PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Macias Gini & O'Connell LLP, Wendy Heiss, CPA, and Scott A. Hammon, CPA,

Respondents.

PCAOB Release No. 105-2026-014

November 3, 2026

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

(1) censuring Macias Gini & O'Connell LLP ("Firm" or "MGO"), Wendy Heiss ("Heiss"), and Scott A. Hammon ("Hammon") (collectively, "Respondents");

(2) limiting Heiss's activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended ("Act"), for a period of one year from the date of this Order, as described in Section IV of this Order;

(3) imposing a civil money penalty of $500,000 on MGO, $40,000 on Heiss, and $25,000 on Hammon;

(4) requiring the Firm to undertake certain remedial measures as described in Section IV of this Order; and

(5) requiring that Heiss and Hammon each complete 20 hours of continuing professional education ("CPE"), in addition to any CPE required in connection with any professional license, within one year of the date of this Order.

The Board is imposing these sanctions on the basis of its findings that: (1) MGO violated PCAOB rules and auditing standards[1] in connection with two audits of an issuer client ("Issuer A") and violated PCAOB quality control standards; and (2) Heiss and Hammon violated PCAOB

[1] All references to PCAOB rules and standards in this Order are to the versions of those rules and standards in effect at the time of the audits discussed herein.

rules and auditing standards in connection with performing the audit of the fiscal year ("FY") 2022 financial statements of Issuer A.

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 against Respondents pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1).

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the "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 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.[2]

III.

On the basis of Respondents' Offers, the Board finds that:[3]

A. Respondents

1. **Macias Gini & O'Connell LLP** is a public accounting firm headquartered in Los Angeles, California, and dual-registered with the PCAOB and the Canadian Public Accountability Board. MGO is licensed by the California Board of Accountancy and by the accountancy boards of numerous other states. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

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[2] 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.

[3] The Boards finds that each 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 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.

2. **Wendy Heiss** is a certified public accountant licensed by the California Board of Accountancy and the Rhode Island Board of Accountancy and was, at all relevant times, 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). The Firm promoted Heiss to partner in 2022, and she served as the engagement partner in charge of the FY 2022 audit of Issuer A. Heiss separated from MGO in 2025.

3. **Scott A. Hammon** is a certified public accountant licensed by the California Board of Accountancy and the Oregon Board of Accountancy, and was, at all relevant times, 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). Hammon served as the engagement quality review ("EQR") partner for the FY 2022 Issuer A audit. It was his first year working on an engagement for Issuer A.

B. Issuer

4. **Issuer A** was, at all relevant times, a Delaware corporation headquartered in Emeryville, California. Its public filings disclosed that it was a biotechnology company marketing and selling sustainable beauty and health products to consumers, in part through the company's direct-to-consumer e-commerce platforms. Issuer A was, at all relevant times, an "issuer" as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii), including at the time MGO audited Issuer A's consolidated financial statements and internal control over financial reporting for the fiscal years ended December 31, 2021 and December 31, 2022. On August 9, 2023, Issuer A filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

C. Summary

5. This matter concerns MGO's violations of PCAOB rules and standards in connection with the FY 2021 and FY 2022 audits of Issuer A (the "Audits"). This matter also concerns Heiss's and Hammon's violations of PCAOB rules and standards in connection with the FY 2022 Issuer A audit.

6. During the FY 2021 Issuer A audit, MGO failed to properly evaluate the company's valuation of intangible assets and goodwill.

7. In the FY 2022 audit of Issuer A, MGO and Heiss failed to properly evaluate both Issuer A's ability to continue as a going concern and its impairment of goodwill. In fact, MGO's national office provided the engagement team with technical consultation memos that concurred with the team's conclusions regarding going concern and goodwill impairment.

Despite being aware of evidence inconsistent with those conclusions—i.e., evidence that signaled the declining financial condition of Issuer A in 2022 and 2023—MGO and Heiss failed to adequately resolve that inconsistent evidence before issuing an audit report containing an unqualified opinion, without a going concern explanatory paragraph, on Issuer A's FY 2022 financial statements. Also, Hammon failed to perform his review of the audit with due professional care and in accordance with AS 1220, *Engagement Quality Review*. Notably, less than two months after the audit report date, Issuer A filed a Form 10-Q disclosing that certain factors relating to the company's financial condition raised substantial doubt about its ability to continue as a going concern. About three months later, Issuer A filed for bankruptcy protection under Chapter 11.

