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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Glenn Alan Zubryd, CPA,

Respondent.

PCAOB Release No. 105-2021-013

September 29, 2021

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) barring Glenn Alan Zubryd, CPA (“Zubryd” or “Respondent”) from being associated with a registered public accounting firm;¹ and
- (2) imposing a \$15,000 civil money penalty upon Zubryd.

The Board is imposing these sanctions on the basis of its findings that Zubryd violated PCAOB rules and standards in connection with Rehmann Robson LLP’s audits of the financial statements of Issuer A, for the years ended December 31, 2014 (“FY 2014”), and December 31, 2015 (“FY 2015”) (each an “Audit” and, collectively, the “Audits”).²

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 Zubryd.

¹ Zubryd may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

² All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the audits discussed herein. 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).

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Zubryd 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 Zubryd and the subject matter of these proceedings, which is admitted, Zubryd consents to the entry of this Order as set forth below.³

III.

On the basis of Zubryd’s Offer, the Board finds⁴ that:

A. Respondent

1. **Glenn Alan Zubryd** was, at all relevant times, a certified public accountant licensed by the Michigan Department of Licensing and Regulatory Affairs. His Michigan registration as a Licensed Accountant (License No. 1101024804) expired on December 31, 2019. His Michigan license as a Registered Accountant (License No. 1103024804) is currently active.⁵ At all relevant times, Zubryd was a principal at Rehmann Robson LLC (the “Firm”), and 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. Issuer

2. Issuer A was, at all relevant times, a Nevada corporation headquartered in Grand Rapids, Michigan, and Golden, Colorado. Issuer A’s public filings indicate that it was in the

³ The findings herein are made pursuant to the Offer and are not binding on any other person or entity in this or any other proceeding.

⁴ The Board finds that Zubryd’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: (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.

⁵ A Michigan Licensed Accountant is permitted to practice as a CPA whereas Registered Accountants in Michigan are not permitted to practice as CPAs.

business of marketing and distributing vaping products and e-cigarettes. Its common stock was registered, at all relevant times, under Section 12(g) of the Securities Exchange Act of 1934. It was, at all relevant times, an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). Issuer A filed for bankruptcy on March 16, 2017.

C. Summary

3. This matter concerns Zubryd’s violations of PCAOB rules and standards in connection with the Audits.⁶ As detailed below, Zubryd, who served as engagement partner on both Audits, failed to obtain sufficient appropriate audit evidence and to exercise due professional care, including professional skepticism, in connection with the Audits. First, with respect to revenue, which was identified as a significant risk and a fraud risk during both Audits, Zubryd failed to perform, or to ensure that the engagement teams performed, substantive audit procedures over revenue, including requisite tests of details specifically responsive to the assessed risks. Second, with respect to intangible asset valuations in both Audits, Zubryd failed to perform, or failed to ensure that the engagement teams performed, adequate procedures to evaluate the reasonableness of the assumptions and to test the underlying data used by Issuer A in its impairment analysis. Specifically, Zubryd and the engagement teams did not test the process for generating the projected amounts in Issuer A’s impairment analysis, develop an independent expectation of the projected amounts, or review subsequent events or transactions to evaluate the reasonableness underlying the valuation of intangible assets, including goodwill. Third, Zubryd failed to supervise properly the work of the engagement teams during the Audits.

4. Finally, Zubryd failed to ensure that the FY 2015 Audit documentation was archived by the relevant documentation completion date as required by Auditing Standard (“AS”) No. 3, *Audit Documentation* (“AS No. 3”).

D. Zubryd Violated PCAOB Rules and Standards in Connection with the Audits

5. 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.⁷ An auditor may express an unqualified opinion on an issuer’s financial statements only when the auditor has formed such

⁶ See *In the Matter of Donald R. Burke, CPA*, PCAOB Release No. 105-2021-012 (September 29, 2021).

⁷ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

an opinion on the basis of an audit performed in accordance with PCAOB standards.⁸ PCAOB standards require an auditor to plan and perform the audit with due professional care, to exercise professional skepticism, and to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.⁹ PCAOB standards further require the auditor to identify and appropriately assess the risks of material misstatement at the financial statement level and the assertion level.¹⁰ The auditor should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing risks of material misstatement and designing further audit procedures.¹¹

6. PCAOB standards state that the engagement partner is responsible for the engagement and its performance.¹² The engagement partner and other engagement team members performing supervisory activities are also responsible for proper supervision of the work of the engagement team members and compliance with PCAOB standards.¹³ The engagement partner is required to review the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.¹⁴

7. As further detailed below, Zubryd violated PCAOB rules and standards in connection with revenue as well as intangible asset valuations in both Audits, and the archiving of audit documentation in the FY 2015 Audit.

i. Failure to Perform Substantive Procedures related to Revenue in Both Audits

8. The Firm served as Issuer A's external auditor for the 2014 and 2015 financial statements. It issued an audit report containing an unqualified opinion, dated March 31, 2015, on Issuer A's FY 2014 financial statements. The Firm also issued an audit report containing an unqualified opinion, dated March 28, 2016, on Issuer A's FY 2015 financial statements. These

⁸ See AU § 508.07.

