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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of *Ciro E. Adams, CPA, LLC, and*
Ciro E. Adams, CPA,

Respondents.

PCAOB Release No. 105-2023-019

August 8, 2023

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

- (1) censuring *Ciro E. Adams, CPA, LLC* (“Firm”), a registered public accounting firm, and *Ciro E. Adams, CPA* (“Adams”) (collectively, “Respondents”);
- (2) revoking the Firm’s registration;¹
- (3) barring Adams from being an associated person of a registered public accounting firm;²
- (4) imposing a \$40,000 civil money penalty jointly and severally upon the Firm and Adams (collectively, “Respondents”); and
- (5) requiring Adams to complete 40 hours of continuing professional education (“CPE”), in addition to any CPE required in connection with any professional license, before filing any petition for Board consent to associate with a registered public accounting firm.

The Board is imposing these sanctions on the basis of its findings that Respondents violated PCAOB rules and auditing standards in connection with four audits of two issuers.

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

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

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.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, “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 is admitted, Respondents consent to the entry of this Order as set forth below.³

III.

On the basis of Respondents’ Offers, the Board finds that:⁴

A. Respondents

1. **Ciro E. Adams, CPA, LLC** is a limited liability corporation organized under the laws of the state of Delaware and headquartered in Wilmington, Delaware. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice by the Delaware Board of Accountancy (license no. CF-0000758).

2. **Ciro E. Adams, CPA** is the Firm’s sole partner and owner, and is a certified public accountant licensed by the Delaware Board of Accountancy (license no. CA-0001890). At all

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

⁴ 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.

relevant times, Adams 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. Issuers

3. **Professional Diversity Network, Inc.** (“PDN”) is a Delaware corporation headquartered in Chicago, Illinois. PDN is, and at all relevant times was, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). According to its public filings, PDN’s business focuses on operating professional networks targeting diverse affinity groups.

4. **Alpha Investment Inc.** (“Alpha”) is a Delaware corporation headquartered in Columbus, Ohio. Alpha is, and at all relevant times was, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). According to its public filings, Alpha’s business focuses on issuing loans to borrowers seeking funding to acquire or refinance commercial real estate properties.

C. Summary

5. This matter concerns violations of PCAOB rules and auditing standards by the Firm and Adams during the Firm’s audits of PDN’s financial statements for the fiscal years ended December 31, 2019, 2020, and 2021 (the “2019 PDN Audit,” “2020 PDN Audit,” and “2021 PDN Audit,” respectively and, collectively, the “PDN Audits”) and its audit of Alpha’s financial statements for the fiscal year ended December 31, 2020 (“2020 Alpha Audit”).

6. The Firm issued audit reports for the PDN Audits and the 2020 Alpha Audit that contained unqualified audit opinions on the companies’ financial statements for the relevant periods. Adams served as engagement partner on the 2020 Alpha Audit and each of the PDN Audits, and authorized the issuance of the Firm’s audit reports for each of those audits.

7. As detailed below, in performing the PDN Audits and the 2020 Alpha Audit, Respondents failed to (1) exercise due professional care and professional skepticism; (2) obtain sufficient appropriate audit evidence supporting significant accounts, including accounts designated as a fraud risk or significant risk; and (3) comply with multiple other PCAOB auditing standards.

D. Respondents Violated PCAOB Rules and Auditing Standards

8. 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.⁵ Among other things, PCAOB standards require an auditor to exercise due professional care and 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.⁶ While an auditor may use inquiry to obtain information, inquiry alone does not provide sufficient appropriate evidence to support a conclusion about a relevant assertion.⁷ When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.⁸ An auditor should also design and implement responses to address any assessed risks of material misstatement.⁹

9. PCAOB standards further require that auditors evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.¹⁰ When evaluating audit results, the auditor is required to conclude on whether sufficient appropriate audit evidence has been obtained to support his or her opinion on the financial statements.¹¹

10. As described below, the Firm and Adams violated these and other PCAOB standards in connection with the PDN Audits and the 2020 Alpha Audit.

⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*. 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.

⁶ See AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

⁷ See AS 2301.39, *The Auditor's Responses to the Risks of Material Misstatement*; see also AS 1105.17, Note ("Inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion . . .").

⁸ See AS 1105.10.

⁹ See AS 2301.03 and .05.

¹⁰ See AS 2810.30, *Evaluating Audit Results*.

