

MEMORANDUM

To: PCAOB Docket 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits

From: Lisa A. Calandriello
Office of the Chief Auditor

Date: June 5, 2012

Subject: Conference Call Meeting with Mayer Hoffman McCann, P.C. and CBIZ, Inc.

On June 4, 2013, staff from the Public Company Accounting Oversight Board ("PCAOB") participated in a conference call with representatives from Mayer Hoffman McCann, P.C. ("MHM") and CBIZ, Inc. ("CBIZ") in connection with the attached slides, submitted by MHM, regarding the proposed amendments regarding disclosure of other independent public accounting firms and other persons not employed by the auditor in the audit report (PCAOB Release No. 2011-007).

The individuals participating in the conference call were as follows:

- PCAOB staff - Martin F. Baumann, Chief Auditor, Jennifer Rand, Deputy Chief Auditor, Jake Lesser, Associate General Counsel, and Lisa A. Calandriello, Assistant Chief Auditor;
- MHM - Ernest F. Baugh Jr., National Director of Professional Standards, Mayer Hoffman McCann, P.C., William Hancock, Chairman and President, Mayer Hoffman McCann, P.C., William Mann, Esq., General Counsel, Mayer Hoffman McCann, P.C.; and
- CBIZ - Michael Gleespen, Esq., General Counsel.



MAYER HOFFMAN McCANN P.C.

Conference Call With
Public Company Accounting Oversight Board Staff
Regarding the Transparency Proposal
June 4, 2013



our **roots** run deep



PARTICIPANTS

- Mayer Hoffman McCann P.C.
 - Ernest F. Baugh, Jr., National Director of Professional Standards
 - William Hancock, Chairman and President
 - William Mann, Esq., General Counsel
- CBIZ, Inc.
 - Michael Gleespen, Esq., General Counsel
- Staff of the Public Company Accounting Oversight Board



AGENDA

- MHM is grateful for the opportunity to provide our comments to the Staff of the PCAOB, and we believe that through the inspection process and the work of the Board, audit quality has improved since the implementation of the Sarbanes Oxley Act.
- History
 - October 11, 2011 – PCAOB Issues Proposed Rule Regarding Transparency
 - January 9, 2012 – MHM Issues Comment Letter Regarding Transparency Proposal
 - May 16, 2013 – Discussion during PCAOB Standing Advisory Group Meeting
 - June 4, 2013 – Conference Call



AGENDA (Continued)

- MHM requested this conference call to gain an understanding of the current status of the Transparency Proposal
 - MHM is the only remaining alternate practice structure (APS) that includes a public company (CBIZ) in the APS
 - MHM provided its views on the proposed standard in January 2012
- MHM is concerned about unintended consequences of the Transparency Proposal that could negatively impact audit quality
- MHM is seeking information to assist us in evaluating if and/or when we should consider changes to our organizational structure and/or practice focus



AGENDA (Continued)

- The proposed rule would require the following -
*“Disclosure when assuming responsibility or supervising – The auditor would be required to disclose the name, location, and extent of participation in the audit of (i) independent public accounting firms for whose audit the auditor assumed responsibility pursuant to AU sec. 543, Part of Audit Performed by Other Independent Auditors, and (ii) independent public accounting firms or **other persons not employed by the auditor** that performed audit procedures on the most recent period's audit and whose work the auditor was required to supervise pursuant to Auditing Standard No. 10, Supervision of the Audit Engagement (collectively, "other participants in the audit" for purposes of Section III of this release). . .”*
- Our discussion will be focused on the application of this proposed rule as it applies to an alternative practice structure (APS)
- We do not plan to discuss the identification of the engagement partner name



ALTERNATIVE PRACTICE STRUCTURE

**MAYER HOFFMAN McCANN P.C.
&
CBIZ INC.**



MAYER HOFFMAN McCANN P.C. (MHM)

- National firm providing attest services
- Roots date back to 1954; spun off tax and consulting services to CBIZ in 1998
- 283 shareholders in over 30 offices
- Licensed or permitted to practice in all 50 states
- Registered with the PCAOB
- Member of AICPA's Center for Audit Quality, Employee Benefit Plan Audit Quality Center, Governmental Audit Quality Center
- Registered with Canadian Public Accountability Board



MAYER HOFFMAN McCANN P.C.

