OKLAHOMA ACCOUNTANCY BOARD

MINUTES OF PUBLIC RULES HEARING

February 15, 2002

The Oklahoma Accountancy Board convened in special session on Friday, February 15, 2002 in Suite 165, 4545 N. Lincoln Boulevard, Oklahoma City, Oklahoma. Notice of the hearing was filed with the Secretary of State and the notice of the hearing was posted in the reception area of the Board's office in compliance with the Open Meeting Act. A tape recording of the hearing is on file in the Board office. Archer M. Honea, Chairman was present at the meeting.

In attendance at the meeting: Edith Steele, Deputy Director, Barbara Walker, CPE Coordinator, and Donita Graves, Board staff member. Daryl Hill, Executive Director, Patty Hurley, Assistant to Executive Director and Tawni Corwin, CPE Coordinator represented the Oklahoma Society of CPAs. Debra Jacoby, CPA and Geoff Wood, CPA were also present.

Call To Order: At 10:30 a.m. Chairman Honea declared the public hearing open and invited comments from those in attendance.

Ms. Jacoby referenced 10:15-29-7.(b) Qualifying Subjects and addressed the confusion among accountants who are interpreting the 24-16 CPE rule differently. She asked how the rule is supposed to be enforced. Chairman Honea explained the proposed amendment, citing the example of a CPA employed in the oil/gas industry who wanted to do taxes part-time. He stated that the CPE needs to be in an area that protects the public and not private employment. He added that the 40-hour CPE requirement is legislatively mandated and was proposed by the OSCPA years ago.

Ms. Jacoby expressed support for the 40-hour CPE requirement and expressed concern for industry accountants who are required to hold a permit in order to hold their industry jobs. She explained that as a CFO, she is required to hold a permit to keep her job and that she is required by her board to meet the standards of being a CPA. She raised the question of how industry CPAs such as herself who have no interest in pursuing a part-time public accounting practice will be able to comply with the proposed rule. She added that she is frequently asked to speak at seminars and perform specialized consulting work in her field but that it is unrelated to her industry employer. She expressed concern that the proposed amendment is based upon the assumption that all CPAs in industry will be performing tax, audit, and bookkeeping services part-time. She stated that she believed she was serving the public in her employment because she is in upper-management and that she has professional, legal, and moral obligations to the public sector. She did not understand why her employer is not recognized as her client. She cited that accountants employed at PricewaterhouseCoopers, for example, do not work for clients, but for PricewaterhouseCoopers. She posed the question that how many employers must an accountant have in order to be considered to have clients.

Chairman Honea addressed the history and purposes of the CPE requirement and the reasons for its creation which was to protect the public's interest. He clarified who the public is. He added that the employer/employee industry relationship and the client/CPA relationship are different. He recommended that industry employers need to be informed that their employees are not required to hold a permit if working in industry is their only source of employment.

Ms. Jacoby maintained that as a government accountant, she works for the taxpayers, which she believes is the public. She expressed concern that the proposed amendment will create more part-time accountants by making people take tax and audit CPE in order to obtain a permit. Chairman Honea mentioned that Board policy provides for a CPE committee to review and allow a CPA to take CPE in a new area. Chairman Honea commented that a number of CPAs take more CPE than is required in areas other than their specialized fields.

Mr. Wood mentioned that there was no place on the form for government accountants not practicing to indicate such. Barbara Walker, CPE Coordinator, replied that there is a place on the form for the ranking of a CPA's public accounting practice and the CPA's public accounting interest. Mr. Wood asked which definition an industry CPA who holds a permit but does not practice would fall into. Ms. Jacoby cited a recent example of the governmental entity with which she is employed currently undertaking the process of implementing GASB Statement 34. She explained that in order for such a conversion to happen, it was required of her and Mr. Wood to attend many courses on this topic. She expressed doubt as to whether or not any of these courses would count for CPE.

She stated that she was representing 30 governmental accountants who feel like second-class accountants even though they serve the public. Mr. Wood added that he believed CPE encourages professionalism and that CPE helps protect the public. Chairman Honea asked Mr. Wood if he wanted to see all CPAs in Oklahoma being required to do 40 hours of CPE. Mr. Wood replied in the affirmative and cited the example of physicians' responsibility in keeping their continuing education current. Ms. Jacoby added the examples of attorneys and engineers. Chairman Honea stated that such a change requiring all CPAs to do 40-hours of CPE would require a change in the law, not the rule. Ms. Jacoby and Mr. Wood understood. Mr. Wood commented that the CPE rule should encourage, not discourage CPAs to do CPE.

