



06 - 0515

THE MINNESOTA BOARD OF ACCOUNTANCY

October 2, 2006

TO: Governor Tim Pawlenty

FROM: Doreen Frost   
Executive Director  
Minnesota Board of Accountancy

RE: Biennial Report of Examining and Licensing Boards

As required by Minnesota Statutes Section 214.07, enclosed is the original Minnesota State Board of Accountancy's Biennial Report for the period July 1, 2004 through June 30, 2006. As required, six copies have been filed with the Legislative Reference Library.

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BIENNIAL REPORT OF EXAMINING AND LICENSING BOARDS

(M.S. 1997, Section 214.07)

BOARD: MINNESOTA STATE BOARD OF ACCOUNTANCY

LOCATION: 85 E 7<sup>th</sup> Place, Suite 125, St Paul, MN 55101

STATUTORY AUTHORITY: 326A.01 to 326A.10

REPORT PERIOD: July 1, 2004 to June 30, 2006

SUBMITTED BY: Doreen Frost, Executive Director

This report shall be delivered to the Governor.

## Minnesota Board of Accountancy

### REQUIRED REPORTS M.S. 3.197

The cost of preparing this report is approximately \$1,800.00.

#### Clause A:      *General statement of Board activities*

*This description should cover both FY 2005 and FY 2006 and include any changes in activities between those years.*

The Minnesota State Board of Accountancy is mandated by M.S. 326A.01 to 326A.10 to govern and regulate the practice of public accountancy within the State of Minnesota. The Board is responsible for protecting and assuring Minnesota citizens that persons engaged in public accounting meet the qualifications and standards necessary to competently practice the public accounting profession. The Board's program for administering the law is comprised of three parts: examining, licensing, and enforcement.

#### EXAMINING:

The Uniform Certified Public Accountant's (CPA) Examinations in FY 2005 and FY 2006 were administered by CPA Exam Services.

All candidates who pass the Uniform CPA Examination are required to pass the American Institute of CPA Ethics Examination

#### LICENSING:

Applicant must meet the public accounting experience requirement prior to application for a CPA certificate. The experience requirement is based upon the educational requirement for sitting for the exam. As an example, a person who has a B.S. degree in accounting is qualified to sit for the exam, and then needs two years of public accounting experience in order to qualify for certification.

In the FY05/FY06 reporting period, the Board granted a total of 1,111 new certificates. The Board renewed approximately 27,500 individual licenses for FY 2005 and FY 2006.

All individual CPAs are required to renew their credentials annually. They may file as active, inactive or exempt. Active licensees may practice public accounting and are required to report 120 hours of Continuing Professional Education (CPE) every three years. Those in the inactive status may not practice public accounting and are not required to report CPE. Those certificates that have selected the exempt status are not required to renew and have no requirement or fee until they reenter public practice.

## Minnesota Board of Accountancy

### Clause A:      *General statement of Board activities*

The Board also evaluates and processes all license applications for CPA firms licensed as partnerships, corporations, Limited Liability Companies (LLCs), and Limited Liability Partnerships (LLPs). Corporations must comply with M.S. 319, the Professional Corporations Act. The Board processed approximately 2,350 firm licenses in FY 2005 and FY 2006.

The Registered Accounting Practitioner (RAP) designation was established by the Accountancy Act which was passed in Minnesota in 2001. Persons applying for designation as a RAP must have a minimum of an associate degree in accounting or an equivalent education; pass all sections of the Accreditation Council for Accountancy and Taxation (ACAT) exam; and have acceptable experience.

The RAP registrant seeking renewal is required to complete a continuing professional education requirement. In addition, the RAP will be required to complete a quality review once every three years. The RAP is permitted to compile financial statements and prepare reports with the Safe Harbor language included..

#### ENFORCEMENT:

An Ethics Committee (Enforcement) made up of 3 board members reviews all claims received by the staff investigator. This committee makes recommendations to the full board. The complaints received are against both individuals and firms. Resolution is accomplished within the internal jurisdiction of the board and with the cooperation of the Attorney General's Office.

