BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: **CRAIG ALLEN SZABO;** **SZABO ACCOUNTANCY CORPORATION** **Calabasas Park Centre** **23901 Calabasas Road # 2018** **Calabasas, CA 91302** **Certified Public Accountant** **Certificate No. 23707** **Certified Public Accountancy Corporation** **Certificate No. 4143** Respondents.	Case No. AC-2014-25

DECISION AND ORDER

The attached Stipulated Settlement and Disciplinary Order is hereby adopted by the California Board of Accountancy, Department of Consumer Affairs, as its Decision in this matter.

This Decision shall become effective on April 24, 2015.

It is so ORDERED March 27, 2015.

FOR THE CALIFORNIA BOARD OF
ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS

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BEFORE THE
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STATE OF CALIFORNIA

In the Matter of the Accusation Against: **CRAIG ALLEN SZABO;** **SZABO ACCOUNTANCY CORPORATION** **Calabasas Park Centre** **23901 Calabasas Road # 2018** **Calabasas, CA 91302** **Certified Public Accountant** **Certificate No. 23707** **Certified Public Accountancy Corporation** **Certificate No. 4143** Respondents.	Case No. AC-2014-25 **STIPULATED SETTLEMENT AND DISCIPLINARY ORDER**

IT IS HEREBY STIPULATED AND AGREED by and between the parties to the above-entitled proceedings that the following matters are true:

PARTIES

1. Patti Bowers ("Complainant") is the Executive Officer of the California Board of Accountancy. She brought this action solely in her official capacity and is represented in this matter by Kamala D. Harris, Attorney General of the State of California, by Morgan Malek, Deputy Attorney General.

2. On or about March 2, 1995, the California Board of Accountancy issued Certified Public Accountancy Corporation Certificate No. 4143 to Szabo Accountancy Corporation (Respondent Szabo Corporation). The Certified Public Accountancy Corporation Certificate was in full force and effect at all times relevant to the charges brought in Accusation No. AC-2014-25 and will expire on March 31, 2015, unless renewed.

3. On or about September 24, 1976, the California Board of Accountancy issued Certified Public Accountant Certificate Number 23707 to Craig Allen Szabo (Respondent Szabo). The Certified Public Accountant Certificate was in full force and effect at all times relevant to the charges brought herein and will expire on October 31, 2016, unless renewed.

4. Respondent Szabo and Respondent Szabo Corporation are representing themselves in this proceeding and have chosen not to exercise their rights to be represented by counsel.

JURISDICTION

5. Accusation No. AC-2014-25 was filed before the California Board of Accountancy (CBA) , Department of Consumer Affairs, and is currently pending against Respondent. The Accusation and all other statutorily required documents were properly served on the Respondents on January 22, 2015. Respondents timely filed their Notice of Defense contesting the Accusation.

6. A copy of Accusation No. AC-2014-25 is attached as Exhibit A and incorporated herein by reference.

ADVISEMENT AND WAIVERS

7. Respondents have carefully read, and understand the charges and allegations in Accusation No. AC-2014-25. Respondents have also carefully read, and understand the effects of this Stipulated Settlement and Disciplinary Order.

8. Respondents are fully aware of their legal rights in this matter, including the right to a hearing on the charges and allegations in the Accusation; the right to be represented by counsel at their own expense; the right to confront and cross-examine the witnesses against them; the right to present evidence and to testify on their own behalf; the right to the issuance of subpoenas to compel the attendance of witnesses and the production of documents; the right to reconsideration

and court review of an adverse decision; and all other rights accorded by the California Administrative Procedure Act and other applicable laws.

9. Respondents voluntarily, knowingly, and intelligently waive and give up each and every right set forth above.

CULPABILITY

10. Respondents admit the truth of each and every charge and allegation in Accusation No. AC-2014-25.

11. Respondent Szabo Corporation agrees that its Certified Public Accountancy Corporation Certificate is subject to discipline and they agree to be bound by the CBA's probationary terms as set forth in the Disciplinary Order below.

12. Respondent Szabo agrees that his Certified Public Accountant Certificate is subject to discipline and he agrees to be bound by the CBA's probationary terms as set forth in the Disciplinary Order below.

CONTINGENCY

13. This stipulation shall be subject to approval by the California Board of Accountancy. Respondents understand and agree that counsel for Complainant and the staff of the California Board of Accountancy may communicate directly with the CBA regarding this stipulation and settlement, without notice to or participation by Respondent. By signing the stipulation, Respondents understand and agree that they may not withdraw its agreement or seek to rescind the stipulation prior to the time the CBA considers and acts upon it. If the CBA fails to adopt this stipulation as its Decision and Order, the Stipulated Settlement and Disciplinary Order shall be of no force or effect, except for this paragraph, it shall be inadmissible in any legal action between the parties, and the CBA shall not be disqualified from further action by having considered this matter.

