

BOARD OF PUBLIC ACCOUNTANCY
Professional and Vocational Licensing Division
Department of Commerce and Consumer Affairs
State of Hawaii

MINUTES

Date: Friday, September 4, 2015

Time: 8:35 a.m.

Place: King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Present: Nelson K.M. Lau, CPA, Chairperson
Gregg M. Taketa, CPA, Vice-Chairperson
Craig K. Hirai, CPA, Member
Darryl T. Komo, CPA, Member
Edward L. Punua, CPA, Member
Carleton L. Williams, CPA, Member
Rodney J. Tam, Deputy Attorney General ("DAG")
Laureen M. Kai, Executive Officer
Lori Nishimura, Secretary

Excused: Gabriel Lee, Member

Guests: James W. Brackens, Jr., CPA, CGMA
Vice-President, Ethics and Practice, American
Institute of Certified Public Accountants
("AICPA")
Kathy Castillo, Hawaii Society of Certified Public
Accountants ("HSCPA")

Agenda: The agenda for this meeting was filed with the
Office of the Lieutenant Governor, as required by
Hawaii Revised Statutes ("HRS") section 92-7(b).

Call to Order: There being a quorum present, the meeting was
called to order at 8:35 a.m. by Chairperson Lau.

Additions/Revisions
to Agenda: None.

Approval of
Minutes of the
August 7, 2015
Board Meeting:

After discussion, it was moved by Mr. Komo, seconded by Mr. Punua, and unanimously carried to approve the minutes of the August 7, 2015 Board meeting as circulated.

Executive
Session:

At 8:37 a.m., it was moved by Vice-Chairperson Taketa, seconded by Mr. Komo, and unanimously carried for the Board to enter into Executive Session to consider and evaluate personal information relating to individuals applying for licensure in accordance with HRS section 92-5(a)(1), and to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities in accordance with HRS section 92-5(a)(4).

EXECUTIVE SESSION

At 10:20 a.m., it was moved by Vice-Chairperson Taketa, seconded by Mr. Williams, and unanimously carried for the Board to move out of Executive Session and to immediately recess the meeting to discuss and deliberate on the following adjudicatory matters pursuant to Chapter 91, HRS:

Chapter 91, HRS
Adjudicatory Matters:

A. In the Matter of the Certified Public Accountant's License of STEPHEN E.A. CALLO; ACC 2013-2-L

DAG Tam reiterated a summary of the Hearings Officer's Findings of Fact, Conclusions of Law, and Recommended Order regarding the CPA license of Stephen E.A. Callo. He stated that Mr. Callo, whose CPA license expires on December 31, 2015, had entered into a plea agreement in the criminal case, United States of America vs. Estrellita "Esther" Garo Miguel, et al., Cr. No. 10-00527 SOM, which charged the defendants, including the Respondent, with knowingly conspiring and agreeing with others to commit federal offenses, conspiracy to commit wire fraud and making false statements on loan applications, wire fraud, mortgage loan fraud, and money

laundering. The Respondent entered into a plea agreement in the case in which he entered a voluntary plea of guilty to one count of wire fraud, which was comprised of the charge of knowingly transmitting or causing to be transmitted in interstate commerce writings, signs and signals by means of wire communications in furtherance of a scheme to defraud, and was sentenced to three (3) years probation (during which the Respondent was also required to serve a total of thirty (30) days of intermittent confinement for fifteen (15) consecutive weekends at the Federal Detention Center), ordered to perform 300 hours of community service, and was assessed a fine of \$3,000.00. In the Hearings Officer's Conclusions of Law, it was stated that the preponderance of evidence proved and the Respondent readily acknowledged that by virtue of his conviction for wire fraud, he had violated HRS sections 466-9(b)(8),(9), and (10), and 436B-19(12) and (14).

