

State Specific Ethics for the Tennessee CPA

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This presentation is being
brought to you by the members
of the Tennessee State Board of
Accountancy...

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FUNCTION OF ADMINISTRATIVE OFFICE

- Initial Licensing (testing and reciprocity)
- Renewing Licenses
- Updating Files
- Assisting Licensees & Public
- Investigation of Complaints
- Education

HOW MANY CPAS IN TENNESSEE TODAY?

<u>Status</u>	<u>April 2015</u>
<u>Active</u>	10,407
<u>Inactive</u>	4,127
<u>Closed</u>	2,962
<u>Probation/Suspended</u>	4
<u>Revoked</u>	56
<u>Retired</u>	1,063
<u>Delinquent</u>	194
<u>Expired</u>	2,314
<u>Deceased</u>	2,695
<u>Other</u>	414
Total Licenses	24,236

Top 5 Problem Areas

- 1 - License renewal
- 2 - Firm permit renewal
- 3 - Continuing Professional Education
- 4 - Peer Review
- 5 - Professional Privilege Tax

1 – License Renewal

The Good
and the
Not so Good

Good Standing

Status	Pay License Renewal Fee	Complete CPE	Professional Privilege Tax
Active	✓	✓	✓
Inactive	✓	✗	✗
Retired (55 yrs+)	✓	✗	✗
Retired Over 65	✗	✗	✗
Closed	No – But Must Return Wall Certificate	✗	✗

You may request a change of status for your license only by submitting the appropriate affidavit to the Board.

Remember-

The Department of Revenue bases the Professional Privilege Tax assessment on the status of your license.

The Not so Good...

Expired-Grace

Expired

Probation

Suspended

Revoked

How do I know when to renew?

- The expiration date is listed on the license itself.
 - Odd-numbered licenses renew in odd years.
 - Even-numbered licenses renew in even years.
 - The Board sends a courtesy reminder postcard each October.
-

Quiz Question

Allowing a license to expire is the same as closing the license.

- a. True
 - b. False.
-

THE COMPLAINT

Complaint began with the failure to notify the Tennessee Board of the suspension of his Arizona license. Information was obtained from Accounting Licensee Database (ALD).

THE STORY

As the investigation began, it was found that licensee had let his license expire. After leaving a note at this Tennessee office location, licensee called to say that he had moved to Louisiana. When he was told that he needed to renew his license and get a firm permit for his hospital consulting business in Tennessee, licensee told us that he was a 20% owner with 3 other non-licensed partners.

THE RESOLUTION

Rather than going through all the licensing and firm permit application, Respondent surrendered his license.

2 – Firm Permit Renewal

Firms renew each year and must confirm:

- Physical location and contact information
- Majority CPA ownership
- Ownership and CPA Employees
- Peer Review Program or Exemption

Quiz Question

In the application for a firm permit using a fictitious name, the Board may decide the name is misleading if:

- a. It implies the existence of a legal entity when it is not.
 - b. It is similar to or the same as existing fictitious names.
 - c. The name tends to mislead regarding the nature of the business.
 - d. It includes the name of an individual whose license has been suspended or revoked.
 - e. The name contains more than 1 fictitious name.
 - f. It includes the name of a person who is neither a present or past member of the firm.
 - g. It includes the name of a person who is not a CPA if the term CPAs is used.
 - h. All of the above are considered misleading.
-

THE COMPLAINT

The complaint stated that the Respondent, a non-licensee, was using the name “Memphis CPA Group”. The name was registered with the Secretary of State and used on a LinkedIn account.

THE STORY

When the non licensed owner was confronted regarding the use of the CPA credential, he stated that:

1. There used to be owners who were CPAs, and;
 2. He was trying to pass the CPA exam.
-

THE RESOLUTION

The Board instructed the Respondent to remove the CPA designation from all outside signage; change all stationery; as well as websites, advertising, etc.

The Respondent was also fined \$1,000 for each year of practice using the name or \$5,000 total.

Quiz Question

A Firm Permit is required only if a licensee is offering attest services.

- a. True
 - b. False
 - c. True, but not if the CPA is a sole proprietor
-

THE COMPLAINT

A Texas CPA opened numerous tax preparation sites in Tennessee without a firm permit.