14. The parties understand and agree that Portable Document Format (PDF) and facsimile copies of this Stipulated Settlement and Disciplinary Order, including PDF and facsimile signatures thereto, shall have the same force and effect as the originals.

15. This Stipulated Settlement and Disciplinary Order is intended by the parties to be an integrated writing representing the complete, final, and exclusive embodiment of their agreement. It supersedes any and all prior or contemporaneous agreements, understandings, discussions, negotiations, and commitments (written or oral). This Stipulated Settlement and Disciplinary Order may not be altered, amended, modified, supplemented, or otherwise changed except by a writing executed by an authorized representative of each of the parties.

16. In consideration of the foregoing admissions and stipulations, the parties agree that the CBA may, without further notice or formal proceeding, issue and enter the following Disciplinary Order:

DISCIPLINARY ORDER

IT IS HEREBY ORDERED that Certified Public Accountancy Corporation Certificate No. 4143 issued to Respondent Szabo Accountancy Corporation and Certified Public Accountant Certificate No. 23707 issued to Respondent Szabo are revoked. However, the revocation is stayed and Respondents are placed on probation for three (3) years on the following terms and conditions.

1. **Obey All Laws**

Respondents shall obey all federal, California, other states' and local laws, including those rules relating to the practice of public accountancy in California.

2. **Cost Reimbursement**

Respondents shall reimburse the CBA $17,088.30 for its investigation and prosecution costs. The payment shall be made within six months of the date the CBA's decision is final.

3. **Submit Written Reports**

Respondents shall submit, within 10 days of completion of the quarter, written reports to the CBA on a form obtained from the CBA. The respondents shall submit, under penalty of perjury, such other written reports, declarations, and verification of actions as are required. These declarations shall contain statements relative to respondents' compliance with all the terms and conditions of probation. Respondents shall immediately execute all release of information forms as may be required by the CBA or its representatives.

4. **Personal Appearances**

Respondents shall, during the period of probation, appear in person at interviews/meetings as directed by the CBA or its designated representatives, provided such notification is accomplished in a timely manner.

5. **Comply With Probation**

Respondents shall fully comply with the terms and conditions of the probation imposed by the CBA and shall cooperate fully with representatives of the CBA in its monitoring and investigation of the respondents' compliance with probation terms and conditions.

6. **Practice Investigation**

Respondents shall be subject to, and shall permit, a practice investigation of the Respondents' professional practice. Such a practice investigation shall be conducted by representatives of the CBA, provided notification of such review is accomplished in a timely manner.

7. **Comply With Citations**

Respondents shall comply with all final orders resulting from citations issued by the California Board of Accountancy.

8. **Tolling of Probation for Out-of-State Residence/Practice**

In the event Respondents should leave California to reside or practice outside this state, Respondents must notify the CBA in writing of the dates of departure and return. Periods of non-California residency or practice outside the state shall not apply to reduction of the probationary period, or of any suspension. No obligation imposed herein, including requirements to file written reports, reimburse the CBA costs, and make restitution to consumers, shall be suspended or otherwise affected by such periods of out-of-state residency or practice except at the written direction of the CBA.

9. **Violation of Probation**

If Respondents violate probation in any respect, the CBA, after giving Respondents notice and an opportunity to be heard, may revoke probation and carry out the disciplinary order that was stayed. If an accusation or a petition to revoke probation is filed against the Respondents

during probation, the CBA shall have continuing jurisdiction until the matter is final, and the period of probation shall be extended until the matter is final.

The CBA's Executive Officer may issue a citation under California Code of Regulations, Section 95, to a licensee for a violation of a term or condition contained in a decision placing that licensee on probation.

10. **Completion of Probation**

Upon successful completion of probation, respondents' licenses will be fully restored, except as set forth below in paragraphs 14 and 15.

11. **Ethics Continuing Education**

Respondent Szabo shall complete eight hours of continuing education in course subject matter pertaining to the following: a review of nationally recognized codes of conduct emphasizing how the codes relate to professional responsibilities; case-based instruction focusing on real-life situational learning; ethical dilemmas facing the accounting profession; or business ethics, ethical sensitivity, and consumer expectations. Courses must be a minimum of one hour as described in California Code of Regulations Section 88.2. The hours must be completed within six (6) months of the order. The hours are in addition to the continuing education hours required for relicensing.

If Respondent Szabo fails to complete said courses within the time period provided, Respondent Szabo shall so notify the CBA and shall cease practice until the respondent Szabo complete said courses, have submitted proof of same to the CBA, and have been notified by the CBA that he may resume practice. Failure to complete the required courses within six (6) months of the effective date of this decision and order shall constitute a violation of probation.

