

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

MINUTES

Date: Friday, August 5, 2016

Time: 8:30 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
Terrence H. Aratani, Member
Darryl T. Komo, CPA, Member
Gabriel Lee, Member
Gary Y. Miyashiro, CPA, 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
Lori Nishimura, Secretary

Guest: Dwayne Takeno, CPA, Peer Review Oversight
Committee ("PROC") Chairperson

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 8:30 a.m. by Chairperson Lau.

Additions/Revisions
to Agenda: Executive Officer Kai requested to add the following:

7. EXECUTIVE OFFICER'S REPORT
* * *

D. Inquiry Regarding the Provision of CPA
Services to Investors in Marijuana
Businesses

After discussion, it was moved by Vice-Chairperson Taketa, seconded by Mr. Aratani, and unanimously carried to approve the aforementioned addition to the agenda.

Election of Board
Chairperson and
Vice-Chairperson:

Chairperson Lau requested that Board members could either indicate their interest in or nominate member(s) for the position of Board Chairperson. It was moved by Mr. Roberts, and seconded by Mr. Komo to nominate and elect current Vice-President Taketa for the position of Board Chairperson. Mr. Taketa expressed his interest in the position. Mr. Williams voiced his concern about a neighbor island member as Board Chairperson, as there is a significant amount of work involved in serving in the position which may be impacted by logistical issues. Mr. Williams also expressed his belief that Chairperson Lau had done a commendable job as chairperson being fair and open to the views of all interested parties and had accomplished a great deal as Board Chairperson. He then inquired if Mr. Taketa foresees any problems/set backs as a neighbor island member serving as Chairperson; Mr. Taketa stated that he plans to delegate those duties on his behalf to another Board member. No further members expressed an interest and no further nominations were made for the position of Board Chairperson. The motion was adopted by a vote of 8-0, with Mr. Williams abstaining.

Chairperson Taketa requested that Board members could either indicate their interest in or nominate member(s) for the position of Board Vice-Chairperson. It was moved by Chairperson Taketa, seconded by Mr. Roberts, and unanimously carried to nominate and elect Mr. Komo for the position of Vice-Chairperson. Mr. Komo expressed his interest in the

position. No further members expressed an interest and no further nominations were made for the position of Board Vice-Chairperson. The motion was adopted by a vote of 8-0, with Mr. Williams abstaining.

Chairperson Taketa thanked Mr. Lau for serving as Board Chairperson for the past three years, encouraging open discussion on Board matters, and treating all with respect.

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

After discussion, it was moved by Mr. Lee, seconded by Mr. Punua, and unanimously carried to approve the minutes of the July 1, 2016 Board meeting as circulated.

Executive Session:

At 8:36 a.m., it was moved by Mr. Lau, seconded by Mr. Aratani, 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 9:37 a.m., it was moved by Mr. Lau, seconded by Mr. Roberts, and unanimously carried for the Board to move out of Executive Session and to immediately recess the meeting.

At 9:45 a.m., the Board reconvened its meeting.

Applications for
CPA Certification:

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

1. LUM, Bryson S. B.
2. WATANABE, Sean K.

3. YAMASAKI, James W.

Ratification of
Individual CPA
Permits to Practice:

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

1. BAYSA, Michael E.
2. CLEVINGER, Dustin K.E.
3. DONNELLY, Shaye E.
4. DUNLEAVY, Robert E.
5. GLENN, David J.
6. KERBER, Karen K.
7. KIM, Myung Hyun
8. KIMURA, Tyler M.
9. RAINEAULT, Nicole N.A.
10. SHIMIZU, Eryn K.
11. TERRY, Madelaine J.
12. WRIGHT, Candace E.

After discussion, it was moved by Mr. Aratani, seconded by Mr. Lau, and unanimously carried (Mr. Roberts recused himself from the vote) to ratify the approval of the following individual CPA Permit to Practice:

- 1) RUSSELL, Brandon S.

Ratification of Issued
Firm Permits to
Practice:

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

1. DAVID GLENN LLC
2. DUSTIN K E CLEVINGER
3. DEMARCO SCIACCOTTA WILKENS & DUNLEAVY LLP
4. POSTLETHWAITE & NETTERVILLE APAC
5. HARTZOG RISOEN & SWORDSMA LLC
6. ERIC H. YOKOTE
7. BENJAMIN SALAZAR

8. KERBERROSE S C

After discussion, it was moved by Mr. Lee, seconded by Mr. Aratani, and unanimously carried (Mr. Punua recused himself from the vote) to ratify the approval of the following issued Firm Permit to Practice:

- 1) PAUL T KURAMOTO CPA INC

Ratification of
Approved Firm
Name:

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

- 1) Jane Becker, CPA, LLC

Chairperson's
Report:

A. National and Industry Update

- 1) AICPA Notices regarding Member Disciplinary and Firm Drop and Terminations

Chairperson Taketa stated that the Board has received the newly initiated monthly *AICPA Notice regarding Member Disciplinary and Firm Drop and Terminations*. After discussion, Executive Officer Kai was instructed to file the monthly reports for further reference.