DAG Tam noted that the Board voted, at its June 5, 2015 meeting, to accept and adopt all of the Hearings Officer's Findings of Fact; the Board also voted to accept and adopt all of the Hearing Officer's Conclusions of Law that the Respondent violated the provisions of HRS sections 466-9(b)(8),(9), and (10), and HRS sections 436B-19(12) and (14); and that based on the above, the Board had voted unanimously to modify the Hearings Officer's recommended sanctions by:

- Revoking the Respondent's CPA license for at least five (5) years from the date of the Board's Final Order; provided that:
 - The revocation is stayed and the Respondent's license is suspended to August 19, 2016 (the date the Respondent's probation in *USA v. Miguel*, Cr. No. 10-00527 SOM, ends);

- If the Respondent violates any of the terms and conditions of his probation in USA v. Miguel, Cr. No. 10-00527 SOM, and the probation is subsequently revoked or terminated prior to August 19, 2016, the stay shall be automatically lifted and the Respondent's CPA license shall be revoked for at least five (5) years from the date of the Board's Final Order; and
- During the applicable period of suspension or revocation, the Respondent shall not engage in the practice of public accountancy, and shall immediately submit all indicia of his CPA license to the Executive Officer of the Board;
- Fining the Respondent \$5,000.00; and
- Requiring the payment of the fine to be a precondition to any relicensure (after reapplication) of the Respondent after the expiration of the application period of suspension or revocation.

DAG Tam informed the Board that the Respondent through his attorney submitted a Statement in Support of the Board's Proposed Final Order.

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Punua, and unanimously carried (Mr. Williams recused himself from the vote), to approve and adopt the Proposed Final Order as the Board's Final Order relating to the Matter of the Certified Public Accountant's License of Stephen E.A. Callo; ACC 2013-2-L.

B. In the Matter of the Certified Public Accountant's License of HAO LIANG; ACC 2014-20-L

DAG Tam provided a summary of the Settlement Agreement Prior to Filing of

Petition for Disciplinary Action and Board's Final Order regarding Hao Liang, Respondent. He stated that the Regulated Industries Complaints Office ("RICO") alleges that Ms. Liang failed to maintain compliance with requirements for licensure by failing to complete required continuing professional education hours. Ms. Liang enters into this Settlement Agreement as a compromise of the claims and to conserve on the expenses of proceeding with an administrative hearing on this matter.

DAG Tam summarized the terms of the Settlement Agreement:

- Ms. Liang is required to complete her continuing education credits, and she shall not practice until Respondent receives written notification from the Board that continuing education requirements for the current license period (ending December 31, 2015) have been satisfied.
- Ms. Liang is fined \$500.00; and
- Failure to fully and timely comply with terms of the Settlement Agreement shall result in the automatic revocation of Respondent's license.

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Williams, and unanimously carried to approve the Settlement Agreement relating to the Matter of the Certified Public Accountant's License of Hao Liang; ACC 2014-20-L.

At 10:22 a.m., the Board reconvened its scheduled meeting, and immediately recessed the meeting.

At 10:27 a.m., the Board reconvened its scheduled meeting.

Applications for
CPA Certification:

After discussion, it was moved by Mr. Komo, seconded by Mr. Punua, and unanimously carried to approve the following applications for certification:

1. ESCHBERGER, Johanna F.
2. KANESHIRO, Kira S.
3. OBRERO, Ryan M.
4. O'SHAUGHNESSY, Kelly P.
5. PERERA, Saman N.
6. PORTER, Suzette E.
7. PRICE, Scott G.

After discussion, it was moved by Mr. Komo, seconded by Mr. Punua, and unanimously carried (Chairperson Lau recused himself from the vote) to ratify the approval of the following application for certification:

1. KAUFMAN, Joseph L.

Ratification of
Individual CPA
Permits to Practice:

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Komo, and unanimously carried to ratify the approval of the following individual CPA Permits to Practice:

1. GIOIELLO, Nichole M.
2. GREENLEE, Edward W.
3. LEE, Mark W.
4. L'HEUREUX, Dianna L.
5. OGATA, Justin M.
6. RABER, Lawrence S.
7. RICHARDSON, Stephanie R.L.
8. SATO, Bryce Y.
9. SOLIDUM, Amber E.

