

Vermont Secretary of State
Office of Professional Regulation

BOARD OF PUBLIC ACCOUNTANCY

**UNAPPROVED MINUTES
MEETING of TUESDAY, JUNE 22, 2004**

1. The meeting was called to order at 9:12 a.m.

Members present: Jeffrey A. Graham, CPA, RPA, Chairman; Pamela J. Douglass, CPA, Secretary; Lee M. Spivey, Jr., CPA; Claire LaVoie, CPA; and Cairn G. Cross.

OPR Staff present: Christopher D. Winters, Board Counsel; and Carla Preston, Unit Administrator.

Others present: James DuCharme, applicant, and Patti F. Pallito, Deputy Managing Director of AON Insurance Managers (USA) Inc.

2. The Chairman called for approval of the Minutes of the June 2nd meeting. Ms. LaVoie made a motion, seconded by Mr. Spivey, to approve the Minutes of the June 2, 2004 meeting as presented. Motion passed unanimously.

3. **Reports**

James DuCharme attended the meeting at 9:30 a.m. to discuss his application. Mr. DuCharme said in the late 1990's he began efforts to obtain his CPA license. He said over a 20 year progression he is currently a CFO at Blue Cross Blue Shield. He has an MBA in economics, then went to Champlain College to obtain the required accounting courses and has passed the CPA exam. He explained that he ran into problems when he learned that his supervisor did not renew his CPA license. Mr. DuCharme said that his supervisor did attest to his having the required work experience but was not licensed during that time. He then asked an external CPA to attest to his general knowledge of competence which was submitted. He said he has done the best that he can to remedy the situation under the circumstances to show that he is qualified for licensure. He said he wants the license for his career and acknowledged that the people he supervises would also benefit.

The Board indicated that his request is compelling, however it must follow the laws and rules of the profession. Unfortunately, his supervisor does not meet the criteria, therefore the Board is unable to accept his work experience.

Mr. DuCharme elaborated further on his experience to explain how it is similar to that of public accounting experience.

The Board could agree that Mr. DuCharme has 1,580 hours or more of experience, but needs 500 hours of attest functions of which at least 200 hours are related to audit functions. As an option, he could work for one year doing audits under a licensed CPA to gain the experience needed. Due to the fact that the applicant does not meet the licensure requirements with regard to work experience, the Board voted to preliminarily deny his application.

- B. Patti F. Pallito, Deputy Managing Director of AON Insurance Managers (USA) Inc. attended the meeting to discuss the acceptability of experience for persons working with captive insurance companies. Ms. Pallito said she is concerned that work experience with captive insurance companies is no longer accepted by the Board, thus their employees cannot become licensed. She said it has been her understanding that such experience would make a candidate eligible for licensure. She said it would be very difficult to find qualified people to work for captives if the experience is not acceptable toward licensure.

3. **Reports** - continued

The Board noted that applicants must earn experience under a licensed CPA and must meet the experience requirements outlined in Board Rule 5.9. The laws and rules have changed significantly over the past few years due to certain events. The Board does have the ability to accept non-public experience if it can be demonstrated that such experience is substantially similar to, or parallels that of public accounting experience. If the applicant uses Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS), and is working under a licensed CPA the experience may be acceptable. The Board noted that the issue of independence in audits is not clear in the captive industry.

Ms. Pallito said under Sarbanes Oxley, they are required to do testing. She said they have a lot of interaction with the adoption of Sarbanes Oxley. She said CFOs will not sign off until the work is thoroughly reviewed. She presented sample test procedures for internal control. She said there is a lot of review in preparing financial statements and the testing ensures that the internal controls are valid.

Ms. Pallito said the preparer is responsible for everything, GAAP disclosure list, testing and audit procedures, etc. She said their staff is hired by groups such as KPMG to do the work because KPMG's staff does not meet the requirements of Sarbanes Oxley for reviewing GAAP and GAAS. She noted that having their staff do the testing resulted in a reduction in fees.

