
2021 Inspection Freedman & Goldberg, C.P.A.'s, P.C.

(Headquartered in Farmington Hills, Michigan)

October 20, 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

PCAOB RELEASE NO. 104-2022-247A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2022-247)



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2021 INSPECTION

In the 2021 inspection of Freedman & Goldberg, C.P.A.'s, P.C., 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 2019. For the issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2021 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 necessarily 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 2021 INSPECTION

The following information provides an overview of our 2021 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

	2021
Firm data	
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	1
Total engagement partners on issuer audit work¹	1
Audits reviewed	
Total audits reviewed²	1
Audits in which the firm was the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	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 deficiency 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 identified deficiencies or deficiencies identified during the current

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, *Supervision of the Audit Engagement*) 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 audit report or issuer audit clients lost prior to the outset of the inspection.

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 2021 inspection. For the issuer audit 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.

2021	
Audit area	Audits reviewed
Goodwill and intangible assets	1
Debt	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 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 – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Goodwill and Intangible Assets** and **Debt**.

Description of the deficiencies identified

With respect to **Goodwill and Intangible Assets**:

To test goodwill for potential impairment, the issuer compared the estimated fair value of the related reporting unit to the carrying value of the reporting unit and determined that no impairment existed. For finite-lived intangible assets, the issuer determined that the recoverable amounts were the same as the carrying amounts, and therefore no impairment existed. The issuer had adopted ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The following deficiencies were identified:

- The firm did not evaluate the reasonableness of the assumptions the issuer used to develop the fair value of its reporting units. (AS 2502.26 and .28)
- With respect to the intangible assets, the firm did not perform procedures to test the reasonableness of the issuer's assumption that the recoverable value of each asset was the same as its carrying value in light of events that would indicate that the carrying amount of the intangible assets may not be recoverable, including the issuer's declining stock prices, negative working capital, and recurring operating losses and cash flow losses, in conformity with FASB ASC Topic 360, *Property, Plant and Equipment*. (AS 2810.30)
- With respect to goodwill, the firm did not identify and evaluate the significance to the financial statements of a departure from GAAP related to the omission of required disclosures that a relevant reporting unit had a negative carrying amount of net assets, the amount of goodwill allocated to the reporting unit, and in which reportable segment the reporting unit was included, in conformity with FASB ASC Topic 350, *Intangibles—Goodwill and Other*. (AS 2810.30 and .31)

With respect to **Debt**:

The issuer had outstanding convertible notes payable. The issuer disclosed that certain notes were with a party with which the issuer had pending litigation. The issuer also disclosed that a convertible note with a related party was modified during the year to change the conversion price. The following deficiencies were identified:

- The firm did not evaluate whether the issuer's accounting for the conversion price modification was in conformity with FASB ASC Subtopic 470-20, *Debt – Debt with Conversion and Other Options*. (AS 2810.30)
- The firm did not evaluate whether the pending litigation with the holder of certain notes would affect the financial statement classification of the notes. (AS 2810.30 and .31)
- The firm did not perform procedures to determine whether the disclosures related to certain related party relationships and transactions were complete and accurate. (AS 2410.17; AS 2810.30 and .31)

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 a required communication to the issuer's audit committee related to the firm's evaluation of the issuer's ability to continue as a going concern. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the audit reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. 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 engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures certain matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. 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*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In the audit reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. 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 three previous audits of one issuer, 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*.

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.

Testing Goodwill and Intangible Assets

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 with respect to testing goodwill and intangible assets will meet the requirements of AS 2502³ and AS 2810. (QC 20.03 and .17)

In one audit,⁴ which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of goodwill and intangible assets, including not identifying and evaluating the significance to the financial statements of a departure from GAAP.

Testing Debt

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 with respect to testing debt will meet the requirements of AS 2410 and AS 2810. (QC 20.03 and .17)

In one audit,⁵ which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of debt.

³ AS 2502, *Auditing Fair Value Measurements and Disclosures*, which was in effect for the audit that was the subject of this review, was replaced by AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, which is effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

⁴ Issuer A

⁵ Issuer A

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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. (QC 20.03 and .17)

In one audit,⁶ which is included in Part I.A and in Part I.B, 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 in which the engagement team had identified a significant risk. In addition, in this audit, the EQR did not identify deficiencies in the engagement team's (1) determination of whether or not matters were critical audit matters and (2) communication of a critical audit matter in the audit report.

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 one audit,⁷ which is included in Part I.B, the inspection team identified a deficiency related to the firm's communications with the issuer's audit committee.

Audit Reports and Critical Audit Matters

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 3101. (QC 20.03 and .17)

In one audit,⁸ which is included in Part I.B, the inspection team identified deficiencies related to the firm's audit report, including tenure and the communication of critical audit matters. In addition, in that same audit, which is included in Part I.B, the inspection team identified a deficiency related to the firm's procedures for determining whether or not matters were critical audit matters.

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⁶ Issuer A

⁷ Issuer A

⁸ Issuer A

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.

FREEDMAN & GOLDBERG

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

August 2, 2022

George Botic, Director
Division of Registration and Inspections
PCAOB
1666 K Street NW
Washington, DC 20006

Dear Mr. Botic:

We are pleased to submit this response to the Report on the 2021 Inspection of Freedman & Goldberg, C.P.A.s, P.C.

Our shared objective of improving audit quality and serving investors and the public interest is achieved through the PCAOB's inspections process. As part of our commitment to strengthening trust in the integrity of the independent audit, we will continue to work with the PCAOB.

As a result of our evaluation of the matters identified by the Board's inspection team as described in Part 1 of the Report, we have taken actions as appropriate in compliance with PCAOB standards.

The Firm takes its commitment to audit quality and continuous self-improvement very seriously. We are confident that the enhancements we have made and are continuing to make to our audit processes, policies, and quality controls are resulting in significant improvements to our audit quality.

Please feel free to contact us directly with any additional questions or comments.

Sincerely,



Freedman & Goldberg, C.P.A.s, P.C

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