

Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Somerset CPAs, P.C., Douglas C.
Fahrnow, CPA, Rebecca F. Quintana, CPA, and
Edward M. McGuire, CPA,*

Respondents.

PCAOB Release No. 105-2023-029

November 14, 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 Somerset CPAs, P.C. (“Somerset” or the “Firm”), a registered public accounting firm, Douglas C. Fahrnow, CPA (“Fahrnow”), Rebecca F. Quintana, CPA (“Quintana”), and Edward M. McGuire, CPA (“McGuire”) (collectively, “Respondents”);
- (2) barring Fahrnow from being associated with a registered public accounting firm and imposing a \$60,000 civil money penalty on him;¹
- (3) barring Quintana from being associated with a registered public accounting firm and imposing a \$40,000 civil money penalty on her;²
- (4) barring McGuire from being associated with a registered public accounting firm and imposing a \$30,000 civil money penalty on him;³ and
- (5) imposing a \$100,000 civil money penalty on the Firm.

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

³ McGuire may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

The Board is imposing these sanctions on the basis of its findings that: (a) Farnow violated PCAOB rules and standards in connection with two audits of an issuer and the engagement quality reviews for the audits of two issuers, (b) Quintana violated PCAOB rules and standards in connection with the audits of two issuers, (c) McGuire violated PCAOB rules and standards in connection with the engagement quality reviews for two audits of an issuer, and (d) Somerset violated PCAOB rules and quality control 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 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.⁴

III.

On the basis of Respondents’ Offers, the Board finds that:⁵

⁴ The findings herein are made pursuant to the Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

⁵ 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: (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.

A. Respondents

1. **Douglas C. Fahrnow** is a certified public accountant licensed by the state of Indiana (license no. CP19800524), among others. Fahrnow is, and at all relevant times was, an “associated person of a registered public accounting firm” as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). At all relevant times, Fahrnow was the engagement partner in charge of the Firm’s audits of Noble Roman’s Inc. (“Noble Roman”), and the engagement quality review (“EQR”) partner for the Firm’s audits of Galaxy Next Generation, Inc. (“Galaxy”) and Ameritrust Corp. (“Ameritrust”).

2. **Rebecca F. Quintana** is a certified public accountant licensed by the state of Indiana (license no. CP10300206), among others. Quintana is, and at all relevant times was, an “associated person of a registered public accounting firm” as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). At all relevant times, Quintana was the engagement partner in charge of the Firm’s audits of Galaxy and Ameritrust.

3. **Edward M. McGuire** is a certified public accountant licensed by the state of Indiana (license no. CP10000071). McGuire is, and at all relevant times was, an “associated person of a registered public accounting firm” as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). At all relevant times, McGuire was the EQR partner for the Firm’s audits of Noble Roman.

4. **Somerset CPAs, P.C.** is a professional corporation organized under the laws of the state of Indiana and headquartered in Indianapolis, Indiana. At all relevant times, Somerset was licensed by the State of Indiana (license no. FP50400103), among others. Somerset was, at all relevant times, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.⁶

B. Issuers

5. **Noble Roman’s Inc.** is an Indiana corporation headquartered in Indianapolis, Indiana. Noble Roman’s public filings indicate that it is engaged in operating, franchising, and licensing restaurant operations. At all relevant times, Noble Roman was an “issuer” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

6. **Galaxy Next Generation, Inc.** is a Nevada corporation headquartered in Toccoa, Georgia. Galaxy’s public filings disclose that it is a manufacturer and distributor of interactive

⁶ Somerset filed a Form 1-WD, *Request for Leave to Withdraw from Registration*, with the PCAOB in April 2023.

learning technology hardware and software. At all relevant times, Galaxy was an “issuer” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

7. **Ameritrust Corporation** is a Wyoming corporation headquartered in Cheyenne, Wyoming. Ameritrust’s public filings indicate that it is in the business of acquiring, holding, and developing commercial real estate. At all relevant times, Ameritrust was an “issuer” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

8. This matter concerns Fahrnow’s violation of PCAOB rules and standards in connection with the Firm’s audits of Noble Roman for the years ended December 31, 2019, and December 31, 2020 (the “Noble Roman Audits”). Specifically, Fahrnow, while serving as engagement partner on the Noble Roman Audits, violated PCAOB rules and standards by failing to perform sufficient procedures to evaluate whether the amounts recorded by Noble Roman as revenue based on terminated contracts were in conformity with GAAP and failing to perform sufficient procedures to test accounts receivable.

