

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

MINUTES

Date: Friday, March 24, 2017

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
Carleton L. Williams, CPA, Member
Daniel K. Jacob, Deputy Attorney General ("DAG")
Laureen M. Kai, Executive Officer
Lori Nishimura, Secretary

Excused: Rodney J. Tam, DAG

Guests: John Hassler, Supervising Attorney, Regulated
Industries Complaints Office ("RICO")
Daria Loy-Goto, Complaints and Enforcement Officer,
RICO

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.

Approval of
Minutes of the
February 24, 2017
Board Meeting:

Chairperson Taketa requested for the following amendments to the minutes of the February 24, 2017 Board meeting:

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Chairperson's Report

A. National and Industry Update

- (1) Notification from BKD, LLP (FPTP 531) of Disciplinary Action Imposed by the California Board of Accountancy

* * *

After discussion, it was moved by Mr. Roberts, seconded by Vice-Chairperson Komo, and unanimously carried to refer this matter to RICO, and to instruct the Executive Officer to notify BKD, LLP (per its request should this occur) that the matter has been referred to RICO.

Mr. Lee arrived to the meeting at 8:32 a.m.

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Standing Committee Reports

D. Continuing Professional Education ("CPE")

- (1) NASBA Exposure Draft of Model Rules for CPE

* * *

Mr. Williams commented that there are two (2) sides to looking at schools who cater to exam versus the program itself. A brief discussion ensued [suggestion] to form a standing committee on education [was raised] to focus on accreditation. After discussion, Chairperson Taketa announced the newly formed standing committee and chairperson as follows:

- STANDING COMMITTEE ON EDUCATION
Chairperson: Mr. Williams

After discussion, it was moved by Mr. Punua, seconded by Vice-Chairperson Komo, and unanimously carried to approve the minutes of the February 24, 2017 Board meeting, with the aforementioned amendments (with new material underscored and repealed material bracketed and stricken through).

Executive Session: At 8:34 a.m., it was moved by Mr. Aratani, seconded by Mr. Lau, 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 9:08 a.m., it was moved by Mr. Lau, seconded by Mr. Lee, and unanimously carried for the Board to move out of Executive Session, and to immediately recess the meeting.

At 9:08 a.m., the Board recessed 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 Certified Public Accountant's License of Kar Shing George Lam;
ACC 2016-7-L

Chairperson Taketa provided a summary of the Settlement Agreement Prior to Filing of Petition for Disciplinary Action and Board's Final Order regarding Kar Shing George Lam. He stated

that RICO alleges that the Respondent, who holds a CPA license and an Individual Permit to Practice:

- Operated as a sole proprietor, engaged in acts constituting “the practice of public accountancy” between 2011 and 2016, without a Firm Permit to Practice.

DAG Jacob also stated that the Respondent explained that he was unaware that a sole proprietor like himself is considered a “firm” that is required to have a Firm Permit to Practice.

To settle this matter, the Respondent agrees to the following terms of the Settlement Agreement:

- Administrative fine in the amount of two thousand five hundred dollars (\$2,500.00); and
- Failure to fully and timely comply with terms of the First Amended Settlement Agreement shall result in the automatic revocation of Respondent’s license.

After discussion, it was moved by Mr. Aratani, seconded by Vice-Chairperson Komo, and unanimously carried to approve the Settlement Agreement relating to the Matter of the Certified Public Accountant’s License of Kar Shing George Lam; ACC 2016-7-L.

At 9:11 a.m., the Board reconvened its regularly scheduled meeting.

Mr. Lee stepped out of the meeting at 9:13 a.m.

Applications for
CPA Certification:

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

- 1) AMSDELL, Kelly A.
- 2) CHUN, Nicole Y.
- 3) DELUNA, Yuko I.
- 4) DOUGLAS, Nicole K.
- 5) GORSKY, Jeffrey J.
- 6) HIRONAKA, Elyse S.
- 7) LERIAS, John
- 8) ROJO, Grace Rosary O.

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

- 1) YU, Kelly K. Y.

