



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

MICHIGAN BOARD OF ACCOUNTANCY JULY 29, 2016 MEETING APPROVED MINUTES

In accordance with the Open Meetings Act, 1976 PA 267, as amended, the Michigan Board of Accountancy met on July 29, 2016, at the Ottawa Building, Conference Room 4, 611 West Ottawa Street, Lansing, Michigan 48933.

CALL TO ORDER

Matthew Howell, Chairperson, called the meeting to order at 9:06 a.m.

ROLL CALL

Members Present: Matthew Howell, Chairperson, CPA
Michael J. Swartz, Vice Chairperson, CPA
James Bayson, CPA
Barbra Homier, Public Member (arrived at 9:13 a.m.)
Jennifer Kluge, Public Member
Ola M. Smith, Ph.D., CPA

Members Absent: Richard David, CPA
Kathleen Post, CPA
Amna Seibold, Public Member

Staff: Erin Londo, Board Support, Boards and Committees Section
Kiran Parag, Analyst, Compliance Section
Karen Carpenter, Board Analyst, Boards and Committees Section
Jon Campbell, Manager, Inspections and Investigations Section
Andrew Brisbo, Licensing Division Director
Stacie Bayes, Licensing Manager
Jennifer Fitzgerald, Assistant Attorney General
Kim Gaedeke, Bureau Director

APPROVAL OF AGENDA

MOTION by Swartz, seconded by Bayson, to approve the agenda with the addition of item 5A (4). Catherine Rozanski McNamara – Consent Order and Stipulation; 7C. Resolution on Peer Review Reports.

A voice vote was taken.

MOTION PREVAILED

APPROVAL OF MINUTES

MOTION by Kluge, seconded by Bayson, to approve the May 26, 2016 minutes as presented.

A voice vote was taken.

MOTION PREVAILED

REGULATORY CONSIDERATIONS

Stipulations

Westerhof CPA Group, PLLC a/k/a Westerhoff CPA Group, LLC and Edward A. Westerhof

MOTION by Kluge, seconded by Bayson, to accept the Consent Order and Stipulation as presented.

Discussion was held.

A roll call vote was taken: Yeas – Bayson, Swartz, Howell
 Nays – Homier, Kluge
 Recuse - Smith

MOTION PREVAILED

Harry D. Pevos and Pevos and Associates, PC

MOTION by Swartz, seconded by Homier, to accept the Consent Order and Stipulation as presented.

Discussion was held.

A roll call vote was taken: Yeas – Homier, Kluge, Smith, Swartz, Howell
 Nays – None
 Recuse – Bayson

MOTION PREVAILED

SKMB, PA

MOTION by Bayson, seconded by Kluge, to accept the Consent Order and Stipulation as presented.

Discussion was held.

A roll call vote was taken: Yeas – Bayson, Homier, Kluge, Smith, Howell
 Nays – Swartz

MOTION PREVAILED

Catherine Rozanski McNamara

MOTION by Kluge, seconded by Smith, to accept the Consent Order and Stipulation as presented. Swartz ran the vote.

Discussion was held.

A roll call vote was taken: Yeas – Homier, Kluge, Smith, Swartz
 Nays – None
 Recuse – Bayson, Howell

MOTION PREVAILED

Hearing Reports

MOTION by Swartz, seconded by Bayson to receive the Hearing Report.

A voice vote was taken.

MOTION PREVAILED

Petrow Leemhuis Vincent & Kane

MOTION by Homier, seconded by Smith, to fine Respondent \$1,000.00, payable within 60 days.

Discussion was held.

A roll call vote was taken: Yeas – Bayson, Homier, Kluge, Smith, Howell
 Nays – Swartz

MOTION PREVAILED

OLD BUSINESS

NONE

NEW BUSINESS

Department Update

Gaedeke, Bureau Director, made introductions of the new staff in the Bureau including the following: Ron Hitzler, Board Analyst; Mary Bauer, Licensing Analyst; Stacie Bayes, Licensing Manager; and Jon Campbell, Investigations and Inspections Manager.

Brisbo reported that scoring of the CPA exam for the second quarter of 2017 will be delayed by 10 weeks and this may cause problems for those who need to retake the exam. Under these circumstances, the Department will grant an additional quarter for those individuals to report.

The Department is expanding a Memo of Understanding with the Attorney General regarding addressing unlicensed activity. This is a proactive measure the Department is taking.

Brisbo reported that the July 31, 2015 continuing education audits are complete and of the 99 individuals audited, 45 passed and 44 failed.

