

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

MINUTES

Date: Friday, January 26, 2018

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
Krishna F. Jayaram, Deputy Attorney General ("DAG")
Laureen M. Kai, Executive Officer
Lori Nishimura, Secretary

Guest: John Hassler, Supervising Attorney, Regulated
Industries Complaints Office ("RICO")
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
December 22, 2017
Meeting: After discussion, it was moved Mr. Aratani, seconded
by Mr. Lau, and unanimously carried to approve the
minutes of the December 22, 2017 Board meeting
as circulated.

Executive Session: At 8:31 a.m., it was moved by Mr. Punua, 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.

EXECUTIVE SESSION

At 8:38 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 to discuss and deliberate on the following adjudicatory matter pursuant to HRS chapter 91.

Chapter 92, HRS
Adjudicatory Matters: A. In the Matter of the Certified Public Accountant's License of PATRICK H. OKI;
ACC 20152-L; PETITION FOR DISCIPLINARY ACTION AGAINST CERTIFIED PUBLIC ACCOUNTANT'S LICENSE; DEMAND FOR DISCLOSURE TO RESPONDENT

At 8:40 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) FLORES, Brenda V.
- 2) FLYTE, April A.
- 3) GUNDLACH, Frederick W.
- 4) HEROD, Keely
- 5) NAGASAKO, Bradley S.
- 6) ROOZEBOOM, Douglas T.
- 7) TAKABA, Chad M.

After discussion (from which Mr. Williams recused himself), it was moved by Vice-Chairperson Komo,

seconded by Mr. Aratani, and unanimously carried to approve the following application for certification:

- 1) MAEMORI, Chelsea E.

Ratification of
Individual CPA
Permits to Practice:

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

- 1) BILLICK, Christopher A.
- 2) CORREA, Sarah C.K.
- 3) HINO, Jordan Y.
- 4) ISHIMOTO, Jared T.
- 5) ORCHARD, Adam A.
- 6) POOLE, Bradley W.
- 7) POWELL, Scott T.
- 8) TIRPAK, Ty R.
- 9) ZHOU, Qi

After discussion (from which Mr. Lau recused himself), it was moved by Vice-Chairperson Komo, seconded by Mr. Aratani, and unanimously carried to ratify the approval of the following individual CPA Permits to Practice:

- 1) CHING, Candace C.M.A.
- 2) YAO, Shan-Ting

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 Permits to Practice:

- 1) AKIKO T YOUNG
- 2) CAROL K Y TSANG
- 3) DONGHYUN KIM
- 4) ISLER GROUP LLC
- 5) TERI S T NG
- 6) KRISTA M SONG
- 7) MELISSA K SUGA
- 8) HANS H. SCHROEDER

- 9) MATTHEW D R TAKAMINE
- 10) WAMURA ACCOUNTING LLC
- 11) JAY S ARAKAWA
- 12) SARA C FIEMAN
- 13) HOWARD W H LOO
- 14) PETER DEMICHELE
- 15) AMELIA B BOEHM
- 16) JIANYUN LIANG
- 17) CLIFFORD ISARA CPA LLC
- 18) ASIA PACIFIC ACCOUNTING GROUP LLC
- 19) JOYCE MATSUI
- 20) TIALEI A SCANLAN
- 21) SHARON S KOKUBUN
- 22) JEANNIE SIU
- 23) SUSAN T TAKAHASHI
- 24) JOYCELYN S L KAM
- 25) TARYN M L LAU
- 26) STEVEN Y M YEE
- 27) PKF LLP
- 28) DANIEL J DEKORTE
- 29) MIN YOUNG NOH

Executive Officer's
Report:

A. Inquiry from Yee & Takamatsu CPA Inc.
regarding Client Trust Accounts

Executive Officer Kai stated the Board received an inquiry from CPA firm, Yee & Takatsu CPA Inc., asking whether they can be the custodian of funds for a client, providing the following details: funds would be in a bank account held by their firm under their firm's name; a mainland property manager would send them a check; they would deposit the check into a client trust account for which they will have signature authority; the firm would then turn around and cut distribution checks to the owners of the property and to the IRS and Department of Taxation for estimated taxes on behalf of the owners; and ideally, the amount left at the end of the year would just be an amount to satisfy the minimum amount requirement.