12. **Regulatory Review Course**

Respondent Szabo shall complete a CBA-approved course on the provisions of the California Accountancy Act and the California Board of Accountancy Regulations specific to the practice of public accountancy in California emphasizing the provisions applicable to current practice situations (within a given period of time or prior to resumption of practice). The course also will include an overview of historic and recent disciplinary actions taken by the CBA,

highlighting the misconduct which led to licensees being disciplined. The course shall be a minimum of two hours. The hours must be completed within six (6) months of the order. The hours are in addition to the continuing education hours required for relicensing.

If Respondent Szabo fails to complete said courses within the time period provided, Respondent Szabo shall so notify the CBA and shall cease practice until Respondent Szabo completes said courses, has submitted proof of same to the CBA, and has been notified by the CBA that he may resume practice. Failure to complete the required courses within six (6) months of the effective date of this decision and order shall constitute a violation of probation.

13. **Restricted Practice**

During probation, Respondents shall not engage in and shall be prohibited from performing any attestation services, including audits.

IT IS HEREBY FURTHER ORDERED that:

14. **Restricted Practice.** After the completion of probation, Respondents shall be **permanently prohibited** from performing attest engagements. Prohibition on this condition shall continue until such time, if ever, Respondents successfully petition the CBA for the reinstatement of their ability to perform attest engagements. Respondents understand and agree that the CBA is under no obligation to reinstate their ability to perform attest engagements, that the CBA has made no representations concerning whether any such reinstatements might occur, and that the decision to reinstate is within the sole discretion of the Board.

15. **Full Compliance.** Respondents understand and agree that this Stipulated Settlement and Disciplinary Order as a resolution to the charges in Accusation No. AC-2014-25 is based upon, *inter alia*, Respondent's full compliance with paragraph 14 of this Order (Restricted Practice). If Respondents fail to satisfy this condition they agree that the Board can file an accusation against them for unprofessional conduct based on their failure to comply with paragraph 14 as an independent basis for disciplinary action, pursuant to Business and Professions Code section 5100. In addition, Respondents consent that the Board may enforce paragraph 14 in any court of competent jurisdiction (including an administrative court) to enjoin them, temporarily and/or permanently, from violating paragraph 14, and may seek in such

proceedings all other remedies as allowed by law.

ACCEPTANCE

I have carefully read the Stipulated Settlement and Disciplinary Order. I understand the stipulation and the effect it will have on my Certified Public Accountancy Corporation Certificate. I enter into this Stipulated Settlement and Disciplinary Order voluntarily, knowingly, and intelligently, and agree to be bound by the Decision and Order of the California Board of Accountancy, including the ORDER re restricted practice.

DATED: 3/19/15

SZABO ACCOUNTANCY CORPORATION
Respondent

I have carefully read the Stipulated Settlement and Disciplinary Order. I understand the stipulation and the effect it will have on my Certified Public Accountancy Corporation Certificate. I enter into this Stipulated Settlement and Disciplinary Order voluntarily, knowingly, and intelligently, and agree to be bound by the Decision and Order of the California Board of Accountancy, including the ORDER re restricted practice.

DATED: 3/19/15

CRAIG ALLEN SZABO
Respondent

ENDORSEMENT

The foregoing Stipulated Settlement and Disciplinary Order is hereby respectfully submitted for consideration by the California Board of Accountancy.

Dated: 3/19/15

Respectfully submitted,

KAMALA D. HARRIS
Attorney General of California
MARC D. GREENBAUM
Supervising Deputy Attorney General

MORGAN MALEK
Deputy Attorney General
Attorneys for Complainant

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Stipulated Settlement& Disciplinary Order (W) (2) CBA.docx

Exhibit A

Accusation No. AC-2014-25

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In the Matter of the Accusation Against: **CRAIG ALLEN SZABO;** **SZABO ACCOUNTANCY CORPORATION** **Calabasas Park Centre** **23901 Calabasas Road # 2018** **Calabasas, CA 91302** **Certified Public Accountant** **Certificate No. 23707** **Certified Public Accountancy Corporation** **Certificate No. 4143** Respondents.	Case No. AC-2014-25 **ACCUSATION**

Complainant alleges:

PARTIES

1. Patti Bowers (Complainant) brings this Accusation solely in her official capacity as the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs.

2. On or about September 24, 1976, the California Board of Accountancy issued Certified Public Accountant Certificate Number 23707 to Craig Allen Szabo (Respondent Szabo).

The Certified Public Accountant Certificate was in full force and effect at all times relevant to the charges brought herein and will expire on October 31, 2016, unless renewed.

3. On or about March 2, 1995, the California Board of Accountancy issued Certified Public Accountancy Corporation Certificate Number 4143 to Szabo Accountancy Corporation (Respondent Szabo Corporation). The Certified Public Accountancy Corporation Certificate was in full force and effect at all times relevant to the charges brought herein and will expire on March 31, 2015, unless renewed.