¹¹ See AS 2810.33.

i. The PDN Audits

a. Revenue Testing

11. The engagement team for each of the PDN Audits identified revenue recognition as a significant risk and a fraud risk.

12. PDN derived a portion of its revenue from annual and monthly membership fees which it processed using a company-developed application.¹² Revenue from monthly memberships was recognized in the same month PDN collected the fees. For annual memberships, PDN recorded deferred revenue when the contract was entered into and subsequently recognized revenue ratably over the contract period. PDN tracked the revenue to be deferred from new and renewed annual contracts, and calculated the amounts to be recognized as revenue each month, in spreadsheets prepared by PDN using reports from the company-developed membership application.

13. During each of the PDN Audits, Respondents performed certain procedures to test monthly and annual membership revenue, which all relied on reports from PDN's membership application and/or the company-prepared spreadsheets. However, Respondents failed to perform procedures to test the accuracy and completeness, or test the controls over the accuracy and completeness, of those reports and spreadsheets.¹³

14. PDN derived another portion of its revenue from direct sales related to recruitment services, for which PDN recognized revenue ratably over the lifetime of the applicable contracts and used spreadsheets to track deferred revenue amounts.¹⁴ PDN often entered into contracts to provide multiple recruiting services to the same customer, resulting in multiple revenue streams.

15. For both the 2019 and 2020 PDN Audits, Respondents selected certain direct sales transactions entered into during the year and tested the selected transactions by (1) obtaining the issuer-prepared deferred revenue spreadsheet and recalculating the monthly revenue amounts, and (2) examining the relevant sales orders, invoices, and payments received. For both audits, Respondents failed to evaluate whether PDN's accounting for direct

¹² Membership fees constituted 49%, 32%, and 16.5% of PDN's total reported revenue in 2019, 2020, and 2021, respectively.

¹³ See AS 1105.10.

¹⁴ Direct sales constituted 29% and 40% of PDN's total reported revenue in 2019 and 2020, respectively.

sales revenue was in accordance with U.S. GAAP.¹⁵ For example, Respondents failed to consider PDN's identification of performance obligations, the allocation of the transaction price to each performance obligation, and when PDN satisfied its performance obligations in order to determine that PDN recognized revenue in the proper period.¹⁶

16. During the 2019 PDN Audit, Respondents selected only direct sales transactions entered into between January 2019 and April 2019 for substantive testing. As a result, Respondents failed to test revenue recognized from any transactions entered into prior to 2019 for which revenue was recognized in the current year or from any transactions that occurred during the last eight months of the year, which totaled 82% of direct sales revenue recognized during the year.¹⁷

17. During the 2020 PDN Audit, Respondents selected 15 contracts entered into during the year from the deferred revenue schedule for substantive testing. The revenue recognized in 2020 relating to those 15 contracts, however, equaled only 7% of direct sales revenue reported during the year. The sample size was not determined using any reasoned or informed basis. In determining the sample size, Respondents failed to appropriately take into account the factors identified in AS 2315.23.¹⁸ Furthermore, Respondents once again did not test any contracts entered into prior to 2020 for which revenue was recognized during the fiscal year, despite such contracts comprising 51% of the direct sales revenue reported in 2020.¹⁹

18. Accordingly, Respondents violated AS 1105, AS 2810, AS 2315, and AS 2301 by failing to obtain sufficient appropriate audit evidence, failing to evaluate whether the financial statements were presented fairly and in conformity with U.S. GAAP, and failing to adequately respond to risks of material misstatement when testing revenue as part of the PDN Audits. As a result, Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

¹⁵ See AS 2810.30.

¹⁶ See FASB ASC 606, *Revenue from Contracts with Customers*.

¹⁷ See AS 2315.24, *Audit Sampling* ("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.").

¹⁸ Those factors include: (1) tolerable misstatement for the population; (2) the allowable risk of incorrect acceptance (based on assessments of inherent risk, control risk, and detection risk); and (3) the characteristics of the population, including the expected size and frequency of misstatements.

¹⁹ See AS 2315.24; AS 1105.04; AS 2301.11-.15.

b. Acquisition Accounting

19. PDN disclosed that, in September 2021, it had acquired a roughly 46% interest in a company called RemoteMore USA, Inc. (“RM”) for \$1,363,333. PDN also disclosed that it included the results of operations for RM in its consolidated 2021 financial statements at gross amounts on the basis that it had significant influence over RM’s operations.