8. In both of the Audits, MGO also failed to assemble for retention a complete and final set of audit documentation in accordance with PCAOB standards.

9. Lastly, from at least 2022 through 2024, MGO violated PCAOB quality control standards by failing to establish and monitor an effective system of quality control to provide it with reasonable assurance that the work performed by engagement personnel met applicable professional standards. Although the Firm conducted a post-issuance review of the FY 2021 Issuer A audit, that internal review failed to identify the above-mentioned audit deficiencies. Later, in the summer of 2022, a PCAOB inspection reviewing that audit identified the audit deficiencies. Although the PCAOB notified the Firm of these audit deficiencies before the Firm performed the FY 2022 Issuer A audit, the Firm and its engagement team committed similar violations (as described above) during that FY 2022 audit. In addition, an MGO post-issuance review of the FY 2022 audit again failed to identify these similar violations. It was not until PCAOB inspectors later reviewed the FY 2022 Issuer A audit in 2024 that the above-described violations in connection with that audit were finally identified.

D. Respondents Violated PCAOB Rules and Auditing Standards During the Audits

10. 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 PCAOB's auditing and related professional standards.[4] An auditor is in a position to express an unqualified opinion on an issuer's financial statements when the auditor has conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken

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

as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[5]

11. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit and in the preparation of the report.[6] 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.[7]

12. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion expressed in the auditor's report, including obtaining reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.[8] The auditor should design and perform audit procedures in a manner that addresses his or her assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.[9] For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.[10]

13. When the auditor evaluates results of the audit, he or she must conclude on whether sufficient appropriate audit evidence has been obtained to support his or her opinion on the financial statements.[11] 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.[12]

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5 *See* AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*; *see also* AS 2810.30-.31, *Evaluating Audit Results* (requiring auditors to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, including whether the financial statements contain the information essential for a fair presentation).

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

7 *See id.* at .07; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*.

8 *See* AS 1105.04, *Audit Evidence*; AS 1001.02, *Responsibilities and Functions of the Independent Auditor*.

9 *See* AS 2301.08.

10 *See id.* at .11.

11 AS 2810.33.

12 AS 1105.06.

14. The auditor also should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements, in forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[13] If audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.[14] Similarly, if a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made.[15] If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion or has substantial doubt about a relevant assertion, the auditor should perform procedures to obtain further audit evidence to address the matter.[16]

15. As described below, Respondents violated these and other standards in performing the Audits.

i. In the FY 2022 Issuer A Audit, MGO and Heiss Failed to Adequately Evaluate Issuer A's Ability to Continue as a Going Concern

16. PCAOB standards require the auditor to evaluate, based on his or her knowledge of relevant conditions and events that exist at or have occurred before the date of the auditor's report, whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited.[17] Conditions or events that indicate there could be substantial doubt include negative trends, such as recurring operating losses, working capital deficiencies, and negative cash flows from operations.[18]

17. If, after consideration of the relevant conditions or events, the auditor "believes there is substantial doubt," the auditor should identify the significant elements of

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13 *See* AS 2810.03.

14 *See* AS 1105.29.

15 *See* AS 2805.04, *Management Representations*.

16 AS 2810.35.

17 *See* AS 2415.02, *Consideration of an Entity's Ability to Continue as a Going Concern*.