Ms. Pallito said the staff do not make an assessment of risk as they are not the decision makers. She said field staff does not determine if problems exist or if there are deteriorations.

The Board noted that it does not appear that procedures are done the same way across the board with regard to captives. All applications for licensure are reviewed on a cases by case basis. The Board has not made a blanket statement concerning the acceptability of experience acquired at captives. The Board's purpose is to protect the public.

Ms. Pallito said she has wonderful staff and her employer brings a lot of money to the State. They want to have highly qualified people, but would be unable to find them if they cannot obtain a license which would hurt business.

Mr. Cross indicated that he is the public member on the Board and explained that the Board requires a certain number of hours of experience in audit and attest functions. He said there is also the independence issue. He said he sees an opportunity for the industry and other educators to create a particular training program for potential CPA's to get that experience needed. An applicant could do an internship at a firm for independence, audit, etc. The idea is to consider that if designed correctly, it would work for the applicant, the firm, the State and for the Board. He said the applicant needs to know early on of these issues. The captives could network to create the opportunity for their employees to obtain the 500/200 hours of attest and audit functions in public accounting.

Ms. Pallito indicated that there has been a change in captives throughout the country. They perform audits and prepare reports. She said they are very similar to public firms. They are parent based with a wide spectrum, have exposure to the public accounting industry, and work with auditors and regulators. They prepare compilations and audits and participate in GAAS. Ms. Pallito said they work with various industries not just one type. She said since September 11th risks are on the rise and more captives were created. She said they have a broad based clientele.

Chairman Graham said that this discussion is not new to the Board. He said he became licensed in 1986 and needed a certain number of hours of attest functions. The Board has not taken a different position, but there are changes in the accounting industry. The whole field is tightening up.

3. **Reports** - continued

The Board explained that the license covers all aspects of accounting which includes attest functions and audits, therefore experience is required in those areas. Some of the experience may be covered under Rule 5.9, but the applicant must meet all criteria including the 500/200 hours of attest and audit functions. The Board requires minimum education (60 semester hours), the required number of hours of work experience which is based on the number of semester hours completed, (the greater the number of semester hours, the less years' of experience required).

Ms. Pallito asked the Board to look at the underlying work performed by the applicant. She said they do all of the work listed under Rule 5.9. Ms. Pallito said most staff persons just out of school at an accounting firm do not understand what they are doing; they may follow the checklist but do not understand why or the underlying reasons for it. She said the manager makes the decision, not the staff person. She added that there are fewer good candidates as accounting is not as prestigious as it used to be. She said the University of Vermont is supportive of the captive industry and offers initiatives. Ms. Pallito said she would try to coordinate cross training with other firms to ensure that employees have the opportunity to acquire the necessary experience.

Chairman Graham summed up by stating that the Board's position has not changed. Applications are considered on a case by case basis. The Board must verify the 500 hours of attest of which 200 hours are related to audit functions to meet GAAP and GAAS. The Board will question experience if it finds that it does not meet the independence requirement. Captive insurance organizations do not provide an independent point of view; they record transactions then provide an audit. No opinion is issued.

The Board is not completely aware of the procedures with regard to captives. Who takes responsibility, Banking Insurance Securities and Health Care Administration? The Board will research it further.

4. **Legislation/Rulemaking** - No action to report.

5. **The Board reviewed and discussed the following applications for licensure.**

- A. Ms Douglass made a motion, seconded by Mr. Spivey, to approve the following applicants for licensure based on their completed applications. Motion passed unanimously.

Deon, Kenneth F.	(Endorsement)	Julian, Steven A.	(Endorsement)
Schultz, Marvin R.	(Endorsement)	Thiesfeldt, Todd S.	(Endorsement)

- B. The Board reviewed the applications listed below and noted that documents were either missing or unacceptable to complete their applications. Applicants will be notified of the Board's findings.

