

Connecticut State Board of Accountancy
February 11, 2003
Minutes

Chairman Blum called the meeting to order at 9:35 A.M. in the second floor conference room in the Office of the Secretary of the State, 30 Trinity St. Hartford CT.

Present :

Bernard Blum, CPA, Chairman
James Ciarcia
Philip J. DeCaprio Jr., CPA
George Veily, CPA
Michael Weinshel, CPA

David L. Guay, Executive Director
Diane Ruggia, Board Staff

David Hemond, Chief Attorney for The Connecticut Law Revision Commission
Arthur Renner, Executive Director Connecticut Society of Certified Public Accountants

Motion made by Michael Weinshel and seconded by James Ciarcia to approve the initial certificate applications and the initial and reinstatement applications for registrations and licenses, all voted in favor. The certificates, registrations and licenses approved at the February 11, 2003 meeting are incorporated into these minutes by attachment.

Board members concerned about the asterisk marked Firms, on the list presented, raised questions. Executive Director Guay indicated that these firms were presented for approval even though staff had not and could not confirm that the individual license holders as partners, shareholders or owners were in good standing due to the ongoing renewal cycle. George Veily asked for the Board's staff's commitment to follow-up on this group, Executive Director Guay agreed. Motion made by James Ciarcia and seconded by George Veily to approve initial and reinstatement applications for firm permits to practice, subject to verification of the individual license status of the partners, shareholders and owners, all voted in favor. The permits approved at the February 11, 2003 meeting are incorporated into these minutes by attachment.

George Veily read a memo he drafted concerning the application of a James Burnhardt and placed the memo before the Board as a motion.

Mr. Burnhardt claims credit for equivalent experience for his employment in the Internal Audit Department of General Signal for approximately one year and five months in 1982 and 1983. General Signal was acquired by SPX, went out of business and supervisors of Burnhardt at GS are no longer employed at SPX. SPX has advised that GS Human Resource records do indicate that Burnhardt worked in the internal audit department

of General Signal for the time period indicated on the application but they can't confirm any more of the details of his responsibilities.

This difficulty in verification from outside sources is due in part to two circumstances:

First – The disappearance (my word) of an employing company.

Second – The long passage of time between the experience and Mr. Bernhardt's license application.

However, based upon my personal experience as engagement partner on a number of major public entities such as General Signal and my review of many license applications placed before the Connecticut State Board of Accountancy in which the organization and operation of internal audit departments of comparable entities are set forth in detail, it is my opinion that experience Mr. Bernhardt received while employed in the internal audit department at General Signal qualifies as "equivalent" and should be accepted by the Board.

Mr. Ciarcia seconded the motion, all voted in favor.

Mr. Veily also read a letter he wrote to Michael Conaway, CPA, Chairman of the National Association of State Boards of Accountancy highlighting the problem and concerns of verifying experience. A copy of his letter is incorporated into these minutes by attachment.

Chairman Blum directed the Board in deliberation of the Draft Board Decision in the matter of Philip A. Madonna, Jr. Case #649 a/k/a Case #20004. Upon deliberation a motion to accept the draft decision and order of the Board to revoke the Certified Public Accountant Certificate, Number 6442 of Mr. Phillip A Madonna Jr. was made by George Veily and seconded by Michael Weinshel.

Bernard Blum, CPA, Chairman	Yes
James Ciarcia	Yes
Philip J. DeCaprio Jr., CPA	Recused
Sandra Schork	Absent
George Veily, CPA	Yes
Michael Weinshel, CPA	Yes
James Quinn	Absent

The motion to accept and approve the Decision and Order was approved.

Chairman Blum opened continued discussion with regard to the Board's communication to the Connecticut Law Revision Commission on reform.

