

<p>ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS</p> <p><i>In the Matter of Tarvaran Askelson & Company, LLP, Eric Askelson, and Patrick Tarvaran,</i></p> <p style="text-align: center;"><i>Respondents.</i></p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>PCAOB Release No. 105-2018-001</p> <p>February 27, 2018</p>
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is (1) censuring Tarvaran Askelson & Company, LLP ("TAC" or "Firm"), revoking the registration of the Firm,¹ and imposing a civil money penalty in the amount of \$15,000 on the Firm; (2) censuring Eric Askelson ("Askelson"), barring him from being an associated person of a registered public accounting firm,² and imposing a civil money penalty of \$5,000 on him; and (3) censuring Patrick Tarvaran ("Tarvaran"), barring him from being an associated person of a registered public accounting firm,³ and imposing a civil money penalty of \$5,000 on him.

The Board is imposing these sanctions on the basis of its findings that: (a) the Firm, Askelson, and Tarvaran (collectively, "Respondents") violated PCAOB rules and standards in connection with the audit and examination engagement for Alpine Securities Corporation ("Alpine"), a broker-dealer, for the fiscal year ending ("FYE") September 30, 2015; (b) Askelson and the Firm violated PCAOB rules and standards in connection with the audit of the financial statements of Terra Tech Corp. ("Terra Tech"), an issuer, for the year ending December 31, 2015, and (c) Tarvaran and the Firm violated PCAOB rules and standards in connection with the audit of the financial statements of FitLife Brands, Inc. ("FitLife"), an issuer, for the year ending December 31, 2015.

¹ The Firm may reapply for registration after two (2) years from the date of this Order.

² Askelson may file a petition for Board consent to associate with a registered public accounting firm after two (2) years from the date of this Order.

³ Tarvaran may file a petition for Board consent to associate with a registered public accounting firm after one (1) year from the date of this Order.

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I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted Offers of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings 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 Respondents and the subject matter of these proceedings, which are admitted, Respondents each consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.⁴

III.

On the basis of Respondents' Offers, the Board finds that:⁵

A. Respondents

1. **Tarvaran Askelson & Company, LLP** is a limited liability partnership organized under the laws of the state of California, and is headquartered in Dana Point, California. The Firm is licensed by the California Board of Accountancy (license no. 7104). The Firm is registered with the Board pursuant to Section 102 of the Act and

⁴ 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.

⁵ The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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PCAOB rules. The Firm currently does not serve as the principal auditor⁶ for any issuer⁷ audit clients or broker-dealer⁸ audit clients and does not currently play a substantial role⁹ in any issuer audits or broker-dealer audits. The Firm has two partners and four employees.

2. **Eric Askelson**, age 48, of Irvine, California, is, and at all relevant times was, a partner of the Firm and a registered public accountant licensed under the laws of California (license no. 78383). Askelson is, and at all relevant times was, 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). Askelson served as: (a) the engagement partner for the audit and examination of Alpine for FYE September 30, 2015, and (b) the engagement partner for the audit of Terra Tech for the year ending December 31, 2015.

3. **Patrick Tarvaran**, age 48, of Laguna Niguel, California, is, and at all relevant times was, a partner of the Firm and a registered public accountant licensed under the laws of California (license no. 76414). Tarvaran is, and at all relevant times was, 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). Tarvaran served as: (a) the engagement quality reviewer for the audit and examination of Alpine for FYE September 30, 2015, and (b) the engagement partner for the audit of FitLife for the year ending December 31, 2015.

B. Summary

4. This matter concerns Respondents' repeated violations of PCAOB rules and standards in connection with (a) Respondents' audit of the supporting schedules accompanying Alpine's financial statements for FYE September 30, 2015 (the "Alpine Audit"), (b) Askelson and the Firm's audit of Terra Tech for the year ending December 31, 2015 (the "Terra Tech Audit"), and (c) Tarvaran and the Firm's audit of FitLife for the

⁶ See AU § 543, *Part of Audit Performed by Other Independent Auditors* (describing role of the principal auditor).

