



March 18, 2024

Denise LeDuc Froemming, CPA, CAE, MBA, President & CEO
Lawrence Mitchell, CPA, Peer Review Committee Chair
Rich Simitian, CPA, Director, Peer Review
California Society of CPAs
500 Capitol Mall, Suite 2350
Sacramento, CA 95814

Dear Ms. Froemming, Mr. Mitchell, and Mr. Simitian:

The Oversight Task Force received your report on the status of monitoring and completing open reviews, including reviews with open corrective actions and implementation plans (“open reviews”).

Based on your actions, as detailed in the information provided, no further reporting to OTF is required. To avoid recurrence of the deficiency noted during your oversight, please continue monitoring the status of open reviews and taking applicable actions to complete reviews timely.

We appreciate your diligence in addressing these items, as well as your cooperation and efforts in making the peer review program a success.

Sincerely,

Kim D. Meyer

Kim D. Meyer, CPA
Chair, Oversight Task Force
AICPA Peer Review Board



June 22, 2023

Denise Froemming, CPA, President & CEO
Lawrence Mitchell, CPA, Peer Review Committee Chair
Rich Simitian, CPA, Interim Peer Review Director
California Society of CPAs
1710 Gilbreth Road
Burlingame, CA 94010

Dear Ms. Froemming, Mr. Mitchell, and Mr. Simitian:

On June 21, 2023, the AICPA Peer Review Board Oversight Task Force (OTF) accepted the report and letter of procedures and observations on the most recent oversight for the California Society of CPAs, the administering entity for the AICPA Peer Review Program, and the administering entity's response thereto. A copy of this acknowledgement, the two oversight documents, and your response have now been posted to the AICPA Peer Review Program website.

The OTF accepted the aforementioned documents with the understanding that appropriate monitoring steps will be implemented, as outlined in your response, to avoid future recurrences of the deficiencies noted.

To assist with the OTF's monitoring, by July 31, 2023, and every 60 days thereafter, please report to the OTF on the status of monitoring and completing open reviews, including reviews with open corrective actions and implementation plans. This will continue until the OTF determines that monitoring and completing open reviews has improved.

The AICPA Peer Review Board appreciates your cooperation and efforts in making the peer review program a success.

Sincerely,

Kim D. Meyer

Kim D. Meyer, CPA
Chair – Oversight Task Force
AICPA Peer Review Board

Oversight Report

January 25, 2023

To the Peer Review Committee of the California Society of CPAs:

We have reviewed the California Society of CPAs' administration of the AICPA Peer Review Program (program) as part of our oversight program. The California Society of CPAs is responsible for administering the program in California, Alaska, and Arizona. Our procedures were conducted in conformity with the guidance established by the AICPA Peer Review Board (board) as contained in the *AICPA Peer Review Program Oversight Handbook*.

Administering Entity's Responsibility

The administering entity is responsible for administering the AICPA Peer Review Program in compliance with the *AICPA Standards for Performing and Reporting on Peer Reviews* (standards) and other guidance established by the board.

Oversight Task Force's Responsibility

Our responsibility is to determine whether (1) administering entities are complying with the administrative procedures established by the board, (2) the reviews are being conducted and reported upon in accordance with the standards, (3) the results of the reviews are being evaluated on a consistent basis by all administering entity peer review committees, and (4) information disseminated by administering entities is accurate and timely.

Conclusion

Based on the results of the procedures performed, we have concluded, except for the deficiencies described below, that the California Society of CPAs has complied with the administrative procedures and standards in all material respects as established by the board.

During our oversight, we discussed the Administrative Site Visit performed remotely in 2021 by a Peer Review Oversight Committee (PROC). Through discussions with administering entity staff, we learned that a state board of accountancy employee also attended the Administrative Site Visit while the PROC members reviewed a sample of peer reviews with administering entity staff. This information is considered confidential, and the standards do not allow administering entities to disclose that information to anyone not administering or carrying out the program. We recommend that the administering entity review the standards related to confidentiality. We further recommend that the administering entity design and implement policies and procedures to ensure that only authorized individuals are allowed access to confidential information and to attend meetings at which peer reviews are discussed.

