Public Company Accounting Oversight Board

1666 K Street NW
Washington, DC 20006
Office: (202) 207-9100
Fax: (202) 862-8430
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS	PCAOB Release No. 105-2019-024
In the Matter of Brady Jensen, CPA,	October 31, 2019
Respondent.	

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Brady Jensen, CPA ("Jensen" or "Respondent"), suspending him from being an associated person of a registered public accounting firm for a period of one year from the date of this Order, and requiring that he complete ten hours of continuing professional education ("CPE") (in addition to any CPE required in connection with any professional license) concerning PCAOB standards relating to conducting engagement quality reviews. The Board is imposing these sanctions on the basis of its findings that, in connection with his role as the engagement quality reviewer for the audits of two issuers, Jensen violated PCAOB rules and auditing standards.

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 Respondent.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") 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 Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), as set forth below.[1]

---

[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

III.

On the basis of Respondent's Offer, the Board finds that:[2]

A. Respondent

1. Brady Jensen, age 33, of Alameda, California, is a certified public accountant licensed by the state of Colorado (license no. 32870). Jensen was employed by B F Borgers CPA PC ("BF Borgers" or the "Firm") from March 2015 until August 2018. He was a manager at the Firm from March 2015 to fall 2017 and an audit director, the Firm's equivalent to non-equity partner, from the fall of 2017 to August 2018. Jensen served as the engagement quality review ("EQR") reviewer for BF Borgers's audits of the 2014 and 2015 financial statements of DS Healthcare Group, Inc. ("DSH") and the 2016 financial statements of Issuer A. At all relevant times, Jensen 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).

B. Relevant Entity

2. **B F Borgers CPA PC** is a professional corporation organized under the laws of the state of Colorado and headquartered in Lakewood, Colorado. BF Borgers is licensed by the Colorado State Board of Accountancy (license no. FRM-13157). BF Borgers registered with the Board on May 11, 2010, pursuant to Section 102 of the Act and PCAOB rules. BF Borgers served as the independent auditor of DSH's 2014 and 2015 financial statements and Issuer A's 2016 financial statements.

C. Summary

3. This matter concerns Jensen's violations of PCAOB rules and auditing standards in connection with the audits of DSH's 2014 and 2015 financial statements and Issuer A's 2016 financial statements (collectively, the "Audits"). Specifically, Jensen failed to comply with AS 1220, *Engagement Quality Review* ("AS 1220"),[3] and failed to exercise

---

[2] The Board finds that Respondent's 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.

[3] 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). While

due professional care, including appropriate professional skepticism, in his performance of the EQR of the Audits.

4. As a result of his failure to perform the EQR with due professional care and in conformity with PCAOB standards, Jensen lacked an appropriate basis to provide his concurring approvals of issuance of BF Borgers's audit reports on DSH's 2014 and 2015 financial statements and Issuer A's 2016 financial statements.

5. Jensen also served as the EQR reviewer on the Audits while also making decisions on behalf of the engagement teams and assuming responsibilities of the engagement teams. As a result, he failed to maintain objectivity as the EQR reviewer, in violation of AS 1220.

D. Applicable PCAOB Rules and Auditing Standards

6. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[4] AS 1220 provides that an EQR and concurring approval of issuance are required for all audits and interim reviews conducted pursuant to PCAOB standards.[5]

7. The EQR reviewer must be independent of the company, perform the EQR with integrity, and maintain objectivity in performing the review.[6] To maintain objectivity, the EQR reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.[7]

8. The EQR reviewer may provide concurring approval of issuance of an audit report only if, after performing a review with due professional care, he or she is not aware

---

Jensen's conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

[4] See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards* (applicable to audits for the fiscal years ending on or after December 31, 2016); PCAOB Rule 3200T, *Interim Auditing Standards* (applicable to audits for the fiscal years ending on or before December 31, 2016).

[5] AS 1220.01.

[6] Id. at .06.

[7] Id. at .07.

of a significant engagement deficiency.[8] To perform an EQR with due professional care, the EQR reviewer must exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.[9]

9. An EQR 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.[10] In performing an EQR for an audit, the EQR reviewer should evaluate, among other things, the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team, including fraud risks, or other significant risks identified by the EQR reviewer.[11] The EQR reviewer should also evaluate whether appropriate matters have been communicated, or identified for communication, to the audit committee, management, and other parties, such as regulatory bodies.[12] The EQR 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 the matters reviewed.[13]

10. As described below, Jensen failed to comply with these PCAOB rules and standards in connection with the Audits.

E. Jensen Violated PCAOB Rules and Auditing Standards in Connection with His EQR of the DSH Audits

11. DSH is a Florida corporation headquartered in Pompano Beach, Florida. The company is engaged in developing products for hair care and personal care needs.