- MHM is a Missouri Professional Corporation
 - It is a separate and distinct legal entity
 - CBIZ is not a shareholder of MHM and is not a licensed accounting firm
 - Shareholders are all licensed CPAs. There are no outside shareholders
- By-Laws provide for Board of Directors:
 - Not less than 3 nor more than 9
 - Each director must be a licensed CPA
 - Staggered terms of directors so each director has a term of three years before being subject to re-election
 - Annual Meeting of Shareholders required to elect directors



MHM SHAREHOLDERS

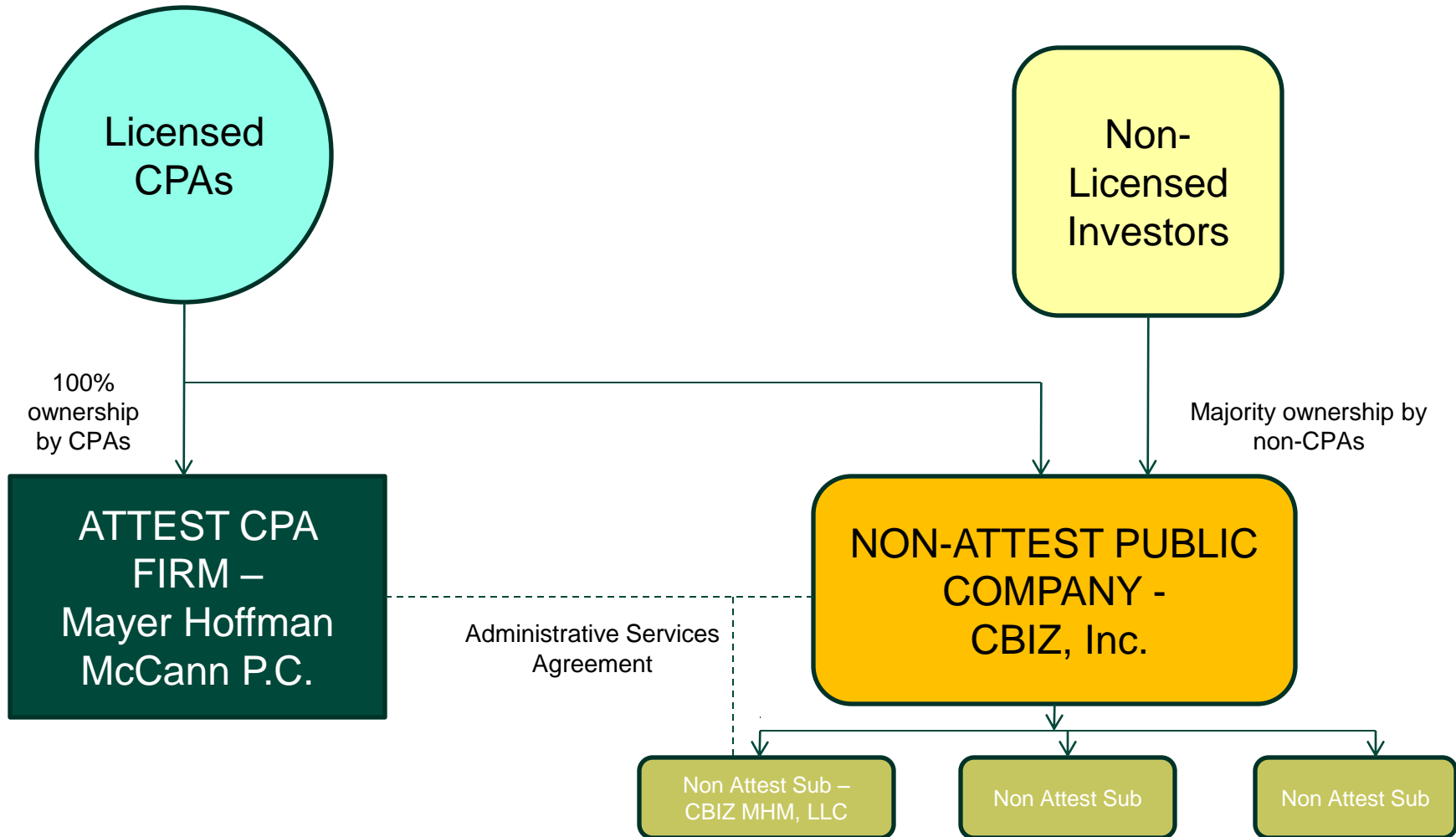
- Governed by a Stockholders Agreement
 - Shareholder must be a licensed CPA
 - Each Shareholder purchases 1,000 Shares
 - MHM has 283 Shareholders (as of April 30, 2013)
 - Upon termination of Shareholder for any reason, MHM has the right and obligation to repurchase the Shares
 - Each Shareholder agrees to a covenant not to solicit clients of MHM following termination, and agrees to liquidated damages in the event of a breach by the Shareholder