THE STORY

Texas CPA had opened 5 locations to prepare tax returns. Data was being collected at the locations and transmitted to Texas for preparation and returned to Tennessee to be delivered to client. Texas CPA was unaware of our requirement for a firm permit, along with a CPA resident manager. His partner in Tennessee was not a CPA.

THE RESOLUTION

Rather than getting the firm permit and finding a CPA to be a resident manager, Texas CPA sold the locations to his non-CPA partner and contracted with him for tax preparation only. The complaint was dismissed with the issuance of a cease and desist letter.

3. Continuing Professional Education

All Licensees Holding Active License

- 80 Approved Hours every two years – add 8 penalty hours if you don't
- 40 Technical Hours (A&A, Taxes, Ethics & Management Advisory)
- 2 Hours State Specific Ethics – Such as this course!
- Minimum of 20 Hours Each Year – add 8 penalty hours if you don't
- Special Areas:
 - Attest Services – 20 Hours A&A
 - Expert Witness Services – 20 Hours in Area

Helpful Hints:

If you are short on technical hours but still have completed 80, you can make them up without penalty. 40 Technical Hours (A&A, Taxes, Ethics & Management Advisory)

If you miss your 20-hour requirement in one year but have a total of 88 hours for the reporting period – the extra 8 hours can be reported as your “penalty” hours.

CPE is reported the Board only if you are selected for Audit.

What happens during a CPE audit?

During renewal, you're asked to affirm that you have completed the CPE requirement. Each Spring, 10% of you are asked to provide documentation.

You'll be notified of your selection by mail and will be given a deadline for responding to the audit.

You must provide:

- A CPE reporting form
 - List courses in date order
 - Answers to questions about attest and expert witness testimony
- A certificate for each credit listed

There are three ways to respond:

- Online at tn.cpetracking.com
- By mail
- By email
 - Scan certificates into one PDF in date order

Example of Carryover CPE

Reporting Period 1	Reporting Period 2	Reporting Period 3
Year 1: earned 30 hours Year 2: earned 60 hours	Year 1: earned 20 hours Year 2: earned 52 hours	No carryover available because no extra hours earned in Period 2
Total of 90 hours in the reporting period	Total of 72 hours in reporting period	
10 extra hours earned	Carry forward 8 hours from Period 1 to make up deficiency	

THE COMPLAINT

A licensee did not respond to a request for CPE documentation.

THE STORY

A licensee chosen for audit did not respond to the initial notification of audit from the Board. Subsequent letters and emails were also ignored.

THE RESOLUTION

Respondent was ordered to pay a civil penalty of \$500.00 dollars and to complete 104 hours of CPE within 180 days.

The Respondent paid the civil penalty but did not submit the CPE. The license was revoked.

4. Peer Review Requirements

- Tennessee requires peer review for any firm that performs the attest function.
- Tennessee defines the attest function to include compilations.
- Only engagements conducted under SSARS #21 may be excluded from the requirement. (Be careful, this is a high risk area)

Quiz Question

After a Formal Hearing, the Board may revoke the license of a CPA for which of the following reasons:

- a. Fraud in obtaining a license
- b. Disciplinary action taken by another state
- c. Revocation of the right to practice before any state or federal agency
- d. Dishonesty, fraud or gross negligence in the performance of services
- e. Violation of the rules of professional conduct
- f. All of the above

5. Professional Privilege Tax

- Assessed every June by the Tennessee Department of Revenue.
- Every Licensee with an active license is subject to the tax – regardless of where or whether you are practicing.
- You cannot renew your license if the PPT is delinquent.

THE COMPLAINT

The Board is notified by the Department of Revenue that the Licensee has not paid Professional Privilege Tax for the last 2 years.

THE STORY

- The Licensee has not had a job in the past two years, or;
 - The Licensee has a Tennessee license, but practices in Wyoming and has no ties to Tennessee, or;
 - The Licensee just failed to pay the PPT and blames it on his secretary.
-

THE RESOLUTION

The Board requires the Licensee to pay the tax in full or at least set up a payment plan with the Department of Revenue.

The Licensee must submit a Tax Clearance letter obtained from Revenue.

If the Licensee is not in Tennessee, the Board may allow them to close their Tennessee license.

Failure to come to an agreement with the Board can result in the suspension of a license until settlement is made.