Ratification of Issued
Firm Permit to
Practice:

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Punua, and unanimously carried to ratify the approval of the following issued Firm Permits to Practice:

1. CLARK SCHAEFER HACKETT & CO
2. EDWARD W GREENLEE CPA PC
3. MARK W LEE

Ratification of
Approval of
Firm Name:

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Komo, and unanimously carried to ratify the approval of the following firm name:

1. Mun-Hee Song, CPA Inc.

Chairperson's
Report:

A. National and Industry Update

1. Questions from the American Institute of Certified Public Accountants Relating to Peer Review

Mr. James W. Brackens, Jr., CPA, CGMA
Vice-President, Ethics and Practice Quality
American Institute of Certified Public
Accountants

Chairperson Lau stated that, as mentioned at the Board's August 7, 2015 meeting, he had contacted the AICPA for clarification of the definitions and implementation of direct inspections, piggyback inspections, and supplant inspections. In response to Mr. Lau's request, the AICPA offered to have Mr. Brackens attend a Board meeting to provide this information and clarification.

Chairperson Lau welcomed Mr. Brackens, who gave a brief background of himself. He is the Vice-President of Ethics and Practice Quality at the AICPA, with responsibilities that include providing strategic and tactical direction for the Peer Review program. Prior to joining the AICPA, Mr. Brackens had his own practice for seventeen (17) years in which he served primarily closely-held businesses and not-for-profit organizations. He also served as a peer reviewer and performed many peer reviews of local accounting firms.

Mr. Brackens provided a handout that provided information on the peer review process,

oversight panels, panel timeline, and internal inspection reliance.

Mr. Brackens described the AICPA peer review process where a CPA firm would be given a "due date" which would be eighteen (18) months after enrolling with the administering entity. The firm would then engage the services of a peer reviewer, usually a year prior to the due date. Mr. Brackens commented that a peer review of a larger firm could take up to six (6) months to complete, versus a peer review of a smaller firm which can be done in a couple of days.

Mr. Brackens reviewed through: (1) direct inspection by the peer reviewing team; (2) piggyback inspection; and (3) supplant inspection.

He stated that "direct inspection" is when the peer review team independently reviews the engagement. "Piggyback" is when the engagement is reviewed as part of the firm's internal inspection process. The peer review team reviews the firm's work papers and checklists that were completed by the firm's inspection team to determine if all issues have been appropriately addressed. "Supplant" is when a member of the peer review team participates as a member of the firm's internal inspection team.

Mr. Komo commented that one would never know if piggyback or supplant inspection was used in the peer review process, as all reviews are totally independent.

The Board then discussed and responded to the following questions from the AICPA concerning what criteria the Board uses in determining if an engagement should be classified as a Hawaii attest engagement:

Does the engagement report need to be on letterhead for a Hawaii office?

Board's response: No.

Does the report need to be signed by a partner licensed in Hawaii?

Board's response: Yes, the report must be signed by the final approving partner and reviewing firm; and both must hold licenses and permits in Hawaii.

Does the fieldwork need to be performed in Hawaii?

Board's response: No.

The Board also discussed and responded to the question from the AICPA concerning whether the Hawaii attest engagement would need to be reviewed via direct inspection by the peer review team or whether inspection via piggyback or supplant would be allowed. Board's response: Yes, based on Mr. Brackens' explanation, direct inspection piggyback, or supplant would be allowed. Board members commented that for peer reviews, piggybacks and supplants are sufficient methods of gaining confidence in the firm's internal inspection process to reduce the volume of direct inspections.

Further discussion ensued on the provisions of HRS section 466-35(b)(2), which permits the submittal of the contemporaneous Hawaii supplement to the peer review report. Chairperson Lau commented that since the Hawaii supplement is required to be completed by a peer reviewer or firm holding a Hawaii permit to practice, this may be the way that the reviewed firm's peer review could have been completed by a peer reviewer who is not licensed and permitted in Hawaii. DAG Tam commented that there are inconsistencies with the definitions and

requirements provided for in the peer review statute. Vice-Chairperson Taketa commented that a definition for Hawaii attest engagement may be necessary.

Mr. Brackens was thanked for his presentation.

Mr. Williams left the meeting at 11:30 a.m.