⁹ See AU § 230.01-.02, .07, *Due Professional Care in the Performance of Work* ("AU § 230"); AS No. 15 ¶ 4, *Audit Evidence* ("AS No. 15").

¹⁰ See AS No. 12 ¶¶ 3 and 59, *Identifying and Assessing Risks of Material Misstatement* ("AS No. 12").

¹¹ *Id.* at ¶ 4.

¹² See AS No. 10 ¶ 3, *Supervision of the Audit Engagement* ("AS No. 10").

¹³ *Id.* at ¶¶ 3-4.

¹⁴ *Id.* at ¶ 5c.

reports were included with Issuer A's Forms 10-K filed with the Securities and Exchange Commission on April 1, 2015, and March 28, 2016, respectively. Zubryd, the engagement partner on both Audits, authorized the issuance of both audit reports.

9. Issuer A's public filings reported total revenue for FY 2014 of approximately \$43.5 million. In its FY 2015 financial statements, Issuer A reported total revenue for FY 2015 of approximately \$54.2 million. In each of the Audits, Zubryd and the engagement teams identified improper revenue recognition as a significant risk and a fraud risk. Notwithstanding these risks, Zubryd failed to perform, or ensure that the engagement teams performed, sufficient procedures to obtain appropriate audit evidence regarding revenue in connection with Issuer A's Audits.

10. For significant risks, including fraud risks, PCAOB standards require an auditor to perform substantive procedures, including tests of details, that are specifically responsive to the assessed risk.¹⁵ In addition, for significant risks of material misstatement, it is unlikely that substantive analytical procedures alone will be sufficient.¹⁶

11. In both Audits, Issuer A's revenue controls were not operating effectively. During the FY 2014 Audit, management identified 37 revenue key controls. The Firm concluded that 34, or 92%, of the key controls related to revenue were not operating effectively.¹⁷ In both Audits, Zubryd and the engagement teams concluded that it was necessary to increase substantive testing since it was determined that the revenue controls could not be relied upon in the audit.

12. Despite this conclusion and his awareness of these control issues, Zubryd failed to perform, or ensure that the engagement teams performed, substantive audit procedures, including testing of details, relating to revenue in both Audits.¹⁸ In addition, Zubryd failed to ensure that the engagement teams designed and implemented responses to appropriately identify and address the risks of material misstatement relating to revenue in both Audits.¹⁹ In both Audits, the engagement teams' procedures regarding revenue were limited to analytical

¹⁵ See AS No. 13 ¶¶ 11 and 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13").

¹⁶ See AU § 329.09, *Substantive Analytical Procedures* ("AU § 329").

¹⁷ The Firm did not audit the internal control over financial reporting of Issuer A as of December 31, 2015.

¹⁸ See AS No. 13 ¶ 36.

¹⁹ See *id.* ¶¶ 3, 11, and 13.

procedures and were not substantive analytical procedures.²⁰ Zubryd failed to perform, or ensure the engagement teams performed, any audit procedures to test revenue beyond a year-over-year comparison of revenue and inquiry of management. In performing these comparisons, Zubryd failed to comply with PCAOB standards because he and the engagement teams failed to: (1) develop an expectation precise enough to provide the desired level of assurance that differences that may be potential material misstatements, individually or when aggregated with other misstatements, would be identified for investigation;²¹ (2) consider the amount of difference from the expectation that could be accepted without further investigation;²² and (3) evaluate significant unexpected differences.²³ As a result, the year-over-year revenue comparisons were not substantive analytical procedures and Zubryd failed to obtain sufficient appropriate audit evidence to determine whether revenue was recorded in the proper period and was properly valued in each of the Audits.²⁴

13. As engagement partner, Zubryd was responsible for supervising the engagement and its performance.²⁵ However, despite revenue being identified as a significant risk and fraud risk, Zubryd failed to supervise adequately the engagement teams' work during both Audits. Specifically, Zubryd, who had limited involvement in the engagement teams' work in this area, failed to review sufficiently the work of the engagement team members regarding revenue and failed to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.²⁶

14. In addition to the failures noted above, Zubryd failed to exercise the requisite due professional care, including professional skepticism, relating to revenue in both Audits.²⁷

ii. Failure to Perform Adequate Intangible Assets Valuation Testing in Both Audits

15. As of December 31, 2014, Issuer A's public filings reported total assets were \$126.8 million, of which approximately \$106.4 million consisted of intangible assets including

²⁰ See AU § 329.09.

²¹ See AU § 329.17.

²² See AU § 329.20.

²³ See AU § 329.21.

²⁴ See AS No. 15, *Audit Evidence*.

²⁵ See AS No. 10 ¶ 3.

²⁶ See AS No. 10 ¶ 5.

²⁷ See AU § 230.

goodwill. As of December 31, 2015, Issuer A's public filings reported total assets of \$95.3 million, of which approximately \$81.9 million consisted of intangible assets including goodwill. The intangible assets were primarily associated with certain of Issuer A's recently completed acquisitions. Goodwill was reported as being \$51.7 million as of December 31, 2014, and \$47.7 million as of December 31, 2015.

