

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

MINUTES

- Date: Friday, March 2, 2012
- Time: 8:30 a.m.
- Place: King Kalakaua Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813
- Present: Thomas T. Ueno, CPA, Chairperson
Kent K. Tsukamoto, CPA, Vice-Chairperson
Michael Ching, CPA, Member
Wendy Miki Glaus, CPA, Member
Craig K. Hirai, CPA, Member
Nelson K.M. Lau, CPA, Member
Steven R. Oberg, CPA, Member
Keith A. Regan, Member
Emerito C. Saniatan, Member
Rodney J. Tam, Deputy Attorney General
Laureen M. Kai, Executive Officer
Lori Nishimura, Secretary
- Guests: James Brackens, CPA, American Institute of Certified
Public Accountants ("AICPA")
Kathy Castillo, Hawaii Society of Certified Public
Accountants ("HSCPA")
Rodney Harano, CPA, CW Associates, CPAs
Linda MacKenzie, CPA, The Accountants Coalition
John W. Roberts, CPA, President, 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 Ueno.

Additions/Revisions
to Agenda:

None.

Executive
Session:

At 8:31 a.m., it was moved by Mr. Regan, seconded by Mr. Oberg, and unanimously carried for the Board 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 9:55 a.m., it was moved by Mr. Oberg, seconded by Vice-Chairperson Tsukamoto, and unanimously carried for the Board to move out of Executive Session.

The Board immediately recessed the meeting.

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

Applications for
CPA Certification:

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

1. COFFEY, Matthew S
2. FABOZZI, Nicholas J.
3. GREEN, Jaimie L.
4. NEUMAN, Sheri S.
5. TAOGOSHI, Royle L.

After discussion, it was moved by Vice-Chairperson Tsukamoto, seconded by Mr. Saniatan, and unanimously carried (Mr. Ching recused himself from the vote) to approve the following application for certification:

1. KATAYAMA, Nancy J.

After discussion, it was moved by Vice-Chairperson Tsukamoto, seconded by Mr. Saniatan, and unanimously carried (Mr. Lau recused himself from the vote) to approve the following applications for certification:

1. SCHARLACH, Robert A.
2. SHIGETOMI, Glenn N.

Ratification of
Individual CPA
Permits to Practice:

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

1. KITASHIRO, Kyla S.
2. KWAN, Dennis Y.C.

After discussion, it was moved by Mr. Ching, seconded by Mr. Regan, and unanimously carried (Vice-Chairperson Tsukamoto recused himself from the vote) to ratify approval of the following individual CPA Permit to Practice:

1. SAKAMOTO, Joshua K.K.

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

1. WASSINK, Christopher L.

Ratification of
Issued Firm Permits
to Practice:

After discussion, it was moved by Mr. Ching, seconded by Mr. Saniatan, and unanimously carried to ratify approval of the following Firm Permits to Practice ("FPTP"):

1. NATALIE J IWASA CPA INC
2. FRIEDLANDER CHERWON CAPPER LLP
3. CPA CONSULTING INC PS
4. PRICE AND ASSOCIATES CPAS LLP
5. YUDA LANG & ASSOCIATES LLP

Approval of CPA
Firm Name/
Ratification of Firm
Approval:

After discussion, it was moved by Vice-Chairperson Tsukamoto, seconded by Mr. Regan, and unanimously carried to approve the CPA firm name:

1. FHP

After discussion, it was moved by Vice-Chairperson Tsukamoto, seconded by Mr. Regan, and unanimously carried to ratify the approval of the following CPA firm names:

1. FUKUYA HASEGAWA PARTNERS, LLC
2. SAU-YIN YEUNG, CPA

Approval of
Minutes of the
February 3, 2012
Board Meeting:

After discussion, it was moved by Ms. Glaus, seconded by Mr. Hirai, and unanimously carried to approve the minutes of the February 3, 2012 Board meeting, as circulated.

Chairperson's Report: A. Investigative Committee on Two-Tier Licensing

Committee Chairperson Regan reported that he and Co-Chairperson Ching have confirmed the following committee members:

- (1) Donny Shimamoto (representing HSCPA);
- (2) Marilyn Niwao (representing HAPA); and
- (3) Gabriel Lee. He also announced that the committee's first meeting was scheduled for today, after the Board meeting. Mr. Regan also stated that he is planning to set up a Google group account to facilitate communications within the committee.

Mr. Ching commented that his research shows that only eight (8) out of fifty-one (51) states and jurisdictions currently have two-tier licensing, and further added that the trend is to change to a one-tier licensing as the majority of states and jurisdictions have done.

