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# 2019 Inspection Michael T. Studer CPA P.C.

(Headquartered in Freeport, New York)

September 21, 2021

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# 2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of Michael T. Studer CPA P.C., we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years 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
<b>Firm Data</b>		
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	14	17
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	2	1
<b>Audits Reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	3	3
<b>Audits in which the firm was the principal auditor</b>	3	3
<b>Integrated audits of financial statements and internal control over financial reporting ("ICFR")</b>	0	0
<b>Audits with Part I.A deficiencies</b>	3	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 review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously

<sup>1</sup> 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.

<sup>2</sup> 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.

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	2	Equity and equity-related transactions	2
Accruals and other liabilities	2	Long-lived assets	1
Cash and cash equivalents	1	Revenue and related accounts	1
Derivatives	1	Going concern	1
Equity and equity-related transactions	1	Related party transaction	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.

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 areas affected

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

##### Description of the deficiencies identified

With respect to **Revenue**:

The issuer generated two types of revenue ("Revenue A" and "Revenue B"). The following deficiencies were identified:

- The firm did not perform any procedures to test Revenue A. (AS 2301.08)
- In selecting its sample of items to test Revenue B, the firm did not determine whether it was appropriate to select items from accounts receivable activity reports that may not have included a complete population of revenue transactions for the year. Further, in determining the sample size, the firm did not take into account the relevant factors, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .23, .23A, and .24)
- The firm did not perform any procedures to evaluate the appropriateness of the issuer's financial statement presentation of revenue on a gross versus net basis. (AS 2810.30)

With respect to **Related Party Liabilities**:

Certain of the issuer's recorded liabilities were due to a related party or entities controlled by that related party. The firm did not perform any procedures to test liabilities due to the related party or entities controlled

by the related party. Further, the firm did not test, beyond comparing certain of these amounts to the general ledger, the disclosures related to these related party transactions. (AS 2410.11 and .17; AS 2810.30 and .31)

## Issuer B

### Type of audit and related area affected

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

### Description of the deficiencies identified

The issuer recorded a derivative liability and determined the fair value of the derivative liability using an option pricing model. The firm did not consider the variability of a certain provision and the issuer's ability to settle the transactions in evaluating whether the use of this model was appropriate and consistent with GAAP and related SEC guidance. (AS 2502.18)

The firm did not determine whether certain other instruments should have been accounted for as paid-in capital in conformity with FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*. (AS 2810.30)

## Issuer C

### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Stock-Based Compensation**.

### Description of the deficiencies identified

The issuer issued common stock for services and recognized stock-based compensation. The firm did not evaluate the reasonableness of a discount the issuer applied to the market price when valuing certain stock-based compensation. (AS 2502.26 and .28) In addition, the firm did not perform sufficient procedures to test the valuation of certain other stock-based compensation because it limited its procedures to comparing the issuer's valuation to another public filing. (AS 2502.26 and .28)

## 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 two of three audits reviewed, the firm did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In one of three audits reviewed, the firm did not obtain the engagement quality reviewer's concurring approval of issuance of the audit report prior to its issuance. In this instance, the firm was non-compliant with AS 1220, *Engagement Quality Review*.
- In the three audits reviewed, the firm did not communicate to the issuer's audit committee, or equivalent, all of the significant risks identified through its risk assessment procedures. In two of three audits reviewed, the firm also did not make required communications to the issuer's audit committee, or equivalent, regarding matters relating to the firm's evaluation of the issuer's ability to continue as a going concern prior to the issuance of the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

## 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.

### A. Firm Management's Approach to Quality Control

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with PCAOB standards in the firm's issuer audit practice. (QC 20.03, .04, .13, and .15)

In a significant portion of the firm's audit work reviewed in this inspection, the inspection team identified deficiencies in the performance of the work, including certain deficiencies that were similar in nature to deficiencies noted in previous inspections. The firm should evaluate whether its policies and procedures provide reasonable assurance that it:

- Undertakes only those engagements that it can reasonably expect to complete with professional competence; and
- Assigns work on those engagements to persons who have the technical training and proficiency required in the circumstances.

Identifying the underlying causes for the poor inspection results may assist the firm in assessing the need for changes or enhancements to its system of quality control. The firm should implement changes in its policies and procedures necessary to provide reasonable assurance that its personnel comply with the professional standards applicable to its issuer audit practice.

### B. Testing Revenue

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test revenue will meet the requirements of AS 2301, AS 2315, and AS 2810. (QC 20.03 and .17)

In one audit,<sup>3</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of revenue.

## C. Testing Related Party Transactions

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test related party transactions will meet the requirements of AS 2410 and AS 2810. (QC 20.03 and .17)

In one audit,<sup>4</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of related party transactions.

