



TEXAS STATE BOARD REPORT

MAY, 1982

AUSTIN, TEXAS

VOL. 8

HOUSE BILL REQUIRES BOARD ACTION

During the Sixty-seventh Legislative session, House Bill 247 (Acts of the Sixty-seventh Legislature) was passed and became effective September 1, 1981. The effect of the Bill on Board policy was far-reaching because it gave State licensing agencies the authority to obtain previously denied conviction records from the Department of Public Safety's computerized criminal record file (or from local enforcement agencies) regarding persons applying for an examination or license. Agencies were given six months from September 1 to develop guidelines for implementation of a criminal background investigation program.

To comply with the Legislative mandate, at the February meeting the Board passed a proposed rule, which was published in the February 26, 1982, issue of the TEXAS REGISTER. No requests for a public hearing were received by the Board. At the April meeting, the rule (Substantive Rule 401.47.00.100, Criminal Background Investigations) was finally adopted, to become effective June 1, 1982.

Under the rule, the Board may not examine a candidate or issue a certificate, initial license, or license renewal if a criminal background investigation indicates that the individual has been convicted of a felony or misdemeanor offense which directly relates to the practice of public accountancy.

The Board considers the following crimes to be directly related to a licensee's duties and responsibilities: convictions in which fraud or deceit is an essential element, convictions which result in suspension or revocation of the right to practice before any state or federal agency for a cause which in the opinion of the Board warrants its action, and convictions involving moral turpitude.

The rule guarantees each individual the right to due process and stipulates that the Board take a number of things into consideration in arriving at a decision concerning an individual applicant: (1) the nature and seriousness of the crime, (2) the relationship of the crime to the Board's statutory responsibility to protect the public from individuals who fail to maintain the high standards of

competence and integrity required of licensees, (3) the extent to which a license might offer opportunity for further criminal activity of the same type, (4) the relationship of the crime to the ability or fitness required to discharge responsibilities, and (5) the present fitness of a candidate.

In considering present fitness, the Board will review the extent and nature of past criminal activity, the age of the person at the time of the crime, elapsed time since the individual's last criminal activity, conduct and work activity of the individual prior to and following the crime, evidence of rehabilitation or rehabilitative efforts, and other evidence of present fitness.

In the future, the Board will routinely request a criminal background report on all applicants for issuance of a CPA certificate and for all initial examination candidates. A candidate or licensee adversely affected by this rule may refer to Section 22 of the Public Accountancy Act of 1979, as amended (Article 41a-1, V.A.T.S.), which defines the hearing and review procedure.

The Board rule is very similar to those enacted by other state licensing agencies. A complete copy of the rule may be obtained by contacting the Board office.

Editor's Note . . . It is important for licensees to recognize the impact of "miscellaneous" pieces of legislation on the accounting profession (as well as on numerous other professions). In the case of House Bill 247, this Board was not consulted or otherwise involved in the decision-making process regarding the Bill, but the examination, licensing, and enforcement functions of the Board are greatly affected by its passage. And while the long-range effects of this particular Bill may prove to be an upgrading influence on the profession as a whole, it is possible that other "miscellaneous" pieces of legislation would not offer such a desirable result. □

EXAMINATION DATA

THANKS TO PROCTORS

Over three hundred CPAs and Public Accountants volunteered to assist the Board in proctoring at the May, 1982, examination. The Board and staff report that an adequate examination could not be conducted without the assistance of able proctors; the help of these volunteers is appreciated.

The proctors are responsible for a number of important examination functions, including security, distributing and collecting various examination materials, patrolling the examination aisles and public areas, checking papers for correct identification and page sequence, and assisting in tallying and balancing functions.

The minimum number of individuals required to properly proctor the examination is one proctor per 50 candidates. The November requirement is expected to be approximately:

<i>Proctors per session</i>	
Austin	15
El Paso	4
Fort Worth	45
Galveston	23
Lubbock	11
San Antonio	50
Wichita Falls	10

The Board solicits volunteers for this important responsibility. Individuals interested in proctoring at the November, 1982, examination are asked to contact the Examination Committee Chairman of local TSCPA Chapters or Donna Meredith, Staff Examination Coordinator.