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) COMBS, Lena G.
- 2) GOSSELIN, David E.
- 3) HARVEY, Marshall M.
- 4) JUZA, Ryan M.
- 5) KARIAPPER, Shehan R.
- 6) KURODA, Caitlin Y.
- 7) LEE, Mei G.
- 8) PRICE, Kimberly D.
- 9) YOSHIMURA, Brandon T.

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

1) FRAUSTO, Maricela

Ratification of Issued
Firm 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 issued Firm Permits to Practice:

- 1) SEUNG HOON OH CPA INC
- 2) ELINA HARTKOPF CPA LLC
- 3) DBBMCKENNON
- 4) ELLIOTT DAVIS DECOSIMO LLC
- 5) WENDELL KALEI-ANUENUE LEE
- 6) VICTORIA M MAKIMOTO

Mr. Lee reentered the meeting at 9:15 a.m.

Presentation by
The Regulated
Industries Complaints
Office ("RICO"):

Daria Loy-Goto, Complaints and Enforcement Officer
John Hassler, Supervising Attorney

Ms. Loy-Goto and Mr. Hassler were welcomed by the Board.

Ms. Loy-Goto provided a brief overview of RICO and summarized some of its new initiatives, such as the early case resolution program and its team approach for the preliminary review of cases received by RICO. This program has been formally integrated with RICO's case management database, which should enhance the early resolution of inquiries and complaints received by RICO. She mentioned that there are 7,000 inquiries per year, many of which should not be referred to RICO, such as billing complaints. The early case resolution program will identify these inquiries or complaints and direct them to alternate courses of action. Of the remainder of inquiries, 2,000 to 3,000 are resolved by the Intake Unit before the complaint is even filed in the database.

Ms. Loy-Goto commented that RICO is seeking to involve its Advisory Committee members ("ACM")

during this initial assessment period to assist RICO in providing professional opinions or serving as expert witnesses. This involvement at the front end of an investigation will serve to streamline the procedures required for resolution.

Ms. Loy-Goto commented that she had been asked by Chairperson Taketa to provide input to Questions 1 and 2 of the NASBA Regional Directors' Focus Questions, which read as follows:

1. How would your Board acquire the expertise necessary to investigate an audit failure involving data analytics?
2. What type of training does your Board require investigators to undergo?

In response to the first question, Ms. Loy-Goto stated that as an umbrella agency, RICO is tasked with handling a wide variety of cases and relies upon the assistance of Board-appointed ACMs to serve as experts in their specific profession or vocation. As mentioned earlier, ACMs may be consulted at the start of a case or at any point during an investigation and their involvement will vary depending on the type of case being investigated. She provided an example of this type of participation specifically relating to the public accounting profession, by describing that as part of an investigation to determine if an audit were deficient or fraudulent, an ACM may be asked to review records in office or on site or to observe the interviews. In addition to the time spent reviewing records or evidence, an ACM may be asked to testify in a formal proceeding. Besides ACMs, RICO also works closely with criminal law enforcement agencies to review cases. The assistance provided from a county, state, or federal enforcement agency may be in the form of forensic accounting, and document analysis for authenticity or forgery. In an investigation involving data analytics, RICO would rely on a licensed ACM for review and expertise.

In response to the second question, Ms. Loy-Goto stated that currently, there are no investigators specifically assigned to the area of public accountancy. She further explained that due to budget restrictions, most of the training for RICO intake and field investigators occurs in-house. RICO conducts semiannual training in different subject areas, including accountancy, and relies heavily on board or commission members to assist with training. Additionally, RICO field investigators take advantage of training offered by criminal law enforcement agencies especially in the area of financial crimes. RICO also sponsors training that is provided by the National White Collar Crime Center, which is comprised of state, local, federal, and tribal law enforcement, prosecutorial, and regulatory agencies. RICO investigators may also attend training that is offered by a national licensing organization.

Ms. Loy-Goto stated that this information would be provided to the Executive Officer to assist in formulating the Board's responses to the aforementioned focus questions.