There were 58 ethics files opened in FY 2005 and 106 files opened in FY 2006. The board closed 42 files in FY 2005 and 74 in FY 2006. The enforcement section monitors each licensed individual with respect to advertising, criminal charges, failure to report CPE, failure to renew individual certificates and firm permits, holding client records, lack of independence, negligent conduct, non-compliance with Quality Review requirements and substandard work.

**Minnesota Board of Accountancy**

**Clause B:** *Total Number of meetings held.*

Full Board meetings: FY 2005 8 FY 2006 9 COMBINED TOTAL 17

(Approximate total numbers of hours spent by Board members in meetings and on other Board activities).

Board Member	Meeting type	Hours			Other Type Activities	Hours		
		FY 2005	FY 2006	Total 05/06		FY 2005	FY 2006	Total 05/06
Thomas J Alagna	Full Board	12	-	12	Nat /Regional	0	0	0
	Committee	18	-	18				
Robert J Hyde	Full Board	12	14	26	Nat/Regional Other Duties	48	48	96
	Committee	20	22	42				
Rebecca K Keran	Full Board	9	12	21	Nat/Regional	0	16	16
	Committee	12	20	32				
Neil N Lapidus	Full Board	9	12	21	Nat/Regional	0	24	24
	Committee	12	20	32				
Kate Mooney	Full Board	0	8	8	Nat/Regional	0	0	0
	Committee	0	3	6				
Sheri Moyle	Full Board	0	8	8	Nat/Regional	0	0	0
	Committee	0	3	6				
Jacqueline Pausch	Full Board	11	3	14	Nat/Regional	0	0	0
	Committee	14	4	18				
Roger L Reinhart	Full Board	12	14	26	Nat/Regional Other Duties	48	48	96
	Committee	20	22	42				
Melodie R Rose	Full Board	2	14	16	Nat/Regional	0	0	0
	Committee	2	20	22				
Ramanik P Shah	Full Board	12	12	24	Nat/Regional	0	24	24
	Committee	20	20	40				
Michael M Vekich	Full Board	2	12	14	Nat/Regional	0	12	12
	Committee	2	20	22				
Mary Lynn Widseth	Full Board	9	12	21	Nat/Regional	0	24	24
	Committee	12	20	32				

**Minnesota Board of Accountancy**

Clause C:      *The receipt and disbursement of Board funds.*

	FY 2005	FY 2006	TOTAL
Total Appropriations	577,000	487,000	1,064,000.00
Total Non-Dedicated Fee Receipts	603,599	767,000	1,370,599.00
Total Disbursements	549,493	399,311	948,804.00

**Minnesota Board of Accountancy**

**Clause D:** *List of Board members who served during FY 2005 and FY 2006*

<u>Name and address</u>	<u>Occupation</u>	<u>Begin and end date of appointment and re-appointment</u>
Thomas J Alagna, CPA 6701 Penn Ave S, Suite 200 Richfield, MN 55423	Certified Public Accountant	4/1997 - 1/2005
Robert J Hyde, CPA Deloitte & Touche LLP 400 One Financial Plaza Minneapolis, MN 55402	Certified Public Accountant	7/2003 - 1/2007
Rebecca K Keran, CPA Best Buy Co 7601 Penn Ave S Richfield, MN 55423-3475	Certified Public Accountant	4/2004 - 1/2008
Neil N Lapidus, CPA Lurie Besikof Lapidus & Co LLP 2501 Wayzata Blvd Minneapolis, MN 55405	Certified Public Accountant	4/2004 - 1/2008
Kate Mooney, CPA St. Cloud State University 720 4 <sup>th</sup> Ave S. St. Cloud, MN 56301-4498	Professor of Accounting, SCSU	4/2006 - 1/2008
Sherri L Moyle, CPA Alaspa & Murray Ltd 1301 Miller Trunk Hwy #500 Duluth, MN 55811-5644	Certified Public Accountant	6/2004 - resigned 2/2006
Jacqueline Pausch Detroit Lakes MN	Public Member	7/2003 - resigned 9/2004
Roger L Reinhart, CPA Brambillas Inc 550 Valley Park Dr Shakopee, MN 55379	Certified Public Accountant	5/1999 - 1/2007

