



Tennessee State Board of Accountancy



State Specific Ethics for the Tennessee CPA

Don Mills, CPA, CFE, CFF
TNSBA Investigator

The TNSBA consists of:

- Eleven Members – Appointed by Governor
- Serve Terms of 3 Years
- Nine are CPAs
- One is Attorney
- One is Public Member
- Meets Quarterly- usually in January, May, July and October

Current Members of the Board

- Don Royston, CPA, Chair – Kingsport
- Casey Stuart, CPA, Secretary – Chattanooga
- Janet Booker-Davis, CPA – Franklin
- Stephen Eldridge, CPA – Jackson
- Larry Elmore, CPA– Knoxville
- Gay Moon, CPA – Nashville
- John Roberts, Attorney-at-Law – Nashville, Attorney Member
- Charlene Spiceland, CPA – Memphis
- Trey Watkins, CPA– Memphis
- Judy Wetherbee – Nashville, Public Member

What's New Under the TNSBA Sun?



Senate Bill 2078

Amends TCA Title 62, Chapter 1, relative to accountancy:

- Deletes the language that the Executive Director shall be a certified public accountant with an active certificate in the state.
- Amends 62-1-106(c) regarding the education requirements for a certificate and the requirements to sit for the examination.
- Amends 62-1-201(b) to require all licensees subject to peer review to timely remit any peer review documents as specified by board rule or upon board request and that such documents be maintained by the board.

In other news:

From the Department of Labor

Nearly 4 in 10 ERISA Audits Fail to Meet
Professional Standards

\$653 Billion in Plan Assets & 22.5 Million
Participants at Risk



Coming Attractions:

DOL Study Outcomes

- DOL communications to state boards, plan administrators and auditors
- DOL will make referrals to state boards and the AICPA Ethics Division
- DOL will continue to review EBP audit workpapers and perform larger firm inspections



CPAs in Tennessee

<u>Status</u>	<u>October 2015</u>
<u>Active</u>	10,575
<u>Inactive</u>	4,244
<u>Probation/Suspended</u>	5
<u>Revoked</u>	57
<u>Retired</u>	1,103
<u>Expired-Grace</u>	94

Requirements to Maintain a License

Status	Pay License Renewal Fee	Complete CPE	Professional Privilege Tax
Active	✓	✓	✓
Inactive	✓	✗	✗
Retired Over 65	✗	✗	✗
Closed	✗	✗	✗

License Status – “Bad Dog”

- Expired-Grace
- Expired
- Probation
- Suspended
- Revoked

Renewal Times

- 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 each November (if we remember).

Firm Permits- Yes or No

Tennessee Code Annotated, Section 62-1-113(d) states:

No firm shall provide attest services or assume or use the title "certified public accountants" or the abbreviation "CPAs," or any other title, designation, words, letters, abbreviation, sign, card or device tending to indicate that such firm is a CPA firm unless:

- The firm holds a valid permit issued under 62-1-108 and
- Ownership of the firm is in accord with this chapter and rules promulgated by the board.



Allowable Language

Tennessee Code Annotated, Section 62-1-113(h)(2) states:

(2) No person or firm not holding a valid license issued under § 62-1-107, § 62-1-108 or §62-1-109 shall assume or use any title or designation that includes the words "accountant" or "accounting," or any other language, including the language of a report, that implies that the person or firm holds such a license...



CPE Basics

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) – add 8 penalty hours if you don't
- 2 Hours State Specific Ethics – add 8 penalty hours if you don't
- Minimum of 20 Hours Each Year – add 8 penalty hours if you don't

Special Areas:

Attest Services – 20 Hours A&A

Carryover CPE Pocket Calculator

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 Future of Continuing Education

- Nano-learning -refers to information delivered in “bite-sized” 10-minute increments, often covering task-specific topics. An example would be short videos that CPAs can access to help master certain tasks as they encounter them in their work.
- Blended learning -combines multiple delivery methods, such as live instruction and on-demand self-study.



