

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

MINUTES

Date: Friday, May 6, 2016

Time: 8:34 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
Darryl T. Komo, CPA, Member
Gabriel Lee, Member
Edward L. Punua, CPA, Member
John W. Roberts, CPA, Member
Carleton L. Williams, CPA, Member
Rodney J. Tam, Deputy Attorney General ("DAG")
Laureen M. Kai, Executive Officer

Excused: Gregg M. Taketa, CPA, Vice-Chairperson

Guests: None.

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 8:34 a.m. by Chairperson Lau.

Additions/Revisions to Agenda: None; however, Executive Officer Kai called the Board's attention to a typographical error in the spelling of the name of the following applicant:

5. APPLICATIONS
A. CPA Certification
* * *

11) [~~PAPAERLLI~~] PAPARELLI, Kesia P.B.

Approval of
Minutes of the
April 1, 2016
Board Meeting:

After discussion, it was moved by Mr. Williams, seconded by Mr. Komo, and unanimously carried to approve the minutes of the April 1, 2016 Board meeting, with the following amendment (with new material underscored and repealed material bracketed and stricken through):

Page 7:
Chairperson's Report

A. National and Industry Update

* * *

4. Response from Department of Commerce and Consumer Affairs to State Representative Isaac Choy Relating to his November 27, 2014 Inquiry to the Regulated Industries Complaints Office (RICO) Regarding Out-of-State CPA's

* * *

(3) The RICO investigation utilized the spreadsheet provided with the complaint to initiate 27 investigations. Each permit holder was contacted to determine whether Hawaii licensing law violations had occurred. The investigations determined that most individuals were employed by firms which had been issued GET license as of the time of the RICO investigation, 2 individuals reported that the work was performed outside of Hawaii, and a single outlying permit holder made a late payment to the Department of Taxation ("DoTax") and was

issued a warning letter from RICO. Information relating to this permit holder was provided to DoTax for enforcement.

Executive Session: At 8:38 a.m., it was moved by Mr. Punua, seconded by Mr. Lee, and unanimously carried 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 9:50 a.m., it was moved by Mr. Roberts, seconded by Mr. Lee, 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 matter pursuant to HRS chapter 91:

Chapter 91, HRS, Adjudicatory Matters:

A. In the Matter of the Firm Permit to Practice of CLIFTONLARSONALLEN, LLP; ACC 2016-2-L

DAG Tam provided a summary of the Settlement Agreement Prior to Filing of Petition for Disciplinary Action and Board's Final Order. He stated that RICO had received a request for investigation from the Board after the Respondent disclosed information on a December 18, 2015 renewal application about disciplinary action taken by the State of Illinois. The Respondent had provided a copy of a Consent Order issued against the Respondent by the Illinois Division of Professional Regulation, based on allegations during years 2002 to 2005, for when

Respondent had provided auditing services to Respondent's client through its public accountant staff, to its client, the City of Dixon, Illinois, the Respondent failed to design audit procedures which would have detected significant financial fraud during those years. The Illinois Order noted corrective measures taken by the Respondent, and imposed a \$40,000.00 fine.

RICO alleges that the Respondent was disciplined by the State of Illinois and that the Respondent failed to report the disciplinary action within thirty days as required by Hawaii law.

Terms of the Settlement Agreement:

- Compliance with the Illinois Order.
- Notification of violation of terms of Illinois Order by Respondent to the Board in writing within thirty (30) days of Respondent being notified of such a violation.
- \$5,000.00 administrative fine.
- Failure to fully and timely comply with the terms of the Settlement Agreement shall result in the automatic revocation of Respondent's permit.

After discussion, it was moved by Mr. Williams, seconded by Mr. Punua, and unanimously carried to approve the Settlement Agreement Prior to Filing of Petition for Disciplinary Action and Board's Final Order.

At 10:02 a.m., the Board reconvened its scheduled meeting.

