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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS *In the Matter of Scrudato & Co. PA, and John Scrudato, CPA,* *Respondents.*	PCAOB Release No. 105-2016-054 December 20, 2016

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Scrudato & Co., PA (the "Firm"), revoking the Firm's registration, and imposing a civil money penalty in the amount of $15,000 upon the Firm;[1] and censuring John Scrudato, CPA ("Scrudato") and barring him from being an associated person of a registered public accounting firm.[2] The Board is imposing these sanctions on the basis of its findings that the Firm and Scrudato (collectively, "Respondents") violated PCAOB rules and standards in connection with the audits of five issuer clients.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (the "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's

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[1] The Firm may reapply for registration after two (2) years from the date of this Order.

[2] Scrudato may file a petition for Board consent to associate with a registered public accounting firm after two (2) years from the date of this Order.

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jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.[3]

III.

On the basis of Respondents' Offers, the Board finds that:[4]

A. Respondents

1. Scrudato & Co., PA is, and at all relevant times was, a sole proprietorship organized under the laws of New Jersey, with an office in Califon, New Jersey. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. At all relevant times, the Firm was the external auditor for the issuers identified below.

2. John Scrudato, CPA, 54, is a certified public accountant licensed by the state of New Jersey (License No. 20CC01509700). At all relevant times, Scrudato was the managing partner and sole owner of the Firm, and served as the engagement partner on the audits discussed below. Scrudato is an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

3. This matter concerns Respondents' violations of PCAOB rules and standards in connection with Respondents' issuance of unqualified audit reports on the March 31, 2015 financial statements of Grid Petroleum Corp. ("Grid"); the December 31, 2013 and 2014 financial statements of Baltia Air Lines, Inc. ("Baltia"); the May 31, 2013 and 2014 financial statements of American International Ventures, Inc. ("AIV"); the May 31, 2013 financial statements of U.S. Precious Metals, Inc. ("USPM"); and the December

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[3] The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

[4] The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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31, 2013 and 2014 financial statements of Green Parts International, Inc. ("Green Parts") (collectively, the "Issuer Audits").

4. As detailed below, Respondents repeatedly failed to obtain sufficient appropriate audit evidence and exercise due professional care and professional skepticism in connection with each of the Issuer Audits. Several of the Issuer Audits that resulted in Respondents' violations were new clients subject to reaudit by the Firm after the issuer's previous auditor was sanctioned by the Board.[5]

C. Respondents Violated PCAOB Rules and Standards

5. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[6] An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[7] Among other things, those standards require that an auditor exercise due professional care and professional skepticism in the performance of the audit and preparation of the report.[8] PCAOB standards also require that an auditor plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.[9] If the auditor is unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the

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[5] See *In the Matter of Jeffrey & Company and Robert G. Jeffrey, CPA*, PCAOB Release No. 105-2014-005 (May 6, 2014); *In the Matter of Patrick Rodgers, CPA, PA and Patrick E. Rodgers, CPA*, PCAOB Rel. No. 105-2014-002 (March 6, 2014); *In the Matter of Michael F. Cronin, CPA and Michael F. Cronin, CPA*, PCAOB Rel. No. 105-2013-003 (May 14, 2013).

[6] See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

[7] See AU § 508.07, *Reports on Audited Financial Statements*.

[8] See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; see also Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, ("AS 13") ¶ 7.

[9] See Auditing Standard No. 15, *Audit Evidence* ("AS 15") ¶ 4.

financial statements as a whole are free of material misstatement, the auditor should express a qualified opinion or a disclaimer of opinion.[10]

6. Respondents failed to comply with PCAOB rules and standards in connection with each of the Firm's audits described below.

Audit of Grid Petroleum's Financial Statements

7. Grid Petroleum Corp. is a Wyoming corporation located in Buffalo, Wyoming. Grid's public filings disclose that, at all relevant times, it was focused on the development, exploration, and production of oil and gas in North America. Grid filed its Form 10-K/A on July 14, 2015.[11] At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

8. Scrudato, as engagement partner, authorized the Firm's issuance of an audit report, dated July 9, 2015, expressing an unqualified audit opinion on Grid's financial statements for the year ended March 31, 2015.

9. In connection with the audit of Grid's financial statements, Respondents failed to exercise due professional care and professional skepticism and failed to perform the audit in accordance with PCAOB standards. Specifically, Respondents failed to obtain sufficient appropriate audit evidence concerning a significant balance in Grid's financial statements. Scrudato and the Firm failed to perform sufficient procedures related to the valuation of Grid's largest asset, oil and gas properties, which represented approximately $7 million, or 99%, of total reported assets.

