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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Citrin Cooperman & Company, LLP,  
Joseph Puglisi, CPA, Mark Schniebolk, CPA, and  
John Cavallone, CPA,*

Respondents.

PCAOB Release No. 105-2022-007

May 11, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring Citrin Cooperman & Company, LLP (“Citrin” or the “Firm”), imposing a civil money penalty of \$200,000 on Citrin, and requiring the Firm to undertake certain remedial actions as described in Section IV of this Order;
- (2) suspending Joseph Puglisi, CPA (“Puglisi”) from associating with a registered public accounting firm for a period of one year from the date of this Order, limiting his activities in connection with any audit or examination of a broker-dealer that is required to file a compliance report under Securities Exchange Act of 1934 (“Exchange Act”) Rule 17a-5, 17 C.F.R. § 240.17a-5, of the U.S. Securities and Exchange Commission (“Commission”) until two years from the date of this Order by prohibiting Puglisi from serving in certain capacities, as described in Section IV hereto, imposing a civil money penalty of \$25,000 on Puglisi, and requiring Puglisi to complete, within one year from the date of this Order, 20 hours of professional education or training; and
- (3) censuring and limiting the activities of Mark Schniebolk, CPA (“Schniebolk”) and John Cavallone, CPA (“Cavallone”) for a period of one year from the date of this Order by prohibiting them from: (a) serving, or supervising the work of another person serving, as an engagement quality reviewer, or (b) serving, or supervising the work of another person serving, in any role that is equivalent to, but differently denominated from, engagement quality reviewer on any “audit,” as that term is defined in Section 110 of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), or

PCAOB Rule 1001(a)(v), imposing civil money penalties of \$15,000 on each of Schniebolk and Cavallone, and requiring that they each complete, within one year from the date of this Order, 20 hours of professional education or training.

The Board is imposing these sanctions on the basis of its findings that: (a) Citrin, Puglisi, Schniebolk, and Cavallone (collectively, “Respondents”) violated PCAOB rules and standards in connection with the audits and examinations of a broker-dealer (“Broker-Dealer A”) for the fiscal years ended December 31, 2016 and/or 2017; and (b) Citrin violated PCAOB rules and quality control standards by failing to take sufficient steps to ensure that its system of quality control provided reasonable assurance that work performed by its engagement personnel would comply with PCAOB standards and regulatory requirements and was assigned to personnel having the degree of technical training and proficiency required in the circumstances.

### 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 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 (collectively, “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 jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.<sup>1</sup>

### III.

On the basis of Respondents’ Offers, the Board finds that:<sup>2</sup>

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<sup>1</sup> The findings herein are made pursuant to the Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> 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: (a) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (b) repeated instances of

## A. Respondents

1. **Citrin Cooperman & Company, LLP** is a limited liability partnership organized under the laws of New York and headquartered in New York, New York. The Firm is licensed to practice public accounting in multiple jurisdictions, including the State of New York (Partnership ID No. 021300). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm issued audit reports containing unqualified opinions on Broker-Dealer A's financial statements and compliance reports for the fiscal year end ("FYE") December 31, 2016, and FYE December 31, 2017.

2. **Joseph Puglisi, CPA** is a partner of the Firm in its Livingston, New Jersey office, a certified public accountant under the laws of New Jersey (license no. 20CC03427100) and New York (license no. 081527), and, at all relevant times was, 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). Puglisi served as the engagement partner for the 2016 and 2017 audits and examinations of Broker-Dealer A.

3. **Mark Schniebolk, CPA** is a partner of the Firm in its New York, New York office, a certified public accountant under the laws of the State of New York (license no. 087801), and, at all relevant times was, 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). Schniebolk served as the engagement quality reviewer for the 2016 audit and examination of Broker-Dealer A.

4. **John Cavallone, CPA** is a partner of the Firm in its New York, New York office, a certified public accountant under the laws of the State of New York (license no. 079788), and, at all relevant times was, 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). Cavallone served as the engagement quality reviewer for the 2017 audit and examination of Broker-Dealer A.