Chairman Honea instructed Barbara Walker, CPE Coordinator, to include in the next newsletter a statement encouraging all CPAs to have CPE and that competence is a reflection on all CPAs everywhere.

Mr. Hill proposed adding language to 10:15-29-7.(b) Qualifying subjects to include: "If a CPA or PA who has a permit but does not perform public accounting services, then acceptable CPE subjects shall be the same as those listed as accectable CPE in 10.15.-29-7(a) above." He clarified that if a CPA holding a permit has no clients, the requirement is 40 hours; if a CPA holding a permit has clients, the requirement is 24 of the 40 CPE hours must relate to public accounting. Chairman Honea reminded those present that CPAs with no clients are not required to hold a permit and referenced an example he used from the December 27, 2001 meeting regarding a driver's license vs.

a commercial driver's license and a pilot's license without an instrument rating vs. a pilot's license with an instrument rating and that the differences in these licenses do not make them substandard from one another.

Ms. Jacoby stated that the Board is discouraging industry CPAs from holding permits, especially those employed in upper management as a way to protect auditors and tax CPAs. She explained that she cannot do her job without continuing education and that she oversees an $80 million budget and supervises the payroll of 1500 employees every two weeks.

Chairman Honea posed the question whether she preferred a system whereby a non-practicing CPA has the choice of whether or not to hold a permit or a system whereby a non-practicing CPA is not allowed to hold a permit. Ms. Jacoby replied that she preferred to have the opportunity to hold a permit due to her employer's view that she is serving the public. She said that because she works on a day-to-day basis with property tax laws, state agencies, and tax laws, she does not know how much more public her employment can be.

Chairman Honea commented that the Board tries to follow the public mandate set upon them by the state, even though there have been Board members in the past, present, and future who do not support mandatory CPE. Chairman Honea expressed appreciation for Ms. Jacoby and Mr. Wood's comments.

Ms. Jacoby expressed concern with the perception of CPAs who do not choose to hold a permit as being regarded as second-class CPAs. She contended that the permit is a standard to be met every year and that by not holding a permit, a CPA does not value the worth of CPE and the need to stay current in the accounting profession and that their failure to meet the Board's standard makes them not good professionals as compared to those who go to the extra effort to get their permit every year. Chairman Honea asked if she perceived CPAs who do not hold permits as being lesser accountants. She replied in the affirmative. Chairman Honea asked why she believed that and if it was because they do not have permits or that they do not have the education. She maintained that as part of the profession, accountants must be willing to meet the requirements, whatever these might be. She proposed a two-tier permit system, with one permit for public practicing CPAs and another permit for industry employed CPAs.

Chairman Honea read into the record an exerpt from a written statement submitted to the Board by a corporate officer in accounting in industry. "I believe persons such as myself are more in need of their CPE to be directly related to their practice of public accounting than are those who are in practice on a full-time basis because they may not be aware of all of the constantly changing rules and standards."

Chairman Honea proposed the concept of requiring CPAs employed in industry and do public accounting part-time to do 40 hours of CPE within their industry in addition to doing 40 hours of CPE in public accounting. Mr. Hill re-stated his position of creating 3

categories. (1) a CPA practicing public accounting should be required to do 40 hours in public accounting; (2) industry members who have a permit and have clients should be required to do 24 of the 40 CPE hours in public accounting; and (3) industry members who hold a permit but have no clients should be allowed to obtain the required 40 hours of CPE in whatever subjects the Board describes as acceptable. Ms. Jacoby agreed with Mr. Hill. Mr. Hill added that by having 3 categories, this would be great public relations for the Board as well as for the profession.

Tawni Corwin, CPE Coordinator for the OSCPA, cited an example of a banking class being acceptable CPE for an auditor but not for a banker/CPA and presented the argument that when she entrusts a bank to handle her money, she is the general public as it applies to a client/CPA relationship. Chairman Honea posed the question about how a banking course could more ably qualify that CPA to do individual tax returns. Barbara Walker, Board CPE Coordinator, maintained that if a CPA holds a permit, there is nothing to prevent that CPA from doing taxes, whether or not they have had any CPE relating to tax. Chairman Honea addressed that the proposed rule change, in essence, is designed to protect employers as well as the public, but that is not what the law provides for. Mr. Hill commented that the law is not clear and subsequently is open to a number of interpretations.