Ram Agarwal (Score Transfer) - The Board reviewed Mr. Agarwal's application but was unable to approve it as submitted. The Board needs further clarification as to Mr. Agarwal's work experience and how it is similar to that of public accounting experience. It appears that Mr. Agarwal's experience pertains to industry.

Burke, Trudy-Mae (Examination) - Ms. Burke must ask her supervisor to verify that her experience includes 500 hours of attest functions of which no less than 200 hours was related to the audit function. This information should be provided on the Board's form for "Report of Supervised Experience." Verification of

licensure standing from all states in which Mr. Gordon, her supervisor, has been or is currently licensed is also required.

Chu, Agathe K. (Examination) - Ms. Chu must ask her supervisor to verify that her experience includes 500 hours of attest functions of which no less than 200 hours was related to the audit function. This information should be provided on the Board's form for "Report of Supervised Experience."

5. Applications - continued

DuCharme, James (Examination) - The Board voted to preliminarily deny Mr. DuCharme's application on the basis that he does not meet the experience requirement.

Engel, Anita L. (Examination) - The Board reviewed Ms. Engel's application and noted that she has well over 150 semester hours. However, the evaluation from FACS did not state that she had the 42 credits in specific areas needed to meet Vermont's requirements. The Board noted that her supervisor was licensed after she began working for him, thus hours she earned prior to January 22, 2002 will not be counted toward the experience requirement. Ms. Engel may submit any subsequent experience she has earned to meet that requirement.

Leis, Trent J. (Examination) - Mr. Leis must ask his supervisor to verify that his experience includes 500 hours of attest functions of which no less than 200 hours was related to the audit function. Mr. Leis' experience under the supervision of a CGA is only valid during the time period in which the Board had a valid agreement (January 2001 through August 22, 2003) with the Certified General Accountants in Canada. Therefore, the reported experience from 1995 to 1999 is not acceptable.

6. **Miscellaneous Correspondence**

- a. The Board reviewed information from a few candidates who were not admitted to the CPA examination because their valid identification was not accepted. Norm Vassell explained that he sat for the examination in November of 2003 in Vermont and had applied to retake the ARE in Buffalo, NY through Prometric. He said upon arrival he was not allowed to sit because he did not have a Passport. Other candidates were not admitted because their names on their Notice to Schedule did not match their ID. Ms. Preston will contact NASBA and CPAES to determine what actions, if any, those organizations are taking concerning these issues.
- b. Chairman Graham said he contacted Walt Menzel, a Florida based Peer Reviewer who has been asked to do a report review for a Vermont firm. The matter was discussed at length and Mr. Graham agreed to draft a letter of response for members' review.

7. **American Institute of Certified Public Accountants (AICPA) Correspondence**

- a. The Board discussed and noted the June 16, 2004 information from Prometric.
- b. Various questionnaires and FYI documents were noted.

8. **National Association of State Boards of Accountancy (NASBA) Correspondence**

- c. The Board discussed the information included on NASBA's Web site with regard to acceptable experience. Currently, it states that Vermont accepts non-public experience. To avoid misleading applicants, the Board will contact NASBA to see if additional comments can be added to NASBA's Web site to describe the circumstances under which non-public experience may be acceptable. Non-public accounting experience must parallel public accounting experience to be considered as acceptable.

- b. The Board reviewed and noted several Quick Polls. The Board reviewed and noted the results of the NASBA Quick Poll on Ethics Courses.
 - c. The Board responded to various questionnaires and noted FYI documents.
9. **Public Comment** See number three above.
10. **Other Business Introduced by the Board**
11. The next meeting is scheduled for **Tuesday, July 27, 2004.**
12. There being no further business, Mr. Cross made a motion, seconded by Mr. Spviey, to adjourn the meeting at 1:50 p.m. Motion passed unanimously.

Respectfully submitted,

Carla Preston
Unit Administrator
Office of Professional Regulation