PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Jessica Etania, CPA,

Respondent.

PCAOB Release No. 105-2024-029

May 7, 2024

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

(1) censuring Jessica Etania, CPA ("Etania" or "Respondent");

(2) barring Etania from being an associated person of a registered public accounting firm;[1] and

(3) imposing a $55,000 civil money penalty on Etania.

The Board is imposing these sanctions on Etania on the basis of its findings that Respondent violated PCAOB rules and standards in connection with the audits by Liggett & Webb, P.A. ("Liggett & Webb" or the "Firm") of the financial statements of Innovative Food Holdings, Inc. ("Innovative Food") for the fiscal year ended December 31, 2020 ("2020 Innovative Food Audit") and of Luvu Brands, Inc. ("Luvu") for the fiscal years ended June 30, 2019 ("2019 Luvu Audit") and June 30, 2020 ("2020 Luvu Audit"), respectively (collectively, the "Luvu Audits").

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)

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

of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1), against Respondent.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.[2]

III.

On the basis of Respondent's Offer, the Board finds that:[3]

A. Respondent

1. **Jessica Etania** was, at all relevant times, a partner of the Firm and a certified public accountant under the laws of Florida (license no. AC50610). Etania served as the engagement partner for the 2020 Innovative Food Audit, the 2019 Luvu Audit, and the 2020 Luvu Audit. At all relevant times, Etania was "an associated person of a registered public accounting firm" as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Relevant Entities

2. **Liggett & Webb, P.A.** is headquartered in Boynton Beach, Florida. Liggett & Webb was licensed to practice public accounting by the Florida Board of Accountancy (license no. AD63352).[4] Liggett & Webb is, and at all relevant times was, registered with the Board, and

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

[3] The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in 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.

[4] The Firm's license expired on December 31, 2023.

is a “registered public accounting firm” as that term is defined in Section 2(a)(12) of the Act and PCAOB Rule 1001(r)(i).

3. **Innovative Food Holdings, Inc.** is a Florida corporation headquartered in Bonita Springs, Florida. Its public filings disclose that it is a distributor of perishables and specialty food and food-related products to restaurants, hotels, country clubs, national chain accounts, casinos, hospitals, and catering houses. Innovative Food 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).

4. **Luvu Brands, Inc.** is a Florida corporation headquartered in Atlanta, Georgia. Its public filings disclose that it designs, manufactures, and markets a portfolio of consumer lifestyle brands through the company’s websites, online mass merchants, and specialty retail stores worldwide. Luvu 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).

C. Summary

5. This matter concerns Etania’s violations of PCAOB rules and standards in connection with the 2020 Innovative Food Audit, the 2019 Luvu Audit, and the 2020 Luvu Audit. As detailed below, Etania failed to obtain sufficient appropriate audit evidence with respect to Innovative Food’s and Luvu’s revenue and failed to make certain required communications to Luvu’s audit committee.

D. Applicable PCAOB Rules and Standards

6. In connection with the preparation and issuance of an audit report, PCAOB rules require that registered public accounting firms and their associated persons comply with all applicable auditing and related professional standards.[5] An auditor may express an unqualified opinion on an issuer’s financial statements when the auditor conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[6]

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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 3101.02, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

7. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.[7] Due professional care requires that the auditor exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.[8]

8. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion.[9] In addition, an auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.[10]

9. PCAOB standards also require auditors to 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.[11] PCAOB standards further require auditors to perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks, including fraud risks.[12]

10. When using information produced by the company as audit evidence, the auditor is also required to 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 and evaluate whether the information is sufficiently precise and detailed for purposes of the audit.[13] An entity may publish various documents that contain information in addition to the audited financial statements and the independent auditor's report ("other information").[14] Other information in a document may also be relevant to an audit performed by an independent auditor. PCAOB standards require auditors to read the other information and consider whether such information, or the manner of its presentation, is materially

[7] *See* AS 1015.01, *Due Professional Care in the Performance of Work*.

[8] *See* AS 1015.07; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*.

[9] *See* AS 1105.04, *Audit Evidence*.

[10] *See* AS 2401.12, *Consideration of Fraud in a Financial Statement Audit*.

[11] *See* AS 2301.08.

[12] *See* AS 2301.11-.13.

[13] *See* AS 1105.10.

[14] *See* AS 2710.01, *Other Information in Documents Containing Audited Financial Statements*.

inconsistent with information, or the manner of its presentation, appearing in the financial statements.[15]

11. PCAOB standards also require the auditor to communicate with the company's audit committee regarding certain matters related to the conduct of an audit, including identified significant risks and uncorrected misstatements.[16]

E. Etania Violated PCAOB Rules and Standards on the 2020 Innovative Food Audit

12. Liggett & Webb issued an audit report containing an unqualified opinion on Innovative Food's 2020 financial statements on April 15, 2021. The report was included with Innovative Food's Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission") on April 15, 2021.

