2019 Inspection Haynie & Company

(Headquartered in Salt Lake City, Utah)

July 6, 2021

PCAOB

Public Company Accounting Oversight Board

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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2019 Inspection

During the Public Company Accounting Oversight Board ("PCAOB")'s 2019 inspection of Haynie & Company, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review six audits of issuer's with fiscal years generally ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

Overview of the 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm's issuer audits as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Reviewed

	2019	2017
Firm Data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	34	24
Total engagement partners on issuer audit work[1]	6	4
Audits Reviewed		
Total audits reviewed[2]	6	3
Audits in which the firm was the principal auditor	6	3
Integrated audits of financial statements and internal control over financial reporting ("ICFR")	2	1
Audits with Part I.A deficiencies	5	3

If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection may include a

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) during the twelve-month period preceding the outset of the inspection.

[2] The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019		2017	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	5	**Revenue and related accounts**	3
Equity and equity- related accounts	2	**Goodwill and intangible assets**	2
Cash and cash equivalent	1	**Equity and equity-related accounts**	1
Investment securities	1	**Investment securities**	1
Accruals and other liabilities	1		

Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("the Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts**.

Description of the deficiencies identified

In the revenue process, the firm selected for testing certain information technology general controls ("ITGCs"), automated controls, and information technology ("IT") dependent manual controls.

The following deficiencies were identified:

- The firm did not test the accuracy and completeness of information used in testing controls over access rights and removals. (AS 1105.10)

- The firm selected for testing an automated control that was designed to calculate and record revenue. The firm did not obtain an understanding of, or test, how the control was configured. (AS 2201.34)

- The firm did not identify and test controls over (1) the accuracy and completeness of information that was used in the performance of a control to verify standard terms in customer agreements; (2) superuser/administrative access to revenue systems in which various automated IT-dependent manual controls resided; (3) the accuracy and completeness of certain inputs used to recognize revenue; and (4) the determination of the units of accounting and allocation of total contract consideration to each performance obligation for contracts with multiple performance obligations. (AS 2201.39)

- The firm did not perform sufficient procedures to test controls over program changes for certain systems because its procedures were limited to inquiry. (AS 2201.42 and .44)

- The issuer used a service organization to support many of the activities of its financial reporting system. The firm did not identify and test any complementary user controls over the use of parameters over passwords. (AS 2201.B22)

- The firm selected for testing an automated control over segregation of duties. The firm, however, did not directly test the control because its procedures were limited to evaluating whether the functions assigned to employees were consistent with effective segregation of duties. (AS 2201.42, .44, and .B9)

- The firm identified deficiencies related to controls over reviewing user access and complementary user controls. The firm did not evaluate these deficiencies to determine if the deficiencies, individually or in combination, constituted material weaknesses. (AS 2201.62)

The sample sizes the firm used in certain of its substantive procedures to test revenue and related accounts were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Investments**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not evaluate whether the revenue transactions selected for testing were recognized in in accordance with the requirements of FASB ASC Topic 606, *Revenue from Contracts with Customers,* because the firm limited its procedures to evaluating the transactions under FASB ASC Topic 605, *Revenue Recognition*. (AS 2810.30)

With respect to **Investments**:

The firm did not test the fair values of certain investments. (AS 2502.15)

The issuer did not consider unrealized losses on certain investments to be other-than-temporary due to its ability to hold these investments until the recovery of fair values. The firm did not evaluate the issuer's ability to hold the investments for a period of time sufficient to allow for the anticipated recovery in fair value. (AS 2503.48)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Cash and Cash Equivalents**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer's revenue transactions can be initiated by customers through electronic data interchange ("EDI"), email, or phone call. The issuer used a system to process credit card orders. The firm did not obtain an understanding of (1) how revenue transactions were initiated, authorized, processed, and recorded; (2) how IT systems affected the flow of transactions; and (3) the likely sources of potential misstatements necessary to identify and test controls that would prevent or detect a material misstatement in the financial statements. (AS 2201.30)

The firm did not identify and test the controls over the (1) revenue recognition method; (2) review and approval of the prices; (3) processing of EDI orders; and (4) processing and recording of credit card sales. (AS 2201.39)