⁷ See Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii) (containing definition of "issuer").

⁸ See PCAOB Rule 1001(b)(iii) (containing definition of "broker"); see also PCAOB Rule 1001(d)(iii) (containing definition of "dealer").

⁹ See PCAOB Rule 1001(p)(ii) (containing definition of "play a substantial role in the preparation or furnishing of an audit report").

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year ending December 31, 2015 (the "FitLife Audit"). As detailed below, Respondents failed to exercise due professional care and professional skepticism, and failed to obtain sufficient appropriate audit evidence, in connection with these audits. Among other violations, Askelson and the Firm relied solely on information produced by Alpine to audit the supplemental schedules Alpine was required to file regarding its compliance with the U.S. Securities and Exchange Commission's ("Commission") net capital and reserve requirements without testing that information for completeness and accuracy, or testing the Alpine controls over the completeness and accuracy of that information.

5. This matter also concerns Askelson and the Firm's violations of Attestation Standard No. 1 ("AT 1"), *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, when performing their examination of the statements made by Alpine, a "carrying broker-dealer,"¹⁰ in its FYE September 30, 2015 compliance report (the "Examination") prepared pursuant to Securities Exchange Act of 1934 ("Exchange Act") Rule 17a-5, 17 C.F.R. § 240.17a-5 ("Rule 17a-5"). In particular, Askelson and the Firm failed to identify and test Alpine's internal controls over compliance with Commission rules for safeguarding certain customer assets held by Alpine.

6. Additionally, in connection with the Alpine Audit and Examination, Tarvaran violated Auditing Standard No. 7, *Engagement Quality Review* ("AS 7") by providing his concurring approval of issuance without performing the required engagement quality review with due professional care.

C. Respondents Violated PCAOB Rules and Standards in Connection with the Alpine Audit and Examination

Askelson and the Firm Violated PCAOB Audit Standards in Connection with Auditing Supplemental Information Accompanying the Alpine Financial Statements

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.¹¹ For audits of

¹⁰ "Carrying broker-dealer" means a broker-dealer that carries customer or broker or dealer accounts and receives or holds funds or securities for those customers. See *Broker-Dealer Reports*, SEC Release No. 34-70073, p. 307 (July 30, 2013).

¹¹ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and PCAOB Rule 3200T, *Interim Auditing Standards*.

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fiscal years ending on or after June 1, 2014, Rule 17a-5(g) requires that audits of broker-dealers be performed in accordance with PCAOB standards. An auditor may express an unqualified opinion on financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.¹² Among other things, PCAOB standards require an auditor to exercise due professional care and professional skepticism in performing the audit, and plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for an opinion regarding the financial statements.¹³

8. PCAOB standards require that the auditor evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.¹⁴ As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework.¹⁵

9. PCAOB standards require that the auditor properly plan the audit, including performing risk assessment procedures sufficient to provide a reasonable basis for identifying and assessing the risk of material misstatement, whether due to

All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audits. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017), <https://pcaobus.org/Standards/Auditing/Documents/ReorganizedandPreReorganizedNumbering.pdf>.

¹² See AU § 508.07, *Reports on Audited Financial Statements*.

¹³ See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; and Auditing Standard No. 15, *Audit Evidence* ("AS 15").

¹⁴ See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14"), ¶ 30.

¹⁵ Id. ¶ 31.

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error or fraud, and designing further audit procedures.¹⁶ The auditor should identify and assess the risks of material misstatement at the financial statement level and the assertion level, and design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.¹⁷ PCAOB standards provide that factors that should be evaluated in determining which risks are significant risks include whether the risk is a fraud risk.¹⁸ The auditor's identification of fraud risks should include the risk of management override of controls.¹⁹ Specifically, the auditor should design procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements for evidence of possible material misstatement due to fraud.²⁰ When an auditor has identified a significant risk, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risk.²¹

10. PCAOB standards require that, when the auditor is engaged to perform audit procedures and report on supplemental information accompanying the financial statements of the audit client, the auditor should perform audit procedures to obtain appropriate audit evidence that is sufficient to support the auditor's opinion regarding whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.²² In doing so, the auditor should perform procedures to test the completeness and accuracy of the information presented in the

¹⁶ See Auditing Standard No. 9, *Audit Planning* ("AS 9"), ¶ 4; Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶¶ 4-58.

¹⁷ See AS 12 ¶ 59; Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13"), ¶ 8.

¹⁸ See AS 12 ¶ 71.b.

¹⁹ See AS 12 ¶ 69.

²⁰ See AU §§ 316.58 - .62, *Consideration of Fraud in a Financial Statement Audit*.

²¹ See AS 13 ¶ 11.

²² See Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* ("AS 17"), ¶ 3.

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supplemental information to the extent that it was not tested as part of the audit of financial statements.²³ PCAOB standards also provide that the auditor should take into account relevant evidence from the audit of the financial statements and, for audits of brokers or dealers, the attestation engagements, in planning and performing audit procedures related to the supplemental information and in evaluating the results of the audit procedures to form the opinion on the supplemental information.²⁴

11. PCAOB standards provide that the auditor should communicate to the audit committee an overview of the overall audit strategy, including the timing of the audit, and discuss with the audit committee the significant risks identified during the auditor's risk assessment procedures.²⁵

12. PCAOB standards also provide that, if an auditor is unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the financial statements as a whole are free of material misstatement, the auditor should express a qualified opinion or a disclaimer of opinion.²⁶

13. As described below, Askelson and the Firm failed to comply with PCAOB rules and standards in connection with auditing the supplemental information accompanying Alpine's financial statements.

Audit of Alpine's 2015 Financial Statements

14. At all relevant times, Alpine was a Utah corporation headquartered in Salt Lake City, Utah. Alpine's public filings disclose that it is registered with the Commission as a broker-dealer. At all relevant times, Alpine was a "broker" and "dealer," as defined in Section 110(3) and (4) of the Act and PCAOB Rule 1001(b)(iii) and (d)(iii). At all relevant times, Alpine was a "carrying broker-dealer," that is, it was a broker-dealer that maintained custody of customer funds and securities.

²³ Id. ¶ 4(e).

²⁴ See AS 17 ¶ 3c, Note.

²⁵ See Auditing Standard No. 16, *Communications with Audit Committees*, ¶ 9 ("AS 16").

²⁶ See AS 14 ¶ 35; see also AU §§ 508.22-.34 (containing requirements regarding audit scope limitations).

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15. On November 27, 2015, Alpine filed with the Commission a Form X-17A-5 Part III for FYE September 30, 2015. Included in that filing was the Firm's FY 2015 audit report dated November 20, 2015 ("Alpine Audit Report"). Askelson authorized the Firm's issuance of the Alpine Audit Report, which expressed an unqualified opinion on Alpine's financial statements and supporting schedules, and stated, among other things, that the Firm's audit was conducted in accordance with PCAOB standards. Tarvaran, as the engagement quality reviewer, provided concurring approval of issuance of the Alpine Audit Report. As of FYE September 30, 2015, Alpine reported assets of approximately \$4.3 million, revenue of approximately \$13.6 million, and net income of approximately \$6.3 million.

Supplemental Information in Alpine's Supporting Schedules

16. Rule 17a-5 required Alpine to file certain supporting schedules that are audited by a PCAOB-registered firm.²⁷ Askelson and the Firm failed to obtain sufficient appropriate audit evidence regarding the supplemental information in the supporting schedules that accompanied Alpine's FYE 2015 financial statements.

