

Board of Accountancy

WASHINGTON STATE



ANNUAL BOARD MEETING AGENDA

Date, Time: Friday, October 30, 2015 – Annual Board Meeting – 9:00 a.m.

Location: Crowne Plaza Seattle Airport – Queen Anne Room
17338 International Boulevard, SeaTac, Washington
(206) 248-1000

Notices: None

Chair Introductions

ANNUAL MEETING AGENDA

Attachments at tab:

1. Minutes – July 31, 2015, Regular Board Meeting..... A
2. Chair’s Report
 - a. Election of Officers for Calendar Year 2016
 - b. 2016 Board Meeting Schedule and Location
 - c. Committee Chair Appointments for Calendar Year 2016
3. NASBA Update
4. Rules Revisions Discussions
 - a. WAC 4-30-050 What are the requirements concerning records and clients confidential information?
 - b. WAC 4-30-060 What are the education requirements to qualify to apply for the CPA examination?B
 - c. WAC 4-30-062 How do I apply to take the CPA examination?.....C
 - d. WAC 4-30-010 DefinitionsD
5. Policy Updates and Discussions
 - a. 2004-1 Sanction and Penalty GuidelinesE
 - b. 2011-2 Interim Policy Guidelines Pending Rule Changes.....F
 - c. 2012-1 Social Media
 - d. Policy to Consider Renewal Fee Reductions.....G
 - e. Board of Accountancy Outreach
6. Consent Agreement Discussion

The Board of Accountancy schedules all public meetings at barrier free sites. Persons who need special assistance, such as enlarged type materials, please contact the Board's Americans with Disabilities Act contact person:

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7-1-1 or 1-800-833-6388 (TTY) - 1-800-833-6385 (Telebraille)
(TTY and Telebraille service nationwide by Washington Relay
www.washingtonrelay.com)

- 7. Client Confidentiality and the Cloud.....H
- 8. Committee/Task Force Reports
 - a. Executive – Donald Aubrey, CPA, Chair – *Verbal Report*
 - b. Compliance Assurance Oversight – Edwin Jolicoeur, CPA, Chair – *No Report*
 - c. Legislative Review – Donald Aubrey, CPA, Chair – *No Report*
 - d. Quality Assurance – Thomas Neill, CPA, Chair – *Verbal Report* I
 - e. Request Review – Karen Saunders, CPA, Chair – *Verbal Report* J
 - f. State Ethics Compliance – Lauren Jassny, Ethics Advisor – *Verbal Report*
 - g. Qualifications – Thomas Neill, CPA, Chair – *Verbal Report*
 - h. Performance Review and Succession – Emily Rollins, Member – *No Report*
 - i. Client Record – Thomas Neill, CPA, Chair – *No Report*
 - j. Social Media – Favian Valencia, Chair – *No Report*
- 9. Director of Investigation’s Report K
- 10. Amendment to Delegation of Authority D-201 – Authority to Conduct Investigations L
- 11. Executive Director’s Report
- 12. Legal Counsel’s Report
- 13. Executive and/or Closed Sessions with Legal Counsel
- 14. Public Input – To ensure the public has an opportunity to address its concerns and the Board has an opportunity to ask questions of the public. Individual speakers will be provided 10 minutes each.

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Unapproved Draft - Minutes of a Regular Meeting of the Board – Unapproved Draft

Time and Place of Meeting	9:05 am – 2:45 pm Friday, July 31, 2015 Washington State University – Vancouver Campus Rooms VDEN 129 and VDEN 130 14204 NE Salmon Creek Ave Vancouver, WA 98686
Attendance	Donald F. Aubrey, CPA, Chair, Board Member Lauren C. Jassny, Vice Chair, Public Member Karen R. Saunders, CPA, Secretary, Board Member Elizabeth D. Masnari, CPA, Board Member Edwin G. Jolicoeur, CPA, Board Member Thomas G. Neill, CPA, Board Member Favian Valencia, Public Member (left at 2:00 pm) Emily R. Rollins, CPA, Board Member James R. Ladd, Public Member (arrived at 9:09 am and left at 2:00 pm) Bruce L. Turcott, Assistant Attorney General, Board Advisor Elizabeth Lagerberg, Assistant Attorney General, Board Prosecutor (left at 2:00 pm) Richard C. Sweeney, CPA, Executive Director Charles E. Satterlund, CPA, Director of Investigations Kirsten Donovan, Board Clerk Taylor Shahon, Special Assistant
Call to Order	Board Chair, Don Aubrey, called the regular meeting of the Board to order at 9:05 am.
Minutes – April 17, 2015 Regular Board Meeting	The Board approved the minutes of the April 17, 2015 Board meeting as presented.
NASBA Foreign Education	Guest speakers, James Suh, NASBA, Director, Continuous Improvement & Analytics, and Patricia Hartman, NASBA, Director, Client Services, reported on the following topics: <ul style="list-style-type: none">• International Education<ul style="list-style-type: none">○ NASBA International Evaluation Services (NIES) has been doing evaluations for three years now○ Fraudulent transcripts from international locations is a growing problem• Domestic Education<ul style="list-style-type: none">○ Competency based education issue○ Accreditation process• Exam reporting

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Rule Revision

WAC 4-30-060 What are the education requirements to qualify to apply for the CPA examination?

Tom Neill reported on the possible rule revision. Topics included:

- The Qualifications Committee meeting on July 1, 2015
- Blended course issue
- Communications with NASBA concerning the substantially equivalent issue
- Additional Qualifications Committee meeting needed prior to drafting a rule revision

Tom expects to have a draft of the Rule revision in time for the October Board meeting.

NASBA Update

Guest speaker, Daniel J. Dustin, Vice President, NASBA State Board Relations reported on the following topics:

- Board support, including letters to government officials
- Upcoming NASBA meetings
- NASBA tools and services
- DOL ERISA Audits
- Peer review program enhancements
- Cooperative enforcement
- Recent UAA amendments
- UAA committee projects

Ed Jolicoeur, CPA, Pacific Regional Director for the National Association of State Boards of Accountancy (NASBA), reported on the following NASBA activities:

- Board of Directors meeting in Seattle
- Nominating Committee – re-nominated Ed for Pacific Regional Director
- DOL Report
 - 39% failure rate of ERISA audits on latest report
 - Ed would like this addressed by the Board, as the level of performance is unacceptable
- Experience requirement

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- Bylaws Committee will be making some changes which will be voted on at the annual meeting
- Ed encourages Board Member attendance at the annual meeting

Rule Revision

WAC 4-30-050 What are the requirements concerning records and clients confidential information?

Tom Neill led the discussion. Tom stated that after meetings were held it was decided that a rule change was not advised. A revision to the Public Accountancy Act would be needed.

The topic will be further discussed at the October Board meeting.

Policy Updates and Discussions

Board Policy 2000-1 - Continuing Professional Education and Licensing Requirements

The Executive Director presented a policy revision draft to add “with the exception of Washington Ethics and Regulations courses” to the section concerning no pre-approval of programs.

The Board voted unanimously to revise the policy with the proposed change and an additional change, which adds “that must be preapproved by the Executive Director”.

Board Policy 2011-2 - Interim Policy Guidelines Pending Rule Changes

The Executive Director presented a policy revision draft with two options and led the discussion.

The Board voted unanimously to remove the CPE deficiencies section from Board Policy 2011-2 and add it to Board Policy 2004-1, Sanction and Penalty Guidelines.

Revision drafts of Board Policy 2004-1 and Board Policy 2011-2 will be presented to the Board at the October Board meeting.

Board Policy 2012-1 - Social Media

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Favian Valencia led the discussion concerning a possible revision to the Policy. Topics included:

- Providing information to a younger generation
- Concerns with public records

The Board voted unanimously to create the Social Media Task Force. Task force members are:

- Favian Valencia
- Don Aubrey
- Jennifer Sciba

The task force will make a proposal to the Board at the October meeting.

Client Confidentiality and the Cloud

The Executive Director reported on cloud computing privacy issues as it relates to WAC 4-30-050 and led a discussion on the topic. The primary areas of concern are:

- Who owns the data – the CPA or the host
- Security issues

The Executive Director will draft a Policy for the October meeting.

Legal Counsel's Report

Bruce Turcott, AAG, and Elizabeth Lagerberg, AAG, delivered a PowerPoint presentation, *Complaints, Investigations, and the Adjudicative Process*, during the lunch break.

