

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

MINUTES

Date: Friday, June 30, 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
Mana Moriarty, Deputy Attorney General ("DAG")
Lauren M. Kai, Executive Officer
Lori Nishimura, Secretary

Excused: Rodney J. Tam, Deputy Attorney General ("DAG")

Guest: Marilyn M. Niwao, JD, CPA, Hawaii Association of
Public Accountants ("HAPA")

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
May 26, 2017
Board Meeting: After discussion, it was moved by Mr. Lau, seconded
by Mr. Punua, and unanimously carried to approve
the minutes of the May 26, 2017 Board meeting as
circulated.

Executive Session: At 8:32 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 8:37 a.m., it was moved by Mr. Aratani, seconded by Mr. Lau, and unanimously carried for the Board to move out of Executive Session. It was noted by Chairperson Taketa that Mr. Lee had arrived to the meeting during the Executive Session. It was further moved by Mr. Aratani, seconded by Mr. Lau, and unanimously carried 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 2017-4-L

At 9:15 a.m., the Board reconvened its regularly scheduled 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) KENNEDY, Carrie A.
- 2) MATSUKAWA, Joy M.
- 3) MEJIA, Nao
- 4) MEREDITH, Wendy L.
- 5) POBUK, Stephanie S.
- 6) STERLING, Jillian F.
- 7) WONG, Suzanne C.Y.S.

Ratification of
Individual CPA
Permits to Practice:

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

- 1) CULBERTSON, Lindsey M.
- 2) DEKORTE, Daniel J.
- 3) INZANO, Diane C.
- 4) LICHTER, Lawrence P.
- 5) RODRIGUEZ, Beatriz M.

After discussion (from which Chairperson Taketa recused himself), it was moved by Mr. Punua and seconded by Mr. Roberts to ratify the approval of the following individual CPA Permit to Practice. With Chairperson Taketa's abstention from the vote, the motion was carried unanimously.

- 1) ARBLES, Jon K.

After discussion (from which Mr. Lau recused himself), it was moved by Mr. Punua and seconded by Mr. Roberts to ratify the approval of the following individual CPA Permit to Practice. With Mr. Lau's abstention from the vote, the motion was carried unanimously.

- 1) MONTOYA-CHICO, Aracely

Ratification of Issued
Firm Permits to
Practice:

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

- 1) LICHTER YU AND ASSOCIATES INC

Ratification of Firm
Name Approval:

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

- 1) Sandra Silva, CPA

Chairperson's
Report:

A. National and Industry Update

- 1) Draft NASBA Response to AICPA Discussion Paper on the Proposed Evolution of the Peer Review Administration – Revised January 2017

Chairperson Taketa acknowledged receipt on June 1, 2017 of the National Association of State Boards of Accountancy's ("NASBA") draft response to the American Institute of CPAs ("AICPA") Discussion Paper on the Proposed Evolution of the Peer Review Administration. He commented that it was circulated to Board members for their information, and does not warrant any action by the Board.

- 2) Nevada State Board of Accountancy's Response to the NASBA/AICPA Proposal on the Amendment to Section 14 of the Uniform Accountancy Act ("UAA") relating to the Use of Titles

Chairperson Taketa stated that the Nevada State Board of Accountancy's response that opposed the amended language to section 14 of the UAA relating to the Use of Titles, was circulated to Board members. He noted that the response appeared to question the AICPA's advocacy of non-CPAs as it appears to conflict with its charge to represent the CPA profession.

Executive Officer's
Report:

A. NASBA Western Regional Meeting
June 6-8, 2017

Executive Officer Kai reported that she and Messrs. Aratani, Lau, and Miyashiro attended the NASBA Western Regional Meeting on June 6-8, 2017. A brief summary of the meeting was provided.

Messrs. Aratani and Miyashiro also attended the New Board Member Orientation prior to the Regional Meeting. Mr. Aratani commented that attending the orientation program was helpful in providing him with the overall picture of NASBA. Mr. Miyashiro commented that the orientation program was an eye-opening experience wherein he received information about NASBA and of how other state boards of accountancy operate.