JURISDICTION

4. This Accusation is brought before the California Board of Accountancy (CBA), Department of Consumer Affairs, under the authority of the following laws. All section references are to the Business and Professions Code unless otherwise indicated.

5. Section **5062** states:

> A licensee shall issue a report which conforms to professional standards upon completion of a compilation, review or audit of financial statements.

6. Section **5097** states in pertinent part:

> (a) Audit documentation shall be a licensee's records of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in an audit engagement. Audit documentation shall include, but is not limited to, programs, analyses, memoranda, letters of confirmation and representation, copies or abstracts of company documents, and schedules or commentaries prepared or obtained by the licensee.
>
> (b) Audit documentation shall contain sufficient documentation to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, extent, and results of the auditing or other procedures performed, evidence obtained, and conclusions reached, and to determine the identity of the persons who performed and reviewed the work.
>
> (c) Failure of the audit documentation to document the procedures applied, tests performed, evidence obtained, and relevant conclusions reached in an engagement shall raise a presumption that the procedures were not applied, tests were not performed, information was not obtained, and relevant conclusions were not reached. This presumption shall be a rebuttable presumption affecting the burden of proof relative to those portions of the audit that are not documented as required in subdivision (b). The burden may be met by a preponderance of the evidence. . . .

7. Section **5100** states in pertinent part:

After notice and hearing the board may revoke, suspend, or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct that includes, but is not limited to, one or any combination of the following causes:

. . . .

(c) Dishonesty, fraud, gross negligence, or repeated negligent acts committed in the same or different engagements, for the same or different clients, or any combination of engagements or clients, each resulting in a violation of applicable professional standards that indicate a lack of competency in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052.

. . . .

(e) Violation of Section 5097.

...

(g) Willful violation of this chapter or any rule or regulation promulgated by the board under the authority granted under this chapter.

8. Section **5156** states in pertinent part:

An accountancy corporation shall not do or fail to do any act the doing of which or the failure to do which would constitute unprofessional conduct under any statute, rule or regulation now or hereafter in effect. In the conduct of its practice, it shall observe and be bound by such statutes, rules and regulations to the same extent as a person holding a permit under Section 5070 of this code. The board shall have the same powers of suspension, revocation and discipline against an accountancy corporation as are now or hereafter authorized by Section 5100 of this code, or by any other similar statute against individual licensees, provided, however, that proceedings against an accountancy corporation shall be conducted in accordance with Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, and the board shall have all the powers granted therein.

REGULATIONS

9. Title 16, California Code of Regulations, section **58** (Board Rule 58) provides that "licensees engaged in the practice of public accountancy shall comply with all applicable professional standards, including but not limited to generally accepted accounting principles and generally accepted auditing standards."

10. Title 16, California Code of Regulations, section **68.2** states:

(a) To provide for the identification of audit documentation, audit documentation shall include an index or guide to the audit documentation which identifies the components of the audit documentation.

(b) In addition to the requirements of Business and Professions Code Section 5097(b), audit documentation shall provide the date the document or working paper was completed by the preparer(s) and any reviewer(s), and shall include the identity of the preparer(s) and any reviewer(s).

(c) Audit documentation shall include both the report date and the date of issuance of the report.

APPLICABLE PROFESSIONAL STANDARDS

11. Standard applicable to the performance of an audit required by Generally Accepted Auditing Standards (GAAS) are discussed in the Statements on Auditing Standards (SAS) and are codified by the American Institute of Certified Public Accountants (AICPA). The statements are codified by the "AU" number. Standards of practice pertinent to this Accusation and the engagements at issue include, without limitation:

12. The AICPA's SAS Section **AU 150.02** sets forth the following three fieldwork standards:

a. "The auditor must adequately plan the work and must properly supervise any assistants."

b. "The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures."

c. "The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit."

13. **AU Section 230.02** states:

> This standard requires the independent auditor to plan and perform his or her work with due professional care. Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards of field work and reporting.

14. **AU Section 311.03** states in pertinent part, that the auditor must plan the audit so that it is responsive to the assessment of the risk of material misstatement based on the auditor's understanding of the entity and its environment, including its internal control.

15. **AU Section 311.13** states that the auditor should establish the overall audit strategy for the audit.

16. **AU Section 311.14** states, in pertinent part, that in establishing the overall audit strategy, the auditor should consider the important factors that will determine the focus of the audit team's efforts, such as determination of appropriate materiality levels, preliminary identification of areas where there may be higher risks of material misstatement, preliminary identification of material locations and account balances, evaluation of whether the auditor may plan to obtain evidence regarding the operating effectiveness of internal control, and identification of recent entity-specific, industry, financial reporting, or other relevant developments.

17. **AU Section 311.19** states in pertinent part that the auditor must develop an audit plan in which the auditor documents the audit procedures to be used that, when performed, are expected to reduce risk to an acceptably low level.

