



Kentucky Board of Accountancy

E-NEWSLETTER

In This Issue

2018 LICENSE RENEWAL 1
 BOARD MEMBERS 2
 CONTACT INFORMATION 2
 BOARD MEETING DATES 2
 2017 CPA EXAM RESULTS 3
 LEGISLATIVE CHANGES 3
 CPE AUDIT VIOLATIONS..... 3
 DISCIPLINARY ACTIONS 4-8

RETIREMENT OF BOARD EMPLOYEES

On March 1, 2018, Phyllis Gordon and Mary Stevenson retired from the Board of Accountancy. Phyllis and Mary were long time dedicated employees of the Board and will be missed. Their service over the years has been greatly appreciated. We wish them well in their new careers of looking after their grandchildren.

Holly Willis and Susan Tomes are the two new employees. Holly took over Phyllis’ duties as to the exam and numerous administrative functions. Susan’s responsibilities include licensing of CPAs and firms. We welcome Holly and Susan to the Board. Please feel free to contact them with your questions.

2018 LICENSE RENEWAL

All CPAs with an **EVEN** numbered license and **all CPA firm licenses must be renewed this year. These licenses should have been renewed by August 1.** However, CPA and firm licenses may still be renewed through September 1st using the online



system, but the fee has increased to \$200. Effective September 2nd, a license may not be renewed. Instead, CPAs must use the reinstatement process. A firm license not renewed by September 1 means the firm must cease operation and the firm manger must contact board staff.

CPAs due to renew their license this year should review their records and confirm they obtained the necessary CPE hours. These hours must have been completed from January 1, 2016 through December 31, 2017. During the online renewal process, CPAs will be required to affirm they fulfilled the CPE requirements by December 31, 2017. CPAs found to have falsely asserted they completed the hours will be subject to disciplinary action.

CPAs who changed their mailing or email address following the 2016 renewal process must submit an address change form located on the Board website at <http://cpa.ky.gov/> as soon as possible. Each year during the renewal process, a number of emails and letters are returned due to the failure of CPAs to update this information.



BOARD MEMBERS

Ted Funk, CPA

Frank Harris, CPA

Robert Patterson, CPA
Board Secretary/Treasurer

Mimi Kelly, CPA

Diane B. Medley, CPA, ABV, CGMA

Elizabeth A. Payne, CPA

Toni Carver Smith, Citizen Member
Board President

Staff Members

Richard C. Carroll
Executive Director

Holly Willis
Administrative Assistant

Susan Tomes
Administrative Assistant

Board Address:
Kentucky State Board of Accountancy
332 West Broadway, Suite 310
Louisville, KY 40202
Phone: (502) 595-3037
Fax: (502) 595-4500
Website: cpa.ky.gov
Email: cpa@ky.gov

UPDATE YOUR CONTACT INFORMATION

To update your contact information, submit the address change form found on our website @ cpa.ky.gov.

BOARD MEMBERS

On August 9, 2017, Governor Bevin appointed Robert Patterson, CPA, CGMA, CFE and Mimi Kelly, CPA to the Board of Accountancy. Mr. Patterson replaced Mr. Phil Layne, CPA and Ms. Kelly replaced Ms. Jamie Laws, CPA. Mr. Patterson and Ms. Kelly will each serve a four-year term that expires on June 30, 2021.

Mr. Patterson is a member and manager of Patterson and Company CPAs, PLLC. He received his CPA license in 2010 and is a graduate of Liberty University. Mr. Patterson is a member of the AICPA, and the Kentucky Society of CPAs.

Ms. Kelly is the Manager of Billing Integrity for LG&E and KU. She received her CPA license in 1996 and her undergraduate degree from the University of Kentucky. Ms. Kelly is a member of the AICPA and the Kentucky Society of CPAs.

In an Executive Order dated August 9, 2018, Governor Bevin appointed Diane B. Medley, CPA, ABV, CGMA and Elizabeth A. Payne, CPA to the Board of Accountancy. Ms. Medley replaced Lori Warden, CPA, and Ms. Payne replaced Margaret Combs, CPA. Ms. Medley and Ms. Payne will each serve a four-year term that expires on June 30, 2022.