It's December 31st and I don't have enough CPE. What can I do?

- First – Renew your license. Answer “no” to the CPE question. Do not make things worse by practicing on a expired-grace license and accruing late fees.
 - Then get busy and finish your hours along with the “penalty hours”.
- Or:
- Change License to Inactive
 - Close License
 - Request an Extension of time (max 6 months) and have a really good reason. Extension must be requested before license expires.



CPE For Reactivation

Reactivate:

- You must have a viable license (Inactive or Closed)
- Complete 80 hours of technical CPE within 24 months of reactivation. This CPE counts toward your renewal hours.
- Pay a \$110 fee if license is closed

CPE For Reinstatement

Reinstate:

1. You do not have a viable license (Expired)
2. Request a Reactivation application from Board staff.
3. Complete 80 hours of technical CPE within 6 months of your request for reinstatement. These are penalty hours and do not count toward renewal
4. Pay a \$250 penalty.

Inactive Status Requirements

- For purposes of disciplinary action, the Board shall retain jurisdiction over all certificate holders whose license is in inactive status.
- Certificate holders in inactive status must place the word “inactive” adjacent to their CPA designation.

Inactive Status Requirements

If you are inactive, you may not perform accounting or auditing services for the public, including accounting services from a licensed accounting firm.

Rule 0020-05-.03(3)

Inactive Status Requirements

UNLESS:

- The accounting services are provided without compensation to you;
- the services are performed solely for your employer and your employer is not a licensed accounting firm, or
- if you do not use the CPA designation in association with your name while providing such accounting services.

Inactive Status Requirements

BONUS:

If you are 65 years old or older and are in inactive status, you do not have to pay the biennial license renewal fee.

A cool savings of \$55 each year.

I have a client who is leaving...

...and wants me to provide an electronic copy of his QuickBooks file to his new accountant. Can I send a paper copy instead?

Also, how long do I have to keep client records?

Client Records

If the client has made satisfactory arrangements for payment for services rendered, you must provide a copy of the licensee's working papers "to the extent that such working papers include records which would ordinarily constitute part of the client's books and records and are not otherwise available to the client".
Rule 0020-03-.11(1)(c).

The rule does not address the form in which these working papers must be provided.

Client Records

You must maintain copies of all work papers and work product used to render or support any accounting services for 5 years.

The 5 year period starts at the end of the fiscal period in which the engagement was conducted.

Rule 0020-03-.17



While we are on the subject of client records...

...I am selling my practice and moving to Panama City Beach. Are there special rules regarding the transition?



Client Records as Personal Property

All statements, records, working papers, etc. generated in the course of providing accounting services cannot be sold, transferred or bequeathed without the consent of the client to anyone except:

- One or more surviving partners or;
- New partners, shareholders, etc. or;
- Any combined or merged firm or successor in interest to the licensee.

TCA 62-1-115



While we are on the subject of client records...

...I have been offered the entire accounting practice of a deceased sole proprietor by the widow. If we agree on a price, can I take over his clients?



Yes

Firm Names

If you apply for a firm permit using your name, the Board will most likely approve it. For example:

- Don Mills, Certified Public Accountant
Yes
- Don Mills & Associates, Certified Public Accountants
No

Firm Names

If you apply for a firm permit using a fictitious name, the Board may decide the name is misleading.

- Don Mills & Arthur Anderson, CPAs
No
- Hamilton County Accounting Services
Yes
- Don Mills & Karen Condon, CPAs
No
- Municipal Auditing Firm of Tennessee
No



Firm Names

If you apply for a firm permit using a fictitious name, the Board may also decide the name is misleading if:

- It is similar to or the same as existing fictitious names.
Pete Marwick & Company
- It includes the name of an individual whose license has been suspended or revoked.
No Brainer!
- The name contains more than 1 fictitious name.
Mills & Mulder
Mills, Mulder & Scully (The truth is out there)



Quiz Time

Q: What's the difference between death and taxes?