**Minnesota Board of Accountancy**

**Clause D:** *List of Board members who served during FY 2005 and FY 2006*

<u>Name and address</u>	<u>Occupation</u>	<u>Begin and end date of appointment and re-appointment</u>
Melodie R Rose Fredrickson & Byron PA 200 S 6th St, Ste 4000 Minneapolis, MN 55402	Attorney	4/2005 - 1/2007
Ramanik P Shah, CPA Shah & Co Ltd 2233 Hamline Ave N #209 St. Paul, MN 55113	Certified Public Accountant	4/2004 - 1/2008
Mary Lynn Widseth 48362 188 <sup>th</sup> Ave McGregor, MN 55760	Public Member	7/2003 - 1/2007
Michael M Vekich, CPA Vekich Associates Chartered 3924 Natchez Ave S St. Louis Park, MN 55416	Certified Public Accountant	4/2005 - 1/2009



## Minnesota Board of Accountancy

Clause E: *List of Board employees who were employed during FY 2005 and FY 2006*

<u>Name</u>	<u>Job Classification</u>	<u>Dates of Service</u>
Burth, Laura	Office Specialist	May 16, 2005 - May 15, 2006
Carey, Beverly	State Program Administrator	September 14, 2004 - present
Frost, Doreen	Executive Director	April 12, 2005 - present
Hacker, Linda	Office Administrative Specialist	July 13, 2001 - June 2005
Harney, Daniel	Office Specialist	May 16, 2005 - June 13, 2005
Lewis, Heather	Office Specialist	May 31, 2006 - August 23, 2006
Oehrlein, Vicky	Office Administrative Specialist	August 22, 2003 - present
Poppenhagen, Dennis	Executive Secretary	January 28, 1996 - April 11, 2005
Renville, Steven	Investigator	July 10, 1996 - present

## Minnesota Board of Accountancy

**Clause F:** *Brief summary of Board rules proposed or adopted during this reporting period, FY 2005 and FY 2006.*

The changes detailed below were made to the rules published in the State Register on June 27, 2005 in response to comments received by the Board and the Orders on Review of Rules Under Minnesota Statutes, Section 14.26:

- In section 1105.0100, Subp. 4: "Applicant" means a person applying to take the Uniform Certified Public Accountant Examination. An "applicant" is also referred to as a "candidate". The term "applicant" also includes persons ~~referred to in this chapter by the term "candidate" and those who have passed...~~
- In section 1105.0100, Subp 17 and the following sentence to the end of the paragraph: These AICPA statements are contained in AICPA Professional Standards and are incorporated by reference.
- In section 1105.0250 (A): "For purposes of this chapter, the documents ~~as revised as of May dated June 1, 2005~~ in item B; the documents dated June 1, ~~2004~~ 2005 in item C; the document dated ~~December 1, 2004~~ copyrighted 2005 in item D; and the 2003 revision, as further amended through May 2005, of the document as in item E are incorporated by reference to the extent that other provisions of this chapter and Minnesota Statutes do not modify or conflict with the provisions of the documents, in which case the provisions of this chapter and Minnesota Statutes shall prevail."
- In section 1105.0250 (B) add the following sentence at the end of the subitem: "The Code of Professional Conduct and the statements identified above are published in the document identified in item C(2)."
- In section 1105.0250 (D): "...PCAOB Standards and Related Rules, copyright 2005."
- In section 1105.0250 (E): "...Government Auditing Standards: 2003 Revision."
- In section 1105.3000 (A): "No carry forward of CPE hours from a one- or three-year CPE period ended on June 30 to another..."
- In section 1105.3100, Subp. 4, C: "...more than ~~60~~ 80 percent ..."
- In section 1105.2900 added: "C. No more than six hours may be recognized for internships or life experience."
- In section 1105.1500, Subp. 1 (D): "Upper Division is normally defined..."
- In section 1105.3100, Subp 2: "All self-study programs ~~must comply with~~ sponsors must be members of NASBA's Quality Assurance Service Program as required by the specific requirements of subpart 1 and the program must comply with part 1105.3000, item A.
- In section 1105.4100 (A) (2) and (3): "...shareholder ~~resident~~ who resides or practices in this state;"
- In section 1105.4200 (A) (1) "...certificates and reside or practice in this state..."
- In section 1105.7850 (C): "...the United States, which are incorporated by reference in part 1105.0250 items (D) and (E), respectively, is an act discreditable..."