10. When an auditor uses the work of a specialist in connection with an audit, the auditor should evaluate the qualifications of the specialist as well as the relationship of the specialist to the client.[12] In addition, auditors should obtain an understanding of, among other things: (1) the methods or assumptions used by the specialist and (2) how those methods and assumptions compare to those used in the preceding period.[13] Grid's management engaged a specialist to assess the fair value of its oil and gas

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[10] See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14") ¶ 35.

[11] Grid's financial statements for the fiscal year ended March 31, 2015 were amended to correct that an extension filed on June 30, 2015 was incorrectly filed as a Form 10-K when in fact it should have been filed as a Form NT 10-K.

[12] See AU § 336.08 and.10, *Using the Work of a Specialist*.

[13] See id. at .09.

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properties. Respondents failed to evaluate the relationship of the specialist to the client, as well as the qualifications of the specialist used for the valuation of Grid's oil and gas properties. In addition, Respondents failed to perform sufficient procedures to evaluate the methods and assumptions used by the specialist to assess the fair value of the oil and gas properties.[14]

11. The audit of the March 31, 2015 financial statements was the first year audited by the Firm. Under PCAOB standards, an audit firm should include language in its audit report indicating that the prior period financial statements were audited by another auditor when the predecessor auditor's report is not presented.[15] Contrary to PCAOB standards, Scrudato and the Firm failed to include language referring to the predecessor auditor's report in its audit report issued on Grid's financial statements for the year ended March 31, 2015, even though the predecessor auditor's report was not included in the filing.

Audits of Baltia Air Lines' Financial Statements

12. Baltia Air Lines, Inc. is a New York corporation located in Jamaica, New York. Baltia's public filings disclose that, at all relevant times, it was intending to commence scheduled non-stop service from JFK International Airport to Pulkovo II International Airport in St. Petersburg, Russia, upon completion of the Federal Aviation Administration certification process. Baltia filed its Form 10-K/A on September 10, 2015.[16] At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

13. Scrudato, as engagement partner, authorized the Firm's issuance of an audit report, dated September 8, 2015, expressing an unqualified audit opinion, which included a going concern explanatory paragraph, on Baltia's financial statements for the years ended December 31, 2013 and 2014.[17]

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14 See AU § 328.05, footnote 2, *Auditing Fair Value Measurements and Disclosures*.

15 See AU § 508.74.

16 Baltia's financial statements for the fiscal year ended December 31, 2014 were amended to, among other things, correct minor errors to the financial statement footnotes.

17 Prior Baltia financial statements were audited by Patrick Rodgers, CPA, PA (2007 and 2009) and Michael Cronin, CPA (2008, 2009 (reaudit), 2010, and 2011).

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14. In connection with the audits of Baltia's financial statements, Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the audit in accordance with PCAOB standards. PCAOB standards require auditors to identify and assess risks of material misstatement at the financial statement level and the assertion level.[18] Factors that should be evaluated in determining whether a risk of material misstatement is a significant risk include, among other things, the effect of qualitative and quantitative risk factors on the likelihood and potential magnitude of misstatements.[19] Respondents failed to appropriately plan the audits by not identifying a significant risk of material misstatement related to whether Baltia's fixed assets were properly valued.

15. As of December 31, 2013 and 2014, Baltia's largest asset was a single Boeing 747 airplane. The airplane represented $1.5 million and $2.1 million of total assets, or approximately 80% of total assets, in 2013 and 2014, respectively. Except for obtaining management representations, Scrudato and the Firm failed to perform sufficient procedures in either year related to whether the Boeing 747 existed and whether Baltia had legal title to it.[20] Further, aside from obtaining management representations, Scrudato and the Firm failed to perform sufficient procedures to evaluate whether Baltia's airplane was impaired as of December 31, 2014 in accordance with generally accepted accounting principles.[21] In fact, Scrudato noted that an updated impairment analysis would be completed in the future.

See *In the Matter of Patrick Rodgers, CPA, PA and Patrick E. Rodgers, CPA*, PCAOB Rel. No. 105-2014-002 (March 6, 2014); *In the Matter of Michael F. Cronin, CPA and Michael F. Cronin, CPA*, PCAOB Rel. No. 105-2013-003 (May 14, 2013).

18 See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12") ¶ 59.

19 See AS 12 ¶ 71.

20 See AS 15 ¶¶ 4-6; AS 14 ¶ 32-36.

21 See AS 14 ¶ 30, ASC Topic 360-10-35-21, *Property, Plant, and Equipment, Impairment or Disposal of Long-Lived Assets, When to Test a Long Lived Asset for Recoverability*; see also ASC Topic 360-10-35-17, *Property, Plant, and Equipment, Impairment or Disposal of Long-Lived Assets, Measurement of an Impairment Loss*.