17. One of Alpine's supporting schedules reported on its compliance with a Commission rule requiring Alpine to, among other things, maintain a reserve of funds or qualified securities in an account at one or more banks for the exclusive benefit of customers (the "Reserve Requirements Rule").²⁸ Another Alpine supporting schedule reported on its compliance with a Commission rule requiring it to, among other things, maintain a sufficient amount of net capital liquidity to satisfy claims promptly ("Net Capital Rule").²⁹

18. In its supporting schedules, Alpine reported net capital of approximately \$1.2 million, which it reported was about \$951,000 in excess of its minimum net capital requirement. Alpine also reported cash segregated for the exclusive benefit of its customers of approximately \$221,000, which it reported was about \$221,000 in excess of its reserve requirement. Askelson and the Firm's procedures concerning these supporting schedules relied solely on information produced by Alpine without testing

²⁷ See Rule 17a-5(d)(1)(i)(A), (C) and (g).

²⁸ See 17 C.F.R. § 240.15c3-3, *Customer Protection – Reserves and Custody of Securities* ("Rule 15c3-3"). Rule 15c3-3, known as the Customer Protection Rule, contains the Reserve Requirements Rule at 15c3-3(e).

²⁹ See 17 C.F.R. § 240.15c3-1, *Net Capital Requirements for Brokers or Dealers* ("Rule 15c3-1").

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that information for completeness and accuracy, or testing the Alpine controls over the completeness and accuracy of that information. Consequently, Askelson and the Firm violated PCAOB standards by failing to obtain sufficient appropriate audit evidence that the supplemental information in the supporting schedules was fairly stated, in all material respects, in relation to the financial statements as a whole.³⁰

Askelson and the Firm Violated PCAOB Attestation Standard No. 1 in Their Examination of Alpine's FYE 2015 Compliance Report

Certain Commission Reporting Requirements for Alpine

19. Under the Commission's "financial responsibility rules,"³¹ Alpine had to satisfy certain requirements relating to net capital and the protection of customer assets.³² Additionally, Rule 17a-5 required Alpine to file with the Commission an annual report containing a) a financial report that included financial statements and supporting schedules,³³ b) a compliance report concerning, among other things, the effectiveness of Alpine's internal controls over compliance with the financial responsibility rules,³⁴ and c) a report by a PCAOB-registered firm based on an examination of Alpine's financial and compliance reports.³⁵ Rule 17a-5 also required that the audit of the financial report

³⁰ See AS 17 ¶¶ 2-4.

³¹ The term "financial responsibility rules" includes Rule 15c3-1; Rule 15c3-3; 17 C.F.R. § 240.17a-13, *Quarterly Security Counts to be Made by Certain Exchange Members, Brokers, and Dealers*; and any rule of a broker's or dealer's designated examining authority that requires account statements to be sent to the customers of the broker or dealer. The financial responsibility rules are the same as the rules cited in Rule 17a-5(d)(3)(ii).

³² Although some broker-dealers qualify for exemption from one of the financial responsibility rules, Rule 15c3-3, Alpine as a carrying broker-dealer did not qualify for exemption.

³³ See Rule 17a-5(d)(1)(i)(A), (d)(2).

³⁴ See Rule 17a-5(d)(1)(i)(B)(1), (d)(3).

³⁵ See Rule 17a-5(d)(1)(i) and (g).

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and the examination of the compliance report be performed in accordance with PCAOB standards.³⁶

20. In the compliance report, Alpine had to make certain statements ("assertions") about its compliance with the financial responsibility rules, including that: a) its Internal Control Over Compliance³⁷ ("ICOC") was effective during the most recent fiscal year; b) its ICOC was effective as of the end of the most recent fiscal year; and c) it was in compliance with Rule 15c3-1 and Rule 15c3-3(e) as of the end of the most recent fiscal year.³⁸

PCAOB Attestation Standard No. 1

21. AT 1 provides that, in performing an examination of the assertions made by a broker or dealer in a compliance report, the auditor's objective is to express an opinion regarding whether the assertions made by the broker or dealer in the compliance report are fairly stated, in all material respects.³⁹ AT 1 also provides that, to express such opinion, the auditor must plan and perform the examination to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether: 1) one or more material weaknesses⁴⁰ existed during the most recent fiscal year specified in the broker's or dealer's assertion; 2) one or more material weaknesses existed as of the end of the most recent fiscal year specified in the broker's or dealer's assertion; and

³⁶ See Rule 17a-5(g).

