

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 86385 / July 16, 2019

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4059

ADMINISTRATIVE PROCEEDING
File No. 3-19251

In the Matter of

DOV WEINSTEIN, CPA and
DOV WEINSTEIN & CO., CPA

Respondents.

**ORDER INSTITUTING PUBLIC
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 4C OF THE
SECURITIES EXCHANGE ACT OF
1934 AND RULE 102(e) OF THE
COMMISSION'S RULES OF
PRACTICE, MAKING FINDINGS,
AND IMPOSING REMEDIAL
SANCTIONS**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative proceedings be, and hereby are, instituted against Dov Weinstein, CPA (“Weinstein”) and Dov Weinstein & Co., CPA (“WCPA”) (together, the “Respondents”) pursuant to Section 4C¹ of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept.

¹ Section 4C provides, in pertinent part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct . . .

² Rule 102(e)(1)(ii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offer, the Commission finds³ that:

A. SUMMARY

1. Weinstein and his firm, WCPA, engaged in improper professional conduct during the audits and interim reviews of thirteen public companies.

2. Between approximately 2012 and 2015, WCPA performed deficient audits and interim reviews for four companies that were the products of a fraudulent scheme orchestrated by others to create and market “shell companies”: Duane Street Corp.; Lollipop Corp.; Olivia Inc.; and Secure It Corp. (the “Shell Issuers”).⁴ Between 2013 and 2017, WCPA also performed deficient audits and interim reviews for nine other issuers (“WCPA Clients 1- 9”).⁵

3. Weinstein served as the engagement partner for the audits and interim reviews of the thirteen issuers, and he authorized the issuance of audit reports that were included in the companies’ periodic reports filed with the Commission.

4. WCPA and Weinstein repeatedly violated Public Company Accounting Oversight Board (“PCAOB” or “Board”) standards in connection with their audits and interim reviews of the issuers.

³ The findings herein are made pursuant to Respondents’ Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

⁴ On February 16, 2018, the Commission filed civil injunctive actions against three individuals who carried out a fraudulent scheme to create and sell public shell companies (hereinafter, “the Shell Operators”) and several gatekeepers who aided and abetted the scheme with respect to eight of those shell companies. *See* Litigation Release No. 24051 (Feb. 16, 2018); *SEC v. Perlstein et al*, No. 1:18cv1026 (E.D.N.Y. Feb. 16, 2018); *SEC v. Weinberg, et al.*, No. 1:18cv360 (D.D.C. Feb. 16, 2018); *SEC v. Strum*, No. 1:18cv361 (D.D.C. Feb. 16, 2018).

⁵ Two of those firms were successors to Secure It Corp. and Olivia Inc.

5. In particular, WCPA failed to conduct engagement quality reviews (“EQRs”) during at least 76 audits and interim reviews of certain of the Shell Issuers and WCPA Clients 1-9. *See* Auditing Standard (“AS”) 1220 (formerly AS No. 7).⁶

6. WCPA and Weinstein failed to exercise due care and professional skepticism regarding the Shell Operators’ relationship with the Shell Issuers, *see* AS 1015 (formerly Interim Auditing Standard (“AU”) § 230), and failed to obtain an understanding of the Shell Issuers and their environment, *see* AS 2110 (formerly AS No. 12). WCPA also failed to implement adequate client-acceptance and continuance procedures. *See* System of Quality Control (“QC”) § 20. During the course of their engagements with the Shell Issuers, Weinstein and WCPA ignored red flags that should have alerted them that the Shell Issuers were controlled by the Shell Operators.

7. Weinstein and WCPA also failed to implement procedures designed to identify material related party transactions of the Shell Issuers. *See* AU § 334.⁷

8. WCPA and Weinstein also failed to maintain independence from their audit clients by serving as a trustee for three audit clients during their audits or interim reviews, *see* AS 1005 (formerly AU § 220) and Rule 2-01(b) of Regulation S-X. Finally, WCPA failed to retain certain audit documentation. *See* AS 1215 (formerly AS No. 3).

9. As detailed below, these failures constitute repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

B. RESPONDENTS

10. Dov Weinstein & Co., CPA is a public accounting firm that is registered with the PCAOB and located in Israel. During the relevant period, WCPA had approximately sixteen employees, including six accountants. As of February 2019, WCPA had nine public company clients with securities registered with the Commission.

11. Dov Weinstein, age 65, resides in Israel. Weinstein is a CPA licensed in Israel with the Israel Auditors’ Council. During the relevant period, Weinstein was the sole partner of WCPA.

