

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

MINUTES

- Date: Friday, April 13, 2012
- Time: 8:30 a.m.
- Place: Queen Liliuokalani Conference Room  
King Kalakaua Building  
335 Merchant Street, 1<sup>st</sup> 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  
Keith A. Regan, Member  
Emerito C. Saniatan, Member  
Rodney J. Tam, Deputy Attorney General  
Laureen M. Kai, Executive Officer  
Lori Nishimura, Secretary
- Excused: Steven R. Oberg, CPA, Member
- Guests: Kathy Castillo, Hawaii Society of Certified Public  
Accountants ("HSCPA")  
Jack Karbens, CPA  
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 Ms. Glaus, 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 9:26 a.m., it was moved by Mr. Lau, seconded by Vice-Chairperson Tsukamoto, and unanimously carried for the Board to move out of Executive Session.

The Board immediately recessed the meeting.

At 9:33 a.m., the Board reconvened its meeting.

Applications for  
CPA Certification:

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

1. CALANDRA, James P.
2. CAMERLINGO, Rie N.
3. CARY, Adam T.
4. CHOW, Deborah W. Y.
5. ENRIQUES, Kevin T. L.
6. FREIN, Daniel M.
7. GONZALES, Clair G.
8. HAMMON, Scott A.
9. HIRASUNA, Neil M.
10. ISHIBASHI, Joy T.
11. KWAK, Young Shin
12. LOPEZ, Alejandra C.
13. NAGANUMA, Chad K.
14. NAGASAWA, Tomoyuki

15. NASHIRO, Michael T.
16. OPELT, Sara L.
17. ROTH, John R. A.
18. SONNENBERG, Alfred
19. TANG, Jason Q.
20. TASAKI, Cheryl L. M.
21. TEN EYCK, Theresa M.
22. YOSHIDA, Laura A.

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

1. HANSELMEN, Brett E.
2. MCNEIL, Mathew D.

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

1. MOCHIZUKI, Sean T.

Mr. Lau stated the Board reviewed and discussed the application for Hong Y. Chen and determined that the following applicant did not meet the requirements for licensure. It was moved by Mr. Regan, seconded by Mr. Saniatan, and unanimously carried to deny the following application for certification:

1. CHEN, Hong Y.

Mr. Lau expressed the Board's appreciation to Dr. Karbens, who once again provided his expertise as a professor of accounting at Hawaii Pacific University in evaluating the educational credentials of license applicants, by reviewing university transcripts (duly redacted to preserve confidentiality) to determine the

applicability of coursework related to accounting and business.

Ratification of  
Individual CPA  
Permits to Practice:

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

1. COFFEY, Matthew S.
2. FABOZZI, Nicholas J.
3. FREITAS, Rockne Makoa K.
4. NIP, Richard K.
5. YOAKUM, Christina L.

Ratification of  
Issued Firm Permits  
to Practice:

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

1. SCOTT B POWER
2. SABURO MAKINODAN
3. HITOSHI OKUDA CPA INC
4. LYLE A HOLDEN
5. WR CONSULTING INC
6. ELIZABETH ANN RIDER
7. CLIFTONLARSONALLEN LLP
8. BRIGHTLINE CPAS & ASSOCIATES INC
9. VERITY ACCOUNTANCY CORPORATION
10. TRONCONI SEGARRA & ASSOCIATES INC
11. KSK PERSONAL FINANCIAL PLANNING SERVICES LLC
12. WORTHY & COMPANY LLC
13. ALLEN N DAVEY
14. BACKOFFICE SOLUTIONS LLC
15. CHOI AND SONG CPAS LLC
16. RONALD P BALDWIN
17. NA N WEN CPA INC
18. DENNIS Y C KWAN
19. SHELAH P ACZON CPA LLC
20. PATRICK VYAS CPA INC
21. EMMET L DEVILLE

22. BECKY ASANO SANTOS CPA INC
23. EISNER AMPER LLP

Ratification of  
Firm Name  
Approval:

After discussion, it was moved by Mr. Lau, seconded by Mr. Hirai, and unanimously carried to ratify the approval of the following CPA firm names:

1. Carl Chu, CPA, LLC
2. NA N. WEN CPA, INC.
3. Shelah P. Aczon, CPA LLC

After discussion, it was moved by Mr. Lau, seconded by Mr. Hirai, and unanimously carried (Vice-Chairperson Tsukamoto recused himself from the vote) to ratify the approval of the following CPA firm names:

1. Accuity Certified Public Accountants
2. Accuity CPAs

Approval of  
Minutes of the  
February 13, 2012  
and the March 2,  
2012 Board Meetings:

After discussion, it was moved by Mr. Saniatan, seconded by Mr. Ching, and unanimously carried to approve the minutes of the February 13, 2012 and the March 2, 2012 Board Meetings as circulated.