18. **AU Section 311.20** states in pertinent part that the audit plan is more detailed than the audit strategy and includes the nature, timing, and extent of audit procedures to be performed by audit team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Documentation of the audit plan also serves as a record of the proper planning and performance of the audit procedures that can be reviewed and approved prior to the performance of further audit procedures.

19. **AU Section 311.21** states in pertinent part that the audit plan should include a description of the nature, timing, and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement. An audit plan should include a description of other audit procedures to be carried out for the engagement in order to comply with generally accepted auditing standards (for example, seeking direct communication with the entity's lawyers).

20. **AU Section 312.11** states in pertinent part that the auditor must consider audit risk and must determine a materiality level for the financial statements taken as a whole for the purpose of:

a. Determining the extent and nature of risk assessment procedures;

b. Identifying and assessing the risks of material misstatement;

c. Determining the nature, timing, and extent of further audit procedures;

d. Evaluating whether the financial statements taken as a whole are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

21. **AU Section 312.18** states in pertinent part that in determining the nature, timing, and extent of audit procedures to be applied to a specific account balance, class of transactions, or disclosure, the auditor should design audit procedures to obtain reasonable assurance of detecting misstatements that the auditor believes, based on the judgments about materiality, could be material, when aggregated with misstatements in other balances, classes, or disclosures, to the financial statements taken as a whole. Auditors use various methods to design audit procedures to detect such misstatements.

22. **AU Section 312.27** states in pertinent part that the auditor should determine a materiality level for the financial statements taken as a whole when establishing the overall audit strategy for the audit.

23. **AU Section 314.26** states in pertinent part that the auditor should obtain an understanding of the nature of the entity. The nature of the entity refers to the entity's operations, its ownership, governance, the types of investments that it is making and plans to make, the way that the entity is structured, and how it is financed. An understanding of the nature of the entity enables the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

24. **AU Section 314.29** states in pertinent part that the auditor should obtain an understanding of the entity's objectives and strategies, and the related business risks that may result in material misstatement of the financial statements.

25. **AU Section 314.40** states in pertinent part that the auditor should obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures...The auditor should use such knowledge to: identify types of potential misstatements, consider factors that affect the risks of material misstatement and design test of controls, when applicable, and substantive procedures.

26. AU Section 314.41 describes the five interrelated components of internal control as the

control environment, risk assessment, information and communication systems, control activities, and monitoring.

27. **AU Section 314.54** states in pertinent part that obtaining an understanding of internal control involves evaluating the design of a control and determining whether it has been implemented and whether the control is capable of effectively preventing or detecting and correcting material misstatements.

28. **AU Section 314.55** states in pertinent part that the auditor should perform risk assessment procedures to obtain an understanding of internal control.

29. **AU Section 316.41** states in pertinent part that material misstatements due to fraudulent financial reporting often result from an overstatement of revenues or an understatement of revenues. Therefore, the auditor should ordinarily presume that there is a risk of material misstatement due to fraud related to revenue recognition.

30. **AU Section 316.83** states in pertinent part that the auditor should document the following:

- The procedures performed to obtain information necessary to identify and assess the risks of material misstatement due to fraud.
- If the auditor has not identified in a particular circumstance, improper revenue recognition as a risk of material misstatement due to fraud, the reasons supporting the auditor's conclusions.
- The results of the procedures performed to further address the risk of management override of controls.
- The nature of the communications about fraud made to management, those charged with governance, and others.

31. **AU Section 329.01** states in pertinent part that this section (AU 329) provides guidance on the use of analytical procedure and requires the use of analytical procedures in the planning and overall review stages of all audits.

32. **AU Section 329.04** states in pertinent part that analytical procedure are used for the following purposes: (a) to assist the auditor in planning the nature, timing, and extent of other auditing procedures; (b) as a substantive test to obtain evidential matter about particular assertions related to account balances or classes of transactions; (c) as an overall review of the financial information in the review stage of the audit. AU Section 329.04 further states that analytical

procedures should be applied to some extent for the purpose referred to in (a) and (c) above for all audits of financial statements made in accordance with generally accepted auditing standards.

33. **AU Section 329.05** states in pertinent part that analytical procedures involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the auditor's understanding of the client and the industry in which the client operates.

34. **AU Section 329.06** states in pertinent part that the purpose of applying analytical procedure in planning the audit is to assist in planning the nature, timing, and extent of auditing procedures that will be used to obtain evidential matter for specific account balances or classes of transactions. To accomplish this, the analytical procedures used in planning the audit should focus on enhancing the auditor's understanding of the client's business and identifying areas that may represent specific risks relevant to the audit.

35. **AU Section 339.03** states in pertinent part that the auditor must prepare audit documentation in connection with each engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached. Audit documentation: (a) provides the principal support for the representation in the auditor's report that the auditor performed the audit in accordance with generally accepted auditing standards; (b) provides the principal support for the opinion expressed regarding the financial information or the assertion to effect that an opinion cannot be expressed.