Chairman Blum noted that a copy of the written comments sent to the Law Revision Commission by the Connecticut Society of Certified Public Accountants has been provided to each member of the Board. Chairman Blum also noted that Board member George Veily had provided written comments. Mr. Veily noted that it was his understanding that all Board members were going to provide written comments and asked whether anyone else had provided written comments. Mr. Veily provided the only written comments. Mr. Veily then asked Chairman Blum how he envisioned the process of providing something to the Law Revision Commission. Mr. Blum responded that it would be on a piece meal and ongoing basis. Mr. Veily after reviewing his understanding of the process and the need for expediency voiced his concern about the Board's progress on this matter.

Mr. Veily reviewed for his fellow Board members his written comments. A copy of Mr. Veily's written comments are included in these minutes by attachment.

Chairman Blum noted an article concerning the Public Companies Accounting Oversight Board and a presentation made by the President and Chairman of NASBA and indicated that he would make a copy for Attorney Hemond of the Law Revision Commission.

Mr. DeCaprio discussed briefly the application of Sarbanes-Oxley rules to all Firms and his believe that it is not necessary to apply these rules to all firms and not necessary to change Connecticut Law.

Mr. Weinshel discussed the possible need to adjust Connecticut's Laws to allow for the referral of complaints from the Public Companies Accounting Oversight Board. Mr. Weinshel also discussed NASBA's pending communication to the Public Companies Accounting Oversight Board urging the communication of the Oversight Board's actions to the State Boards.

Chairman Blum made the point that he believes that not all accountant's are the same, those doing national global work are not the same as those doing local family work. Maybe there should be a distinction in what they are called, otherwise the public doesn't know of the distinction.

Mr. Veily and Mr. DeCaprio exchanged views in summarizing what has been stated so far and concluded that the Board should recognize the difference between publicly traded companies and privately owned companies.

Mr. Weinshel noted that we don't know yet how the PCAOB's Peer Review will work with Connecticut's Peer Review requirement.

Mr. Veily noted that Connecticut couldn't afford to get out of step, at the risk of driving business out of state.

Mr. Veily also noted that he has had discussions with two other states. Ohio suggested a go-slow approach, consistency with other states was considered significant and Ohio

would consider another public member on the Board, bringing Ohio's total to two public members on a nine-member board.

Mr. Blum noted that this month accountants made an article in Consumer's Report, a copy of which was provided by Mr. Ciarcia. Mr. Ciarcia briefly summarized the article. Model State's reform

- Provides one year cooling off period.
- Audit records retention
- Majority of Public Members on State Board's
- Disclosure to State Board's when a company restates its earnings, enable an investigation of the accountant to determine whether he or she violated professional standards

The article is incorporated into these minutes by attachment.

Mr. Veily raised the issue of Board composition. Mr. Veily believes that a majority of public members on the Board is not acceptable. According to Mr. Veily the make-up of the Board should be consistent with that of other professional licensing Boards in the State. Board responsibilities according to Mr. Veily require significant expertise on technical issues and the application of technical principals, non-CPA members should have experience in the use of accounting services and financial statements to make accounting and auditing related judgments. The availability of individuals with this background and their willingness to serve are limited.

Mr. DeCaprio offered that he does not believe the licensee members of the Connecticut Board act any differently than public members when it comes to disciplining any licensee or a firm permittee. His experience has been that everyone acts objectively and independently.

Mr. DeCaprio offered a proposal for a larger Board, one more public member and one more licensee member, thus a Board composed of four licensees and four public members, the chair is a licensee and the chair only votes to break a tie.

Mr. DeCaprio also offered that members serve no more than eight years, and that the CSCPA should remain as a resource for the Governor to choose licensee members.

Mr. Ciarcia raised the scenario of the CSCPA as they currently do, having the authority to suggest names to the Governor for the appointment of licensee members, and we have a new term of the Governor, like we have now and the CSCPA doesn't happen to be in sync with decisions of the CPA members on the Board. Mr. Ciarcia posed the question of whether the CSCPA could then propose four new members to replace them and does the CSCPA have too much power?

Mr. Ciarcia noted that in recent years the votes of the Board have split between the licensee members and the public members, citing the example of the Board's opposition to the CSCPA legislation in 2001, in which the public members voting as a block.