Executive and/or Closed Session with Legal Counsel

A closed session was held regarding already completed disciplinary cases.

The Board directed staff to draft a Consent Agreement/Default Order process proposal for Board consideration at the October meeting.

Executive Committee

Don Aubrey reported:

- The committee met by teleconference on July 21, 2015 to discuss the Board meeting agenda.
- At the NASBA Western Regional meeting a video explaining the differences between state Boards and state societies of CPAs was presented. Don will

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coordinate with NASBA to create a similar video for Washington State.

- Don completed and submitted the AICPA questionnaire regarding the differences between Board Rules and the AICPA concerning client records.

Compliance Assurance Oversight Committee

Ed Jolicoeur presented a memo from Deidra Roberts concerning the PROC conference.

Legislative Liaison Committee

Don Aubrey had nothing to report.

Quality Assurance Committee

Tom Neill had nothing to report.

Request Review Committee

Karen Saunders reported:

Firm Names: *Approved:*

NUMERIC CPA PLLC
ACCOUNTANT SMART LLC
TAXES BY RADHA
RS FREEDOM CORP
CL BUSINESS & ACCOUNTING SOLUTIONS, LLC
HOLTZMAN PARTNERS LLP
GREENBRIDGE CPA PLLC
MINERVA CPA LLC
WILSON DOWNING GROUP, LLC.
FENG'S CPA FIRM
GRAYSON CONSULTING PC
DAP SERVICES, INC
SWENSON ACCOUNTANCY CORPORATION
NACORTES ACCOUNTING SERVICES, LLC
GALLINA WASHINGTON LLP

Professional/Educational Organization - Recognition Requests: During the 2nd quarter in 2015, the Board approved Washington Health Benefit Exchange as an educational organization for the purposes of obtaining a list of individual CPAs.

Domestic or Foreign Education Credential Evaluation Services – Applications: During the 2nd quarter 2015, the

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Board did not receive any requests for recognition of domestic or international education credential evaluation services.

Late Fee Waiver Requests – Late Fee Waiver Requests were received between 05/01/2015 and 06/30/2015.

A Total of 9 Requests were Received

- 3 requests for an Individual CPA License
 - 1 Request Approved
 - 2 Requests Denied
- 6 requests for a CPA Firm License
 - 2 Requests Approved
 - 4 Requests Denied

**State Ethics
Compliance Committee**

Lauren Jassny had nothing to report.

**Qualifications
Committee**

Tom Neill had nothing to report.

**Performance Review
and Succession
Committee**

Emily Rollins had nothing to report.

**Client Record Task
Force**

Tom Neill had nothing to report.

Chair's Report

Potential Statute Revisions: The Board Chair led a discussion on potential revisions to:

- Elimination of CPA-Inactive status (RCW 18.04.105)
 - The Board will work closely with the Washington Society of CPAs (WSCPAs) to coordinate and revisit.
- Timeframe for licensure after passing the CPA Exam (RCW 18.04.105)
 - The Board discussed establishing an expiration date for Exam scores which would make the most sense for us. Conforming to neighboring states is not the focus.

Washington Rules and Statutes Compared to Model Rules and UAA: The Board Chair led a discussion on the following

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topics:

- Statute of limitations – Should the Board implement one and for how long? After discussions the Board decided to take no action.
- Proportionate liability – UAA establishes proportionate liability in any claim for money damages brought against a licensee. The issue is not addressed in the Public Accountancy Act. After discussions the Board decided to take no action, as the issue may be more appropriately addressed by the WSCPA.

Closing Agreements by Licensees Acting as Trustees: The Board Chair led a discussion concerning hold harmless language in trustee closing agreements. The Board decided that trustees who require beneficiaries to sign hold harmless agreements must inform beneficiaries of their rights.

The Board directed staff to draft a rule revision reflecting this requirement in WAC 4-30-142, What are the bases for the board to impose discipline?

Board staff will present the draft revision at the October Board meeting.

Executive Director's Report

Scholarship Fund: The Executive Director reported on the transfer of money to the scholarship fund.

Cash Flows with Funds Sweep: The Executive Director presented a draft of the fee reduction language. The issue was tabled for later discussion.

Policy to Change Actual Cost on Investigations/Hearings: The Executive Director reported that a time and billing system will be developed.

The draft will be presented at the October meeting.

Director of Investigations' Report

Investigation Statistics/Investigations & Administrative Sanctions: Charles Satterlund, CPA, Director of Investigations, provided the following report to the Board:

- Enforcement Report: April 1, 2015 through June 30,

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2015

Charles Satterlund reported on the following issues:

- Dismissed cases
- Marijuana inquiries
- Caseload

Public Input

The Board received input from representatives of the WSCPA throughout the meeting.

Adjournment

The Board meeting adjourned at 2:45 pm.

Secretary

Chair

Vice-Chair

Member

Member

Member

Member

Member

Member

Proposed Amendment to WAC 4-30-060, What are the education requirements to apply for the CPA examination?

- (1) **Education requirements:** Effective July 1, 2000, to apply for the CPA examination you must have completed:
- (a) A least 150 semester hours (225 quarter hours) of college or university education, including:
 - (b) A baccalaureate or higher degree; and
 - (c) an accounting concentration defined as at least:
 - (i) Twenty-four semester hours (36 quarter hours) or the equivalent in accounting subjects of which at least fifteen semester hours must be at the upper level or graduate level. (An upper level course is defined as a course that frequently carries completion of a lower level course(s) as a prerequisite). ~~For purposes of meeting this section, individuals will be given 1.5 credits for each 1.0 graduate level credit of accounting courses taken;~~ and
 - (ii) Twenty-four semester hours (36- quarter hours) or the equivalent in business administration subjects at the undergraduate or graduate level.
 - (d) The Board will not recognize accounting concentration credits awarded for "life experience" or similar activities retroactively evaluated and recognized by colleges or universities. This restriction is not intended to apply to internships prospectively approved by colleges or universities.

The purpose of the change is to conform more closely to the UAA and maintain our status as a NASBA recognized Substantially Equivalent State and to use consistent institutional terminology throughout the rule.

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Proposed Change to Section (5) of WAC 4-30-060

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(5) ~~Accreditation standards~~**Education Credential Evaluations** : For purposes of this rule, the board will recognize education credentials colleges and universities which are have been evaluated by Board approved credential evaluation services, accredited in accordance with (a) through (c) of this subsection.

a) The accredited college or university must be accredited at the time your education was earned by virtue of membership in one of the following accrediting agencies:

(i) Middle States Association of College and Secondary Schools;

(ii) New England Association of Schools and Colleges;

(iii) North Central Association of Colleges and Schools, Higher Learning Commission;

(iv) Northwest Commission on Colleges and Universities (formerly the Northwest Association of Schools and Colleges);

(v) Southern Association of Colleges and Schools;

(vi) Western Association of Schools and Colleges; and

(vii) Accrediting Commission for Independent Colleges and Schools, or its predecessor, the Accrediting Commission of the Association of Independent Colleges and Schools.

(b) If an institution was not accredited at the time your education was earned but is so accredited at the time your application is filed with the board, the institution will be deemed to be accredited for the purpose of (a) of this subsection provided that it:

(i) Certifies that your total educational program would qualify the applicant for graduation with a baccalaureate degree during the time the institution has been accredited; and

(ii) Furnishes the board satisfactory proof, including college catalogue course numbers and descriptions, that the preaccrediting courses used to qualify you for a concentration in accounting are substantially equivalent to postaccrediting courses.

(c) If your degree was received at an accredited college or university as defined by (a) or (b) of this subsection, but the educational program which was used to qualify you for a concentration in accounting included courses taken at nonaccredited institutions, either before or after graduation, such courses will be deemed to have been taken at the accredited institution from which your degree was received, provided the accredited institution either:

(i) Has accepted such courses by including them in its official transcript; or

(ii) Certifies to the board that it will accept such courses for credit toward graduation.

(6) **Alternative to accreditation:** If you graduated from a four-year degree-granting institution that was not accredited at the time your degree was received or at the time your application was filed, you will be deemed to be a graduate of a four-year accredited college or university if a credentials evaluation service approved by the board certifies that your degree is equivalent to a degree from an accredited college or university as defined in subsection (5) of this section. The board does not provide education credential evaluation services.

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The purpose of this change is to provide the Board clear flexibility and provide focus on the authenticity of the transcripts and credibility of the credentials presented.