⁶ As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. *See PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (Jan. 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. Although the Respondents’ conduct occurred both before and after the reorganization, for clarity, the reorganized standards are cited herein, unless otherwise noted.

⁷ AU § 334 was superseded by AS 2410 (formerly AS No. 18), which became effective for audits of fiscal years beginning on or after December 15, 2014. Those audits in which Weinstein and WCPA violated AU § 334 were for fiscal years beginning before December 15, 2014.

C. WEINSTEIN’S AND WCPA’S VIOLATIONS OF PROFESSIONAL STANDARDS

12. Between approximately late 2011 or early 2012 and 2015, the Shell Operators engaged WCPA to conduct approximately twenty-four audits and interim reviews of the Shell Issuers’ financial statements that were included in registration statements and other filings with the Commission.

13. In addition to the Shell Issuers, between approximately 2013 and 2017, WCPA and Weinstein conducted approximately sixty-seven audits and interim reviews of WCPA Clients 1-9.

14. In the course of those audits and interim reviews, Weinstein and WCPA failed to comply with PCAOB standards.

15. The Commission’s Rules allow the Commission to censure or deny, temporarily or permanently, the privilege of appearing or practicing before it in any way certain professionals who violate “applicable professional standards.” 17 C.F.R. § 201.102(e). The applicable professional standards include standards issued by the PCAOB.

16. Weinstein, as the engagement partner for all of the audits and reviews at issue, was responsible for the audit engagements and their performance, for properly supervising the work of the engagement team members, and for ensuring compliance with PCAOB standards.

WCPA Failed to Conduct EQRs

17. PCAOB standards provide that for both audits and interim reviews, an engagement quality reviewer should, among other things, “evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement.” AS 1220.09 and .14, *Engagement Quality Review*. “Documentation of an engagement quality review should be included in the engagement documentation.” AS 1220.20.

18. Between approximately 2013 and 2017, WCPA violated AS 1220 for at least 76 audits and interim reviews that WCPA conducted of the issuers. WCPA’s work papers for those audits and reviews do not contain any documentation that WCPA considered the procedures described in AS 1220, or any indication that EQRs were conducted with regard to the 76 audits and reviews.

19. By failing to conduct numerous EQRs, WCPA violated PCAOB standards.

WCPA and/or Weinstein Failed to Exercise Due Professional Care and Professional Skepticism, Obtain a Sufficient Understanding of the Shell Issuers, and Implement Adequate Client Acceptance Procedures.

20. PCAOB standards require, among other things, that auditors “exercise professional skepticism,” “consider the competency and sufficiency of the evidence,” “neither assume[] that management is dishonest nor assume[] unquestioned honesty,” and “obtain sufficient appropriate evidential matter to provide him or her with a reasonable basis for forming an opinion.” AS 1015.07 – .11, *Due Professional Care in the Performance of Work*.

21. AS 2110.7 - .10, *Identifying and Assessing Risks of Material Misstatement*, requires that the auditor “obtain an understanding of the company and its environment.” This should include, among other things, obtaining an understanding of the company’s organizational structure, management personnel, the sources of funding of the company’s operations, and the company’s operating characteristics.

22. Beginning in approximately late 2011 or early 2012, Weinstein and his firm were retained within a period of about twelve months to audit and review the financial statements of the four Shell Issuers. Thereafter, WCPA and Weinstein conducted annual audits and quarterly interim reviews of the Shell Issuers’ financial statements.

23. In the course of the audits and reviews, Weinstein failed to obtain an understanding of the Shell Issuers and ignored red flags that should have alerted him that the purported directors and officers (“D&Os”) of the Shell Issuers did not act in those capacities and that the shell companies that he was auditing were fraudulent and controlled by the Shell Operators. For example:

- a. Weinstein was hired by Shell Operator A over a period of approximately twelve months to perform audits for all four Shell Issuers. Shell Operator A, rather than the Shell Issuers’ purported D&Os, approached Weinstein to conduct audits and interim reviews for the Shell Issuers.
- b. Weinstein discussed and agreed on his fees for this work with Shell Operator A, rather than with any of the purported D&Os of each issuer.
- c. Weinstein never obtained documents regarding Shell Operator A’s role with the Shell Issuers or Shell Operator A’s purported authority to act on behalf of the Shell Issuers.
- d. WCPA’s workpapers do not reflect any meetings or telephone calls between WCPA and the Shell Issuers’ purported D&Os, other than a single, handwritten note referring to a supposed call with one of the Shell Issuer’s purported D&Os in 2013.
- e. Shell Operator A sent emails directly to WCPA — at times without sending copies to the purported D&Os— with instructions about the audits.