B. NASBA Regional Directors' Focus Questions

Chairperson Ueno stated the following focus questions received from the National Association of State Boards of Accountancy ("NASBA") had been provided to Board members to review prior to the meeting. The Board discussed and reached consensus on the following responses:

1. (a) Valuation as practiced by CPAs is largely an unregulated practice. If a complaint were to be filed in this practice area, what body of standards would your Board look to?
(b) Are such standards directly mentioned in the Board's rules?

Response: (a) (1) Statement on Standards for Valuation Services (SSVS) 1. Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset; (2) Statement on Standards for Consulting Services No. 1.
(b) No.

2. (a) What do your state's education rules specify as to acceptable university or college accrediting agencies? Many state education rules refer to accredited colleges or universities, and Article 5 of the UAA rules discusses accreditation in terms of levels. Some jurisdictions have indicated confusion about the meaning and level of accreditation along with differences in accrediting agencies.
(b) Does your Board need more information on this subject?

Response: (a) Hawaii Administrative rules section 16-71-17: Education "accredited by a regional or national accrediting agency or association recognized by the Secretary of Education under the requirements of 20 United States Code section 1099b, as amended".

(b) No.

3. The AICPA will be concluding its ethics codification soon, converging with the standards of the International Accounting Ethical Standards Board. In order to appropriately respond to the exposure draft of the new AICPA Ethics Codification it will be very helpful to understand the following issues: (a) Where is your state's code of professional conduct, in rules or in statute? (b) Does your state's code of professional conduct adopt rules as of a specific point in time? If yes, how often do you update your rules for changes in the AICPA Code of Professional Conduct? (c) Does your Board currently have plans for reviewing the new AICPA codification of the Code when it is exposed later this year? How will your state incorporate changes made in the AICPA codification of the Code into your rules/statute?

Response: (a) Hawaii Administrative Rules section 16-71-61 through 16-71-64.

(b) No.

(c) Yes; any administrative rules amendments to be proposed by the Board's Ethics Committee will be considered for adoption through the administrative rule-making process pursuant to Hawaii Revised Statutes chapter 91.

4. What disciplinary actions taken by the Internal Revenue Service would trigger self reporting and/or opening a case in your state?

Response: The Board receives no automatic or scheduled notification from the Internal Revenue Service regarding its disciplinary actions; therefore, any reports or complaints received from the public and other sources, as well as staff-initiated complaints, are

referred to the Regulated Industries Complaints Office, the enforcement agency of the Department of Commerce and Consumer Affairs.

5. What is happening in your jurisdiction that is important for other State Boards and NASBA to know? Are there any issues with which NASBA can help your Board?

Response: The Hawaii Board is researching the possibility of changing its licensing model from a two-tiered configuration to a one-tiered structure. To this end, the Board will be requesting assistance from NASBA for information and guidance.

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 Executive Officer.

It was decided that Ms. Glaus, as chairperson of the Board's Ethics Committee, assisted by Mr. Hirai, would examine the AICPA's ethics codification (as described in Question #3 above) to determine whether any revisions to the Board's administrative rules would be required to incorporate upcoming changes in the AICPA standards.

C. Other

Chairperson Ueno informed the Board that an article in the latest issue of the *NASBA State Board Report* had announced the launch of a new designation of "Chartered Global Management Accountant" ("CGMA") as a joint initiative from the AICPA and the Chartered

Institute of Management Accountants. He further stated that immediately after the announcement, the Institute of Management Accountants ("IMA"), which had been awarding its "Certified Management Accountant" designation for forty (40) years, pointed out that the program's three-year grandfathering period, during which U.S. CPAs who meet the basic experience criteria and pay a fee will receive the CGMA designation, is of concern. In addition, the six-month, free auto-enrollment phase of the new program, which allows CPAs who meet the education criteria to automatically become CGMAs and are then required to "opt out", has been found to be equally troubling to the IMA.

Standing Committee
Reports:

A. Legislation and Rules

1. Peer Review Administrative Rules
2. 26th Legislature, 2012
 - a. H.B. No. 2169, H.D. 2, Relating to Public Accountancy
 - b. S.B. No. 2421, S.D. 1, Relating to Public Accountancy

It was proposed to engage in a parallel discussion of the proposed administrative rules, House Bill No. 2169, H.D. 2, and Senate Bill No. 2421, S.D. 1. There was no opposition.

Chairperson Ueno provided the status of the draft peer review administrative rules that had been presented by the Investigative Committee on Peer Review to the Board at its last meeting on February 13, 2012. He stated that the Board would be reviewing this "public draft" and would be considering all the comments and recommendations received prior to this meeting as well as those resulting from this meeting's discussion.

