

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

MINUTES

Date: Friday, September 29, 2017

Time: 8:30 a.m.

Place: King Kalakaua Conference Room  
King Kalakaua Building  
335 Merchant Street, 1<sup>st</sup> 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  
Krishna F. Jayaram, Deputy Attorney General ("DAG")  
Lauren M. Kai, Executive Officer  
Lori Nishimura, Secretary

Guests: Susan F. Coffey, Association of International Certified  
Professional Accountants ("AICPA")  
James Cox, AICPA

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  
August 25, 2017  
Board Meeting: After discussion, it was moved by Vice-Chairperson  
Komo, seconded by Mr. Punua, and unanimously  
carried to approve the minutes of the August 25,  
2017 Board meeting as circulated.

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

Executive Session: At 8:32 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 8:41 a.m., it was moved by Mr. Lau, seconded by Mr. Aratani, and unanimously carried for the Board to move out of Executive Session, and to immediately recess the meeting.

At 9:00 a.m., the Board reconvened its regularly scheduled meeting.

It was noted that Messrs. Lee and Williams arrived to the meeting during the Executive Session.

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

- 1) AQUIAT, Jon Eric C.
- 2) DEA, Justin R.
- 3) JAMISON, Steven K.
- 4) KISHI, Talon T.
- 5) LEWIS, Brian C.
- 6) MERRILL, James R.
- 7) PACOG, Romelene R.
- 8) TADAKI, Stephanie K.

After discussion (from which Mr. Lau recused himself), it was moved by Mr. Aratani and seconded by Mr. Punua to approve the following application for

certification. With Mr. Lau's abstention from the vote, the motion was carried unanimously:

- 1) LEE, Eun Jung J.

After discussion (from which Mr. Williams recused himself), it was moved by Mr. Aratani and seconded by Mr. Punua to approve the following application for certification. With Mr. Williams' abstention from the vote, the motion was carried unanimously:

- 1) OGIMI, Brandon H.

Ratification of  
Individual CPA  
Permits to Practice:

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

- 1) BUCHER, Wilfred E.
- 2) CLARY, Melissa A.
- 3) MEGURO, Sean
- 4) VALMAS, Felice

After discussion (from which Mr. Lau recused himself), it was moved by Mr. Roberts and seconded by Mr. Lee 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) KAIWI, Brad P. K.

Ratification of Issued  
Firm 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 issued Firm Permit to Practice:

- 1) WILFRED E BUCHER, CPA
- 2) CLARY & ASSOCIATES CPAS, LLC
- 3) T WONG CPA, LLC
- 4) FELICE VALMAS, CPA & COMPANY, LLC

Ratification of Firm  
Name Approval:

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

- 1) Felice Valmas, CPA & Company, LLC
- 2) Levin & Tabon L.L.P.
- 3) Tudor Wilson & Assoc. CPAs LLC

Susan S. Coffey,  
CPA, CGMA:

Executive Vice President – Public Practice  
Association of International Certified Professional  
Accountants

A. AICPA Evolving Peer Review Administration to  
Enhance Audit Quality

Committee Chairperson Lau recapped the Board's previous discussions as well as its position paper on the evolution of the administration of the AICPA's peer review program. He further stated that the AICPA had finalized its evolution plan and that there were many questions about the reasons for the changes, what problems or issues were being addressed by making these changes, and the ramifications of instituting these changes. He reminded the Board that it needs to be cognizant of how the Hawaii's peer review program is impacted, mainly by the changes to the standards and requirements of a peer review administering entity, as the Board is responsible for the administering entity's existence and applicability.

Mr. Lau then introduced Susan Coffey, AICPA Executive Vice President, who would provide a comprehensive summary of these changes that have been instituted by the AICPA.

Ms. Coffey thanked Mr. Lau for the invitation and opportunity to address the Board on this important matter. She then introduced her

associate, James Cox, who is the Senior Manager of State Regulation and Legislation for the AICPA.

Ms. Coffey began her presentation, entitled *Recent Changes to Peer Review and (Very Importantly) Why?*, with describing the project's two-pronged approach to its "the six-point plan" to enhance audit quality. She stated that the plan has short-term and long-term methodologies for the following six points:

1. Pre-licensure;
2. Standards and ethics;
3. CPA learning and support;
4. Peer review;
5. Practice monitoring of the future; and
6. Enforcement.