9. In addition, this matter concerns Quintana’s violation of PCAOB rules and standards in connection with her role as engagement partner for Somerset’s audit of Galaxy for the year ended June 30, 2020 (the “Galaxy Audit”), and the Firm’s audit of Ameritrust for the year ended September 30, 2020 (the “Ameritrust Audit”). Quintana violated PCAOB rules and standards by failing to perform sufficient procedures during the Galaxy and Ameritrust Audits to test the issuers’ goodwill impairment, which was identified as a significant risk in both audits.

10. Further, this matter concerns violations of AS 1220, *Engagement Quality Review*, by McGuire, while serving as the EQR partner for the Noble Roman Audits, and Fahrnow, while serving as the EQR partner for the Galaxy and Ameritrust Audits. Both McGuire and Fahrnow violated PCAOB rules and standards by failing to exercise due care and professional skepticism while performing their EQRs, and, as a result, lacked an appropriate basis to provide their concurring approval of issuance of the Firm’s audit reports. In addition, McGuire failed to maintain his objectivity during the Noble Roman Audits by preparing substantive audit work papers on behalf of the engagement teams.

11. Finally, this matter also concerns the Firm’s violations of PCAOB rules and quality control standards, as evidenced by multiple violations during the Firm’s audits of Noble Roman, Galaxy, and Ameritrust. These audit deficiencies across multiple audits involving multiple Firm personnel demonstrate that the Firm failed to maintain a system of quality control sufficient to give the Firm reasonable assurance that engagement teams performed issuer audits and

reviews in accordance with applicable professional standards, regulatory requirements, and PCAOB auditing standards.

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

12. In connection with the preparation or issuance of an audit report, PCAOB rules require that the associated persons of a registered public accounting firm comply with the Board's auditing and related professional practice standards.⁷

13. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.⁸ Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.⁹ 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.¹⁰

14. When an auditor uses information produced by a company as audit evidence, the auditor should evaluate whether the information was sufficient and appropriate for purposes of the audit by performing procedures to, among other things, test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.¹¹

15. An auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.¹² The higher the risk of material misstatement, the more

⁷ 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 audit being discussed.

⁸ AS 1015.01, *Due Professional Care in the Performance of Work*.

⁹ AS 1105.04, *Audit Evidence*.

¹⁰ *Id.* at .06.

¹¹ *Id.* at .10.

¹² AS 2301.08, *The Auditor's Responses to the Risks of Material Misstatement*.

evidence the auditor should obtain,¹³ and the more persuasive that evidence should be.¹⁴ PCAOB standards further require an auditor to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.¹⁵

16. In addition, AS 1220 provides that an EQR and concurring approval of issuance are required for all audits and interim reviews conducted pursuant to PCAOB standards.¹⁶ The EQR partner must be independent of the company, perform the EQR with integrity, and maintain objectivity in performing the review.¹⁷ To maintain objectivity, the EQR partner should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.¹⁸

17. The EQR partner 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 of a significant engagement deficiency.¹⁹ To perform an EQR with due professional care, the EQR partner must exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.²⁰

18. An EQR partner should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the

¹³ AS 1105.05.

¹⁴ AS 2301.09 (“In designing the audit procedures to be performed, the auditor should: a. Obtain more persuasive audit evidence the higher the auditor’s assessment of risk”); *id.* at .37 (“As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases.”).

¹⁵ AS 2810.30, *Evaluating Audit Results*.

¹⁶ AS 1220.01.

¹⁷ *Id.* at .06.

¹⁸ *Id.* at .07.

¹⁹ *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.