Mr. Veily in response to Mr. Ciarcia noted that he believes the CSCPA should continue to provide a list of potential Licensee Board members to the Governor. The Governor does not have to accept those recommendations and has not always accepted them. Never the less such practices are a good means to tap a resource by an informed and apolitical body.

Executive Director Guay questioned the appropriateness of calling the CSCPA an apolitical body.

Mr. Veily raised the issue of employment by a former client, the one year cooling off period. Mr. Veily believes that this should not be prohibited. Many enter the profession as a stepping-stone and never intend to remain in it.

Mr. Weinshel countered that their may be good reason to restrict, for independence and objectivity, a manager, partner or maybe a engagement senior to a one year requirement, a cooling off period where some may have significant decision making ability on the audit.

Mr. Veily noted that in his many years as a partner, his biggest enemy at the end of an audit was the client hiring away his good people, over his objections.

Mr. Weinshel noted that there has to be some way to stagger the Board member terms, so that all of the Board doesn't go off theoretically at the same time.

Chairman Blum asked whether the members wanted to bring the issue of Board composition to a vote. Mr. Veily proposed that the Board suggest to the Connecticut Law Revision Commission that the Board be composed of four licensee members and four public members and a Licensee Chairman. No second made. Chairman Blum called for a vote.

Bernard Blum, CPA, Chairman	Yes
James Ciarcia	No
Philip J. DeCaprio Jr., CPA	Yes
Sandra Schork	Absent
George Veily, CPA	Yes
Michael Weinshel, CPA	Yes
James Quinn	Absent

Mr. Weinshel asked Mr. Ciarcia why he is opposed, and asked what would be his suggestion.

Mr. Ciarcia noted he's opposed based upon the past history of the past influence of the CSCPA. It is in the better interest of the State of Connecticut that there be less influence by having public members in the majority.

Chairman Blum asked Mr. Veily for his next point. Mr. Veily raised the issue of scope of services restrictions. The major aspects of Sarbanes-Oxley apply to listed companies

with proscriptions about what services may be offered should not apply to companies that are not listed on the trading markets. Mr. Veily continued, and offered that allowing various other services in privately owned companies could jeopardize independence. Both Mr. DeCaprio and Mr. Blum added that they believed the corporate laws provide sufficient safeguards and avenue of redress for minority shareholders. Mr. Veily indicated the presumption that you have to be more independent for large client (because of the Sarbanes-Oxley Act) then you have to be for small clients is difficult to reconcile. Mr. Veily agrees with Chairman Blum that we have two classes of auditors, those who are independent enough to audit registered companies and those who are not quite independent. Mr. DeCaprio countered that we may have two classes of clients not two classes of auditors.

Mr. DeCaprio recapped the discussion, that there should be recognition of the distinction between public and non public companies when the provisions of Sarbanes-Oxley Act are considered.

Mr. Veily argued that a requirement for audit firm rotation is not supported by any evidence and does not guarantee any increase in quality of audits, fraud opportunities might be greater if the auditor is not familiar with the client. According to Mr. Veily the old adage is don't dig at random if you know where the bodies are buried.

On the Issue of audit partner rotation, Mr. Veily argued that it is probably a good idea.

Mr. Veily also argued that the presumption that certain audit conclusions are not appropriate is entirely unacceptable, the presumption of guilt is not acceptable.

Mr. Veily also found the idea of fines varying according to the size of the firm is ludicrous. Arguing that the Board could put a firm out of business overnight, that is the most power the Board has.

Mr. DeCaprio commented on enforcement powers of the Board, the Board has appropriate enforcement ability but lacks the resources to conduct its activities to the extent of the current statutes. The suggestion of increasing civil penalties fines to a maximum of \$100,000 may be appropriate, but it should be based on the gravity of offense, rather than on the dollar volume of the firm's revenue. Mr. DeCaprio also urged that fines collected should be credited to the Board's budget to give it the resources available to conduct its enforcement activities.

Mr. Blum argued that the Board should be better funded for other things, but not funded with penalties.