18 *Id*. at .06.

management's plans for dealing with the adverse effects of the conditions, perform procedures to obtain evidence about those elements, and assess whether "it is likely the adverse effects will be mitigated for a reasonable period of time" and that "such plans can be effectively implemented."[19] In addition, "[w]hen prospective financial information is particularly significant to management's plans, the auditor should request management to provide that information and should consider the adequacy of support for significant assumptions underlying that information."[20]

18. If the auditor evaluates management's plans and concludes that substantial doubt remains, the auditor should include an explanatory paragraph in the audit report to reflect that conclusion.[21]

19. In the FY 2022 Issuer A audit, MGO and Heiss identified a significant risk of material misstatement related to going concern during the planning of the audit, and initially believed that there was substantial doubt about Issuer A's ability to continue as a going concern. That belief was supported by a host of negative trends disclosed in Issuer A's draft FY 2022 Form 10-K raising red flags that the company might not be able to continue as a going concern. Those negative trends included that:

- Issuer A had incurred operating losses every year since its inception, and it expected to continue to incur losses and experience negative cash flows in 2023;
- The company had an accumulated deficit of approximately $2.9 billion, which was an increase of approximately $520 million (or about 18%) from the prior year;
- The company reported a net loss of approximately $540 million, which was an increase of approximately $265 million (or over 100%) from the prior year;
- Issuer A disclosed that its net cash used to fund its operations was $529 million, about a 190% increase from the prior year;
- In relation to the prior year, Issuer A's revenue decreased about 21%, while its costs and operating expenses increased about 61%; and

19 *Id*. at .07-.08.

20 *Id*. at .09.

21 *Id*. at .12.

- The company owed $923 million under debt instruments as of December 31, 2022, an increase of about 25% from the prior year, with $128.7 million due within the next 12 months. In fact, at year-end 2022, Issuer A's current debt, along with other obligations, amounted to approximately $188 million in total obligations to be paid in cash during 2023. Yet the company reported only $64 million in cash and cash equivalents at year-end 2022, leaving a cash shortfall of about $124 million.

20. Nevertheless, after considering management's 2023 operating plan, MGO and Heiss ultimately concluded that the substantial doubt about going concern had been alleviated. On March 16, 2023, MGO issued an audit report containing an unqualified audit opinion on Issuer A's FY 2022 financial statements and ICFR, without a going concern explanatory paragraph.

21. Less than two months later, on May 10, 2023, Issuer A filed a Form 10-Q for the first quarter of 2023 disclosing that the company did not have enough cash to fund its operations and obligations for the next twelve months, and that these factors raised substantial doubt about the company's ability to continue as a going concern over the coming year. Less than three months after that, on August 9, 2023, Issuer A filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code.

22. In the FY 2022 audit, MGO's and Heiss's conclusion regarding going concern was based on several factors, primarily management's expectations that, in 2023, (a) Issuer A could obtain sufficient additional funding to cover both its mounting short-term debt obligations and the widening gap in available funds for its operations, and (b) the company's revenue would increase by approximately 142% and its operating expenses would decrease by approximately 21%. Those expectations, however, were contradicted by MGO's and Heiss's own analyses.

23. First, Issuer A's management, MGO, and Heiss pointed to a February 2023 licensing agreement with a third-party company as evidence of Issuer A's ability to obtain funding. However, the cash inflow from that transaction, when combined with inflows and outflows from the other transactions disclosed in the subsequent events note of Issuer A's FY 2022 Form 10-K, could only generate a net cash inflow of about $150 million—which was insufficient to cover the approximately $188 million in obligations due in 2023.

24. Second, MGO and Heiss performed an analysis that revealed management had a recent history of making financial projections that were not often met. Specifically, the analysis showed that, from 2019 through 2022, Issuer A management's revenue projections were 45% higher, and its expense projections were 35% lower, on average, than the actual amounts ultimately reported by the company. To reconcile management's 2023 operating plan with this historical pattern of inaccurate forecasts, MGO and Heiss reduced management's 2023 revenue

projections by 45%, increased its operating expense projections by 20%, and subtracted $200 million in the event the above-mentioned third-party licensing transaction did not close. With those adjustments, MGO and Heiss projected that Issuer A would have a cash shortfall of $377 million in 2023. Notably, Issuer A management's own 2023 plan did not make any of these corrective adjustments, yet it still indicated that Issuer A's adjusted earnings before interest, taxes, depreciation, and amortization would be *negative* $18 million by December 31, 2023.