NEW SITES SCHEDULED

Because of overcrowding at many of the current examination sites and a steady increase in applications to sit for the examination, the Board

has contracted for additional sites as follows:

Wichita Falls	November, 1982 November, 1983, and each exam thereafter
Temple	May, 1983, and each exam thereafter
Waco	November, 1985, and each exam thereafter

In Wichita Falls, the examination will be conducted in the Wichita Falls Activities Center, which is adequate to seat 475 candidates.

The Mayborn Civic and Convention Center, located in Temple, will accommodate 500 candidates; the Waco Convention Center will seat 750 candidates.

PROGRAM BENEFICIAL

A "new approach" has been incorporated in the CPA Examination Preparedness Program (formerly identified as the "Critique").

The initial purpose of the critique was to review each section of the examination and allow candidates to compare answers against the AICPA suggested answers.

The current approach has decreased the total time involved and is focused primarily on test-taking techniques. The previous "separate section" concept has been replaced by one session, and although the AICPA suggested answers are passed out, they are not discussed in detail. Instead, instructors examine the most common reasons for failures on the examination, analyze the AICPA grading process, and highlight current good techniques for taking tests.

Another change in the format is to allow initial, as well as re-exam, candidates to attend. Comments from attendees at the April program show a positive reaction to the new format.

Complete statistics from the May, 1982, examination are not yet available, but counts of candidates applying for each section and of candidates actually sitting indicate that at the six examination sites, an average of 19% of those Texas candidates who applied failed to sit for Auditing, 23% for Law, 20% for Theory, 26% for Practice I, and 29% for Practice II.

MAY EXAM STATISTICS

These figures would seem to indicate many vacant seats, but this is not necessarily the case because the Board's Examination staff routinely overbooks each site based on prior no-show experience. At the Galveston site, for example, there were only three vacant seats during the Auditing portion of the exam.

Actual numbers of Texas candidates sitting for each section, by site, are as follows:

	Auditing	Law	Theory	Practice I	Practice II
Austin	756	739	781	746	720
El Paso	164	163	156	151	147
Fort Worth	2089	1977	2094	1892	1824
Galveston	1139	1080	1068	1011	970
Lubbock	586	559	566	560	532
San Antonio	1539	1456	1523	1333	1262
Total	6273	5974	6188	5693	5455

Approximately 228 out-of-state candidates sat in Texas for Auditing, 237 for Law, 235 for Theory, 251 for Practice I, and 251 for Practice II. The percentage of out-of-state no-shows was very low.

OFFICERS REELECTED

At the Board's annual meeting in April, 1982, the following officers were reelected to serve during the 1982-1983 year (May 1, 1982, through April 30, 1983):

Oscar E. Reeder, Chairman
Brooks Wilson, Vice Chairman
Miller Montag, Secretary
Sue W. Briscoe, Treasurer

UPDATE: PROPOSED CE RULE

The Open Hearing held on May 14, 1982, at the John H. Reagan Building in Austin, regarding the proposed substantive rules concerning mandatory

CE resulted in oral testimony from seven CPAs and written comments from 25 individuals. The written comments were read into the hearing record.

Copies of all testimony received were distributed to Board members, and the subject will be discussed at the July meeting (July 29-31). The August TEXAS STATE BOARD REPORT will outline the Board's action. □

LETTERS TO THE EDITOR:

Dear Jane:
I do not understand how a person who has not worked in *public* accounting can be considered a Certified *Public* Accountant. I don't believe an

equivalent to the public accounting experience can possibly be obtained in private industry. The exposure to a diversity of industries and sizes of clients, as provided in public accounting, is what separates the accountant with imagination and the ability to adapt to our changing business environment from the accountant who's seen only one side of our multi-faceted profession. Perhaps a separate designation for private industry accountants is needed. At any rate, I support the requirement for *public* accounting experience as a prerequisite for certification.