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Audits of American International Ventures' Financial Statements

16. American International Ventures, Inc. is a Delaware corporation located in Lithia, Florida. AIV's public filings disclose that it is a gold and silver exploration and extraction company. AIV filed its Form 10-K on October 28, 2014 for the year ended May 31, 2014. At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

17. Scrudato, as engagement partner, authorized the Firm's issuance of an audit report, dated September 26, 2014, expressing an unqualified audit opinion on AIV's financial statements for the years ended May 31, 2013 and 2014.

18. The audit of the issuer's financial statements for the fiscal year ended May 31, 2014 was a first year audit by Scrudato and the Firm. The Firm's audit opinion, however, covered the financial statements for the year ended May 31, 2014 as well as the financial statements for the year ended May 31, 2013. The financial statements for the year ended May 31, 2013 were required to be reaudited because the Board revoked the registration of the predecessor auditor.[22]

19. PCAOB standards require that a successor auditor who accepts a reaudit engagement plan and perform the reaudit in accordance with applicable professional standards.[23] While a successor auditor may consider the information obtained from inquiries of the predecessor auditor and review of the predecessor auditor's working papers in planning the reaudit, the information obtained from those inquiries and review of the prior working papers is not sufficient to afford a basis for expressing an opinion.[24] The nature, timing, and extent of the audit work performed and the conclusions reached in the reaudit are solely the responsibility of the successor auditor performing the reaudit.[25]

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[22] AIV's fiscal 2013 financial statements were originally audited by Jeffrey and Co. See *In the Matter of Jeffrey & Company and Robert G. Jeffrey, CPA*, PCAOB Release No. 105-2014-005 (May 6, 2014). The audit of AIV's fiscal 2013 financial statements was not part of the disciplinary order against Jeffrey & Company.

[23] See AU § 315.14-.20, *Communications Between Predecessor and Successor Auditors*.

[24] See id. at .15.

[25] See id.

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20. The Firm and Scrudato failed to obtain sufficient appropriate audit evidence to support its audit opinion on the issuer's financial statements for the fiscal year ended May 31, 2013. In fact, the only procedures performed were: (1) obtaining copies of certain of the predecessor auditor's work papers; and (2) obtaining a copy of a balance sheet at the end of the prior year, which indicated procedures performed by the predecessor auditor and supporting documents obtained by the predecessor auditor related to certain account balances. By simply obtaining and reviewing certain copies of the predecessor auditor's work papers without planning and performing their own procedures, Scrudato and the Firm violated PCAOB standards.

21. In connection with the 2014 audit of AIV's financial statements, Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the audit in accordance with PCAOB standards. Scrudato failed to identify a significant risk of material misstatement with respect to the issuer's mining claims, which represented approximately $1.3 million, or 70%, of total assets.[26] Respondents also failed to perform sufficient procedures to assess whether the mining claims existed, whether AIV owned the claims, and whether the related footnote disclosure was accurate. AIV acquired the mining claims prior to fiscal year 2014 and the balance remained unchanged from the end of fiscal year 2013 to the end of fiscal year 2014. During the audit of the 2014 financial statements, Scrudato and the Firm failed to: (1) perform procedures to validate the purchase, ownership, and consideration paid for the mining claims; and (2) test the completeness of the mining claims. Instead, Respondents merely obtained an issuer-prepared schedule of mining claims detailing the mining claim asset amounts and the form of the consideration paid for the claims. In fact, the only notation on the schedule indicated that the mining claims balance was unchanged from the prior year. The schedule, however, was inconsistent with AIV's footnote disclosure which included an additional mining claim not included on the issuer-prepared schedule in the Firm's work papers. Yet Respondents failed to address or note the discrepancy.[27]

Audit of U.S. Precious Metals' Financial Statements

22. U.S. Precious Metals, Inc. is a Delaware corporation located in Marlboro, New Jersey. USPM's public filings disclose that, at all relevant times, it was an exploration stage company engaged in the acquisition, exploration, and development of mineral properties. USPM filed its Form 10-K on September 10, 2014 for the year ended

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[26] See AS 12 ¶ 59.

[27] See AS 15 ¶ 10.

May 31, 2014. At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

23. Scrudato, as engagement partner, authorized the Firm's issuance of an audit report, dated August 29, 2014, expressing an unqualified audit opinion on USPM's financial statements for the years ended May 31, 2013 and 2014.