## B. Broker-Dealer

5. Broker-Dealer A is a Delaware corporation, headquartered in New York. Broker-Dealer A's public filings indicate that it is a broker-dealer registered with the Commission and the Financial Industry Regulatory Authority, Inc. ("FINRA"), and provides order management and clearing services to institutions and professional traders. At all relevant times, Broker-Dealer A was a "broker" and a "dealer," as those terms are defined in Sections 110(3) and 110(4) of the Act and PCAOB Rules 1001(b)(iii) and 1001(d)(iii). Broker-Dealer A had assets of

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negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

\$232 million as of, and revenue of \$36 million for, the year ended December 31, 2016, and assets of \$196 million as of, and revenue of \$33 million for, the year ended December 31, 2017.

### C. Summary

6. This matter concerns Puglisi's violations of PCAOB rules and Attestation Standard No. 1 ("AT No. 1"), *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, when performing the examinations of the statements made by Broker-Dealer A in its FYE December 31, 2016 and FYE December 31, 2017 compliance reports filed with the Commission pursuant to Exchange Act Rule 17a-5, 17 C.F.R. § 240.17a-5 ("Rule 17a-5") (the "Examinations"). In particular, Puglisi failed to sufficiently evaluate (a) whether Broker-Dealer A maintained effective internal controls over compliance ("ICOC") with Commission Rule 15c3-3, 17 C.F.R. 240.15c3-3, under the Exchange Act ("Rule 15c3-3," or the "Customer Protection Rule") throughout the fiscal years and as of the end of fiscal years 2016 and 2017, and (b) whether Broker-Dealer A was in compliance with Rule 15c3-3(e) (the "Reserve Requirements Rule") as of the end of fiscal years 2016 and 2017.

7. This matter also concerns Puglisi's violations of PCAOB rules and auditing standards in connection with the audits of the financial statements and accompanying supporting schedules of Broker-Dealer A for FYE December 31, 2016 and FYE December 31, 2017 (the "Audits"). Among other things, Puglisi failed to perform sufficient audit procedures to test the supplemental information related to the Customer Protection Rule in connection with the Audits.

8. In addition, Schniebolk and Cavallone, who served as engagement quality reviewers ("EQR reviewers") on the 2016 audit and examination and 2017 audit and examination, respectively, failed to perform their engagement quality reviews ("EQRs") with due professional care, in violation of AS 1220, *Engagement Quality Review*.

9. Finally, the Firm violated quality control standards because its system of quality control failed to provide it with reasonable assurance that the work performed by its engagement personnel would comply with PCAOB standards and regulatory requirements. The Firm's system of quality control also failed to provide reasonable assurance that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances.

## D. Puglisi Violated AT No. 1 in the Examinations of Broker-Dealer A's 2016 and 2017 Compliance Reports

### i. Certain Commission Reporting Requirements for Broker-Dealer A

10. At all relevant times, Rule 15c3-3 imposed various obligations on Broker-Dealer A to avoid, in the event of a broker-dealer failure, a delay or a shortfall in returning the assets held by Broker-Dealer A for the accounts of its customers ("customer accounts") or for the proprietary securities accounts of broker-dealers ("PAB accounts").<sup>3,4</sup> For example, the Reserve Requirements Rule required Broker-Dealer A, among other things, to maintain with a bank or banks<sup>5</sup> a "Special Reserve Bank Account for the Exclusive Benefit of Customers" (a "Customer Reserve Bank Account") and a "Special Reserve Bank Account for Brokers and Dealers" (a "PAB Reserve Bank Account"), each kept separate from each other and from Broker-Dealer A's other accounts, to deposit therein an amount calculated in accordance with Exhibit A to Rule 15c3-3 (17 C.F.R. § 240.15c3-3a) ("Reserves"), and to make and maintain a record of each such computation.