25. MGO and Heiss did not appropriately consider the adequacy of support for certain significant assumptions underlying the above prospective financial information.[22] They also did not perform sufficient audit procedures necessary to resolve the inconsistencies raised by that information.[23]

26. Moreover, when considering whether substantial doubt about Issuer A's ability to continue as a going concern had been alleviated, MGO and Heiss failed to sufficiently evaluate and test significant elements and assumptions underlying management's 2023 operating plan, including Issuer A's ability to obtain additional funding and its forecasted cash flows and cash balance. As a result, the Firm and Heiss failed to obtain sufficient appropriate evidence, and to adequately consider contradictory evidence, regarding Issuer A's ability to continue as a going concern, in violation of PCAOB standards, including AS 1105, AS 2415, and AS 2810.

ii. MGO and Heiss Failed to Conclude Going Concern was a Critical Audit Matter in the FY 2022 Issuer A Audit

27. PCAOB standards establish "requirements regarding the content of the auditor's written report when the auditor expresses an unqualified opinion on the financial statements."[24] Among other things, "[t]he auditor must determine whether there are any critical audit matters [('CAMs')] in the audit of the current period's financial statements."[25] PCAOB standards require the auditor to "communicate in the auditor's report [CAMs] relating to the audit of the current period's financial statements or state that the auditor determined that there are no [CAMs]."[26]

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22 *See id.* at .09.

23 AS 1105.29.

24 AS 3101.01.

25 *Id*. at .11.

26 *Id*. at .13.

28. A CAM is "any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment."[27] PCAOB standards identify factors that the auditor should consider in the evaluation of whether a matter is a CAM, including whether the matter was identified as a significant risk of material misstatement; the degree of auditor judgment related to an estimation by management; and the degree of subjectivity involved in evaluating the results of audit procedures.[28] In addition, for each matter that was communicated or required to be communicated to the audit committee and that relates to material accounts or disclosures, the auditor must document whether the matter was determined to be a CAM and the basis for such determination.[29]

29. Under that standard, MGO and Heiss had an abundance of evidence indicating that going concern was a CAM during the FY 2022 Issuer A audit. Going concern was a significant risk of material misstatement that was communicated to the audit committee, and it related to accounts or disclosures that were material to the financial statements. MGO's and Heiss's evaluation of going concern also involved a high degree of auditor judgment with respect to management's forecasts, which themselves involved significant judgment and estimation by management. Indeed, Heiss obtained a consultation on going concern from MGO's national office.

30. Nevertheless, MGO and Heiss failed to communicate the going concern issue as a CAM in the FY 2022 audit report and failed to retain documentation of their consideration of the CAM factors in the audit file, in violation of PCAOB standards, including AS 3101. As a result, the Firm's audit report failed in two ways to inform investors of relevant substantial doubt about Issuer A's ability to continue as a going concern—by omitting both an explanatory paragraph under AS 2415 and the communication of a critical audit matter under AS 3101.

iii. In the FY 2021 Issuer A Audit, MGO Violated PCAOB Rules and Standards in Connection with the Valuation of Intangible Assets and Goodwill

31. PCAOB standards establish requirements for auditing accounting estimates, including fair value measurements, in significant accounts and disclosures in financial

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27 *Id*. at .11.

28 *See id*. at .12.

29 *See id*. at .17.

statements.[30] A significant account or disclosure is one where there is a reasonable possibility that it could contain a misstatement that, individually or when aggregated with others, has a material effect on the financial statements.[31] The auditor's objective when evaluating accounting estimates is to obtain sufficient appropriate evidence to determine whether the accounting estimates are properly accounted for and disclosed.[32]

32. To test the company's process used to develop accounting estimates, the auditor should, among other things, identify and evaluate the reasonableness of significant assumptions used in developing the estimate.[33] Likewise, when an auditor of a company uses the work of a specialist employed or engaged by the company (company's specialist), the auditor should, among other things, evaluate whether the significant assumptions used by the company's specialist are reasonable.[34] Additionally, when an auditor's firm engages a specialist (auditor-engaged specialist), the auditor is required to review the specialist's report, or equivalent documentation, and evaluate whether the auditor-engaged specialist's work provides sufficient appropriate evidence.[35]

33. Further, if the company's specialist or auditor-engaged specialist's findings or conclusions appear to contradict the relevant assertion of a significant account or disclosure, or the specialist's work does not provide sufficient appropriate evidence supporting the assertion, the auditor should perform additional procedures or request its specialist to perform additional procedures, as necessary to address the issue.[36] An example of a situation in which additional procedures are ordinarily necessary is when the company's specialist or auditor-engaged specialist's report, or equivalent documentation, contains disclaimers that affect the auditor's use of the report or work.[37]

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30 AS 2501.01, *Auditing Accounting Estimates, Including Fair Value Measurements*.