Ms. Medley is the managing partner of Mountjoy, Chilton, and Medley. She received her CPA license in 1983 and undergraduate degree from the University of Louisville. Ms. Medley is a member of the AICPA, Kentucky Society of Certified Public Accountants, Vice Chair of the Hardin Memorial Hospital Foundation, and board member of Nucleus, U of L Entrepreneurship Council, One Southern Indiana, and the National Association of Women Business Owners.

Ms. Payne is the Fr. Raymond J. Treece Endowed Chair and Professor of Accounting at Bellarmine University. She received her CPA license in 1990, and her undergraduate, Masters and Ph.D degrees from the University of Kentucky. She is a member of the AICPA and the KY Society of CPAs where she has served in numerous positions for the Society over the years.

The remaining members of the Board are Ted Funk, CPA, A. Frank Harris, CPA and Toni Carver Smith. Ms. Carver Smith will serve as the Board President from July 1, 2018 through June 30, 2019. Mr. Patterson will serve as the Board Secretary/Treasurer for the same time period.

2018 BOARD MEETING DATES

Meetings are conducted at the Board office in Louisville, located at 332 W Broadway, Suite 310.

The following meeting dates remain for 2018:

SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
19-20*	26	15	14

*possibly at another location to be determined

Please keep in mind that meetings may be cancelled or rescheduled.

2017 CPA EXAM RESULTS

Jan - Feb 2017 Testing Window			
AUD	137 sat 66 passed 48% pass rate	FAR	116 sat 49 passed 42% pass rate
REG	193 sat 94 passed 49% pass rate	BEC	213 sat 107 passed 50% pass rate

April - May 2017 Testing Window			
AUD	119 sat 73 passed 61% pass rate	FAR	91 sat 35 passed 38% pass rate
REG	76 sat 32 passed 42% pass rate	BEC	86 sat 51 passed 59% pass rate

July - Aug 2017 Testing Window			
AUD	125 sat 55 passed 44% pass rate	FAR	166 sat 91 passed 55% pass rate
REG	140 sat 62 passed 44% pass rate	BEC	101 sat 50 passed 50% pass rate

Oct - Nov 2017 Testing Window			
AUD	149 sat 71 passed 48% pass rate	FAR	133 sat 59 passed 44% pass rate
REG	123 sat 52 passed 42% pass rate	BEC	102 sat 58 passed 57% pass rate

LEGISLATIVE CHANGES

During the 2018 legislative session, the Board and Society worked together, to enact legislation that made various changes to the different statutes of the Board. Some of those changes include:

- 1. Definitions** - Modified the definitions of certain terms used in the statutes.
- 2. Firm mobility** - Allow CPA firms based outside Kentucky to perform attest services and issue reports to KY based clients without obtaining a license.
- 3. Facilitated State Board Access** - Requires firms to grant the board access to view their peer review documents maintained in PRIMA which is operated by the AICPA.
- 4. Peer review oversight committee** - Authorizes the board to create a committee to monitor the peer review program.
- 5. Private reprimand/Expungement** - Allows the Board to issue a private reprimand against CPAs and firms. The change also allows CPAs and firms the opportunity to apply to have minor violations removed from their record ten years after the violation occurred. A record may only be expunged once. A minor violation is one that does not demonstrate a serious inability to practice the profession, result in economic harm to a person, or create a significant threat of such harm.

2017 CPE AUDIT VIOLATIONS

The following cases against the individuals listed were initiated based upon CPE audits conducted in 2017. The cases were resolved as a result an agreement reached between the CPA and the Board. Typically, the agreements required payment of a fine and double the number of hours the CPA was unable to provide documentation of having completed, or the license was voluntarily surrendered as if revoked. In some cases, the CPAs may have completed the hourly requirements but failed to respond to repeated requests to provide the documentation and were subsequently fined. While the violation is indicated on the Board website when performing an "Individual Licensee Search" on the names listed below, a copy of the Agreed Order that resolved the matter is not available online.