Ms. Coffey explained that the AICPA's initiatives to enhance the quality of the profession's audits are based on the number of referrals from the U.S. Department of Labor ("DOL") as well as a study done on single audits that reflected a failure rate of 15%. These factors prompted the AICPA to look at its peer review program with the intent of making it much more stringent, especially in the situations of firms with "non-pass" ratings, with requirements to remediate problems and accelerate the peer review scheduling for the first such "non-pass" rating. With a second "non-pass" rating, the AICPA would begin non-cooperation proceedings with subsequent expulsion from the program.

Chairperson Taketa remarked that Hawaii's peer review law is non-punitive, and inquired about the appeals process that a firm could access to reverse the non-cooperation process. Ms. Coffey stated that the firm would appeal to the administering entity, which would then refer

the appeal to the AICPA. If the firm is expelled from the AICPA peer review program, it is ultimately the Board's authority and responsibility to act on the firm's license or permit to practice. She clarified that this process would be for firms that are members of the AICPA; however, she added that firms that are non-members have a separate appeals process with the state society. She remarked that the process is no longer tied to AICPA membership as the barriers to appeal for non-members have been removed.

Mr. Roberts commented that as the resulting statistics on the effectiveness of peer review are not good, why not abandon the peer review model and move toward a national inspection model to accomplish better audit quality. Ms. Coffey suggested that a hybrid model may be effective; with the changes instituted in its peer review program, the AICPA anticipates much better results in the third and last year of the three-year peer review cycle.

Ms. Coffey continued her presentation with a brief summary of the ways the AICPA plans to enhance quality, within which changes to peer review administration would be initiated. These three goals are:

1. Improving detection and accountability through (a) strengthening firm quality; (b) improving peer review capabilities to detect and report; and (c) population completeness;
2. Enhanced oversight of (a) peer reviewer performance, and (b) peer review committee performance; and
3. Peer Review administration.

Ms. Coffey pointed out that although the final model of the evolution plan was issued in August 2017, the deadline for implementing changes by the end of 2017 is not binding. She stated that the administering entity needs to have a CPA on staff by May 2018; however, they may submit annual requests for a waiver of this requirement for up to three years. It was noted that for the Hawaii Society of Certified Public Accountants ("HSCPA") to meet this new requirement is difficult and costly, but still achievable. Ms. Coffey commented that the CPA on staff does not need to be an employee but can be retained on a consultant basis. She added that all administering entities must self-report on their status in November 2018, with full compliance to begin in January 2019.

Ms. Coffey explained that in order for the AICPA plan to be successful, effective state board oversight over program administration is critical. The AICPA will work closely with the National Association of State Boards of Accountancy ("NASBA") and state boards and will work toward increasing collaboration through the NASBA State Board Executive Director advisory subcommittee to enhance input on administrative matters.

Mr. Williams commented that if the role of the in-State administering entity is outsourced to an out-of-State entity in another state, there will definitely be problems with achieving effective state board oversight. The prohibitive costs of requiring effective Hawaii representation in an out-of-State administering entity is an issue that AICPA must work toward addressing.

Mr. Roberts asked what the AICPA expected to be the goal for non-conformity in 2018.

Ms. Coffey stated that the AICPA anticipates that the non-conformity rate will be going down and commented that the DOL, the U.S. Government Accountability Office, and the Public Company Accounting Oversight Board are all very positive about the initiatives being taken by the AICPA.

The Board thanked Ms. Coffey for her presentation and attendance at today's meeting.

Chairperson's  
Report:

A. National and Industry Update

- 1) NASBA/AICPA Proposal on the Amendment to Section 14 of the Uniform Accountancy Act ("UAA") relating to the Use of Titles

The Board was provided with a copy of the draft response which states the Board's position of opposition to the proposed amendment to Section 14 of the UAA relating to the Use of Titles. The response continues with presenting the Board's concerns with the proposed changes, as follows: (1) the amended language would be in direct conflict with the provisions of HRS section 466-10(a)(1), which regulates the use of the title "certified public accountant"; and (2) the recognition of a designation held by non-CPAs would set a precedent and encourage others with similar designations to request recognition; and (3) the general public may be confused between "Chartered Global Management Accountant" and "chartered accountant"; therefore, the requirement to include the term "management" is an ineffective safeguard.