Quiz Question

The AICPA's Code of Professional Conduct requires that a CPA obtain an engagement letter from each client for all services provided.

- a. True
- b. False.

THE COMPLAINT

Complaint was for not exercising due professional care and not completing engagement.

THE STORY

Client signed engagement letter stating that licensee would issue a financial statement for the year ended December 31, 2011, to be used in filing a Mississippi contractor's license. By the time the client filed for the license, he needed a financial statement for the year ended December 31, 2012. Client got mad at licensee because licensee would not do another financial statement without being paid to prepare it.

THE RESOLUTION

The engagement letter clearly stated that the licensee was to prepare a financial statement for the year ended December 31, 2011. Complaint was dismissed.

Quiz Question

A licensed individual whose principal place of business is not in Tennessee may provide all the same services as a Tennessee licensee without the need to obtain a Tennessee license or permit.

- a. True
 - b. False.
-

CPA Mobility

Most states have adopted mobility legislation, allowing a CPA fully licensed in an equivalent state to practice out of state.

A CPA performing services through mobility may only perform the same level of services (attest or non-attest) in the mobility jurisdiction as he or she is permitted to perform in the home jurisdiction.

What does this mean for you?

With a fully active Tennessee license, you may serve a client in another state if that state has adopted a mobility law.

Likewise, a CPA licensed in another state may serve a Tennessee client, provided the CPA does not establish a business or residence in Tennessee

THE COMPLAINT

Complaint was filed for practicing accounting in Tennessee without a license. This Respondent was picked up from PTIN list obtained from the IRS.

THE STORY

Respondent was licensed in the state of Georgia. Respondent was working from her home in Tennessee, pulling tax returns from a site of a Georgia CPA firm and preparing them. Respondent was doing no work for any Tennessee clients, and all clients were from the Georgia CPA firm.

THE RESOLUTION

Since Respondent was only doing work for the Georgia firm and no work for any Tennessee clients, the case was dismissed. Respondent was told that if he did any work for Tennessee clients that he would have to obtain a Tennessee license and firm permit.

This doesn't mean Tennessee standards don't apply.....

THE COMPLAINT

A Michigan CPA performed the audit of a Tennessee bank. The auditor conducted the audit electronically and never physically came to Tennessee.

An oversight agency judged the audit to be substandard and filed a complaint.

THE STORY

Because the audit was substandard, the oversight agency did some investigating of the individual and his firm.

They noted that the individual's personal license and firm license were both expired.

THE RESOLUTION

The Tennessee Board settled the complaint with a Consent Order that required the CPA to immediately renew his Michigan license and permit; levied a \$500 civil penalty on both the CPA and the firm; and notified the Michigan Board of their actions.

Mobility Questions

Remember, your best source to answer mobility questions can be found at CPAmobility.org, a service of the National Association of State Boards of Accountancy (NASBA).

Quiz Question

Which of the following actions are available to the Board concerning complaints?

- a. Dismissal
 - b. Letters of Caution, Warning or Instruction
 - c. Consent Order
 - d. Informal Hearing
 - e. Formal Hearing
 - f. All of the above
-

THE COMPLAINT

The Board is notified by another state that the CPA's license in that state has been revoked.

THE STORY

- The Licensee ignored the notification of his pending expiration and did not close or renew the other state's license.
- Many states do not require that a formal hearing and charges be brought before a license can be revoked.
- Once revoked, the state notifies all other states in which the CPA is licensed.

THE RESOLUTION

The Board requires the CPA to surrender their Tennessee license or make arrangements with the other state to close or reinstate that license.

In many instances, the Licensee in question also has an expired Tennessee license. In these cases, the Licensee is given the opportunity to reinstate the Tennessee license first, then comply with the other state's requirements.

Quiz Question

A CPA can transfer his or her license to another state.

- a. True
 - b. False
-

In the last 7 years, nearly 40%
of the complaints received by the
TNSBA involved
“Unlicensed Activity”.

Such as this case study....

Case Study:

An anonymous individual submitted the
following “opinion”; noting that the company
used the word “audit” 5 times in their letter.

They asked if we could tell whether or not it
was a real audit.

What do you think?

ABC Accounting & Tax Services, Inc.

We have audited XYZ's statement of financial position for the calendar year 2006, 2008, and 2010. These financial statements are the responsibility of XYZ management. Our responsibility is to express an opinion on these financial statements based on our audit.