A version of the draft rules that included the comments and recommendations received from the AICPA and others prior to this meeting was distributed to the Board and to all interested guests. The discussion would be based on this version. Chairperson Ueno explained that the Board would be asked to approve any of the revisions agreed to at this meeting, which would then be incorporated into a final draft that would be transmitted through the formal rule-making process.

The ensuing discussion resulted in the following points for consideration:

- Monitoring Responsibilities
 - Both bills place many of the peer review monitoring and repository functions with the Board, rather than with the administering entity or the sponsoring organization as is done in current peer reviews;
 - The Board is concerned that these functions would be extremely difficult to carry out, since the Board operates with limited funding and staffing resources;
 - Examples of these duties are: monitoring the sponsoring organizations; acting as the report acceptance body; accessing the Public Company Accounting Oversight Board ("PCAOB") inspection reports; and overseeing the peer reviewers in determining their qualifications and approving their peer review procedures;
 - The Board fully understands that its role is that of the overall administrator of the peer review program.

Mr. Oberg left the meeting at 11:04 a.m. in order to attend a meeting with State Representative Isaac Choy regarding the Board's peer review administrative rules.

- Section 466-A Definitions.
 - The draft rules should include additional definitions of terminology specific to a peer review program;
 - The Board added the following terms: “administering entity”; “agreed-upon procedures engagement”; “agreed-upon procedures engagement standards”; “AICPA”; “attest”; “Board”; “CPA”; “CPA firm”; “firm”; “Hawaii attest work”; “Hawaii peer review program” or “peer review program”; “non-cooperation”; “PCAOB”; “peer review”; “peer review oversight committee”; “peer review report”; “qualified reviewer”; “reviewed firm”; and “State”.
 - The definition of “rating” in this section of the bills would not be required because the Board would not need and therefore not require a CPA firm to divulge the rating it received in a peer review report;
 - The Board would require a CPA firm to represent on its renewal documents that it has undergone a peer review, a PCAOB inspection, and/or an agreed-upon procedures engagement (“AUP”), and this representation would be sufficient to provide evidence that the firm had complied with the peer review requirement for permit renewal.

Ms. Glaus left the meeting at 11:08 a.m.

- Section 466-C Standards for peer reviews and sponsoring organizations.
 - As requested by the AICPA, the phrase “and any applicable ethical requirements” should be stricken as it is unnecessary;
 - In addition, the phrase may mistakenly encompass all of the ethical standards set forth by the AICPA, not only those pertaining to peer reviews;

- The AICPA prefers the term “promulgated” rather than “adopted”, in reference to its standards.
- Section 466-D Enrollment and participation.
 - The requirements in sub-paragraphs (b) and (c)(1), (2), and (3), that mandate that the CPA firm must notify the Board of the onset of its performance of attest work, must abide by enrollment requirements, and must notify the Board of enrollment information, are part of the administering entity’s or sponsoring organization’s peer review plan and procedures, and should not be duties that are required of the Board.
- Section 466-E Peer review compliance reporting form.
 - Requiring the Board to act as the acceptance body and repository for all peer review reports, PCAOB inspection reports, and agreed-upon procedures or supplement reports is not preferable, as this responsibility is usually that of the administering entity or sponsoring organization;
 - The Board’s administrative rules describe the Hawaii peer review that includes a random audit of firm permits to practice to verify that accuracy of a CPA firm’s representation on its renewal documents that it has undergone a peer review and/or a PCAOB inspection and/or a supplement or AUP engagement in accordance with applicable standards and that included at least one engagement of Hawaii attest work;
 - This random audit process will be similar to the existing random audit of an individual CPA’s continuing professional

education for the renewal of the CPA's individual permit to practice.

- Section 466-F Hawaii supplement to the peer review; report.
 - The Board agrees that the description of the supplement to the peer review basically parallels the Board's AUP engagement that is in the Board's administrative rules;
 - There is a basic difference in that the Board's AUP engagement is required only if the peer review that is required of all firms did not specifically review at least one engagement of Hawaii attest work. The bills appear to require a CPA firm to do both, even if the peer review actually did include the review of an engagement of Hawaii attest work;
 - The bills specify what the supplement report must include; however, in its rules, the Board delegates these reporting responsibilities to the qualified reviewer, who is certified to do so for peer reviews and would then be certified to do so for any AUP engagements;
 - The bills require that these reports be received and maintained by the Board, a provision which the Board opposes for the reasons stated earlier in the discussion.

- Section 466-H Reporting to the board.
 - The Board believes that the appropriate procedure is for the administering entity or sponsoring organization to be responsible for the documents and notifications relevant to the peer review program;
 - Through the random audit of firm permits to practice, the Board would monitor the compliance of CPA firms to the peer review program requirements.

