

Connecticut State Board of Accountancy
March 4, 2003
Minutes

Chairman Blum called the meeting to order at 9:30 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
Sandra Schork
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
Beth Cook, Staff Connecticut Law Revision Commission
Arthur Renner, Executive Director Connecticut Society of Certified Public Accountants

Motion made by George Veily and seconded by Michael Weinshel 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 March 4, 2003 meeting are incorporated into these minutes by attachment.

Philip DeCaprio raised a question concerning the appropriateness of the firm name on one of the firm applicants, after discussion and a reading of the appropriate regulation, consensus was reached that it was an appropriate firm name. Motion made by Michael Weinshel and seconded by James Ciarcia to approve initial and reinstatement applications for firm permits to practice, all voted in favor. The permits approved at the March 4, 2003 meeting are incorporated into these minutes by attachment.

Chairman Blum reviewed the pending enforcement docket. Discussion was held by the Board Members about alternative help and processes for enforcement in light of the extended absence of Attorney Kozik. Executive Director Guay will work toward utilizing Board members to facilitate the resolution of the pending cases on the enforcement docket. A copy of the pending enforcement docket is incorporated in these minutes by attachment. In conclusion, Chairman Blum asked to go on record, that taking care of these pending cases is a major duty of this Board and should be done as quickly as possible.

Chairman Blum opened continued discussion with regard to the Board's communication to the Connecticut Law Revision Commission on reform by noting receipt of the discussion memorandum on State Board Composition

prepared by the State Board Composition subcommittee of the National Association of State Boards of Accountancy Regulatory Structures Committee. Chairman Blum read the memorandum to the Board membership.

Board member James Ciarcia indicated to Chairman Blum that the issue of Board membership was discussed and disposed of at the last meeting. Chairman Blum noted that this memorandum was new and as Chairman he felt it was important to go through it. Chairman Blum continued to read the memorandum to the Board membership.

During a pause in Chairman Blum's reading of the memorandum, Board member Sandra Schork asked Chairman Blum what was the composition of the subcommittee that authored the memorandum. Chairman Blum proceeded to read the rest of the memorandum, which included the response of the public members interviewed by members of the subcommittee.

Board member George Veily asked Chairman Blum whether the report has been adopted by NASBA, Chairman Blum responded that it was a discussion memorandum of the National Association of State Boards of Accountancy Regulatory Structures Committee, Chaired by Robert Fox of New York. Executive Director Guay noted that he had discussions with Mr. Fox on the subject and the memorandum.

Executive Director Guay also noted that he had informed Mr. Fox that he strongly disagreed with the Memorandum. Executive Director Guay further noted that the National Association of State Boards of Accountancy did not have any non CPA's as part of its leadership and that a majority of those CPAs which are part of the leadership are not current State Board of Accountancy members, but mostly past members of Boards of Accountancy. Executive Director Guay offered the opinion that the National Association of State Boards of Accountancy had become another CPA trade association, and thus has an institutional bias on the issue of board composition.

Board member George Veily noted that the memorandum was not an official position of the National Association of State Boards of Accountancy. Further Mr. Veily indicated that the job of this Board is not to protect the public interest, but to enforce the rules and regulations of the profession and of the State, plus the law. The laws and the regulations should be designed to protect the public interest; you protect the public interest by enforcing the laws and regulations.

Executive Director Guay noted that in all the years he's been with the Board it was the first time he has seen in writing an attempt to define what the public interest is.

Board member Sandra Schork offered that having a majority of Licensee members provides for a public perception of a conflict of interests and potential for the Board to be self-serving to the profession.

Chairman Blum noted that Connecticut is one of two states in the union that has the highest percentage of public members. Executive Director Guay added, that Connecticut's percentage of public members is the result of last minute legislative session intervention by a State Senator upon his discovering of the attempt, fostered and supported by the Connecticut Society of Certified Public Accountants to add another CPA member.

Board member James Ciarcia also added that he wanted to address an item about NASBA, which has bothered him, in that NASBA has created an ethics committee as a result of Andersen and Enron, yet not one public member is on it. In his opinion, NASBA just doesn't get it. Mr. Weinshel voiced his agreement that there should be public members on that committee, noting that he is a member of that committee and will be raising that issue at the next meeting.

Chairman Blum noted that the American Institute of Certified Public Accountants might be in financial trouble, citing the possible elimination of specialty designations.

Chairman Blum read to the Board members a letter from Olivia Kirtly, CPA, and Chair of the American Institute of Certified Public Accountants Board of Examiners communicating the setting of the passing score for the CPA Exam. The letter is incorporated into these minutes by attachment.

