

# Board of Accountancy

## WASHINGTON STATE

Summer Edition 2017



### *It's in the blood...*

My wife Denise and I spend a lot of our time in our garden, which occupies most of our corner lot in the very urban boarder lands between Tumwater and Olympia WA. It is large and draws the attention of people passing by who either take wonder at the garden itself or simply wonder about the sanity of the people who tend it.

We have been at this since living in our first house that we built from scratch in the foothills in Eastern Pierce County WA in the late 80's. It is a lot of work. Setting up trellises is tedious. Preparing the beds is backbreaking. Weeding is constant, so is watering. I never make any plans for August or early September because that is when everything is coming in and needs to be processed. Denise will invariably start canning and jam making during the hottest day of the year. No need for a sauna.

Why do it? It's a labor of love, a connection to soil, and the cosmic mystery of seed. We are both descendants of Irish and Scandinavian dirt farmers, and it probably boils down at some level to genetic memory and instinct. As my dear Uncle George, an avid gardener, used to say, "It's in the blood."

As a CPA working with government in my current post with the Washington Board, I have encountered many dedicated CPAs in private practice. If anything typifies the profession, it is a dedication to a code of ethical and professional conduct. When someone takes on the mantle of being a CPA, they join a wider family of professionals. The culture of ethics accretes to their person, and it just "gets in their blood."

This uptake of ethical DNA is manifested in the value that CPAs bring to the public good and distinguishes the profession. As

we move into the future and face the challenge to the existing regulatory framework, these are fair questions to ask ourselves: How best do we maintain the ethical professional ecology? How dependent should we be on the state to cultivate this fertile ground?

One can argue, as many are, that the profession could simply regulate itself. The bad experience of the few would inform the rest of us. Bad banks, businesses, or CPA firms would simply fail. Equity would vanish and debt would default. There would be more uncompensated victims.

Someone somewhere might then cry, "There ought to be a law!"

Laissez-faire, anarcho-capitalism, libertarian ethic, or more simply the abstention by governments from interfering in the workings of the free market is a rising tide in our country, and our profession stands on the shoreline with all the others.

Questions are not bad. Ideas are not bad. Politics aside, behavior is what counts. However, as this national conversation evolves, it is probably time for all of us involved in regulation and those who prefer the current framework to brush up on our elevator speeches on why things should continue as they are.

To paraphrase Madison "We have government because people are not angels" – that might be a start.

Charles E. Satterlund, CPA  
Executive Director

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### **FUN FACTS:**

As of May 31, 2017

Washington State Licensees Who Reside In-State: **12,333**

Washington State Licensees Who Reside Out-of-State: **2,226**

Washington State Licensees Who Reside Out-of-Country: **3,328**

Japan: **1434**

Hong Kong: **518**

China: **425**

Other: **951**

Credentialed: **17,887**

## WA STATE BOARD OF ACCOUNTANCY BOARD MEMBERS

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## HELP US, HELP YOU, ANY SUGGESTIONS?

Please send your suggestions to  
[customerservice@cpaboard.wa.gov](mailto:customerservice@cpaboard.wa.gov).



# A MESSAGE FROM THE BOARD CHAIR

## Don't Get Lost in the Cloud....



I had occasion the other day to call the company that provides my tax software. During my conversation with the customer service representative, I asked the following question – “when will I be required to store my client tax data on the cloud?” The reason I asked this question was because that I have been seeing more and more information about software providers moving towards cloud storage for their customers’ information. Be it our tax software providers, Microsoft Exchange, or Gmail for Google, this is becoming a more common occurrence.

Also, I wanted to be aware of the steps that I might need to take in anticipation of this.

The concept of cloud storage of data is one that many CPAs have not considered from the regulatory standpoint. At its most basic level, this is the use of a third-party service provider to store and allow you access to data – either yours or data that belongs to your employer or your clients. This is often viewed as a methodology for low cost, easily accessible data from wherever one might be working, but it is not without perils if one is unaware that there are regulatory standards governing this area.