**Minnesota Board of Accountancy**

**Clause G:** *The number of persons having each type of license and registration issued by the Board as of June 30, 2006.*

<u>TYPE OF LICENSE/REGISTRATION</u>	<u>TOTAL NUMBER IN EFFECT</u>	
	<u>JUNE 30, 2005</u>	<u>JUNE 30, 2006</u>
INDIVIDUALS:		
ACTIVE CPA LICENSES	6,754	7,483
INACTIVE CPA LICENSES	5,344	5,911
CERTIFICATE CANDIDATE (People who have passed the CPA exam but are not yet licensed)	5,463	5,996
NON-RESIDENT PRACTICE PRIVILEGE	135	200
REGISTERED ACCOUNTING PRACTITIONERS (RAP)	44	85
FIRMS:		
CPA CORPORATIONS	504	562
CPA PARTNERSHIPS	62	60
CPA FIRMS NOT IN MINNESOTA	8	12
CPA LLC	29	24
CPA LLP	57	59
CPA SOLE PROPRIETORS	385	996
RAP FIRMS	12	33
	_____	_____
	1,045	1,746

## Minnesota Board of Accountancy

### Clause H:     *Administration of examination by Board of Accountancy*

The Uniform CPA Examination is offered jointly by three organizations; the National Association of State Boards of Accountancy, responsible for the National Candidate Database; the American Institute of Certified Public Accountants (AICPA), responsible for developing and scoring the Examination; and Thomson Prometric, responsible for examination delivery at authorized test center.

Persons applying for RAP credential must complete the Accreditation Council for Accountancy and Taxation (ACAT) exam administered by Minnesota Association of Public Accountants.

Completion of the AICPA Ethics for Professional Accountants is required before issuance of a certificate or credential.

**Minnesota Board of Accountancy**

Clause I, J, K: *Minnesota residents by type of license/registration*

Candidates taking the Uniform CPA Examination:

	Applied	Passed	%
FY 2005	1179	327	27.7
FY 2006	1324	247	18.7

**Minnesota Board of Accountancy**

**Clause I, J, K:**     *Explanation page.*

Individuals taking and passing the Uniform Certified Public Accountants Examination must meet the public accounting experience requirement prior to application for certificate.

The experience requirement varied from one year for an applicant with a Master's Degree in accounting to five years for a candidate with a high school diploma.

Some candidates, who pass the exam never apply for licensure but go into private industry and remained in the "Certificate Candidate" status.

Applicants for certification must demonstrate a need for a Minnesota license. Examples of need are residing or working as a public accountant in Minnesota.

Age of individuals is not readily accessible for statistical purposes.

**Minnesota Board of Accountancy**

**Clause L:** *The number of persons not taking examinations who were licensed or registered by the board or who were denied licensing or registration with the reasons for licensing or registration or denial thereof.*

	<u>FY 2005</u>	<u>FY 2006</u>	<u>Total</u>
Number of non-Minnesota exam candidates granted certificates	157	123	280
Number of non-Minnesota exam candidates denied certificates	4	3	7

<u>Certificates issued by</u>	<u>Grant</u>	<u>Deny</u>	<u>Reasons for Denial</u>
Minnesota Resident	831	-	
Reciprocity	187	3	Amount of qualifying experience
Grade Transfer	93	4	Amount of qualifying experience
TOTAL	1111	7	

**Minnesota Board of Accountancy**

**Clause L:**     *Explanation page*

Clause L has been modified to reflect the following:

Age and gender – this data is not available,

Reasons for denial are as indicated.