2017-021	James S. Coffey
2017-025	Sharon B. Freibert
2017-026	Michael Burke Fritz
2017-028	Kenneth R. Kring
2017-030	Wesley A. Rowe
2017-033	Debra C. Swisher
2017-034	Sharon P. Warriner
2017-036	Greg Matthew Larkin

DISCIPLINARY ACTIONS

The following are summaries of actions taken by the Board members since publication of the previous Board Ledger. For a complete version of each decision, please visit the Board website at cpa.ky.gov and perform a search for each licensee under “**Individual Licensee Search**”. After bringing up the name of the CPA, click on the link for “**Details**”. At the bottom of that next page click on the link with the associated case number. A copy of the Agreed Order should appear.

2016-023 Debra Walker, CPA - In June of 2016, the Board received a letter from the Respondent in which she requested a medical waiver from CPE to renew her CPA and firm licenses in 2016. Instead, the Board granted her a brief period of time to complete the remaining hours of CPE required to renew her license which she did. The Board members were also concerned about the supervision and operation of her firm while she was out of the office for an extended period of time due to her medical issues. The Respondent had 3 employees working in her office during the entire time she was receiving treatment, none of whom were CPAs. All of the employees prepared tax returns. While the Respondent was out of the office she had limited capability to review any work performed by her employees. All three employees had PTIN numbers, their computers were set up to use her PTIN number and her name on all returns. The Respondent estimated about 500 returns were completed and submitted while she was in Florida, none of which she reviewed or signed, although all were submitted with her number and name. The computer program used by the employees had her name and number printed on every return.

Remedy - Respondent paid a \$1,000 fine and is prohibited from ever owning any interest in a CPA firm, or serving as a firm manager.

2016-026 Donita Kirby - On May 25, 2016, an Indictment was filed against the Respondent in Barren County Kentucky Circuit Court. The Indictment charged the Respondent with one count of Theft by Unlawful Taking or Disposition, \$500 or more but under \$10,000, a Class D Felony. The funds the Respondent was charged with having unlawfully taken or exercised control over belonged to Vibra-Tech Engineering, her employer at the time. Following issuance of the Indictment, the Respondent notified the Board in an email that she would like to voluntarily surrender her license which was to be renewed in 2017, without stating a reason.

On September 12, 2016, a Judgement was entered in the criminal case. On October 31, 2016, an Agreed Order

Granting Pretrial Diversion of a Class D Felony was entered in the criminal case. According to the terms of the Order the Respondent was sentenced to a five (5) year period of pretrial diversion or until restitution in the amount of \$22,306.03 owed to her former employer is paid. The Respondent was also ordered to surrender her CPA license for the length of the five (5) year diversion period.

Remedy - The Respondent’s license was revoked for no less than 10 year and the Respondent is not allowed to make application to the Board for a possible of her license until passage of that time. To be considered for reinstatement of her license in the future the Respondent must establish that she has: (i) completed all of the terms and conditions of her sentence from the Barren Circuit Court case; (ii) refrains from pleading guilty to or being convicted of any felony in any federal or state court on any other charges; (iii) refrains from pleading guilty to or being convicted of a misdemeanor involving theft, fraud, or moral turpitude in any federal or state court on any other charges; (iv) is not found guilty by the Board of violating any provision of KRS Chapter 325 or the accompanying administrative regulations; and (v.) completes the reinstatement requirements in effect for the year she submits her reinstatement application.

2016-046 Robert C. Ryan, CPA - On September 4, 2015, the Respondent agreed in writing to cease providing audits of any kind, to provide a statement as to what public accounting services he was currently providing, and intended to provide in the future. The agreement was required due to a recent peer review report of his firm that was classified as a “fail”. In a subsequent letter, the Respondent indicated that he was working as a controller for a city, and was no longer performing audits, reviews and compilations. In a letter dated November 1, 2016, the Respondent advised the board that he was considering leaving his position as controller and restarting his public accounting practice in 2017. He inquired as to what would be required of him to offer attestation services again to a client. The Board agreed he could provide such services conditioned upon him entering into an Agreed Order to

DISCIPLINARY ACTIONS (Continued)

acknowledge this limitation. The Agreed Order was sent to the Respondent but he failed to reply. In December of 2017, the Respondent advised in an email that he was retiring but requested to be able to provide financial statements for his current employer. The Respondent was advised he could prepare the statements but still needed to sign the previous Agreed Order. The Respondent replied he would no longer perform any type of attest services but only the preparation of federal state and local income taxes. The Respondent does hold a current firm license that is due to expire as of August 1, 2018 and must be renewed to perform any tax services.