- f. Weinstein and his staff typically copied Shell Operator A (and sometimes another individual acting on behalf of the Shell Issuers, Shell Operator B) on substantive emails concerning the audits. However, Weinstein and WCPA obtained no evidence that Shell Operators A or B were being compensated by any of the Shell Issuers for their services.
- g. There were telling similarities among the Shell Issuers: all of the firms had been incorporated in Delaware between approximately August and November, 2011; purportedly had D&Os who resided in Israel; maintained principal executive offices in the U.S; had few or no assets, and little, if any, business activity; and none had made significant progress toward executing its purported business plan.

24. By their failure to obtain sufficient evidence to understand the nature of the Shell Issuers and their relationship with the Shell Operators, particularly in light of the red flags discussed above, WCPA and Weinstein failed to exercise due professional care and professional skepticism during their audits and interim reviews.

25. The PCAOB's quality control standards require auditors to implement client acceptance procedures, and provide that "policies and procedures should provide the firm with reasonable assurance that the likelihood of association with a client whose management lacks integrity is minimized." QC § 20.14, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*. All of the firm's personnel are responsible for complying with the firm's quality control policies and procedures. QC § 20.22.

26. WCPA conducted its audits of the Shell Issuers using an audit program that included an assessment of the business reputation and integrity of the client's management. WCPA represented in the work papers that it had completed this assessment during its audits of the Shell Issuers, whose D&Os all supposedly resided in Israel. For example, work papers from Weinstein's December 2013 audit of Olivia Inc. refer to the company's owners as being ethical, having integrity, and demonstrating a "positive attitude towards the audit," and state that "no circumstances have arisen to rouse suspicions."

27. WCPA had an insufficient basis for those representations. As detailed above, WCPA disregarded various red flags concerning management's identity and integrity. In doing so, WCPA failed to implement adequate client acceptance procedures, in violation of QC § 20.

WCPA and Weinstein Failed to Properly Audit Related Party Transactions, and Failed to Include Procedures Designed to Provide Reasonable Assurances of Identifying Related Party Transactions

28. PCAOB standards include audit procedures that should be considered for determining the existence of related parties and for identifying transactions with related parties. See AU § 334.07 and .08, *Related Parties*. In defining "related parties," AU § 334 cited the definition used under generally accepted accounting principles ("GAAP") in Accounting Statement Codification ("ASC") 850, which includes principal owners,

management, and “other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the parties might be prevented from fully pursuing its own separate interests.” ASC 850-10-20 (f).

29. AU § 334.04 stated that “the auditor should be aware of the possible existence of material related party transactions that could affect the financial statements and of common ownership or management control relationships for which [Financial Accounting Standards Board] Statement No. 57 [now codified in ASC 850] requires disclosure even though there are no transactions.” Auditors are advised to “[c]onsider whether transactions are occurring, but are not being given accounting recognition, such as receiving or providing accounting, management or other services at no charge.” AU § 334.08(f).

30. Weinstein knew that Shell Operator A and Shell Operator B were purporting to act on behalf of at least three of the Shell Issuers. Despite the time and effort that Shell Operators A and B appeared to be investing on behalf of the companies, Weinstein and his staff never asked them for evidence of how they were compensated, or asked the Shell Issuers for invoices, agreements, or other details about their fee arrangements with the Shell Operators.

31. The lack of compensation for services provided should have been a red flag to Weinstein that Shell Operator A and Shell Operator B were related parties and had engaged in transactions with the Shell Issuers that should have been disclosed.

32. Weinstein, therefore, failed to properly audit related party transactions and perform the necessary auditing procedures with respect to related parties.

By Serving as a Trustee for Audit Clients, Weinstein and WCPA Lacked Independence

33. PCAOB standards require “that the auditor be independent” and that “he must be without bias with respect to the client since otherwise he would lack that impartiality necessary for the dependability of his findings, however excellent his technical proficiency may be.” AS 1005.02, *Independence*. “Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence.” AS 1005.03.

34. PCAOB Rule 3520, *Auditor Independence*, provides that a “registered public accounting firm and its associated persons must be independent of the firm’s audit client throughout the audit and professional engagement period.” Note 1 explains that under Rule 3520, an auditor’s independence obligation encompasses an obligation to satisfy the “independence criteria set out in the rules and regulations of the Commission under the federal securities laws.”