20. PDN accounted for the acquisition as a purchase transaction and, as such, was required to record the identifiable assets acquired and liabilities assumed at fair value.²⁰ On the date of acquisition, PDN recorded intangible assets of \$938,183, goodwill of \$935,683, and noncontrolling interest of \$510,184. At year-end 2021, the goodwill and intangible assets associated with RM constituted approximately 18% of PDN’s total assets. RM’s net loss for the period post-acquisition constituted 13% of PDN’s net loss from continuing operations for 2021.

21. During the 2021 PDN Audit, Respondents failed to evaluate whether PDN’s accounting for the acquisition of RM shares was in accordance with U.S. GAAP.²¹ For example, Respondents failed to consider whether it was appropriate for PDN to account for the transaction as a purchase transaction and consolidate RM in its financial statements given PDN’s minority ownership interest in RM. Specifically, Respondents failed to test PDN’s assertion—on which it based the consolidation of RM—that PDN had significant influence over RM’s operations.

22. Respondents also failed to test the valuation and existence of the intangible assets acquired during the RM acquisition, which consisted primarily of amounts recorded for the future value of contracts RM had with six customers. Respondents obtained a schedule prepared by PDN reflecting management’s calculation of the fair value of the contracts. However, other than performing inquiries of PDN’s management, Respondents failed to perform any procedures to determine whether the intangible assets existed and were properly valued.²²

²⁰ See FASB ASC 805, *Business Combinations*. Purchase transactions are accounted for using the acquisition method of accounting. Under this method, a company must, among other things, recognize and measure the assets acquired and the liabilities assumed, and recognize and measure goodwill.

²¹ See AS 2810.30.

²² See AS 1105.17, Note.

23. Finally, PDN disclosed in its 2021 Form 10-K that it tested goodwill for impairment on an annual basis at December 31.²³ PDN also disclosed that RM did not begin operations until just a few months prior to PDN’s acquisition of RM’s shares, that between the date of the acquisition and year-end 2021 RM incurred a loss before taxes of over \$350,000, and that there was substantial doubt about PDN’s own ability to continue as a going concern. Despite these factors indicating that the goodwill associated with RM might be impaired, Respondents failed to perform any procedures to test whether that goodwill was properly valued at year-end 2021.

24. Accordingly, Respondents violated AS 2810 and AS 1105 by failing to evaluate whether the transaction was recorded in accordance with U.S. GAAP and failing to obtain sufficient appropriate audit evidence when testing PDN’s accounting associated with the RM acquisition as part of the 2021 PDN Audit. As a result, Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

ii. The 2020 Alpha Audit

a. Valuation of Notes Receivable

25. At year-end 2020, two notes receivable—with counterparties Partners South Holdings LLC (“Partners South”) and Paris Lakes Medical Assets (“Paris Lakes”)—along with related accrued interest constituted approximately 99% of Alpha’s total assets. Both loans had been originated and funded in prior years. Alpha disclosed that both loans were secured by assets purportedly obtained by the counterparties with the loan proceeds.

26. Respondents tested the existence and valuation of the notes by obtaining copies of the loan agreements, agreeing amounts disbursed in prior years relating to the loans to bank statements, and confirming the outstanding principal and interest as of year-end.

27. However, the procedures performed by Respondents were insufficient to determine whether the notes receivable balances were properly valued at year-end. Although Respondents confirmed the amounts outstanding with the counterparties at year-end, they failed to perform any procedures concerning whether the notes receivable balances were collectible. For example, Respondents failed to assess the counterparties’ financial health and their ability to pay the outstanding amounts. Likewise, Respondents failed to perform any

²³ 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 FASB 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. See *id.*

procedures to test the existence or valuation of any collateral securing either note. Respondents also failed to obtain or test any impairment analysis performed by Alpha and, to the contrary, concluded a material weakness existed in Alpha's internal controls due to the fact that a supporting analysis was not prepared for estimating the allowance for loan losses and bad debts with respect to loans receivable.

28. The failure to perform sufficient procedures regarding any potential impairment on the Partners South note receivable was particularly acute because (1) Alpha identified Partners South as a related party²⁴ owned by a former officer and director of Alpha, and (2) Partners South had not made quarterly interest payments or provided its financial statements to Alpha, both of which were required by the agreement between Alpha and Partners South.²⁵

29. Similarly, Respondents failed to perform sufficient appropriate audit procedures relating to the valuation of the Paris Lakes note. Respondents included information in the work papers that recognized that the most recent financial statements Alpha received from Paris Lakes were from 2018 and thus were not relevant for the 2020 Alpha Audit. However, Respondents failed to obtain more recent financial information concerning Paris Lakes.