Chairperson's Report:

A. Investigative Committee on Two-Tier Licensing

Chairperson Ueno stated that the Investigative Committee is progressing in its assignment to examine the possible change in Hawaii's CPA licensure paradigm from a two-tier to a single-tier model. Investigative Committee Chairperson Regan confirmed that a meeting of the committee was scheduled at the conclusion of this Board meeting, and that he would provide the Board with an update at its next meeting.

B. Other

Chairperson Ueno reported that recent findings regarding financial statement restatements had found that more than 30% (563 of a total of 1827) of the financial statements performed for initial public offerings (IPOs) had undergone restatement, and commented that this relatively high percentage calls into question the quality of CPA firms' professional work and validates the need for peer review of the attest work of CPA firms.

Mr. Ching commented that another reason for this conclusion is that these restatements may be the result of the different threshold of accountability and increased financial information that is required for a business changing from a privately-held entity to a publicly-traded company offering the first sale of its stock to the public, and perhaps not that there were problems with the quality of a CPA firm's work in the initial financial statement.

Chairperson Ueno next reported that the American Institute of Certified Public Accountants ("AICPA") and the National Association of State Boards of Accountancy ("NASBA") have expressed concerns about the JOBS Act (the Jump-Start Our Business Start-Ups Act) that was recently passed by both houses of the U.S. Congress. NASBA's concerns related to certain sections of the legislation that would compromise the standard setting ability and effectiveness of the Financial Accounting Standards Board ("FASB").

Another legislative proposal that NASBA is concerned with is related to the proposal in several states to create additional administrative pathways for the licensure of military and/or

military spouses. NASBA believes that this seemingly worthy proposal could unintentionally threaten mobility, because a state that adopts this broad-impact legislation would no longer be considered "substantially equivalent" as defined by the Uniform Accountancy Act. Since these legislative proposals are not specifically directed to state accountancy laws, but are amendments to overall professional and vocational licensing, accountancy boards may not be aware of their potential impact. NASBA is advising that all state boards monitor such bills being introduced in their states to ensure that the accountancy laws are not amended to diminish public protection or the credibility of the accounting profession.

Executive Officer's  
Licensing  
Report:

A. NASBA Request for Board's Approval to Allow  
the Release of Candidate Names

Executive Officer Kai reported that NASBA is requesting the Board's approval to allow the release of listings of eligible and/or successful examination candidates, which include names, addresses, email addresses, examination states, and examination type (first or re-take candidates), to outside vendors for purposes of offering and delivering career-oriented information and opportunities to the candidates. Examples include offers for exam review courses, association membership, and career opportunities. These outside organizations would rent these listings for a very limited number of mailings (usually one or two). She further stated that only consenting candidates' information would be made available, and that the Board would receive no revenue by participating.

After discussion, it was moved by Mr. Ching, seconded by Mr. Regan, and unanimously

carried to decline NASBA's request and opt-out of the program to release examination candidate names and other information to outside organizations.

B. Request from Richard B. Leander, Jr. (CPA 2562) for an Exemption from the Firm Permit to Practice Requirement

Executive Officer Kai reported that the Board received a request from Richard B. Leander, Jr., a Hawaii CPA with a permit to practice, for an exemption from the firm permit to practice ("FPTP") requirement. Ms Kai stated that Mr. Leander was notified of the FPTP requirement based on his disclosure of doing business as a sole proprietor CPA firm, on his individual permit to practice application. In response to this notification, Mr. Leander asserted his claim that he should be exempt from the FPTP requirement because his public accounting practice is comprised of preparing twelve (12) tax returns a year for family and friends for compensation.

After discussion, it was moved by Mr. Regan, seconded by Vice-Chairperson Tsukamoto, and unanimously carried to deny Mr. Leander's request for exemption from the FPTP license requirement, and to require Mr. Leader to hold a CPA license, an individual permit to practice, and a firm permit to practice in order to engage in the practice of public accountancy in Hawaii.

Standing Committee Reports:

A. Legislation and Rules

1. Peer Review Administrative Rules Update

Discussion ensued on the proposed administrative rules for the implementation of peer review, pursuant to Act 66, SLH 2010.