³⁷ Rule 17a-5(d)(3)(ii) provides: "The term *Internal Control Over Compliance* means internal controls that have the objective of providing the broker or dealer with reasonable assurance that non-compliance with §240.15c3-1, §240.15c3-3, §240.17a-13, or any rule of the designated examining authority of the broker or dealer that requires account statements to be sent to the customers of the broker or dealer (an 'Account Statement Rule') will be prevented or detected on a timely basis."

³⁸ See Rule 17a-5(d)(3)(i)(A).

³⁹ See AT 1 ¶ 3.

⁴⁰ A "material weakness" is a deficiency, or a combination of deficiencies, in ICOC such that there is a reasonable possibility that non-compliance with the Net Capital Rule or Reserve Requirements Rule will not be prevented or detected on a timely basis or that non-compliance to a material extent with Rule 15c3-3 (except for the Reserve Requirements Rule element), among other things, will not be prevented or detected on a timely basis. See AT 1, Appendix A ¶ A4.

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3) one or more instances of non-compliance with the Net Capital Rule or the Reserve Requirements Rule existed as of the end of the most recent fiscal year specified in the broker's or dealer's assertion.⁴¹ As noted in AT 1, the auditor's examination should evaluate the effectiveness of ICOC with each financial responsibility rule during, and as of the end of, the most recent fiscal year.⁴²

22. AT 1 also provides that the auditor must exercise due professional care, which includes application of professional skepticism, in planning and performing the examination engagement, and that the engagement partner is responsible for proper planning of the examination, proper supervision of the work of engagement team members, and compliance with the requirements of AT 1.⁴³ Additionally, when planning the examination of the compliance report, the auditor should obtain an understanding of the broker-dealer's processes regarding compliance with the financial responsibility rules, which includes evaluating the design of controls relevant to the examination and determining whether the controls have been implemented.⁴⁴ When performing the examination, the auditor must test the controls that are important to his or her conclusion about whether the broker-dealer has maintained effective ICOC for each financial responsibility rule during the fiscal year and at fiscal year-end, and must obtain evidence that the tested controls are designed effectively and operated effectively during the fiscal year and at fiscal year-end.⁴⁵ AT 1 further requires the auditor to conduct tests to determine whether the broker-dealer was in compliance with the Net Capital Rule and Reserve Requirements Rule at fiscal year-end; the auditor does this by, among other things, testing the accuracy and completeness of the information that the broker-dealer used to compute its compliance with those rules at fiscal year-end.⁴⁶

23. As described below, Askelson and the Firm failed to comply with applicable PCAOB rules and standards in connection with their examination of the assertions made by Alpine in its FYE September 30, 2015 compliance report.

⁴¹ See AT 1 ¶ 4.

⁴² Id. ¶ 4, Note.

⁴³ Id. ¶¶ 6(d), 7.

⁴⁴ Id. ¶ 9(b) and Note.

⁴⁵ Id. ¶ 11.

⁴⁶ Id. ¶ 21.

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Askelson and the Firm's Examination of Alpine's 2015 Compliance Report

24. On November 27, 2015, Alpine filed Form X-17A-5 Part III for FY 2015 with the Commission. Included in that filing was Alpine's FY 2015 compliance report dated November 20, 2015 ("Compliance Report"). On November 20, 2015, Askelson authorized the Firm's issuance of its examination report concerning Alpine's Compliance Report ("Examination Report"), and Tarvaran, as the engagement quality reviewer, provided concurring approval of issuance of the Examination Report. The Examination Report expressed Respondents' opinion that Alpine's assertions in the Compliance Report were fairly stated, in all material respects, and the Examination Report stated, among other things, that the Examination was conducted in accordance with PCAOB standards.