11. Furthermore, at all relevant times, Broker-Dealer A was required, among other things to promptly obtain and thereafter maintain physical possession or control over its customers' fully paid and excess margin securities.<sup>6</sup> This included the requirement that Broker-Dealer A hold certain customer securities in a "good control location"<sup>7</sup> pursuant to paragraph

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<sup>3</sup> The term "PAB account" is defined in Rule 15c3-3(a)(16).

<sup>4</sup> See Division of Trading and Markets and Division of Enforcement of the U.S. Securities and Exchange Commission, *Customer Protection Rule Initiative*, modified June 23, 2016, at Section II, available at <https://www.sec.gov/divisions/enforce/customer-protection-rule-initiative.shtml>. Although some broker-dealers qualify for exemption from the Customer Protection Rule under paragraph (k) of Rule 15c3-3, Broker-Dealer A, at all relevant times, did not qualify for such an exemption.

<sup>5</sup> "Bank" is defined in Rule 15c3-3(a)(7).

<sup>6</sup> See Rule 15c3-3(b).

<sup>7</sup> Although not defined in Rule 15c3-3, the term "good control location" is frequently used to identify those locations that are considered acceptable under the Rule. See, e.g., Division of Trading and Markets, U.S. Securities and Exchange Commission and Office of General Counsel, FINRA, *Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities* (July 8, 2019) (noting that "[a]mong its core protections for customers, Rule 15c3-3 requires a broker-dealer to physically hold customers' fully paid and excess margin securities or maintain them free of lien at a good control location"), available at <https://www.sec.gov/news/public-statement/joint-staff-statement-broker-dealer-custody-digital-asset-securities>.

(c) of Rule 15c3-3 (“Good Control Location”). In addition, Rule 15c3-3(d) required that Broker-Dealer A regularly determine the quantity of its customers’ fully-paid securities and excess margin securities<sup>8</sup> that were not in its possession or control, and to take actions to bring these securities into its possession or control within the time frame prescribed by the Customer Protection Rule. Collectively, these requirements in Rule 15c3-3(b), (c), and (d) are referred to herein as the “Possession and Control Requirements.”

12. At all relevant times, Rule 17a-5 required Broker-Dealer A, among other things, to file with the Commission<sup>9</sup> an annual report containing: (a) a financial report that includes financial statements and supporting schedules;<sup>10</sup> and, as Broker-Dealer A did not claim exemption under paragraph (k) of Rule 15c3-3,<sup>11</sup> (b) a compliance report concerning the effectiveness of Broker-Dealer A’s ICOC<sup>12</sup> with, among other things, the Customer Protection

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<sup>8</sup> “Customer,” “fully paid securities,” and “excess margin securities” are defined, respectively, in Rule 15c3-3(a)(1), (3), (5).

<sup>9</sup> See Rule 17a-5(d)(6).

<sup>10</sup> See Rule 17a-5(d)(1)(i)(A). The financial report, including the required supporting schedules, must be in a format that is consistent with the statements contained in Commission Form X-17A-5. See Rule 17a-5(d)(2).

<sup>11</sup> The Commission has stated that there may be circumstances in which a broker-dealer has not held customer securities or funds during the past year, but does not fit into one of the exemptive provisions set forth in paragraph (k) of Rule 15c3-3, and should file an “exemption report” under Rule 17a-5(d)(1)(i)(B)(2) in lieu of a “compliance report” under Rule 17a-5(d)(1)(i)(B)(1). See U.S. Securities and Exchange Commission, *Broker-Dealer Reports*, Exchange Act Release No. 70073 (July 30, 2013), at n. 74, available at <https://www.sec.gov/rules/final/2013/34-70073.pdf>; see also Division of Trading and Markets of the U.S. Securities and Exchange Commission, *Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule* (updated July 1, 2020), at Question and Answer 8 (describing the views of the staff of the Division of Trading and Markets regarding the eligibility of certain broker-dealers to file exemption reports in accordance with the circumstances described in footnote 74 of the 2013 *Broker-Dealer Reports* release), available at <https://www.sec.gov/divisions/marketreg/amendments-to-broker-dealer-reporting-rule-faq.htm>. Those circumstances are not applicable here.