Deputy Attorney General ("DAG") Tam stated that the proposed rules were received by the Attorney General's office for review and comments and were forwarded back to the Department of Commerce and Consumer Affairs ("DCCA") with comments and recommendations. Executive Officer Kai stated that the proposed rules were also submitted to the Legislative Reference Bureau for its comments and recommendations. The DCCA is in the process of reviewing these comments and recommendations. She further stated that once DCCA completes its review, it will print a new draft of the rules in the appropriate format. The next step in the administrative rulemaking procedure, pursuant to the Governor's Administrative Directive (AD-09-01) is to submit the proposed rules to the Small Business Regulatory Review Board ("SBRRB"), along with the Small Business Impact Statement, for its consideration.

Discussion ensued on HAPA's March 6, 2012 letter to SBRRB expressing its concerns with the content of the Board's proposed rules. Mr. Ching asked Mr. Roberts for clarification on HAPA's position on the draft rules.

Mr. Roberts stated that the draft rules that were approved by the Board at its March 2, 2012 meeting are not available on the Board's website and that he did not know where they can be accessed by the public.

After some discussion of the number of out-of-State firms that perform attest work in Hawaii. Mr. Roberts stated that initially he thought there were not that many such firms; however, the HAPA membership has continued to complain about "snowbirds"

(i.e., CPAs from firms that are based out-of-State, who do a number of condominium audits during the winter, that HAPA members encounter that may not even be licensed in Hawaii). He related that he has heard anecdotally that there are out-of-State CPA firm partners who come to Hawaii in early January and stay at a time-share or condominium that the firm owns, and while their families vacation, do a cheap engagement (e.g., a condominium audit) so that they can deduct the trip. Although HAPA membership believes that the Board has taken big steps in recent years to ensure a level playing field, HAPA feels that the Board is not quite there yet because there is an enforcement issue that is still of concern. CPAs are not required, as attorneys are, to "rat out" their fellow professionals if they are breaking the rules.

Chairperson Ueno asked Mr. Roberts to inform HAPA members that if any of them see or hear about this type or any other type of violation, that they report it to the Board. He explained that the enforcement process is based on complaints received from the public and members of the profession.

Mr. Roberts then stated that his response to Mr. Ching's original question is two-fold. First, the Board "missed the forest for the trees" in its draft rules, not that many of the points in these rules would not be compatible with House Bill No. 2169, but that the task was to write rules for Act 66, and that situation puts the Board in an awkward position.

Second, the fact that the rules require peer review to be based on a random selection of

engagements rather than a risk-based selection, bothers HAPA's members.

Mr. Ching responded that the Board believes that the draft rules do comply with Act 66. The Board and Investigative Committee on Peer Review spend numerous hours drafting these rules and making certain that they complied with the Act. The proposed rules are not in response to any pending legislation, but are in direct response to the mandate of Act 66.

DAG Tam commented that the members of the Investigative Committee and the Board did not consider the provisions of H.B. No. 2169 and only focused on implementing Act 66 when drafting these rules because that was the only statute in existence. H.B. No. 2169 is a proposal that is currently being considered by the legislature and is not in effect yet, so there was no reason to follow the bill's provisions because there was no guarantee that bill would be passed and the bill was amended a number of times throughout the session.

DAG Tam stated that there is nothing in Act 66 or any of its committee reports that mentions the requirement of a risk-based selection process for the peer review program. The definition of peer review is extremely broad and the law allows the Board to come up with other types of reviews to comply with the requirements of Act 66. The Board has been trying diligently to draft rules that are fair to both local practitioners and out-of-State practitioners, and was certainly not drafting rules that would make it more difficult to comply for one segment of the profession as opposed to another. HAPA may not always agree with that, but that has

always been the intent of the Board, and the Board especially did not want to make compliance overly burdensome for the local in-State firms. The Board focused on drafting rules that would mitigate the effect of compliance to local CPA firms that are not currently subject to peer reviews. These firms do not need to undergo peer review as a condition of AICPA membership and are now being required to comply with a brand new requirement. The Board believes that the draft rules do not discriminate based on where the firm is located or where the firm's principal place of business is.

Vice-Chairperson Tsukamoto stated that, whenever possible, the proposed rules follow the AICPA process as they apply to most states, and Chairperson Ueno stated that the rules diligently adhere to and are derived from the law.

DAG Tam stated that the draft rules do not exceed the parameters of Act 66. He explained that the Board considered creating its own peer review standards and process and tried over a number of months to do this; however, the Board could not come up with a workable solution, so the focus returned to what exists currently – which is the AICPA peer review process. The Board worked with the AICPA to draft rules that satisfied the requirements of Act 66, and did not conflict with the AICPA peer review process. DAG Tam mentioned that both the AICPA and NASBA reviewed the Board's proposed rules and found the draft to be acceptable.