After discussion, the consensus of the Board was that the Board's statutes and rules does not preclude a CPA firm from being the custodian of funds for a client.

B. Request from NASBA for Permission to Use Examination Candidate Information from the National Candidate Database to Conduct a Survey relating to the Influence of Community College Education on the CPA Candidate Pipeline

Executive Officer Kai stated the Board has received a request from NASBA, their third request, for permission to use the email addresses and testing status information of Hawaii examination candidates contained in the National Candidate Database ("NCD") in order to invite candidates to participate in an online survey.

Ms. Kai stated that the Special Deputy Attorney General ("SDAG") and the Board's previous DAG had differing opinions; SDAG had opined that these records are confidential. The Board had sided on the side of caution and declined previous requests. Mr. Punua commented that it may be helpful to include Hawaii in the survey. Mr. Lau commented that while it may be the candidates choice to participate in an online survey or not, the invitation to make that choice via their email (if the Board permits) is of concern to him.

Executive Session:

At 8:55 a.m., it was moved by Mr. Lau, seconded by Vice-Chairperson Komo, 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 9:00 a.m., it was moved by Mr. Lau, seconded by Mr. Aratani, and unanimously carried for the Board to move out of Executive Session.

It was moved by Mr. Roberts, seconded by Mr. Aratani, and unanimously carried to decline NASBA's request for permission to use examination candidate information from the National Candidate Database to conduct a survey relating to the influence of community college education on the CPA candidate pipeline.

Standing Committee
Reports:

A. Peer Review

- 1) Notification from the Hawaii Society of Certified Public Accountants of its Decision to Conclude its Role as Administering Entity of the AICPA and Hawaii Board of Public Accountancy's Peer Review Program

Committee Chairperson Lau informed the Board that the Hawaii Society of Certified Public Accountants ("HSCPA") notified the Board of their decision to "decouple the society from its administration of the AICPA and Hawaii's peer review program and transition administration to another administering entity".

- 2) Extensions to Complete Peer Review Pursuant to HRS Section 466-34

- a) Peer Review Extension Requests to the Board of Public Accountancy

- (1) Russell Yamane & Associates CPAs, Inc.

Committee Chairperson Lau stated that a request for an extension to complete the peer review process was

received by the Board from Russell Yamane & Associates CPAs, Inc.

After discussion, it was moved by Vice-Chairperson Komo, seconded by Mr. Williams, and unanimously carried to grant the requested extension to March 31, 2018, pursuant to HRS section 466-34(f), which allows an extension on a showing of hardship, including reasons of health, military service, or other good cause as determined by the Board, as follows: the described difficulties encountered by the firm in completing its peer review. The motion included notification to the firm that the approved extension does not in any way allow the firm to deviate from its established peer review schedule.

- (2) Shimotsu & Company, CPAs, LLC

Committee Chairperson Lau stated that a request for an extension of time to complete the peer review process was received by the Board from Shimotsu & Company, CPAs, LLC.

After discussion, it was moved by Committee Chairperson Lau, seconded by Mr. Williams, and unanimously carried to grant

the requested extension of time, to March 31, 2018, pursuant to HRS section 466-34(f), which allows an extension on a showing of hardship, including reasons of health, military service, or other good cause as determined by the Board, as follows: the firm's peer review report is still awaiting acceptance by the Review Acceptance Body of the administering entity. The motion included notification to the firm that the approved extension does not in any way allow the firm to deviate from its established peer review schedule.

The Board revisited the previous discussion concerning HSCPA's decision to conclude its role as Administering Entity of the AICPA and Hawaii Board of Public Accountancy's Peer Review Program.

Mr. Miyashiro commented HSCPA's decision "is going to make it hard".

Mr. Roberts acknowledged HSCPA for volunteering as an Administering Entity, adding that they had no choice and are grateful for everything they've done. He inquired if the Board has a game plan; how are they going to meet the benchmark. And further commenting that the Board needs time to think about the impact.

Committee Chairperson Lau stated he will follow up with HSCPA on their

transitioning of administration to another administering entity.

B. Legislation and Rules

- 1) House Bill No. 337, Relating to Public Accountancy; Peer Review Process

Committee Chairperson Aratani stated that this is a carryover housekeeping bill from last year. House Bill No. 337's companion bill, Senate Bill No. 309, had passed last year.