²⁰ See AS 1015.07.

engagement and in preparing the engagement report.²¹ In performing an EQR for an audit, the EQR partner should evaluate, among other things, the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team.²² The EQR partner should also evaluate whether the documentation that he or she reviewed indicates that the engagement team responded appropriately to significant risks and supports the conclusions reached by the engagement team with respect to the matters reviewed.²³

i. The Noble Roman Audits

19. Somerset issued audit reports dated May 12, 2020, and March 22, 2021, containing unqualified audit opinions on Noble Roman's financial statements for the years ended December 31, 2019, and December 31, 2020, respectively. Fahrnow, as the engagement partner, authorized the Firm's issuance of the audit reports, which were included in Noble Roman's Form 10-Ks filed with the Commission on May 12, 2020, and March 22, 2021, respectively. McGuire, as the EQR partner, authorized the concurring approval of issuance of both audit reports.

20. Noble Roman reported total assets of approximately \$19.1 million and \$18.4 million, revenue of approximately \$11.7 million and \$11.5 million, and a net loss of approximately \$0.4 million and \$5.4 million, as of and for the years ended December 31, 2019, and December 31, 2020, respectively. Fahrnow and the engagement team identified revenue as an area of significant risk for the Noble Roman Audits.

21. During 2019 and 2020, the company disclosed it was engaged in, among other things, franchising restaurant operations. Pursuant to its franchise agreements, Noble Roman could collect damages from franchisees whose franchises were terminated for breaching their franchise agreements. Accordingly, Noble Roman recognized revenue from these terminated franchisees amounting to approximately 10% and 6% of total revenue in 2019 and 2020, respectively. ASC 606, *Revenue from Contracts with Customers*, establishes the standard for when an entity may recognize revenue derived from contracts with customers.²⁴ Under ASC 606, a company may recognize the contractual damages as revenue only when, among other things, it is probable that the company will collect substantially all of the damages to which it

²¹ AS 1220.09.

²² *Id.* at .10b.

²³ *Id.* at .11.

²⁴ *See* ASC 606.

would be entitled in exchange for the goods or services that would be transferred to the franchisee.²⁵

22. During the Noble Roman Audits, Fahrnow failed to evaluate whether Noble Roman appropriately recognized revenue from terminated franchisees in conformity with GAAP. Specifically, he failed to evaluate the probability that Noble Roman would collect substantially all of the damages to which the company believed it was entitled. Fahrnow and the engagement team documented in the work papers that Noble Roman had a 46% and 20% historical collection rate for revenue from terminated franchisees for the 2019 audit and 2020 audit, respectively. Despite these low historical collection rates, Fahrnow failed to evaluate whether these collection rates supported the engagement team's conclusion that Noble Roman's revenues from terminated franchisees were recognized in accordance with GAAP during the Noble Roman Audits.²⁶

23. Net accounts receivable comprised approximately 26% and 5% of Noble Roman's total assets as of December 31, 2019, and December 31, 2020, respectively. Fahrnow and the engagement team identified accounts receivable as an area of significant risk for the Noble Roman Audits, yet failed to perform sufficient procedures to test the existence of accounts receivable.

24. During both audits, Fahrnow and the engagement team determined that the use of confirmations would be ineffective "due to low response rate during the prior years' audits" and as such, did not confirm accounts receivable. Instead, their procedures were limited to inquiry of Noble Roman and inspecting documents prepared by Noble Roman regarding the amounts recorded for certain accounts receivable without obtaining sufficient appropriate evidence to corroborate the information received from Noble Roman.²⁷ For example, Fahrnow and the engagement team inquired of management regarding: (a) management's understanding of the reasons for the franchisee termination and (b) how management determined the amount of revenue and corresponding receivable to record. For the new additions to accounts receivable, Fahrnow and the engagement team inspected management's calculation and reviewed, on a sample basis, historical weekly sales reports Noble Roman received from the franchisees and the executed franchise agreements, assuming the

²⁵ See *id.* at -10-25-1.

²⁶ See AS 2810.30.