Campbell reported that there are 118 open cases of individuals who did not complete their continuing education requirements. Of those, 37 did not respond to the Department and re-audits will be done. If the re-audits do not meet the CE requirements, they will be forwarded on to the Allegations Section for further action.

Carpenter reported that the rules have been approved by the Office of Regulatory Reinvention and are being forwarded on to the Legislative Services Bureau. A public hearing should be scheduled in the upcoming month.

NASBA Overview

Howell attended the NASBA conference in June in Ashville, North Carolina along with Smith, David, Fitzgerald, and Campbell. Howell reported on the main topics of the conference including individual mobility and the state of California. California is requiring that the license be from a state that has a similar enforcement process. Other topics included: use of the CGMA designation; the future of the Peer Review Program; antitrust issues; and the new CPA exam. Smith shared her perspective of the new exam as an educator with the Board.

Resolution on Peer Review Reports

Brisbo presented a draft of a new Resolution on Peer Review Reports to the Board.
(See addendum #1 and #2)

MOTION by Swartz, seconded by Bayson, to accept the Resolution on Peer Review Reports as presented.

Discussion was held.

A voice vote was taken.

MOTION PREVAILED

Update from Michigan Association of Certified Public Accountants (MICPA)

Peggy Dzierzawski, President and CEO of the MICPA, addressed the Board regarding their efforts to increase the number of accounting graduates who take the CPA exam and the diversity of those graduates. There was continued conversation of the CPE Tracker as a good tool for CPE organization which must be reported annually. Dzierzawski reported that 60% of MICPA members are participating in using the CPE Tracker. The relationship between the Bureau and MICPA has prompted many positive changes as explained by Dzierzawski and Gaedeke.

PUBLIC COMMENTS

Bill Wilhelm, Administrative Law Specialist, clarified how the suggested sanctions list can be used. Howell decided to form a committee to review the suggested sanctions list and will select the members to serve on this subcommittee.

ANNOUNCEMENTS

The next regularly scheduled meeting will be held October 7, 2016 at 9:00 a.m. at the Ottawa Building, 611 West Ottawa Street, Upper Level Conference Center (UL), Conference Room 3, Lansing, Michigan.

ADJOURNMENT

MOTION by Swartz, seconded by Kluge to adjourn the meeting at 10:32 a.m.

A voice vote was taken.

MOTION PREVAILED

Minutes approved by the Board on October 7, 2016.

Prepared by:

Erin Londo, Board Support

Date: August 2, 2016

Addendum #1



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

BOARD OF ACCOUNTANCY

RESOLUTION ON PEER REVIEW REPORTS

At a regularly scheduled meeting of the Michigan Board of Accountancy (Board), convened in Lansing, Michigan, the following resolution was adopted.

WHEREAS:

The Board is a state agency established within the Department of Licensing and Regulatory Affairs (Department) under the Occupational Code, MCL 339.101, et seq. (Code), with the authority to assist the Department in the implementation of the Code; and

The Board's duties include the furnishing of aid in an investigation conducted under Article 5 of the Code and, at the discretion of the Board, a member of the Board may attend an informal conference conducted under Section 508 of the Code; and

Pursuant to Section 513(3) of the Code, for a complaint involving professional standards of practice under Article 7 of Code, a majority of the members of the Board who have not participated in an investigation of the complaint or who have not attended an informal conference, shall sit to make findings of fact in relation to the complaint; and

Pursuant to Rule 503(3) of the Accounting – General Rules (2013 AACS R 338.5503(3)) the Department may rely on a fail peer review report or a second consecutive pass with deficiencies peer review report as prima facie evidence of a violation of professional standards.

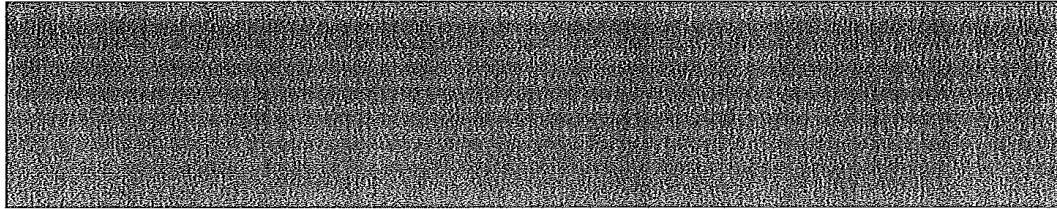
THEREFORE:

IT IS RESOLVED that to more efficiently and consistently implement its will and adjudicate administrative complaints related to fail peer review reports and pass with deficiencies peer review reports, the Board adopts the recommendations for action for pass with deficiencies and fail peer review reports as set forth by the NASBA Compliance Assurance Committee (CAC) in its 2005 white paper titled *Failed Reports Guidance*.