Chairman Honea again expressed appreciation for Ms. Jacoby and Mr. Wood's comments. Ms. Hurley asked what the procedure was after the hearing is over. Chairman Honea replied that the result has to be voted on by the Board at its next meeting and that depending on the result, the rules have an exposure period with the Legislature and the Governor. He added that if there is no comment or objection by the Governor or the Legislature, the rules pass. Ms. Hurley asked when would the rules changes go into effect if passed. Chairman Honea replied July 1st. Ms. Hurley asked if all the comments presented would be typed and given to the Board members. Chairman Honea replied in the affirmative.

Mr. Hill, Ms. Hurley, Ms. Corwin, Ms. Jacoby and Mr. Wood left the hearing.

Chairman Honea read into the record the names of those who submitted comments to the Board: Thomas F. Proctor, CPA, Michael R. Reynolds, CPA, James Rendell Garrett, CPA, Dan Haskin, CPA, Shannon Brown, CPA, Dan Casement, CPA, Dan Teed, CPA, David Gillon, CPA, Connie Hall, CPA, Thomas Hayes, CPA, and Janette Owens, CPA.

Chairman Honea added his comment regarding 10:15-29-7 Subsection (b). He proposed that the Board be required to notify the permit holder on his permit and, by extension, anyone who wants to look at a permit holder's permit card, and that the permit card be required to indicate under which set of rules of the CPE was qualified under. Any verbal, written, or electronic communication regarding a permit holder's status is also to be disclosed.

Chairman Honea read into the record changes to 10:15-7-3 (a) (b) (c) (~~Applicant~~ Candidate for reexamination) to correct a scrivner's error whereby the word, "applicant" needed to be changed to "candidate" instead. He also read into the record verbiage

changes in 10:15-17-3 (Reestablishment of eligibility) changing “applicant” in that context to “individual” and changing “candidate” to “applicant.”
Chairman Honea read into the record the following written comment submitted by Secretary Jim Nickles of the Board:

“In light of the recent Enron accounting debacle and scandal, I have reconsidered my position regarding the amount of CPE required by industry certificate and license holders seeking a permit to practice public accounting.

The various members of the Rules Committee had differing viewpoints regarding this issue. One member recommended that the Board accept the proposal by the OSCPA’s, i.e. only 16 hours of their 40 hours of required CPE be in the area of the permit holder’s public accounting practice. Another member strongly believed that all 40 hours should pertain to the permit holder’s public accounting practice. I recommended a compromise wherein an industry certificate holder or licensee could obtain a permit to practice limited public accounting by taking a ***minimum*** of 24 hours in such person’s area of public accounting. The balance of the 40 hours requirement ***could*** be related to their employment industry.

At the December 27, 2001 Board meeting, all three alternatives were discussed at length. The final outcome between the Board members was split in a 4-3 vote allowing the compromise I suggested.

Clearly, in my opinion anyway, the Enron executives and AA were not the only ones that contributed to Enron’s failure. The company had many CPA’s on staff that also contributed to its collapse. Any CPE they may have taken pertaining to their company’s industry certainly did not benefit them, their company or the general public. Further, if their CPE related solely to the area of public accounting that they have expertise or skills in, they would be better prepared for their probable change in employment status.

Therefore, I recommend that the following statement be presented at the public hearing on February 15, 2002 regarding the proposed amendments to Title 10 of the Oklahoma Administrative Code (the Board rules):

> “**WHEREAS**, the Oklahoma Accountancy Board has proposed that the CPE requirements be modified to require only 24 hours of the required annual 40 hours be in the area of public accounting by those certificate and license holders whose primary employment is in an industry, but who also seek a permit to practice public accounting on a limited basis, and
>
> **WHEREAS**, the primary purpose of the Oklahoma Accountancy Board is the protection of the general public within the State of Oklahoma, and
>
> **WHEREAS** CPE compliance is designed to improve the competency of the permit holder that provides accounting services to the general public, as opposed to the convenience of the permit holder,

I HEREBY RECOMMEND that the Oklahoma Accountancy Board ***not*** adopt the proposed subparagraph (b) of 10:15-29-7 and that such subparagraph be stricken and deleted in its entirety, and that subparagraph (c) of such section there under be re-labeled as subparagraph (b)."

Adjournment: Chairman Honea called for the hearing to adjourn at 12:03 p.m.

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Archer M. Honea, Chairman

ATTEST:

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James A. Nickles, Secretary