During our oversight, we reviewed the status of open reviews, including reviews with corrective actions and implementation plans, which had not yet been completed. We noted a significant number of open reviews with due dates as of and prior to December 31, 2021 that did not appear to be actively monitored for completion. This included not identifying stalled reviews, not sending overdue letters to firms and reviewers as required or performing outreach when applicable, and not timely referring firms to the board for potential termination due to noncooperation. In multiple instances, the process for initiating the firm's next peer review was delayed because the firm's prior review had not been completed. We recommend that the administering entity develop policies and procedures to actively monitor open reviews, including those with overdue corrective actions or implementation plans, so that reviews are completed timely. We further recommend that the administering entity periodically provide updates on the status of open reviews to the peer review committee.

We have also issued a letter of oversight procedures and observations that details the oversight procedures performed and sets forth recommendations that did not affect the conclusions expressed in this report.



April Boudreaux, Member, Oversight Task Force
AICPA Peer Review Board



January 25, 2023

To the Peer Review Committee of the California Society of CPAs:

We have reviewed the California Society of CPAs' administration of the AICPA Peer Review Program as part of our oversight program and have issued our report thereon dated January 25, 2023. That report should be read in conjunction with the observations in this letter. The observations described below were considered but did not affect the conclusions expressed in that report.

The oversight was conducted according to the procedures in the *AICPA Peer Review Program Oversight Handbook*. The oversight program is designed to improve the administering entity's administration of the AICPA Peer Review Program through feedback on its policies and procedures, and to provide resource assistance from an AICPA Peer Review Board Oversight Task Force member on both technical and administrative matters.

During the oversight conducted on November 16 – 18, 2022 and January 25, 2023, Laurel Gron, AICPA Peer Review Program Associate Director, and I met with the President and CEO, Peer Review Director, who serves as the CPA on staff, administrators, technical reviewers, and peer review committee chair.

In conjunction with the administering entity oversight, the following observations are being communicated.

Administrative Procedures

We met with the CPA on staff and administrators to review the program's administration. Except as described in the report, we believe the administrative processes were being handled in a manner consistent with peer review standards.

We noted committee decision letters are prepared and sent timely.

We reviewed the policies and procedures for granting extensions and noted that extension requests are discussed with the committee when warranted.

The administering entity has developed a backup plan to support the administrators, technical reviewers, and the CPA on staff if they become unable to serve in their respective capacities. We reviewed the backup plan and noted it complied with guidance.

According to discussions with administering entity staff, working paper retention policies for completed reviews are consistently followed.

We noted that the administering entity has policies and procedures in place to determine if the information disseminated on their website regarding the AICPA Peer Review Program is accurate and timely. After review of the website material, we noted that the administering entity maintains current information as it relates to the peer review program. In addition, the administering entity has an individual who is responsible for maintaining the website and monitors it periodically to determine if peer review information is accurate and timely.

Technical Review Procedures

We met with the technical reviewers to discuss procedures. Based upon the review of the information provided, we determined that all technical reviewers met the qualifications set forth in the guidance.

We reviewed the reports, letters of response, if applicable, and the working papers for several reviews being presented to the report acceptance bodies (RABs) on November 17, 2022. We noted a review in which technical matters had not been sufficiently addressed by the technical reviewer, resulting in extended discussion by the RAB, as well as deferral of the review.

During the RAB meeting observed, the technical reviewers were available to answer any questions that arose.

CPA on Staff

We met with the CPA on staff to discuss procedures for monitoring the program. Based upon the review of the information provided, we determined that the CPA on staff met the qualifications set forth in the guidance.

We reviewed the annual confidentiality agreements and noted that appropriate agreements were obtained and signed based on each individual's role in the program.

