



**ORDER**

admitted, Respondents consent to the 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. David S. Friedkin, CPA, is, and at all relevant times was, a sole proprietorship located in River Vale, New Jersey. The Firm is registered with the PCAOB, pursuant to Section 102 of the Act and PCAOB rules. The Firm served as the external auditor of MMEM's 2016 financial statements.

2. David Scott Friedkin, CPA, age 52, of River Vale, New Jersey, is a certified public accountant licensed by the New Jersey State Board of Accountancy (License No. 20CC01880600). At all relevant times, Friedkin was the Firm's sole proprietor and served as the engagement partner for the Firm's audit of MMEM's 2016 financial statements. Friedkin is 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).

**B. Summary**

3. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the Firm's audit of MMEM's 2016 financial statements.<sup>5</sup> As detailed below, Respondents failed to obtain sufficient appropriate audit evidence and exercise due professional care and professional skepticism in connection with the audit.

4. In particular, Respondents failed to obtain sufficient appropriate audit evidence concerning the most significant transactions in 2016—a legal settlement with

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<sup>3</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities 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 (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

<sup>5</sup> All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant conduct.

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related parties and certain related-party convertible debt transactions arising out of that settlement. Those transactions resulted in a windfall to the majority shareholder and diluted the interests of the minority shareholders. Yet Respondents failed to obtain and review the underlying documents, and failed to obtain other sufficient appropriate evidence to evaluate whether the transactions with related parties had been appropriately accounted for and accurately disclosed in the financial statements.

5. The Firm also failed to comply with AS 1220, *Engagement Quality Review*, by failing to obtain an engagement quality review with respect to the audit even though it was required. Additionally, Friedkin violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*, because he took or omitted to take actions knowing, or recklessly not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violation of AS 1220.

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

6. 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.<sup>6</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>7</sup> Among other things, those standards require that an auditor exercise due professional care and professional skepticism in planning and performing the audit.<sup>8</sup>

7. The auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.<sup>9</sup> To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based.<sup>10</sup> "If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion or has substantial doubt about a relevant assertion, the auditor should perform procedures to

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<sup>6</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards* ("PCAOB Rule 3100"); PCAOB Rule 3200, *Auditing Standards* ("PCAOB Rule 3200").

<sup>7</sup> See AS 3101, *Reports on Audited Financial Statements*, ¶ 7.

<sup>8</sup> See AS 1015, *Due Professional Care in the Performance of Work*.

<sup>9</sup> See AS 1105, *Audit Evidence*, ¶ 4.

<sup>10</sup> See AS 1105 ¶ 6.

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obtain further audit evidence to address the matter."<sup>11</sup> Representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.<sup>12</sup>

8. PCAOB standards require that the audit report state whether the financial statements are presented in conformity with generally accepted accounting principles.<sup>13</sup> "The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework."<sup>14</sup> "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."<sup>15</sup>

9. In particular, the auditor must evaluate whether related party transactions have been properly accounted for and disclosed in the financial statements.<sup>16</sup> For each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk, the auditor should, among other things:

- a. Read the underlying documentation and evaluate whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction;
- b. Determine whether the transaction has been authorized and approved in accordance with the company's established policies and procedures

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<sup>11</sup> AS 2810, *Evaluating Audit Results*, ¶ 35.

<sup>12</sup> See AS 2805, *Management Representations*, ¶ 2.

<sup>13</sup> See AS 3101.

<sup>14</sup> AS 2810, ¶ 30.

<sup>15</sup> AS 2810 ¶ 31.

<sup>16</sup> See AS 2410, *Related Parties*, ¶ 17; see also AS 2410 ¶ 11 ("The auditor must design and implement audit responses that address the identified and assessed risks of material misstatement. This includes designing and performing audit procedures in a manner that addresses the risks of material misstatement associated with related parties and relationships and transactions with related parties." (footnotes omitted)).

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regarding the authorization and approval of transactions with related parties;  
and

- c. Determine whether any exceptions to the company's established policies or procedures were granted.<sup>17</sup>

10. PCAOB Rule 3502 also prohibits an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to the firm's violation of PCAOB rules or professional standards.

11. As described below, Respondents failed to comply with PCAOB rules and standards in connection with the Firm's audit of MMEM's 2016 financial statements.