- 2) Senate Bill No. 2059, Relating to Public Accountancy; Certified Public Accountants; Mobility; Substantial Equivalency; State Board of Public Accountancy

- 3) House Bill No. 1870, Relating to Public Accountancy; Certified Public Accountants; Mobility; Substantial Equivalency; State Board of Public Accountancy

Companion bills, Senate Bill No. 2059 and House Bill No. 1870 were discussed together as follows:

Committee Chairperson Aratani read the description of the two companion bills that would "establish[es] procedures for an out-of-state individual licensed as a certified public accountant or certain accountancy firms to be granted practice privileges in this State by the board of public accountancy if the licensee or firm meets certain qualifications and requirements for substantial equivalency. Makes conforming amendments to the laws relating to public accountancy to reflect practice privileges. Take effect on 1/1/2019." Mr. Aratani stated the Board should make known its

position on these bills as they will be “moving”.

Chairperson Taketa commented that the Board three (3) years ago to a similar bill (that did not include the definition of attest, report, and the Uniform Accountancy Act), expressed concern with compliance with peer review especially for out-of-state firms, and whereas ownership of firms for out-of-state firms were simple majority and in state is full ownership.

Committee Chairperson Aratani questioned if out of state firms will be paying any fee.

Mr. Williams also questioned about firms who does not set foot in this State. And what about Hawaii CPAs practicing in other states; with the age of the internet and travel ease, there’s an increase in work in other states. He added that if you do attestation, you must be licensed in that state.

It was noted that three (3) states allow practice mobility: Georgia, Pennsylvania, and Massachusetts.

Ms. Niwao representing the Hawaii Association of Public Accountants (“HAPA”), and its Legislative Chair, stated HAPA opposes these bills that are “no notice, no fees”. She commented that large firms want practice privilege – “to get cheap labor”. She further commented this will lower the use of the UAA model, we’ll have a “hodge-podge of different CPAs, have foreign CPAs, who may not have passed the CPA exam. It’s misleading that all CPAs are the same.” Ms. Niwao stated 70% did not follow tax laws. With no

notice, out of state CPAs will not file taxes; thus, not a level playing field. This will eliminate the need of out of state CPAs from renewing their licenses; thus, the State will lose licensing fees – “our licensees will end up paying for these out of state firms”.

Ms. Niwao also commented that HRS section 436B-10(a)(6), which states that all applicants shall be a United States citizen, a United States national, or an alien authorized to work in the United States will not be applicable for non-licensees.

Vice-Chairperson Komo inquired if the following pages on Senate Bill No. 2059, may be true:

- Page 2, line 16-20: that the Board “will gain automatic jurisdiction over all certified public accountants practicing in Hawaii, thereby enabling the board to discipline out-of-state certified public accountants, regardless of whether they are licensed in Hawaii.”
- Page 5, line 12+: that the out-of-state CPA and firm “shall jointly and severally consent, as a condition of the exercise of this privilege....”

Vice-Chairperson Komo also inquired as noted on page 18, if the Board checks for majority ownership of CPA firms.

Discussion ensued on the UAA that was referenced in the bills. Ms. Niwao stated that some states have adopted “bits and pieces” of the UAA and Tennessee, who has adopted the entire UAA. Mr. Williams commented that UAA standards are not lower but are different.

Committee Chairperson Aratani inquired "what protections are in place" for out-of-state practitioners. Mr. Roberts commented that page 13, line 17 allows for foreign CPAs.

Chairperson Taketa commented how would the Board be able to verify compliance with firm ownership. He further commented that page 16, line 10+ may allow out-of-state firms to "escape Hawaii's peer review law".

Mr. Roberts – ability to perform functional mobility. Chairperson Taketa stated would require modification of the Rules.

Mr. Lau commented that page 14, line 18+ would be a catch all; Mr. Roberts commented that "it's old school" to use "CPA".

Mr. Roberts made a motion to "move that the Board of Public Accountancy oppose H.B. 1870 and S.B. 2059, with deferral of the content of any comments made in written and oral testimony to the Chairperson of the Board."