Remedy - The Respondent signed an Agreed Order to not perform any attest services which includes audits, reviews or compilations.

2017-013 Hargis & Associates LLC - The Board received notice that in December of 2013, a Report Acceptance Body accepted the rating of “pass with deficiencies” assigned to an engagement review performed on a compilation report issued by the Firm. The reviewer found the report failed to comply with the presentation requirements in SSARS 19. The Firm completed some remedial action assigned by the RAB and no action was taken by the Board regarding this rating. The 2017 peer review report issued on the Firm also received a rating of “pass with deficiencies.” The reviewer noted the report failed to comply with the presentation requirements of SSARS 21. The Firm was required by the RAB to undertake some remedial procedures. Those procedures were completed and accepted by the Kentucky Peer Review Committee in June of 2017. The Board and the Firm entered into an Agreed Order.

Remedy - The Firm shall undergo a pre-issuance review on the next two compilation engagements currently in process according to the following terms:

1. Mr. Hargis shall immediately submit a list of all compilation engagements currently under contract, to the CPA reviewer referenced by Mr. Hargis in a letter to the Board’s executive director dated October 19, 2017.
2. Prior to releasing any compilation report Mr. Hargis shall submit to the CPA reviewer all of the documents the reviewer deems appropriate to perform a pre-

issuance review of two engagements. The CPA reviewer shall determine if the reports and associated working papers were prepared in compliance with the appropriate and relevant professional standards. The reports and working papers must be presented to and approved by the CPA reviewer prior to their release to a client. Recommendations or suggestions made by the reviewer regarding the reports or the working papers shall be adopted by Mr. Hargis and the Firm and incorporated into every report and the working papers.

3. If Mr. Hargis disagrees with a recommendation(s), the disputed recommendation(s) shall be submitted to the Board for consideration prior to the report being issued to a client. The Board shall make the final decision on whether the recommendation(s) should be adopted.
4. The pre-issuance review process shall apply to the next two consecutive compilation engagements.
5. Following review of the reports, if the reviewer is able to report to the Board that he or she is confident the Firm and Mr. Hargis are capable of complying with all of the appropriate standards in preparing compilation reports the pre-issuance review period shall cease. If the reviewer is unable to conclude the Firm is capable of preparing the reports in compliance with the appropriate standards the pre-issuance process shall continue until the reviewer is able to certify the Firm is capable of complying with the standards.
6. Failure to comply with all of the terms in the Order may result in additional sanctions placed against Mr. Hargis and the Firm.
7. The Firm must remain enrolled in the peer review program and comply with the directives or recommendations as directed by the program.

2017-014 Schmitz & Associates PSC - The members of the Board reviewed an engagement review peer report prepared for the Firm that was completed in January 2017. The rating assigned to the engagement was “fail”. The Firm was required to undertake some remedial procedures. Those procedures were completed and acknowledged by the Kentucky Peer Review Committee in June of 2017. In 2013, the Firm also received a rating of “fail” on its peer review report. The Board and the Firm entered into an

DISCIPLINARY ACTIONS (Continued)

Agreed Order.

Remedy - The Firm shall undergo a pre-issuance review on all attest engagements currently in process and into the future according to the following terms:

1. Mr. Schmitz shall immediately submit a list of all attest engagements currently under contract, to the CPA investigator. Prior to releasing any attest engagement Mr. Schmitz shall submit to the investigator all of the documents the CPA investigator deems appropriate to perform a pre-issuance review of each engagement. The investigator for the Board shall determine if the reports have been prepared in compliance with the appropriate and relevant professional standards.
2. The reports must be presented to and approved by the CPA investigator prior to their release to a client. Recommendations or suggestions made by the CPA investigator regarding the reports or the attest process shall be adopted by Mr. Schmitz and the Firm and incorporated into every report. If Mr. Schmitz disagrees with a recommendation(s), the disputed recommendation(s) shall be submitted to the Board for consideration prior to the report being issued to a client. The Board shall then make the final decision on whether the recommendation should be adopted.
3. The pre-issuance review process shall continue until such time that the investigator is able to report to the Board he is confident the Firm and Mr. Schmitz are capable of complying with all of the appropriate standards in preparing attest engagements.
4. Failure to comply with any of the terms of this Order may result in additional sanctions being placed against Mr. Schmitz and the Firm.
5. Mr. Schmitz and the Firm shall remain enrolled in the peer review program and comply with the directives or recommendations of the program.