<sup>12</sup> The term “internal control over compliance” is defined in Rule 17a-5(d)(3)(ii) as follows: “The term *Internal Control Over Compliance* means internal controls that have the objective of providing the broker or dealer with reasonable assurance that non-compliance with [Exchange Act Rules 15c3-1 (“Rule 15c3-1”), 15c3-3, 17a-13], or any rule of the designated examining authority of the broker or dealer that requires account statements to be sent to the customers of the broker or dealer (an ‘Account Statement Rule’) will be prevented or detected on a timely basis.”

Rule;<sup>13</sup> and (c) reports by a PCAOB-registered firm based on examinations of Broker-Dealer A's financial and compliance reports that meets certain specified requirements.<sup>14</sup> At all relevant times, Rule 17a-5 also required that the auditor's examinations of each of Broker-Dealer A's financial report and compliance report be performed in accordance with PCAOB standards.<sup>15</sup>

13. Rule 17a-5 also required, at all relevant times, Broker-Dealer A's compliance report to contain certain statements ("assertions") about its compliance with, among other things, the Customer Protection Rule, including that: (a) Broker-Dealer A's ICOC was effective during the most recent fiscal year; (b) Broker-Dealer A's ICOC was effective as of the end of the most recent fiscal year; and (c) Broker-Dealer A was in compliance with, among other things, the Reserve Requirements Rule as of the end of the most recent fiscal year.<sup>16</sup>

## **ii. Relevant Provisions of PCAOB Rules and Standards**

14. In connection with the preparation or issuance of an audit report, including an examination report, PCAOB rules require that a registered public accounting firm and its associated persons comply with all applicable auditing and related professional practice standards, including attestation standards.<sup>17</sup>

15. AT No. 1 provides that, in performing an examination of the assertions made by a broker-dealer in a compliance report (an "examination engagement"), the auditor's objective is to express an opinion regarding whether the assertions made by the broker-dealer in its compliance report are fairly stated, in all material respects.<sup>18</sup> AT No. 1 also provides that, to express such an opinion, the auditor must plan and perform the examination engagement to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether, among other things: (a) one or more material weaknesses<sup>19</sup> existed during the most recent fiscal year specified in the broker-dealer's assertion; (b) one or more material weaknesses existed as of the end of the most recent fiscal year specified in the broker-dealer's assertion; and (c) one or more instances of non-compliance with the Reserve Requirements Rule existed

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<sup>13</sup> See Rule 17a-5(d)(1)(i)(B)(1), (d)(3).

<sup>14</sup> See Rule 17a-5(d)(1)(i)(C), (g), (i).

<sup>15</sup> See Rule 17a-5(g).

<sup>16</sup> See Rule 17a-5(d)(3)(i)(A)(2) – (4).

<sup>17</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.

<sup>18</sup> See ¶ 3 of AT No. 1.

<sup>19</sup> The term "material weakness" is defined in AT No. 1, Appendix A ¶ A4.

as of the end of the most recent fiscal year specified in the broker-dealer's assertion.<sup>20</sup> As noted in AT No. 1, the auditor's examination should include an evaluation of the effectiveness of ICOC with the Customer Protection Rule during, and as of the end of, the most recent fiscal year.<sup>21</sup>

16. AT No. 1 also provides that the auditor must exercise due professional care, which includes application of professional skepticism, in planning and performing the examination and preparation of the report, and that the engagement partner is responsible for proper planning and supervision of work for the engagement.<sup>22</sup>

17. Additionally, AT No. 1 provides, that, when planning the examination engagement, the auditor should obtain an understanding of the broker-dealer's processes regarding compliance with, among other things, the Customer Protection Rule, which includes evaluating the design of controls that are relevant to the examination and determining whether they have been implemented.<sup>23</sup> When performing the examination engagement, the auditor must test the controls that are important to the auditor's conclusion about whether the broker-dealer has maintained effective ICOC for, among other things, the Customer Protection Rule, during the fiscal year and as of fiscal year end.<sup>24</sup> The auditor must obtain evidence that the controls over compliance selected for testing are designed effectively and operated effectively during the fiscal year and as of fiscal year end.<sup>25</sup>