Mr. Lau inquired about cases that have come before the Board from RICO which appear to be similar in the type and degree of alleged violations, but appear to have widely varying terms and conditions in the respective settlement agreements. He mentioned that these cases are the result of referrals to RICO of violations found during the Board's audits of renewal requirements, and asked about RICO's thought process in determining the type and degree of sanction in each of these cases. Remarking that "settling a case is an art form" that involves many factors, Ms. Loy-Goto mentioned that RICO is exploring the benefits of the use of an investigative questionnaire to assist the investigator in developing a more comprehensive analysis of the basis and facts of a complaint or referral.

In answer to a question from Chairperson Taketa, Ms. Loy-Goto stated that ACMs are not involved in the Settlement Agreement process, as they may be required to testify as the case develops.

Mr. Roberts commented that at a recent NASBA Enforcement Resources Committee meeting in which he participated, it was suggested that boards monitor disciplinary actions, including investigations and processing, and asked what type of information is available to help the Board keep track of the timeliness of each investigation and to be aware of the processing stage the case is at any point in time. Ms. Loy-Goto stated that information on pending cases is not available; however, the public can get information about whether there is a complaint by calling the RICO office. She commented that the implementation of the new Complaints Management System will assist by providing data on staff and resource allocation, and that a portal that would allow the Executive Officer to obtain more information about pending cases is also being developed.

Board members asked Ms. Loy-Goto whether a board can decide to not renew a license renewal based on the licensee not meeting renewal requirements, thereby alleviating the need to refer the matter to RICO. Ms. Loy-Goto replied that this matter is the subject of an ongoing discussion with the Professional and Vocational Licensing Division, and the Department of the Attorney General.

Discussion ensued on the issue of "double jeopardy", where the disciplinary action against a licensee in another state is the basis for a Hawaii disciplinary action. Ms. Loy-Goto commented that most boards do have reciprocal disciplinary action provisions that result in "a domino effect" against a licensee.

Ms. Loy-Goto and Mr. Hassler were thanked for attending today's meeting.

Chairperson's
Report:

A. National and Industry Update

- 1) National Association of State Boards of Accountancy ("NASBA") Regional Directors' Focus Questions (Due date: April 10, 2017)

Chairperson Taketa stated that the following focus questions had been provided to Board members to review prior to the meeting. The Board discussed and reached consensus on the following responses:

1. How would your Board acquire the expertise necessary to investigate an audit failure involving data analytics?

Response: Executive Officer Kai would obtain information from RICO to formulate the Board's response to this question.

2. What type of training does your Board require its investigators to undergo?

Response: Executive Officer Kai would obtain information from RICO to formulate the Board's response to this question.

3. In summary, what are your Board's thoughts on the revised AICPA paper on administering the Peer Review Program?

Response: The Board continues to review and work through the AICPA paper.

4. What is happening in your jurisdiction that is important for other State Boards and NASBA to know about?

Response: The Board continues to work at implementing mandatory peer review.

5. Can NASBA be of any assistance to your Board at this time?

Response: The Hawaii Board very much appreciates NASBA's continued assistance with research initiatives and with financial support for scholarships to attend meetings and conferences.

6. NASBA's Board of Directors would appreciate as much input on the above questions as possible. How were the responses shown above compiled? Please check all that apply.

Response: Input from all Board Members and the Executive Officer.

- 2) NASBA Western Regional Meeting
June 6-8, 2017

Chairperson Taketa informed the Board that the NASBA Western Regional Meeting will take place on June 6 to 8, 2017 in Idaho. He encouraged new Board members to attend as the meeting agenda includes the New Accountancy Board Member Orientation Program. Executive Officer Kai noted that Messrs. Aratani and Miyashiro would qualify as new members for that orientation program.

Executive Officer's
Report:

A. Inquiry relating to Hawaii Administrative Rules
section 16-71-61(c), relating to the Payment
and Acceptance of Commissions by a CPA

Executive Officer Kai stated the Board received an inquiry on whether a CPA is allowed to give his/her current client an "appreciation discount" on fees for accounting services provided when his/her current client refers a new client to the CPA.