Proposed change to apparent error in the sentence construction of WAC 4-30-062, Examination process, subsection (5)(iii).

WAC 4-30-062

How do I apply to take the CPA examination?

(5) Examination process:

(iii) You must pass all four sections of the examination within a rolling eighteen-month period, which begins on the date that the first section(s) is passed. A section is considered passed on the date that ~~is used is the~~ ~~date that~~ you took the exam section and not the date that your grade(s) is (are) released.

Fiduciary and Breach of Fiduciary Responsibilities DRAFT Definition WAC 4-30-010

The objective of these proposed definitions is to enhance the clarity of the terms for purposes of the application of WAC 4-30-142, *What are the bases for the Board to impose discipline?*

WAC 4-30-142(5)(h) provides that the Board may discipline for “Discharging a trustee’s duty in a negligent manner or breaching one’s fiduciary duties”;

RCW 11.98 generally obliges fiduciaries of a trust to adhere to the following duties: **the duty to invest prudently; the duty of impartiality; the duty of loyalty; and the duty to carry out the trust’s fiduciary purpose.**

We have determined that certain trustees and other fiduciaries may unknowingly be in violation of RCW 11.98.108, RCW 11.98.145, and/or RCW 11.96A.070, and RCW 11.96A.220. These statutes provide that a trustee/fiduciary must advise beneficiaries of their legal rights when executing transactions and/or making final accountings and distributions. Failure to do so may result in legal liability to beneficiaries for 3 years after a final accounting and distribution.

CPA trustees/fiduciaries may be requesting beneficiaries of trusts and estates to sign “hold harmless” clauses without advising beneficiaries of their legal rights.

It appears that any “hold harmless” language releasing a trustee/fiduciary from liability **would only have legal effect** if the trustee properly notified the beneficiary of his/her rights; and the statute of limitations would only apply if it (and its subject matter) were properly disclosed to the beneficiary.

“Breach of Fiduciary Responsibilities/Duties” means when one person agrees or has been designated to act for another in a fiduciary relationship and the fiduciary acts in any manner adverse or contrary to the interests of the client, or for personal benefit in relation to the subject matter. This phrase includes failure to advise beneficiaries of their legal rights under state law as well as other fiduciary responsibilities/duties defined in the trust agreement or state law if the trust agreement is vague or omits the subject matter.

To be inserted as WAC 4-30-010, subsection (8).

“Fiduciary” means a relationship wherein one person agrees to act for the interests and benefits of another person or persons. The term embraces, but is not limited to, legal relationships such as those between attorney and client, broker and principal, principal and agent, trustee and beneficiary, and executors or administrators and the heirs of a decedent's estate, a partner in an “at will partnership”, a person granted an effective general or durable power of attorney. A person acting in a fiduciary capacity is held to a high standard of honesty and **full disclosure** in regard to the client and must not obtain a personal benefit at the expense of the client.

To be inserted as WAC 4-30-010, subsection (17).

Requires renumbering of intervening current subsections (8-16) and remaining subsections (17-49)

WAC 4-30-010

Definitions.

For purposes of these rules the following terms have the meanings indicated unless a different meaning is otherwise clearly provided in these rules:

(1) "**Act**" means the Public Accountancy Act codified as chapter 18.04 RCW.

(2) "**Active individual participant**" means an individual whose primary occupation is at the firm or affiliated entity's business. An individual whose primary source of income from the business entity is provided as a result of passive investment is not an active individual participant.

(3) "**Affiliated entity**" means any entity, entities or persons that directly or indirectly through one or more relationships influences or controls, is influenced or controlled by, or is under common influence or control with other entities or persons. This definition includes, but is not limited to, parents, subsidiaries, investors or investees, coinvestors, dual employment or management in joint ventures or brother-sister entities.

(4) "**Applicant**" means an individual who has applied:

(a) To take the national uniform CPA examination;

(b) For an initial individual license, an initial firm license, or initial registration as a resident nonlicensee owner;

(c) To renew an individual license, a CPA-Inactive certificate, a CPA firm license, or registration as a resident nonlicensee firm owner;

(d) To reinstate an individual license, a CPA-Inactive certificate, registration as a resident nonlicensee firm owner, or practice privileges.

(5) "**Attest**" means providing the following financial statement services:

(a) Any audit or other engagement to be performed in accordance with the statements on auditing standards;

(b) Any review of a financial statement to be provided in accordance with the statements on standards for accounting and review services;

(c) Any examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements; and

(d) Any engagement to be performed in accordance with the public company accounting oversight board auditing standards.

(6) "**Audit**," "**review**," and "**compilation**" are terms reserved for use by licensees, as defined in subsection (28) of this section.

(7) "**Board**" means the board of accountancy created by RCW 18.04.035.

(8) "**Breach of Fiduciary Responsibilities/Duties**" means when one person agrees or has been designated to act for another in a fiduciary relationship and the fiduciary acts in any manner adverse or contrary to the interests of the client, or for personal benefit in relation to the subject matter. This phrase includes failure to advise beneficiaries of their legal rights under state law as well as other fiduciary responsibilities/duties defined in the trust agreement or state law if the trust agreement is vague or omits the subject matter.

Re-Number to (9-16)

(9) "Certificate" means a certificate as a CPA-Inactive issued in the state of Washington prior to July 1, 2001, as authorized by the act, unless otherwise defined in rule.

(9) **"Certificate holder"** means the holder of a valid CPA-Inactive certificate where the individual is not a licensee and is prohibited from practicing public accounting.

(10) **"Client"** means the person or entity that retains a licensee, as defined in subsection (28) of this section, a CPA-Inactive certificate holder, a nonlicensee firm owner of a licensed firm, or an entity affiliated with a licensed firm to perform professional services through other than an employer/employee relationship.

(11) **"Commissions and referral fees"** are compensation arrangements where the primary contractual relationship for the product or service is not between the client and licensee, as defined in subsection (28) of this section, CPA-Inactive certificate holder, nonlicensee firm owner of a licensed firm, or a person affiliated with a licensed firm; and

(a) Such persons are not primarily responsible to the client for the performance or reliability of the product or service; or

(b) Such persons add no significant value to the product or service; or

(c) A third party instead of the client pays the persons for the products or services.

(12) **"Compilation"** means providing a service to be performed in accordance with statements on standards for accounting and review services that is presenting in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the statements.

(13) **"Contingent fees"** are fees established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service.

(14) **"CPA"** or **"certified public accountant"** means an individual holding a license to practice public accounting under chapter 18.04 RCW or recognized by the board in the state of Washington, including an individual exercising practice privileges pursuant to RCW 18.04.350(2).

(15) **"CPA-Inactive"** means an individual holding a CPA-Inactive certificate recognized in the state of Washington. An individual holding a CPA-Inactive certificate is prohibited from practicing public accounting and may only use the CPA-Inactive title if they are not offering accounting, tax, tax consulting, management advisory, or similar services to the public.

(16) **"CPE"** means continuing professional education.

(17) "Fiduciary" means a relationship wherein one person agrees to act for the interests and benefits of another person or persons. The term embraces, but is not limited to, legal relationships such as those between attorney and client, broker and principal, principal and agent, trustee and beneficiary, and executors or administrators and the heirs of a decedent's estate, a partner in an "at will partnership", a person granted an effective general or durable power of attorney. A person acting in a fiduciary capacity is held to a high standard of honesty and full disclosure in regard to the client and must not obtain a personal benefit at the expense of the client.

Re-Number all remaining

(18) "Firm" means a sole proprietorship, a corporation, or a partnership. "Firm" also means a limited liability company or partnership formed under chapters 25.15 and 18.100 RCW and a professional service corporation formed under chapters 23B.02 and 18.100 RCW.

(18) "**Generally accepted accounting principles**" (GAAP) is an accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.

(19) "**Generally accepted auditing standards**" (GAAS) are guidelines and procedures, promulgated by the AICPA, for conducting individual audits of historical financial statements.

(20) "**Holding out**" means any representation to the public by the use of restricted titles as set forth in RCW 18.04.345 by a person that the person holds a license or practice privileges under the act and that the person offers to perform any professional services to the public. "Holding out" shall not affect or limit a person not required to hold a license under the act from engaging in practices identified in RCW 18.04.350.

(21) "**Home office**" is the location specified by the client as the address to which a service is directed.