***Audit of MMEM's 2016 Financial Statements***

12. Mansfield-Martin Exploration Mining, Inc. was, at all relevant times, a Nevada corporation with its principal executive office in Tombstone, Arizona. MMEM's public filings disclosed that, from approximately June 2014 through March 2016, it had been developing a business to engage in the retail sale of medical and personal use marijuana. Its public filings further disclosed that it ceased its marijuana-related activities in March 2016, settled certain legal claims relating to that business in June 2016, and then entered into an agreement in November 2016 to issue shares of its common stock in exchange for certain rights and interests in mining properties. At all relevant times, MMEM's common stock was traded on the OTCQB Bulletin Board. At all relevant times, MMEM was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

13. Friedkin, as engagement partner, authorized the Firm's issuance of an audit report dated April 12, 2017, expressing an unqualified audit opinion on MMEM's financial statements for the year ended December 31, 2016. The audit report was included with MMEM's Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission") on April 17, 2017.

***Respondents Failed to Adequately Perform Engagement Acceptance and Risk Assessment Procedures***

14. PCAOB standards provide that an auditor should not accept an engagement until certain communications with the predecessor auditor have been evaluated.<sup>18</sup> The successor auditor should make specific and reasonable inquiries of

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<sup>17</sup> See AS 2410 ¶ 12.

<sup>18</sup> See AS 2610, *Initial Audits—Communications Between Predecessor and Successor Auditors*, ¶¶ 3, 7-10.

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the predecessor auditor regarding matters that will assist the successor auditor in determining whether to accept the engagement, such as information that might bear on the integrity of management, disagreements with management, the predecessor auditor's understanding as to the reasons for the change of auditors, and the predecessor auditor's understanding of the nature of the company's relationships and transactions with related parties and significant unusual transactions.<sup>19</sup>

15. Contrary to the foregoing PCAOB standards, Respondents did not make inquiries to the predecessor auditor until after they had completed all fieldwork for the audit, and they failed to receive and evaluate the responses to their inquiries before issuing the audit report. Despite accepting the audit engagement in February 2017, Respondents waited until Friday, April 14, 2017, to send their inquiries to the predecessor auditor. On the next business day, Monday, April 17, 2017, Friedkin, in violation of PCAOB standards, authorized the issuance of DSF's audit report on MMEM's 2016 financial statements, without having received any response from the predecessor auditor.

16. To properly plan the audit, the auditor should also perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures.<sup>20</sup> When performing risk assessment procedures, the auditor should identify and assess the risks of material misstatement at the financial statement level and the assertion level.<sup>21</sup>

17. Respondents failed to adequately plan the MMEM audit because they failed to perform a risk assessment that complied with PCAOB standards. Specifically, Respondents did not identify and assess the risks of material misstatement at the assertion level, as required by PCAOB auditing standards.<sup>22</sup> Instead, Respondents documented one generalized assessment that the risk of material misstatement and fraud in the audit was limited.

***Respondents Failed to Obtain Sufficient Appropriate Audit Evidence***

18. As set forth below, during the MMEM audit, Respondents failed to obtain sufficient appropriate audit evidence concerning significant accounts and transactions.

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<sup>19</sup> See AS 2610 ¶ 09.

<sup>20</sup> See AS 2110, *Identifying and Assessing Risks of Material Misstatement*, ¶ 4.

<sup>21</sup> See AS 2110 ¶ 59.

<sup>22</sup> See *id.*

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As a result, Respondents failed to obtain sufficient appropriate audit evidence to support their opinion that MMEM's 2016 financial statements were, in all material respects, presented in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP").

19. MMEM's 2016 financial statements disclosed that, during 2016, MMEM had: (1) terminated a contract through which one of its subsidiaries had provided services to marijuana dispensaries owned by a company controlled by MMEM's principal shareholder, and (2) entered into a legal settlement with the principal shareholder and his company over fees and other reimbursements that MMEM believed were owed to it for the services provided to the dispensaries. The disclosures indicated that, as part of the settlement, MMEM had relinquished claims to approximately \$80,000 in accrued fees and its interests in the dispensaries and one of MMEM's subsidiaries, and had also assigned a trademark to the principal shareholder. The disclosures also indicated that MMEM's remaining claims for approximately \$343,000 against the related parties had been satisfied in the form of a reduction in MMEM's debt to the principal shareholder.

20. However, as part of the settlement, the existing note payable to the principal shareholder was reportedly replaced by a new convertible note payable to the principal shareholder (the "New Note"), which could permit the principal shareholder to substantially dilute the ownership of MMEM's other shareholders. The principal and accrued interest for the New Note as of year-end 2016 totaled more than \$881,000 and comprised over 92% of MMEM's reported liabilities. MMEM disclosed in its Form 10-K for 2016 that, in November 2016, the principal shareholder exercised the conversion feature of the New Note to convert \$150 of debt into 1.5 million common shares with a fair value of \$217,350. MMEM also disclosed in its Form 10-K that the further exercise of the conversion feature could cause up to 881 million additional shares to be issued to the principal shareholder.

