
2020 Inspection MaughanSullivan LLC

(Headquartered in Manchester, Vermont)

June 9, 2022

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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2020 INSPECTION

In the 2020 inspection of MaughanSullivan LLC, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review one audit of an issuer with a fiscal year ending in 2018. For the issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2020 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 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection 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 Selected for Review

	2020	2017
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures¹	1	0
Total engagement partners on issuer audit work²	1	1
Audits reviewed		
Total audits reviewed³	1	1
Audits in which the firm was the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	1	1

If we include a deficiency 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

¹ Although the firm had no issuer audit clients at the outset of the preceding inspection, the firm had issued at least one audit report with respect to an issuer since the previous inspection.

² 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 or, in cases where the firm has not issued an opinion in that period, since the prior inspection or since the firm's registration with the PCAOB.

³ 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.

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 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.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it 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 2020 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.

2020		2017	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	1	Expenses	1
Equity and equity-related transactions	1	Equity and equity-related transactions	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 ("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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding 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 revised 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. We include any deficiencies identified in connection with our reviews of these audits 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) and industry sector. 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.

We present issuer audits 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 – Communication Services

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and an **Equity-Related Transaction**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm used information obtained from external parties to test revenue. The firm did not perform any procedures to evaluate the relevance and reliability of this information. (AS 1105.04 and .06)

The firm did not identify and evaluate the significance to the financial statements of the issuer's omission of disclosures required by FASB ASC Topic 606, *Revenue from Contracts with Customers* regarding transition and performance obligation information. (AS 2810.30 and .31)

With respect to an **Equity-Related Transaction**:

The issuer recorded the issuance of preferred stock for settlement of debt even though the shares of preferred stock were not issued as of year end. The firm did not evaluate whether the issuer's accounting for the transaction was in conformity with FASB ASC Subtopic 405-20, *Liabilities – Extinguishments of Liabilities*. (AS 2810.30)

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 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. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any 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 the audit reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) the significant risks identified through its risk assessment procedures and (2) the results of the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the audit reviewed, the firm's audit report did not include the issuer's current name. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In the audit reviewed, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In this instance, the firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.
- In the audit reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

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.

We include deficiencies 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.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. 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, we will make public any such deficiency.

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.

January 7, 2022 – *additional comments*
September 29, 2021

Re: Response to PCAOB on Report of Inspection dated August 31, 2021
Firm ID Number 366

IF THE PCAOB PUBLISHES ANY PART OF THIS INSPECTION REPORT, THEN THE FIRM WISHES TO HAVE THE RESPECTIVE RESPONSES TO THE ALLEGED DEFICIENCIES PUBLISHED, INCLUDING THE OPENING PARAGRAPHS HEREWITH.

Dear Director Botic:

We are in receipt of your draft Report of Inspection on MaughanSullivan LLC (hereinafter “the Firm”) in 2020, dated August 31, 2021. This was sent via electronic mail more than a year after our last communication dated June 9, 2020, which occurred during the inspection period. After that communication the PCAOB staff went silent for approximately 15 months, nor was there any exit interview. We were ready, willing and able to schedule convenient continual discussions as we appreciate the role Professional Judgment plays in auditing and understand that the PCAOB examiners may reach different conclusions about what the standards require

We have the utmost respect for an appropriate review process as we are always looking to improve the quality of service provided by the Firm. As such, we also greatly appreciate that inspections are observations and may provide differing opinions, including that had those differing opinion positions been taken instead, that there still may have been a position taken by an assigned staff examiner that it was an alleged deficiency. Hence, differing opinions, regardless of how they are labeled, whether called deficiencies or some other term, are hopefully rendered with the intent to work together for improvement by auditing firms as well as by the PCAOB staff examiners.

Furthermore, we respect the distinction between Auditing by Certified Public Accountants and the practice of law, and carefully watch for the unlicensed practice of law activities by the Firm, *as well as by those who are performing the inspections*. We also pay particular attention when carefully watching for unlicensed practice of law activities by the Firm as well as those who are performing the inspections to use skepticism when there may be more aggressive than appropriate suggestions or indications that specific “forms,” (i.e., a form sell business) should or must be used when doing an audit. Particularly wherein there may a contractual or financial beneficial interest to either the Firm or the oversight reviewer organization (which, of course, would be indicative of the potential for lack of independence by the beneficiary of profit by such form sell/potential for unlicensed practice of law, business.) We also appreciate that the PCAOB team sent to inspect may take positions, whether correct or incorrect, distinct from firms performing public audits. Regardless of those positions, we review comments and suggestions of varied positions, like other PCAOB Registered firms, to enhance the Firm’s productiveness and quality control, regardless of agreement or disagreement with the suggested contrary positions.

Again, we respect an appropriate review process. We particularly appreciate participating in the nonprofit PCAOB’s review process which is overseen by the SEC with the general goals of improvement of quality of work for all involved. We are responding herewith to the draft report of inspection referenced above as we always look for ways to improve our quality of practice.

Issuer A-

PART 1.A:

1. Revenue—alleged deficiency:

Claim: “...The firm did not perform any procedures to evaluate the relevance and reliability of this information.”