(22) "**Inactive**" means the individual held a valid certificate on June 30, 2001, has not met the current requirements of licensure and has been granted CPA-Inactive certificate holder status through the renewal process established by the board. A CPA-Inactive may not practice public accounting nor may the individual use the CPA-Inactive title if they are offering accounting, tax, tax consulting, management advisory, or similar services to the public.

(23) "**Individual**" means a living, human being.

(24) "**Independence**" means an absence of relationships that impair a licensee's impartiality and objectivity in rendering professional services for which a report expressing assurance is prescribed by professional standards.

(25) "**Interactive self-study program**" means a CPE program that provides feedback throughout the course.

(26) "**IRS**" means Internal Revenue Service.

(27) "**License**" means a license to practice public accounting issued to an individual or a firm under the act or the act of another state.

(28) "**Licensee**" means an individual or firm holding a valid license to practice public accounting issued under the act, including out-of-state individuals exercising practice privileges in this state under RCW 18.04.350(2) and out-of-state firms permitted to offer or render certain professional services in this state under the conditions prescribed in RCW 18.04.195 (1)(b).

(29) "**Manager**" means a manager of a limited liability company licensed as a firm under the act.

(30) "**NASBA**" means the National Association of State Boards of Accountancy.

(31) "**Nonlicensee firm owner**" means an individual, not licensed in any state to practice public accounting, who holds an ownership interest in a firm permitted to practice public accounting in this state.

(32) "**PCAOB**" means Public Company Accounting Oversight Board.

(33) "**Peer review**" means a study, appraisal, or review of one or more aspects of the attest or compilation work of a licensee or licensed firm in the practice of public accounting, by a person or persons who hold licenses and who are not affiliated with the person or firm being reviewed, including a peer review, or any internal review or inspection intended to comply with quality control policies and procedures, but not including the "quality assurance review" under subsection (38) of this section.

(34) "**Person**" means any individual, nongovernmental organization, or business entity regardless of legal form, including a sole proprietorship, firm, partnership, corporation, limited liability company, association, or not-for-profit organization, and including the sole proprietor, partners, members, and, as applied to corporations, the officers.

(35) "**Practice privileges**" are the rights granted by chapter 18.04 RCW to a person who:

(a) Has a principal place of business outside of Washington state;

(b) Is licensed to practice public accounting in another substantially equivalent state;

- (c) Meets the statutory criteria for the exercise of privileges as set forth in RCW 18.04.350(2) for individuals or RCW 18.04.195 (1)(b) for firms;
- (d) Exercises the right to practice public accounting in this state individually or on behalf of a firm;
- (e) Is subject to the personal and subject matter jurisdiction and disciplinary authority of the board in this state;
- (f) Must comply with the act and all board rules applicable to Washington state licensees to retain the privilege; and
- (g) Consents to the appointment of the issuing state board of another state as agent for the service of process in any action or proceeding by this state's board against the certificate holder or licensee.

(36) "**Principal place of business**" means the office location designated by the licensee for purposes of substantial equivalency and reciprocity.

(37) "**Public practice**" or the "**practice of public accounting**" means performing or offering to perform by a person or firm holding itself out to the public as a licensee, or as an individual exercising practice privileges, for a client or potential client, one or more kinds of services involving the use of accounting or auditing skills, including the issuance of "audit reports," "review reports," or "compilation reports" on financial statements, or one or more kinds of management advisory, or consulting services, or the preparation of tax returns, or the furnishing of advice on tax matters. The "practice of public accounting" shall not include practices that are permitted under the provisions of RCW 18.04.350(10) by persons or firms not required to be licensed under the act.

(38) "**Quality assurance review or QAR**" is the process, established by and conducted at the direction of the board, to study, appraise, or review one or more aspects of the audit, compilation, review, and other professional services for which a report expressing assurance is prescribed by professional standards of a licensee or licensed firm in the practice of public accounting, by a person or persons who hold licenses and who are not affiliated with the person or firm being reviewed.

(39) "**Reciprocity**" means board recognition of licenses, permits, certificates or other public accounting credentials of another jurisdiction that the board will rely upon in full or partial satisfaction of licensing requirements.

(40) "**Referral fees**" see definition of "commissions and referral fees" in subsection (11) of this section.

(41) "**Reports on financial statements**" means any reports or opinions prepared by licensees, based on services performed in accordance with generally accepted auditing standards, standards for attestation engagements, or standards for accounting and review services, as to whether the presentation of information used for guidance in financial transactions or for accounting for or assessing the status or performance of an entity, whether public, private, or governmental, conforms with generally accepted accounting principles or an "other comprehensive bases of accounting," or the presentation and disclosure requirements of other professional standards. "Reports on financial statements" does not include services referenced in RCW 18.04.350(10) provided by persons not holding a license under the act.

(42) "**Representing oneself**" means having a license, practice privilege, certificate or registration that entitles the holder to use the title "CPA," "CPA-Inactive," or be a nonlicensee firm owner.

(43) "**Rules of professional conduct**" means rules adopted by the board to govern the conduct of licensees, as defined in subsection (28) of this section, while representing themselves to others as licensees. These rules also govern the conduct of CPA-Inactive certificate holders, nonlicensee firm owners, and persons exercising practice privileges pursuant to RCW 18.04.350(2).

(44) "**SEC**" means the Securities and Exchange Commission.

(45) "**Sole proprietorship**" means a legal form of organization owned by one person meeting the requirements of RCW 18.04.195.

Fiduciary and Breach of Fiduciary Responsibilities DRAFT Definition WAC 4-30-010

(46) "**State**" includes the states and territories of the United States, including the District of Columbia, Puerto Rico, Guam, and the United States Virgin Islands, and the Commonwealth of the Northern Mariana Islands at such time as the board determines that the Commonwealth of the Northern Mariana Islands is issuing licenses under the substantially equivalent standards of RCW 18.04.350 (2)(a).

(47) "**Statements on auditing standards (SAS)**" are interpretations of the generally accepted auditing standards and are issued by the Auditing Standards Board of the AICPA. Licensees are required to adhere to these standards in the performance of audits of financial statements.

(48) "**Statements on standards for accounting and review services (SSARS)**" are standards, promulgated by the AICPA, to give guidance to licensees who are associated with the financial statements of nonpublic companies and issue compilation or review reports.

(49) "**Statements on standards for attestation engagements (SSAE)**" are guidelines, promulgated by the AICPA, for use by licensees in attesting to assertions involving matters other than historical financial statements and for which no other standards exist.

[Statutory Authority: 18.04.055, 18.04.025, 18.04.350. WSR 10-24-009, amended and recodified as § 4-30-010, filed 11/18/10, effective 12/19/10. Statutory Authority: RCW 18.04.055, 18.04.025. WSR 08-18-016, § 4-25-410, filed 8/25/08, effective 9/25/08. Statutory Authority: RCW 18.04.055. WSR 05-01-137, § 4-25-410, filed 12/16/04, effective 1/31/05; WSR 03-24-033, § 4-25-410, filed 11/25/03, effective 12/31/03. Statutory Authority: RCW 18.04.055(16). WSR 02-04-064, § 4-25-410, filed 1/31/02, effective 3/15/02. Statutory Authority: RCW 18.04.055(11). WSR 01-11-124, § 4-25-410, filed 5/22/01, effective 6/30/01; WSR 98-12-020, § 4-25-410, filed 5/27/98, effective 6/27/98; WSR 94-23-071, § 4-25-410, filed 11/15/94, effective 12/16/94.]



Washington State Board of Accountancy

Policy Number: 2004-1

Title: Sanction and Penalty Guidelines

Revised:

Approved:

, CPA, Chair

*This policy rescinds and supersedes any previous Board policy.

The Board believes that consent agreements are more efficient and effective than administrative hearings. The key benefits of negotiated settlements are:

- The respondent participates in the development of the corrective action plan and sanction which enhances compliance and more timely public protection
- Cases resolved through the negotiated settlement process reduce costs for the benefit of both the general public and the respondent

The Board recognizes that administrative hearings:

- Delay the corrective action and thereby delay public protection
- Are not the most effective mechanism to generate a positive resolution to Board cases
- Are costly in terms of staff and other resources
- Require significant use of the Board's limited attorney general resources

Policy:

The Board embraces the respondent's involvement in determining the settlement proposal. This provides the respondent the opportunity to participate in development of the corrective action plan and ultimately encourages future compliance and public protection. To support the negotiation and settlement process, the Board provides the following guidance to the Executive Director and Consulting Board Member in crafting a suggested settlement proposal for presentation to the respondent and for negotiating a settlement. This guidance is solely for the use of the Consulting Board Member and the Executive Director. It is not applicable to the prosecuting Assistant Attorney General.