Mr. Lee stepped out of the meeting at 9:23 a.m.

Mr. Williams inquired about the topic of the draft model rules for continuing professional education ("CPE"), which was on the Regional Meeting agenda. Discussion ensued on the various accrediting bodies and accrediting tiers, and the differences between accreditation of the entire university versus the accounting program or school. Chairperson Taketa remarked that NASBA has been raising concerns about accreditation in an effort to develop consistency in the robustness of the accreditation process that would involve members of the CPA profession as part of the accreditation team.

Mr. Lee stepped back into the meeting at 9:25 a.m.

Chairperson Taketa commented that he watched parts of the livestream of the Regional Meeting, stating that he believes universities and colleges have reasons for seeking certain types of accreditation, particularly those relating to acceptance by the Department of Education, that may be budget driven, whereas accounting programs and schools may have different agendas for accreditation. Executive Officer Kai commented that changes to the acceptance of certain types of accreditation for the fulfillment of the CPE requirement, as well as for qualifying for a CPA

license, may impact Hawaii CPAs and CPA license applicants, because the Board's statutes and rules mandate that acceptable institutions of higher learning have accreditation from either national or regional accrediting entities.

Mr. Lau then commented that there was extensive discussion of the AICPA Discussion Paper on the Proposed Evolution of Peer Review Administration at the Western Regional Meeting, which addressed questions from state boards. He stated that meeting participants were stunned at the news that the New York Society of CPAs will no longer serve as the administering entity of the AICPA Peer Review Program for the New York accountancy board. This news elicited more concerns should the Hawaii State Society of CPAs no longer serve this Board as an administering entity. Mr. Lau mentioned the inherent difficulties in serving as the administering entity responsible for administering the peer review program for more than one state board, as there would be separate and different laws and rules governing the states' peer review programs.

Mr. Lau also reported that the AICPA exposure draft relating to the use of titles was a critical topic, as many states believe that the use of other titles similar to the CPA designation would cause considerable confusion of the public. Executive Officer Kai agreed that the executive directors attending the meeting voiced many concerns about the issue, primarily in disagreement.

Executive Officer Kai then provided a brief summary of updates from other state boards discussed at the Pacific Regional breakout session:

1. Arizona

- The state governor issued an Executive Order to reduce over-regulation of the state's professions and vocations through consolidation of boards, programs, or regulatory authorities;
- There is proposed legislation to allow the accountancy board and other professional boards to accept experience and education obtained while in military service as substantially equivalent to the experience and education required for licensure; and
- The board has instituted fee reductions for those individuals who are 200% below the state's poverty level.

2. California

- Study continues that addresses the enforcement issues relating to the mobility statute that passed recently, with the results expected to be issued in 2018.

3. New York

- The New York state society of CPAs will no longer be the board's administering entity ("AE") for the peer review program; and
- There is a possibility that the Pennsylvania society may be retained as the new AE.

4. Guam

- The trend has been for smaller CPA firms to merge, resulting in only three (3) firms subject to Guam's peer review requirement; and
- Mobility legislation passed after two (2) years of effort.

5. Washington

- Disciplinary actions have decreased tremendously from 90 to 12 annually;
- Review of the action the board will take against firms with repeated peer review ratings of “fail” or “pass with deficiencies”;
- The Washington Attorney General’s Office has implemented an education course for all board members in response to the Supreme Court ruling on the case involving the North Carolina dental board; and
- NASBA assisted in developing such a class for board members in West Virginia, where participation is mandatory.

6. Oregon

- There are proposals being considered to merge the board of accountancy with the Board of Tax Practitioners.

Mr. Lau added that there was also discussion during the Pacific Regional breakout session about NOCLAR (Non-Compliance with Laws and Regulations) standards released by the International Ethics Standards Board for Accountants, which provides a framework to guide auditors and CPAs in what actions to take in the public interest when they become aware of a potential illegal act committed by a client or employer. These standards would apply to CPAs in public practice, as well as those in non-public settings such as business, government, education, and the not-for-profit sector.

