

Illustrative Administrative Oversight Visit Letter of Procedures and Observations

October 18, 2016

To: Liren Wei, Committee Chair and the
Peer Review Committee of the New York State
Society of Certified Public Accountants

Re: Administrative Oversight Visit of the New York State Society of Certified Public
Accountants Peer Review Committee

Dear Mr. Wei:

The oversight visit was conducted according to the administrative oversight procedures in the *AICPA Peer Review Program Oversight Handbook*. The administrative oversight program is designed to ensure that the AICPA Peer Review Program is being administered in accordance with guidance as issued by the AICPA Peer Review Board.

In conjunction with the administrative oversight visit of the New York State Society of Certified Public Accountants Peer Review Committee (the "Committee"), the administering entity for the AICPA Peer Review Program (the "program"), conducted on July 26, 2016 and October 18, 2016, the following observations are being communicated.

Administrative Procedures

On July 26, 2016 and October 18, 2016 we met with Ernest J. Markezin, Director of Professional & Technical Resources; Mark Rachleff, CPA, the Peer Review Technical Manager; Theresa Campbell, Manager of Peer Review Administration; Keith Lazarus, Assistant Manager of Professional & Technical Resources; and Peer Review Administrator Sobeida Cortorreal to review the program's administration. We believe the administrative processes were being handled in a manner consistent with peer review standards.

We reviewed files, which were still open due to follow-up actions, which had not yet been completed. We found that the follow up actions were being effectively monitored for completion by the administrative staff and the peer review committee. However, the current process does not have a procedure in place that would ensure an inappropriate acceptance letter would be prevented from being issued. We understand that upon receipt of peer review workpapers from a team captain, information relating to the type of report issued (Pass, Pass with Deficiency or Fail) is entered into PRISM. In instances where the type of report is subsequently changed, for whatever reason, there is no procedure in place that ensures the necessary report change is made in PRISM. We found no such instance of this occurring based on our review. Additionally, we noticed the process for monitoring implementation plans is currently manual, relying on a member of the administrative staff to track the progress of the implementation plan and to follow up with the Team Captain and Firm if they are delinquent. It is our understanding that in January 2017 this process will be included in the updated version of PRISM.

We also reviewed the policies and procedures for the granting of extensions. Extensions are granted with appropriate advice and consent from the Peer Review Technical Manager, the Committee Chair, or the Chair's Advisory Council ("CAC"), depending on the length of the extension request. We also reviewed the timeliness of the scheduling process, technical reviews, and the preparation of acceptance and follow-up letters. We found no problems in this area.

We reviewed the back-up plan to support the program administrator and technical reviewer if he becomes unable to serve in that capacity, the policy appears reasonable.

Web Site and Other Media Information

We reviewed the administering entity's procedures to determine if the information disseminated regarding the AICPA Peer Review Program by the administering entity on their Web site and other media information (if applicable) is accurate and timely.

The AICPA Oversight Task Force report dated January 20, 2016 identified outdated links on the website and suggested that the Society periodically test links containing peer review information on the website to ensure links are properly working and contain current information. During our oversight we found the link to the "Peer Review Manual" did not bring us to the most recent peer review manual on the AICPA website.

In response to the AICPA's finding, the Committee established a policy requiring testing of the website links every three months. In addition to this testing we suggest that as updates to peer review materials are made on the AICPA's website the peer review technical manager should communicate them to the assistant manager for technical and professional resources to update and/or test the web site links. The testing of the website links, including the date and links tested, should be documented.

Working Paper Retention

We reviewed the completed working papers and found the file included one month of working papers which were past the 120 day destruction period. Per discussion with the administrator the extra file was kept due to the upcoming internal inspection in error, the extra file was destroyed during our visit we believe this to be an isolated incident.

Technical Reviewers and Technical Review Procedures

We met with the Committee's in-house Peer Review Technical Manager, to discuss procedures. He performs technical reviews along with three contracted technical reviewers, all of who are experienced reviewers.

We reviewed the reports, letters of response, if applicable, and the working papers for ten reviews. We believe that all review issues were addressed properly by the technical reviewers.

The Committee is required to evaluate the competencies of the technical reviewers annually. During the evaluation the Committee ensures that the technical reviewers meet the following requirements (a) participation on a peer review at least annually, (b) obtaining required continuing professional education, and (c) attending training courses applicable to the types of reviews being evaluated. We observed that the in-house Peer Review Technical Manager has been evaluated and met the requirements however there is currently no procedure in place to ensure that the contract technical reviewers are evaluated and meet the technical reviewer requirements. This finding is a repeat finding from the previous internal inspection. The Committee should perform and document evaluations of all technical reviewers on an annual basis.

Committee and RAB Procedures

Our team consists of members of the Committee. Therefore, we relied on our experiences concerning our own report acceptance body ("RAB") sessions and quarterly general committee meetings. The team also sat in on a RAB call during our inspection.

We noted that the RAB deliberation approach is very orderly and include the use of the "consensus RAB". It is apparent that the RAB members review the reports and working papers thoroughly prior to the meeting and have a good understanding of the program to reach an appropriate decision for each review. Appropriate decisions are made in the acceptance process, appropriate follow-up actions are assigned and reviewers are being appropriately monitored. Reviews are being presented to the RAB on a timely basis.

We noted earlier in the year reviews were not being consistently presented to the RAB free from open technical issues, causing a number of deferrals subject to resolution of technical issues that could potentially change the report ratings and additional time spent by the RAB members during the deliberation process. The AICPA Oversight Task Force report dated January 20, 2016 noted a similar issue. Improvement has been seen in more recent reviews presented to the RABs for deliberation.

All Committee members certify annually around June 1 as to their qualifications to serve on the Committee. Additionally approximately 30% of the Committee members' requirements are tested by the administering entity, which include experience and education. This testing is performed based on the prior calendar year (2015). As of the date of this letter verification of reviewer resumes were still in process.

The Peer Review Board changed its reviewer qualification for reviews commencing on or after December 31, 2015 and reviewer training requirements for reviews commencing on or after May 1, 2016. If a reviewer does not meet the reviewer training requirement they are suspended or restricted from performing peer reviews and cannot serve on the Committee until they are reinstated. We noted two Committee/RAB members who did not have the required training and therefore were not qualified to participate on the Committee/RAB until reinstated. The administering entity should verify that all Committee/RAB members have the appropriate reviewer training at least annually.

Summary

Our observations to enhance the Committee's administration of the program are summarized as follows:

- Implement a procedure for the peer review technical manager to communicate changes to peer review materials to the assistant manager for technical and professional resources so testing of website links can be performed and required documentation of the testing performed.
- Implement a process to ensure contracted technical reviewers are meeting the AICPA requirements for participation on peer reviews and obtaining CPE and appropriate training.
- Implement a process to evaluate all technical reviewers on an annual basis.
- Implement a procedure to ensure all Committee/RAB members have met the reviewer training requirements annually and that the verification of reviewer resumes occur on a timely basis.

There are no further observations to be communicated to the Committee.

Respectfully submitted,



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Administrative Oversight Team Lead

Cc: Joanne Barry, Executive Director