Executive Session:

At 10:03 a.m., it was moved by Mr. Roberts, seconded by Mr. Aratani, and unanimously carried to enter into Executive Session 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 10:12 a.m., it was moved by Mr. Aratani, seconded by Mr. Roberts, and unanimously carried for the Board to move out of Executive Session.

After discussion, it was moved by Mr. Roberts, seconded by Mr. Williams, and unanimously carried to respond to the inquiry as follows:

"Based solely on the information provided in the inquiry, it appears that the situation that was presented would be considered to be a 'commission' as described in Hawaii Administrative Rules ('HAR') section 16-71-61(c), which reads in pertinent part:

'A licensee shall not pay a commission to obtain a client, nor accept a commission for a referral to a client of products or services of others.'

Lastly, in accordance with HAR section 16-201-90, the above interpretation is for informational and explanatory purposes only. It is not an official opinion or decision, and therefore is not to be viewed as binding on the Board of Public Accountancy or the Department of Commerce and Consumer Affairs."

B. Notice from NASBA International Evaluation Services ("NIES") of Fraudulent Document Submission

Executive Officer Kai stated that the Board received notice from NIES of fraudulent document submittals in an application for CPA licensure to the New Hampshire Board of Accountancy. They were submitted to verify a Master of Business Administration from Preston University and a Doctor of Criminal Justice from Nixon University. Both schools are known diploma mills and the degrees were deemed to be fraudulent and of no academic value. CPA Examination Services has been notified in case this applicant obtains an international evaluation from another evaluator and tries to apply to another state/jurisdiction for a CPA license.

Mr. Williams stepped out of the meeting at 10:15 a.m.

Standing Committee Reports:

A. Peer Review

- 1) Peer Review Oversight Committee ("PROC") Meeting on February 7, 2017

Committee Chairperson Lau reiterated that he attended the PROC meeting on February 7, 2017, and reported that the PROC is working on its Annual Report and is reviewing the AICPA Discussion Paper

on the Proposed Evolution of Peer Review
Administration – Revised January 2017.

Mr. Williams reentered the meeting at 10:18 a.m.

2) American Institute of Certified Public
Accountants ("AICPA") Peer Review
Communication

Committee Chairperson Lau provided the draft of a document that the AICPA plans to distribute to CPA firms, entitled "Peer Review Compliance Requirements for Firms that Hold a Hawaii Permit and Perform Hawaii Attest Engagements". He stated that this document consolidates all peer review requirements in a single document, and includes edits by the AICPA and the Investigative Committee on Peer Review. There is no action required by the Board at this time, as this draft will be submitted to the AICPA for additional review.

3) AICPA Discussion Paper on the Proposed
Evolution of Peer Review Administration –
Revised January 2017

Committee Chairperson Lau stated that he had communicated with the Hawaii Society of Certified Public Accountants ("HSCPA"), an approved administering entity for the Board's peer review program. He commented that while the HSCPA acknowledges the challenges involved in complying with the requirements outlined in the discussion paper, its overall sentiment is that it would like to continue to be an administering entity. He assured the Board that he would continue to follow up

with the HSCPA and report any new developments to the Board.

Committee Chairperson Lau further stated that the issues of increased costs of peer reviews and the risk of familiarity continue to be discussed.

4) Status Report on Peer Review Compliance Reporting Form Submittals

Committee Chairperson Lau provided the following statistics relating to the Peer Review Compliance Reporting Form submittals:

To date 60 reporting forms have been received with the following reported peer review ratings:

- 50 pass
- 6 pass with deficiency(ies)
- 4 fail

Mr. Lau commented that the submittals are an ongoing matter that the Board should continue to monitor.

B. Legislation and Rules

1) Status of House Bill No. 337, Relating to Public Accountancy

Committee Chairperson Aratani provided the following status report on House Bill No. 337:

- The House Committee on Intrastate Commerce ("IAC") passed the bill unamended;

- The House Committee on Consumer Protection & Commerce ("CPC") passed the bill unamended; and
- The bill has crossed over to the Senate and was referred to the Senate Committee on Commerce, Consumer Protection, and Health ("CPH").