After discussion, it was moved by Vice-Chairperson Komo, seconded by



Mr. Roberts, and unanimously carried to approve the draft response and submit the final letter to NASBA UAA Committee.

- 2) Mayer Hoffman McCann P.C. (FPTP 524) Stipulation and Consent Order with Kansas Board of Accountancy

Chairperson Taketa reported that Mayer Hoffman McCann P.C. had notified the Board in a letter dated August 31, 2017, that it had entered into a stipulation and consent order with the Kansas Board of Accountancy ("Kansas Board") on August 25, 2017. The stipulation and consent order were in response to the firm's report to the Kansas Board about the firm's May 15, 2015 settlement with the U.S. Securities and Exchange Commission ("SEC"). Chairperson Taketa further reported that this settlement with the SEC addressed the SEC's belief that the firm's independence had been impaired in its relationship with an audit client. The stipulation and consent included an assessment of an administrative fine of \$10,000.00 as well as the Board's costs in the proceeding, including attorney's fees and court reporter fees.

Chairperson Taketa proposed to refer the matter to the Regulated Industries Complaints Office ("RICO"). After discussion, it was moved by Mr. Aratani, seconded by Vice-Chairperson Komo, and unanimously carried to refer the matter relating to Mayer Hoffman McCann P.C. to RICO.

3) NASBA Survey "Questioning Regulation: Anti Regulation Legislation Impacting the Profession"

The Board was provided with a copy of the following survey questions prior to the meeting. Chairperson Taketa stated that while the survey was sent to NASBA Western Regional meeting attendees and the response deadline date was September 15, 2017, he wanted to apprise the Board that this topic of discussion may be discussed at the NASBA Annual Meeting in October.

1. If a state legislator posed these statements to you, how would you respond with respect to the accountancy profession?

Statement #1: Occupational licensing has grown rapidly over the past few decades. About two-thirds of this change stems from an increase in the number of professions that require a license.

Statement #2: Research shows that by imposing additional requirements on people seeking to enter licensed professions, licensing can reduce total employment in the licensed professions.

Statement #3: Estimates find that unlicensed workers earn 10 to 15 percent lower wages than licensed workers with similar levels of education, training, and experience.

Statement #4: The share of licensed workers varies widely state-by-state, ranging from a low of 12 percent in

some states to a high of 33 percent in others. Most of these state differences are due to state policies, not differences in occupation mix across states.

Statement #5: States also have very different requirements for obtaining a license. For example, Michigan requires three years of education and training to become a licensed security guard, while most other states require only 11 days or less. South Dakota, Iowa, and Nebraska require 16 months of education to become a licensed cosmetologist, while New York and Massachusetts require less than 8 months.

Statement #6: Licensed workers are sometimes unable to use distance or online education to fulfill continuing education requirements, as some states do not automatically accept accreditation from good schools based in other states.

Chairperson Taketa commented that there is a growing trend toward anti-regulation; however, those who advocate for less or no regulation need to realize that "occupation" that is product driven and "profession" that is knowledge based, are not synonymous. Vice-Chairperson Komo commented that Ken Bishop's article in the NASBA September 2017 *State Board Report* addressed this topic. No further discussion ensued, and there was no Board position or consensus made or sought.

Executive Officer's  
Report:

A. 2017 NASBA Diversity Survey

Executive Officer Kai informed the Board that the NASBA Diversity Committee encourages diversity and inclusion in NASBA leadership, NASBA committee volunteers, and state boards. She stated that the NASBA Diversity Committee asks all boards for information through a biennial survey that is designed to better understand the current situation among state boards. The committee assures all individual board members that this information, as well as names and other identifying information is and will remain anonymous. This year's survey asked the following relating to the Board's members:

- Gender;
- Ethnicity;
- Race;
- Member type;
- Primary practice area;
- Firm size;
- Original year of appointment to the Board;
- Year that current term ends;
- Eligibility for reappointment;
- Primary source of candidates to be considered for appointment; and
- Most influential source on appointment.