24. The May 31, 2014 financial statements audit was the first fiscal year audit of USPM by Scrudato and the Firm. The Firm's audit opinion, however, covered the financial statements for the year-ended May 31, 2014 as well as the financial statements for the year-ended May 31, 2013. The financial statements for the year ended May 31, 2013 were required to be reaudited because the Board revoked the registration of the predecessor auditor.[28]

25. As noted above, PCAOB standards require that a successor auditor who accepts a reaudit engagement plan and perform the audit in accordance with applicable professional standards.[29] In planning the 2013 reaudit, Scrudato failed to identify a significant risk of material misstatement associated with the issuer's investment in mining rights – which represented approximately $157,000, or 68%, of total assets.[30] Scrudato and the Firm also failed to obtain sufficient appropriate audit evidence to support the Firm's audit opinion on USPM's financial statements for the fiscal year ended May 31, 2013. In fact, the only procedures performed were: (1) obtaining copies of certain of the predecessor auditor's work papers; (2) obtaining a copy of a balance sheet at the end of the prior year, which indicated procedures performed by the predecessor auditor and supporting documents obtained by the predecessor auditor related to certain account balances; and (3) documenting that certain account balances agreed to the balances for the year under audit.

Audits of Green Parts' Financial Statements

26. Green Parts International, Inc. is a Nevada corporation located in Atlanta, Georgia. Green Parts' public filings disclose that, at all relevant times, it was a salvage

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[28] USPM's fiscal 2013 financial statements were originally audited by Jeffrey and Co. See *In the Matter of Jeffrey & Company and Robert G. Jeffrey, CPA*, PCAOB Release No. 105-2014-005 (May 6, 2014). The audit of USPM's fiscal 2013 financial statements was not part of the disciplinary order against Jeffrey & Company.

[29] See AU § 315.14-.20.

[30] See AS 12 ¶ 59.

and reclamation company. Green Parts filed its Form 10-K on March 31, 2014, and April 15, 2015, for the years ended December 31, 2013 and 2014, respectively. At all relevant times, it was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

27. Scrudato, as engagement partner, authorized the Firm's issuance of audit reports, dated March 20, 2014 and April 5, 2015, expressing an unqualified audit opinion on Green Parts' financial statements for the years ended December 31, 2013 and 2014, respectively.

28. In connection with the audits of Green Parts' financial statements, Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the audit in accordance with PCAOB standards. Specifically, Respondents failed to perform sufficient procedures to test whether revenue was properly recorded. Green Parts reported revenue of approximately $12.7 million and $15.2 million for the years ended December 31, 2014 and 2013, respectively. According to the financial statement footnotes, Green Parts derived most of its revenue from the sale of recycled products, including salvage vehicles and scrap material. During both audits, Scrudato reviewed the general ledger for large and unusual items over a certain threshold and, as a result, selected certain transactions for testing. Scrudato also performed cut-off testing at year end. While PCAOB standards state that an auditor may decide to select specific items within a population for testing because they have a specified characteristic, they also state that this approach does not constitute audit sampling and the results of those audit procedures cannot be projected to the entire population.[31] Respondents failed to perform sufficient procedures to test the remaining population of revenue.

29. PCAOB standards provide that fraud risks are significant risks, which require an auditor to perform substantive procedures, including test of details, to specifically respond to the assessed risk.[32] PCAOB standards further require auditors to presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.[33] In both 2013 and 2014, Scrudato failed to identify revenue recognition as a fraud risk

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31 See AS 15 ¶¶ 25-27.

32 See AS 12 ¶ 71 and AS 13 ¶ 11.

33 See AS 12 ¶ 68.

requiring substantive procedures, including tests of details that are specifically responsive to the assessed risks in the financial statements.[34]

30. Lastly, contrary to PCAOB standards, Scrudato and the Firm failed to perform sufficient procedures over Green Parts' reported inventory, which represented approximately 45% of total assets in 2013 and 2014.[35] More specifically, in auditing scrap inventory – which constituted 54% and 34% of reported inventory in 2013 and 2014, respectively – Respondents failed to perform sufficient procedures to test whether Green Parts' scrap inventory was properly valued. In fact, Scrudato failed to perform procedures over the estimate used by management to calculate the value of Green Parts' scrap inventory in either audit year.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Scrudato & Co., PA and John Scrudato are hereby censured;

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), John Scrudato is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[36]

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[34] See AS 13 ¶ 11.

[35] See AS 15 ¶ 10; AS 13 ¶ 8.

[36] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Scrudato. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

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C. After two (2) years from the date of this Order, John Scrudato may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Scrudato & Co., PA. is revoked;

E. After two (2) years from the date of the Order, Scrudato & Co, PA may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and

F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty of $15,000 is imposed upon Scrudato & Co. PA. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Scrudato & Co., PA shall pay this civil money within 10 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States postal money order, certified check, bank cashier's check or bank money order (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (c) submitted under a cover letter which identifies Scrudato & Co., PA as the Respondent in these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown
Secretary

December 20, 2016