**The Washington State Board of Accountancy rule that comes into play is WAC 4-30-050(3), which states the following:**

### WAC 4-30-050

#### What are the requirements concerning records and clients confidential information?

(3) Confidential client communication or information: Licensees, CPA-Inactive certificate holders, nonlicensee firm owners and employees of such persons must not without the specific consent of the client or the heirs, successors, or authorized representatives of the client disclose any confidential communication or information pertaining to the client obtained in the course of performing professional services.

This rule also applies to confidential communications and information obtained in the course of professional tax compliance services unless state or federal tax laws or regulations require or permit use or disclosure of such information.

Consents may include those requirements of Treasury Circular 230 and IRC Sec. 7216 for purposes of this rule, provided the intended recipients are specifically and fully identified by full name, address, and other unique identifiers.

From a regulatory standpoint, CPAs need to understand that the placement of client data on the cloud is considered disclosure of client information per the above – since it is being sent to a third party. What the above specifies is that before information is disclosed, specific, written consent is required to be obtained from the client.

The AICPA Code of Professional Conduct, that Washington licensees are also bound to under WAC 4-30-048, indicates the following regarding the use of a third-party:

#### 1.700.040 Disclosing Information to a Third-Party Service Provider

.01 When a member uses a *third-party service provider* to assist the member in providing professional services, threats to compliance with the “Confidential Client Information Rule” [1.700.001] may exist.

.02 Clients may not expect the member to use a third-party service provider to assist the member in providing the professional services. Therefore, before disclosing *confidential client information* to a *third-party service provider*, the member should do one of the following:

- a. Enter into a contractual agreement with the third-party service provider to maintain the confidentiality of the information and provide reasonable assurance that the third-party service provider has appropriate procedures in place to prevent the unauthorized

# A MESSAGE FROM THE BOARD CHAIR

(CONTINUED FROM PAGE 2)

release of confidential information to others. The nature and extent of procedures necessary to obtain reasonable assurance depends on the facts and circumstances, including the extent of publicly available information on the third-party service provider's controls and procedures to safeguard confidential client information.

b. Obtain specific consent from the client before disclosing *confidential client information* to the *third-party service provider*.

As noted above, the AICPA Code of Conduct places responsibility on the CPA to use their best efforts to make sure that the cloud service provider being used will maintain the confidentiality of the client data. So one way to resolve this would be to get your client(s) to approve this method of data storage – and the easiest way to do this is in an engagement letter whereby you obtain written authorization from the client. **But it is important to note that the AICPA Code allows the licensee the option of either verbal or written consent, whereas State Board Rule only allows written consent.**

Notwithstanding the issue of confidentiality, you also need to consider what other areas of the Code of Conduct might be in play. As discussed above, it is imperative to perform procedures to understand your cloud service providers policies and methods used to keep your client data secure, as noted in the excerpt above – and to document and retain those policies and procedures. When one delves further into the AICPA Code of Conduct, under the concept of “acts discreditable”, it would also be a violation of the Code if you as a licensee cannot demonstrate that you applied appropriate safeguards to ensure that your cloud service provider has adequate data security procedures. Merely clicking through a licensing agreement would not demonstrate that you applied appropriate safeguards.

So as you consider the move to a cloud storage environment, consider the rules and regulations found in Board rule and in the AICPA Code of Conduct. Failure to do so could lead to disciplinary action should someone file a complaint.

The Board of Accountancy is working on revisions to Board Rule that will hopefully align more with the provisions noted in the AICPA Code of Conduct, so stay tuned for more in the future on this.

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## Eli Watts Sells Award for 2016

The American Institute of CPAs (AICPA) announced the winners of the 2016 Elijah Watt Sells Award. The Elijah Watt Sells Award program was established by the AICPA in 1923 to recognize outstanding performance on the CPA Examination.