An audit includes examining on a test basis, evidence supporting the amounts reported on the financial statements. We have audited the following items in your financial statements:

- Revenues for all three years
- Expenses for all three years
- Collections for all three years
- 1099 Filings
- Tax return filing

In our opinion, the financial statements are referred to above to be fairly presented with except of the items listed below:

- 2010- A \$1.00 variance between Revenue calculated and what was deposited. Tax return was prepared properly.
 - 2008- Tax filing and income statement includes \$2000 Transfer from operating account to Certified Deposit as being an expense when this is just a balance sheet transfer. Transfer from one bank account to another (or CD for this transaction) is not an expense; entity still holds control over this money.
 - 2006- Revenue for this year could not be tested due to a lack of supporting documents; did not have bank statements to verify that all revenue was deposited. We understand this is due to change in property manager. Tax return was prepared properly.
-

Signed:

ABC Accounting & Tax Services, Inc.

Disclosure: ABC Accounting & Tax Services and its associates are not certified public accountant. Owner does have a master's degree with concentration in accounting. This information was disclosed to the company's president and approved us for performing this audit.

Believe it or not...

There is a provision in the Law & Rules that provides disclaimer language for non-licensees in connection with financial statements that will not be a violation.

Rule 0020-4-.06 Safe Harbor Language

“ We have prepared the accompanying (financial statements) of (name of entity) as of (time period) for the (period) then ended. This presentation is limited to preparing, in the form of financial statements, information that is the representation of management.”

“We have not audited, reviewed or compiled, under professional standards prescribed for such services, the accompanying financial statements and accordingly do not express an opinion or any other form of assurance on them. We are not licensed by this state, as a certified public accountant or accounting firm, to provide those types of services.”

Quiz Question

Which of the following activities are prohibited unless the individual is a licensed CPA in the state of Tennessee?

- a. Using the designation "CPA"
 - b. Using the word "accountant" or "accounting"
 - c. Issuance of a report on financial statements of any person, organization or governmental unit.
 - d. Use of any language in any statement relating to the financial affairs of a person or entity that is conventionally used by licensees.
 - e. All of the above.
-

THE COMPLAINT

The complaint stated that the Respondent, a non-licensee, was issuing financial statements.

THE STORY

The Respondent stated that she was unaware of the “safe harbor language” and expressed a desire to have the Board order her not to issue any more financial statements.

THE RESOLUTION

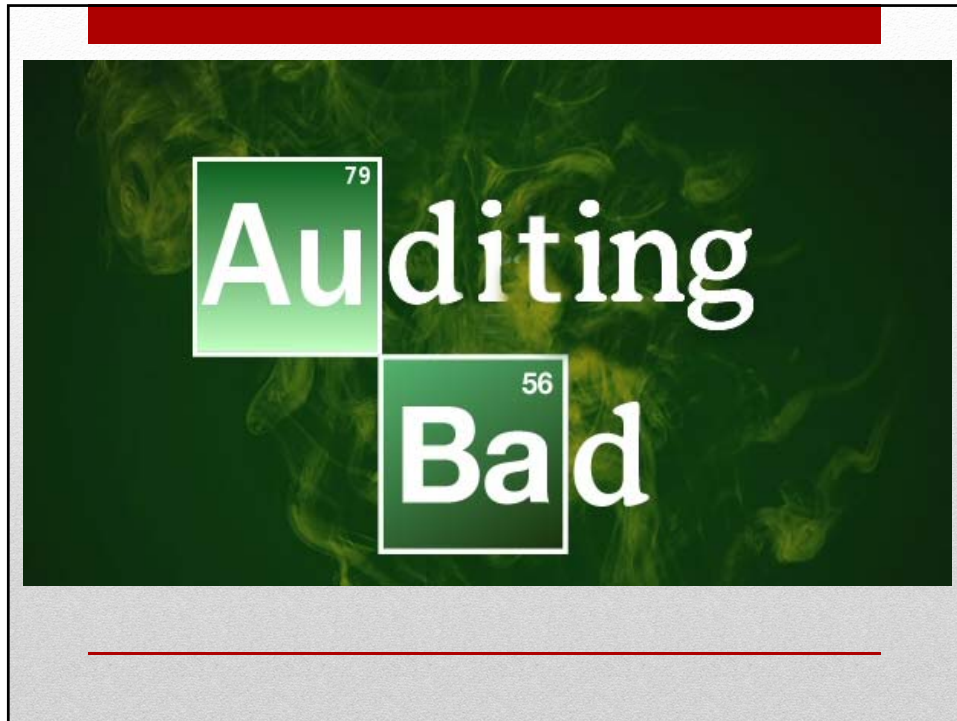
The Board closed the complaint upon issuance of a Letter of Instruction that ordered the Respondent to cease and desist the preparation of financial statements without the use of the safe harbor language.