25. Askelson and the Firm failed to plan and perform the Examination to obtain appropriate evidence sufficient to provide reasonable assurance about whether there were material weaknesses in Alpine's ICOC, as required by AT 1.⁴⁷ In particular, other than reviewing Alpine's Written Supervisory Procedures Manual, Askelson and the Firm failed to perform any procedures to obtain an understanding of Alpine's ICOC.⁴⁸ In addition, Askelson and the Firm failed to perform any procedures to test ICOC controls and obtain evidence that they were designed effectively and operating effectively, as required by AT 1.⁴⁹

26. Askelson and the Firm also failed to perform any procedures to test the accuracy and completeness of the information that Alpine used to compute its compliance with the Net Capital Rule and Reserve Requirements Rule at FYE September 30, 2015.⁵⁰

27. As a result of the above deficiencies, Askelson and the Firm lacked a sufficient basis for their opinion that Alpine's assertions in its 2015 Compliance Report were fairly stated, in all material respects. Consequently, Askelson and the Firm violated AT 1.

⁴⁷ Id. ¶ 4; Appendix A ¶ A4.

⁴⁸ Id. ¶ 9(b) and Note.

⁴⁹ Id. ¶¶ 9(b), 11.

⁵⁰ Id. ¶ 21.

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Tarvaran Violated PCAOB Rules and Standards in Connection with the Engagement Quality Reviews for the Alpine Audit and Examination

28. AS 7 requires that an engagement quality review be performed on all audits and certain attestation engagements conducted pursuant to PCAOB standards.⁵¹ AS 7 also provides that a firm may grant permission to an audit client to use the firm's audit report or examination report only after an engagement quality reviewer provides concurring approval of issuance of the report.⁵²

29. An engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.⁵³ In performing an engagement quality review for an audit, the engagement quality reviewer should, among other things, evaluate the engagement team's assessment of, and audit responses to, significant risks, including fraud risks, identified by the engagement team or other significant risks identified by the engagement quality reviewer.⁵⁴ The engagement quality reviewer should also evaluate whether the engagement documentation that he or she reviewed indicates that the engagement team responded appropriately to significant risks and whether the engagement documentation that he or she reviewed supports the conclusions reached by the engagement team with respect to matters reviewed.⁵⁵ Finally, the engagement quality reviewer should review the engagement completion document and other relevant information.⁵⁶

30. In connection with the Alpine Audit, Tarvaran failed to evaluate the significant judgments made by the engagement team and the related conclusions reached regarding the supplemental information in the supporting schedules. Tarvaran similarly failed to evaluate the significant judgments made by the engagement team and the related conclusions reached regarding the testing of Alpine's ICOC and the testing

⁵¹ See AS 7 ¶ 1.

⁵² Id. ¶¶ 13, 18C.

⁵³ Id. ¶¶ 9, 18A.

⁵⁴ Id. ¶ 10(b).

⁵⁵ Id. ¶ 11.

⁵⁶ Id. ¶¶ 10(e), 18A.

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of Alpine's compliance with the Net Capital Rule and Reserve Requirements Rule at fiscal year-end.

31. Tarvaran provided his concurring approvals of issuance without performing the engagement quality reviews with due professional care, and accordingly Tarvaran violated AS 7.

D. Askelson and the Firm Violated PCAOB Rules and Standards in Connection with the Terra Tech Audit

32. At all relevant times, Terra Tech was a Nevada corporation headquartered in Newport Beach, California. Terra Tech's public filings disclose that, among other things, it was involved in the design, marketing and sale of hydroponic equipment for the cultivation of indoor agriculture. At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

33. Askelson, as engagement partner, authorized the issuance of an audit report, dated March 29, 2016, expressing an unqualified opinion on Terra Tech's financial statements for the year ending December 31, 2015. The audit report was included in Terra Tech's Form 10-K filed with the Commission on March 29, 2016.