31 *See* AS 2201.A10, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

32 AS 2501.03.

33 *Id*. at .15-.18.

34 AS 1105.A8b.

35 AS 1210.09, *Using the Work of an Auditor-Engaged Specialist*.

36 *See* AS 1105.A10; AS 1210.12 & Note.

37 *See* AS 1105.A10, Note at (2); AS 1210.12, Note at (2).

34. In 2021, Issuer A acquired four companies and, with the assistance of a company's specialist, valued the related intangible assets at about $40 million and goodwill at about $131 million. Those valuations of intangible assets and goodwill were estimates in "significant accounts and disclosures," as reflected in MGO's work papers. As such, MGO was required to audit the estimates. Accordingly, in connection with the FY 2021 audit of Issuer A, MGO engaged an auditor's specialist to assist the Firm with the evaluation of the company's specialist's valuations. However, MGO's FY 2021 audit work papers do not document the performance of any procedures by the Firm or its specialist to identify the significant assumptions developed by Issuer A and the company's specialist, or to evaluate the reasonableness of those assumptions. The auditor-engaged specialist merely reperformed the company's specialist's calculations for the fair value estimates, which were based, in part, on management's unsupported assumptions regarding revenue and profit forecasts of the acquired companies. MGO failed to obtain support for those management assumptions. Indeed, most of the acquired companies held little or no tangible assets, had limited or no history of operations, and had never generated revenue prior to the acquisition date.

35. Nevertheless, MGO failed to perform, or request its specialist to perform, additional procedures. That failure was exacerbated by the fact that for each of the four acquisition valuations, both specialists' reports and engagement letters contained disclaimers stating that the specialists relied on certain information provided by Issuer A management without further verification of the information by the respective specialists.

36. As a result, MGO violated PCAOB standards, including AS 1105 (Appendix A), AS 1210, and AS 2501.

iv. In the FY 2022 Issuer A Audit, MGO and Heiss Violated PCAOB Rules and Standards in Connection with the Evaluation of Impairment of Goodwill

37. Under U.S. Generally Accepted Accounting Principles ("GAAP"), goodwill should be tested for impairment at least annually.[38] In assessing goodwill for impairment, the company may first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test.[39] This determination rests on whether it is more likely than not that the fair value of a reporting unit[40] is less than its carrying amount (including goodwill).

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38 ASC 350-20-35-1, *Subsequent Measurement*.

39 ASC 350-20-35-3.

40 To determine whether goodwill is properly valued, it should be tested for impairment at a reporting unit level. ASC 350-20-35-1.

Examples of such qualitative factors include declining financial performance and a sustained decrease in share price.[41]

38. In addition to annual testing, goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.[42] Such events or circumstances are known as "triggering events." The above-referenced qualitative factors of declining financial performance and sustained decrease in share price are examples of such triggering events.

39. In 2022, Issuer A engaged a specialist to assist the company with its annual goodwill impairment testing, which occurred as of October 1, 2022. The company's specialist's valuation estimated that the total enterprise value for the relevant reporting unit exceeded its carrying value. As a result, Issuer A and its specialist concluded that goodwill was not impaired as of October 1, 2022.

40. During the FY 2022 Issuer A audit, MGO and Heiss identified goodwill impairment as a significant risk of material misstatement and engaged a specialist to assist the Firm with evaluating the company's specialist's valuation. Although MGO, Heiss, and the auditor-engaged specialist agreed with Issuer A's conclusion that goodwill was not impaired as of October 1, 2022, MGO and Heiss arrived at their conclusion without performing sufficient procedures to evaluate the reasonableness of certain significant assumptions developed by management and the company's specialist. In particular, MGO and Heiss failed to evaluate the reasonableness of certain significant assumptions within management's 2023 operating plan as of October 1, 2022, which the company's specialist utilized and relied upon for its analysis. And, like in 2021, MGO and Heiss failed to perform or request the auditor-engaged specialist to perform additional procedures, despite the fact that both specialists' reports and engagement letters again contained the same disclaimers that the specialists had relied upon certain information provided by management without further verification.