On the issue of Peer review Mr. DeCaprio suggests that the education and remedial aspect of Peer review not be changed to make it a punitive program. He does believe the Board should have the ability to monitor remedial actions.

Chairman Blum asked Mr. DeCaprio if there are any changes in the peer review program he believes should be made. Mr. DeCaprio indicated that he would favor changing the reporting cycle from three to five years.

Mr. DeCaprio urged that more independence be granted to the Board by allowing the fees and revenue generated by the Board be used to fund its own budgeted costs with any excess going to the general fund.

Mr. Veily indicated that he believed that an ethics requirement should be written into the continuing education requirements. Chairman Blum agreed that you cannot legislate ethical behavior but you can teach it. Mr. Blum argued that an ethics course be mandated.

Mr. Veily suggested that Mr. DeCaprio be charged with drafting a document based upon what's been written and discussed so far, what is agreed upon so far and include minority positions. Mr. DeCaprio agreed to draft a document for the next meeting.

Mr. Weinshel raised the issue of work paper retention, which is a provision of Sarbanes-Oxley, noting that Connecticut does not have a specific statute or regulation on the issue. Mr. Weinshel believes Connecticut should have rules on work paper retention, the seven years required by Sarbanes does not appear to be onerous.

Mr. Weinshel noted that discussion had been held on the application of the Sarbanes-Oxley rules to public and non public companies, but wondered whether the Board should be concerned about applying these types of rules to quasi-public entities.

Mr. Weinshel also commented that he is still concerned with the issue of temporary permits and how well our statutes mesh with the laws and statutes of Connecticut's border states.

Mr. Weinshel noted concerns about enforcement and strengthening enforcement. Expressing frustration about getting cases three years after conviction, some five years after a happening. Mr. Weinshel believes the Board should find a way to make enforcement more current, whether that is a manpower issue or a funding issue. Mr. Weinshel noting he didn't want to pick on Attorney Kozik, but also noting he has not been at the January and February meetings, any cases currently in the hopper were going to be at least 90 days before even getting before the Board and who knows how long they sat there. Mr. Weinshel believes we should have a mechanism for when the key players are out, somebody else could step in and keep the functions going. Mr. Weinshel mused that maybe it's a funding issue and maybe not a funding issue. Mr. Blum indicated it's a number of hands issue the Board needs more staff. Mr. Weinshel believes that the Law Revision study is a good opportunity to make possibly our board well funded and able to function in a way that we really need to function. Mr. Weinshel expressed concern in having the Executive Director doing licensing renewals.

Chairman Blum noted that the Board has been under funded and the Executive Director has used college interns to supplement the work force.

Mr. Weinshel also raised a question about the Board's hearing system. Primarily concerned with the Board's deliberations, uncomfortable with having deliberations conducted in public. Mr. Weinshel expressed a desire for a greater ability to go into Executive Sessions.

Mr. Weinshel initiated discussion on the Connecticut Code of Professional Conduct and the regulations on independence; expressing concern about the code and other codes such as the AICPA and CSCP. Mr. Weinshel asked his fellow Board members, what code do we expect licensee's to follow.

Mr. Ciarcia posed the question of the status of the Board in relationship to the Office of the Secretary of the State. Mr. Ciarcia asked whom the Board reports to, is the Board for administrative purposes only in the Office of the Secretary of the State. Executive Director Guay explained that the Board does not in its statute have the language for administrative purposes only rather the Board is simply within the Office of the Secretary of the State. Executive Director Guay further explained that the Secretary of the State has complete budgetary control over the Board but the Board has the authority to administer the State's Accountancy Laws.

A motion to approve the minutes of the January 7, 2003 Board meeting was made by Michael Weinshel and seconded by George Veily, all voted in favor.

Under Public Comment Art Renner, Executive Director of the CSCP Addressed the Board reviewing recent activities of the CSCP

A motion to adjourn the meeting was made by James Ciarcia, and seconded by Philip DeCaprio, all voted in favor. Meeting was adjourned at 11:42 a.m.