Gregg L. Hothem, CPA
Houston

Please address letters to **Jane I. Johnson**, Editor, TEXAS STATE BOARD REPORT, Texas State Board of Public Accountancy, 3301 Northland Drive, Suite 500, Austin, Texas 78731. □

MEETINGS

Texas State Board of Public Accountancy:

July 29-31, 1982
September 23-25, 1982
October 21-23, 1982
November 12-13, 1982

National Association of State Boards of Accountancy:

June 6-8, 1982 Southern States Regional Meeting, Louisville, Kentucky
September 12-15, 1982 75th Annual Meeting, San Diego, California

CPA Swearing-in Ceremony:

November 13, 1982 Austin, Texas

NOVEMBER, 1982 EXAM SCHEDULE

The schedule for the November, 1982, Uniform CPA Examination is as follows:

Examination Sites

Austin	Lester E. Palmer Auditorium
El Paso	The University of Texas at El Paso Special Events Center
Fort Worth	Tarrant County Convention Center
Galveston	Moody Convention Center
Lubbock	Lubbock Civic Center
San Antonio	San Antonio Convention Center
Wichita Falls	Wichita Falls Activities Center

Examination Times

Nov. 3 - 1:30 p.m. to 6:00 p.m.
Accounting Practice, Part I
Nov. 4 - 8:30 a.m. to 12:00 Noon
Auditing
1:30 p.m. to 6:00 p.m.
Accounting Practice, Part II
Nov. 5 - 8:30 a.m. to 12:00 Noon
Business Law
1:30 p.m. to 5:00 p.m.
Accounting Theory

The deadline for submission of applications to sit for the November exam is September 1, 1982. Grades from the May, 1982, exam will be released August 2, 1982.

From The Chairman...



SUE W. BRISCOE, Board Treasurer, welcomed candidates and guests

It seems appropriate to relate to you some of the highlights of the May Swearing-in Ceremony. As you know, this ceremony marked only the second such event, but, despite its newness, it was clear to me that the efforts of the Board and the staff were appreciated by all in attendance.

Over half of the eligible candidates were present, and several brought with them as many as 20 guests—family and friends—though the average number of guests was slightly over three per candidate. There was obvious pride on the part of families and friends in the achievements of the participants.

Ten Texas candidates were again selected to receive the Board's award for outstanding performance on the Uniform CPA Examination. These "top ten" were:

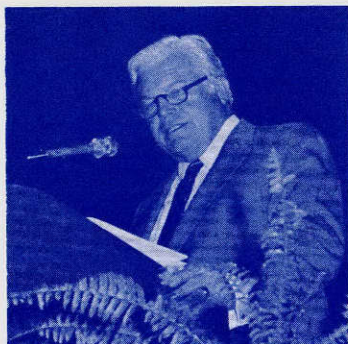
David William Scruggs, Austin
Susan Gail Kimbrough, Carrollton
Cynthia Gerson Abrahams, Houston
Charles Gavin Pou, Fort Worth
Wayne E. Gifford, Richardson
Richard H. Spofford, Jr., Fort Worth
Charles Mitchell Compton, Houston
David Matthew Bishop, Houston
Sharon W. Staats, Austin
Michael James Butler, Dallas

To be selected as one of the "top ten," an individual must have been a Texas candidate, passed all parts of the examination at the initial sitting, and made one of the ten highest cumulative scores. The awardees were seated on the podium and presented with bronzed likenesses of the CPA certificate, which included a line identifying the individual as having achieved outstanding performance on the examination.

One other individual, **Don Roddy Boggus**, was recognized during the program for his dedication to the goal of



DAVID WILLIAM SCRUGGS, No. 1 "Top Ten Candidate," represented all candidates and spoke on importance of Oath of Office



MILLER MONTAG, Secretary, introduced **CHIEF JUSTICE GREENHILL**



THE HONORABLE JOE R. GREENHILL

...MAY SWEARING-IN CEREMONY

becoming a CPA. He had passed three parts of the exam some years ago, and had retaken the Theory portion a number of times prior to receiving a passing grade after the November, 1981, exam. Everyone present could identify with the jubilation Mr. Boggus felt upon learning that the rigors of 34 examinations were over.