ALTERNATIVE PRACTICE STRUCTURE

- AICPA Ethics Interpretation 101-14 sets forth conditions for valid alternative practice structure:
 - Attest practice must be in separate and distinct legal entity
 - Attest practice must comply with state accounting laws and regulations
 - Non-attest entity (and the persons controlling the non-attest entity) cannot control the governance and policies of the attest entity
- MHM and CBIZ strictly adhere to principles of 101-14

ALTERNATIVE PRACTICE STRUCTURE





MHM & CBIZ ALTERNATIVE PRACTICE STRUCTURE

- Administrative Services Agreement
 - CBIZ entities to provide administrative services
 - CBIZ entities to provide personnel, including “licensed CPAs” to MHM to enable MHM to perform services for its clients
 - Clear statement that services rendered for MHM by CPAs, “shall be under the direction, control and supervision of one of the members of [MHM], and will be rendered in accordance with [MHM]’s Manual and other policies and procedures of [MHM] established from time to time.”



MHM & CBIZ ALTERNATIVE PRACTICE STRUCTURE

- Administrative Services Agreement (continued)
 - Clear statement that CBIZ will not provide any attest services
 - Clear statement that work required to be performed by a licensed CPA will be performed by MHM, not CBIZ
 - MHM and individual CPAs responsible for licensing
 - MHM responsible for costs of peer reviews and continuing professional education, professional memberships



GOVERNANCE OF MHM

- MHM governance structure satisfies requirements of 101-14 and state laws:
 - Each director is a licensed CPA and shareholder of MHM
 - 101-14 contemplates that substantially all owners of the attest firm will also be employees of the non-attest firm; therefore, the Board of MHM will include CBIZ employees
 - MHM Board is distinct from CBIZ Board
 - CBIZ employees on MHM Board are not directors, executive officers or senior management of CBIZ, Inc.



GOVERNANCE OF MHM

- MHM is independently managed:
 - President of MHM reports to MHM Board
 - The promotion to or removal of an MHM shareholder is the decision of MHM
 - ASA provides that CBIZ does not control the governance, structure or operations of MHM.



INDEPENDENCE PROCEDURES -- SEC CLIENTS

- MHM 's policies implement SEC standards for independence with respect to SEC Clients and broker-dealers
- MHM understands that the SEC views CBIZ and MHM as one entity for independence purposes



INDEPENDENCE PROCEDURES -- SEC CLIENTS

- SEC Restricted Entity list on intranet, available to all MHM and CBIZ employees
- Updated independence checks circulated to MHM personnel and CBIZ Financial Services personnel
 - Monthly--attest client (includes Restricted Entity) list sent
 - Annually --independence confirmation letters
 - For each potential SEC client
 - For each new office / acquisition
 - Includes description of potential sources of impairment (e.g., financial interest, non-attest service, contingent fee, director/officer, employment, joint investment)