18. AT No. 1 further requires the auditor to conduct tests sufficient to support the auditor's conclusions regarding whether the broker-dealer was in compliance with the Reserve Requirements Rule as of fiscal year end; the auditor does this by, among other things, testing

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<sup>20</sup> See ¶ 4 of AT No. 1.

<sup>21</sup> See *id.* ¶ 4, Note.

<sup>22</sup> See *id.* ¶¶ 6(d), 7.

<sup>23</sup> See *id.* ¶ 9(b), Notes.

<sup>24</sup> See *id.* ¶ 11.

<sup>25</sup> See *id.* The auditor should test the design effectiveness of the selected controls by determining whether they can effectively prevent or detect instances of non-compliance with, among other things, the Customer Protection Rule on a timely basis. See *id.* ¶ 14. Additionally, the auditor should test the operating effectiveness of the selected controls by determining whether each selected control is operating as designed. See *id.* ¶ 16.



the accuracy and completeness of the information that the broker-dealer used to determine its compliance with that rule as of fiscal year end.<sup>26</sup>

19. As provided in AT No. 1, the auditor should evaluate whether he or she has obtained sufficient appropriate evidence to support the conclusions to be presented in the examination report, taking into account the risks associated with controls and non-compliance, the results of the examination procedures performed, and the appropriateness (*i.e.*, the relevance and reliability) of the evidence obtained.<sup>27</sup> If the auditor is unable to obtain sufficient appropriate evidence about an assertion, the auditor should express a disclaimer of opinion.<sup>28</sup>

20. As described below, Puglisi failed to comply with applicable PCAOB rules and standards in connection with his examinations of the assertions made by Broker-Dealer A in its compliance reports for FYE December 31, 2016, and FYE December 31, 2017.

**iii. Puglisi’s Examinations of Broker-Dealer A’s 2016 and 2017 Compliance Reports**

21. Broker-Dealer A filed its annual reports for 2016 and 2017 with the Commission on March 1, 2017 and March 5, 2018, respectively. Broker-Dealer A included compliance reports in those filings—the 2016 compliance report was dated February 27, 2017, and the 2017 compliance report was dated February 28, 2018 (collectively, the “Compliance Reports”). The Compliance Reports’ assertions included that Broker-Dealer A’s ICOC with the Customer Protection Rule was effective during the period from January 1, 2016, to December 31, 2016, and as of December 31, 2016, and from January 1, 2017, to December 31, 2017, and as of December 31, 2017, respectively.

22. Puglisi authorized the issuance of the Firm’s reports on the Examinations concerning Broker-Dealer A’s Compliance Reports (collectively, the “Examination Reports”). Schniebolk and Cavallone, who served as EQR reviewers on the 2016 examination and the 2017 examination, respectively, provided concurring approval of the Firm’s issuance of the Examination Reports. The Firm’s 2016 examination report was dated February 27, 2017, and the Firm’s 2017 examination report was dated February 28, 2018. The Examination Reports expressed the Firm’s unqualified opinions that Broker-Dealer A’s assertions in the respective Compliance Reports were fairly stated, in all material respects, and the Examination Reports

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<sup>26</sup> See *id.* ¶ 21.

<sup>27</sup> See *id.* ¶ 27.

<sup>28</sup> See *id.* ¶ 29.

stated, among other things, that the Examinations were conducted in accordance with PCAOB standards.

**a. Puglisi’s Testing of Broker-Dealer A’s ICOC related to the Customer Protection Rule for the Examinations**

23. In connection with the Examinations, Puglisi failed to adequately test Broker-Dealer A’s ICOC with the Customer Protection Rule during, and at the end of, the 2016 and 2017 fiscal years.