34. In connection with the Terra Tech Audit, Askelson and the Firm failed to exercise due professional care, including professional skepticism, and failed to perform the audit in accordance with PCAOB standards. Specifically, Askelson and the Firm failed to perform procedures to identify and test journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements for evidence of possible material misstatement due to fraud to address the risk of management override of controls.⁵⁷

35. Terra Tech disclosed in its 2015 Form 10-K a derivative liability of approximately \$743,000, or approximately 26% of total liabilities, and short-term debt of approximately \$917,000, or approximately 32% of total liabilities. The short-term debt was comprised of convertible promissory notes issued during 2015 and 2014 ("convertible debt"). The derivative liabilities related to embedded conversion options and warrants associated with the convertible debt.

36. Other than obtaining management representations, Askelson and the Firm failed to perform other procedures to evaluate whether Terra Tech had appropriately accounted for its convertible debt and warrants. Specifically, Askelson and the Firm

⁵⁷ See AU §§ 316.58 - .62.

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failed to evaluate whether the embedded conversion options and warrants, which were deemed by Terra Tech to be derivative liabilities, were appropriately accounted for in accordance with U.S. GAAP.⁵⁸

37. In addition, Askelson and the Firm failed to perform sufficient procedures to test the valuation of the derivative liabilities. Specifically, Askelson and the Firm failed to perform procedures to evaluate the reasonableness of the significant assumptions used by management, including the expected volatility rates used by Terra Tech to determine the fair value estimates at date of issuance and year end.⁵⁹ As a result, Askelson and the Firm failed to exercise due professional care, including professional skepticism, during the Terra Tech Audit, and failed to obtain sufficient appropriate audit evidence to support the audit opinion.⁶⁰

38. Askelson and the Firm also failed to communicate to Terra Tech's audit committee an overview of the overall audit strategy or any significant risks identified during the Firm's risk assessment procedures for the Terra Tech Audit. As a result, Askelson and the Firm violated AS 16.⁶¹

E. Tarvaran and the Firm Violated PCAOB Rules and Standards in Connection with the FitLife Audit

39. At all relevant times, FitLife was a Nevada corporation headquartered in Omaha, Nebraska. FitLife's public filings disclose that it was a provider of innovative and proprietary nutritional supplements for health conscious consumers. At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

40. Tarvaran, as engagement partner, authorized the issuance of an audit report, dated April 14, 2016, expressing an unqualified opinion on FitLife's financial statements for the year ending December 31, 2015. The audit report was included in FitLife's Form 10-K filed with the Commission on April 14, 2016.

⁵⁸ See AS 14 ¶¶ 30, 31; see also FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Subtopic 815, *Derivatives and Hedging*.

⁵⁹ See AU §§ 328.26 and .28, *Auditing Fair Value Measurements and Disclosures*.

⁶⁰ See AU § 230.02; see also AS 15 ¶ 4.

⁶¹ See AS 16 ¶ 9.

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41. FitLife reported total assets, total revenue, and a net loss of approximately \$17.6 million, \$17.9 million, and \$1.2 million, respectively, as of and for the year ending December 31, 2015.

42. In connection with the FitLife Audit, Tarvaran and the Firm violated PCAOB rules and standards by failing to: a) test a significant portion of FitLife's consolidated revenue; b) properly evaluate an acquisition by FitLife; and c) make all of the required communications to FitLife's audit committee.

43. PCAOB standards require that sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected.⁶²

44. FitLife earned its revenue in 2015 through two subsidiaries, NDS Nutrition Products, Inc. ("NDS") and iSatori, Inc. ("iSatori"). To test revenue, Tarvaran and the Firm selected only sales transactions above specific dollar amounts for NDS and iSatori. These transactions, however, were not representative of the entire population because this approach did not allow transactions below the dollar amounts an opportunity to be selected. Because this approach did not constitute audit sampling, Tarvaran and the Firm excluded approximately 81% of FitLife's consolidated revenue from an opportunity to be selected for testing.