30. Accordingly, Respondents violated AS 1105 and AS 2410 by failing to obtain sufficient appropriate audit evidence when testing the Partners South and Paris Lakes notes receivable as part of the 2020 Alpha Audit. As a result, Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

b. Related Party Transactions

31. PCAOB standards require auditors to perform sufficient appropriate audit procedures to determine whether transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.²⁶ Respondents were required to obtain an understanding of Alpha management's process for: identifying related parties and relationships and transactions with related parties; authorizing and approving

²⁴ See FASB ASC 850-50-5, *Related Party Disclosures* ("Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist.").

²⁵ See AS 2410.12, *Related Parties* ("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 . . . [e]valuate the financial capability of the related parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any.").

²⁶ See *id.* at .14 and .17.

transactions with related parties; and accounting for and disclosing relationships and transactions with related parties in its financial statements.²⁷

32. During the 2020 Alpha Audit, Respondents identified related party transactions as a significant risk. Respondents also identified a material weakness relating to segregation of duties to support the identification, authorization, approval, accounting for, and disclosure of related party transactions and significant unusual transactions.

33. Other than performing inquiries of Alpha's CEO about related party transactions—to which he responded there were none, despite Alpha's financial statements disclosing related party transactions—Respondents failed to perform any procedures to obtain an understanding of the company's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements.²⁸

34. Further, during the 2020 Alpha Audit, Respondents became aware of certain information indicating that management did not disclose all related party relationships in its financial statements. While performing substantive procedures, Respondents identified a series of payments recorded as consulting fees made to an entity that Respondents identified in the work papers as Alpha's parent company.²⁹ These payments, totaling 13.6% of Alpha's reported loss for the year, were not disclosed as related party transactions. Respondents failed to perform any procedures to resolve the inconsistencies in the audit evidence concerning related parties and relationships and transactions with related parties, or to evaluate whether the consulting fee payments were properly disclosed.³⁰ Respondents also failed to perform procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company, taking into account the information gathered during the audit.³¹

35. Accordingly, Respondents violated AS 2410, AS 2805, and AS 1105 by failing to obtain sufficient appropriate audit evidence and failing to perform sufficient procedures concerning related party transactions and relationships during the 2020 Alpha Audit. As a

²⁷ See *id.* at .04.

²⁸ See *id.* at .03; AS 2805.02, *Management Representations*.

²⁹ In fact, the entity was another subsidiary of Alpha's primary shareholder rather than Alpha's parent company.

³⁰ See AS 1105.29; AS 2410.17.

³¹ See AS 2410.14.

result, Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

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), Ciro E. Adams, CPA, LLC and Ciro E. Adams, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Ciro E. Adams, CPA, LLC is revoked;
- C. After two years from the date of this Order, Ciro E. Adams, CPA, LLC may reapply for registration by filing an application pursuant to PCAOB Rules 2101 and 5302(a);
- D. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Ciro E. Adams, 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);³²
- E. After two years from the date of this Order, Ciro E. Adams, CPA 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)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$40,000 is imposed jointly and severally upon Ciro E. Adams, CPA, LLC and Ciro E. Adams, CPA.

³² As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Adams. 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."

1. 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.
2. Respondents shall pay the civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer in accordance with instructions provided 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 *Ciro E. Adams, CPA, LLC* and *Ciro E. Adams, CPA* as respondents 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.
3. Respondents understand that their failure to pay the civil money penalty imposed upon them may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b) or a reapplication for registration pursuant to PCAOB Rules 2101 and 5302(a).
4. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-order interest.
5. With respect to any civil money penalty amounts that Respondents shall pay pursuant to this Order, Respondents shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondents' payment of the civil money penalty pursuant to this Order, in any private action brought against Respondents based on substantially the same facts as set out in the findings in this Order.

- G. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Ciro E. Adams, CPA is required to complete, prior to filing any petition to terminate his bar and for Board consent to reassociate with a registered public accounting firm, 40 hours of continuing professional education and training relating to PCAOB auditing standards (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

August 8, 2023