Mr. Lau mentioned that there does not appear to be a way to overcome the issue of confidentiality inherent in relationships with clients and employers.

Discussion ensued on the Board’s participation in the AICPA’s Facilitated State Board Access (“FABA”), a process of its peer review program.

The FSBA was created by the AICPA as a nationally uniform system through which users can comply with state board or licensing body peer review information submission requirements, increase transparency and retain control over peer review results. Mr. Lau stated that the AICPA is requesting the name(s) of the contact person(s) who will be authorized to access this system. The Board discussed whether the contact should be someone from the Board or from the Peer Review Oversight Committee. The discussion was tabled until the Board's next meeting, when a decision will be made.

B. Report from NASBA International Services ("NIES")

Executive Officer Kai reported that the Board received notice from NIES of three (3) cases of potentially fraudulent document submittals to the NIES:

1. In an application to sit for the Uniform CPA examination to the Washington State Board, the applicant provided documentation of a baccalaureate degree and transcripts from Zhengzhou University in China, which were determined to be potentially fraudulent;
2. In an application for CPA licensure to the Washington State Board, the applicant provided documentation of valid baccalaureate and master's degrees from Hunan University in China; however, coursework from Shandong University of Finance and Economics in China was determined to be potentially fraudulent; and
3. In an application to sit for the Uniform CPA examination to the Vermont Board, the applicant provided documentation of a

master's degree and transcripts from University of Karachi in Pakistan and coursework from Preston University in Pakistan, which were all determined to be potentially fraudulent.

Executive Officer Kai also stated that the Board received an updated notice from NIES of a fraudulent document submittal that had been previously noticed to this Board:

1. In an application to sit for the Uniform CPA examination to the Ohio Board, the applicant provided documentation from Shanghai University of Finance and Economics in China, which had been determined to be potentially fraudulent at that time; however, NIES was subsequently provided with additional information from the verifying authority stating that the falsified report was released in error due to insufficient information from the school.

Old Business:

A. Discussion of Use of Term "Indefinite Probation" in Settlement Agreements Drafted by the Regulated Industries Complaints Office

DAG Moriarty commented that the Board had a question about the term "indefinite probation" used by the Regulated Industries Complaints Office ("RICO") in its settlement agreements. Executive Officer Kai stated that in response to her inquiry, RICO stated that the term means that the probation remains in force until the Board on its own decides to end the probation. RICO added that the licensee may submit a request to the Board, as the Board has the inherent authority to modify a final order by terminating a probationary term of suspension earlier than stated in the order.

Executive Officer Kai informed the Board that settlement agreements that sanction Respondents with probation without a specific end date or time period, usually include language that expressly states that a licensee may request in writing that the Board modify or terminate the probation. This places the responsibility for seeking modification or termination of the probation on the licensee. However, at times this language may be missing due to an oversight made in drafting the agreement. She stated that RICO had informed her that there are cases where the language was missing from the settlement agreement, but the licensee was allowed to request that the Board lift or change the probation or suspension. DAG Moriarty commented that the language should be included in settlement agreements to facilitate understanding of the limits of an "indefinite probation."

Standing Committee Reports:

A. Peer Review

- 1) Investigative Committee on Peer Review Report on AICPA Peer Review Communication to Firms that Hold Hawaii Permits with Home Offices in Another State - Update

Committee Chairperson Lau provided the following report from the Investigative Committee on Peer Review ("ICPR") relating to questions received by the AICPA on its recently issued peer review communication to firms that hold Hawaii permits with home offices in another state:

Question #1: Firm obtained Hawaii Firm Permit to Practice in 2015; was enrolled in the AICPA peer review program but did

not perform Hawaii attest work until May 2017. The firm's peer review was accepted for peer review year ending September 30, 2016, and the next peer review is scheduled for late 2019/early 2020. Hawaii law requires that the firm have a peer review performed within 18 months of the date that Hawaii attest work was first performed.

Answer: The firm will need to accelerate its peer review to fulfill the 18-month requirement.

Question #2: Since peer review is not defined to be an attest service, does the Board expect peer reviewing firms to submit anything with their December 31, 2017 renewal? Do they need to complete the Peer Review Compliance Reporting Form and submit their peer review results?