The objective of this process is to administer the enforcement process in a fair and equitable manner and, when appropriate, seek settlement in lieu of a formal Board hearing.

I. The Board provides the following suggested considerations for the Executive Director and Consulting Board Member when developing a suggested settlement; however, the Board does not intend that other factors, as deemed appropriate by the Executive Director and Consulting Board Member, to be excluded:

- A. What are the enforcement goals of the particular case?
- B. What are the permissible sanctions that the Board could impose?
- C. What are the aggravating or mitigating factors relevant to the allegations?
- D. What is the individual's past disciplinary or criminal history (if any)?
- E. Are there identifiable trends, if any, in the individual's behavior?
- F. What is the likelihood of the individual repeating the behavior?
- G. What is the potential for future public harm?
- H. What is the individual's potential for rehabilitation?
- I. What is the extent of damages or injury?
- J. What is the extent of public harm?
- K. What is the extent of harm to the profession and the public's trust in the profession?
- L. How can the public best be served and protected while implementing corrective action?
- M. What steps are necessary to ensure the integrity of financial information?
- N. What were the Board's sanctions with similar misconduct (if any exist) and has there been a trend in the Board's actions and/or changes in state law impacting the history of the Board's sanctions?
- O. Has the individual been sanctioned by other enforcement agencies or through civil findings:
 - Fine
 - Cost recovery
 - Disgorgement
 - Practice or license restriction
 - Publication
 - Jail
- P. What was the magnitude of the sanctions by other enforcement agencies/civil findings?
- Q. What impact did these other sanctions have on:
 - The individual's behavior
 - The individual's taking responsibility for her/his actions
 - The individual's ability to earn a livelihood
 - The public's awareness of the individual's misconduct
- R. Would a suspended license seriously impact the individual's livelihood and, if so, does the misconduct merit such an impact?
- S. Did the individual lose their job/employment/livelihood due to the misconduct?
- T. What is the individual's personal financial position?
- U. Did the individual recently go through bankruptcy?
- V. What is the individual's ability to pay cost recovery?
- W. What is the individual's ability to pay a fine?
- X. Has the individual already taken self-imposed corrective action (such as CPE, field review)?
- Y. What is the length of time that has elapsed since the misconduct, the sanction, or the civil action?

- Z. What is the public's exposure to the individual?
- AA. Is the misconduct singular or repeated?
- BB. Is the misconduct a clear violation or does it involve a statute, rule or standard which is subject to different interpretations?
- CC. Was the misconduct intentional or unintentional?
- DD. Did the misconduct involve dealing with unsophisticated or vulnerable parties?
- EE. Did the CPA/individual profit or benefit from the misconduct?
- FF. Did the CPA/individual make an effort to limit the harm or solve problems arising out of the misconduct?
- GG. Did the misconduct take place after warnings from the agency?
- HH. What was the Board's sanctioning authority at the time the misconduct occurred?

II. The Board suggests the following considerations when considering a counterproposal negotiating a settlement:

- A. All of the items in Section I above.
- B. What is the value to have the individual participate in the development of the corrective action?
- C. How many outstanding Board cases have been referred to the prosecuting Assistant Attorney General and remain to be resolved?
- D. What is the effect of a delay in resolution of this particular case and/or the effect of a delay in prosecution of other cases?
- E. What is the severity of the particular case under negotiation as compared to the number of, and severity of, the cases with the prosecuting Assistant Attorney General?
- F. What are the key objectives and goals of the enforcement action and what sanctions are absolutely necessary to ensure those goals are achieved?
- G. Is there value to the public, the agency, and Attorney General's Office that can be obtained by having the agreement settled without going to an administrative hearing?
- H. Consider the sanctioning guidelines in Section V.

III. Legal and Investigative Costs

RCW 18.04 authorizes the Board to recover legal and investigative costs. The Board considers the following to be reasonable legal and investigative costs:

- A. Investigative staff salaries and benefits (based on actual salary and benefit rates) for state staff conducting the investigation, including reporting, review, and follow-up costs**
- B. Investigator travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management**
- C. Contract investigator, specialist, and expert witness expenses including travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management**
- D. Salaries and benefits (based on actual salary and benefit rates) for state staff preparing and reviewing Stipulated Agreements and Orders of Assurance (Consent Agreements) and associated communications with the respondent**
- E. Prosecuting Assistant Attorney General charges associated with the case including travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management**
- F. Expenses for an administrative law judge including travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management**
- G. Administrative hearing costs including, but not limited to:**
 - Attorney General charges (both for the Board's legal counsel and the prosecuting Assistant Attorney General) associated with the case including travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management**
 - Salaries and benefits (based on actual salary and benefit rates) for state staff preparing and reviewing the Board's order and associated communications with the respondent**
 - Salaries and benefits (based on actual salary and benefit rates) for state staff called as a witness by either party to the administrative hearing**
 - Witness expenses including travel and per diem expenses based on the state travel regulations as established by the Office of Financial Management**
 - Court reporter charges**
 - Administrative hearing room costs and set-up charges**

~~IV. Publication of Board Orders~~

~~Proposed for Elimination and Modified Language be placed into a Staff Directive~~

- ~~1. A general public notice will be posted on the Board's public web site that information on Board orders and other sanctioning agreements is available under the Public Disclosure Act by contacting the Board's office.~~
- ~~2. The Board may post notice of Board Imposed Orders or Consent Agreements (Stipulated Agreements and Orders of Assurance) resulting in suspension, stayed suspension, revocation, and practice restriction on the Board's web site for approximately three calendar years following the calendar year of the Board order. If the Board decides that publication is required for public protection for license and certificate suspension (including stayed suspension) and revocation:~~
 - ~~• Notice may be published in the Daily Journal of Commerce.~~
 - ~~• Notice may be provided to the AICPA and WSCPA.~~
 - ~~• Representative(s)/Senator(s) for the respondent's location(s) may be notified.~~
 - ~~• Other jurisdictions that have licensed the individual may be notified.~~
 - ~~• The complainant(s) may be notified.~~
 - ~~• Notice may be sent to the newspaper(s) in the respondent's location.~~
- ~~3. In cases of non-compliance not resulting in administrative sanction, suspension, stayed suspension, revocation, or a Board ordered practice restriction, the Executive Director, with a majority vote of the Board, may direct that a notation be made referencing each of the Board's sanctioning actions on the Board's web site licensee search database for up to three calendar years following the calendar year the sanction was imposed.~~

~~Executive Director and Staff Rationale for Elimination of this section:~~

~~The personal information necessary for initial and continued recognition of the credentialed status of an individual or firm credentialed by the Washington State Board of Accountancy and all Board approved consent agreements and imposed disciplinary actions are entered into the Board's database and managed in accordance with the Board's approved record retention schedule. Portions of that information and data are exempt from public disclosure, in whole or in part, pursuant to the state's Public Records Act.~~

~~However, specific information about the status of a regulated person's credentialed status is accessible to the public by accessing CPAVerify.org over the internet. CPAVerify may also include all or some information about the status of a regulated person's credentialed status in states other than Washington.~~

~~With the advent of CPAVerify coupled with the redundancy of the public information historically posted on the Board's general information website, CPAVerify is-should now be the general public source of information about a person's credentialed status and/or indications of Board consent agreements and/or Board imposed Disciplinary Actions.~~

IV. The Board acknowledges the following general sanctioning guidelines for the Executive Director and the Consulting Board Member's consideration as part of their process to develop a suggested settlement. The Board does not intend these guidelines to be a prescription or binding; nor does the Board wish to exclude or limit other sanctions or considerations that the Executive Director and Consulting Board Member consider appropriate.

General Categories of Misconduct	Examples of Sanctionable Acts:
ADMINISTRATIVE NON COMPLIANCE Use of title or holding out in public practice with a lapsed license/certificate Use of the CPA title by a CPA-Inactive certificateholder	<ul style="list-style-type: none">• License/certificate lapsed because the individual failed to file a license/certificate renewal.• License/certificate lapsed because the individual failed to notify the Board of a change of address, failed to receive their renewal application, and failed to file a license/certificate renewal.• The individual disregarded the lapsed license and continued to knowingly hold out with a lapsed license.• The individual discovered that their license/certificate lapsed and signed the reinstatement application stating that they did not use the title when the evidence demonstrates that they used the title.• CPA-Inactive who is a corporate CFO uses the CPA title in filing corporate documents with the SEC.• CPA-Inactive uses the CPA title to obtain a job in private industry.• CPA-Inactive who is also an attorney uses the CPA title when offering legal services to the public.