13. Innovative Food disclosed in its Form 10-K for fiscal year 2020 total assets of $23,150,275 and revenue and net loss of $51,676,028 and $7,665,024, respectively, for the year end. Etania and the engagement team identified improper revenue recognition as a significant risk and a fraud risk.

14. Innovative Food also disclosed in its Form 10-K for fiscal year 2020 that its largest customer, U.S. Foods, Inc. ("U.S. Foods"), accounted for 40% of Innovative Food's consolidated revenue. Innovative Food's largest subsidiary, Food Innovations, Inc. ("FII"), with recorded revenue of $20,902,670, had a contractual agreement with U.S. Foods during fiscal year 2020.

15. PCAOB standards required Etania and the engagement team to design and perform audit procedures in a manner that addressed Etania's identification of improper revenue recognition as a significant risk and a fraud risk,[17] and to evaluate whether Innovative Food's revenue was presented in the financial statements fairly, in all material respects, in conformity with the applicable financial reporting framework.[18]

16. In performing audit procedures regarding Innovative Food's revenue, notwithstanding that FII's sales to U.S. Foods represented approximately 40% of Innovative Food's consolidated revenue in 2020, Etania and the engagement team failed to review FII's

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15 *See* AS 2710.04.

16 *See* AS 1301.01, 09, .18, *Communications with Audit Committees*.

17 *See* AS 2301.03, .08-.09, .11-.13.

18 *See* AS 2810.30-.31, *Evaluating Audit Results.*

contract with U.S. Foods—Innovative Food's largest customer—to determine that it met the five criteria[19] outlined in FASB ASC 606, *Revenue from Contracts with Customers* ("ASC 606") to qualify as a contract.[20]

17. As a result of Etania and the engagement team's failure to review FII's contract with U.S. Foods, Etania and the engagement team failed to design and perform audit procedures in a manner that addressed their identification of improper revenue recognition as a significant risk and a fraud risk, failed to obtain sufficient appropriate audit evidence that Innovative Food's revenue was properly valued, and failed to evaluate whether Innovative Food's revenue was presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[21]

F. Etania Violated PCAOB Rules and Standards on the Luvu Audits

18. Liggett & Webb issued audit reports containing unqualified opinions on Luvu's 2019 and 2020 financial statements on June 30, 2019, and June 30, 2020, respectively. The reports were included with Luvu's Forms 10-Ks filed with the Commission on October 11, 2019, and October 1, 2020, respectively.

19. Luvu disclosed in its Form 10-K for fiscal year 2019 total assets of $4,087,000 and net sales and net loss of $17,003,000 and $157,000, respectively. Luvu disclosed in its Form 10-K for fiscal year 2020 total assets of $5,447,000 and net sales and net income of approximately $18,376,000 and $860,000, respectively. In the 2019 Luvu Audit and 2020 Luvu Audit, Etania and the engagement team identified improper revenue recognition as a significant risk and a fraud risk.

i. Etania Failed to Test the Occurrence and Completeness of Revenue and Failed to Determine Whether All Performance Obligations Were Satisfied on the Luvu Audits

20. On both the 2019 Luvu Audit and the 2020 Luvu Audit, Etania and the engagement team failed to perform sufficient substantive procedures to test the occurrence and completeness of Luvu's e-commerce and wholesale revenues, which combined

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19 ASC 606 includes the following five revenue recognition implementation steps: (1) identify the contract with the customer; (2) identify performance obligations; (3) determine the transaction price; (4) allocate the transaction price to performance obligations; and (5) recognize revenue when each performance obligation is satisfied.

20 *See* AS 1105.04.

21 *See* AS 1105.04; AS 2810.30-.31; AS 2301.11-.13.

represented approximately 98 and 99 percent of Luvu's total annual revenue, respectively, to evaluate whether Luvu's revenue was recognized in the proper period and properly valued.

21. For the 2019 Luvu Audit and the 2020 Luvu Audit, in response to the identified significant risk and fraud risk concerning revenue recognition, Etania and the engagement team selected a sample of 292 and 279 sales invoices, respectively. They then planned procedures to agree each sales invoice to a shipping document, and obtain evidence of cash receipts.