Answer: No, firms that only do peer reviews are not required to undergo peer review themselves. Upon renewal, the firm will need to indicate that they did no Hawaii attest work (in accordance with the definition of "attest work" in HRS §466-34(d)), and therefore are not subject to the peer review law. Completion and submittal of the Peer Review Compliance Reporting Form is not required.

Question #3: The peer review Compliance Form was returned by the Board to a firm for completion, requesting that the firm indicate all the states the firm was licensed in with applicable permit numbers and all the states the team captain was licensed in with

applicable license numbers. Is this requirement stated in the law?

Answer: The Peer Review Compliance Form will need to be revised to be consistent with the requirements in the statute. It will not include the request for license and permit numbers of firms and team captains. It will require the name of the team captain or peer reviewer or reviewers.

The Board acknowledged these findings and recommendations of the ICPR and will act upon them at the next Board meeting.

Ms. Niwao requested for clarification to Question #1. Chairperson Taketa commented that the question was addressing the timing requirement of a subsequent peer review of an out-of-State CPA firm that had begun performing Hawaii attest work after December 31, 2014. Mr. Williams inquired if there was some way to waive this requirement for such a CPA firm, as it appears that the intent of the statute is inconsistent with the implementation. DAG Moriarty commented that the Board cannot ignore the provisions of the peer review statute, and that in spite of any perceived or actual inconsistency with intent, the statute must be implemented as it is written. DAG Moriarty further commented that the statute has been in place for a number of years and that firms and licensees should be aware of what is statutorily required of them.

Mr. Roberts commented that he agrees with Mr. Williams' comments, and believes that the provision is anti-competitive beyond reason. He further commented that he "believes it may be fertile grounds for a lawsuit".

DAG Moriarty requested that Chairperson Taketa entertain a motion from the Board to enter into Executive Session for consultation relating to issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities.

Executive Session: At 10:04 a.m., it was moved by Mr. Williams, seconded by Mr. Lee, 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 10:31 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. It was noted that Mr. Lee left the meeting during the Executive Session.

There was no further discussion on this agenda item.

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

Committee Chairperson Lau reported that Board members had been earlier provided with a draft response that consolidated the Peer Review Oversight Committee's comments and as well as input from Board members, for review. He noted

that the Board's comments on this matter are due to the AICPA by today, June 30, 2017.

After discussion, it was moved by Committee Chairperson Lau, seconded by Mr. Punua, and unanimously carried to approve the draft response as the Board's response letter on the AICPA Discussion Paper on the Proposed Evolution of Peer Review Administration – Revised January 2017, and to submit it to the AICPA before close of business today.

B. Ethics

- 1) AICPA Notification relating to Member Disciplinary Actions, Enrolled Firm Drop, and Enrollment Termination, dated June 19, 2017

Committee Chairperson Komo provided a brief summary of the AICPA notification relating to member disciplinary actions, enrolled firm drop, and enrollment termination, dated June 19, 2017, that the Board received. He stated that, according to the AICPA notification, on June 7, 2017, details relating to disciplinary action against Hawaii CPA Gregory Ushijima (CPA 3432) were published. Mr. Komo further reported that, resulting from an investigation of alleged violations of the codes of professional conduct of the AICPA and the Hawaii Society of CPAs, the licensee (with the firm of G. Ushijima CPA LLC, which holds Hawaii Firm Permit to Practice FPTP-421) entered into a Settlement Agreement effective May 3, 2017. The alleged violation related to Mr. Ushijima's performance of

professional services on the audit of the financial statements of an employee benefit plan.

Executive Officer Kai commented that the Board had earlier been apprised of a referral to the AICPA by the U.S. Department of Labor wherein Mr. Ushijima had been found to be deficient in the performance of audit work and resulting determination of substandard work. Upon receipt of this referral, the Board had determined at its March 4, 2016 meeting to refer this matter to RICO.