<p>CONSUMER/EMPLOYER HARM Embezzlement, fraud, dishonesty, or negligence</p> <p>Fiduciary malfeasance or breach of fiduciary duties</p> <p>Noncompliance with code of conduct including conflict of interest and confidentiality Failure to comply with a Board order</p> <p>Failure to respond to Board inquiry CONSUMER/EMPLOYER HARM</p> <p>IRS/SEC sanction/denial of practice privilege</p>	<ul style="list-style-type: none"> • Theft or embezzlement from employer or employee(s) including false employer tax documents, employee withholdings, etc. • Felony obstruction of justice. • Theft of trust funds where the CPA was the trustee. • Manipulated a client's trust for the benefit of the CPA's child. • Manipulated a mentally impaired client for self-enrichment. • Failed to file required tax returns and pay personal FIT. • Provided services to both the seller and the buyer during a business transaction without consent. • Provided services to both parties during a divorce without consent. • Failed to make restitution to injured parties as required by Board order. • Repeated noncompliance with stipulated Board Orders. • Suspended from practice before the IRS due to substandard tax work. • SEC practice restriction and/or sanction due to fraudulent SEC filing. • SEC practice restriction and/or sanction due to substandard accounting practices.
<p>CONSUMER/EMPLOYER HARM</p> <p>Noncompliance with technical standards</p>	<ul style="list-style-type: none"> • CPA is referred to the Board by the SEC due to an audit failure as a result of the CPA performing substandard audit procedures. • CPA is referred to the Board by federal agencies due to failure to comply with <i>Yellow Book</i> standards. • Substandard tax work resulted in penalty to a tax client.
<p>CONSUMER/EMPLOYER HARM</p> <p>Failure to provide client records upon reasonable notice and request</p>	<ul style="list-style-type: none"> • Refused to return client records until the client paid the CPA's fees • Did not return multiple clients' records due to procrastination. • Did not return client records because the client terminated the relationship and obtained a new CPA.
<p>ADMINISTRATIVE NON COMPLIANCE</p> <p>Acts and omissions in filing an application for reinstatement or renewal of</p>	<ul style="list-style-type: none"> • Represented on the CPE audit form that CPE courses were obtained when evidence discloses that no or only a portion of the required CPE courses were taken. • Signed the reinstatement or renewal form under the

<p>a license, certificate, or registration</p> <p>Failure to comply with a Board approved CPE waiver request</p>	<p>penalty of perjury that the CPE requirements were met and the individual obtained only a portion of the required hours.</p> <ul style="list-style-type: none"> • Signed the reinstatement or renewal form under the penalty of perjury that the CPE ethics requirements were met and the individual did not take the required ethics CPE.
<p>CONSUMER/EMPLOYER HARM</p> <p>Failed good character determination for initial licensure</p> <p>Cheating on CPA Exam</p>	<ul style="list-style-type: none"> • The good character review was at the request of the applicant who was found guilty of a felony 3 years ago. • The good character review as a result of the applicant's disclosure that within 7 years prior they failed to file an income tax return and pay their tax obligation. • The good character review was the result of the prosecutor alerting the Board to the applicant's being charged with a felony. • Cheating observed by the exam proctor.
<p>CONSUMER/EMPLOYER HARM</p> <p>Use of title or holding out in public practice by a nonCPA</p>	<ul style="list-style-type: none"> • Continued use of title after passing the exam for the later-earlier of 90 days prior to obtaining a license or the posting of a Notice of Noncompliance. • Used title to intentionally defraud investors.

V. Guidelines for 1st Time Administrative Violations

These guidelines will be used when (a) it is the first time an individual or firm has been notified of an alleged specific type of violation of the Public Accountancy Act or Board rule, (b) the alleged violation occurred during any period the individual or firm is or was subject to Board jurisdiction, and (c) a **preponderance of evidence** is obtained by investigation to merit **Board action a monetary penalty.**

	Administrative Violation:	Board Approved Sanction:
1.	First noncommercial use of a restricted title on <i>Business Cards, Resumes</i> or other <i>Applications for Employment</i> in Washington state after establishing residency in this state but prior to obtaining credentialed status in Washington State, <i>Provided:</i> the individual did not use the title while a resident in conjunction with offering or rendering professional services.	Administrative Notice of Noncompliance and advisory to obtain a license or cease title use and offering or performing public accounting services within 90 days of the U.S. postmark of the Administrative Notice of Noncompliance.
2.	First-time use of a restricted title by an individual within the 18-month period following successful completion of the Uniform CPA Examination but who has not yet been credentialed by the Board	\$500 monetary penalty + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in Washington State regulation applicable to the practice of public accounting <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
3.	First time representation on a reinstatement application that the CPA title had not been used when in fact the title had been used.	\$750 monetary penalty + late fee + cost recovery <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
4.	First time failure to obtain a firm license by a Washington resident firm owned by one individual for more than 90 days after <i>the date of transmittal</i> by Board staff of a <i>notice of noncompliance.</i>	\$750 monetary penalty + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in Washington State <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>

5.	First-time failure to timely change either or both individual and/or firm addresses.	\$0-\$200 monetary penalty + cost recovery (unless <i>the failure to timely change the address results in a more severe first-time administrative violation and sanction</i>) to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
6.	First-time failure by a firm to timely notify the Board of changes in the firm name, ownership, or managing licensee of the firm's main office after <i>the date of transmittal</i> by Board staff of a <i>Notice of noncompliance</i> ..	\$500 monetary penalty + cost recovery to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
7.	First-time misunderstanding of courses qualifying for the CPE in regulatory ethics specific to Washington State.	\$100 monetary penalty + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
8.	First-time failure to meet CPE documentation requirements <u>determined by CPE audit</u> provided the documentation deficiency results from a cause or circumstance beyond the control of the credentialed person.	\$0-\$250 monetary penalty + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
9.	First-time use of titles likely to be confused with CPA, Certified Public Accountant, or CPA-Inactive by person never credentialed by this Board or not qualified for practice privileges pursuant to RCW 18.04.350(2).	\$1,500 monetary penalty + cost recovery + to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
11.	First-time failure to timely deliver records requested by a client as required by WAC 4-30-051, UNLESS the lack of "timely delivery" results in financial harm to the client by a state or federal regulatory agency or governmental unit.	\$1,500 monetary penalty + cost recovery + restitution for proven client costs incurred to reconstruct essential records incurred as a result of the lack of availability of such records + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction..

1	First-time failure to timely respond to a request for administrative information or documents directly related to information and/or documents specified in Board rules (Title 4 WAC).	\$1,500 monetary penalty + cost recovery + submission of proof of completion of Board approved course in Ethics and Regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
13.	First-time Quality Review Program violation, e.g. lack of cooperation with reviewers, failure to comply with peer review program requirements, and/or non-payment of fee for a completed peer review service.	\$500 monetary penalty + cost recovery + (if applicable) restitution to reviewer (firm) + other appropriate corrective remedies.
14.	First-Time Resident or Out-of-State CPA firm violation for not obtaining a Washington State license before offering or performing Compilation, Review, Audit, or other Attest engagements for a client with an office in this state or with a home office (RCW 18.04.025(10)) in this state.	<p>\$1,500 monetary penalty + cost recovery + submission of proof of completion of Board approved course in Ethics and Regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i></p> <p><i>This monetary penalty will not apply to CPA firms applying and receiving a firm license within 90 days from the U.S. Postal Date of the Notice of Non-Compliance for unlicensed firm practice in Washington State sent by the Board to the firm.</i></p>