A number of special guests invited by the Board attended, many of whom represented Accounting Departments of Texas colleges and universities.

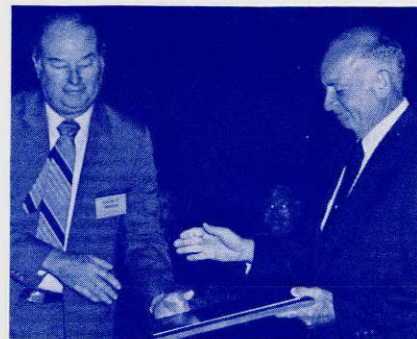
The guest speaker was **The Honorable Joe R. Greenhill**, Chief Justice of the Supreme Court of Texas. Chief Justice Greenhill discussed many areas of interest to a new CPA, including the efforts of the various professions to gain and maintain their "professional status" and the need for CPAs to at all times adhere to the highest technical and ethical standards.

One of the highlights of the ceremony was a "Response on Behalf of Candidates" by **David William Scruggs**, who was the number one individual in the "top ten" category. Mr. Scruggs expressed particularly well the importance of the Oath of Office, pointing out that since it was a promise he would be keeping for the next 40 years of his life, it was not one he would be taking lightly.

Others taking part in the program were **Sue W. Briscoe**, who welcomed the candidates; **Miller Montag**, who introduced Chief Justice Greenhill; **Brooks Wilson**, who discussed the Oath of Office; and **Doctor Charles T. Zlatkovich**, President of the Texas Society of CPAs, who invited the candidates and guests to the Society's reception.

Members of the Board presented certificates individually to the new CPAs at the conclusion of the ceremony. Overall, I was impressed by the dignity of the occasion and feel the prestige it offers the profession as a whole is sizable.

Oscar E. Reeder
Chairman



CHAIRMAN REEDER presented "Top Ten Award" to **WAYNE E. GIFFORD**



CHAIRMAN REEDER administered Oath of Office to assembled candidates



BROOKS WILSON, Vice Chairman, also discussed importance of Oath



ROBERT S. DRIEGERT, Board Member, presented CPA Certificate to new CPA

ENFORCEMENT

Disciplinary Actions

Respondent: Unnamed by Board Order

Date of Panel Hearing: January 28, 1982

Panel Decision: The Panel found that the Respondent signed a report accompanying financial statements of a company, which report failed to comply with the Statement on Standards for Accounting and Review Services Number I (SSARS I) in that: (1) the report failed to state the level of service being performed or the degree of responsibility assumed, and (2) the report failed to disclose obvious departures from generally accepted accounting principles in that the financial statements omitted a statement of changes in financial position and failed to adequately describe major accounting policies with regard to uncompleted contracts. The Panel found that the Respondent's failure to comply with SSARS I as described above constituted a violation of Rule 203 of the Rules of Professional Conduct and proposed that Respondent be reprimanded for such conduct. The Board ratified the Panel's recommendation on February 26, 1982.

Respondent: Morin, Stephen G.

Date of Panel Hearing: January 28, 1982

Panel Ruling: The Panel found that the Respondent signed two compilation reports accompanying financial statements of a company which failed to comply with the Statement on Standards for Accounting and Review Services Number I (SSARS I) for the reason that the reports failed to disclose obvious departures from generally accepted accounting principles in the following particulars: (1) the financial statements included a 10% write-up of unrealized service charges as accounts receivable; (2) the balance sheet contained no provision for income tax liabilities for accrued income from the remaining 90% of unrealized service charges; (3) the balance sheet had no provision for the current portion of notes payable shown as long-term liabilities, and (4) the balance sheet in the stockholder equity section included unrealized franchise service charges capitalized at 100% based on current valuations. The Panel found that the Respondent's failure to disclose obvious departures from generally accepted accounting principles as outlined above constituted violations of Rule 203 of the Rules of Professional Conduct and accordingly proposed that the Respondent be suspended for a period of thirty (30) days. The Board ratified the Panel's recommendation at its meeting on February 26, 1982.