Quiz Question

A Licensee must, upon request by a client or former client, furnish which of the following records?

- a. Any reports or other documents belonging to or obtained from the client.
 - b. Any accounting or other documents belonging to or obtained from the client.
 - c. Any working papers that would ordinarily constitute part of the client's books and records, such as general ledgers, fixed asset and depreciation schedules.
 - d. a. and b., but not c.
 - e. All of the above.
-

Before we quit, let's do one
more case study for the
auditors in the crowd



THE COMPLAINT

Respondent was engaged to perform an audit of a school system that had been previously audited by Legislative auditors.

Respondent failed to contact predecessor auditors before or after accepting the engagement.

THE STORY

An initial review of the Licensee's working papers raised questions as to whether or not they met auditing standards.

An Investigator from another Board was engaged to perform a working paper review and report the results to the Board.

AUDIT DEFICIENCIES

The Auditor:

- Failed to obtain management representations, but still gave an unqualified opinion.
 - Incorrectly asserted that he was not a successor auditor.
 - Identified supplemental information but did not provide an opinion as to whether or not that information was fairly stated.
 - Did not include any language in the engagement letter stating the responsibilities of management or the auditor.
-

AUDIT DEFICIENCIES

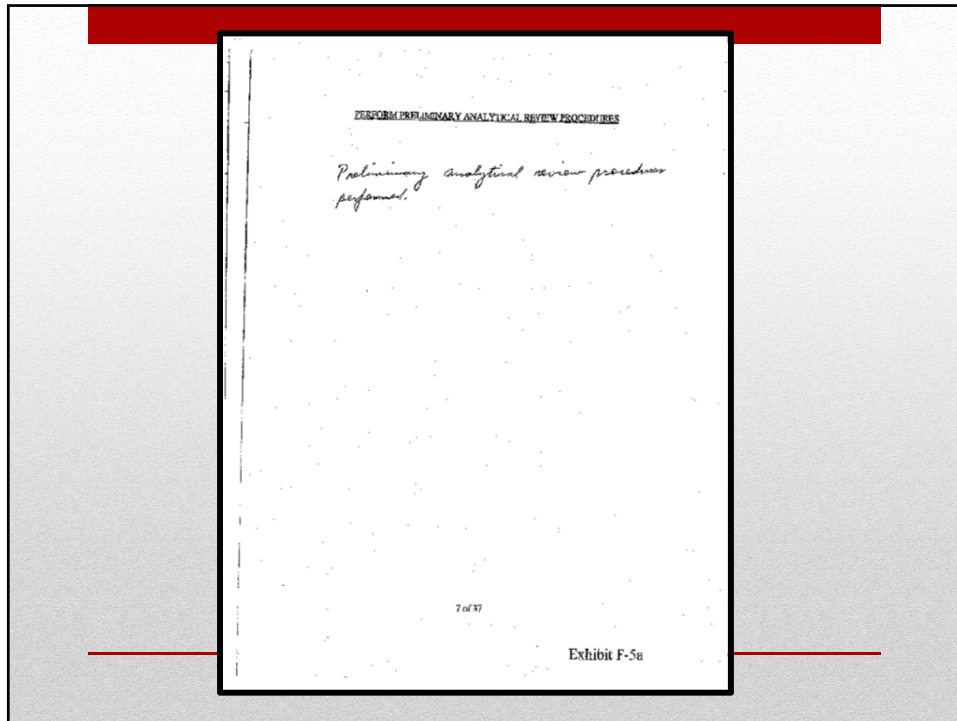
The Working Papers:

- Did not contain audit programs related to account balances, transaction classes, or audit objectives. The audit programs in the working papers were mostly incomplete and not referenced to the working papers.
 - Did not contain a method of sampling used for tests of controls or any indication of the sampling method used for substantive tests.
 - Did not support the conclusions reached by the auditor in 9 audit areas identified as significant during the planning phase of the audit.
-

BEST WORKING PAPER EVER

The “Audit Process Checklist Document” stated that the auditor performed preliminary analytical review procedures.