<u>Administrative Violation</u>	<u>Board Approved Sanction</u>																					
<p>First-time CPE deficiencies by licensees, certificate holders, and nonCPA firm owners.</p> <p>Example:</p> <p>Licensee failed to timely complete 120 hours of CPE, including failure to register and successfully complete the Board approved four hour course on Ethics and Regulation in Washington State during the CPE Reporting Period. The licensee:</p> <ul style="list-style-type: none"> • Self-Reported a deficiency during the renewal period but did not complete the required CPE credit hours by June 30 of the licensee's renewal year; or • The licensee failed to file a request for extension of time for reasonable cause and failed to Self-Report a deficiency. The deficiency was identified by CPE audit. <table border="1" data-bbox="131 1402 670 1661"> <thead> <tr> <th colspan="3"><u>Maximum Monetary Sanction</u></th> </tr> </thead> <tbody> <tr> <td>1st 8 hours Short</td> <td>\$ 250</td> <td>8Hrs.</td> </tr> <tr> <td>2nd 8 hours Short</td> <td>\$ 250</td> <td>8Hrs.</td> </tr> <tr> <td>Additional hrs.</td> <td>\$3,000</td> <td>100Hrs.</td> </tr> <tr> <td></td> <td>\$3,500</td> <td>116 Hrs.</td> </tr> <tr> <td>Ethics Course</td> <td>\$ 500</td> <td>4 Hrs.</td> </tr> <tr> <td>TOTALS</td> <td>\$4,000</td> <td>120 Hrs.</td> </tr> </tbody> </table>	<u>Maximum Monetary Sanction</u>			1st 8 hours Short	\$ 250	8Hrs.	2nd 8 hours Short	\$ 250	8Hrs.	Additional hrs.	\$3,000	100Hrs.		\$3,500	116 Hrs.	Ethics Course	\$ 500	4 Hrs.	TOTALS	\$4,000	120 Hrs.	<p><u>Licensee:</u> Exclusive of the required 4 hour course addressing ethics and regulation in Washington State a sliding scale:</p> <p>\$250 monetary penalty for a deficiency up to and including 8 CPE credit hours;</p> <p>\$500 monetary penalty for a deficiency up to and including 16 CPE credit hours;</p> <p>Plus an additional \$30 monetary penalty for each CPE credit hour deficient from 17 CPE credit hours to 100 CPE credit hours.</p> <p>Additional (Separate) \$500 monetary penalty if the deficiency includes or is limited to failure to complete the required 4-hour course addressing ethics and regulation in Washington State.</p> <p><u>CPA-Inactive Certificateholder or NonCPA firm owner:</u></p> <p>\$500 monetary penalty + cost recovery for failure to complete the required 4-hour course addressing ethics and regulation in Washington State</p> <p>All amounts assessed are <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i></p>
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~~In cases of Administrative Sanction, No~~ information of a first-time **Administrative Violation** will be disclosed by staff; however, ~~the~~ Board staff will:

- Post statistics related to these sanctions on the Board's web site
- Comply with the Public Records Act

If an individual or firm's conduct includes multiple first-time administration violations of different types, the Executive Director may impose the more severe first-time administrative sanction or open an investigation if the matter demonstrates a pattern of unprofessional regulated conduct.

Effective: _____, 2015

*Revised: April 23, 2013; April 26, 2012; April 25, 2011; October 17, 2008; April 28, 2006; January 28, 2005; October 29, 2004

Effective: _____, 2015

*Revised: ~~April 23, 2013; April 26, 2012; April 25, 2011; October 17, 2008; April 28, 2006; January 28, 2005; October 29, 2004~~



Washington State Board of Accountancy

Policy Number: 2011-2

Title: Interim Policy Guidelines Pending Rule Changes

Revised:

**This policy rescinds and supersedes any previous Board policy.*

POLICY STATEMENT:

The Executive Director periodically finds it appropriate to seek Board concurrence prior to providing agency staff necessary guidance to implement the Public Accountancy Act or codified Board Rules, 4-30 WAC. The practice and regulatory environments are periodically subject to rapid changes due to economic and/or state and federal regulatory developments. Board rule changes are subject to state rule making processes that can delay formal and responsive guidance to address emerging issues. This policy is to provide for public input and temporary guidance to facilitate responsible agency responses to changing circumstances.

This temporary Board guidance will be requested by the Executive Director for discussion at any open public Board meeting. The guidance will become effective on the date approved by the Board. The guidance will be subsequently posted on the agency's website in a conspicuous location to enhance the awareness of consumers and the members of the regulated population.

The temporary guidance will be simultaneously superseded upon the effective date of any adopted codified rule or rules addressing the issue as an outcome of the rule making process.

PROCEDURES:

I. CPE Deficiencies:

The Executive Director may follow the Board's delegation related to issuing an Administrative Notice of Noncompliance and impose Board approved levels of monetary sanction included within Amended Board Policy 2004-1 if a CPE deficiency is:

- **Self-Reported** during the allowable renewal period following the individual's CPE reporting period ended December 31st of the preceding calendar year but the required CPE to correct the deficiency is not completed by June 30 of the individuals renewal year, or
- **The Deficiency is discovered as a result of a CPE Audit** in those situations in which:
 - The individual did not timely file for and receive an approved extension of time to complete the CPE deficiency;
 - The individual received an approved extension of time to correct the deficiency but did not timely complete the required CPE; or
 - The individual did not Self-Report the deficiency during the allowable renewal period.

II. Electronic Transcripts:

Electronic transcripts are acceptable *provided that the sender* is either:

1. The educational institution responsible for the credits and/or degrees granted; or
2. The electronic transcript service provider engaged by the educational institution responsible for the credits and/or degree granted.

Effective: April 25, 2011
*Revised: October 23, 2012

Executive Director suggestion for Board Chair desire for a Board Policy re Future Fee Reductions

The Board Chair requested a draft policy related to the timing of fee reductions if excess fund balance accumulates over time.

A fee reduction would require a rule change if such an outcome is prudent. Therefore, board fee setting action requires anticipation.

DRAFT Language:

RCW 18.04.065 provides that the board shall set fees at a level adequate to pay the costs of administering the Public Accountancy Act, Chapter 18.04 RCW.

The board believes that the costs of administering Chapter 18.04 RCW must provide for an accumulated cash reserve to sustain costly investigations, related hearing processes, and/or any reasonably anticipated litigation arising therefrom. To this extent, the board recognizes that a more than adequate cash reserve provides no direct benefit to the general public and board constituencies.

The Executive Director of the Board is requested to quarterly advise the board of any reasonably anticipated future changes in the board's fee structure necessary to prudently sustain board and agency functions while maintaining a fiscally responsible cash reserve.

DRAFT White Paper re Confidentiality of Client information
held and/or transmitted electronically by any person regulated by
the Washington State Board of Accountancy

This paper is designed to overview and heighten awareness to a CPA's regulatory responsibilities to clients who entrust CPAs as a repository for their most private personal information.

Technology is the name of the game in business today. However, with technology come frequently overlooked risks having the potential for instant disasters. Cyber Attacks and Data Breaches occur with uncanny regularity whenever valuable information and data is not adequately protected. CPAs using technology to receive, house, use, and transmit client information are not immune from these adverse consequences.

As members of a trustworthy profession, "WE" know "WE" cannot disclose our client's records and personal information to third parties without their consent. However, at the Board we have come to realize that many CPAs do not realize that many state and federal laws require **proactive actions** to protect sensitive client records and personal information. A proactive approach to technological risk management requires an understanding of the following:

OWNERSHIP:

- **Who owns the confidential client records and information stored *within the CPA firm's physical location and/or offsite physical storage facility*?**
- **Who owns the same information** if it is stored physically and/or electronically outside of the Firm's office(s), e.g., *Offsite Physical Storage Facility, the Cloud or Offsite Cloud Equivalent*?

SECURITY:

- **Does the CPA firm's IT system** have and maintain appropriate levels of **security\restricted access**?
- **Do all offsite Cloud or Cloud Equivalent vendors used by the CPA firm** i.e. *processor, server farm, offsite information storage service, etc.*, have and maintain appropriate levels of **security\restricted access**?
- **Does the CPA firm provide a proper level of encryption to the client** for sending and receiving confidential client e-mails, documents, records, final product, and/or any other client confidential information back and forth between the respective parties or vice versa?
- **Do the offsite electronic storage or processor services used by the CPA firm provide an appropriate level of encryption for the transmittal of confidential client information** back and forth between the contractual parties?
- **Who has or should have access** to the records and information whether housed electronically within the firm's IT system, at a server farm, offsite with a vendor, or in hard copy at the firm's physical location or offsite physical storage facility?