The administering entity has developed policies and procedures to identify familiarity threats and implement safeguards to maintain objectivity and skepticism while considering the results of peer reviews. We reviewed the familiarity threat policies and procedures and noted they are comprehensive.

Before the November 17, 2022 RAB meeting, we noted one review in the RAB package included a SOC 1 engagement but no RAB members with current experience in this must-select engagement were scheduled to participate in the RAB meeting. As a result of our comment, this review was removed from the agenda before the meeting.

RAB and Peer Review Committee Procedures

We met with the peer review committee chair and discussed their procedures, including how comments resulting from RAB observation reports are disseminated to the appropriate individuals.

There were three concurrent RAB meetings on November 17, 2022 and we observed the acceptance process in each meeting and offered our comments at the close of discussions. It was apparent that the RAB members had reviewed the reports and working papers prior to the meeting and had a good understanding of the program. Except as noted below, appropriate decisions were made in the acceptance process.

As noted in the Technical Review Procedures section, on one review, we noted technical matters were not sufficiently addressed by the technical reviewer and these were not identified by the RAB. Based on our comments, the RAB deferred the review to obtain revised documents.

One RAB also evaluated the results of corrective actions submitted by several firms. The results in the post-issuance reports for two firms indicated significant issues; however, administering entity staff recommended accepting the reports and closing the firms' reviews because their next reviews were imminent. Since the firms did not demonstrate improvement, we noted the RAB should require additional corrective actions.

We also attended a peer review committee meeting.

We reviewed procedures regarding peer review committee/RAB assessments of firms with consecutive non-pass peer review reports and whether the failure to improve may be deemed as noncooperation.

After reviewing the assessments and discussing with the peer review committee and administering entity staff, we noted at least two assessments did not include complete information. In these instances, administering entity staff included limited peer review history and did not recommend referring the firms for potential termination due to noncooperation. One assessment presented during the November 17, 2022 committee meeting indicated the firm received three consecutive non-pass peer review reports; however, we noted the firm had four consecutive non-pass peer review reports. Based on our comments, the committee voted to refer the firm. The committee did not refer the firm on the other assessment previously evaluated but may have come to a different conclusion if complete information on the firm's peer review history was provided.

Oversight Program

We reviewed the oversight policies and procedures adopted by the peer review committee and noted the oversight program is comprehensive.

Summary

Our recommendations to enhance the California Society of CPAs' administration of the program are summarized as follows:

The CPA on staff should ensure that RAB member composition includes members with current experience in must-select engagements as applicable.

Technical reviewers should exercise greater care in performing technical reviews to identify issues before the report acceptance process and the RAB should exercise care to ensure all critical matters are identified and discussed.

Administering entity staff and the peer review committee should review the guidance for evaluating the results of corrective actions and require additional actions when firms do not demonstrate improvement.

The peer review committee/RAB should review the guidance on their responsibilities when a firm does not cooperate or comply with the requirements of the program to determine if the firm should be referred for potential termination due to noncooperation. Additionally, administering entity staff should include all consecutive non-pass peer review reports for each firm on the assessment.



April Boudreaux, Member, Oversight Task Force
AICPA Peer Review Board

March 31, 2023

Kim D. Meyer, Chair
Oversight Task Force
AICPA Peer Review Board
Palladian I Corporate Center
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Oversight of the California Society of CPAs

Dear Ms. Meyer:

This letter represents our response to the report and letter of procedures and observations issued in connection with the review of the California Society of CPA's administration of the AICPA Peer Review Program (program) performed on November 16 – 18, 2022 and January 25, 2023. The matters discussed herein were brought to the attention of all peer review program committee members, administrative staff, and technical reviewers. In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as part of our administration of the AICPA Peer Review Program.