- 2) *Contractors Financial Statement* – Contractors License Board - Update

DAG Tam provided an update on the *Contractors Financial Statement* utilized by the Contractors License Board (“CLB”) for licensing applicants. He reiterated that Mr. Williams attended the May 20, 2016 CLB meeting to discuss the form and its function. It was determined that some of the language in the form will be amended

to reflect Mr. Williams' recommendations. In addition, the CLB agreed that it would only accept audited, compiled, and reviewed financial statements; not financial statement preparations. DAG Tam thanked Mr. Williams for his presentation to the CLB.

Executive Officer's Report:

A. Report From the NASBA Enforcement Resources Committee Relating to IRS Preparer Tax Identification Number ("PTIN") Data

Executive Officer Kai reported that from 2014, the NASBA Enforcement Resources Committee had submitted annual requests to the IRS under the Freedom of Information Act to obtain its listing of all individuals who had been granted a PTIN. The request had include information on state of licensure and license number; however, NASBA was provided only with the PTIN holders' business addresses. NASBA then sorted the available data for each state or jurisdictional board of accountancy. The data lists tax return preparers who listed their business addresses in Hawaii and who listed a CPA credential in their PTIN application or renewal. However, the IRS cannot verify whether a PTIN holder on the listing also holds a Hawaii CPA license or not. Ms. Kai stated that the list specific to Hawaii includes approximately 900 names.

After discussion, it was determined by consensus of the Board that the Executive Officer conduct an audit of ten percent (10%) of the list to see how many individuals with PTIN also hold Hawaii CPA licenses. In addition, the Board agreed to try to accomplish the audit by year-end and to provide an update letter to NASBA informing them of the results of the Board's actions.

Mr. Lee left the meeting at 10:00 a.m.

B. Request from the Hawaii Society of Certified Public Accountants Relating to the Peer Review Compliance Form

Executive Officer Kai informed the Board that Steven Oberg, former Board member and now a member of the HSCPA board, has requested that the Board issue an announcement regarding the peer review compliance form, including information on when it should be submitted to the Board and to whom the requirement for filing it applies. He also asked whether the Board has taken an official position on late filings and any adverse consequences. He stated that the HSCPA would then post the announcement in its magazine or possibly send an email to its members. In addition, he suggested that the Hawaii Association of Public Accountants also use the announcement to notify its members.

After discussion, it was decided that an announcement be drafted to inform CPA firms of the compliance requirements. Board members were asked to provide input for the announcement to the Executive Officer. It was also determined that other questions relating to policies would be matters for further discussion.

C. Random Audits of License and Permit to Practice Renewals - Update

Executive Officer Kai provided the following update to the random audits of CPA license and Permit to Practice renewals:

CPA Licenses:

- 1296 total licensees;
- 10% audited = 130 licensees; and

- No responses were received from five (5) auditees.

Permits to Practice:

- 1285 total licensees with permits;
- 10% audited = 129 licensees with permits; and
- No responses were received from four (4) auditees.

D. Inquiry Regarding the Provision of CPA Services to Investors in Marijuana Businesses

Discussion ensued on the inquiry the Board received about whether it was a problem for licensed CPA firms in Hawaii to prepare federal and Hawaii tax returns for the business and/or individual investors in marijuana businesses. This inquiry was similar to the inquiry received by the Board in July 2015 regarding the provision of CPA services to marijuana businesses; therefore, Chairperson Taketa commented that a similar type of response would be appropriate. DAG Tam provided comments as to what should be included in the response. It was moved by Mr. Punua, seconded by Mr. Aratani, and unanimously carried to instruct DAG Tam to draft a response letter.

Standing Committee Reports:

A. Peer Review

- 1) Peer Review Oversight Committee's Proposed Draft, Entitled *Independent Accountants Report on Applying Agreed-Upon Procedures*

Committee Chairperson Taketa stated it is in the process of having it reviewed.

- 2) *Proposed Evolution of Peer Review Administration by the AICPA*
 - a. Supplemental Discussion Paper Seeking Input from State Boards of Accountancy

Committee Chairperson Taketa invited comments on the AICPA Supplemental Discussion Paper from the Peer Review Oversight Committee ("PROC"), and asked PROC Chairperson Takeno to convene a meeting to discuss the issue, as the proposal is suggesting drastic changes as to how the AICPA Peer Review program is administered in Hawaii. PROC Chairperson Takeno stated that he will attempt to arrange to hold a PROC meeting prior to the Board's next scheduled meeting to discuss this matter and be prepared to report the results of that meeting to the Board at the Board's September 2, 2016 meeting.

Discussion ensued on the changes proposed by the AICPA. Mr. Roberts commented that peer review for educational and remedial purposes is the Board's intent; but, with this initiative it appears that peer review is moving toward becoming more punitive in nature. He further commented that the proposal needs to consider that there is great diversity in how peer review is administered in states and jurisdictions, which may result in issues related to

consistency, objectivity, and technical competence. He also noted that in the pursuit of high quality peer reviews, the number of service providers may decrease, thereby creating other issues to be addressed. Mr. Roberts stated that he is happy with what we have now as it covers the overall objective of peer review.