The Executive Officer thanked all the Board members for responding in a timely manner, and reported that the Hawaii Board's completed survey was submitted to the NASBA Diversity Committee.

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

Executive Officer Kai reported that the Board received notice from NIES of two (2) cases of

potentially fraudulent document submittals to the NIES:

1. In an application for CPA licensure to the Washington State Board, the applicant provided documentation of a bachelor degree from Shandong University of Finance and Economics in China which was found to be fraudulent, and further that there is no record of the applicant's attendance; and
2. In an application for CPA licensure to the Nevada Board, the applicant provided documentation of a Bachelor of Economics from the University of Economics Varna which was found to be fraudulent as the applicant was terminated from the university due to performance.

C. 2018 Board Meeting Schedule

Executive Officer Kai provided the following meeting dates for year 2018:

- January 26, 2018
- February 23, 2018
- March 23, 2018
- April 27, 2018
- May 25, 2018
- June 22, 2018
- July 27, 2018
- August 24, 2018
- September 28, 2018
- October 26, 2018
- November 23, 2018
- December 28, 2018

Ms. Kai stated that the proposed scheduled dates continued with the Board's decision to hold meetings on the fourth Friday of each month at 8:30 a.m. Board members and DAG Jayaram were asked to check their schedules

and inform the Executive Officer should they have scheduling conflicts.

Standing Committee Reports:

A. Uniform CPA Examination

1) Second Quarter 2017 (April-May) Testing Window

b. NASBA Jurisdiction 17Q2 Reports

Committee Chairperson Punua provided a brief summary of the NASBA Jurisdiction Reports for the 2017 2<sup>nd</sup> Quarter Testing Window, noting that a copy was circulated for Board members' review. He reported a decrease in the overall number of new candidates from 15,000 in the 1<sup>st</sup> quarter 2017 to 8,000 in this quarter, and a decrease in the number of candidates who passed the fourth and last section of the exam from 8,000 in the last quarter to 4,500 in this quarter. Committee Chairperson Punua reported that NASBA has attributed this marked decrease in both numbers to the launch of the new version of the examination in the 2<sup>nd</sup> Quarter.

Vice-Chairperson Komo left the meeting at 10:25 a.m.

Mr. Punua then reported on the following comparative examination statistics for Hawaii:

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
Total candidates	176	79

Total Sections	236	96
Pass Rate	38.1%	40.6%
Average Score	66.8	67.9
Jurisdiction Pass Rate Ranking (1 to 53)	48	48

a. Ratification of Hawaii Candidate Examination Scores

Committee Chairperson Punua presented the statistics for second quarter 2017 (April-May) testing window as follows:

EXAMINATION RESULTS (BY SCORES)

	Number of Scores	Percentage
Credit	39	40.6
No Credit	57	59.4
Lost Credit	0	0
Voided	0	0
TOTAL	96	100.00

TOTALS BY EXAM PARTS (BY CANDIDATES)

	AUD	BEC	FAR	REG	TOTAL
# Attended	30	22	20	24	96

# Passed	14	10	4	11	39
% Passed	46.7	45.5	20.0	45.8	40.6

SUCCESSFUL CANDIDATES SUMMARY

# of Passing First Time Candidates	3 (23.08%)
# of Passing Re-Exam Candidates	10 (76.92%)
# of International Candidates	0
# of Passing Candidates	13

After discussion, it was moved by Committee Chairperson Punua, seconded by Mr. Lee, and unanimously carried to ratify the examination scores from the April-May 2017 testing window.

Committee Chairperson Punua provided an update on the thirteen (13) Hawaii candidates who had been identified by NASBA as being potentially impacted adversely by the delay in the release of scores from examination sections taken in the 2<sup>nd</sup> Quarter 2017. He reiterated that the Board had determined that these candidates may submit a request to the Board for approval, on a case-by-case basis, to have one or more conditional credits that have expired during the 2<sup>nd</sup> Quarter 2017 testing window to be extended for one additional testing window through the 4<sup>th</sup> Quarter 2017. He also reminded the Board that it had delegated the approval of these requests for extensions to the Executive Officer.