²⁷ See 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 or to support a conclusion about the effectiveness of a control.").

franchisees would not breach the franchise agreements. These procedures, however, did not provide sufficient appropriate audit evidence to address the significant risk associated with the existence assertion of Noble Roman's accounts receivable.²⁸

25. As a result of this conduct, Fahrnow failed to evaluate whether the amounts Noble Roman recorded as revenue from terminated franchisees were in conformity with GAAP and failed to perform sufficient appropriate procedures to test accounts receivable, in violation of PCAOB standards.²⁹

a. McGuire's EQR of the Noble Roman Audits

26. In connection with the Noble Roman Audits, McGuire failed to properly evaluate the conclusions reached by the engagement team with respect to areas of significant risk during his EQRs and failed to maintain his objectivity by preparing several audit work papers on behalf of the engagement team.

27. During the Noble Roman Audits, the engagement team identified Noble Roman's revenue and accounts receivable as areas of significant risk. Consequently, McGuire was required by PCAOB standards to evaluate the engagement team's assessment of, and audit responses to, those significant risks.³⁰ He was also required to evaluate whether the documentation he reviewed indicated that the engagement team had responded appropriately to those significant risks.³¹

28. McGuire, however, failed to perform his review with due professional care and professional skepticism, as he failed to identify that Fahrnow and the engagement team had not performed sufficient procedures to evaluate whether the amounts recorded by Noble Roman as revenue based on terminated franchisee contracts were in conformity with GAAP or to test the company's accounts receivable during the Noble Roman Audits.

29. PCAOB standards also provide that an EQR partner should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.³² For the Noble Roman Audits, McGuire prepared a number of audit work papers on

²⁸ See *id.* at .04, .06; AS 2301.08.

²⁹ AS 1105.04, .06, .10; AS 2301.08.

³⁰ AS 1220.10b.

³¹ *Id.* at .11.

³² *Id.* at .07.

behalf of the engagement team, including the analysis of Noble Roman's allowance for doubtful accounts and several audit planning work papers. As a result, McGuire failed to maintain his objectivity.

30. As a result of this conduct, McGuire provided his concurring approval of issuance for the Noble Roman Audit reports without performing his review with the requisite due professional care and professional skepticism in violation of AS 1220.³³

ii. The Galaxy Audit

31. Somerset served as the external auditor for the Galaxy Audit, and the Firm's audit report, dated September 28, 2020, was included in Galaxy's Form 10-K filed with the Commission on the same date. Somerset's audit report included an unqualified opinion on Galaxy's financial statements, along with a going concern explanatory paragraph. Quintana, as engagement partner, authorized the issuance of the Firm's audit report. Fahrnow, as EQR partner, authorized the concurring approval of issuance of the Firm's audit report.

32. As of June 30, 2020, Galaxy reported that its goodwill balance was \$834,220, which represented approximately 19% of Galaxy's total assets for the fiscal year ended June 30, 2020. Quintana identified goodwill as a significant risk for the Galaxy Audit. Galaxy also reported a negative working capital of \$7 million, a net loss of \$14 million, and a negative operating cash flow of \$7 million for the fiscal year ended June 30, 2020. Between early July 2019 and September 2020, when the 2020 Form 10-K was filed, Galaxy's stock price declined from approximately \$2.90 to approximately \$0.03.

33. 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.³⁴ 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 the accounting estimates are presented in conformity with applicable accounting principles and are properly disclosed.³⁵

34. To determine whether goodwill is properly valued, it should be tested for impairment at a reporting unit level at least annually, and whenever there is an indication that

³³ *Id.* at .12; AS 1015.01.

³⁴ AS 2501.04, *Auditing Accounting Estimates*.

³⁵ *Id.* at .07.

it may be impaired.³⁶ Impairment is the condition that exists when the carrying amount of goodwill on a company's books exceeds its fair value. If the testing results in an impairment, the carrying amount of the goodwill must be reduced by the amount of the impairment.

35. In evaluating the reasonableness of an accounting estimate, PCAOB standards require the auditor to obtain an understanding of how management developed the estimate.³⁷ Based on that understanding, the auditor should use one or a combination of the following approaches: (a) review and test the process used by management to develop the estimate; (b) develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate; and (c) review subsequent events or transactions occurring prior to the date of the auditor's report.³⁸ Quintana and the engagement team intended to test goodwill impairment by reviewing and testing management's process. However, they failed to obtain sufficient appropriate evidence to address the significant risk.