36. **AU Section 339.08** states in pertinent part that in addition to the objectives set out in paragraph .03 (AU 339.03), audit documentation serves a number of other purposes including assisting quality control reviewers who review documentation to understand how the engagement team reached significant conclusions and whether there is adequate evidential support for those conclusions and enabling an experienced auditor to conduct inspections or peer reviews in accordance with applicable legal, regulatory, or other requirements.

37. **AU Section 339.10** states in pertinent part that the auditor should prepare audit documentation that enables an experienced auditor, having no previous connection to the audit, to understand: (a) the nature, timing, and extent of auditing procedures performed to comply with SASs and applicable legal and regulatory requirements; (b) the results of the audit procedures performed and the audit evidence obtained; (c) the conclusions reached on significant matters; (d) that the accounting records agree or reconcile with the audited financial statements or other audited information.

38. **AU Section 339.11** states in pertinent part that the form, content, and extent of audit documentation depend on the circumstances of the engagement and the audit methodology and tools used. Oral explanations on their own do not represent sufficient support for the work the auditor performed or conclusions the auditor reached but may be used by the auditor to clarify or explain information contained in the audit documentation. It is, however, neither necessary nor practical to document every matter the auditor considers during the audit.

39. **AU Section 339.18** states in pertinent part that in documenting the nature, timing, and extent of audit procedures performed the auditor should record who performed the work and the date that such work was completed.

40. Auditing and reporting standards for Employee Benefit Plans, which are overseen by the United States Department of Labor, are contained in the AICPA's Audit and Accounting Guide for Employee Benefit Plans[1] (AAG-EBP).

41. **AAG-EBP Section 8.02** states that the objectives of auditing procedures applied to contributions received and related receivables of employee benefit plans are to provide the auditor with a reasonable basis for concluding (a) whether the amounts received or due the plan have been determined and recorded and disclosed in the financial statements in conformity with the plan documents and generally accepted accounting principles; (b) whether an appropriate

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[1] The Auditing Standards Board issued the interpretive publication AICPA Audit and Accounting Guide for Employee Benefit Plans to assist management of employee benefit plans in the preparation of financial statements in conformity with US GAAPand to assist auditors in auditing and reporting on such financial statements. The Guide is codified by the "AAG-EBP" number and reference to ERISA Regulations.

allowance has been made for uncollectible plan contributions receivable in conformity with generally accepted accounting principles.

42. **AAG-EBP Section 9.02** states that the objectives of auditing procedures applied to benefit payments for employee benefit plans are to provide the auditor with a reasonable basis for concluding (a) whether the payments are in accordance with plan provisions and related documents; (b) whether the payments made to or on behalf of persons entitled to them and only to such persons (that is, that benefit payments are not being made to deceased beneficiaries or to persons other than eligible participants and beneficiaries); (c) whether transactions are recorded in the proper account, amount, and period.

43. **AAG-EBP Section 10.02** states that the objectives of auditing procedures applied to participant data are to provide the auditor with a reasonable basis for concluding (a) whether all covered employees have been properly included in employee eligibility records and, if applicable, in contribution reports and (b) whether accurate participant data for eligible employees were supplied to the plan administrator and, if applicable, to the plan actuary.

44. **AICPA Ethics section 201.01 Rule 201-A** defines professional competence as undertaking only those professional services that the member or member's firm can reasonably expect to be completed with professional competence.

45. **AICPA Ethics section 201.02 Rule 201-1** states in part that a member's agreement to perform professional services implies that the member has the necessary competence to complete those professional services according to professional standards, applying his or her knowledge and skill with reasonable care and diligence, but the member does not assume a responsibility for infallibility of knowledge or judgment. Competence to perform professional services involves both the technical qualifications of the member and the member's staff and the ability to supervise and evaluate the quality of the work performed. Competence relates both to knowledge of the profession's standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgment in applying such knowledge in the performance of professional services. The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. In some

cases, however, additional research or consultation with others may be necessary during the performance of the professional services. This does not ordinarily represent a lack of competence, but rather is a normal part of the performance of professional services. However, if a member is unable to gain sufficient competence through these means, the member should suggest, in fairness to the client and the public, the engagement of someone competent to perform the needed professional service, either independently or as an associate.

FACTS

46. The AICPA made a complaint to the California Board of Accountancy (CBA), reporting deficiencies in Respondent's audit of the Pacific Alliance Medical Center Safe Harbor 401(k) Profit Sharing Plan for the year ended December 31, 2007. After the investigation, the CBA also found that Respondent failed to conform to applicable standards, as set forth below.