The firm selected for testing controls related to management's reviews of monthly and quarterly revenue and accounts receivable balances. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

With respect to **Cash and Cash Equivalents**:

The firm did not test whether certain bank accounts were owned and controlled by the issuer because its procedures were limited to observing the issuer download the account statement from the bank's website without verifying that the account was owned by the issuer. (AS 2301.08)

Issuer D

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Accruals and Other Liabilities**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer had an agreement to market products sold by another party and recognized revenue when the other party sold those products. The firm did not test when the products were sold by the other party. (AS 2301.08) In addition, the firm did not evaluate whether revenue was recognized in accordance with FASB ASC Topic 606, including whether the issuer had satisfied its performance obligations under the terms of the agreement. (AS 2810.30)

With respect to **Accruals and Other Liabilities**:

The issuer reversed certain liabilities and recognized a gain on extinguishment. The firm did not evaluate whether the issuer met the criteria under FASB ASC Topic 405, *Extinguishment of Liabilities,* to be considered legally released as the primary obligor of the liabilities, either judicially or by the creditor. (AS 2810.30)

Issuer E – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**.

Description of the deficiencies identified

The issuer leased equipment that it then subleased to its customers. The issuer issued common stock to the lessor as payment on the lease with an opportunity for the lessor to earn additional shares of the issuer's stock if revenue milestones were met. The issuer recognized revenue from the sublease agreements net of payments to its lessor.

The firm did not test the reduction of revenue related to the payments made by the issuer to the lessor of the equipment. (AS 2301.08)

The firm did not test the terms of customer subleases to determine whether the amount and timing of gross billings to customers were appropriate. (AS 2301.08)

The firm did not evaluate the agreements between the issuer and the lessor, and the issuer and its customers, to determine whether the issuer had an obligation to (1) its customer if the lessor canceled the lease agreement or (2) the lessor if the revenue milestones were met in accordance with FASB ASC Topic 606. (AS 2810.30)

The firm tested a sample of revenue transactions and identified differences. The firm did not (1) evaluate the nature and cause of the differences identified in its sample; (2) project applicable differences to the remaining revenue population; and (3) evaluate if the projected differences were material to the financial statements. (AS 2315.26 and .27; AS 2810.17)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.
The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one audit reviewed, the firm did not provide to management and the audit committee equivalent the required communications in writing for all material weaknesses identified during the audit. In this instance, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.

- In two of six audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In the one audit reviewed where one or more other accounting firms participated in the firm's audit, the firm's report on Form AP did not include information related to the participation in the audit by other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of six audits reviewed, the firm's report on Form AP contained inaccurate information about the Partner ID number. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In three of six audits reviewed, the firm did not make the required written communications to and did not discuss with the audit committee, or equivalent, the potential effects of the tax services on the independence of the firm and document the substance of its discussions. In these instances, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services.*

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Appendix A: Firm's Response to the Draft Inspection Report

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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March 2, 2021

Mr. George Botic
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Mr. Botic:

We are appreciative of the opportunity to provide our response to Part I of the Draft Report of the Public Company Accounting Oversight Board (PCAOB) 2019 inspection of Haynie & Company.

We understand that there is value derived from the inspection process and fully support the mission of the PCAOB to oversee the audits of public companies in order to protect the interest of investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

We have evaluated each of the matters described in Part I of the draft Report. We have considered whether it was necessary to perform additional procedures in accordance with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and AS 2905, *Subsequent Discovery of Facts Existing at the date of the Auditor's Report* and where appropriate, performed such procedures. None of the matters identified by the PCAOB or the results of procedures subsequently performed impacted our previously issued reports on the financial statements. To the extent considered relevant we incorporated the issues raised in the inspection into our subsequent year's audit(s).

We remain dedicated to continuous improvement in our audit-engagement performance and our system of quality control, including implementing changes to our policies and procedures to enhance audit quality. We are confident that the investments we have made and are continuing to make in our people, processes, and methodologies are resulting in significant enhancements to our audit quality.

We appreciate the professionalism that the inspection team demonstrated. We share the goal of delivering audits of the highest quality and look forward to working with the PCAOB to continually enhance audit quality.

Respectfully Submitted,

Haynie & Company

Haynie & Company
Firm #457

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