Applications for
CPA Certification:

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

1. BLUHM, Brian
2. BUSCHERT, Jason L.
3. DAROGA, Raiyomand K.
4. GOMES, Kaniale E.
5. HURLEY, Michael B.
6. KUSTERER, Nicolle P.
7. LIU, Shi-Er
8. MORITA, Brysson D. H.
9. NYSTUL, Roderick D.
10. PAPARELLI, Kesia P. B.
11. PIERI, Andrew
12. ROCHA, Rebecca K.
13. SHORES, Russell T.
14. SILBERFELD, Michael

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

1. CAHALAN, Patrick J.

Ratification of
Individual CPA
Permits to Practice:

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

1. CHANG, Kyle S.T.
2. KANESHIRO, Kira S.
3. LUKE, Chanel A.
4. MAEHARA, Dane H.
5. SAGAWA, Koji B.
6. TRACEY, Valerie

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 following individual CPA Permit to Practice:

- 1) GOO, Brian Y.S.

Ratification of Issued Firm Permits to Practice:

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

1. WARREN TADASHI HIGASHI
2. KATHRYN E RIO
3. EDWIN S S CHUNG
4. LAUREEN M MYERS
5. KAR SHING GEORGE LAM
6. GEORGE F ROBERTS CPA LLC
7. ALEJANDRA C LOPEZ
8. BRIAN C WALTHALL
9. LAURIE F PECK
10. BROWN SMITH WALLACE LLP
11. DAN K KIKUYAMA CPA INC
12. INTEGRITY ACCOUNTING AND BUSINESS SERVICES LLC
13. IRENE A WU
14. MARY W XAVIER
15. WING-CHIU NG
16. ALAN S LEVINE CPA P C

Ratification of Approved Firm Name:

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

- 1) Kristy M. Au, CPA, LLC

Chairperson's Report:

A. National and Industry Update

- 1) Inquiry Relating to a Hawaii CPA as a Client's Registered Agent

Chairperson Lau stated that a Hawaii-licensed CPA requested a Board response to whether there would be a conflict if a CPA serves as a company's registered agent. The CPA has several international clients who plan to set up a corporation or limited liability company in Hawaii, and are

asking him to become their registered agent because they are unable to read and understand English. The CPA would be preparing income tax or withholding tax returns; there would be no provision of any assurance services.

Executive Office Kai added that pursuant to the laws and rules of the Business Registration Division of the Department of Commerce and Consumer Affairs ("DCCA"), a registered agent is the agent for service of process for a business, as identified by the business in its business filings. A registered agent must be an individual or entity authorized to transact business in this State and must be physically present in Hawaii. In general, the duty of the registered agent is to receive service of process, notice, or demand on behalf of the business the agent is hired to represent and to inform the business of such service.

After discussion, the Board reached consensus that the CPA serving as a registered agent would not violate the Board's laws and rules, so long as there is no conflict from an ethics perspective.

2) NASBA CPA Experience Verification Service

Chairperson Lau reported the launch of the NASBA CPA Experience Verification Service that was created in response to the accounting profession's increasing need for a more coherent and standardized experience validation and verification process for CPA licensure applicants. The services aims to provide accounting professionals worldwide with a reputable experience option to comply with the

licensure requirements of state boards of accountancy. Currently, the service is available in ten (10) jurisdictions.

3) Licensing Fee Increases Proposed by the Professional and Vocational Licensing Division of the Department of Commerce and Consumer Affairs

Chairperson Lau mentioned the proposal to increase licensing fees that was announced by DCCA in April 2016. These fees support licensing and enforcement services, and include: (1) initial and renewal licensing fees (revenue source for the Professional and Vocational Licensing Division); and (2) compliance resolution fund fees (the RICO revenue source). The proposal is part of a long-range plan to address the deferred reality that operating costs clearly outpace revenue generated from licensing fees, while also being designed to improve value and services to both licensees and applicants.