A: Congress doesn't meet every year to make death worse.

Peer Review Requirements

Tennessee requires peer review for any firm that performs the attest function.

And “attest” is defined as...

Tennessee Code Annotated, Section 62-1-103, states that attest means providing the following services:

(A) Any audit or other engagement performed in accordance with the Statements on Auditing Standards (SAS)

And “attest” is defined as...

Tennessee Code Annotated, Section 62-1-103, states that attest means providing the following services:

(B) Any review performed in accordance with the Statements on Standards for Accounting and Review Services (SSARS)

And “attest” is defined as...

Tennessee Code Annotated, Section 62-1-103, states that attest means providing the following services:

(C) Any examination performed in accordance with the Statements on Standards for Attestation Engagements (SSAE)

And “attest” is defined as...

Tennessee Code Annotated, Section 62-1-103, states that attest means providing the following services:

(D) The issuance of any report, including compilation reports, prescribed by the SASs, the SSARs, or the SSAEs on any services

Attest Engagements in the SSAEs

Statement on Standards for Attestation Engagements define Attest Engagements as:

Engagements (**with certain exceptions**) in which a certified public accountant in the practice of public accounting is engaged to issue or does issue an examination, a review, or an agreed-upon procedures report on subject matter, or an assertion about the subject matter that is the responsibility of another party.

Attest Engagements in the SSAEs

Attestation Engagements include the following engagements:

- Agreed-Upon Procedures
- Financial Forecasts and Projections
- Reporting on Pro Forma Financial Information
- Compliance Attestation
- Management's Discussion & Analysis

Whoa! Back the Truck Up-Exceptions?

If you are providing the following services, you are **not** subject to peer review:

- Engagements in which the CPA is engaged to advocate a client's position- such as tax matters being reviewed by the IRS.
- Tax engagements in which a CPA is engaged to prepare tax returns or provide tax advice.
- Services performed in accordance with the Statement on Standards for Consulting Services (SSCS)



Consulting Services Exclusion

Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties.

In an attest service, you are engaged to express an opinion about the reliability of a written assertion that is the responsibility of another party,

In a consulting service, you are engaged only for the use and benefit of the client. The nature and scope of work is determined solely by the agreement between you and the client.



Compilation or Preparation:

	<u>Compilation</u> (Section 80 of SSARS No. 21)	<u>Preparation</u> (Section 70 of SSARS No. 21)
When does the standard apply?	When the accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is not independent, is that fact required to be disclosed in the accountant's report?	Yes	N/A
Does the engagement require a report?	Yes	No*
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

Compilation or Preparation:

***When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements.**

Or Somewhere In Between:

N.H Jackson
Moreland Co. Inc.
3768 Hwy 65 82 South
Lake Village Arkansas 71653
NJ.Morelandinc@mail.com
870-632-7447

Feb 16, 2015

I have reviewed the financial statements of [REDACTED] for the period ending June 30, 2014. This report is completed February 16, 2015 due to a change in CPA service providers.

The financial records and statements are the responsibility of the Management of the Company, and prepared by outside services. The review was conducted to ascertain the validity of the income statement and balance sheet as presented for audit.

The Financial Documents, in my opinion, and as presented, are a fair and complete financial representation of Multi-Task Industrial Services Ltd. Co. ending June 30, 2014 and generally conform to accepted accounting practices.