36. With respect to reviewing and testing management's process, Quintana and the engagement team understood that, during fiscal year 2020, management identified triggering events indicating that Galaxy's goodwill may be impaired. Quintana and the engagement team also noted that management separately assessed the impairment for the carrying amounts of goodwill resulting from two acquisitions made by Galaxy, including one in 2020. According to the work papers, as a result of these assessments, management determined that only the goodwill resulting from the 2020 acquisition was impaired and recorded a full impairment for that goodwill amount.

37. Quintana reviewed management's process for developing its goodwill impairment and determined that: (a) there was only one "technology" reporting unit for Galaxy, and (b) no "adverse conditions [were] present" for the reporting unit in the Firm's assessment of qualitative factors. While Quintana's determinations were contradicted by management's separate assessments of the carrying amounts of the goodwill resulting from the two acquisitions and the presence of triggering events identified by management, Quintana still concluded that the goodwill impairment was properly recorded by management without resolving the contradictions.

38. As a result, Quintana and the engagement team failed to adequately review and test the process used by management to develop the goodwill impairment amount by failing to

³⁶ See ASC 350, *Intangibles – Goodwill and Other*.

³⁷ See AS 2501.10.

³⁸ See *id.*

adequately evaluate management's determination of reporting units and assess the triggering events identified by management or other qualitative factors related to Galaxy's goodwill. These triggering events and qualitative factors included the sustained decrease in share price, the reasons behind the going concern explanatory paragraph, and Galaxy's net loss, negative working capital, and negative cash flows from operating activities in fiscal year 2020 and their impact on the fair value of the company and goodwill.

39. In addition, as part of reviewing and testing management's process, Quintana and the engagement team attempted to obtain corroborating evidence by reviewing Galaxy's market capitalization. They derived a market capitalization using stock price information from a third party website and concluded that the market capitalization was the fair value of the company. Yet they failed to perform any procedures to evaluate whether Galaxy's stock was trading in orderly transactions in an active market during the period covered by the Galaxy Audit and, therefore, whether the stock price could be used to support that the market capitalization was representative of the fair value of the company as a whole. Further Quintana and the engagement team failed to assess the appropriate reporting unit in assessing goodwill impairment, and compared the market capitalization with the carrying value of goodwill instead of comparing the fair value of the reporting unit with the carrying amount of the reporting unit, which is the method required by GAAP.³⁹

40. As a result of this conduct, Quintana failed to obtain sufficient appropriate evidence to evaluate the goodwill estimate and failed to design and perform audit procedures to evaluate the valuation assertion of Galaxy's goodwill under ASC 350, in violation of PCAOB standards.⁴⁰

a. Fahrnow's EQR of the Galaxy Audit

41. In connection with the Galaxy Audit, Fahrnow failed to properly evaluate the conclusions reached by the engagement team with respect to areas of significant risk during his EQR. Specifically, Fahrnow failed to properly evaluate whether Quintana and the engagement team had obtained sufficient appropriate audit evidence to evaluate Galaxy's goodwill estimate and had adequately designed and performed audit procedures to evaluate Galaxy's valuation of goodwill under ASC 350.

42. During the Galaxy Audit, the engagement team identified Galaxy's goodwill as an area of significant risk. Consequently, Fahrnow was required by PCAOB standards to evaluate

³⁹ See ASC 350-20-35-4.

⁴⁰ AS 1105.04; AS 2301.08; AS 2501.10; AS 2810.30.

the engagement team’s assessment of, and audit responses to, that significant risk.⁴¹ He was also required to evaluate whether the documentation he reviewed indicated that the engagement team had responded appropriately to that significant risk.⁴²

43. Fahrnow, however, failed to perform his review with due professional care and professional skepticism, as he failed to identify that Quintana and the engagement team had not obtained sufficient appropriate audit evidence to evaluate the goodwill estimate or designed and performed audit procedures to evaluate the valuation assertion of Galaxy’s goodwill.