21. The settlement transactions were significant transactions that occurred in 2016 and provided substantial benefits to a related party. Nevertheless, other than obtaining management representations, Respondents failed to perform any procedures to evaluate whether the settlements had, in fact, occurred and were recorded in the proper period. Specifically, Respondents failed to obtain and review the underlying documentation and to evaluate whether the terms and other information about the settlement transactions were consistent with the explanations Respondents received from management.<sup>23</sup> Respondents also failed to determine whether the transactions had been authorized and approved in accordance with the company's established policies and procedures regarding the authorization and approval of transactions with

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<sup>23</sup>

See AS 2410 ¶ 12(a).

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related parties, or whether any exceptions to those policies or procedures had been granted.<sup>24</sup>

22. Respondents likewise failed to perform procedures to obtain sufficient appropriate audit evidence concerning the New Note.<sup>25</sup> Respondents failed to obtain an executed copy of the New Note. Although management provided Respondents with a document that Respondents believed was the New Note, that document was unexecuted and had both a different date and different face amount than the New Note. Respondents failed to perform any audit procedures to resolve those inconsistencies.<sup>26</sup> As a result, Respondents failed to obtain reliable evidence regarding the New Note, and failed to perform any procedures to evaluate whether the terms and other information about the transaction were consistent with explanations from their inquiries to management.<sup>27</sup>

23. With respect to the New Note, Respondents also failed to evaluate whether the financial statements were presented fairly, in all material respects, in conformity with U.S. GAAP.<sup>28</sup> Respondents failed to perform procedures to evaluate whether the New Note's conversion feature met the definition of a beneficial conversion feature that needed to be separately recognized.<sup>29</sup>

24. As a result, Respondents failed to perform audit procedures to obtain sufficient appropriate evidence with respect to these transactions, and to evaluate whether these transactions with related parties were properly accounted for and disclosed in the financial statements.<sup>30</sup>

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<sup>24</sup> See AS 2410 ¶¶ 12(b)-(c).

<sup>25</sup> See AS 1105 ¶ 4.

<sup>26</sup> See AS 1105 ¶ 29.

<sup>27</sup> See AS 1105 ¶ 6; AS 2410 ¶ 12(a).

<sup>28</sup> See AS 2810 ¶ 30.

<sup>29</sup> See Financial Accounting Standards Board Accounting Standards Codification Topic 470-20-25-5, *Debt* ("An embedded beneficial conversion feature present in a convertible instrument shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital.").

<sup>30</sup> See AS 1105; AS 2410 ¶¶ 2, 17.



**ORDER*****Respondents Failed to Obtain Written Management Representations***

25. PCAOB standards require that an auditor receive certain written representations from management in connection with an audit of financial statements.<sup>31</sup> Although Respondents requested written representations during the audit, they failed to actually obtain them.<sup>32</sup>

***Respondents Failed to Obtain an Engagement Quality Review***

26. PCAOB standards provide that an engagement quality review be performed on audits, interim reviews, and certain attestation engagements conducted pursuant to PCAOB standards.<sup>33</sup> "In an audit, the firm may grant permission to the client to use the engagement report only after the engagement quality reviewer provides concurring approval of issuance."<sup>34</sup>

27. The Firm improperly permitted issuance of its audit report without first obtaining an engagement quality review and concurring approval of issuance. As a result, the Firm violated AS 1220.

28. Friedkin knew, or was reckless in not knowing, that he was directly and substantially contributing to the Firm's violations of AS 1220 when he caused the Firm to grant permission to MMEM to use the audit report. As a result, Friedkin violated PCAOB Rule 3502.

**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:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), David S. Friedkin, CPA, and David Scott Friedkin, CPA, are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), David Scott Friedkin, CPA, is barred from being an associated person of a

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<sup>31</sup> See AS 2805 ¶¶ 1, 5-6.

<sup>32</sup> See id.

<sup>33</sup> See AS 1220 ¶ 1.

<sup>34</sup> AS 1220 ¶ 13.

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registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i),<sup>35</sup>

- C. After two (2) years from the date of this Order, David Scott Friedkin, CPA, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of David S. Friedkin, CPA, is revoked; and
- E. After two (2) years from the date of the Order, David S. Friedkin, CPA, may reapply for registration by filing an application pursuant to PCAOB Rule 2101.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

July 12, 2018

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<sup>35</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to David Scott Friedkin, CPA. 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."