Reasons for granting are not indicated. However, anyone who is granted a certificate and license has met the Minnesota education, examination and experience requirements.



**Minnesota Board of Accountancy**

**Clause M, N, O:** Summarize by specific category, the substance of and communications referred to in Clause N of M.S. 214.07 and for each specific category, the response or disposition thereof pursuant to M.S. 214.10 and 214.11.

COMPLAINT SUMMARY

COMPLAINT	FY05	FY06	Total
Advertising	3	4	7
Criminal Charges: Fraud, Bribery, Theft	2	3	5
Failure to Apply in a Timely Manner	2	4	6
Failure to Comply with a Previous Order	1	-	1
Failure to Report CPE	10	16	26
Failure to Renew Certificate	15	19	34
Failure to Renew Permit	2	1	3
Failure to Reply to Board Communications	1	3	4
Firm Name Problem	-	1	1
Holding Out as Licensed	4	6	10
Holding Client Records	1	2	3
Lack of Independence	1	-	1
Negligent Conduct relating to Services	-	1	1
No Firm Permit	5	7	12
Non-Compliance with Quality Review Requirements	14	19	33
Practicing Without a Certificate	9	5	14
Substandard Work	9	11	20
Substandard Tax Work	2	2	4
Unprofessional Conduct	6	9	15
<b>TOTAL COMPLAINTS</b>			<b>200</b>

**Minnesota Board of Accountancy**

**Clause M, N, O:** Summarize by specific category, the substance of and communications referred to in Clause N of M.S. 214.07 and for each specific category, the response or disposition thereof pursuant to M.S. 214.10 and 214.11.

REMEDY SUMMARY

REMEDY	FY05	FY06	TOTAL
Additional CPE	4	2	6
Back Fees Paid	5	7	12
Cease & Desist Order	9	4	13
Certificate Censured & Reprimanded	15	13	28
CPE Requirement Met	-	2	2
Civil Penalty	15	12	27
Certificate Revoked	7	5	12
Certificate Suspended	-	1	1
Informal Agreement to Abide	4	-	4
No Response - File Closed	6	1	7
No Violation	20	17	37
Quality Review Requirement Met	5	2	7
Records Returned	1	-	1
SCO signed	17	19	36
Private Warning Letter	8	3	11
<b>TOTAL REMEDIES</b>			<b>203</b>

There were no complaints received which would require the Board to forward to any other agency.

298 CPA Certificates were revoked on February 11, 2005 and 108 CPA Certificates were revoked on April 19, 2006, pursuant to MS 326A.04, subd 11 (2002), for non-renewal for a period of more than two years.

## Minnesota Board of Accountancy

### Clause M, N, O:      *Explanation page.*

When an individual calls with a complaint he/she is directed to the Investigator. If the person is a certificate holder, the complainant is asked to file a written complaint.

Once a written complaint is received, a verification letter and authorization is sent to the complainant requesting permission to release their name and information contained within the complaint in order to facilitate investigation.

All written complaints are acted upon pursuant to Minnesota Statutes, Chapter 214. Here is a general outline of a typical complaint:

- 1) A file is opened on each complaint.
- 2) Depending upon the nature of the complaint, an investigation is started. This may be conducted by the Special Assistant Attorney General assigned to the Board, an investigator from the Attorney General's Office, Board members, or staff Investigator.
- 3) Once the investigation is complete, the file and corresponding evidence is referred to the Board Ethics/Complaint Committee for determination as to what course to pursue. Complaints may be closed at this point, scheduled for hearing or further investigation, or any other action that the Committee deems appropriate.
- 4) Where violations of Minnesota Statutes are found, the Committee attempts to get voluntary compliance, or agreement to a Stipulation and Consent Order.
- 5) When there is no voluntary cooperation, the Committee may initiate more formal proceedings against the respondent through the Administrative Law Judge.
- 6) Sanctions may include (but are not limited to): Certificate suspension, revocation, warnings, formal reprimands, reminder letters of the rules of professional conduct, fines, and the recovery of the Board's administrative costs in investigating the matter.