Mr. Roberts responded that was not true, according to the AICPA. He stated that both

AICPA and NASBA are on board with the provisions of H.B. No. 2169, and that the Board opened up a can of worms when it decided to have random-based selection for Hawaii based firms as a part of the peer review program.

DAG Tam stated that at every step in drafting the rules, the Board and Investigative Committee consulted at length with the AICPA and NASBA and that representatives of both organizations met with Board members both here and at NASBA meetings on the mainland. AICPA had comments and a number of recommendations that were incorporated into the draft rules. The AICPA's representative stated on record that the draft rules were acceptable to the AICPA. DAG Tam asked the Board if they agreed with what he just explained, and the Board members all concurred.

Mr. Roberts responded that that was not the point of HAPA's differences with the draft rules. He stated that the rules are not acceptable to Hawaii-based CPA practitioners. The Board, with its current composition, is in favor of a random selection procedure for the out-of-State firms. But the Hawaii-based CPA firms are going to object because the headquarters or home office of international and regional CPA firms will face different standards for their work product in the Hawaii marketplace.

Vice-Chair Tsukamoto clarified that the agreed-upon procedures ("AUP") as provided in the draft rules would be in addition to the general peer review that a firm would need to undergo. The firm's attest work would be subject to a risk-based assessment on any

standards-based engagements and also subject to the review of a Hawaii attest engagements regardless of its materiality to the firm's practice.

Mr. Roberts reiterated that the selection of Hawaii attest work would be random rather than based on risk, and so becomes a comparison of apples versus oranges.

Chair Ueno clarified that the AUP is done in addition to the normal peer review should that peer review not include an engagement of Hawaii attest work.

Mr. Roberts stated that the Board will be basing its reliance on the mainland peer review to protect Hawaii's consumers, when the definition of this program is the Hawaii marketplace and Hawaii consumers. If not, then there is no need for this peer review process. The peer review process needs to be focused on protecting Hawaii's consumers, and ensuring a level playing field for all CPA firms.

The Board agreed that its position on the draft rules should be communicated to the SBRRB. Vice-Chairperson Tsukamoto stated that the response to the SBRRB should state that the Board acknowledges HAPA's letter to SBRRB and respectfully disagrees with HAPA's statements.

## 2. 26<sup>th</sup> Legislature, 2012

### a) H.B. No. 2169 HD 2, SD 1, Relating to Public Accountancy

Executive Officer Kai reported that since the Board's last meeting, the bill crossed

over to the Senate and was passed with amendments by the Senate Committee on Commerce and Consumer Protection. The bill then passed the second and third readings as amended and was returned to the House on April 2, 2012. She further reported that at the present time, the House disagrees with the Senate amendments, and so the bill is likely to be heard by a conference committee.

b) S.B. No. 2421 SD 1, HD 1, Relating to Public Accountancy

Executive Officer Kai reported that the bill had crossed over to the House, was heard and passed with amendments by the Committee on Economic Revitalization and Business. The bill, however, was not granted any further consideration.

3. Investigative Committee on Mobility

No Report.

DAG Tam requested to revisit the previous agenda item, A. Legislation and Rules, 1. Peer Review Administrative Rules Update.

DAG Tam asked the HAPA and HSCPA representatives present at the meeting for their opinion on H.B. No. 2169, HD 2, SD 1. Mr. Roberts stated that HAPA is in favor of the bill. He commented that the bill provides for a risk-based selection process for the peer review.

Mr. Roberts commented on the curiosity that the draft rules seem to follow the provisions of H.B. No. 2169, HD 2, SD 1. DAG Tam assured him that the drafting of the rules was

done independently of the current legislative proposal. Mr. Ching agreed, and stated that it appeared that the bill was amended during the legislative process to track some of the provisions of the draft rules.

Ms. Glaus asked Mr. Roberts how the bill that HAPA supports would help alleviate the problems with the snowbirds and condominium audit situation that he had earlier described as being an issue for HAPA members. Mr. Roberts stated that the bill does not address this situation. What has been done to alleviate the situation with transient practitioners who are engaged in the practice of public accounting in Hawaii is the implementation of the firm permit to practice, which HAPA considers to be a big milestone in regulation.

DAG Tam went on to reiterate that the proposed rules include an AUP component, which becomes applicable when the CPA firm is unable to represent that a Hawaii attest engagement was included in the peer review the firm had undergone. At that point, the firm would need to obtain an AUP that reviews at least one Hawaii attest engagement. He further reiterated that CPA firms that are not members of the AICPA will be the most impacted group, and that all CPA firms that do attest work in Hawaii are subject to the same requirement to comply with the peer review program.