FIRST CAUSE FOR DISCIPLINE

(Gross Negligence)

47. Respondents (Respondent Szabo and Respondent Szabo Corporation) are subject to disciplinary action under section 5100(c) of the Code in that Respondents were grossly negligent by their performance of the audit of the Pacific Alliance Medical Center Safe Harbor 401(k) Profit Sharing Plan (The Plan) for the year ended December 31, 2007 that departed extremely from professional standards. Those acts constituting gross negligence, individually, in combination thereof, and cumulatively, include the following acts:

A. Respondents failed to properly plan the audit, in violation of AU 150, AU 311.03, AU 311.13, AU 311.14, AU 311.19, AU 311.20, AU 311.21, AU 329.01, AU 329.04, AU 329.05, AU 329.06, AU 339.03, AU 339.08, AU 339.10, AU 339.11, AU 339.18, in that Respondents' 2007 audit documentation provided to the CBA did not include information or documentation which outlined Respondents' audit procedures or documentation they planned on obtaining or reviewing. Respondent's planning procedures are insufficient as set forth below:

a. Respondents' documentation failed to provide an audit strategy with regard to consideration of materially levels and preliminary identification of areas of higher risk.

b. Respondents' documentation failed to provide an audit plan that reflected a

description of the nature, timing, and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement.

c. Respondents did not apply preliminary analytical procedures. No supporting documentation was located that described procedures performed, expectations or conclusions of an analytical review.

B. Respondents failed to obtain a sufficient understanding of the entity and its environment to assess risks, in violation of AU 150, AU 312.11, AU 312.18, AU 312. 27, AU 314.26, AU 314.29, AU 314.40, AU 314.41, AU 314.54, AU 314.55, AU 316.41, AU 316.83, in planning the 2007 audit. Respondents did not obtain a sufficient understanding of the nature of the Plan and its environment to assess risks including control risk and did not assess materiality.

a. Respondents did not include in their documentation an understanding of the company.

b. Respondents did not complete or otherwise provide documentation supporting their understanding of the Plan's internal control on which to base the procedures that they would apply in their audit.

c. Respondents did not obtain sufficient knowledge of the information system.

d. Respondents did not document their assessment of the level of control risk.

e. Respondents did not assess materiality.

f. Respondents did not assess the Plan's risk of material misstatement due to error or fraud.

C. Respondents failed to perform analytical procedures in the review stage of the audit, in violation of AU 329.01, AU 329.04, AU 339.03, in that there was no evidence in the Respondents' audit documentation that they applied analytical procedures during the review stage of the 2007 audit.

D. Respondents failed to apply auditing procedures to the individual participant accounts, in violation of AAG-EBP 8.02, AAG-EBP 9.02, AAG-EBP 10.02, and AU 339.03, in that Respondents' audit documentation for participant testing was nonexistent. The audit documentation did not reflect a plan of procedures for testing participant data to include all

participants or relevant testing of participant data, as required by the Employee Retirement Income Security Act (ERISA).

a. Respondents did not perform procedures for auditing participant data. Examples of procedures that Respondents did not perform included:

1. Testing postings from the employer contribution reports to the participant employee or employer records and from the participant records to the contribution reports.

2. Determining that employer contributions are consistent with the plan requirements.

3. Respondents failed to perform procedures to audit the timeliness of employee contribution remittance to the plan.

4. Determining that employee contributions are reflected in the proper period in accordance with generally accepted accounting principles.

b. Respondents did not perform procedures for auditing contributions received and related benefit payments. Examples of procedures that Respondents did not perform included:

1. Evaluating the participant's or beneficiary's eligibility by examining evidence of age and employment history data.

2. Comparing employment dates, credited service, earnings, and any employee contributions to payroll or other appropriate records.

3. Examining the benefit election form.

c. Respondents did not perform procedures for auditing participant data. Examples of procedures that Respondents did not perform included:

1. Testing demographic data, such as sex, marital status, birth date, period of service with the employer, and other service history.

2. For participant data maintained in the custody of the plan administrator, testing whether the data maintained in those files correspond to the data maintained in the employer payroll and personnel files.

E. Respondents failed to obtain sufficient audit evidence, in violation of AU 150, in that, in performing the 2007 audit, Respondents did not obtain sufficient appropriate evidence to support the opinion issued regarding the 2007 financial statements of the Plan.

a. Respondents failed to obtain sufficient competent evidential matter to support the participant loan balances and related transactions to support their unqualified, limited scope opinion.

b. Respondents failed to evaluate loans in default in order to determine whether such balances should be reclassified as deemed distributions. In addition, such balances were not separately reported on Schedule G, Part 1, Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectable.

c. As noted above, Respondents failed to perform adequate procedures related to participant data, which also resulted in Respondents' failure to obtain sufficient audit evidence of contributions received and benefit payments made.

d. Respondents failed to document the audit procedures they performed on the allocation of investment earnings to individual participant accounts.