41. In addition, MGO and Heiss failed to properly evaluate whether any triggering events had occurred between October 1 and December 31, 2022 that would require interim quantitative impairment testing of goodwill. Issuer A management's triggering events assessment simply consisted of assertions that there were no significant changes noted from the date of the October 1, 2022 impairment test to year-end. However, during the fourth quarter of 2022, Issuer A suffered continued declines in its financial performance and share price, both of which are important factors under GAAP for determining whether to conduct

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41 ASC 350-20-35-3C.

42 ASC 350-20-35-30.

interim impairment testing. For example, the company's working capital deficit more than doubled, from about $36 million as of September 30, 2022 to about $80 million as of December 31, 2022. Similarly, Issuer A's losses from operations continued to climb by about 35% in the fourth quarter, from about $416 million as of September 30, 2022 to about $569 million as of December 31, 2022. Moreover, the company's share price declined by about 48%, from $2.92 on September 30, 2022 to $1.53 by December 30, 2022.

42. Nevertheless, MGO's work papers show no additional goodwill valuation procedures were performed between October 1 and December 31, 2022.

43. Under the circumstances, MGO and Heiss were aware of significant evidence that the Firm's engagement team had not obtained sufficient appropriate evidence to support the reasonableness of management's conclusion that there was no impairment of goodwill in 2022. Those circumstances called for MGO and Heiss to either perform additional procedures, or request the auditor-engaged specialist to do so, yet MGO and Heiss failed to do so. As a result, MGO and Heiss violated PCAOB standards, including AS 1105 (Appendix A), AS 1210, and AS 2501.

v. In the FY 2022 Issuer A Audit, Hammon Violated AS 1220 by Failing to Appropriately Review the Firm's Work on Going Concern, CAMs, and Goodwill Impairment

44. Under PCAOB standards, an EQR is required for all issuer audit engagements,[43] and the engagement quality reviewer is required to make certain evaluations before providing his or her concurring approval of issuance of an engagement report.[44] Among other things, the engagement quality reviewer should evaluate (a) the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team, including fraud risks;[45] and (b) the engagement team's determination, communication, and documentation of CAMs in accordance with AS 3101.[46]

45. In an audit, a firm may grant permission to the client to use the engagement report only after the engagement quality reviewer provides concurring approval of issuance, which the engagement quality reviewer may provide "only if, after performing with due

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43 AS 1220.01, *Engagement Quality Review*.

44 *Id*. at .09-.12.

45 *Id*. at .10b.

46 *Id*. at .10j.

professional care the review required by [AS 1220], he or she is not aware of a significant engagement deficiency."[47] A "significant engagement deficiency" exists when, among other things, the engagement team failed to obtain sufficient appropriate evidence in accordance with PCAOB standards, or when the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement.[48]

46. Hammon was the EQR partner on the FY 2022 Issuer A audit. As the EQR partner, he was required to evaluate the engagement team's assessment of Issuer A's ability to continue as a going concern; the team's determination, communication, and documentation of CAMs, including MGO's and Heiss's conclusion that going concern was not a CAM; and the team's assessment of goodwill impairment, including whether interim quantitative testing was required between October 1, 2022, and December 31, 2022. Hammon was required to evaluate those areas because going concern and goodwill impairment were identified as significant risks of material misstatement, and AS 1220.10j specifically required him to evaluate CAMs. However, despite reviewing each of those matters and the above-mentioned inconsistent evidence in the FY 2022 Issuer A audit, Hammon failed to evaluate them with due professional care and failed to identify the significant engagement deficiencies in the engagement team's work. Hammon provided his concurring approval of issuance of MGO's audit report despite the violations of PCAOB standards noted above.