---

[8] Id. at .12. A significant engagement deficiency in an audit exists when: "(1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client." Id., Note.

[9] See AS 1015.07, *Due Professional Care in the Performance of Work* ("AS 1015").

[10] AS 1220.09.

[11] Id. at .10b.

[12] Id. at .10i.

[13] Id. at .11.

At all relevant times, DSH was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

12. BF Borgers issued an audit report containing an unqualified audit opinion on DSH's 2014 and 2015 financial statements on October 7, 2016.[14] Jensen served as the EQR reviewer and provided concurring approval for the issuance of the audit report. As described below, Jensen provided his concurring approval of issuance without performing his review with due professional care. As a result, he violated AS 1015 and AS 1220.

<u>Jensen Failed to Evaluate Properly the Engagement Team's Audit Responses Related to Possible Illegal Acts</u>

13. During the 2014 and 2015 DSH audits, Jensen was aware of allegations that DSH's management may have committed fraud or illegal acts. Jensen learned that the company's former chief financial officer ("CFO") had made allegations that the company's president and board chairman (the "President") had colluded to engage in improper revenue recognition, channel stuffing, intentional revenue manipulation, and inappropriate stock issuances, among other things. Jensen also learned that a preliminary investigation of those allegations by a law firm hired by the company's former board of directors[15] had largely confirmed the former CFO's allegations. In addition, Jensen knew the engagement team identified significant risks, including fraud risks, related to those possible illegal acts.

14. Jensen failed to evaluate properly the significant judgments made and the related conclusions reached by the engagement team with respect to the identified possible illegal acts. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. More specifically, Jensen failed to understand whether the engagement team had performed the required procedures to assess the possible illegal acts, as the work papers he reviewed did not

---

[14] DSH filed its original 2014 financial statements, audited by Marcum LLP ("Marcum"), on April 15, 2015. On March 23, 2016, the company filed a Form 8-K with the Commission ("March 2016 Form 8-K") stating that its financial statements for the second and third quarters of 2015 should not be relied upon because of material errors. On May 2, 2016, DSH terminated Marcum and appointed MaloneBailey LLP ("Malone Bailey") as its independent registered public accounting firm. On August 10, 2016, DSH terminated MaloneBailey and appointed BF Borgers. BF Borgers simultaneously audited DSH's 2014 and 2015 financial statements.

[15] Upon receiving the fraud allegations, the company's former board hired a law firm to investigate the allegations and fired the President. Before that investigation was concluded, the President regained control of the company, terminated the rest of the board, and fired the law firm conducting the investigation.

address the requirements of the relevant PCAOB auditing standard.[16] As a result, Jensen had no basis to evaluate whether the possible illegal acts were appropriately responded to and communicated, or identified for communication, to DSH's audit committee or other parties, as required by PCAOB standards.[17]

Jensen Failed to Evaluate Properly the Engagement Team's Audit Responses Related to Revenue Recognition in the 2014 and 2015 Audits

15. DSH's March 2016 Form 8-K, which Jensen reviewed, stated that the company's financial statements for the second and third quarters of 2015 should not be relied upon because of material errors related to revenue recognition. Further, as stated above, Jensen was aware of allegations that members of DSH's management may have colluded to engage in improper revenue recognition, including channel stuffing and intentional revenue manipulation. Jensen also knew that the engagement team had identified a fraud risk of improper revenue recognition, including channel stuffing.

16. Jensen knew the engagement team planned to respond to the fraud risk by investigating all significant sales within two weeks of the fiscal year-end ("Revenue Cut-off Testing").[18] The work papers Jensen reviewed documented procedures performed on sales recorded during the first three fiscal quarters of 2015. However, those work papers did not document any Revenue Cut-off Testing procedures on transactions recorded at the end of 2015. Further, the relevant 2014 and 2015 audit work papers did not document any Revenue Cut-off Testing procedures performed related to the company's Mexican subsidiary, despite it being significant[19] and the subject of allegations of fraudulent revenue recognition.

---

[16] See AS 2405.10, *Illegal Acts by Clients* ("AS 2405") (providing that, when an auditor becomes aware of information concerning a possible illegal act, the auditor should obtain an understanding of the nature of the possible illegal act, the circumstances under which it occurred, and sufficient other information to evaluate the effect on the financial statements); see also Section 10A of the Securities Exchange Act of 1934.

