

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

MINUTES

Date: Friday, September 2, 2016

Time: 8:30 a.m.

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

Present: Gregg M. Taketa, CPA, Chairperson
Darryl T. Komo, CPA, Vice-Chairperson
Terrence H. Aratani, Member
Nelson K.M. Lau, CPA, Member
Gabriel Lee, Member
Gary Y. Miyashiro, CPA, Member
Edward L. Punua, CPA, Member
John W. Roberts, CPA, Member
Rodney J. Tam, Deputy Attorney General ("DAG")
Laureen M. Kai, Executive Officer
Lori Nishimura, Secretary

Excused: Carleton L. Williams, CPA, Member

Guest: Wilcox Choy, CPA, Peer Review Oversight Committee
("PROC") Member
Marilyn Niwao Roberts, CPA, Hawaii Association of
Public Accountants

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 Taketa.

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

7. EXECUTIVE OFFICER'S REPORT

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E. Inquiry regarding the CPA Ownership
Requirements for a Hawaii CPA Firm

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

Approval of
Minutes of the
August 5, 2016
Board Meeting:

After discussion, it was moved by Mr. Punua, seconded by Mr. Lau, and unanimously carried to approve the minutes of the August 5, 2016 Board meeting as circulated.

Executive Session:

At 8:32 a.m., it was moved by Mr. Aratani, seconded by Mr. Roberts, 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 9:57 a.m., it was moved by Mr. Lau, seconded by Vice-Chairperson Komo, and unanimously carried for the Board to move out of Executive Session and to immediately recess the meeting.

At 10:01 a.m., the Board reconvened its meeting.

Applications for
CPA Certification:

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

- 1) HRYSYZEN, Melissa F. O.
- 2) HUDSON, Gavin K.

- 3) KURODA, Caitlin Y.
- 4) LIU, Brandy M.
- 5) MIROSWKY, Jeng Ran

Ratification of
Individual CPA
Permits to Practice:

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

- 1) ISOGAWA, Hirohisa J.
- 2) SHORE, Russell T.
- 3) STAPLES, Cristy L.
- 4) WATANABE, Sean K.
- 5) YAMASAKI, James W.

Ratification of Issued
Firm Permits to
Practice:

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

- 1) KRISTY M AU

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

- 2) BECKY ASANO SANTOS CPA INC

Chairperson's
Report:

A. National and Industry Update

- 1) AICPA Peer Review Open Session Meeting on August 11, 2016

Chairperson Taketa stated that he participated in the open session meeting held by the AICPA Peer Review Board ("PRB") on August 11, 2016. Topics included the PRB's report on the Federal Audit Clearinghouse completeness

project that monitored CPA firms that performed Single Audits during the fiscal year ended 2013 by matching the firms' Employer Identification Numbers on Data Collection Forms to the AICPA Peer Review enrollment records. The report concluded that approximately 5% of the firms were not peer reviewed. Although the noncompliance rate is less than the 20% noncompliance rate for CPA firms that audited the financial statements of employee benefit plans, the PRB will continue to monitor the CPA firms that performed Single Audits.

The Peer Review Board also discussed the exposure draft for system peer review reports and firm representation letters. The PRB recommended that the must-select paragraph in the illustrative report for a system review be modified to specify that a Single Audit was selected, when applicable. The PRB also recommended that the requirements for the representation letter be modified to indicate that, when applicable, the reviewed firm performed certain must-select engagements and the peer reviewer selected and reviewed such engagements.

The PRB also agreed that a CPA firm's improper use of SSARS 19 reporting language, instead of the SSARS 21 language in the compilation and review reports, would result in a peer review rating other than "Pass".

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

Chairperson Taketa reported that the Board was sent the September 2016 *AICPA Notice regarding Member Disciplinary and Firm Drop and Terminations*. He commented that a Hawaii licensed CPA firm was listed on this month's report, and that at this point, the Board would not be taking any action; rather, the Board will monitor the information on these AICPA reports and bring any information to the Board's attention as appropriate.

B. Rescheduling November 2016 and December 2016 Meeting Dates

Chairperson Taketa suggested rescheduling the November 4, 2016 meeting to November 15, 2016. He stated that the National Association of State Boards of Accountancy's Annual Meeting in Austin, Texas, concludes on November 2, 2016 and that the Board's meeting attendees will not return to Hawaii until the late afternoon on November 3, 2016. He also suggested that if the November meeting is rescheduled, then the Board may wish to also reschedule the December 2, 2016 to December 16, 2016. It was noted that it was confirmed that DAG Tam's schedule could accommodate the changes and that the meeting time and venue were unchanged. There were no objections to the changes in meeting dates.