N. H. Jackson
AICPA



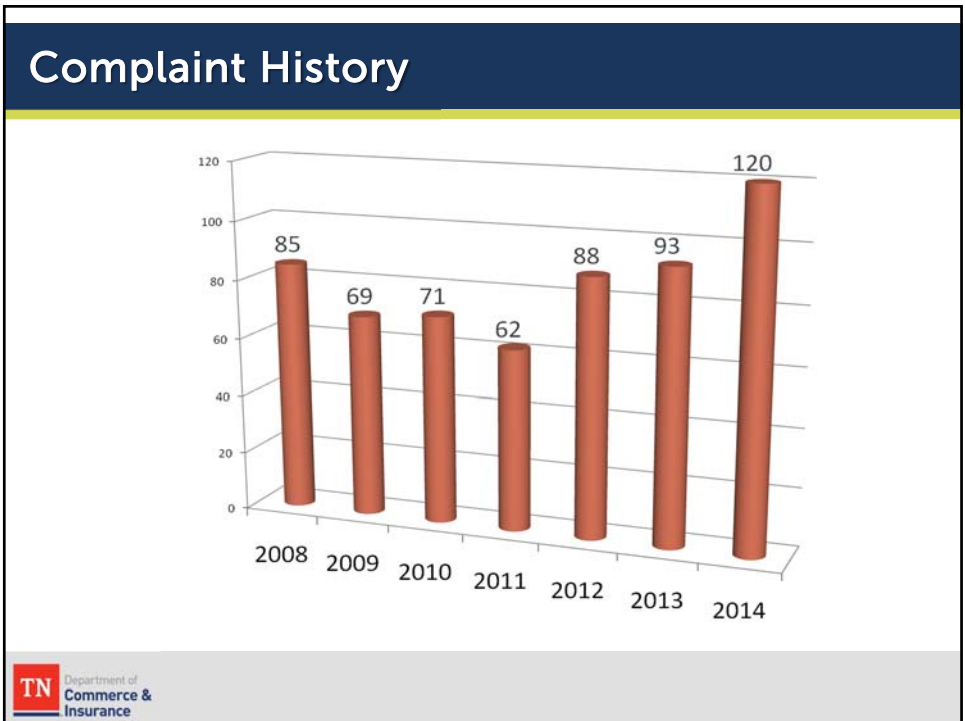
State Specific Ethics-Has this course
had an effect on complaints?



FY15 Complaints

Complaint Category	Total
Professional Privilege Tax	29
Unlicensed Activity	79
Due Professional Care	33
Discreditable Acts	16
Peer Review	11
CPE Audits	13
Violation of Federal Requirements	2
Ethics Violation	2
Gross Negligence	9
Failure to Meet CPE Requirements	5

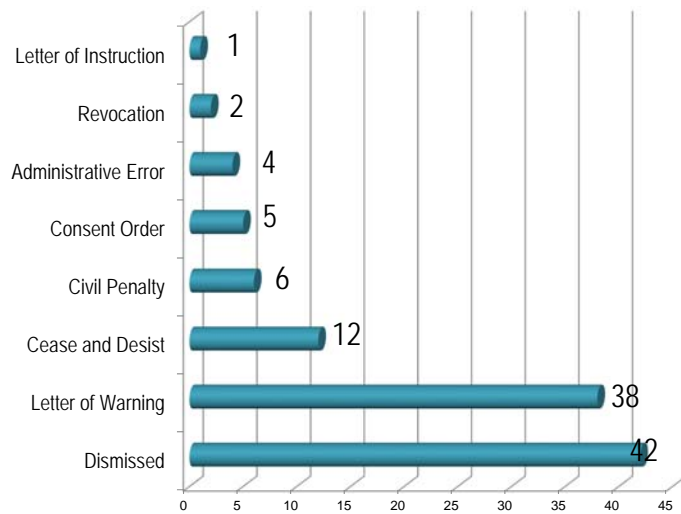
TN Department of Commerce & Insurance



Possible Board Actions

- Dismissal
- Letters
- Consent Orders
 - Civil Penalties
 - Additional CPE or Peer Review
 - Probation
 - Suspension
 - Revocation
- Informal Conference
- Formal Conference (Hearing)

FY15 Board Actions



I know you all love case studies, so we are going to talk about one or two, but you have to decide if the punishment fits the violation.