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

Ms. Glaus stated that proposed amendments to the rules to allow for the acceptance of commission/fees will probably be provided to



the Board at its next meeting. The rule amendments will allow CPAs to accept commissions and fees from clients as long as there is full disclosure to the client and there is no attest work performed. These provisions are in line with the AICPA rules on ethics and professional conduct.

Mr. Hirai asked Ms. Glaus if she would be meeting with the HSCPA and HAPA before making the presentation to the Board at its next meeting. Ms. Glaus confirmed that she would be doing so.

Mr. Roberts stated that he already knows that HAPA would oppose these rule amendments because you "cannot be a player and scorekeeper in the same game" without compromising your integrity.

Ms. Glaus responded that small CPA firms and sole practitioner CPA firms would benefit from the rule amendments because these CPAs may want to pursue another certification in order to service their clients more comprehensively. She stated that Hawaii is one of only three states that currently do not allow CPAs to accept commission/fees.

Mr. Ching commented that the rule change would seem to benefit small firms that cannot afford to obtain different consultants for a client who may need a variety of services. For example, it would benefit a client to engage the services of a CPA who is also a Certified Financial Planner and an attorney to handle the various aspects of the client's financial situation.

Mr. Roberts cautioned the Board to not forget Enron and all the federal law changes that have been enacted since then. He reiterated that a CPA being a player and the scorekeeper on same team would create problems.

B. Uniform CPA Examination

1. Ratification of Examination Scores from the 1<sup>st</sup> Quarter 2012 Testing Window

Committee Chairperson Hirai reported the following :

1<sup>st</sup> QUARTER 2012 EXAMINATION RESULTS

	Number of Scores	Percentage
Initial Credit	13	6.98
Added Credit	46	24.73
Failed	70	37.63
Passed Exam	15	8.06
No New Credit	42	22.58
TOTAL	186	100.00%

TOTALS BY EXAM PARTS (BY CANDIDATES)

	AUD	BEC	FAR	REG	TOTAL
# Attended	50	42	52	42	186
# Passed	20	15	21	18	74
% Passed	40.00	35.71	40.38	42.85	39.78

#### SUCCESSFUL CANDIDATES SUMMARY

# of Passing First-time Candidates	0
# of Passing Re-Exam Candidates	15
# of Passing Candidates	15

After discussion, it was moved by Vice-Chairperson Tsukamoto, seconded by Mr. Lau, and unanimously carried to ratify the examination scores from the 1<sup>st</sup> quarter 2012 testing window.

#### 2. Implementation of Examination Fee Changes

Committee Chairperson Hirai stated that the AICPA exam fee will decrease, effective August 18, 2012, from \$95.00 to \$90.00. There are no changes to the NASBA or Prometric fees.

#### 3. Recognition of the International Qualification Examination (IQEX)

Mr. Hirai described the implementation of the IQEX as a form of licensure reciprocity. Currently, Australia, Canada, Ireland, Mexico, and New Zealand participate with the United States. The IQEX covers ethics, professional responsibilities, business law, the uniform commercial code, federal taxation and accounting issues, business structure, accounting and reporting for governmental and not-for-profit organizations, and recent regulatory issues.

Mr. Hirai further stated that Hawaii's licensing statute provides that the exam that is required to be passed for licensure shall test the applicant's knowledge of the subjects of accounting theory, accounting practice,

auditing, and other related subjects that the Board may specify by rule. These are subjects that the IOEX does not include. He further speculated that the IOEX might have been accepted by certain boards on the assumption that the profession would be adopting the International Financial Reporting Standards ("IFRS"), which has not yet occurred. Mr. Hirai believes that should the Board amend its statute to accept the IOEX, implementation without the IFRS component would be difficult.

C. Ethics

No Report.

D. Peer Review

No Report.

E. Continuing Professional Education

No Report.

F. Communications

No report.

Next Board Meeting: Friday, May 4, 2012  
8:30 a.m.  
King Kalakaua Conference Room  
King Kalakaua Building  
335 Merchant Street, 3<sup>rd</sup> Floor  
Honolulu, Hawaii 96813

Announcements: Messrs. Lau, Ching, Saniatan, and Regan informed the Chairperson and Board members that they would not be able to attend the next Board meeting. The Executive Officer was requested to poll Board members to find an alternate meeting date.

Adjournment:                    There being no further discussion, the meeting  
   adjourned at 10:31 a.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:In

05/10/12

Minutes approved as is.

Minutes approved with changes. See Minutes of \_\_\_\_\_ 05/11/2012 \_\_\_\_\_