Respondent: Kelly, Patrick W. (Certificate No. 6860)

Date of Panel Hearing: February 25, 1982

Panel Ruling: The Panel found that the Respondent signed an opinion letter relating to financial statements of a company and that (1) such opinion letter failed to include a statement of changes in financial position, failed to include

a reserve for claims and failed to reflect accrued interest as income; (2) notes to the financial statements failed to disclose major accounting policies concerning depreciation, income tax, claim reserves or whether the entity was on an accrual or cash basis, and (3) the financial statements included items referred to as "Off-Shore Compensating Balances" and "Liability Compensating Balances" without adequate disclosure. The Panel concluded that Respondent's failure to comply with generally accepted auditing standards and the failure to disclose obvious departures from generally accepted accounting principles as outlined above constitute a violation of Rule 202 of the Rules of Professional Conduct. Accordingly, the Panel recommended that the certificate and annual license of Respondent be suspended for a period of one year. The Board ratified the Panel recommendation on April 20, 1982.

Respondents: Ribble, Harvey L. (Certificate No. 8507)
Brown, Lee Roy (Certificate No. 3775)
Brown & Ribble, P.C. (Registration No. C0391)

Date of Panel Hearing: January 28, 1982

Panel Ruling: The Panel found that Respondent Ribble signed an opinion letter relating to financial statements of a company and that such opinion letter failed to disclose obvious departures from generally accepted accounting principles as follows: (1) the financial statement included a 10% write-up of unrealized service charges as accounts receivable under the current assets section of the balance sheet; (2) the balance sheet contained no provision for income tax liabilities for accrued income from the remaining 90% of unrealized service charges capitalized under the other assets section; (3) the balance sheet in the stockholders equity section included unrealized franchise service charges capitalized at 100% based on current valuations, and (4) the balance sheet in the stockholders' equity section included an amount shown as retained earnings which does not relate back to the balance sheet of the financial statements of the company in question. The Panel further found that Respondent Brown approved of the opinion letter referred to above and permitted Respondent Ribble to sign that opinion letter on behalf of the firm of Brown and Ribble, P.C. The Panel found that the failure of Respondent Ribble to disclose obvious departures from generally accepted accounting principles as outlined above constituted a violation of Rule 203 of the Rules of Professional Conduct. The Panel further found that Respondent Brown's conduct in permitting Respondent Ribble to sign the opinion letter referred to above violated Rule 402 of the Rules of Professional Conduct and that Respondent Brown and Ribble, P.C., violated Rule 203 of the Rules of Professional Conduct by virtue of the conduct of its shareholders. Accordingly, the Panel recommended that the certificates and licenses of Respondents Ribble and Brown and the

license of Brown and Ribble, P.C., be suspended for a period of six (6) months. The Panel's recommendation was ratified by the Board on February 26, 1982.

ENFORCEMENT ACTIVITY

February 1, 1982 - April 30, 1982

	<u>Rules</u>	<u>Act</u>	<u>Total</u>
Active files Feb. 1, 1982	71	146	217
Files opened during period	<u>16</u>	<u>35</u>	<u>51</u>
	87	181	268
Files closed during period	<u>12</u>	<u>15</u>	<u>27</u>
Active files April 30, 1982	75	166	241

ATTORNEY GENERAL OPINION

Substantive Rules, Rules of Professional Conduct, or other guidelines utilized by the Board in its day-to-day licensing, examination, enforcement, and administrative functions. One recent opinion involved reduced license fees.

At the request of numerous temporarily or permanently disabled, and thus retired, licensees who are 65 or under, the Board proposed to take action to reduce the license fee for as long as the disability persisted. The Board asked for an Attorney General Opinion in this regard.