2. NASBA Regional Directors' Focus Questions

Chairperson Lau stated that this agenda item would be tabled to the Board's next meeting, due to time constraints. This would still allow for the Board's responses to be submitted to NASBA before the deadline of October 5, 2015.

Standing Committee

A. Communications

Due to Committee Chairperson Lee's excused absence, there was no report.

B. Continuing Professional Education

Committee Chairperson Punua had no new information to report; however, he reminded the Board that comments on the exposure draft of the *Statement of Standards for Continuing Professional Education (CPE) Programs* that had been jointly issued by the AICPA and NASBA in April 2015, would be accepted until October 1, 2015.

C. Ethics

1. Inquiry Regarding Commissions, Referral Fees, and Contingency Fees

After discussion, Mr. Komo volunteered to formulate a response and to present

to the Board at the next scheduled meeting.

D. Peer Review

Committee Chairperson Taketa reiterated that one of the best practices that many state boards of accountancy have implemented is to focus efforts on maintaining meaningful interaction between the board's peer review oversight committee and the state society. Toward that end, boards should emphasize the importance of peer review oversight committee ("PROC") members attending continuing professional education ("CPE") courses relating to peer review at no charge, especially in light of the fact that many of these types of CPE courses are offered through web-based self-study. Mr. Brackens stated that he is confident that the AICPA will be able to provide this type of CPE at no charge to PROC members.

Mr. Taketa also mentioned that members of the PROC are allowed and encouraged to attend meetings of the Report Acceptance Body ("RAB") of the peer review administering entity, the Hawaii Society of Certified Public Accountants ("HSCPA"). Ms. Castillo acknowledged that the HSCPA is fully aware of this and that she is in contact with Wilcox Choy, a member of the Hawaii PROC, to arrange for a visitation.

Committee Chairperson Taketa provided an update on the Board's continued efforts to provide adequate notification to CPA firms with Hawaii firm permits to practice ("FPTP") about the new peer review requirement for the FPTP renewal for the 2018-2019 biennium. It was noted that the Board's website, the HSCPA's newsletter "The KALA Magazine", and the dissemination of information by both the

HSCPA and the Hawaii Association of Public Accountants ("HAPA"), were being utilized as means to notify all firms.

In addition, the Board explored the possibility of including this information on the FFTP renewal forms and in the online renewal process. He stated that the DCCA expressed concern regarding the Board's request, fearing that the inclusion of this information may create confusion with the license renewal process. It was decided that the peer review information would be included as a separate page/document attached to the renewal forms and to the online renewal process. As this would be done for the 2016-2017 renewal of the FFTP, the DCCA and the Board agreed to delay the mail-out of the postcard notification until the early part of 2016.

Mr. Taketa expressed concern that the Board would not have adequately notified CPA firms of the statutory requirement for firms' enrollment in a peer review program, which must be completed by the end of 2015. It was decided that Executive Officer Kai would request that a postcard notice specifically notifying CPA firms of this enrollment requirement be mailed out as soon as possible so that firms are aware that they must enroll before the end of the year.

E. Legislation and Rules

1. Proposed Amendments to HRS Chapter 466, Relating to Immunity for Members of the Peer Review Oversight Committee

Due to Committee Chairperson Williams' early departure from the meeting, Executive Officer Kai reported on the proposed amendments to HRS section 466-42, to provide for the

reimbursement of applicable expenses and for immunity from civil liability for PROC members. She stated that the initial draft had been submitted to the DCCA for consideration to be included in the department's administrative package for the 2016 Legislative Session.

F. Mobility

Committee Chairperson Taketa had no report.

G. Uniform CPA Examination

1. Candidate Concerns 15Q2
(April 1 - May 31, 2015)

Due to Committee Chairperson Williams' early departure from the meeting, this agenda item was deferred to the Board's next scheduled meeting.

Open Forum: None.

Next Board Meeting: Friday, October 2, 2015
8:30 a.m.
King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: None.

Adjournment: There being no further discussion, the meeting adjourned at 11:55 a.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

Reviewed and accepted by:

/s/ Laureen M. Kai

Laureen M. Kai, Executive Officer

LMK:ln

09/25/15

- Minutes approved as is.
 Minutes approved with changes. See Minutes of _____.