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ORDER INSTITUTING DISCIPLINARY	)
PROCEEDINGS, MAKING FINDINGS, AND	)
IMPOSING SANCTIONS	)
	) PCAOB Release No. 105-2018-002
<i>In the Matter of Baum &amp; Company, P.A. and</i>	)
<i>Joel S. Baum, CPA,</i>	) February 27, 2018
	)
<i>Respondents.</i>	)
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring Baum & Company, P.A. ("Firm"), a registered public accounting firm; revoking the Firm's registration,<sup>1</sup> and imposing a civil money penalty in the amount of \$10,000 on the Firm; and (2) censuring Joel S. Baum, CPA ("Baum") and barring him from being an associated person of a registered public accounting firm.<sup>2</sup> In ordering these sanctions, the Board took into account Respondents' extraordinary cooperation in this matter, as described in more detail below.

The Board is imposing these sanctions on the basis of its findings that the Firm and Baum (collectively, "Respondents") violated PCAOB rules and standards by improperly adding, backdating, and otherwise altering audit documentation in two issuer audits prior to 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, 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 ("Act"), and PCAOB Rule 5200(a)(1) against Respondents.

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<sup>1</sup> The Firm may reapply for registration after one (1) year from the date of this Order.

<sup>2</sup> Baum 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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**II.**

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents each submitted an Offer 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 consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>4</sup>

**A. Respondents**

1. Baum & Company, P.A. is, and at all relevant times was, a corporation organized under the laws of Florida and is headquartered in Miami Beach, Florida. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice public accounting by the Florida Board of Accountancy (License No. AD0016605). At all relevant times, the Firm was the external auditor for the issuers discussed below.

2. Joel S. Baum, CPA, age 66, of Miami Beach, Florida is a certified public accountant licensed by the Florida Board of Accountancy (License No. AC0011883). Baum is, and at all relevant times was, the sole partner of the Firm and the Firm's sole accountant. Baum 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).

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<sup>3</sup> 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.

<sup>4</sup> 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 intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard.

**ORDER**

**B. Summary**

3. This matter concerns Respondents' failure to cooperate in a Board inspection and failure to adhere to the Board's standards concerning audit documentation. Respondents violated Board rules and auditing standards by adding, backdating, and otherwise altering numerous audit work papers in advance of the Board's 2017 inspection of the Firm. During the two weeks leading up to the inspection, Respondents added, backdated, or otherwise altered at least 54 work papers for the audit of Issuer A's 2016 financial statements more than eight months after the applicable documentation completion date. Respondents also added, backdated, or otherwise altered at least 5 work papers for the audit of Issuer B's 2016 financial statements after having represented to the Board's inspection staff that they had already assembled a complete and final set of audit documentation, and that the audit was therefore available to be inspected. At the start of the inspection, when providing the Board's inspection staff with the audit documentation for the selected audits, Respondents self-reported their conduct to the inspection staff but were unable to specify exactly what changes they had made to the work papers.

4. Through their conduct, Respondents violated PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, because they interfered with the Board's ability to inspect the work that Respondents had originally performed and documented before learning of the inspection. Respondents also violated AS 1215, *Audit Documentation* (formerly Auditing Standard No. 3),<sup>5</sup> because, after the documentation completion date, they (1) added documentation to the work papers without indicating the date the documentation was added, the person who prepared the additional documentation, or the reason for the additional documentation, and (2) backdated and otherwise altered audit documentation.

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<sup>5</sup> All references herein to PCAOB auditing standards are to the versions of those standards that were applicable at the time of the conduct. 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 (March 31, 2015); *see also PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards.

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**C. Respondents Violated PCAOB Rules and Standards**

5. Issuer A and Issuer B are each an "issuer" as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). In May 2017, the Board inspected the Firm's audit of Issuer A's financial statements for the year ended April 30, 2016 and the Firm's audit of Issuer B's financial statements for the year ended December 31, 2016.

6. PCAOB rules require that registered public accounting firms and their associated persons "shall cooperate with the Board in the performance of any Board inspection."<sup>6</sup> This cooperation obligation includes an obligation not to provide misleading documents or information in connection with, or otherwise to interfere in, the Board's inspection processes.<sup>7</sup>

7. PCAOB rules require that registered public accounting firms and their associated persons comply with applicable auditing and related professional practice standards.<sup>8</sup> AS 1215 requires that "[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."<sup>9</sup> After the documentation completion date, audit documentation must not be deleted or discarded from the audit file, but it

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<sup>6</sup> PCAOB Rule 4006.

<sup>7</sup> See, e.g., *Kabani & Company, Inc.*, SEC Release No. 80201, at 14 (Mar. 10, 2017) (sustaining Board finding that respondents failed to cooperate with inspection where improper work paper alterations "interfered with the PCAOB's ability to fulfill its regulatory function of ensuring that auditors comply with their professional responsibilities"); *Dale Arnold Hotz, CPA, Jyothi Nuthulaganti Manohar, CPA, and Michael Jared Fadner, CPA*, PCAOB Release No. 105-2012-008, ¶ 7 (Nov. 13, 2012); see also *Gately & Associates, LLC*, SEC Release No. 34-62656, at 22-23 (Aug. 5, 2010) (sustaining Board finding that respondents failed to cooperate with inspection).

<sup>8</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.

<sup>9</sup> AS 1215.15. The "report release date" is "the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements." AS 1215.14.

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may be added as long as the auditor documents the date it was added, the name of the person who prepared it, and the reason for adding it.<sup>10</sup>

8. As described below, Respondents violated PCAOB Rule 4006 and AS 1215.

The Issuer A and Issuer B Audits

9. The Firm audited Issuer A's financial statements for the year ended April 30, 2016 ("Issuer A audit"). Baum served as the engagement partner for the Issuer A audit.