4) Call for Nominations for the NASBA Board of Directors

Chairperson Lau announced the call for nominations of state board members and NASBA associates interested in serving on NASBA's Board of Directors. Interested and qualified candidates should submit letters of interest directly to NASBA's Nominating Committee. The nomination period is open from April 8, 2016 to May 27, 2016.

- 5) Request for Volunteers to Serve on the AICPA Board of Examiners, and Committees/Subcommittees Relating to the Uniform CPA Examination

Board Chairperson Lau announced the request from the AICPA Examinations Team to identify potential candidates with state board backgrounds, including current board members, who would be interested in serving on the Board of Examiners and other committees and subcommittees for the AICPA Fiscal 2016 to 2017 volunteer year.

Standing Committee Reports:

A. Peer Review

- 1) Report from the Peer Review Oversight Committee

In Committee Chairperson Gregg Taketa's excused absence, Board Chairperson Lau reported that the Peer Review Oversight Committee ("PROC") had met twice since the Board's April 1, 2016 meeting to address the Board's request to perform an assessment of the process to conduct an attestation engagement in order to issue a Hawaii Supplement to the Peer Review in accordance with HRS section 466-36. At its last meeting, the PROC approved a draft of the assessment document, which has been disseminated to all Board members. Mr. Lau requested that members and DAG Tam review the draft and be ready to with comments in order to have a robust discussion on this sample report which is proposed to provide guidance to CPA firms as a template report.

2) Proposed Evolution of Peer Review Administration

On behalf of Committee Chairperson Taketa, Board Chairperson Lau provided a brief summary of the AICPA's proposal. He stated that the AICPA is considering the consolidation of peer review administering entities resulting in a smaller number with participation for more jurisdictions and to provide greater consistency in the program.

Board members had a number of comments and questions regarding this proposal, focusing on whether the AICPA's administrative change will impact the Board's oversight of its peer review program, as well as the proposed role of the PROC in the peer review process.

B. Legislation and Rules

1) House Bill No. 1669, House Draft 2, Senate Draft 1, Relating to Public Accountancy

Committee Chairperson Williams reported that since the last Board meeting, the House had accepted Senate Draft 1 of House Bill No. 1669, which proposes to redefine "peer review" to include reviews done by out-of-State public accountancy licensees; to increase deadlines for filing of peer review compliance reporting forms and appealing certain ratings from ten (10) days to thirty (30) calendar days; allows members of the public accountancy peer review oversight committee to be reimbursed for expenses and protects the members from civil liability for actions

done in furtherance of the purposes of the committee; and clarifies that a peer reviewer performing the Hawaii supplement could select one or more engagements from the list obtained from the reviewed firm.

Committee Chairperson Williams thanked Board Chairperson Lau and Executive Officer Kai for their efforts on behalf of the Board.

C. Ethics

Committee Chairperson Komo announced that NASBA's Center for the Public Trust is offering an ethics course geared towards CPA firms that wish to train staff on ethics considerations in their practice.

D. Communications

Committee Chairperson Lee had no report.

E. Continuing Professional Education

1) Update on CPE Standards Relating to Nano-Learning and Blended Learning

Committee Chairperson Punua reported that the Exposure Draft entitled, *Statement on Standards for Continuing Professional Education (CPE) Program*, that was jointly issued by the AICPA and NASBA in April 2015, was re-circulated for additional comment. He stated that it is still the intention that the standards be finalized by July/August of 2016.

Mr. Punua further explained that both nano-learning programs and blended

learning program are included in the standards update proposal. He provided the following summary of these types of learning:

- Nano-learning refers to information delivered in “bite-sized” 10-minute increments, often covering task-specific topics. This type of delivery is geared toward the “You-Tube Generation” that has an attention span of perhaps twenty (20) minutes. An example would be a short video that learners can access to help master certain tasks as they are encountered in their work.
- Blending learning combines multiple delivery methods, such as live instruction and on-demand self-study.

Mr. Punua explained that the proposed standards revisions would allow CPE credit to be given for both these types of learning, helping CPE education to keep pace with changes in technology and a workforce environment that requires increasingly specialized, personalized, and on-demand learning. He emphasized that this type of delivery method would not be utilized for more complex issues that should continue to be addressed through current delivery methods.