Chairman Blum opened the floor to further discussion with regard to the Board's communication to the Connecticut Law Revision Commission on reform, noting the Board has discussed the Sarbanes-Oxley Bill, composition of the Board, the requirement for mandatory review should continue and several items for further discussion, such as enforcement powers, funding, code of conduct and ethics rules, and independence rules, temporary permits, hearings and deliberations.

Board member James Ciarcia noted that our current enforcement powers limit the penalty to \$1000 and suggested \$25,000. Both Mr. DeCaprio and Mr. Weinshel added that they thought the \$1000 limit for penalties was too low. Mr. Weinshel noted that the Board still has the ultimate power to take away someone's certificate and license. Mr. DeCaprio asked whether it was appropriate to set a formula for determining levels of severity and an appropriate fine. Mr. Veily suggested it should be discretionary, and concurred that the current maximum of \$1000 is meaningless. Ms. Schork suggested the maximum should be \$100,000, advocating that the Board should not limit itself to a lesser amount.

Michael Weinshel made a motion that the Board suggests to the Connecticut Law Revision Commission that the maximum monetary penalty be raised from \$1000 to \$25,000. George Veily seconded the motion.

Sandra Schork made a motion to amend Mr. Weinshel's motion to be that the Board suggests to the Connecticut Law Revision Commission that the maximum monetary penalty be raised from \$1000 to \$100,000. Chairman Blum called for a second to the amendment motion, hearing none Chairman Blum asked for further discussion on Mr. Weinshel's motion. Chairman Blum called for a vote.

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

Motion passes.

Mr. Weinshel asked to revisit the issue of enforcement and quick enforcement action. Mr. Weinshel raised the question of whether the reason for lack of quick enforcement is truly a financial matter, lack of personnel, or something to do with the regulations and Mr. Weinshel would like to have that discussion when Attorney Kozik returns and does not want to drop that issue. Mr. DeCaprio added that an accused person entitled to a speedy resolution and the Board is entitled to get a bad guy off the street, but it comes down to resources, and resources are going to come down to funding. Mr. DeCaprio noted that the Board had this discussion earlier, that we don't have the resources.

Executive Director Guay noted that the pending enforcement docket has 36 cases on it and in his fourteen years with the Board this has been the approximate consistent number of pending cases. Executive Director Guay further asked Mr. Weinshel what gives him the impression that we are not providing a speedy resolution to cases, further offering that many of the reasons for delay are beyond the Board members or staff's control, citing a recent case in which the respondent in a case was in a federal penal facility in Pennsylvania. Executive Director Guay suggested that it was reasonable to wait the short time for the respondent's release and return to Connecticut rather than to attempt to further the case with a trip to Pennsylvania, as well as other factors. In summary Executive Director Guay noted that he had a different perception of the speed of enforcement.

Mr. Weinshel commented that he believed it was the public perception, not his, that we don't have speedy resolution of enforcement cases. Executive Director Guay commented that he was prepared to deal with reality but unsure how to

respond to perception. Mr. Veily offered that cases might be affected by the actions of other enforcement bodies such as the American Institute of Certified Public Accountants and Securities and Exchange Commission.

Executive Director Guay noted that he believed, considering the environment in which we work, considering the resources available, that the Board is doing a good job in enforcement. Adding that he does not believe the public looking at our docket should get the perception that we are not doing our job. Executive Director Guay provided an example of a recently received complaint about unauthorized use of title, reviewing the need to investigate a case beyond what is provided by the complainant and the need to provide due process and the protection of the law for the respondent.

Mr. Weinshel commented that we may be doing a good job based on the resources available, and maybe that's one of the arguments, maybe we don't have enough resources and to say we're doing a great job based on the resources we have, then if we have no resources we're doing a great job and do nothing. Mr. Weinshel offered the Board needs to have adequate resources to be able to timely investigate and resolve these cases.

Mr. DeCaprio noted that most of our cases are referred to us, that we do little or no monitoring, to find things faster you need to monitor, and again you need people and resources to do that. Mr. DeCaprio asked what other Board's do and do they have any statistics on how and when they deal with cases.

Chairman Blum added that for many other Boards's it's the size of the Board, larger Boards split functions between Board members; perhaps the Board should be larger.

Executive Director Guay explained his frustration with the discussion, fully agreeing with communicating to the Law Revision Commission what the Board needs in a perfect world, offering that this is not a perfect world. The frustration is drawing the discussion back to real world possibilities. Public policy is always affected by funding. Executive Director Guay asked how do we focus on today and getting more of the resources the Board needs to do its job. At best, we are currently operating with three staff members in crisis mode. The Board can discuss its desires and needs, but Mr. Guay argues the need to concentrate on the hear and now, predicting that we are going to have the same or less adequate resources for at least the next five years. Mr. Guay further explained that it took from 1989 to 1999 for the Board to recover from the last time they reduced the work force. The Board in 1989 had three full time clericals and other vacant positions and was reduced to two clericals and the Executive Director and a part-time Attorney.