Mr. Lau stated that Board members needs to "look at everything with a Board hat" – public protection, stating that these bills will provide "greater access for service". He further questioned if we are providing the right balance of service that the public can choose from and protect them with the concerns. "Hawaii is the only state without individual mobility."

Chairperson Taketa stated the primary charge of the Board is consumer protection. He stated that the Regulated

Industries Complaints Office had concerns related to this matter that included pre-notification, and ineffectiveness of subpoenas. He also stated that individual and firm mobility are two (2) different things. He also stated it's "too ambitious in his opinion to get both passed".

Ms. Niwao commented that the cost for going for someone out of state is more because attorneys are not mobile.

Mr. Williams commented that he is uncomfortable with Mr. Robert's motion, in particular "with deferral of the content of any comments made in written and oral testimony to the Chairperson of the Board".

Mr. Punua stated that there are lots of concerns with mobility but what are the benefits. Ms. Niwao commented what happens to local students if outsourced to India; Mr. Williams conveyed that was not appropriate. Mr. Lee commented that the bottom line is lower cost.

Mr. Roberts reread his original motion and commented that he wants the Board's testimony to reflect the little details and that was the motivation to have the deferral verbiage. Mr. Williams stated he would prefer Mr. Robert's motion (as previously mentioned) to stop at S.B. 2059.

Mr. Roberts retracted his first motion and then made the following motion: "I move that the Board of Public Accountancy oppose H.B. 1870 and S.B. 2059. The motion was seconded by Committee Chairperson Aratani. Mr. Williams

requested a roll call; a roll call vote was called for and recorded as follows:

Chairperson Taketa: Aye;
Vice-Chairperson Komo: Aye;
Mr. Aratani: Aye;
Mr. Lau: Nay;
Mr. Lee: Nay;
Mr. Miyashiro: Aye;
Mr. Punua: Nay;
Mr. Roberts: Aye; and
Mr. Williams: Nay.

As the vote was five (5) ayes and four (4) nays, the motion carried.

Mr. Lee left the meeting at 10:35 a.m.

- 4) Proposed Amendments to Title 16, Chapter 71 of the Hawaii Administrative Rules
 - a) Section 16-71-21(c)(3) and (d) – change supervision by an individual who holds or has held a “permit” instead of “license”.
 - b) Section 16-71-24(b)(2) – remove “unless the firm attests that it does not and shall not have any gross income for engaging in the practice of public accounting in this State.”
 - c) Section 16-71-33(a) – add to the end of the last sentence “with a minimum of 20 hours earned within each twelve-month period.”
 - d) Section 16-71-64(e) – insert in the first sentence “managers of a manager managed limited liability company”.

The Board tabled discussion on the proposed amendments to Title 16, Chapter 71 of the Hawaii Administrative Rules.

C. Uniform CPA Examination

1) Fourth Quarter 2017 (October-November) Testing Window

a) Ratification of Hawaii Candidate Examination Scores

Committee Chairperson Punua presented the statistics for fourth quarter 2017 (October-November) testing window as follows:

EXAMINATION RESULTS (BY SCORES)

	Number of Scores	Percentage
Credit	61	37.2
No Credit	103	62.8
Lost Credit	0	0
Voided	0	0
TOTAL	164	100.00

TOTALS BY EXAM PARTS (BY CANDIDATES)

	AUD	BEC	FAR	REG	TOTAL
# Attended	50	30	43	41	164
# Passed	20	14	14	13	61
% Passed	40.0	46.7	32.6	31.7	37.2

SUCCESSFUL CANDIDATES SUMMARY

# of Passing First Time Candidates	4 (26.7%)
# of Passing Re-Exam Candidates	11 (73.3%)
# of International Candidates	0
# of Passing Candidates	15

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

b) Examination Candidate Performance Report

Committee Chairperson Punua provided the following highlights from the Examination Candidate Performance Report:

- Pass rate 47.2% for all jurisdictions
- Pass rate 37.2% for Hawaii (ranked last)

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

Committee Chairperson Punua reported that the Board has received a request for extension of the conditional credit from Hawaii Examination Candidate Lori Kim.