## Minnesota Board of Accountancy

**Clause P:** *State any other objective information which the Board members believe will be useful in reviewing Board activities.*

(For example: In what other states do your licensees hold licenses? Number of Minnesota licenses verified/certified to other states. Number of inspections. Comparisons with past biennial reports.

The Minnesota Board does not keep records of other states in which Minnesota licensees become licensed.

When Minnesota CPAs apply to other states for licensure, those states contact us for verification of the applicant's certificate standing and examination grades. Last year the Board processed approximately 500 requests for verification.

There are some states which will not renew licenses for CPA firms in their state unless all CPAs who work for that firm are currently licensed. The Board is requested to verify approximately 60 such requests each year.

The American Institute of Certified Public Accountants (AICPA) requires verification that a CPA's certificate is in good standing before they will allow the applicant to join the national organization. The Board receives approximately 400 verification requests from the AICPA each year.

## NASBA

Minnesota is one of the 54 licensing jurisdictions that make up the National Association of State Boards of Accountancy (NASBA). This organization has an Annual Meeting each year, and the State Board Administrators (Executive Secretary) from all 54 jurisdictions meet once a year for the Administrator's Conference. There are also several operating committees and the members of those committees come from the member boards. Minnesota is part of the NASBA Midwest Region, which also sponsors at least one meeting each year.

One of the purposes of these meetings is to discuss NASBA's recommendation for administering the CPA Exam and for certifying and licensing CPAs. All registrants have the opportunity to discuss the different programs and procedures. All information received from the committee and meeting registrants is considered before a final draft of any recommendation is made. The recommendations are mailed to the State Boards and give the boards a workable guideline when considering new programs or amending rules. Board members, the Board's Executive Director, and the Assistant Attorney General assigned to the Board are urged to attend these meetings.

## AICPA

The AICPA establishes professional standards; monitors their member's professional conduct and enforces current standards and requirements. The AICPA Code of Professional Conduct is incorporated by reference.

**Board Member Attendance for Fiscal Year 2005**

	Jul 23	Sep 17	Oct 29	Dec 10	Jan 21	Feb 11	Apr 22	May 19
Tom Alagna	x	x	x	x	x	absent	n/a	n/a
Robert Hyde	x	x	x	x	x	x	x	x
Rebecca K Keran	x	absent	x	x	x	x	absent	x
Neil N Lapidus	x	x	absent	x	x	x	absent	x
Sherri L Moyle	x	x	x	x	absent	x	x	x
Jacqueline Pausch	absent	absent	n/a	n/a	n/a	n/a	n/a	n/a
Roger Reinhart	x	x	x	x	x	x	x	x
Melodie Rose	n/a	n/a	n/a	n/a	n/a	n/a	x	absent
Ramanik P Shah	x	x	x	x	x	x	x	x
Michael Vekich	n/a	n/a	n/a	n/a	n/a	n/a	x	absent
Lynn Widseth	x	x	absent	x	x	x	x	absent
Total present								

**Board Member Attendance for Fiscal Year 2006**

	Jul 29	Aug 19	Sep 16	Oct 21	Dec 9	Jan 6	Mar 23	Apr 19	May 19
Robert Hyde	x	x	x	x	x	x	x	x	x
Rebecca K Keran	x	x	x	x	x	x	absent	x	x
Neil N Lapidus	x	x	absent	x	x	absent	x	x	absent
Kate Mooney	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	absent
Sherri L Moyle	x	x	absent	absent	absent	absent	n/a	n/a	n/a
Roger Reinhart	x	x	x	x	x	x	x	x	x
Melodie Rose	x	x	x	x	x	x	x	x	x
Ramanik P Shah	x	x	x	x	x	x	x	absent	x
Michael Vekich	x	x	x	x	x	absent	x	absent	absent
Lynn Widseth	x	x	absent	x	x	x	x	x	x
Total present									

x - attended

absent

n/a - no longer a member/new member