16. The FY 2014 Audit was the Firm's first audit of Issuer A and intangible asset valuations were Issuer A's most significant estimates during the Audits. Valuation of intangible assets was identified as an area of significant audit emphasis and as a significant accounting estimate during both Audits.

17. PCAOB standards require the auditor to evaluate the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole.²⁸ The auditor's objective when evaluating accounting estimates is to obtain sufficient appropriate evidential matter to provide reasonable assurance that all accounting estimates that could be material to the financial statements have been developed, those estimates are reasonable in the circumstances, and those estimates are presented in conformity with applicable accounting principles and are properly disclosed.²⁹

18. To determine whether goodwill is properly valued, it should be tested for impairment at least annually, and whenever there is an indication that it may be impaired.³⁰ Issuer A disclosed that the amounts of its intangible asset impairments were determined by assessing the recoverable amount, as compared to its carrying amount. Zubryd and the engagement teams understood that Issuer A's management used certain estimates of projected amounts—such as future net sales, the associated projected cost of sales, and projected operating expenses—as key assumptions in formulating the cash flow projections on which it based its impairment analysis.

19. During both Audits, Zubryd failed to gather, or failed to ensure that the engagement teams gathered, sufficient appropriate evidence concerning the intangible asset valuations. Zubryd and the engagement teams failed to perform any audit procedures to

²⁸ See AU § 342.04, *Auditing Accounting Estimates* ("AU § 342").

²⁹ See AU § 342.07.

³⁰ Goodwill is periodically tested for impairment—the condition that exists when the carrying amount of goodwill on a company's books exceeds its implied fair value. See ASC 350, *Intangibles – Goodwill and Other*. Such testing must occur annually, or more frequently if there is an indication of impairment. If the testing results in an impairment, the carrying amount of the goodwill must be reduced by the amount of the impairment.

evaluate the reasonableness of the key factors and assumptions in Issuer A's impairment analysis, or to test the underlying data used by Issuer A in its impairment analysis. Specifically, the engagement teams failed to test the process for generating the projected amounts, develop an independent expectation of the projected amounts, or review subsequent events or transactions to evaluate the reasonableness of the projected amounts.³¹

20. Zubryd and the engagement teams also failed, in both Audits, to corroborate Issuer A management's representations regarding key factors and assumptions used in the valuation of intangible assets. While evidential matter can include management representations, such representations "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."³² Zubryd and the engagement teams failed in this regard despite knowing financial information, including Issuer A's historical results, that should have caused them to exercise greater skepticism. For example, Zubryd and engagement team members knew that management assumptions included in the projections to test the valuation of intangible assets predicted increases in net sales and gross profit of approximately 154% and 174%, respectively, in a period of three years (*i.e.*, from 2015 to 2018). These optimistic projections were inconsistent with Issuer A's then-current operations and historical results. In this regard, Issuer A's net sales and gross profit actually increased only 18% and 57%, respectively, during 2015.

21. Zubryd also failed to supervise adequately the engagement teams' work relating to intangible asset valuations.³³ Zubryd failed to review the work of the engagement team members regarding intangible assets and failed to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.³⁴ Specifically, Zubryd failed to review the engagement team's work to ensure they tested the underlying data and evaluated the reasonableness of the significant assumptions used in Issuer A's projections to test sufficiently the valuation of the intangible assets.

iii. Failure to Archive Audit Documentation for the FY 2015 Audit

22. AS No. 3 requires that a complete and final set of audit documentation should be assembled for retention by the "documentation completion date," a date not more than 45

³¹ See AU § 342.10.

³² See AU § 333.02, *Management Representations*.

³³ See AS No. 10 ¶¶ 3 and 5.

³⁴ See AS No. 10 ¶ 5c.

days from the date on which the auditor grants permission to use its report (“report release date”).³⁵ In the FY 2015 Audit, the report release date was March 28, 2016, resulting in a documentation completion date of May 12, 2016.

23. The Firm’s records indicate that the audit work papers were not archived by the documentation completion date in the FY 2015 Audit. Zubryd and the engagement team used a date 60 days after the report release date—May 27, 2016—as the documentation completion date for the FY 2015 Audit. As a result, Zubryd violated AS No. 3 by failing to assemble a complete and final set of audit documentation for the FY 2015 Audit for retention as of a date no later than 45 days after the report release date.

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 Zubryd’s Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Glenn Alan Zubryd, 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);³⁶
- B. Pursuant to PCAOB Rule 5302(b), Glenn Alan Zubryd, CPA, may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order; and
- C. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$15,000 is imposed upon Zubryd. 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. Zubryd shall pay this

³⁵ AS No. 3 ¶ 15.

³⁶ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Zubryd. 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.”

civil money penalty within 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 Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter which identifies Zubryd 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006. **Zubryd understands that failure to pay the civil money penalty described above may alone be grounds to deny any 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

Phoebe W. Brown
Secretary

September 29, 2021