2017-020 John R. Chamberlin, CPA and Van Gorder Walker & CO Inc. - On November 3, 2017, the Board received a letter from the Acting Chief Accountant for the U.S. Department of Labor regarding one of the Department's recent reviews of a report and supporting documentation prepared by the Respondent and issued by the Firm. Specifically, the letter addressed its review of the audit report, financial statements and work papers

prepared by the Respondent for a client with an employee benefits plan covered under ERISA. Examples were cited in the letter where the Respondent "failed to provide working papers to document that sufficient planning procedures were performed to support the opinion rendered on the plan's financial statements. Accordingly, the audit was not planned in accordance with generally accepted auditing standards (GAAS) as required by ERISA."

Finally, the letter also noted one deficiency, which resulted in the audited financial statements not being issued in accordance with professional standards. The Board, Mr. Chamberlin and the Firm entered into an Agreed Order to resolve this matter.

Remedy – Mr. Chamberlin and the Firm shall forever cease and desist from performing or issuing ERISA required audits. Mr. Chamberlin paid a \$2,000 and the Firm paid a \$5,000 fine. The Respondent and the Firm were required to immediately engage another qualified Kentucky licensed CPA firm, pre-approved by the Board, to review the deficiencies listed in the Department's letter, correct the deficiencies, and reissue the 2016 report according to the procedures set forth below. The pre-issuance review shall include the 2016 audit report and all working papers associated with the report. The approved reviewer shall use the peer review checklists pertaining to ERISA engagements when performing the review of the report and the associated working papers. He or she shall perform the review and offer recommendations for changes to the report and to the working papers where necessary to comply with applicable accounting standards. The Firm will incorporate all recommendations into the report and working papers as prescribed by the approved reviewer. After the approved reviewer is satisfied that the recommended changes have been made to the report and the working papers, he or she shall provide to the Firm a letter approving the release of the report. Once the Firm receives this letter from the approved reviewer, the Firm may release the audit report to the client and recall the original report. The approved reviewer shall transmit to the Board a copy of the aforementioned "verification" letter sent to the Firm, as well as documentation:

(a) noting the deficiencies were corrected, (b) the

DISCIPLINARY ACTIONS (Continued)

engagement was performed in accordance with professional standards, and (c) the report was approved for release. Upon completion of this process, the Firm shall no longer perform or participate in any ERISA audit engagements. During the pre-issuance and post issuance process as described in this Order, the Firm shall not enter into any new agreement(s) to perform ERISA engagements for any new or existing client(s).

Upon satisfactory completion of the review process and the passage of 2 years from such completion, the Firm may submit a written request to the Board for approval to perform ERISA audit engagements. The request must detail procedures the Firm has instituted to avoid the reoccurrence of the deficiencies cited in the Department's report. The Board shall review the request and, if approved, may include restrictions or requirements that must be followed to perform the engagements. Failure to comply with any of the terms of the Order may result in additional sanctions being placed against the Respondent and the Firm. The Respondent and the Firm complied with these terms.

2018-002 William C. Dye and Dye & Medley CPA's, PSC - The Board discovered that in 2010 and 2013, the Firm received a rating of "pass" on their peer review reports issued by the Kentucky Peer Review Committee (the "Committee"). On December 23, 2016, a System Review Report was issued by the peer reviewer retained by the Firm. The report listed four deficiencies, and provided recommendations as to how to remediate the deficiencies. The Firm incorporated all of the report's recommendations and advised the Committee that, going forward, it would no longer perform audits or reviews, but only compilations.

Remedy - The Firm signed an Order to confirm it will never again issue any audit or review report, or provide services associated with the performance of any audit or review report. Also, when performing compilations the Firm will remain enrolled in the peer review program, and comply with any directives and recommendations specified by the program. Failure to comply with this restriction on the Firm's practice may result in additional sanctions placed against the Firm.