47. Accordingly, Hammon violated AS 1015 and AS 1220.

vi. MGO Violated PCAOB Audit Documentation Standards in the Audits

48. An auditor must prepare audit documentation in connection with each engagement conducted pursuant to the standards of the PCAOB.[49] Audit documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached.[50] "Audit documentation must clearly demonstrate that the work was in fact performed."[51] Further, audit documentation "must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement," to "understand

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47 *Id*. at .12-.13; *see also* AS 1015.07.

48 *Id.* at .12, Note.

49 AS 1215.04, *Audit Documentation*.

50 *Id.*

51 *Id*. at .06.

the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached."[52]

49. In addition, prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report.[53] At the time of the Audits, PCAOB standards provided that "[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."[54]

50. In connection with both of the Audits, MGO failed to include all relevant work papers in the final set of audit documentation assembled for retention. For example, in the FY 2021 Issuer A audit, MGO failed to include, among other things: (a) numerous work papers prepared by its specialist regarding the business combination valuations discussed above; (b) certain revenue controls-related and substantive revenue-related work papers; and (c) a CAMs workbook and spreadsheet. During the FY 2022 Issuer A audit, MGO again failed to include certain analyses performed by specialists concerning goodwill impairment testing.

51. As a result, MGO's audit documentation did not clearly demonstrate that the work was, in fact, performed. The audit documentation was also insufficient to enable an experienced auditor with no previous connection with the engagement to understand the nature, timing, extent, and results of the procedures that may have been performed, evidence obtained, and conclusions reached. MGO therefore violated AS 1215.

E. MGO Violated PCAOB Rules and Quality Control Standards

52. PCAOB rules require registered public accounting firms and their associated persons to comply with the Board's quality control standards.[55] These standards require that a registered public accounting firm have a system of quality control for its accounting and auditing practice.[56] The elements of a firm's system of quality control should encompass,

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52 *Id.*

53 *Id*. at .15.

54 *Id*. (emphasis in original).

55 PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

56 Quality Control Standard 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20").

among other things, engagement performance and monitoring.[57] To satisfy the engagement performance element, a firm should establish policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[58]

53. To satisfy the monitoring element, policies and procedures should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm are suitably designed and are being effectively applied.[59] Such monitoring involves an ongoing consideration and evaluation of a number of items, including (a) the relevance and adequacy of the firm's policies and procedures, and (b) compliance with the firm's policies and procedures.[60]

54. "Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective."[61] "Procedures that provide the firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the firm's policies and procedures contribute to the monitoring element."[62] Among other things, the firm's monitoring procedures may include inspection procedures, pre-issuance or post-issuance review of selected engagements, determination of any corrective actions to be taken and improvements to be made in the quality control system, communication to appropriate firm personnel of any weaknesses identified, and follow-up to ensure that any necessary modifications are made to the quality control policies and procedures on a timely basis.[63]

55. The circumstances described above demonstrate that MGO's system of quality control did not provide reasonable assurance that certain aspects of its audits would comply with PCAOB rules and standards. The above violations involving the valuation of intangibles and goodwill (including goodwill impairment), as well as audit documentation, occurred in two consecutive audits. Moreover, during the FY 2022 Issuer A audit, MGO provided national office

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57 *Id*. at .07.

58 *Id*. at .17.

59 *Id*. at .20; *see also* Quality Control Standard 30.02, *Monitoring a CPA Firm's Accounting and Auditing Practice* ("QC § 30").

60 QC § 30.02.

61 *Id*. at .03.

62 *Id.*

63 *Id.*

consultations to Heiss regarding the issues of going concern and goodwill impairment, yet those reviews by the Firm failed to identify the related deficiencies in the audit.

56. Some of the audit deficiencies in connection with the FY 2022 Issuer A audit also occurred despite MGO having received notice of similar deficiencies from prior PCAOB inspections, and despite both of the Audits having been subject to MGO's Post-Issuance Review ("PIR") program. Specifically, MGO conducted a PIR in 2022 for the FY 2021 Issuer A audit, but failed to identify any of the above-described audit deficiencies related to audit documentation and valuation of intangibles and goodwill. Subsequently, PCAOB inspectors reviewed that audit and issued comment forms to the Firm in mid-2022 identifying those deficiencies. Roughly seven months later, when issuing its FY 2022 Issuer A audit report, MGO again committed similar violations in connection with goodwill impairment testing and audit documentation. After the FY 2022 Issuer A audit, the Firm again conducted a PIR and again failed to identify any of the audit deficiencies described above. In 2024, PCAOB inspectors reviewed the Firm's FY 2022 Issuer A audit and identified the above-described FY 2022 audit deficiencies.