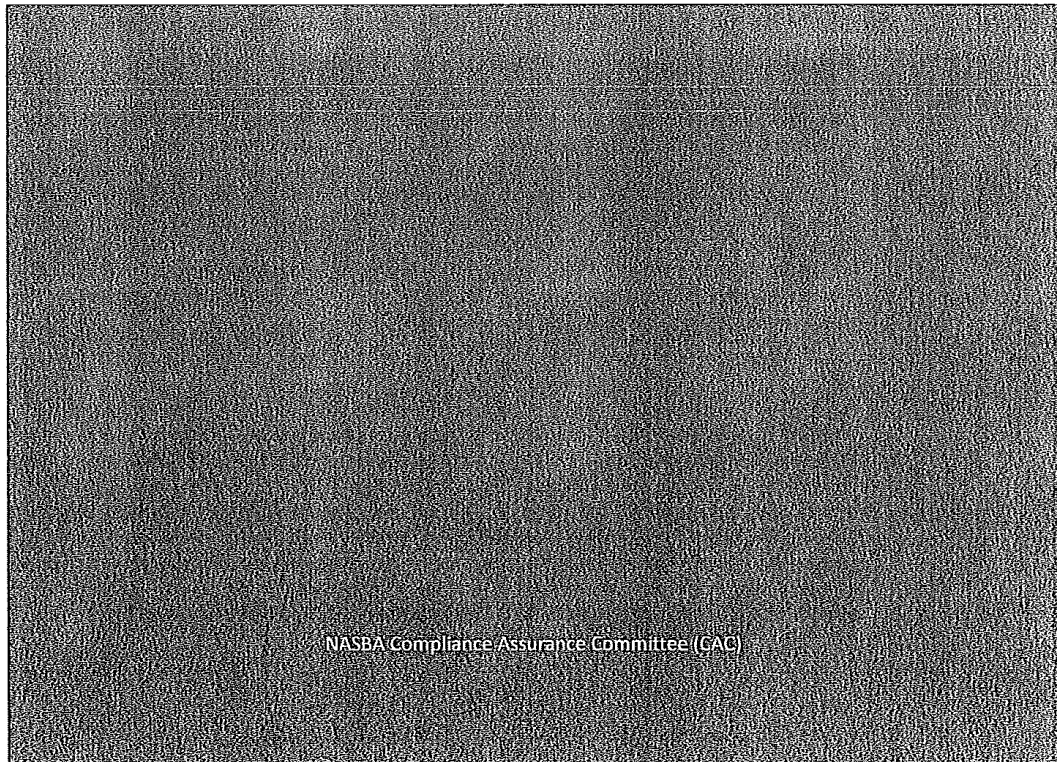
Chairperson
MICHIGAN BOARD OF ACCOUNTANCY

Date

Addendum #2



FAILED REPORTS GUIDANCE



Recommendations for Pass with Deficiencies and Fail Peer Review Reports

These guidelines are presented by the Compliance Assurance Committee (CAC) of the National Association of State Boards of Accountancy (NASBA). Currently, pass with deficiencies and fail peer review reports are being handled differently by each State Accountancy Board (Board). The CAC is recommending guidelines for Boards to consider when dealing with pass with deficiencies or fail reports, recognizing not every Board will be able to implement these recommendations due to their own rules and regulations or other constraints specific to each jurisdiction. Utilization of these guidelines by all Boards could increase consistency from state to state.

In the following discussion when it is suggested that the Board take action, it is intended to mean the Board, its staff, or another group designated by the Board.

The following are the recommended practices for each type of scenario:

1. INITIAL REVIEWS

Pass with Deficiencies

The Peer Review Oversight Committee (PROC), or its equivalent as designated by the Board, should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter from the Board should be sent notifying the firm the Board has reviewed the information contained in the Peer Review Report and that a subsequent review of other than pass could result in disciplinary action (if regulations and rules permit). The Board should then monitor the firm's compliance with the follow-up actions and if they are not completed within the timelines established by the Administering Entity, the firm should be referred to the enforcement arm of the Board. The Board may want to take action based on the failure of the firm to remediate as required by the Administering Entity rather than conducting an investigation.