- Section 466-L Peer review oversight committee.
 - The Board believes that the best practices of other states and jurisdictions that require peer review should be followed by allowing for the Board's discretionary establishment of a peer review oversight committee to assist in the administration of the peer review program;
 - It may prove to be difficult to find members for this oversight committee, especially because of the required qualifications and the fact that members would be volunteers, with no compensation or reimbursement of expenses;
 - The Board expressed concern that if a oversight committee could not be populated by qualified CPAs, whether this would be considered a violation of the statute.

The Board stated its very strong conviction that its proposed administrative rules provide a workable system of peer review that is in full compliance with Act 66, SLH 2010. It would be very much appreciated and preferred that the Board be allowed to continue its promulgation of these administrative rules, rather than having either bill be enacted into law.

Deputy Attorney Tam asked for feedback from the associations that were represented at the meeting.

Mr. Roberts commented that he understands and appreciates why politically the AT 201 standards are being used as the standards for this program; however, he thinks that is a mistake and that the standards should all be kept within the peer review family. He further stated that the Board will get some negative

feedback on the selection and methodology used to get the random sampling for the audit of firm permits to practice, because this does not create a level playing field for all CPA firms.

The HSCPA had no comments.

Mr. Brackens of the ACIPA expressed his appreciation for all that the Board has done for one of the most challenging of efforts he has ever dealt with because of the Hawaii-centric nature of the law. He commended the Board for its efforts. He further stated that he believed that the Board with its rules and the Legislature with its bills are coming down parallel paths and reaching the same conclusions. He appreciated the comments about the AT 201 references; however, he believes that that is the only way he sees it can be done because keeping it within the peer review standards is difficult. In response to DAG Tam's inquiry, Mr. Brackens expressed that he and the AICPA had no problems whatsoever with or objections to the administrative rules as amended during this meeting and the rules' references to the AICPA peer review program.

Ms. MacKenzie of the Accountants Coalition stated that she had no comments, although she would have had some before listening to the comments at this meeting; however, hearing that the AICPA (which the Accountants Coalition believes to be the lead in these issues) is happy with the rules confirms her belief that these rules are a very good outcome.

Mr. Regan left the meeting at 11:32 a.m.

As there were no further comments, it was moved by Mr. Ching, seconded by Mr. Saniatan, and unanimously carried to approve all of the amendments to the draft of the peer review

rules that were discussed and agreed to by the Board.

Mr. Oberg returned to the meeting at 12:03 p.m. He reported that his meeting with Representative Choy went well, although much too short to delve into the details of the proposed legislation. Rep. Choy stated that he has his reasons for designating many of the reporting, monitoring, and repository functions to the Board rather than the sponsoring organization; however, the Representative did not provide details.

Mr. Saniatan left the meeting at 12:08 p.m.

Chairperson Ueno and DAG Tam summarized the Board's overall position that the Board has been tasked with drafting rules to implement Act 66 and should be allowed to continue to process the administrative rules through public hearing, final approval, and implementation. The Board has a final draft that encompasses the work of the Investigative Committee and all stakeholders, including all the comments and recommendations adopted at today's meeting. It is hoped that the Legislature allows the Board to complete its task instead of passing legislation during this session. Should the implementation of the program be deemed to be deficient, the Legislature would then be able to amend the law at a future session to statutorily implement the peer review program.

As there was no further discussion, it was moved by Mr. Ching, seconded by Mr. Oberg, and unanimously carried to adopt the above as the Board's position on the proposed legislation.

3. Investigative Committee on Mobility

No report.

4. Proposed Revision of Hawaii Administrative Rules section 16-71-61

Chairperson Ueno asked that this issue be tabled because Ms. Glaus had left the meeting.

B. Uniform CPA Examination

1. Recognition of the International Qualification Examination (IQEX)

Chairperson Ueno asked that this issue be tabled because Committee Chairperson Hirai had left the meeting.

C. Ethics

No report, as Committee Chairperson Glaus had left the meeting.

D. Peer Review

As the draft administrative peer review rules had been discussed, there was nothing further to report.

E. Continuing Professional Education

No report.

F. Communications

No report, as Committee Chairperson Regan had left the meeting.

Next Board Meeting: Friday, April 13, 2012
8:30 a.m.
Queen Liliuokalani Conference Room
King Kalakaua Building
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Announcements: None.

Adjournment: There being no further discussion, the meeting was adjourned by Chairperson Ueno at 12:30 p.m.

Taken and recorded by:

/s/ Lori Nishimura

Lori Nishimura, Secretary

Reviewed and approved by:

/s/ Laureen M. Kai

Laureen M. Kai, Executive Officer

LMK:ln

03/30/12

[X] Minutes approved as is.

[] Minutes approved with changes. See Minutes of _____