[Deficiencies included in the report]

- 1. During our oversight, we discussed the Administrative Site Visit performed remotely in 2021 by a Peer Review Oversight Committee (PROC). Through discussions with administering entity staff, we learned that a state board of accountancy employee also attended the Administrative Site Visit while the PROC members reviewed a sample of peer reviews with administering entity staff. This information is considered confidential, and the standards do not allow administering entities to disclose that information to anyone not administering or carrying out the program. We recommend that the administering entity review the standards related to confidentiality. We further recommend that the administering entity design and implement policies and procedures to ensure that only authorized individuals are allowed access to confidential information and to attend meetings at which peer reviews are discussed.*

AE Response

The staff of the administering entity has reviewed the standards related to confidentiality. The AE staff have been working closely with members of the AICPA Peer Review Leadership team to address the 2022 Administrative Site Visit (ASV) by the California Board of Accountancy. In December 2022, we communicated to the CBA that CBA staff would not be permitted to participate in any part of the 2022 ASV. The CBA elected not to perform the site visit in December 2022 as a result of staff being denied access to any part of the site visit process. The question about CBA staff access to confidential information is an ongoing



matter that was addressed during both the February and March board meetings of the CBA. Members of the AICPA Peer Review leadership team participated in both meetings and responded to questions from the Board members on this matter. We will continue to work closely with the AICPA peer review leadership team including peer review counsel to appropriately address the concerns raised by the CBA regarding staff access to confidential information, including the request to have CBA staff participate in the Annual Site Visit.

- 2. During our oversight, we reviewed the status of open reviews, including reviews with corrective actions and implementation plans, which had not yet been completed. We noted a significant number of open reviews with due dates as of and prior to December 31, 2021 that did not appear to be actively monitored for completion. This included not identifying stalled reviews, not sending overdue letters to firms and reviewers as required or performing outreach when applicable, and not timely referring firms to the board for potential termination due to noncooperation. In multiple instances, the process for initiating the firm's next peer review was delayed because the firm's prior review had not been completed. We recommend that the administering entity develop policies and procedures to actively monitor open reviews, including those with overdue corrective actions or implementation plans, so that reviews are completed timely. We further recommend that the administering entity periodically provide updates on the status of open reviews to the peer review committee.*

AE Response

Over the last eighteen months, we have experienced a significant increase in the number of open reviews including cases requiring corrective action and/or implementation plans. The accumulation of open reviews was the result of insufficient resources with the requisite technical skills required to bring these reviews to completion. This issue was exacerbated by the lack of formal policies and procedures to actively monitor open reviews by staff and inadequate reporting to the AE's Peer Review Committee.

We have implemented corrective action to address the current number of open reviews with an increased focus on those reviews with a due date of December 31, 2021 or prior. We have enhanced our weekly management reports by sorting open reviews by each of the pending categories. This improves our ability to assign the completion of the open review to the appropriate team member. Although we have not filled the open staff requisitions with permanent hires, we have engaged an experienced individual on a project basis to help address the current backlog of open reviews. In addition, we have expanded the number of hours of our external technical reviewers to support staff in this process.



To improve the monitoring and strengthen accountability over open reviews, additional reporting has been developed for our Peer Review Committee. Status reports on open reviews are being reviewed monthly with the Committee members to provide greater transparency regarding the number of open reviews.

[Observations that did not affect the report]

Technical Review Procedures

- 1. We reviewed the reports, letters of response, if applicable, and the working papers for several reviews being presented to the report acceptance bodies (RABs) on November 17, 2022. We noted a review in which technical matters had not been sufficiently addressed by the technical reviewer, resulting in extended discussion by the RAB, as well as deferral of the review.*

AE Response

Technical Reviewers will be reminded to make certain that FFCs are written systemically and that the firm's responses provide a detailed description of actions planned and/or taken to remediate the findings.