Mr. Punua reiterated that the Board has delegated to the Executive Officer the approval of requests from examination candidates for an extension of one or more conditional credits for one (1) testing

window through the 4th Quarter 2017, in accordance the provisions of HAR section 16-71-19(i), so long as the request meets the criteria as follows and (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 2nd Quarter 2017 testing window; and
2. Has conditional credit(s) for exam section(s) passed earlier that have expired in the 3rd Quarter 2017 testing window; and
3. Submits a written request to the Board explaining the circumstances and adverse impact,

will be considered by the Board on a case-by-case basis for an extension of one (1) or more conditional credits for one (1) testing window through the 4th Quarter 2017.

Executive Officer Kai confirmed that Ms. Kim was affected by the delay in the examination scores.

Discussion ensued on Ms. Kim's request for conditional credit for one testing window through March 2018, due to "a burden of being unable to test and potentially pass FAR in two testing windows versus one testing window."

After discussion (from which Mr. Miyashiro recused himself), it was moved by Mr. Roberts, seconded by Committee Chairperson Punua, and unanimously carried to deny Ms. Kim's request for extension of expired conditional credit.

3) Request from Hawaii Examination
Candidate Humberto Cana for Extension of
Expired Conditional Credit

Committee Chairperson Punua reported that the Board has received a request for extension of the expired conditional credit from Hawaii examination candidate Humberto Cana. Mr. Cana reminded the Board that an extension of an expired conditional credit for one testing window had been granted to him due to the delay of release in scores. He is requesting for a second extension due to being a caretaker for a family member having surgery which delayed his efforts to prepare for an exam.

After discussion, it was moved by Committee Chairperson Punua, seconded by Mr. Aratani, and unanimously carried to deny Mr. Cana's request for a second extension of expired conditional credit based on the following:

- Has not demonstrated a good and valid reason.

4) State Board Survey for Exam Year 2017
from CPA Examination Review Board

Discussion ensued on the annual *State Board Survey (Exam Year 2017)* the Board was presented with from CPA Examination Review Board to understand concerns related to the preparation, administration, scoring and reporting process of the Uniform CPA Examination.

Board members by consensus derived the following responses to the Yes/No survey:

"Do you have concerns about any of the following Exam-related topics? If your response is "Yes" to any of the items below, please include an explanation in the comments section. Also, if you would like for us to contact you regarding any Exam-related issues, please be sure to note in the comments as well."

Question: Security of the Exam?

Response: No.

Question: Quality/Accuracy of score reporting?

Response: No.

Question: Timeliness of score reporting?

Response: Yes. Delays in score reporting.

Question: The number/type of Exam sections tested?

Response: No.

Question: Content tested on the Exam?

Response: No.

Question: Difficulty of the Exam?

Response: Yes. Pass rate is declining; last on list.

Question: Skills tested on the Exam?

Response: No.

Question: Communication to candidates?

Response: No.

Question: The future value of the CPA brand?

Response: Yes. Concern with the AICPA name.

Question: The Practice Analysis (completed by the AICPA as the foundation for the next version of the CPA Examination)?

Response: No.

Question: Any issues raised by candidates?

Response: Yes. Delays in score reporting.

D. Ethics

1) Discussion of Non-Compliance with Laws and Regulations

Vice-Chairperson Komo commented that a CPA is responsible to report non-compliance with laws and regulations. Once comments come out, can discuss.

Open Forum: None.

Next Board Meeting: Friday, February 23, 2018
8:30 a.m.
King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: Chairperson Taketa provided a brief summary of the upcoming NASBA 23rd Annual Conference for Board of Accountancy Legal Counsel on March 13-15, 2018 at Destin, Florida. He further stated that DAG Jayaram may qualify for scholarship, should he be able to attend.

Executive Officer Kai thanked Board members and announced that she is retiring and that this will be her last meeting. Chairperson Taketa thanked Ms. Kai for her support to the Board and her wealth of knowledge. Mr. James Kobashigawa is the temporarily assigned Executive Officer who was scheduled to attend today's meeting but unfortunately could not make it.

Adjournment: There being no further discussion, the meeting adjourned at 11:02 a.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

Reviewed and Approved by:

/s/ James Kobashigawa

for Laureen M. Kai, Executive Officer

LMK:ln

02/21/18

[] Minutes approved as is.

[X] Minutes approved with changes. See Minutes of March 23, 2018.