

PCAOB

Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS AND
IMPOSING SANCTIONS

*In the Matter of Goldstein and Morris, CPAs,
P.C. and Edward B. Morris, CPA*

Respondents.

)
)
)
) PCAOB Release No. 2005-010
) PCAOB No. 105-2005-001
)
) May 24, 2005
)
)
)
)
)

Summary

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is revoking the registration of Goldstein and Morris CPAs, P.C., and barring Edward B. Morris from being an associated person of a registered public accounting firm. The Board is imposing these sanctions because of the respondents' conduct in concealing information from the Board, and submitting false information to the Board, in connection with a Board inspection.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, fair, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002 ("Act") and PCAOB Rule 5200(a)(1) against Goldstein and Morris CPAs, P.C. ("G&M" or "Firm") and Edward B. Morris, CPA (collectively, "Respondents").

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Morris and the Firm have each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for the purpose of this proceeding and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, the Respondents

ORDER

each consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.

III.

On the basis of information obtained by the Board in this matter, the Board finds^{1/} that:

1. G&M is an accounting firm incorporated in the state of New York and registered with the Board pursuant to Section 102(a) of the Act and PCAOB Rule 2100. Its only office is located in New York City.
2. Edward B. Morris is a certified public accountant licensed by the State of New York. He is the co-founder, president and managing partner of G&M. Morris is an associated person of G&M, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).
3. From about October 2003 through July 2004, the Firm prepared the financial statements for New York Film Works, Inc. ("NYFW") and RTG Ventures, Inc. ("RTG"). During this same time period, NYFW and RTG each filed these financial statements with the U.S. Securities and Exchange Commission ("Commission") under the cover of various Forms 10-KSB and 10-QSB. Both NYFW and RTG are issuers, as defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).
4. G&M issued an audit report for NYFW, dated October 10, 2003, with respect to financial statements that G&M had prepared for NYFW.
5. G&M issued an audit report for RTG, dated December 9, 2003, with respect to financial statements that G&M had prepared for RTG.
6. On or about September 20, 2004, the Board, through its Division of Registration and Inspections ("Inspections"), informed G&M that it would be conducting an inspection of the Firm during November 2004. In connection with the inspection,

^{1/} The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

ORDER

Inspections directed a request to Morris's attention that the Firm provide the Board with certain information. Among other things, Inspections requested that the Firm provide in writing the total number of engagement hours incurred by all of the Firm's accounting or professional personnel related to the Firm's audits of NYFW and RTG, the number of hours each person worked on the engagement, and certain other documents related to each engagement.

7. In considering how to respond to the Board's request, Morris was aware that federal law prohibits a registered public accounting firm from providing its issuer audit clients with certain bookkeeping services,^{2/} and he and two subordinates discussed what to do about the fact that the Firm had provided NYFW and RTG with the services described in paragraph 3 above. Ultimately, they formulated and carried out a plan to conceal from the Board information about some of the services that the Firm had provided to NYFW and RTG. Pursuant to that plan, on or about October 1, 2004, the Firm submitted to Inspections a written response that omitted the number of hours worked by a G&M employee on the audits of NYFW and RTG. Morris intended and approved the omission of that information from the Firm's response because that employee had also worked on preparing the financial statements of NYFW and RTG, and Morris was concerned that information about the employee's work on the audits might lead Inspections to discover that the Firm had also prepared the financial statements – a fact that Morris wished to conceal from the Board.

8. In addition, Morris and the two subordinates discussed the possibility that the Board would find fault with the Firm because of the lack of certain audit documentation in the Firm's files. They therefore formulated and carried out a plan to create and back-date certain documents and place them in the Firm's audit files before Inspections reviewed the files. Specifically, on or about October 15, 2004, Morris and the two subordinates generated purported management representation letters from both NYFW and RTG, back-dated them to dates in 2003 and 2004, and placed them in the Firm's audit files. In approving and participating in this conduct, Morris intended to

^{2/} See Section 10A(g)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78j-1(g)(1); see also Rule 2-01(c)(4)(i) of Regulation S-X, 17 C.F.R. 210.2-01(c)(4)(i).

ORDER

conceal from the Board that the Firm had failed to comply with certain PCAOB standards in connection with the preparation and issuance of audit reports for NYFW and RTG.^{3/}

9. Under the Act, the Firm had an obligation, to which it assented in applying for registration with the Board, to cooperate in and comply with any request for documents or testimony made in furtherance of the Board's authority and responsibilities under the Act. The Firm also had, and assented to, an obligation to secure and enforce similar consents from its associated persons. Under the Act, such cooperation and compliance is a condition of the continuing effectiveness of a Firm's registration with the Board. In addition, PCAOB Rule 4006 states that –

[e]very registered public accounting firm, and every associated person of a registered public accounting firm, shall cooperate with the Board in the performance of any Board inspection. Cooperation shall include, but is not limited to, cooperating and complying with any request, made in furtherance of the Board's authority and responsibilities under the Act, to – (1) provide access to, and the ability to copy, any record in the possession, custody, or control of such firm or person, and (2) provide information by oral interviews, written responses, or otherwise.

10. Inherent in the obligation to cooperate with requests for documents and information is both an obligation not to conceal requested documents or information and an obligation not to fabricate and provide untruthful or misleading documents or information. When a request is made in furtherance of the Board's inspection authority, any registered public accounting firm or associated person who participates in preparing or providing the response to that request has an obligation under Rule 4006 to cooperate with the request, including an obligation not to participate in concealing or fabricating information or documents. Through the conduct described in paragraphs 7 and 8 above, the Respondents breached their obligations to cooperate with a Board request for documents and information made in furtherance of the Board's authority and responsibilities under the Act. In doing so, the Firm violated a statutory condition to its continuing registration, and both Respondents violated PCAOB Rule 4006.

^{3/} AU Section 333, "Management Representations," requires the independent auditor to obtain written representations from management as a part of an audit of financial statements.


ORDER

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in the Respondents' Offers. Accordingly, it is hereby ORDERED that:

- i. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), Goldstein & Morris, CPAs, P.C.'s registration with the Board is revoked; and
- ii. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Edward B. Morris is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

ISSUED BY THE BOARD.



J. Gordon Seymour
Acting Secretary

May 24, 2005