And here it is.....



THE REPORT

The Investigator's report concluded that the Licensee had failed to provide a clear understanding of the work performed; the audit procedures followed; the audit evidence obtained; and, the conclusions reached.

THE RESOLUTION

In a formal hearing, the Board ordered the following:

- A Civil Penalty of \$13,500 plus court and investigative costs.
 - An immediate peer review.
 - A pre-release review of all audits performed by the Licensee.
-

Final Quiz Question

On December 31st, you realize that you do not have enough CPE.
Which is your best option regarding your renewal?

- a. Continue to practice on a delinquent license and pray that no one notices.
 - b. Go ahead and renew. Answer “no” to the CPE question, then finish your hours.
 - c. Close your license and get a job with H & R Block.
 - d. Request an extension of time because your in-laws came to visit at Thanksgiving and are still in your house.
 - e. Move to another state.
-

Questions?

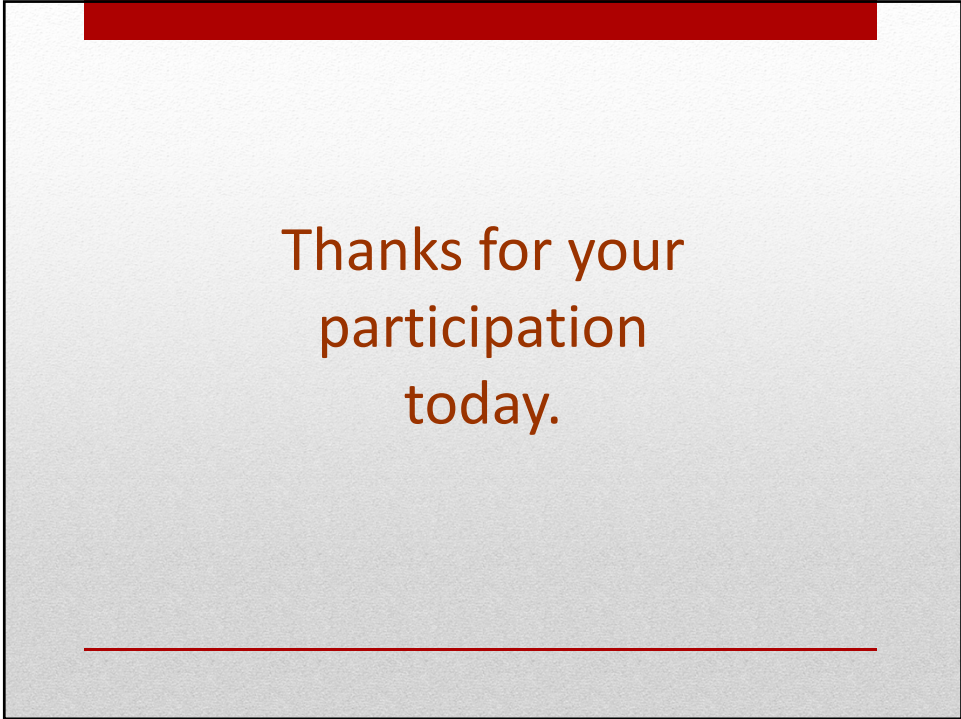
Contact Information

- Phone: 888-453-6150 or 615-741-2550
 - Fax: 615-532-8800
 - Web: <http://www.tn.gov/regboards/tnsba>
 - E-Mail: TNSBA web page has direct contact information for all Staff Members
-

Who Do I Ask For?

TNSBA Administrative Support Staff

- Investigator – Don Mills, CPA, CFE
 - Investigator – Ray Butler, CPA
 - Advisory Attorney – Kimberly Cooper
 - Education Coordinator – Denise Hickerson
 - Complaint Coordinator – Josh Canan
 - Licensing Coordinator – Brenda Demastus
 - Firm Permit Coordinator – Karen Condon
 - Administrative Assistant – Sandy Cooper
-



Thanks for your
participation
today.