C. 2017 Board Meeting Schedule

Chairperson Taketa proposed for the Board to consider changing its monthly meetings from the first Friday of the month to the fourth Friday of the month starting with the January 2017 meeting. It was noted that it was

confirmed that DAG Tam's schedule could accommodate the change and that the time and venue of meetings would remain unchanged. After discussion, it was agreed to hold the Board's monthly meetings on the fourth Friday of each month beginning with the January 2017 meeting.

Executive Officer's Report:

A. Discussion of Complaint Received from State Representative Isaac Choy regarding Alleged Unlicensed Activity

Executive Officer Kai informed the Board that an e-mail complaint was received from State Representative Isaac Choy, alleging that CPA Dale Kobayashi held himself out to the public as a CPA when not properly licensed. The complaint alleges that Mr. Kobayashi "does not know, understand or intentionally violated the holding out provisions of Hawaii State Law and the AICPA Code of Professional Conduct, to mislead the public".

After discussion, it was moved by Vice-Chairperson Komo, seconded by Mr. Aratani, and unanimously carried to refer Representative Choy's complaint to the Regulated Industries Complaints Office ("RICO").

B. Random Audits of License and Permit to Practice Renewals - UPDATE

Executive Officer Kai provided an update to the random audits of CPA license and Permit to Practice renewals. As previously mentioned at the Board's last meeting, there were five (5) auditees for the random audit of their CPA license, and four (4) auditees for the random audit of their Permit to Practice ("PTP") who did not respond to the audit selection notice. Executive Officer Kai stated that those nine (9)

auditees were referred to RICO and a notice of a RICO referral (sent via certified mail) was mailed to each auditee.

Ms. Kai further stated that a number of those auditees contacted her and claimed that they had not gotten the initial random audit selection notice (sent via postal mail). It was explained to these auditees that the matter had been referred to RICO, and were instructed to wait to be contacted by RICO. The Executive Officer suggested that this type of situation may be alleviated in future audits if the initial notification were to be sent via certified mail, as had been done in the past.

C. Report from the NASBA Enforcement Resources Committee relating to IRS Preparer Tax Identification Number ("PTIN") Data - UPDATE

Executive Officer Kai reiterated that the data provided from the NASBA Enforcement Resources Committee on tax return preparers who listed their business addresses in Hawaii and who listed a CPA credential in their PTIN application or renewal as provided by the IRS included approximately 900 names specifically to Hawaii. At the Board's last meeting, it was decided 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. Ms. Kai stated that this audit is in progress.

D. Request from the Hawaii Society of Certified Public Accountants relating to the Peer Review Compliance Form - UPDATE

Executive Officer Kai provided an update on the drafting of an announcement to all CPA firms

that are subject to the Hawaii peer review requirement. At the previous Board meeting, members were asked to provide input for the announcement to the Executive Officer. Ms. Kai stated that as she had received no further input, besides that of Chairperson Taketa, she will be drafting the announcement for dissemination to the Hawaii Society of CPAs, the Hawaii Association of Public Accountants, and to be posted to the Board's website. Executive Officer Kai reminded the Board that the request from HSCPA also inquired on the Board's official position on late filings and of any adverse consequences.

E. Inquiry regarding the CPA Ownership Requirements for a Hawaii CPA Firm

Discussion ensued on the inquiry the Board received from Robert Kawahara regarding the CPA ownership requirements for a Hawaii CPA firm, and focused on HAR section 16-71-64(e) which reads in pertinent part as follows:

"A licensee shall not practice public accountancy under a firm name which is misleading in any way, as to the legal form of the firm, or as to the persons who are sole practitioners, partners, **officers**, or shareholders of the firm, or as to any matter with respect to which public communications are restricted by subsection(c)." (Emphasis added)

In his inquiry, Mr. Kawahara maintained that a manager of a manager-based LLC is an officer of a firm; thus, he would be compliant to include a manager's name, Mimi Hu, in the CPA firm name. He explained that Ms. Hu is not an owner; rather she is an employee and manager of the CPA firm. After discussion, it was moved

by Mr. Lau, seconded by Vice-Chairperson Komo, and unanimously carried (Mr. Lee abstained from the vote) to respond to Mr. Kawahara's inquiry that, based solely on the information he provided and his representation that a manager of a manager-managed LLC is the equivalent of an "officer", the Board has determined that Ms. Hu is an "officer" for purposes of HAR section 16-71-64(e), and accordingly, has determined that including Ms. Hu's name in the name of the CPA firm is appropriate.

Standing Committee Reports:

A. Peer Review

- 1) Report from the Peer Review Oversight Committee ("PROC")

PROC Committee Member Wilcox Choy was welcomed to the meeting. Mr. Choy stated that the PROC had convened a meeting on August 23, 2016 to discuss the impact on the PROC of the AICPA Proposed Evolution of Peer Review Administration. PROC member Choy stated that the PROC expressed concerns about how it would continue to fulfill its responsibilities with the uncertainty in the consolidation proposal (e.g., logistics, cost of the PROC's operation, time constraints in providing adequate oversight of the program, and how to discern Hawaii-centric information, which is critical to the effective management of Hawaii's peer review program).