C. Continuing Professional Education

1) NASBA Exposure Draft of Model Rules for Continuing Professional Education ("CPE")

The Board had been earlier provided with bullet points for discussion as well as a draft response by Committee Chairperson Roberts to the NASBA Exposure Draft of Model Rules for CPE.

Mr. Williams stated that he is again expressing his opinion that he believes that it is not appropriate for the Board to respond. He noted that there is no consensus or recognition from the Board, the public, or the profession that this is an issue, and that a response from a professional organization may be more appropriate.

Committee Chairperson Roberts proposed an amendment to his draft letter to strike the comments relating to Rule 6-5(a)(2) and Rule 6-5(b)(2).

Ms. Niwao stated that she had communicated with NASBA President and Chief Executive Officer Ken Bishop electronically about the provisions in the CPE model rules. She provided the following excerpts from their email correspondence:

Ms. Niwao inquired to Mr. Bishop:

“Could you advise whether there is specific criteria that would allow NSA’s affiliated state societies to be considered qualified CPE program sponsors similar to what the AICPA state societies enjoy now? Since the AICPA and HSCPA now have non-CPA members, they are not 100% CPA organizations, and I have a problem seeing why the AICPA state societies should automatically be considered qualifying program sponsors while NSA’s affiliated state societies are not.”

“I wanted to get back to handling the questions posed in my earlier email. In other words, is there a rational basis for classifying all of the AICPA state societies as being qualified CPE providers? If so, could that same rationale be used to apply to NSA affiliated state societies? I note there are a handful of both AICPA and NSA state affiliated societies that already register with NASBA.

Please note that the UAA consists of model rules which all states have not adopted, and I don’t believe this provides a rational basis for automatically considering the AICPA state societies as qualified CPE sponsors.”

Mr. Bishop’s response to Ms. Niwao:

“There really is no national [sic] basis for determining that all State Societies (note: they are not “AICPA state societies and are all independent NFPs) are qualified CPE providers. For example, as you indicated any state society that wants to be on the NASBA CPE Registry has to apply and be assessed before being accepted (as does the AICPA). Let me know if that answers your question(s). I am not aware of any effort to change the current status.”

Ms. Niwao commented that she researched whether HAPA should consider registering with the NASBA National Registry and found that the National Registry micro-manages its CPE providers, and that the cost of registration is high.

Citing Hawaii Administrative Rules section 16-71-39(1), Committee Chairperson Roberts commented that while this Board’s rules may clearly allow automatic approval by the Board of all non-profit nationally recognized accounting and auditing association as CPE sponsors, the model rules represent a national policy statement; thus, he recommends that the Board submit comments to the Exposure Draft.

Committee Chairperson Roberts then made the following motion: The CPE Committee moves that the draft letter be sent by Chairperson Taketa with the following changes:

1. Removal of the entire section on page 2, under the heading “Rules §6-5(a)(2) and §6-5(b)(2); and

2. Any non-substantive editing changes deemed appropriate by Chairperson Taketa in consultation with Executive Officer Lauren Kai.

Vice-Chairperson Komo seconded the motion. Discussion ensued with Vice-Chairperson Komo suggesting the deletion of the entire first paragraph on the second page.

A motion was made by Vice-Chairperson Komo, seconded by Mr. Williams, and unanimously carried to amend the first motion to include Committee Chairperson Roberts' and Vice-Chairperson Komo's suggestion.

Committee Chairperson Roberts withdrew his original motion.

It was then moved by Mr. Aratani, seconded by Committee Chairperson Roberts, and unanimously carried to: (1) Delete the entire section on page 2 under the heading "Rules §6-5(a)(2) and §6-5(b)(2); and (2) Delete the first paragraph on page 2; and to submit the final letter, signed by Chairperson Taketa on behalf of the Board, to NASBA by the deadline of close of business today.

Open Forum: None.

Next Board Meeting: Friday, July 28, 2017
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 11:08 a.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

Reviewed and Approved by:

/s/ Lauren M. Kai

Lauren M. Kai, Executive Officer

LMK:ln

07/10/17

[] Minutes approved as is.

[X] Minutes approved with changes. See Minutes of July 28, 2017.