57. These failures to detect violations that spanned multiple audit areas and years, despite MGO having been put on notice of some of the violations, demonstrate that the Firm's system of quality control did not provide reasonable assurance that the work performed by engagement personnel would meet applicable professional standards, regulatory requirements, and the Firm's standards of quality. The failures also demonstrate that MGO's monitoring procedures did not provide reasonable assurance that its system of quality control was effective during the relevant time period.

58. As a result, MGO violated QC §§ 20 and 30.

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), MGO, Heiss, and Hammon are hereby censured.

B. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date of this Order, Heiss's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be

restricted as follows: Heiss shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in AS 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in AS 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; or (5) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in AS 1205, *Part of the Audit Performed by Other Independent Auditors*;

C. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes civil money penalties on MGO, in the amount of $500,000; Heiss, in the amount of $40,000; and Hammon, in the amount of $25,000.

1. 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.

2. Respondents shall pay the civil money penalties within ten (10) days of the issuance of this Order by: (a) wire transfer pursuant to instructions provided by Board 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 the entity or 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 the 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. Respondent MGO understands that the failure to pay its civil money penalty described above may result in summary suspension of the Firm's PCAOB registration pursuant to PCAOB Rule 5304(a).

5. Respondent Heiss understands that the failure to pay her civil money penalty described above may result in summary suspension or bar of Heiss pursuant to PCAOB Rule 5304(b).

6. Respondent Hammon understands that the failure to pay his civil money penalty described above may result in summary suspension or bar of Hammon pursuant to PCAOB Rule 5304(b).

D. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Board orders that:

1. Review by MGO. Within 90 days of the date of this Order, MGO shall review and evaluate its quality control policies and procedures, including monitoring procedures, intended to provide the Firm with reasonable assurance that its personnel comply with PCAOB professional standards and regulatory requirements regarding consideration of an entity's ability to continue as a going concern; determining, communicating, and documenting CAMs; auditing accounting estimates; use of specialists; engagement quality reviews; and audit documentation.

2. Reporting. Within 120 days of the date of this Order, MGO shall submit a written report to the Director of the Division of Enforcement and Investigations summarizing the review and evaluation of the areas specified in paragraph D.1 above ("Report"). The Report shall describe any modified or additional policies or procedures adopted or to be adopted by MGO or, if MGO concludes no such modifications or additions should be adopted, a detailed and satisfactory explanation of why the Firm believes changes are not warranted. In addition, MGO shall submit any additional information and evidence concerning the Report, the information in the Report, and MGO's compliance with this Order as the staff of the Division of Enforcement and Investigations may reasonably request.

3. Certificate of Implementation. Within 150 days of the date of this Order, MGO's head of quality assurance shall certify in writing ("Certificate of Implementation") to the Director of the Division of Enforcement and Investigations that MGO has implemented all of the modifications and additions to its policies and procedures, if any, that were described in the Report. The Certificate of Implementation shall provide written evidence of MGO's adoptions of such modifications and additions in narrative form, identify the actions taken to implement such modifications and additions, and be supported by exhibits sufficient to demonstrate implementation. MGO shall also submit such additional evidence of, and information concerning, implementation as the staff of the Division of Enforcement and Investigations may reasonably request.

E. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Heiss and Hammon are required to complete, within one year of the date of this Order, 20 hours of continuing professional education relating to PCAOB auditing standards (such hours shall be in addition to, and shall not be counted in, the continuing professional education Heiss and Hammon are required to obtain in connection with any professional license).

F. Noncompliance. Respondents understand that their respective failure to satisfy the conditions applicable to them in Section IV of this Order may constitute a violation of PCAOB Rule 5000 and could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

November 3, 2026