## D. Testing Derivatives

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test derivatives will meet the requirements of AS 2502 and AS 2810. (QC 20.03 and .17)

In one audit,<sup>5</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the valuation of and accounting for derivatives.

## E. Testing Stock-Based Compensation

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test stock-based compensation will meet the requirements of AS 2502. (QC 20.03 and .17)

In one audit,<sup>6</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the valuation of stock-based compensation.

## F. Communications with Audit Committees

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 1301. (QC 20.03 and .17)

In three audits,<sup>7</sup> the firm did not communicate to the issuer's audit committee, or equivalent, all of the significant risks identified through its risk assessment procedures. In two of these audits,<sup>8</sup> the firm did not make required communications to the issuer's audit committee, or equivalent, regarding matters relating to its evaluation of the issuers' ability to continue as a going concern prior to the issuance of the auditor's report.

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<sup>3</sup> Issuer A

<sup>4</sup> Issuer A

<sup>5</sup> Issuer B

<sup>6</sup> Issuer C

<sup>7</sup> Issuers A, B, and C

<sup>8</sup> Issuers A and B

## G. Engagement Quality Review

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the review procedures performed by the firm’s engagement quality review (“EQR”) partners will meet the requirements of AS 1220 and that the firm will comply with AS 1220. (QC 20.03 and .17)

In one audit,<sup>9</sup> which is included in Part I.A, the inspection team identified deficiencies in an area that the EQR partner was required to evaluate. In this audit, the EQR partner did not identify a deficiency in an area of fraud risk.

In one audit,<sup>10</sup> the firm did not obtain the engagement quality reviewer’s concurring approval of issuance of the audit report prior to its issuance.

## H. Fraud Procedures

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will perform the procedures necessary to comply with AS 2401. (QC 20.03 and .17)

In three audits,<sup>11</sup> the firm did not perform procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud.

## I. Compliance with Certain Audit Documentation Requirements

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will comply with the firm’s policy on audit documentation; this policy is consistent with the requirements of AS 1215. (QC 20.03 and .17)

In two audits,<sup>12</sup> the firm did not assemble a complete and final set of audit documentation within 45 days following the report release date.

## J. Responding to Possible Illegal Acts

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm will comply with the requirements of AS 2405. (QC 20.03 and .17)

\*\*\* [I]n one audit,<sup>13</sup> the firm became aware of information indicating possible illegal acts by the issuer and appears not to have taken appropriate action.

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<sup>9</sup> Issuer B  
<sup>10</sup> Issuer A  
<sup>11</sup> Issuers A, B, and C  
<sup>12</sup> Issuers A and C  
<sup>13</sup> \*\*\*

## 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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July 23, 2021

By Email

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

**Re: Firm ID 822: Response to Report on 2019 Inspection  
of Michael T. Studer CPA P.C.**

Dear Mr. Botic:

Part I.A.: Audits with Unsupported Opinions

Part I.A. of the Draft Report of Inspection dated June 24, 2021 identifies (1) two areas of deficiencies for the Issuer A audit related to (a) Revenue and (b) Related Party Liabilities; (2) one area of deficiencies for the Issuer B audit related to (a) Derivatives; and (3) one area of deficiencies for the Issuer C audit related to (a) Stock-Based Compensation.

Issuer A audit

1. The Firm believes that it evaluated the appropriateness of the issuer's financial statements presentation of revenue on a gross versus net basis.
2. The Firm believes that it performed sufficient procedures to test liabilities due to the related party or entities controlled by the related party and the disclosures related to these related party transactions.

Issuer B audit

1. The Firm believes that it properly evaluated whether the use of the Black Scholes option pricing model was appropriate and consistent with GAAP and related SEC guidance.

Issuer C audit

1. The Firm believes that it properly evaluated the reasonableness of the discount the issuer applied to the market price when valuing certain stock-based compensation.

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

Part I.B. of the Draft Report of Inspection dated June 24, 2021 identifies three examples of non-compliance with PCAOB Standards or Rules: (1) non-completion of assembly of final set of audit documentation for retention within 45 days following the report release date; (2) non receipt of EQR's concurring approval of issuance of the audit report prior to its issuance; (3) non-communication to the issuer's audit committee, or equivalent, of certain matters.

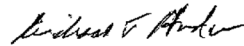
Regarding item (1) above, the Firm is not sure which two audits the Report is referring to.

Regarding item (2) above, the Firm is not sure which audit the Report is referring to.

Part II: Observations Related to Quality Control

The Firm will respond to these criticisms of, and potential defects in, the Firm's system of quality control in connection with the separate process for addressing quality control criticisms following issuance of a final report.

Very truly yours,



Michael T. Studer  
President