THE COMPLAINT

The Complainant, a CPA, asserts that his former partner has been bogarting his clients and continues to harass the clients he still has. The loss of clients has resulted in a 50% reduction in firm revenues.

THE RESPONSE

The Licensee asserts that he was illegally removed from the firm; his computer was confiscated and the locks on the doors were changed.

He asserts that it was through his efforts that the firm had grown and the clients who eventually went to him did so because he produced a more efficient product (he lowered their fees).

He denied any harassment of his former partner's clients, but admitted that he called some of them on an annual basis to see if they wished to change CPAs.

DISPOSITION

You are the Board – What action should be taken?

1. Dismiss.
2. Letter of warning.
3. Consent Order against the Respondent for aggravating his former partner.
4. Civil penalty of \$500 to both CPAs for excessive whining.
5. Other?

THE COMPLAINT

A Complainant made the following allegations:

- Her CPA deposited the Complainant's Federal income tax refunds directly into the CPA's bank account without her knowledge in:
 - 2011- \$6,019
 - 2012- \$5,091
 - 2013- \$4,242
- Her CPA convinced her that she owed \$13,000 to IRS on the sale of her dead husband's dump truck and asked for two checks which would be sent to the IRS.
- Before his death, the Complainant's husband wrote checks totaling over \$28,000 for "estimated taxes" to the CPA between 2011 and 2013.



THE RESPONSE

The CPA's Response was:

- The Complainant's husband borrowed money from the CPA and told her to keep the refunds as partial payment. There was a promissory note, but it had been given to the Complainant and no copy existed.
- The husband prepared and e-filed his own returns on the CPA's computer. This allowed the CPA to have the refunds deposited into her bank account (especially useful after his death in August of 2013).
- The checks (28K) with "taxes" written on the memo line were repayments of money borrowed by the husband. No estimated taxes were ever paid by the CPA on behalf of her client.
- The \$13,000 "Truck Tax" was actually the balance due from the deceased husband.



THE INVESTIGATION

As the investigation unfolded, some aspects of the Respondent's story changed:

- Well, yes, it appears that the dead husband did not file his 2013 tax return. The Respondent "accidentally" e-filed a draft return and the refund was deposited to her bank account on February 18, 2014.
- When she discovered the mistake, she immediately sent the Complainant a check - on December 1, 2014.
- She also discovered a copy of the promissory note-but it was unsigned.



FINAL ANSWER

The answers are now coming from the Respondent's Attorney:

- No Form 8829's are available in the Respondent's records.
- No business records of the client were retained.
- A new draft of the 2013 tax return has been presented to the Complainant, and it includes (surprise, surprise) taxable gains from the sale of the dump truck.
- But she did produce a copy of a signed and witnessed promissory note from the Complainant's dead husband.



DISPOSITION

You are the Board – What action should be taken?

1. Dismiss- The Complainant should have known that her husband was a gamblin' man.
2. Letter of warning- The IRS may find some of your e-filings questionable.
3. Consent Order- requiring a CPE course on determination of the basis of inherited assets.
4. Revocation of the CPA's license until the end of time.

What is the #2 question asked by CPAs during a complaint investigation?

Are you going to

revoke

my license?

Top 10 Ways to Get Your License Revoked

10. Failure to comply with a CPE audit.
9. Unpaid Professional Privilege Tax
8. Revocation of CPA license in another state
7. File false income tax returns for clients
6. Misappropriate funds from a non-profit

Top 10 Ways to Get Your License Revoked

5. Pull a gun on a client
4. Use public funds for personal use
3. Felony Conviction for Medicare Fraud
2. Participation in a Ponzi Scheme

And the Number One Way to Get Your
License Revoked is:

Murder in the 1st

The Last Word

"The hardest thing in the world to understand is income tax."

Albert Einstein



Thank You For Listening

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