Mr. Lee left the meeting at 10:25 a.m.

It was noted that the estimated number of peer reviews evaluated by the HSCPA Review Acceptance Body ("RAB") is

approximately ninety (90) per year, compared with a large state such as California with a thousand or more. Hawaii's RAB evaluates a vast majority of engagement reviews, with less than ten (10) being system reviews. This was noted to be only one of many inconsistencies that exist between the states' peer review programs.

Chairperson Taketa inquired on the progress of the PROC's drafting and review of the proposed draft, *Independent Accountants Report on Applying Agreed-Upon Procedures*. Mr. Choy stated that the PROC will meet again on September 27, 2016, when the finalization of the draft is anticipated. Mr. Choy further mentioned that the format and content of the PROC's annual report to the Board will also be discussed at this meeting.

Chairperson Taketa commented that he is concerned with the initial phase of the mandatory peer review, with the lack of feedback as to the number of new firms going through their initial peer review, and how the Board may be in the dark as to how Hawaii CPA firms are doing in the peer review process. He inquired if HSCPA would be able to provide any statistics on the peer review program. PROC member Choy commented that HSCPA issues an annual report; thus, does not want the PROC to replicate the HSCPA report. Chairperson Taketa suggested attaching HSCPA's report to the PROC's annual report.

2) *Proposed Evolution of Peer Review Administration* by the AICPA

- a. Supplemental Discussion Paper Seeking Input from State Boards of Accountancy

Committee Chairperson Taketa requested Executive Officer Kai to compile comments on the AICPA Supplemental Discussion Paper from PROC and as well as comments he had sent. Ms. Kai stated she will provide a compilation for review at the next Board meeting, noting that the deadline to submit the Board's comments is October 31, 2016.

Mr. Aratani left the meeting at 10:42 a.m.

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

Board Peer Review Committee Member Lau suggested several edits to the form; there were no objections from the Board. DAG Tam stated that he would incorporate these into a new draft to be sent to the PROC for its discussion at its September 27, 2016 meeting.

4) AICPA Peer Review Board Exposure Draft – *Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews*

Committee Member Lau provided a brief summary of the proposed changes to the

AICPA Standards for performing and reporting on peer review. He noted that this matter had been discussed earlier during Chairperson's Taketa's report.

B. Legislation and Rules

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

C. Ethics

Committee Chairperson Komo had no report.

D. Communications

Due to Committee Chairperson Lee's early departure from this meeting, there was no report.

E. Continuing Professional Education

1) Revised Statement on Standards for Continuing Professional Education Programs

Committee Chairperson Punua provided a brief summary of the revised statement on Standards for Continuing Professional Education ("CPE") Programs, to be effective September 1, 2016. Discussion ensued on the CPE sponsors that are approved rather than each individual course, and that new type of courses are now available (nano learning, and blended learning). The consensus of the Board was that they will follow what the revised standards are that will be adopted by NASBA, and will continue to approve sponsors that may or may not be utilizing new delivery methods.

F. Mobility

Committee Chairperson Taketa had no report.

G. Uniform CPA Examination

- 1) NASBA Report *Candidate Concerns 16Q2* for the April 1-June 10, 2016 Testing Window

Committee Chairperson Punua provided a brief summary of the NASBA Report *Candidate Concerns 16Q2* for the April 1 – June 10, 2016 testing window. He noted that the report which combined all jurisdictions reflected that there appears to be a continuous rise in concerns with candidate error, attendance confirmation, and scheduling. Executive Officer Kai noted that the report did not break down each jurisdiction's concern(s).

- 2) NASBA Data Retention Policy for Ineligible Candidates

Discussion ensued on the NASBA Data retention policy for ineligible candidates; any application that is not complete within one year of the receipt date will expire and be destroyed. Executive Officer Kai noted that PVL has a retention policy of two years before an application is deemed abandoned and destroyed. Board members expressed no concerns.

Open Forum: None.

Next Board Meeting: Friday, October 7, 2016
8:30 a.m.
King Kalakaua Conference Room

Board of Public Accountancy
Minutes of the September 2, 2016 Meeting
Page 14

King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: None.

Adjournment: There being no further discussion, the meeting
adjourned at 11:08 a.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

Reviewed and Approved by:

/s/ Laureen M. Kai

Laureen M. Kai, Executive Officer

LMK:ln

09/28/16

[X] Minutes approved as is.

[] Minutes approved with changes. See Minutes of _____.