22. In selecting the samples for the Luvu Audits, however, Etania and the engagement team failed to perform audit procedures to determine whether the population of sales invoices from which Etania and the engagement team made selections agreed to the sales sub-ledger. They also failed to reconcile the sales sub-ledger to Luvu's trial balance, general ledger, or financial statements. Therefore, Etania and the engagement team failed to sufficiently test the accuracy and completeness of the population of sales invoices agreed to the shipping documents and cash receipts.[22]

23. Additionally, during the 2019 Luvu Audit, Etania and the engagement team failed to trace 224 of the 292 selected sales invoices to actual shipping documents. Similarly, in the 2020 Luvu Audit, Etania and the engagement team failed to obtain evidence of shipping for 179 of the 279 selected sales invoices. Therefore, in both of the Luvu Audits, Etania and the engagement team failed to obtain sufficient appropriate audit evidence that Luvu's revenue was recognized in the proper period and properly valued.[23]

24. Finally, in both Luvu Audits, Etania and the engagement team failed to design and perform audit procedures in a manner that addressed their identification of improper revenue recognition as a significant risk and a fraud risk.[24]

ii. Etania Failed to Evaluate Revenue Recognition Disclosures to Identify Material Inconsistencies in Luvu's Financial Statements on the 2019 Luvu Audit

25. In the Management Discussion & Analysis section ("MD&A") of Luvu's Form 10-K for the fiscal year 2019, Luvu disclosed the following: "[r]evenue is recognized at the point in time that control of the ordered products is transferred to the customer. Generally, this occurs

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22 *See* AS 1105.10.

23 *See* AS 1105.04.

24 *See* AS 2301.08, .13.

when the product is delivered, or in some cases, picked up from one of our distribution centers by the customer."

26. But the disclosures included in Luvu's Form 10-K financial statements for the fiscal year ended 2019 contained contradictory language regarding revenue recognition as compared to the MD&A. Specifically, the disclosures provided that different revenue streams affected how revenue is recognized and that revenue was not always only recognized upon delivery of goods to a customer, but could also be recognized upon shipment of goods to the customer.

27. As a result, in reviewing Luvu's revenue recognition disclosures in its financial statements, Etania failed to consider whether that information was materially inconsistent with other information in the MD&A.[25]

iii. Etania Failed to Evaluate Whether Luvu's Revenue Was Presented Fairly, in All Material Respects, in Conformity with the Applicable Financial Reporting Framework on the 2020 Luvu Audit

28. In Luvu's Form 10-K for the fiscal year 2020, Luvu disclosed in the notes to the financial statements the following: "[r]evenue is recognized at the point in time that control of the ordered products is transferred to the customer. Generally, this occurs when the product is delivered, or in some cases, picked up from one of our distribution centers by the customer."

29. Etania and the engagement team, however, understood that Luvu recognized revenue upon shipment—not delivery. As a result, Etania and the engagement team failed to evaluate whether Luvu's revenue as disclosed in its financial statements was presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[26]

iv. Etania Failed to Make Required Communications to the Audit Committee on the Luvu Audits

30. In addition to improper revenue recognition, in both the 2019 Luvu Audit and the 2020 Luvu Audit, Etania and the engagement team identified management override of controls and inventory valuation as significant risks and fraud risks.

31. In both the 2019 Luvu Audit and the 2020 Luvu Audit, Etania and the engagement team sent letters to Luvu's audit committee, on August 14, 2019, and August 16,

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25 *See* AS 2710.04.

26 *See* AS 2810.30-.31.

2020, respectively, communicating an overview of the audit strategy, including the timing of the audit, and the identified significant risks related to improper revenue recognition and inventory valuation. In both audits, however, they failed to disclose management override of controls as a significant risk and a fraud risk.

32. Additionally, during the 2019 Luvu Audit, Etania and the engagement team identified an uncorrected misstatement—specifically, a balance sheet reclassification from a prepaid asset to deferred revenue. In the final letter communication to Luvu's audit committee on October 11, 2019, however, Etania and the engagement team did not provide the schedule of uncorrected misstatements to the audit committee.

33. As a result of these failures in both the 2019 Luvu Audit and the 2020 Luvu Audit, Etania and the engagement team failed to make certain required communications to Luvu's audit committee concerning identified significant risks and uncorrected misstatements.[27]

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

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

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Jessica Etania 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).[28]

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27 *See* AS 1301.09, .18.

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

C. Pursuant to PCAOB Rule 5302(b), Jessica Etania may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $55,000 is imposed on Jessica Etania.

1. All funds collected by the PCAOB 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. Jessica Etania shall pay $30,000 within ten days of the issuance of this Order, and $25,000 within twelve months of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies Jessica Etania 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.

3. 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.

4. Jessica Etania 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.

5. With respect to any civil money penalty amounts that Jessica Etania shall pay pursuant to this Order, Jessica Etania 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 Jessica Etania's payment of the civil money penalty pursuant to this Order, in any private action brought against Jessica Etania 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

May 7, 2024