F. Respondents failed to obtain the adequate knowledge and training to perform the audit, in violation of AU 150.02, AU 230.06, AICPA Ethics Section 201.01 Rule 201-A, AICPA Ethics Section 201.02 Rule 201-1, in that, as reflected in their lack of knowledge in regards to the basic requirements in their performance of the audit for 2007, Respondents failed to obtain the adequate training and proficiency to perform the audit.

G. Respondents failed to exercise due professional care, in violation of AU 150.02 and AU 230.02, in that, as reflected in Respondents' performance and reporting failures for the audit of the Pacific Alliance Medical Center Safe Harbor 401(k) Profit Sharing Plan for the year ended December 31, 2007, Respondents failed to exercise due professional care.

SECOND CAUSE FOR DISCIPLINE

(Repeated Acts of Negligence)

48. Respondents are subject to disciplinary action under Code section 5100(c) in that Respondents committed repeated acts of negligence on more than one occasion in performing the

audit of the Pacific Alliance Medical Center Safe Harbor 401(k) Profit Sharing Plan for the year ended December 31, 2007 that departed from professional standards for the reasons set forth in paragraphs 46 and 47. Complainant refers to and by this reference incorporates the allegations set forth above in paragraphs 46 and 47, inclusive, as though set forth fully.

THIRD CAUSE FOR DISCIPLINE

(Failure to Issue a Report Conforming to Professional Standards)

49. Respondents are subject to disciplinary action under Code section 5062 in that, based on Respondents' failures in the performance of the audit for 2007, Respondents failed to perform the audit in accordance with generally accepted auditing standards. Respondents' audit documentation does not support the opinion rendered in the Respondents' audit report. Therefore, Respondents' report with an unqualified opinion did not conform to professional standards. Complainant refers to and by this reference incorporates the allegations set forth above in paragraphs 46 through 47, inclusive, as though set forth fully.

FOURTH CAUSE FOR DISCIPLINE

(Failure to Comply with Professional Standards)

50. Respondents are subject to disciplinary action under Code section 5100, subsection (g), and California Code of Regulations, Title 16, section 58, in that Respondents committed acts of unprofessional conduct, described in paragraphs 46 and 47 above, by violating the requirement set forth in Board Rule 58 that a licensee shall comply with all professional standards. As set forth above, the Respondents' audit work contained extreme and repeated negligent departures from professional standards. Complainant refers to and by this reference incorporates the allegations set forth above in paragraphs 46 and 47, inclusive, as though set forth fully.

FIFTH CAUSE FOR DISCIPLINE

(Failure To Maintain Audit Documentation)

51. Respondents are subject to disciplinary action under Code sections 5097 and 5100, subsection (e), and California Code of Regulations, Title 16, section 68.2, in that Respondents committed acts of unprofessional conduct, described in paragraphs 46 and 47, by violating the requirements set forth in Code section 5097 and California Code of Regulations, Title 16, section

68.2, that Respondents create and maintain adequate documentation relating to audit planning, audit testing, and audit conclusions. Respondents' audit documentation failed to comply with professional standards sufficiently to comply with the audit documentation requirements of generally accepted auditing standards, the California Accountancy Act, or the CBA Regulations that require that the audit documentation support the auditor's opinion issued in an auditor's report. Complainant refers to and by this reference incorporates the allegations set forth above in paragraphs 46 and 47, inclusive, as though set forth fully.

SIXTH CAUSE FOR DISCIPLINE

(Failure to Comply with Professional Standards through the Acts of its Shareholder)

52. Respondent Szabo Corporation is subject to disciplinary action under Code section 5156 in that Respondent Szabo Corporation failed to comply with professional standards through the acts of its shareholder. An accountancy corporation shall not do or fail to do any act the doing of which or the failure to do which would constitute unprofessional conduct under any statute, rule or regulation. Complainant refers to and by this reference incorporates the allegations set forth above in paragraphs 46 and 47, inclusive, as though set forth fully.

PRAYER

WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged, and that following the hearing, the California Board of Accountancy issue a decision:

1. Revoking or suspending or otherwise imposing discipline upon Certified Public Accountancy Corporation Certificate Number 4143, issued to Szabo Accountancy Corporation; Craig Allen Szabo;

2. Revoking or suspending or otherwise imposing discipline upon Certified Public Accountant Certificate Number 23707, issued to Craig Allen Szabo;

3. Ordering Craig Allen Szabo and Szabo Accountancy Corporation, jointly and severally, to pay the California Board of Accountancy the reasonable costs of the investigation and enforcement of this case, pursuant to Business and Professions Code section 5107;

4. Ordering Craig Allen Szabo and Szabo Accountancy Corporation, jointly and severally, to pay the administrative penalties, pursuant to Business and Professions Code section 5116;

5. Taking such other and further action as deemed necessary and proper.

DATED: 1/9/2015

PATTI BOWERS
Executive Officer
California Board of Accountancy
Department of Consumer Affairs
State of California
Complainant

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