[17] See AS 1220.09-.11; AS 2405.10 and .17.

[18] While other substantive procedures were performed on, and may have provided evidence about, revenue recognition, those procedures were not planned to be, and were not, specifically responsive to the assessed fraud risk.

[19] DSH's Mexican subsidiary represented approximately $1.6 million (twenty-six percent) and $1.7 million (twenty-two percent) of total revenue in 2014 and 2015, respectively.

17. Jensen failed to evaluate properly the engagement team's response to the fraud risk related to revenue recognition. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. Specifically, Jensen failed to determine whether the engagement team had performed the Revenue Cut-off Testing it planned to perform to address the assessed fraud risk. As a result, Jensen failed to evaluate properly whether the assessed fraud risk was appropriately responded to, as required by PCAOB standards.[20]

Jensen Failed to Evaluate Properly the Engagement Team's Audit Responses Related to Equity Transactions in the 2015 Audit

18. DSH's March 2016 Form 8-K stated that the company's financial statements for the second and third quarters of 2015 should not be relied upon because certain 2015 equity transactions were not properly recorded in accordance with accounting principles generally accepted in the United States ("GAAP") or properly disclosed. The March 2016 Form 8-K also stated that DSH's former board had terminated the President for cause. Jensen also knew that the President regained control of the company by obtaining voting agreements from certain shareholders and replacing the former board with a new board.

19. As stated above, Jensen was aware of allegations that during 2015 the President of DSH may have committed fraud through inappropriate stock issuances. More specifically, Jensen knew there were allegations that the President had issued stock to friends and/or business associates, without board approval, in exchange for services that had little or no value. Further, Jensen knew that, during 2015, additional paid-in-capital ("APIC") nearly doubled, increasing to $28.3 million as of December 31, 2015. Because of these circumstances, Jensen knew that the engagement team: (1) identified significant risks of material misstatement for all assertions, including rights and obligations, related to APIC; and (2) planned to perform substantive audit procedures to address those significant risks.

20. Jensen failed to evaluate properly whether the engagement team's audit procedures were sufficient to respond to the significant risk regarding the stock issuances. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. More specifically, Jensen failed to perform procedures sufficient to evaluate properly whether the engagement team had performed the substantive procedures necessary to address the significant risk. For example, the work papers he reviewed did not document a conclusion regarding the validity of the stock issuances. As a result, Jensen failed to evaluate properly whether the assessed significant risk was appropriately responded to, as required by PCAOB standards.[21]

---

[20] See AS 1220 at .10(b) and .11.

[21] See id.

21. The relevant work papers Jensen reviewed also documented that the engagement team had identified a fraud risk related to a significant, unusual transaction. Specifically, Jensen knew of allegations that in 2015 the President issued, without board approval, shares contributing approximately $2.3 million to APIC to a purported Hong Kong-based distributor ("HK Stock Transaction"). The work papers Jensen reviewed did not document an evaluation of the business rationale for the HK Stock Transaction or address an allegation that the transaction lacked economic substance.[22]

22. Jensen failed to evaluate properly whether the engagement team's audit procedures were sufficient to respond to the identified significant risks, including fraud risks. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. Specifically, Jensen failed to evaluate properly whether the engagement team performed the procedures necessary to understand the business rationale of the HK Stock Transaction. As a result, Jensen failed to evaluate properly whether the assessed significant risks and fraud risks were appropriately responded to, as required by PCAOB standards.[23]

Jensen Failed to Maintain Objectivity in Performing His EQR

23. While serving as the engagement quality reviewer, Jensen assumed responsibilities of the engagement team on the 2014 and 2015 DSH audits. Among other things, he prepared work papers documenting the Firm's planning and risk assessment procedures. He also performed a first-level review of substantive testing work papers for many significant accounts that were prepared by junior staff. As a result, he failed to maintain objectivity as the engagement quality reviewer, in violation of AS 1220.07.

F. Jensen Violated PCAOB Rules and Auditing Standards in Connection with His EQR of the Issuer A Audit

24. Issuer A is a Delaware corporation headquartered in Ramona, California. It is an investment company focusing on investments in the medical marijuana and social use cannabis industries. At all relevant times, Issuer A was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

25. The Firm audited Issuer A's 2016 financial statements and issued an audit report containing an unqualified audit opinion on those financial statements on March 23,

---

[22] See AS 2401.66-.67, *Consideration of Fraud in a Financial Statement Audit* ("AS 2401").

[23] See AS 1220.10(b) and .11.