45. During 2015, FitLife disclosed that it acquired iSatori for approximately \$4.6 million, or approximately 26% of total assets at year end. FitLife disclosed that the acquisition resulted in the recognition of goodwill and other intangible assets, which in the aggregate, represented approximately 35% of FitLife's total assets at year end, and other acquired assets and assumed liabilities, which represented approximately 19% of total assets and 67% of total liabilities, respectively, at year end.

46. Although the engagement team discussed this acquisition during its team planning meeting, Tarvaran and the Firm failed to evaluate the risk of material misstatement at the financial statement level and the assertion level for this acquisition.⁶³

47. Tarvaran and the Firm also failed to perform sufficient procedures to test the acquisition. Specifically, Tarvaran and the Firm failed to perform sufficient procedures to: a) test the fair value of the common shares, options, and warrants

⁶² See AU § 350.24, *Audit Sampling*.

⁶³ See AS 12 ¶ 59; AS 13 ¶ 8.

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issued as part of the consideration for the acquisition; b) test the fair value of the acquired identified intangible assets; c) test the existence of the other assets acquired and the completeness of the liabilities assumed in connection with the acquisition; and d) evaluate the reasonableness of the fair values disclosed in FitLife's financial statements for certain other assets acquired. As a result, Tarvaran and the Firm violated PCAOB standards.⁶⁴

48. In addition, in auditing the accounting for the acquisition, Tarvaran and the Firm read a FitLife-engaged specialist's valuation report that valued the acquired identified intangible assets using information provided by FitLife, including historical data and financial projections. The information provided by the specialist included the fair values of certain other assets acquired, which differed significantly from the fair values disclosed in FitLife's financial statements. Despite being aware of this inconsistent information, Tarvaran and the Firm failed to perform audit procedures necessary to resolve the matter and to determine the effect, if any, on other aspects of the audit.⁶⁵ As a result, Tarvaran and the Firm failed to exercise due professional care, including professional skepticism, during the FitLife Audit, and failed to obtain sufficient appropriate audit evidence to support the audit opinion.⁶⁶

49. Finally, Tarvaran and the Firm failed to communicate to FitLife's audit committee an overview of the overall audit strategy or any significant risks identified during the Firm's risk assessment procedures for the FitLife Audit. As a result, Tarvaran and the Firm violated AS 16.⁶⁷

IV.

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

⁶⁴ See AU §§ 328.03, .15, .26, and .28; AU § 336.12, *Using the Work of a Specialist*; AS 13 ¶ 8; AS 14 ¶ 31.

⁶⁵ See AS 15 ¶ 29.

⁶⁶ See AU § 230.02; see also AS 15 ¶ 4.

⁶⁷ See AS 16 ¶ 9.

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- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Tarvaran Askelson & Company, LLP, Eric Askelson, and Patrick Tarvaran are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Tarvaran Askelson & Company, LLP is revoked;
- C. After two (2) years from the date of this Order, Tarvaran Askelson & Company, LLP may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- D. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Eric Askelson 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);⁶⁸
- E. After two (2) years from the date of this Order, Eric Askelson may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- F. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Patrick Tarvaran 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);⁶⁹
- G. After one (1) year from the date of this Order, Patrick Tarvaran may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

⁶⁸ As a consequence of the bar imposed in this Order, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Askelson. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

⁶⁹ As a consequence of the bar imposed in this Order, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra*, at n. 68, will apply with respect to Tarvaran.

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- H. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), civil money penalties in the amount of \$15,000 payable by Tarvaran Askelson & Company, LLP, \$5,000 payable by Eric Askelson, and \$5,000 payable by Patrick Tarvaran are imposed. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. Tarvaran Askelson & Company, LLP, Eric Askelson, and Patrick Tarvaran shall pay these civil money penalties within ten (10) days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter which identifies Tarvaran Askelson & Company, LLP, Eric Askelson, or Patrick Tarvaran as a respondent in these proceedings, sets forth the title and PCAOB Release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

February 27, 2018