The award is given to candidates who have obtained a cumulative average score above 95.50 across all four sections of the Uniform CPA Examination, completed testing during the 2016 calendar year, and passed all four sections of the Examination on their first attempt. A total of 102,323 individuals sat for the Examination in 2016, with 58 candidates meeting the criteria to receive the Elijah Watt Sells Award.

The Board would like to congratulate the following Washington State Candidate who received the 2016 Elijah Watts Sells award:

**Harvey Arvin R. Li**



## Accounting Education Research Grant Recipients

The National Association of State Boards of Accountancy (NASBA) is pleased to announce the recipients of its Accounting Education Research Grants for 2017. Faculty and postdoctoral researchers will be awarded research grants totaling \$25,000. This year's Accounting Education Research Grant recipients include:

The team of Kimberly Swanson Church, Ph.D., from the University of Missouri – Kansas City and Gail Hoover King, Ph.D., from Purdue University Northwest for their work, “The Landscape of High School Accounting Education and the Impact on the Future of the Accounting Profession.” Their team will be awarded a grant amount of \$7,165.

Brandis Phillips, Ph.D., CPA, of North Carolina A&T State University will receive a grant amount of \$8,125 for his work on, “Stereotype Threat and Mindset Orientation: Psychological Barriers to the Accounting Profession.”

Lastly, the team of Reza Espahbodi, Ph.D., CPA, of Washburn University and G. Thomas White, Ph.D., CPA, of College of William and Mary will receive a grant amount of \$9,710 for their research determining, “Is Success on the CPA Exam All About Opportunity?”

“In 2017, NASBA received more high-quality research proposals than we have ever had,” said Raymond N. Johnson, CPA, Ph.D., Education Committee Chair of NASBA. He said, “The proposals we funded in 2017 will help educators and accounting professionals better understand some of the challenges associated with developing high-quality, advanced placement courses in accounting, and those related to educating a diverse population and building a more inclusive profession.”

Since the program's initial launch in 2011, an estimated \$150,000 has been awarded to academic researchers representing 27 U.S. institutions. For those interested in being considered for funding in 2018, the grant proposal period will be announced and opened in August 2017.



## NEWS FROM AROUND THE NATION

We glossed over some of the national news to see what is happening in other states or around the nation that may impact the CPAs of Washington.

- **IRS:** [IRS Warns of New Phone Scam Involving Bogus Certified Letters](#)
- **ACFE:** [How your financial advisor can help thwart elder fraud](#)
- **NASBA:** Smart CPAs will learn new skills throughout their career to remain relevant in age of automation
- **Journal of Accounting:** [Cognitive impairment does not necessarily have to derail your clients' planning](#)

## CGMA

In 2012, the designation Chartered Global Management Accountant (CGMA) started being issued to qualified individuals. An individual can obtain the designation either through the AICPA, which requires current or previous licensure as a Certified Public Accountant (CPA), or through the Chartered Institute of Management Accountants (CIMA) – both paths require passing the CGMA exam, qualifying experience, and organization membership.

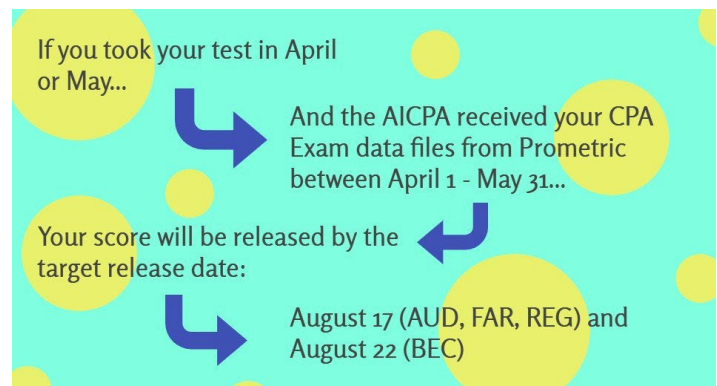
Part of the Board's purpose, as established by the Public Accountancy Act, is to protect the public interest by prohibiting the use of accounting titles likely to confuse the public. Questions have come up as to whether use of the CGMA title is permitted, or whether it might fall under RCW 18.04.345's clause stating an individual cannot use "any other title or designation likely to be confused with certified public accountant."