MHM's PCAOB BACKGROUND INFORMATION

- PCAOB Annual Report on Form 2 for year ended June 30, 2012:
 - 6% of MHM fees attributable to issuer audit clients
 - 52 issuer audit clients
- PCAOB Inspection Report issued September 2011:
 - Report notes alternative practice structure with CBIZ
 - Report refers to employees leased from CBIZ
 - No deficiencies reported as a result of the alternative practice structure
- Most recent PCAOB inspection fieldwork completed in April 2013
 - No comment forms as a result of the alternative practice structure
 - 58 issuer audit clients



PROPOSED TRANSPARENCY RULES



DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT

- We understand the proposed rule would require that each person who performs attest work but is not employed directly by the audit firm be disclosed.
- Currently in the US, there are a number of alternative practice structure firms that have been participating in the PCAOB's inspection process since its inception. In alternative practice structures, an employee sharing or employee leasing agreement often exists between the CPA Firm and a secondary party. In these situations, the quality control policies and procedures of the CPA Firm govern the activities of the shared or leased personnel, including a view of the CPA Firm and the secondary party as one entity in evaluating the CPA Firm's independence.



DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT (Continued)

- We believe that this proposal could have unintended negative consequences for firms in alternative practice structures. The disclosure of a large number of individuals on audit engagement teams as non-employees could cast APS firms in a negative light, for financial statement users not familiar with alternative practice structures.
- We believe that the proposal as drafted could have a significant negative impact on the ability of alternative practice firms to compete with traditional firms and therefore lead to further restriction of auditor choice.



DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT (Continued)

- Additionally, we note that the SEC disregards the alternative practice structure and looks at both the attest firm and the entity that employs the engagement team members to be one entity. The transparency proposal would cause alternative practice firms to be subject to inconsistent treatment: under SEC rules, APS firms are subject to restrictions because the SEC views both firms in the APS as one entity, and under the proposed transparency rule, APS firms would be required to make additional disclosures on the basis that they are not one entity.
- While we understand the rationale behind the transparency proposal, we believe that applying it to the alternative practice structure would have negative effects on the firms themselves and on the attest provider market generally and is unrelated to investors' concerns regarding transparency, such as differences in audit quality between accounting firms, the involvement of multiple audit teams, etc.



PROPOSED EXEMPTION FOR “OFF-SHORING”

- MHM understands that the proposal would require disclosure of the names of all separate legal entities participating in an audit even if those entities are closely associated and described publicly as a single international firm.
- We understand that this would consistently apply to all national and international networks of firms. If that is correct both for when the audit firm is assuming responsibility and dividing responsibility for the work performed, we support that proposal.
- However, we do not support the proposed exemption from disclosure for the practice defined as “off-shoring” in the proposal. We particularly believe that disclosure of the fact that a firm is reducing costs by engaging individuals in foreign countries who are not US licensed CPAs would be much more relevant to investors than the fact that a US firm may practice under an alternative structure and lease its US licensed CPAs from a separate entity.



MHM REQUESTS

- MHM requests that the PCAOB consider the potential unintended consequences of the Transparency Proposal impacting alternative practice structure firms. Possible consequences include –
 - Further restriction of auditor choice
 - Greater concentration of public company audits in the Big Four
 - Auditor changes driven by disclosures of other participants in the audit, rather than an evaluation of audit quality



MHM REQUESTS (Continued)

- In the event the PCAOB decides to issue a Final Standard that incorporates the disclosure requirements for other persons not employed by auditor as proposed in the PCAOB Release No. 2011-007, MHM requests that an effective date be selected to allow those Registered Firms that have operated in an alternative practice structure to evaluate changes to their organizational structure and/or practice focus.
 - The fact that MHM operates in an alternative practice structure has been fully disclosed in all of MHM's PCAOB Inspection reports dating back to 2005
 - In addition, MHM's most recent PCAOB Inspection Report also discloses the fact that MHM leases personnel from CBIZ



CONCLUDING COMMENTS



Mayer Hoffman McCann P.C. supports the Board in its efforts to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

We sincerely appreciate the opportunity to provide our views in the interest of promoting audit quality.

June 2013