2017. Jensen served as the EQR reviewer on that audit and provided concurring approval for the issuance of the audit report.

26. Jensen knew the audit engagement team identified significant risks related to accounts receivable, which comprised three separate assets on Issuer A's balance sheet (collectively "AR"). In total, these three assets represented 44 percent of Issuer A's total assets as of December 31, 2016.

27. As described below, Jensen failed to evaluate properly the engagement team's AR audit procedures and provided his concurring approval of issuance without performing his review with due professional care. As a result, he violated AS 1015 and AS 1220.

<u>Jensen Failed to Evaluate Properly the Engagement Team's Audit Procedures Related to a Large Receivable</u>

28. Issuer A included as an asset on its balance sheet a significant receivable originating in 2014 from a former business partner totaling $1.5 million (the "Receivable"). This asset represented 63 percent of AR (and 29 percent of total assets) and was the company's single largest asset as of December 31, 2016.

29. The relevant work papers Jensen reviewed related to the valuation of the Receivable consisted of a March 16, 2016 attorney letter obtained during the prior year audit. Additionally, the relevant work papers documented that management had identified concerns about whether Issuer A would collect the interest earned on the Receivable. Therefore, management decided to record an allowance for the entire amount of the accrued interest receivable, or approximately $423,000, as of December 31, 2016.

30. Jensen failed to evaluate properly whether the engagement team responded appropriately to the identified significant risks associated with the Receivable. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. Specifically, Jensen failed to perform procedures sufficient to evaluate properly whether the engagement team performed the substantive procedures necessary to address the significant risks. For example, the work papers he reviewed did not document how the attorney letter dated more than nine months prior to year-end was sufficient appropriate evidence to support the valuation of the Receivable. As a result, Jensen failed to evaluate properly whether the assessed significant risks were appropriately responded to, as required by PCAOB standards.[24]

---

[24] <u>See</u> <u>id</u>.

Jensen Failed to Evaluate Properly the Engagement Team's Audit Procedures Related to Remaining AR

31. Issuer A's Balance Sheet reported two other assets—"Investment in Account Receivable"[25] and "Accounts Receivable, net"—which the engagement team included in their AR significant account. The Investment in Account Receivable totaled approximately $482,000 and represented approximately twenty percent of AR. Accounts Receivable, net of the allowance for doubtful accounts, totaled approximately $381,000 and represented approximately sixteen percent of AR.

32. Jensen failed to evaluate properly whether the engagement team responded appropriately to the identified significant risks associated with the Investment in Account Receivable and Accounts Receivable, net, accounts. Jensen also failed to evaluate properly the engagement documentation he reviewed when performing the required EQR. Specifically, Jensen failed to perform procedures sufficient to evaluate properly whether the engagement team obtained sufficient appropriate evidence, as the work papers he reviewed did not document substantive procedures performed to respond to each of the significant risks identified. As a result, Jensen failed to evaluate properly whether the assessed significant risk was appropriately responded to, as required by PCAOB standards.[26]

Jensen Failed to Maintain Objectivity in Performing His EQR

33. While serving as the engagement quality reviewer, Jensen assumed responsibilities of the engagement team on the 2016 Issuer A audit. Specifically, Jensen: (1) selected the sample for the Firm's substantive testing of revenue, which addressed a significant risk; and (2) supervised the work of a staff member related to accounts payable confirmations. As a result, he failed to maintain objectivity as the engagement quality reviewer, in violation of AS 1220.07.

* * *

34. During the PCAOB's investigation of this matter, Jensen provided substantial assistance. Among other things, Jensen provided detailed information related to the DSH and Issuer A audits and the Firm's system of quality control.[27] The Board took

---

25 The notes to Issuer A's financial statements describe the Investment in Account Receivable as a promissory note received from an investor in April 2015 in exchange for stock warrants.

26 See AS 1220.10(b) and .11.

27 See *Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations,* PCAOB Rel. No. 2013-003 (Apr. 24, 2013).

that substantial assistance into account in ordering the sanctions under Section IV of this Order.

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 Respondent's Offer. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Brady Jensen, CPA, is hereby censured;

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Brady Jensen, CPA, is suspended, for one year from the date of this Order, from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act;[28] and

C. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Brady Jensen, CPA, is required to complete, within one (1) year from the date of this Order, ten hours of professional education and training relating to performing engagement quality reviews in accordance with AS 1220 (such hours shall be in addition to, and shall not be counted in, the continuing professional education he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

October 31, 2019

---

[28] As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Jensen. Section 105(c)(7)(B) of the Act 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."