10. The Firm's audit report for the Issuer A audit stated that the audit was conducted in accordance with PCAOB standards. The audit report further stated that Issuer A's financial statements presented fairly, in all material respects, the company's financial position, results of operations, and cash flows in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The audit report was included in Issuer A's annual report filed with the U.S. Securities and Exchange Commission ("Commission").

11. The report release date for the Issuer A audit was June 16, 2016. Accordingly, the documentation completion date for the Issuer A audit was no later than July 31, 2016.

12. The Firm audited Issuer B's financial statements for the year ended December 31, 2016 ("Issuer B audit"). Baum served as the engagement partner for the Issuer B audit.

13. The Firm's audit report for the Issuer B audit stated that the audit was conducted in accordance with PCAOB standards. The audit report further stated that Issuer B's financial statements presented fairly, in all material respects, the company's financial position, results of operations, and cash flows in conformity with U.S. GAAP. The audit report was included in Issuer B's annual report filed with the Commission.

14. The report release date for the Issuer B audit was March 24, 2017. Accordingly, the documentation completion date for the Issuer B audit was no later than May 8, 2017. As discussed below, Respondents' representations subsequently established that the documentation completion date had occurred as of March 30, 2017.

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<sup>10</sup> AS 1215.16.

## ORDER

### Steps Taken in Advance of the Board's Inspection

15. On or before January 18, 2017, the Board notified Respondents that the Board's Division of Registration and Inspections ("Inspections") would inspect the firm. Inspection fieldwork was scheduled to begin on May 1, 2018. The Act "requires the Board to conduct a 'continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons . . . with [the Act], the rules of the Board, the rules of the Commission, or professional standards.'"<sup>11</sup>

16. The documentation completion date for the Issuer A audit, which was no later than July 31, 2016, passed more than five months before Respondents were notified of the upcoming inspection, and nine months before the inspection was scheduled to begin.

17. In contrast, the Firm had until May 8, 2017—seven days after the inspection was scheduled to begin—to assemble the complete and final set of documentation for the Issuer B audit. Nonetheless, on March 30, 2017, Respondents represented to the Inspections staff that a complete and final set of audit documentation had already been assembled for the Issuer B audit, and that the audit was therefore available to be inspected. Accordingly, the documentation completion date for the Issuer B audit had occurred as of March 30, 2017.

18. During the last two weeks of April 2017, Respondents prepared for the inspection by gathering the Issuer A and Issuer B audit work papers. During this same timeframe, Respondents also added, backdated, or otherwise altered at least 54 work papers for the Issuer A audit and added, backdated, or otherwise altered at least 5 work papers for the Issuer B audit. The audit engagement files did not contain any documentation identifying the information added, the date the information was added, the person who prepared the additional documentation, or the reason for the additional documentation. At the time they made the alterations, Respondents intended to provide the added, backdated, and altered work papers to Inspections without disclosing the fact that they had made alterations in anticipation of the inspection.

19. By the time that fieldwork for the inspection began on May 1, 2017, however, Respondents had a change of heart. Upon providing the Board's Inspections staff with the work papers, Baum told the Inspections staff that he had altered the work papers and did not feel right about what he had done. Baum said that he had not kept

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<sup>11</sup> *Gately & Associates, LLC*, SEC Release No. 34-62656 at 2 n.3, 2010 SEC LEXIS 2535, 2 n.3 (quoting Section 104(a) of the Act).

## ORDER

track of the changes he had made to the work papers, but that he would attempt to recreate some documentation of the changes.

20. Respondents subsequently provided the Board's Inspections staff with a list identifying those work papers that they remembered altering and describing the alterations in general terms, with notations indicating, for example, that Respondents had "update[d]" or "revise[d]" certain work papers. Respondents were unable to provide additional detail concerning the nature of such updates and revisions. Thus, Respondents' actions frustrated the ability of the Board's Inspections staff to determine what work Respondents had performed and documented during the Issuer A and Issuer B audits, before Respondents added to, backdated, and otherwise altered the work papers in anticipation of the inspection. This interference with the Board's inspection processes violated PCAOB Rule 4006.

21. As noted previously, when information is added to audit documentation after the documentation completion date, AS 1215 requires the auditor to document the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.<sup>12</sup> Respondents, after the documentation completion date, failed to indicate the dates that the additions were made to the audit documentation, the name of the person who made the additions, and the reason for making the additions after the documentation completion date, and backdated and otherwise altered audit documentation. This conduct failed to comply with AS 1215.

## 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. In considering appropriate sanctions, the Board took into account Respondents' extraordinary cooperation. Specifically, Respondents voluntarily and timely self-reported the entirety of the misconduct described in this Order. Absent that extraordinary cooperation, the Board would have imposed significantly greater sanctions. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Baum & Company, P.A. and Joel S. Baum, CPA are hereby censured;

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<sup>12</sup> AS 1215.16.

**ORDER**

- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Baum & Company, P.A. is revoked;
- C. After one (1) year from the date of this Order, Baum & Company, P.A. may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed upon Baum & Company, P.A. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Baum & Company, P.A. shall pay this civil money penalty 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 the Firm 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.
- E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Joel S. Baum, CPA 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);<sup>13</sup> and

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<sup>13</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Baum. Section 105(c)(7)(B) of the Act provides that "[i]t 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."



**ORDER**

- F. After one (1) year from the date of this Order, Joel S. Baum, CPA may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

February 27, 2018