Chairman Blum called for the Board to look at all alternatives.

Executive Director Guay offered if the Board wants more funding and more personnel, then the Board should go after that goal. Draft a bill, meet with the Secretary of the State, get her endorsement, have the Connecticut Society of Certified Public Accountants turn its attention towards that goal and work in the Legislature and with the Governor to achieve the goal of more funding and personnel. Mr. Guay asked the Board if the current discussion is going to get the Board where it needs to be.

Mr. Guay argues that in the current environment he needs to spend his time wisely. Chairman Blum asked to go on record stating that the staff is doing the best it can under the circumstances.

Mr. Guay responded that he is not looking for pats on the back, rather realistic approach to the current situation. Chairman Blum commented that he and others had offered to send people over to fill in and help since the layoffs. Mr. Guay responded that now as before that would be a violation of Connecticut's labor laws. Mr. Guay cited this as an example for the need of expertise on the Board in being a public official rather than technical expertise as a CPA.

Mr. Weinshel asked what can we do, what resources does the Board need to do its job efficiently. Mr. Guay responded we need personnel, at least one more clerical, paralegal/investigator and two full time Attorneys.

Mr. DeCaprio commented that he did not feel this discussion was in vain, that others outside of the Board need to hear what is going on.

Executive Director Guay indicated that communicating to the Law Revision Commission the resources the Board needs in a perfect world, is right and justified. But when the discussion is based on the current enforcement docket, the Board should be mindful that the current situation is due to the loss of two staff, even when the Board was staffed at five, we don't have adequate staffing levels and in the current environment we should not expect any rapid changes.

Mr. Ciarcia commented that in today's atmosphere if we went to the Office of Policy and Management looking for additional staff, we might as well forget it. Mr. Ciarcia suggests that the Board continue as we are, prioritize what we can, get what we can get done and make our recommendations to the Connecticut Law Revision Commission.

Mr. DeCaprio agreed with Mr. Ciarcia of where the Board is at and expressed sympathy to Executive Director Guay's concerns.

Chairman Blum turned to Mr. DeCaprio to discuss the issue of a possible mandatory periodic ethics course and exam. Mr. DeCaprio indicated his desire to include a mandatory ethics course requirement into the regular continuing professional education requirement, possibly a four-hour requirement every two

years. Mr. Veily asked whether this requirement would be changed by Statute or Regulation. Executive Director Guay responded that it would be changed by Regulation. Executive Director Guay provided a brief description of the regulation making process and possible time frame.

Philip DeCaprio made a motion to include in our communication to the Connecticut Law Revision Commission that regulations be modified to include mandatory ethical behavior courses, four hours every two years, and that the Board begin the process to enact the regulatory change now, George Veily seconded the motion. Chairman Blum called for a vote.

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

Motion passes.

Discussion was held on the issue of limited permits, with the Board reaching the consensus that the system of licensing firms was working and adequate.

Mr. Weinschel raised the question of what code of ethics does the Board enforce. Discussion on the subject was held, consensus was reached to wait and question Attorney Kozik upon his return.

Chairman Blum read and noted for the Board an article from the February 2003 Journal of Accountancy (the trade magazine from the American Institute of Certified Public Accountants) entitled, "Period of Adjustment". The article is incorporated into the minutes by attachment.

Under Public Comment Arthur Renner, Executive Director of the Connecticut Society of Certified Public Accountants explained that they expect Legislation out of the Governor's. Also he expected an upcoming legislative public hearing dealing with school districts and the selection and retention of auditors. Mr. Renner also explained that the internal process for recommending a list of possible Board members to the Governor is proceeding.

Board member George Veily noted that the National Association of State Board of Accountancy leadership met with the Public Companies Accounting Oversight Board (PCAOB). Mr. Nemeyer the acting Chairman made the following comment, which Mr. Veily found significant to this Board, "Although PCAOB firm inspections will be focused on the big four firms in the first year of operation, the oversight board will be moving beyond those firms in subsequent years."

A motion to approve the minutes of the February 11, 2003 Board meeting (with note of typographical error on page 4) was made by Michael Weinschel and seconded by George Veily, all voted in favor.

Executive Director Guay noted for the record what a wonderful job both Diane Ruggia and Stephanie Sheff are doing in the office, making up for the shortage of staff with their extraordinary efforts. Executive Guay provided an update on the elimination of the backlog in renewals.

A motion to adjourn the meeting was made by James Ciarcia, and seconded by Sandra Schork, all voted in favor. Meeting was adjourned at 11:35 a.m.