Seven (7) candidates passed their last exam section taken in the 2<sup>nd</sup> Quarter 2017 and therefore, passed the examination in its entirety.



Of the remaining six (6) candidates who may be affected:

- Four (4) candidates requested and have been granted approval to extend one or more conditional credits for an additional testing window; and
- Two (2) candidates have not submitted a request.

2) Request for Extension of Conditional Credit from Hawaii Examination Candidate Lori Kim

Committee Chairperson Punua reported that the Board has received a request for extension of conditional credit from Hawaii examination candidate Lori Kim. He reiterated the criteria as determined by the Board at its April 28, 2017 meeting:

A Hawaii examination candidate who:

1. Has taken one or more exam sections during the 2<sup>nd</sup> Quarter 2017 testing window; and
2. Has conditional credit(s) for exam section(s) passed earlier that have expired in the 3<sup>rd</sup> Quarter 2017 testing window; and
3. Submits a written request to the Board explaining the circumstances and adverse impact.

Mr. Punua commented that while Ms. Kim may not fit the above criteria, he believes she did experience undue hardship. Citing HAR section 16-71-19(k), Executive Officer Kai reiterated that the Board may extend conditional credits that have expired for good and valid reasons; she emphasized that the rule provides for the Board to act on an expired conditional credit.

Mr. Miyashiro stated that Ms. Kim is an employee at his firm. Mr. Miyashiro was advised to not participate in the discussion.

The consensus of the Board was that the request submitted by Ms. Kim is premature, and instructed the Executive Officer to respond to the inquirer accordingly.

B. Peer Review

1) AICPA Evolving Peer Review Administration to Enhance Audit Quality

Committee Chairperson Lau commented that the Board was fortunate to have Ms. Coffey at today's meeting to update the Board on the AICPA's final version of its plan regarding the administration of its peer review program. He stated that the AICPA's goal in evolving its program administration is to ultimately enhance audit quality. He further commented that the HSCPA certainly realizes the challenges it faces in implementing the requirements of this new administration plan. Although the HSCPA wishes to remain an administering entity for Hawaii's peer review program, it continues to look at the new requirements, and understandably, there is no certainty that HSCPA will continue as the Board's administering entity.

2) Status Report from the Hawaii Society of Certified Public Accountants regarding its Peer Review Program

a. Number of Enrolled Firm that Have Not Completed Their Initial Peer Reviews

- b. Frequency of Meetings of the Report Acceptance Body ("RAB") During the 4<sup>th</sup> Quarter of 2017
- c. Problems or Concerns with the Peer Review Integrated Management Application ("PRIMA") System

Committee Chairperson Lau stated the status report from HSCPA regarding its Peer Review program is pending.

- 3) Status Report on the Peer Review Oversight Committee

Committee Chairperson Lau announced that the Peer Review Oversight Committee is scheduled to meet on October 18, 2017. He stated that he will be attending that meeting, and will provide a status report at the next scheduled Board meeting.

C. Education

- 1) Questionnaire regarding Online Accounting Program at the University of Maryland University College

Committee Chairperson Williams reiterated that the Board is in receipt of a questionnaire from the University of Maryland University College. Board members had earlier been provided with the questionnaire to review.

Mr. Williams then requested that the discussion on this matter be tabled, and asked that Board members be prepared to hold a full discussion on the issue at the Board's next meeting.

Open Forum:                      None.

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Next Board Meeting: Friday, October 27, 2017  
8:30 a.m.  
King Kalakaua Conference Room  
King Kalakaua Building  
335 Merchant Street, 1<sup>st</sup> Floor  
Honolulu, Hawaii 96813

Announcements: None.

Adjournment: There being no further discussion, the meeting adjourned at 10:58 a.m.

Taken and recorded by:

/s/ Lori Nishimura

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Lori Nishimura, Secretary

Reviewed and Approved by:

/s/ Laureen M. Kai

\_\_\_\_\_  
Laureen M. Kai, Executive Officer

LMK:ln

10/12/17

Minutes approved as is.

Minutes approved with changes. See Minutes of \_\_\_\_\_.