44. As a result, Fahrnow provided his concurring approval of issuance for the Galaxy Audit report without performing his review with the requisite due professional care and professional skepticism in violation of AS 1220.⁴³

iii. The Ameritrust Audit

45. Somerset served as the external auditor for the Ameritrust Audit, and the Firm’s audit report, dated February 12, 2021, was included in Ameritrust’s Form 10-K filed with the Commission on the same date. Somerset’s audit report included an unqualified opinion on Ameritrust’s financial statements, along with a going concern explanatory paragraph. Quintana, as engagement partner, authorized the issuance of the Firm’s audit report. Fahrnow, as EQR partner, authorized the concurring approval of issuance of this audit report.

46. As of September 30, 2020, Ameritrust reported that its goodwill balance was \$786,136, which represented approximately 19% of Ameritrust’s total assets for the fiscal year ended September 30, 2020. Ameritrust also reported a net loss of \$750,217, and a negative operating cash flow of \$701,171 for the fiscal year ended September 30, 2020. Ameritrust’s stock price declined approximately 64% between September 2020 and when the Form 10-K was filed in February 2021. Quintana identified “impairment of goodwill” as a significant risk for the Ameritrust Audit.

47. Quintana was required to evaluate the reasonableness of management’s goodwill accounting estimate.⁴⁴ Further, she was required to obtain an understanding of how management developed that estimate and use one or a combination of the following

⁴¹ AS 1220.10b.

⁴² *Id.* at .11.

⁴³ *Id.* at .12; AS 1015.01.

⁴⁴ *See* AS 2501.04.

approaches to evaluate Ameritrust’s goodwill estimate: (a) review and test the process used by management to develop the estimate; (b) develop an independent expectation of the estimate to corroborate the reasonableness of management’s estimate; and (c) review subsequent events or transactions occurring prior to the date of the auditor’s report.⁴⁵ Quintana and the engagement team intended to test goodwill impairment by reviewing and testing management’s process, yet they failed to obtain sufficient appropriate evidence to address the significant risk.

48. With respect to reviewing and testing management’s process, Quintana and the engagement team noted in the Firm’s audit documentation that management had identified certain triggering events when considering whether to assess goodwill for impairment while still concluding that there was no impairment of goodwill. Quintana, however, determined that there were no “adverse conditions” present as of year-end for Ameritrust that would necessitate a goodwill impairment analysis.

49. Quintana’s determination was contradicted by the presence of the triggering events identified by management, and she concluded that management’s conclusion was proper without resolving this contradiction. Thus, Quintana and the engagement team failed to evaluate the triggering events identified by management or other qualitative factors related to Ameritrust’s goodwill. For example, they failed to consider the macroeconomic conditions during the Covid-19 pandemic, the sustained decrease in Ameritrust’s share price, the issues giving rise to the Firm’s going concern explanatory paragraph, and Ameritrust’s net losses and negative cash flows from operations and their impact on the fair value of the company.

50. In addition, as part of reviewing and testing management’s process, Quintana and the engagement team attempted to obtain corroborating evidence by reviewing Ameritrust’s market capitalization. However, they failed to evaluate whether the market capitalization used was representative of the fair value of the Ameritrust reporting unit as a whole under ASC 350. During the period under audit, they failed to consider that Ameritrust stock was traded with very low volume, raising concerns that its stock price might not be deemed as the price that would be received to sell the reporting unit as a whole in an orderly transaction between market participants at the measurement date.⁴⁶

51. As a result of this conduct, Quintana failed to obtain sufficient appropriate evidence to evaluate the goodwill estimate and failed to appropriately design and perform

⁴⁵ See *id.* at .10.

⁴⁶ See ASC 350-20-35-22.

audit procedures to evaluate the valuation assertion of Ameritrust's goodwill under ASC 350, in violation of PCAOB standards.⁴⁷

a. Fahrnow's EQR of the Ameritrust Audit

52. As the EQR partner for the Ameritrust Audit, Fahrnow failed to properly evaluate the conclusions reached by the engagement team with respect to goodwill. The Ameritrust engagement team identified goodwill as an area of significant risk, and Fahrnow was required by PCAOB standards to evaluate the engagement team's assessment of, and audit responses to, that significant risk.⁴⁸ He was also required to evaluate whether the documentation he reviewed indicated that the engagement team had responded appropriately to that significant risk.⁴⁹

53. Fahrnow, however, failed to perform his review with due professional care and professional skepticism, as he failed to identify that Quintana and the engagement team had not, as part of evaluating management's estimate, adequately assessed the qualitative factors of impairment and evaluated whether the company's stock price and the market capitalization used was representative of the company's fair value.