35. Rule 2-01(b) of Regulation S-X, in turn, sets forth the general standard of independence, which recognizes that an auditor must be independent in fact and appearance throughout the audit and professional engagement period, with appearance being measured

by reference to a reasonable investor with knowledge of all facts and circumstances. Rule 2-01(c)(4)(viii) prohibits having custody of the assets of an audit client.

36. In or about the third quarter of 2013, WCPA provided trust services for Duane Street, Olivia Corp., and Lollipop Corp. while also engaged as their auditor or while performing interim reviews.

37. Specifically, WCPA, as trustee, (a) opened a bank account in Israel for each of the three shell companies, (b) received the proceeds from their stock issuances into the accounts, (c) operated and maintained control of those bank accounts, (d) managed and distributed the proceeds according to the issuers' written instructions, and (e) transferred those proceeds to the companies' respective bank accounts in the U.S.

38. Those trusts were established for the sole purpose of holding the proceeds from the three issuers' share issuances.

39. For providing these services, WCPA charged approximately \$1,500 to each issuer, in addition to its audit and review fees.

40. By taking custody of the issuers' assets and acting as a trustee for trusts whose assets were the proceeds from its clients' share issuances, WCPA's and Weinstein's independence was impaired, in violation of AS 1005.

WCPA Failed to Retain Audit Documentation

41. AS 1215.14 provides that "[t]he auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements."

42. WCPA failed to retain any workpapers from their 2013 third quarter interim review and 2015 audit of at least one of the issuers.

43. By failing to retain any documentation that this review and audit had been performed, WCPA violated AS 1215.

D. FINDINGS

44. Based on the foregoing, the Commission finds that Respondents engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.⁸

⁸ Section 4C(b) and Rule 102(e)(1)(iv) define "improper professional conduct" with respect to persons licensed to practice as accountants. Pursuant to these provisions, "improper professional conduct" includes two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of professional standards in circumstances where heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct, each resulting in violations of professional standards, that indicate a lack of competence.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offer.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Weinstein and WCPA are denied the privilege of appearing or practicing before the Commission as an accountant.

B. After five years from the date of this order, WCPA may request that the Commission consider its reinstatement by submitting an application (to the attention of the Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that WCPA's work in its practice before the Commission will be reviewed either by the independent audit committee of the public company for which it works or in some other acceptable manner, as long as it practices before the Commission in this capacity; and/or
2. an independent accountant.

Such an application must satisfy the Commission that:

- (a) WCPA is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) WCPA hired an independent CPA consultant ("consultant"), who is not unacceptable to the staff of the Commission and is affiliated with a public accounting firm registered with the Board, that has conducted a review of WCPA's quality control system and submitted to the staff of the Commission a report that describes the review conducted and procedures performed, and represents that the review did not identify any criticisms of or potential defects in the firm's quality control system that would indicate that any of WCPA's employees will not receive appropriate supervision. WCPA agrees to require the consultant, if and when retained, to enter into an agreement that provides that for the period of review and for a period of two years from completion of the

review, the consultant shall not enter into any employment, consultant, attorney-client, auditing, or other professional relationship with WCPA, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the consultant in performance of his/her duties under this Order shall not, without prior written consent of the staff, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with WCPA, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the review and for a period of two years after the review;

- (c) WCPA has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and
- (d) WCPA acknowledges its responsibility, as long as it appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

C. The Commission will consider an application by WCPA to resume appearing or practicing before the Commission provided that its CPA license is current and it has resolved all other disciplinary issues with the Israel Auditors' Council. However, if licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to WCPA's character, integrity, professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

D. After five years from the date of this order, Weinstein may request that the Commission consider his reinstatement by submitting an application (to the attention of the Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission (other than as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Exchange Act). Such an application must satisfy the Commission that Weinstein's work in his practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or
2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Exchange Act. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Weinstein, or the public accounting firm with which he is associated, is registered with the Board in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) Weinstein, or the registered public accounting firm with which he is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the respondent's or the firm's quality control system that would indicate that Weinstein will not receive appropriate supervision;
- (c) Weinstein has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and
- (d) Weinstein acknowledges his responsibility, as long as he appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to,

all requirements relating to registration, inspections, concurring partner reviews, and quality control standards.

E. The Commission will consider an application by Weinstein to resume appearing or practicing before the Commission provided that his CPA license is current and he has resolved all other disciplinary issues with the Israel Auditors' Council. However, if licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Weinstein's character, integrity, professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

By the Commission.

Vanessa A. Countryman
Secretary