2016-003 W. Gilbert Brown III and Brown & Company, CPAs - In 2012 the Firm received its first rating of "fail" from the Peer Review Program. In addition, the Firm was required to have an outside party ascertain whether the Firm had implemented corrective actions on the matters identified in the review as symptoms of the principal deficiency related to A-133 audits. The Firm was ultimately required to undergo pre-issuance reviews of its next two Yellow Book A-133 engagements. The Firm complied with this requirement. During this review process Mr. Brown determined the Firm would not perform school board audits in the future. Since January 2016, the Firm has voluntarily engaged a CPA as the Firm's independent monitoring inspector to perform pre-issuance reviews of all of its Yellow Book engagements. An Agreed Upon Procedures engagement was reviewed by the board investigator and determined several deficiencies in the performance of that engagement.

Remedy - Pay a \$1000 fine. Cease performing any school board audits and never perform or issue any school board audits in the future. Undergo a pre-issuance review on all Yellow Book engagements currently in process and into the future by the Board investigator. The pre-issuance review process shall continue until such time that the Board investigator is able to report that the Firm and Mr. Brown are complying with all of the appropriate standards in preparing Yellow Book engagements.

Follow Up - In connection with matters ultimately unrelated to the agreed resolution of this case, and about which the parties continue to disagree, the Board initiated a Complaint against Mr. Brown and the Firm on April 5, 2018 (Administrative Action No. 18-KSBA-0062). During the pendency of this action, but for reasons unrelated to it, the AICPA Peer Review Program deemed it necessary to terminate the Firm from the Peer Review Program. In light of its termination from the Peer Review Program, the Firm can no longer issue financial statements.

Remedy - Mr. Brown has voluntarily surrendered his CPA license and the Firm is dissolved. Mr. Brown shall never seek to reinstate his CPA license or apply for a new license, and the Board will dismiss Administrative Action No. 2018-KSBA-0062 and permanently close Case No. 2016-003.

DISCIPLINARY ACTIONS (Continued)

2017-047 Charles S. Bruner, CPA, PSC - In February of 2014, a rating of "pass with deficiencies" was assigned to an engagement review performed in 2013 on two compilation reports issued by the Firm. The reviewer found the report failed to comply with the reporting requirements in SSARS 19. The Firm completed remedial action and no action was taken by the Board regarding this rating. The 2016 peer review report issued on the Firm also received a rating of "pass with deficiencies." The reviewer noted the report failed to comply with the presentation requirements of SSARS 21. The Firm was again required to undertake remedial procedures. Those procedures were completed and accepted by the Kentucky Peer Review Committee in November of 2017. Thereafter, the Respondent notified the Board that he was no longer performing compilations but instead only the preparation of financial statements. The Respondent was requested to provide a copy of a recent preparation of financial statements. Following a review of those documents, the Board determined the statements were not prepared in compliance with the requirements for the Preparation of Financial Statements found in AR-C 70 and Statements of Standards for Accounting and Review Standards.

Remedy - The Firm shall undergo a pre-issuance review on its next two preparation of financial statements engagements currently in process. Mr. Bruner shall also complete 8 hours of CPE related to Preparation of Financial Statements according to AR-C 70 and the preparation of compilations and reviews.

2017-016 Gayle Vater, CPA - In 2017, a complaint was received in the Board office from a former client of the Respondent which alleged the Respondent had provided payroll services, made quarterly tax payments, and prepared tax returns. As part of his services, the Respondent had full access to the former client's business checking account. In 2016, the former client began receiving notices from the IRS regarding failure to make tax payments. When the Respondent was advised of the matter, he assured the former client the matter was being solved. Nevertheless, the former client continued to receive notices from the IRS. In July 2017, an IRS agent appeared at the former client's residence and advised that the former client was in arrears in an amount over \$24,000 and that liens were going to be filed against his accounts. The former client attempted to set up a meeting with the agent and the Respondent but the Respondent failed to attend. In August 2017, the Respondent paid the approximately \$24,000 the former client owed to the IRS; however, the former client believes the Respondent still owes him approximately \$8,000. The Respondent denied any wrongdoing and stated the shortage in the former client's account was due to a shortage in another client's account, and that the IRS took money from the account of the former client to pay taxes for the other client.

Remedy - The Respondent's individual and firm licenses are permanently revoked, and the Respondent is prohibited from ever submitting an application to the Board for renewal, reissuance or reinstatement of his license.