F. Mobility

With Committee Chairperson Taketa’s excused absence, there was no report.

G. Uniform CPA Examination

1) 1st Quarter 2016
(January – February 2016) Testing Window

a. NASBA Jurisdiction Report

Committee Chairperson Punua reported that the average pass rate for Hawaii examination candidates during this quarter was 47.5%, which is a marked improvement over the rates in the past. In comparison, the average pass rate for all jurisdictions was 49.7%.

The quarterly pass rate of 47.5% places Hawaii at # 26 within the fifty-three (53) jurisdictions. Mr. Punua mentioned that Hawaii's ranking during the last quarter was # 50. He remarked that the significant improvement may be the result of the examination review courses provided by the University of Hawaii School of Accountancy.

b. Ratification of Hawaii Candidate Examination Scores.

Committee Chairperson Punua presented the statistics for this testing window as follows:

EXAMINATION RESULTS (BY SCORES)

	Number of Scores	Percentage
Credit	87	47.5%
No Credit	96	52.5%
Lost Credit	0	0

Voided	0	0
TOTAL	183	100%

TOTALS BY EXAM PARTS (BY CANDIDATES)

	AUD	BEC	FAR	REG	TOTAL
# Attended	41	56	47	39	183
# Passed	20	26	24	17	87
% Passed	48.8	46.4	51.1	43.6	47.5

SUCCESSFUL CANDIDATES SUMMARY

# of Passing First Time Candidates	3 (21.4%)
# of Passing Re-Exam Candidates	11 (78.6%)
# of International Candidates	1
# of Passing Candidates	14

After discussion, it was moved by Committee Chairperson Punua, seconded by Mr. Lee, and unanimously carried to ratify the examination scores from the January/February 2016 testing window.

c. NASBA Candidate Care Department Report

Committee Chairperson Punua reported that the Candidate Care Department monitors ten (10) criteria in summarizing concerns from candidates that were received during this quarter testing window. He noted that the

minor changes made by the AICPA to enhance the user experience resulted in a significant drop in the number of candidates timing out in the introductory screens or submitting an exam before it was completed.

In addition, new testing accommodation options for approving candidates for extended time and breaks have been developed and will be launched on May 15, 2016.

2) NASBA/AICPA Practice Analysis Final Report

Committee Chairperson Punua reported that the AICPA and its Board of Examiners had issued its final report entitled *Maintaining the Relevance of the Uniform CPA Examination*, which represents the result of an extensive practice analysis that has resulted in the development of the next version of the examination.

3) Next Version of the Uniform CPA Examination

Committee Chairperson Punua then reported that the next version of the examination is set to launch on April 1, 2017. As reported earlier, this next version is based on a practice analysis, an extensive research project that included input from key stakeholders across the accounting profession.

The major changes to the next version of the CPA Examination are:

- Increased assessment of higher-order cognitive skills; and
- Total testing time will increase from 14 to 16 hours; however, the exam will continue to be composed of four (4) sections – Auditing and Attestation (AUD), Business Environment and Concepts (BEC), Financial Accounting and Reporting (FAR), and Regulation (REG).

To increase candidate convenience, beginning with the 2016 3rd Quarter testing window (July – September), there will be a 10-day extension of the testing window into the traditional dark months. This is being done in response to candidate feedback requesting additional days of testing. Committee Chairperson Punua remarked that, as is the case when there is an anticipated change, during the transition to the next version of the CPA examination, it is anticipated that greater numbers of candidate will schedule their tests. This extension of the testing windows will accommodate these larger numbers.

Open Forum: None.

Next Board Meeting: Friday, June 3, 2016
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 10:45 a.m.

Taken and recorded by:
Laureen M. Kai, Executive Officer

/s/ Charlene Tamanaha

Signed by Charlene Tamanaha
Supervising Executive Officer

LMK:ln

05/18/16

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