Under Washington Administrative Code 4-30058, the Board authorizes the use of titles and designations authorized by the AICPA. Because the AICPA authorizes the CGMA title, the Public Accountancy Act does not prohibit the use of the title in Washington State.

As always, other jurisdictions may have different rules, so be sure to know the applicable rules and regulations of the jurisdiction you are operating in at any given time. If you are uncertain or have questions, contact a state board of accountancy to inquire.

### Twitter Post from NASBA:

Did you take your [#CPAExam](#) in the April/May testing window? Expect to receive your score in mid-August. <http://bit.ly/rh4tCW>



## 2017 BOARD MEETING SCHEDULE

The Board holds quarterly meetings to conduct its business. To encourage citizen participation the Board meeting agenda specifically includes a public input section.

The remaining 2017 meeting dates and locations are as follows:

- |                  |   |
|------------------|---|
| July 28, 2017    | J.A. Cherberg Building,<br>Capitol Campus<br>Senate Hearing Room 3<br>304 15th Ave SW<br>Olympia, WA 98501                            |
| October 27, 2017 | University of Washington<br>Bothell Collaboratory in the<br>Beardslee Building<br>18807 Beardslee Blvd., UWBB205<br>Bothell, WA 98011 |

All meetings start promptly at 9:00 am. We encourage your attendance and participation at the Board meetings. Hope to see you there!

# Continuing Professional Education (CPE) – Lessons to Learn from the Mistakes of Others

The concept is simple – life-long learning benefits the CPA profession, the individual CPA, and the public. The profession is served by having well-rounded, up-to-date CPAs representing it in a positive manner. The CPA benefits by building his or her knowledge base, which can lead to greater professional opportunities or an expanded practice. In turn the public is helped by having knowledgeable, well-rounded, and up-to-date professionals serving the community.

CPAs are, generally, more than happy to complete their required CPE for renewal – 120 hours, including a Board approved Washington ethics course. Qualifying program requirements are straight-forward.

## Qualifying programs are:

- Formal – which means attendance is recorded and outlines are prepared in advance
- At least 50 minutes in length
- Contributing to the professional knowledge and competence in the practice of the profession
- Provided a certificate of completion

However, we consistently see the same problems during the license renewal period and during the CPE audit. The most common CPE pitfalls are:

**Improper Documentation** – Completing a qualifying course is not enough on its own. You must obtain the proper documentation and maintain it in your records. Certificates of completion must contain: The sponsor’s name, the participant’s name, the title of the program, the dates attended/completed, and the number of hours earned. You must retain your CPE documents for a minimum of three years after the end of the CPE reporting period in which credit was claimed.

**Missed Board Approved WA Ethics Course** – WA CPAs must complete one of these courses for each renewal period. A list of [Board approved WA ethics courses](#) is available on our website. Other ethics courses may meet our general CPE requirements and may be counted towards the 120-hour requirement as technical CPE, but only the courses listed on the website meet the WA ethics requirement.

**Completing CPE Courses Less Than 50 Minutes** – Board Rule requires that a course be a minimum of 50 minutes (1.0 CPE hour) before credit is earned. Some providers have begun offering nano-learning courses. The majority of these courses we see are 0.5 hours. Course completion certificates which indicate less than one hour of CPE earned do not meet our CPE requirements and no credit will be allowed.

Please keep in mind that you are solely responsible for your CPE documentation. Your firm may coordinate your CPE, or you may have tasked an assistant with maintaining your CPE documentation. However, our professional workforce can be mobile. If you change jobs or your assistant moves on, you will need to ensure that you either have in your possession or have access to your CPE documentation. The Board may request that you submit it at any time.



Please see [WAC 4-30-132](#) and [WAC 4-30-138](#) for the complete Board Rules regarding qualifying CPE and CPE documentation.