Committee Chairperson Taketa stated that he had a number of concerns from the perspective of a regulatory board, including challenges for state and jurisdictional boards to ensure compliance with each respective peer review law. In addition, he is concerned that the consolidation of administering entities may impair the PROC's ability to carry out its charge of overseeing a sponsoring organization. He noted that since the Hawaii Society of Certified Public Accountants ("HSCPA") is currently the sole sponsoring organization for the Hawaii peer review program, it would be beneficial to know the HSCPA's position on the proposal. Committee Chairperson Taketa asked the Executive Officer to contact the HSCPA for this information and whether the HSCPA would share its comments with the Board.

Mr. Punua commented that since peer review has been used as an educational and remedial tool for

the past thirty-five (35) years, that it is inevitable that changes will be made; however, Hawaii has only very recently implemented its peer review program. Therefore, it would be helpful to the Board to know why the proposal has been initiated, and that the Supplemental Discussion Paper provides answers to many of the Board's questions.

Mr. Williams commented he agrees that the Board members have expressed many valid concerns, but that members need to remember that the AICPA Peer Review Program is the only peer review program, and also that the proposal relates to the administrative process rather than the actual peer review.

The Board members were instructed to forward their questions and concerns to the Executive Officer, who will compile all comments together with input from the PROC for discussion by the Board at its next meeting. It was noted that the deadline to submit the Board's comments is October 31, 2016.

3) AICPA Peer Review Board Open Session Meeting on August 11, 2016

Committee Chairperson Taketa requested that the email relating to the AICPA Peer Review open session meeting on August 11, 2016 be forwarded to all

Board members. He added that he will be participating in the meeting telephonically.

B. Legislation and Rules

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

Committee Chairperson Williams reported that House Bill No. 1669, House Draft 2, Senate Draft 1, has been signed by the Governor on June 29, 2016. This bill, now Act 147, redefines "peer review" to include reviews done by out-of-State public accountancy licensees; increases 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 PROC to be reimbursed for applicable 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.

C. Ethics

Committee Chairperson Komo had no report.

D. Communications

Committee Chairperson Lee had no report.

E. Continuing Professional Education

Committee Chairperson Punua had no report.

F. Mobility

Committee Chairperson Taketa had no report.

G. Uniform CPA Examination

1) Second Quarter 2016 (April – May 2016)
Testing Window

a. NASBA Jurisdiction Report

Committee Chairperson Punua reported that the test fees will increase in April 2017 from \$173.60 to \$193.45, due to the increase in test times (one hour each) for exam parts BEC (Business Environment and Concepts) and REG (Regulation). He also reported that the NASBA Jurisdiction Report shows that Hawaii's passing rate ranked 47 out of 53; Hawaii's passing rate ranking was 26 for other last testing window.

Mr. Williams asked that the NASBA Jurisdiction Report be made available to Hamid Pourjalali, Ph.D., Director of the School of Accounting ("SOA") at the University of Hawaii at Manoa, as the SOA had offered free CPA review and governmental accounting programs for eligible candidates of the Uniform CPA Examination.

b. Ratification of Hawaii Candidate Examination Scores

Committee Chairperson Punua presented the statistics for the April/May 2016 testing window as follows:

EXAMINATION RESULTS (BY SCORES)

	Number of Scores	Percentage
Credit	94	41.1
No Credit	135	58.9
Lost Credit	0	0
Voided	0	0
TOTAL	229	100.00

TOTALS BY EXAM PARTS (BY CANDIDATES)

	AUD	BEC	FAR	REG	TOTAL
# Attended	46	56	65	62	229
# Passed	20	31	17	26	94
% Passed	43.5	55.4	26.2	41.9	41.1

SUCCESSFUL CANDIDATES SUMMARY

# of Passing First Time Candidates	4 (30.77%)
# of Passing Re-Exam Candidates	9 (69.23%)
# of International Candidates	1
# of Passing Candidates	13

After discussion, it was moved by Committee Chairperson Punua, seconded by Vice-Chairperson Komo, and unanimously carried to ratify the examination scores from the April/May 2016 testing window.

Open Forum: None.

Next Board Meeting: Friday, September 2, 2016
8:30 a.m.
King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: Executive Officer Kai reiterated that the Professional and Vocational Licensing Division is planning an orientation for board and commission members who were appointed in 2015 and 2016, to be held on Tuesday August 30, 2016 at the State Capitol auditorium. Possible topics to be presented include *Ethics in Government*, the *Sunshine Law*, *Contested Case Hearings*, *Administrative Procedures*, *Handling Complaints*, and the *Role of a Board Member*. Interested eligible Board members were asked to contact the Executive Officer via email before August 12, 2016 (noting that the deadline date has been moved up from August 15, 2016).

Adjournment: There being no further discussion, the meeting adjourned at 10:33 a.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

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Reviewed and Approved by:

/s/ Lauren M. Kai

Lauren M. Kai, Executive Officer

LMK:ln

09/01/16

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