The Attorney General has advised that any license fee reduction would entail an amendment to the Public Accountancy Act of 1979, as amended. Such amendment would not be possible until the next Legislative session, scheduled for 1983 (but too late for the 1983 license renewal cycle). □

FULCHER III DISMISSED

Over a period of several years, the Board has been involved in litigation with an unlicensed individual, **William L. Fulcher, Jr.**, who has attempted to use titles restricted by law to licensees. The latest suit was filed in Federal District Court and dismissed because the issue had been previously decided by the State courts. No appeal was filed within the time allowed by law. Mr. Fulcher's motion for an extension of time to appeal was denied. □

Attorney General Opinions are requested in instances involving questionable interpretation of the Act,

The Board has proposed a change in the Rules of Professional Conduct applicable to the requirements of a fee estimate, as contained in Section II "Definitions"-- Competitive Bid.

The changes involve the last two paragraphs. Words in parentheses have been deleted. Underlined words have been added.

2. The estimated number of people by classification (to be) involved in performing the work and the range of education and experience (of each person) in each classification; and
3. The estimated time (expected) to be required for the engagement by personnel classification and the anticipated completion date. □

CHANGES PROPOSED IN COMPETITIVE BID RULE

The Board continued its inquiry into the possible public need for Schools of Accountancy by hearing testimony at the May meeting by **Doctor Kenneth H. Ashworth**. Doctor Ashworth is Commissioner of Higher Education, Coordinating Board, Texas College and University System.

Doctor Ashworth indicated that there are no active proposals before the Coordinating Board at the present time for separate schools of accountancy. The Coordinating Board has not favorably viewed proposals for separate schools for several primary reasons: a concern regarding the cost of such schools, and a concern about the loss of control over curriculum by the business school and general faculty. North Texas State University's 1977 proposal for a separate school was later modified by the university to establish a five-year master's program in accounting under its existing MBA.

In response to questions regarding the Board's resolution concerning a minimum requirement for 150 hours to sit for the CPA examination, Doctor Ashworth stated that such a requirement would probably have little, if any, effect on most educational institutions in Texas. The only ones which would be adversely affected, he noted, would be those with inadequate resources to fund a master's level program. He stated that the Coordinating Board has already approved six or seven programs in Texas for master's degrees in the accounting field.

Editor's Note: It should be pointed out that the Board's resolution does not require a master's degree in accounting, but a baccalaureate degree plus an additional 30 credit hours, with at least 30 hours in accounting and 20 hours in related subjects. □

QUESTIONS AND ANSWERS

- Q. May a licensee who sells all or a part of an accounting practice disclose information pertaining to specific clients, such as client records, to another person without the consent of the client?
- A. No, Rule 301 prohibits disclosure of information pertaining to a client obtained in the course of performing professional services without the client's consent except in certain narrow instances. Source: Rule 401.33.00.301.
- Q. Is a licensee required to comply with the provisions of Statement on Standards for Accounting and Review Services Number One (SSARS I) issued by the AICPA Accounting and Review Services Committee in performing compilations and reviews of financial statements of a nonpublic entity?
- A. Yes, the pronouncements in SSARS I are generally recognized by the profession as appropriate for the performance of unaudited compilations and reviews of financial statements of nonpublic entities. Therefore, adherence to SSARS I is mandatory under Rule 203. Source: Rule 401.33.00.203.
- Q. How may the Board enforce its orders in disciplinary actions?
- A. The Board is authorized to request the Attorney General to bring an action in district court to enjoin or restrain the continuation or commencement of a violation or to compel compliance with a final order of the Board. Source: Section 19A, Art. 6252-13a, V.A.T.S. (Administrative Procedure and Texas Register Act).

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Suite 500
Austin, Texas 78731
(512) 451-0241



EDITOR Jane I. Johnson

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Texas State Board of Public Accountancy
3301 Northland Drive, Suite 500
Austin, Texas 78731

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