54. As a result, Fahrnow provided his concurring approval of issuance for the Ameritrust Audit report without performing his review with the requisite due professional care and professional skepticism in violation of AS 1220.⁵⁰

E. Somerset Violated PCAOB Rules and Quality Control Standards

55. PCAOB rules and standards require that a registered firm establish and maintain a system of quality control for its accounting and auditing practice.⁵¹ A firm should establish policies and procedures to provide it with reasonable assurance that the work performed by

⁴⁷ AS 1105.04; AS 2301.08; AS 2501.10; AS 2810.30.

⁴⁸ AS 1220.10b.

⁴⁹ *Id.* at .11.

⁵⁰ *Id.* at .12; AS 1015.01.

⁵¹ See PCAOB Rule 3400T, *Interim Quality Control Standards*; QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.⁵²

56. Throughout the relevant period, Somerset failed to establish and maintain policies and procedures that provided the Firm with reasonable assurance that its personnel complied with applicable professional standards and regulatory requirements.

57. Although Somerset had quality control policies and procedures regarding engagement performance, its policies and procedures did not ensure that the work performed by engagement personnel met applicable professional standards. Instead, on multiple issuer audits conducted by multiple engagement personnel over the course of two years, Somerset and its professionals failed to exercise due care or obtain sufficient appropriate evidence.

58. Further, although Somerset had quality control policies and procedures related to the performance of engagement quality reviews, its policies and procedures did not ensure that the work performed by EQR partners met applicable professional standards and the Firm's standards of quality with regard to its engagement quality reviews. Specifically, the Firm's policies and procedures did not ensure that its personnel performing such reviews would perform their reviews with the requisite due professional care and professional skepticism on multiple issuer audits. The Firm also failed to adequately implement policies and procedures providing reasonable assurance that EQR partners would maintain their objectivity.⁵³ Instead, on the Noble Roman Audits, an EQR partner assumed the role of an engagement team member by directly performing certain audit procedures and preparing work papers.

59. Accordingly, Somerset violated PCAOB rules and quality control standards.⁵⁴

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:

⁵² QC § 20.17.

⁵³ AS 1220.04.

⁵⁴ QC § 20.17.

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Somerset CPAs, P.C., Douglas C. Fahrnow, CPA, Rebecca F. Quintana, CPA, and Edward M. McGuire, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Douglas C. Fahrnow, 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);⁵⁵
- C. After two years from the date of this Order, Douglas C. Fahrnow, 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)(B) of the Act and PCAOB Rule 5300(a)(2), Rebecca F. Quintana, 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);⁵⁶
- E. After two years from the date of this Order, Rebecca F. Quintana, 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)(B) of the Act and PCAOB Rule 5300(a)(2), Edward M. McGuire, 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);⁵⁷

⁵⁵ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Fahrnow. 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.”

⁵⁶ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra*, at n. 55, will apply with respect to Quintana.

⁵⁷ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra*, at n. 55, will apply with respect to McGuire.

- G. After one year from the date of this Order, Edward M. McGuire, CPA may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- H. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes the following civil money penalties:
1. Somerset CPAs, P.C., \$100,000;
 2. Douglas C. Fahrnow, CPA, \$60,000;
 3. Rebecca F. Quintana, CPA, \$40,000; and
 4. Edward M. McGuire, CPA, \$30,000.
 - i. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act.
 - ii. Respondents shall pay these civil money penalties within ten (10) days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the 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 the firm or the person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.
 - iii. Respondents Douglas C. Fahrnow, CPA, Rebecca F. Quintana, CPA, and Edward M. McGuire, CPA understand 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.

- iv. Respondent Somerset CPAs, P.C. understands that failure to pay the civil money penalty described above may result in summary suspension of its registration, pursuant to PCAOB Rule 5304(a), following written notice to Respondent Somerset CPAs, P.C. at the address on file with the PCAOB at the time of the issuance of this Order.
- v. If timely payment is not made, additional 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 interest.
- vi. 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.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

November 14, 2023