Fail

The PROC, or its equivalent as designated by the Board, should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter from the Board should be sent notifying the firm the Board has reviewed the information contained in the Peer Review Report and that a subsequent review of other than pass could result in disciplinary action (if regulations and rules permit). The Board should then monitor the firm's compliance with the follow-up actions and if they are not completed within the timelines established by the Administering Entity of the Peer Review Program the firm should be referred to the enforcement arm of the Board. Sometimes the deficiencies may be so significant that the Board will want to take action immediately.

2. CONSECUTIVE REVIEW AFTER A REVIEW WITH A PASS

Pass with Deficiencies

The PROC, or its equivalent as designated by the Board, should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter from the Board should be sent notifying the firm the Board has reviewed the information contained in the Peer Review Report and that a subsequent review of other than pass could result in disciplinary action (if regulations and rules permit). The Board should then monitor the firm's compliance with the follow-up actions and if they are not completed within the timelines established by the Administering Entity of the Peer Review Program the firm should be referred to the enforcement arm of the Board. The Board may want to take action based on the failure of the firm to remediate as required by the Administering Entity rather than conducting an investigation.

Fail

The PROC, or its equivalent as designated by the Board, should review the firm's letter of response to the deficiencies and all required follow-up actions. A letter from the Board should be sent notifying the firm that the Board has reviewed the information contained in the Peer Review Report and that a subsequent review of other than pass could result in disciplinary action (if regulations and rules permit). The Board should then monitor the firm's compliance with the follow-up actions and if they are not completed within the timelines established by the Administering Entity of the Peer Review Program the firm should be referred to the enforcement arm of the Board. Sometimes the deficiencies may be so significant that the Board will want to take action immediately.

3. CONSECUTIVE REVIEW AFTER A REVIEW WITH PASS WITH DEFICIENCIES

Pass with Deficiencies

A second consecutive pass with deficiencies presents somewhat of a dilemma for the PROC (or its equivalent as designated by the Board). If the review of the past and current reports reflects that the previous deficiencies were all resolved and the pass with deficiencies is due to new systemic issues (on system reviews) or new engagement issues (on engagement reviews), since the firm corrected its previous issues, the PROC (or its equivalent as designated by the Board) could determine that the firm is cooperating. If appropriate follow-up action has been required, no further action other than a reminder letter and monitoring the firm's compliance with the new remedial actions to the firm of the significance of receiving two consecutive pass with deficiencies peer review reports may be needed. If any of the prior deficiencies have not been resolved and are deemed to be significant, the PROC should make a referral to the enforcement arm of the Board for its determination. Boards might not want to wait three years to make the determination that "all is well," especially if the review includes must-select engagements (ERISA, Yellow Book, Single Audit, FDICIA, Carrying Broker Dealers, and SOC).

Fail

In most instances when a firm receives a fail after a pass with deficiencies, the PROC (or its equivalent as designated by the Board) should refer the firm to the enforcement arm of the Board and let it make the determination as to whether any additional actions should be required, or if

immediate discipline is warranted. A case might be opened and an investigator assigned to determine the issues. In some cases a firm may be willing to stop performing the services which contributed to the fail report and may have entered into such an agreement with the Administering Entity of the Peer Review Program. If this is the case, the Board should require a similar signed acknowledgement from the firm for the enforcement record.

4. CONSECUTIVE REVIEW AFTER A REVIEW WITH FAIL

Pass with Deficiencies

In most instances where a firm receives a pass with deficiencies after a fail, the PROC (or its equivalent as designated by the Board) should carefully review the circumstances of the current pass with deficiencies. If there are any repeat deficiencies, the PROC (or its equivalent as designated by the Board) should refer the firm to the enforcement arm of the Board and let it make the determination as to whether any additional actions should be required. If all of the deficiencies are new, the PROC (or its equivalent as designated by the Board) should determine if it believes the firm has been responsive in its letter of response and that the follow-up actions will correct the issues. The Board should then monitor the firm's compliance with the follow-up actions and if they are not completed within the timelines established by the Administering Entity of the Peer Review Program the firm should be referred to the enforcement arm of the Board.

Fail

A firm receiving two consecutive fails should be sent to the Board's enforcement arm for review and determination if an enforcement file should be opened. If this is done, an investigation should ensue to determine whether there is sufficient evidence to bring charges against the firm. In some cases, a firm may be willing to stop performing the services which contributed to the fail report and may have entered into such an agreement with the Administering Entity of the Peer Review Program. If this is the case, the Board should require a similar signed acknowledgement from the firm for the enforcement record.

Consistency amongst all Boards addressing pass with deficiencies and fail reports could be increased by Boards implementing the best practices presented here in conjunction with complying with their own rules and regulations.