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Response: The Firm finds this to be an inaccurate statement, particularly with the use of the word "any" in the alleged deficiency statement. The Firm provided its workpapers to the PCAOB detailing the procedures performed, including, but not limited, to the following:

The Firm strongly opposes the PCAOB statement that the Firm did not 'perform any procedures.' The only response from the PCAOB was that the Firm did not obtain a SOC 1 report from the ticket aggregators.

Review: The Firm reviewed AS 1105.04 and .06 and concluded that in fact the Firm did perform the appropriate procedures. The Firm did subsequently pursue the request for SOC 1 reports from the ticket aggregators. The response was negative. The Firm additionally went back and reviewed its procedures, re-performed certain procedures, and concluded that there is no change to the financial statements as audited.

Claim: "The firm did not identify and evaluate the significance to the financial statements of the issuer's omission of disclosures required by FASB ASC Topic 606, Revenue from Contracts with Customers regarding transition and performing obligation information. (AS 2810.30 and .31).

Response: The PCAOB Claim was derived from the footnotes to the financial statements in Note 1 – Significant Accounting Policies. The revenue recognition procedures performed by the Firm have apparently been overshadowed by the Footnote disclosure. Topic 606, Revenue from Contracts with Customers, had little effect on the revenue recognition policy of the Issuer. The Issuer would sponsor events, charge admission, engage in sales of autographs, interviews and other revenue generating activities. Upon completion of the event (generally two to three days), the revenue and costs were recognized, and the event was 'closed.'

Once again, the assigned inspection team is looking at the process with a narrow view of what they want done rather than what is acceptable audit practice. The audit procedures performed by the Firm complied with ASC 606, not limited to (i) the contract with the customer was identified; (ii) the performance obligations were identified; (iii) the transaction price was known and paid for by the customer with no expectations or obligations due to the customer; (IV) the allocation of the transaction price to the performance obligations were 100 percent allocated to the event with no other performance obligations included in the contract with the customer; and (v) recognition of revenue when the performance obligation is satisfied regarding the Issuer was immediately upon completion of the event, with no further related performance obligations existing and all performance obligations satisfied at the completion and conclusion of each event.

Review: The Firm went back and reviewed the procedures performed, reviewed the five steps in ASC 606 and found that revenue and unearned revenue as presented would not, in fact, change and are fairly presented in all material respects, as ASC 606 disclosures have no effect or significant effect on the Issuer's revenue recognition, or the stated amount of the revenues presented in the financial statements.

In fact, (AS 2905) the Firm's discovery of facts after the date of the audit further serves to strengthen its position of the fairness of the amounts of revenue and unearned revenue reported at the subject audit date.

The PCOAB stated that the Firm did not perform any procedures to evaluate the relevance of this information. The relevance is that it represents the revenues recorded by the Issuer. The Firm performed audit procedures as outlined in the audit programs – examined invoices/statements; agreed deposits to the bank statements; sent confirmation; tied deposits to the revenue recognized and/or to the deferred revenues for deposits collected in advance of future events.

The Firm reiterates its stance that it performed appropriate audit procedures regarding the Issuer's revenues. The Firm disagrees with the PCAOB's comments.

2. Equity — alleged deficiency:

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Claim: "The issuer recorded the issuance of preferred stock for settlement of debt. The firm did not sufficiently test the issuance of the preferred stock, because the firm limited its procedures to testing the authorization of the preferred stock (AS 2301.08)"

Response: The Firm adamantly disagrees with this alleged deficiency. The PCAOB bases the Claim on the fact that the preferred stock was not issued by the transfer agent at the time of the inspection. The Firm responded that the timing of the issuance of the stock does not diminish the legal obligation of the Company to do so.

The Firm performed audit procedures that supported the dollar amount of the deferred compensation due to an officer of the Company, who was one of the participants of the transaction. The amount is clearly identified by the employee contract and disclosed in the Issuer's SEC filings.

The second participant in the settlement arrangement was the Chairman of the Board of Directors whose monthly consulting fees are well documented by the supporting contract and fully disclosed in the Issuer's SEC filings.

The value of the debt exchanged for preferred stock was validated resulting in an equivalent value of equity.

Not only is it clear from the workpapers that the Firm used sufficient procedures to test the existence and valuation of the preferred stock in accordance with AS 2301. The Firm obtained the legal opinion from the Issuer's SEC counsel that align with the position taken by the Firm. The PCAOB has this statement from the Firm's earlier response. The Firm's workpapers further include confirmations that align with the Firm's and the other experts position rather than with the assigned examiner's stance. Subsequent discovery of facts further revealed that the transaction was recorded appropriately based on the Firm's position.

Review: The firm did a subsequent review of the events and the terms regarding the debt and equity, as well as discussed, the position with other licensed professionals in the field. If the Firm had chosen, contrary to the experts in the field's position, to use the assigned examiner's position instead, the financial statements would have not been affected at all and the result would have been identical.

In following the procedures of AS 2905, the Firm confirmed the fact that the Issuer did issue the preferred shares in exchange for the accrued compensation and accrued consulting expenses.

Sincerely,

/s/ MaughanSullivan LLC

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