DRAFT White Paper re Confidentiality of Client information
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OTHER:

- **Do all of the forgoing parties maintain routinely updated policies, procedures and training programs** to ensure all individual personnel involved are aware of their individual responsibilities to maintain the confidentiality of confidential client information unless the client consents to disclosure whether stored and/or transmitted electronically or stored and transmitted as hard copy?
- **Does (or should) the CPA firm require** periodic IT Penetration Testing and/or Service Center Reports from each of the CPA firm's electronic service providers?

Available resources and guidance to assist CPA Firms and their personnel are listed on the following pages.

DRAFT White Paper re Confidentiality of Client information
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DATA BREACH

1. <http://apps.leg.wa.gov/RCW/default.aspx?cite=19.255.010>
2. **A Possible Strategy (based, in part, upon a strategy authored by S. Lee Terry Jr. published in CFO Magazine, February 5, 2015):**
 - I. **Fix and Test the System**
 - **Determine that the CAUSE** of the security breach has been identified, isolated, and repaired;
 - **Engage a qualified independent IT expert** to conduct a forensic investigation of your entire IT system to determine the exact nature and extent of the security breach and to ensure that you have effectively and completely resolved any other continuing security issues, related or unrelated;
 - II. **Obtain Qualified Legal Counsel**
 - **Utilize qualified legal counsel** to identify and advise you on your legal obligations;
 - **Utilize legal counsel to communicate** to those you may be legally obligated to inform of the breach, including any law enforcement agencies, banks, credit card companies, and other affected parties;
 - **When advised by legal counsel**, check with your insurance carrier; and
 - **Deal “Straight-Up” with notifications and any publicity that occurs.**
 - III. **Develop your future policies, procedures, and key personnel assignments for addressing possible future occurrences.**
 - IV. **Regularly and routinely have Penetration and System Integrity Testing performed by qualified 3rd party experts.**

ENCRYPTION:

- <http://www.irs.gov/pub/irs-pdf/p1075.pdf> **COMPLETE**
- <http://www.irs.gov/uac/Encryption-Requirements-of-IRS-Publication-1075> **SUMMARY**
- http://www.irs.gov/pub/irs-utl/Revised_Circular_230_6_-_2014.pdf
- <http://www.irs.gov/Tax-Professionals/Section-7216-Information-Center>
- <http://www.irs.gov/pub/irs-drop/rp-13-14.pdf>

Quality Assurance Review Results

Year	Peer Review					Sub Total	Limited Scope Exemption	Total Participation
	Pass	Pass W/ Deficiencies	Fail	Peer Review Extension Request				
2013	36	7	5	0	48	Limited Scope Exemption	91	139
2014	9	5	0	0	14		8	22
2015	253	29	5	53	340		397	737
2016	0	0	0	0	0		0	0
2017	0	0	0	0	0		0	0

Request Review Committee Report October 2015

Karen Saunders, CPA, Chair

During the third quarter 2015, the Executive Director and a Consulting Board Member from the Request Review Committee took the following action:

Firm Names: *Approved:*

UPSIID, LLC
BAS PARTNERS LLC
RSM US LLP
THREE OAKS FINANCIAL, LLC
ASSURE PROFESSIONAL, LLC
KREISCHER MILLER
BECKER ACCOUNTING SOLUTIONS, LLC
USTAXCENTRAL PLLC
COLUMBIA BASIN CPAS LLC
FUTCHER GROUP
BFBA, LLP
HONEST CPAS
THE AMERICAN AUDITORS GROUP, LLC
PITCH CPA, LLC
ARTESIAN CPA, LLC
LIGHTHOUSE ASSOCIATES, PLLC

Professional/Educational Organization – Recognition Requests – During the 3rd quarter in 2015, the Board did not receive any requests for recognition as an educational organization for purposes of obtaining a list of individual CPAs.

Domestic or International Education Credential Evaluation Services – During the 3rd quarter in 2015, the Board did not receive any requests for recognition of domestic or international education credential evaluation services.

Board of Accountancy Washington State

Enforcement Report

Period Jul 01, 2015 through Sep 30, 2015

	Complaints	Investigations	Quarter Total
Ongoing at start of period	7	22	29
Received during period	38		38
Total	45	22	67
Complaints opened as investigations	(18)	18	
Total	27	40	67
Complaints Dismissed (Administrative)	0		0
Complaints Dismissed (investigated <= 180 days)	(16)		(16)
Complaints Dismissed (investigated > 180 days)	0		0
Total	11	40	51
Cases Dismissed (Administrative)		0	0
Cases Dismissed (investigated <= 180 days)		(7)	(7)
Cases Dismissed (investigated > 180 days)		0	0
Total	11	33	44
Cases Closed (Administrative)		(2)	(2)
Cases Closed (investigated <= 180)		(10)	(10)
Cases Closed (investigated > 180)		(1)	(1)
Total	11	20	31

DELEGATION OF AUTHORITY BY THE WASHINGTON STATE BOARD OF ACCOUNTANCY

Delegation Number: D-201

Dated: ~~October~~January 30, 2015

Delegation For: Authority to Conduct Investigations*

Delegation To: Director of Investigations ~~and Executive Risk Management~~
Advisor

Approved:

-Donald F. Aubrey, CPA
Chair

I, DONALD F. AUBREY, Chair of the Washington State Board of Accountancy (“Board”), acting under authorization of a vote of the Board, delegate to the Director of Investigations, the specific authority to:

Conduct investigations concerning alleged violations of the provisions of chapter 18.04 RCW and Title 4 WAC as directed by the Executive Director of the Washington State Board of Accountancy. This also includes specific authority to administer oaths or affirmations to witnesses, subpoena witnesses and compel their attendance, take testimony, and to require that documentary evidence be submitted in the course of the investigation of alleged violations of chapter 18.04 RCW and Title 4 WAC.

This delegation does not include the authority to extend confidentiality to any testimony or evidence.

This delegation shall remain in effect for so long as the Executive Director has designated a Director of Investigations for the Washington State Board of Accountancy to exercise this authority, and through any necessary testimony at administrative hearings, should same be held.

~~In the event that the Executive Director is recused or otherwise unable to exercise responsibility for investigations, enforcement, and settlement, the Board delegates authority first to the Executive Risk Management Advisor to assume those responsibilities including the authority to:~~

- ~~(a) — Sign, issue, and withdraw Statements of Charges and/or Statements of Intent to Deny that seek to suspend, revoke, reprimand, refuse to issue, reinstate, or renew a certificate or license, or otherwise discipline or impose a fine upon a certified public accountant, a certificate holder, a licensee, a licensed firm, an applicant, or a nonlicensee holding an ownership interest in a licensed firm; and~~

- ~~(b) Negotiate settlement proposals during investigations of alleged violations of RCW 18.04 or Board rules Title 4 WAC and in all proceedings under RCW 18.04.295, 18.04.305, or chapter 34.05 RCW. Such proposals are subject to concurrence by a consulting Board member prior to submission to the Board for consideration. Settlement proposals negotiated under this authority are not binding on the Board or respondent until the settlement is accepted by a quorum vote of the Board.~~
- ~~(c) Issue Administrative Notices of Noncompliance and execute Respondent Agreements Consenting to Administrative Sanctions including monetary sanctions in accordance with the Board's delegation to the Executive Director.~~

In the event that the Executive Director ~~and Executive Risk Management Advisor are~~ both is recused or otherwise unable to exercise responsibility for investigations, enforcement, and settlement, the Board delegates authority to the Director of Investigations to assume those responsibilities including the authority to:

- (a) Sign, issue, and withdraw Statements of Charges and/or Statements of Intent to Deny that seek to suspend, revoke, reprimand, refuse to issue, reinstate, or renew a certificate or license, or otherwise discipline or impose a fine upon a certified public accountant, a certificate holder, a licensee, a licensed firm, an applicant, or a nonlicensee holding an ownership interest in a licensed firm; and
- (b) Negotiate settlement proposals during investigations of alleged violations of RCW 18.04 or Board rules Title 4 WAC and in all proceedings under RCW 18.04.295, 18.04.305, or chapter 34.05 RCW. Such proposals are subject to concurrence by a consulting Board member prior to submission to the Board for consideration. Settlement proposals negotiated under this authority are not binding on the Board or respondent until the settlement is accepted by a quorum vote of the Board.
- (c) Issue Administrative Notices of Noncompliance and execute Respondent Agreements Consenting to Administrative Sanctions including monetary sanctions in accordance with the Board's delegation to the Executive Director.

This delegation and its subparts are made pursuant to the authority of RCW 18.04.045, 18.04.295 and 18.04.305.