CPA on Staff

- 2. Before the November 17, 2022 RAB meeting, we noted one review in the RAB package included a SOC 1 engagement but no RAB members with current experience in this must-select engagement were scheduled to participate in the RAB meeting. As a result of our comment, this review was removed from the agenda before the meeting.*

AE Response

The review noted in the AE oversight report (during the observation of our November 17, 2022 RAB meeting) was a review that was originally deferred during an initial RAB meeting. The original RAB meeting did have members with the required experience in the must-select topic. The matter giving rise to the deferral was not related to the must-select engagement. When the deferred matter was addressed, it was determined that the new RAB would not be reviewing the must select engagement and therefore was assigned to a RAB that did not have the required experience. Upon discussion with AICPA staff, we have determined that all reviews containing must-select engagements should be assigned to RABs with the requisite must-select experience. We have modified our procedures to extend this requirement to all RAB meetings, regardless of the matter giving rise to the deferral.



RAB and Peer Review Committee Procedures

- 3. As noted in the Technical Review Procedures section, on one review, we noted technical matters were not sufficiently addressed by the technical reviewer and these were not identified by the RAB. Based on our comments, the RAB deferred the review to obtain revised documents.*

AE Response

We have scheduled one of our senior Technical Reviewers to provide a presentation at our May meeting to remind RAB members of the requirements for documenting the FFC form, including the systemic cause and the firm's response. Further, committee members will be reminded to focus on the documentation of the FFC form in their evaluation of reviews.

- 4. One RAB also evaluated the results of corrective actions submitted by several firms. The results in the post-issuance reports for two firms indicated significant issues; however, administering entity staff recommended accepting the reports and closing the firms' reviews because their next reviews were imminent. Since the firms did not demonstrate improvement, we noted the RAB should require additional corrective actions.*

AE Response

We have discontinued our prior practice of accepting reports and closing the Firm's review when the Firm's next review was imminent, when there continue to be significant outstanding issues. In instances where firms have not demonstrated improvement, the RAB will require additional corrective action before initiating their next review.

- 5. We reviewed procedures regarding peer review committee/RAB assessments of firms with consecutive non-pass peer review reports and whether the failure to improve may be deemed as noncooperation. After reviewing the assessments and discussing with the peer review committee and administering entity staff, we noted at least two assessments did not include complete information. In these instances, administering entity staff included limited peer review history and did not recommend referring the firms for potential termination due to noncooperation. One assessment presented during the November 17, 2022 committee meeting indicated the firm received three consecutive non-pass peer review reports; however, we noted the firm had four consecutive non-pass peer review reports. Based on our comments, the committee voted to refer the firm. The committee did not refer the firm on the other assessment previously evaluated but may have come to a different conclusion if complete information on the firm's peer review history was provided.*



AE Response

Training was completed on March 27, 2023 with all technical reviewers and CalCPA staff that participate in the evaluation/assessment of consecutive non-pass reports. The training was conducted by AICPA staff and included instruction on completing an accurate assessment form and the approvals required by the report acceptance body and/or the Peer Review Committee. In addition to the training, we have implemented an additional monitoring process to track the cases requiring an assessment for consecutive non-pass peer review reports. Specifically, we have enhanced our weekly management reports using the reporting capabilities within PRIMA to identify a complete list of "pending repeat" reviews that have not been completed. This weekly report is monitored by the CPA on staff and the assessment process is assigned to the appropriate CalCPA team member. To further improve monitoring and strengthen accountability over consecutive non-pass reports, the Peer Review Administrative Committee is reviewing monthly status reports of all open reviews including those requiring an assessment for consecutive non-pass reports. To ensure the proper implementation of the procedures covered in the March 27, 2023 training, the CPA on Staff is reviewing the completed assessment forms prepared by the Technical Reviewers for completeness and accuracy prior to assigning the case to the RAB or the Review Committee.

Sincerely,



Denise Froemming, President and CEO, California Society of Certified Public Accountants



Lawrence R. Mitchell, CPA, CalCPA Peer Review Committee Chair

Rich Simitian

Richard Simitian, CPA, CPA on Staff CalCPA Peer Review