2) Status of Senate Bill No. 609, Relating to Attestation Engagements

Committee Chairperson Aratani provided the following status report on Senate Bill No. 609:

- CPH passed the bill unamended;
- The bill has crossed over to the House and was referred to IAC and CPC;
- IAC passed the bill as House Draft 1, changing the effective date to July 1, 2090 – "to promote further discussion"; and
- CPC hearing has not yet been scheduled.

Discussion ensued on Senate Bill No. 609, House Draft 1 – Committee Chairperson Aratani commented that changing the effective date to a date far in the future is usually a "strategical move" that is generally made to the first bill that crosses over to the non-originating house. Mr. Aratani commented that he will work to ensure that the bills are heard, and that the initial effective date of July 1, 2017 be restored, noting that April 7, 2017 is the second decking for bills.

Mr. Lee left the meeting at 10:27 a.m.

C. Uniform CPA Examination

- 1) Extension of Rolling Eighteen-Month Period under HAR section 16-71-19(i)

Committee Chairperson Punua reiterated that over the course of the last two (2) meetings, he had informed the Board that the score release timeline for exams taken during the 2nd Quarter of 2017 (April-May testing window) may take approximately ten (10) weeks after the close of the testing window, in order to provide sufficient time for the AICPA and NASBA to statistically validate candidate performance on the new version of the Uniform CPA Examination which will be launched on April 1, 2017. At the last Board meeting, he had also reported that an email inquiry was received from an examinee who may be affected by this delay in score release. This candidate and others in similar circumstances may not know if they need to retake an exam section due to the delay and would have credit for one or more sections of the examination expire.

The Board had instructed Executive Officer Kai to contact the Hawaii Coordinator of CPA Examination Services (the liaison between the Board and NASBA) to suggest that NASBA allow candidates to schedule to test in the 3rd Quarter and then refunding fees should the examination not be required. NASBA declined the Board's suggestion. The Board had also asked DAG Tam if the Board's statutes or administrative rules would provide for an extension of a section credit. Committee Chairperson

Punua suggested the Board should request that NASBA provide a report listing the Hawaii candidates who may be affected by this score release delay.

After discussion, it was moved by Vice-Chairperson Komo, seconded by Mr. Aratani, and unanimously carried to defer decision-making on this matter until it receives and reviews DAG Tam's response to the Board's inquiry.

2) Information from NASBA relating to Uniform CPA Examination Candidate Fees

Committee Chairperson Punua informed the Board of an increase in candidate fees for the Uniform CPA Examination for 2017, 2018, and 2019. Prometric fees and AICPA fees will increase during this period; however, the NASBA fee per examination section will remain the same through 2019.

Mr. Punua circulated the notification received from NASBA to Board members, and summarized the reasons for the increases of the Prometric hourly rate and the AICPA fee. The Prometric increase is to enhance the security of the exam and as well as to pay for the cost for Microsoft EXCEL program licenses for each examination testing workstation.

Mr. Aratani stepped out of the meeting at 10:33 a.m.

Committee Chairperson Punua further reported that the increase in AICPA fees will begin in January 2018 and continue throughout 2019. The AICPA anticipates additional costs related to testing

accommodation changes as well as item research and development in the future.

D. Mobility

- 1) Uniform Accountancy Act ("UAA")
Committee Recommendations for UAA
Revisions

Committee Chairperson Williams reported that recommendations for the 7th edition of the UAA are due June 1, 2017. He stated that most changes are "housekeeping changes" and that he will continue his review and provide his report to the Board.

Open Forum: None.

Next Board Meeting: Friday, April 28, 2017
8:30 a.m.
King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: Chairperson Taketa reminded the Board that NASBA's Director-at-Large, Edwin "Ed" Jolicoeur is scheduled to attend the Board's next meeting.

Adjournment: There being no further discussion, the meeting adjourned at 10:38 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

04/21/17

☐ Minutes approved as is.

☒ Minutes approved with changes. See Minutes of April 28, 2017.