressing concerns over a conflict of interest. The Board asked Mr. Crocker to draft a letter to come from Mr. Alexander as Board Chair indicating that the Board felt that the CPE Expo gave the appearance of a conflict of interest and encouraging NASBA not to pursue it in the future.

Old Business:

No old business was presented.

New Business:

Mr. Scudder gave a brief presentation on the nature of confidentiality and the privilege of the accountant-client relationship. He discussed specifically the case of Arthur Andersen versus the Rodgers Group. This case defined the purpose of the accountant-client privilege is to ensure an atmosphere in which the client will transmit information to the accountant without fear of future disclosure and subsequent litigation.

There being no further business, Doug Warren moved to adjourn. Ms. Stickel seconded, approved unanimously.

Chairman

Secretary