24. With respect to the Possession and Control Requirements, Puglisi failed to sufficiently plan the 2016 examination engagement because Puglisi failed to obtain an understanding of Broker-Dealer A’s key controls to ensure compliance with the Possession and Control Requirements during the 2016 examination.<sup>29</sup> Specifically, Puglisi failed to identify the controls that he believed were important to the conclusion that Broker-Dealer A maintained effective ICOC with the Possession and Control Requirements during, and as of, the FYE December 31, 2016. Further, Puglisi failed to perform, or cause the engagement team to perform, any testing to obtain evidence that Broker-Dealer A’s controls for compliance with the Possession and Control Requirements were designed and operating effectively.<sup>30</sup>

25. With respect to the Reserve Requirements Rule, Puglisi failed to adequately evaluate Broker-Dealer A’s ICOC related to that rule during, and at the end of, the fiscal years 2016 and 2017. Broker-Dealer A used a system-generated report (“Reserve workbook”) to determine the minimum amount of Reserves required to comply with the rule. Puglisi and the engagement team documented that, among other things, Broker-Dealer A relied on a key information technology (“IT”) application control in its internally-developed system to ensure the completeness and accuracy of the Reserve workbook. In connection with the 2016 examination, however, Puglisi failed to perform, or cause the engagement team to perform, any procedures to test the design and operating effectiveness of the controls related to the Reserve Requirements Rule.<sup>31</sup> In addition, Puglisi and the engagement team did not test the IT controls applicable to the internally-developed system.<sup>32</sup>

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<sup>29</sup> See *id.* ¶ 9.

<sup>30</sup> An auditor must obtain evidence that the controls selected for testing were designed and operated effectively. See *id.* at ¶¶ 11, 14, 16.

<sup>31</sup> See AT No. 1 ¶¶ 11, 14, 16.

<sup>32</sup> *Id.* In 2017, Puglisi and the engagement team modified their audit procedures; as a result this failure did not recur.

26. Further, Puglisi was aware that FINRA performed annual examinations of Broker-Dealer A, and obtained the FINRA examination report on the preceding year during each audit and examination.<sup>33</sup> FINRA noted repeatedly in its prior examination reports that: (a) Broker-Dealer A had failed to maintain adequate documentation to ascertain the appropriate classification of an account as either a customer account or a PAB account; and (b) Broker-Dealer A, in several instances, incorrectly designated certain accounts as a PAB account instead of a customer account and vice-versa. Despite the recurring FINRA findings, Puglisi failed to sufficiently plan the examination engagements because Puglisi failed to obtain an understanding of Broker-Dealer A's process, including relevant controls, regarding the designation of an account as either a customer account or a PAB account.<sup>34</sup> Similarly, Puglisi failed to perform, or cause the engagement team to perform, procedures to obtain evidence that Broker-Dealer A's internal controls related to account designation were designed and operating effectively. Finally, Puglisi reviewed FINRA's reports but failed to adequately evaluate whether FINRA's repeated findings contradicted Broker-Dealer A's assertions that its ICOC on the Reserve Requirements Rule was effective during, and as of the end of, the fiscal years 2016 and 2017.<sup>35</sup>

27. As a result, Puglisi failed to obtain appropriate evidence that was sufficient to obtain reasonable assurance about whether there were any material weaknesses in Broker-Dealer A's ICOC related to the Customer Protection Rule during, and as of the end of, the fiscal years 2016 and 2017.<sup>36</sup>

**b. Puglisi's Testing of Broker-Dealer A's Compliance with the Reserve Requirements Rule for the Examinations**

28. AT No. 1 required that Puglisi perform procedures sufficient to support the auditor's conclusions regarding whether Broker-Dealer A was in compliance with, among other things, the Reserve Requirements Rule as of the end of each fiscal year.<sup>37</sup> Each year, Puglisi and the engagement team tested whether Broker-Dealer A's reserves complied with the Reserve Requirements Rule, primarily by agreeing Broker-Dealer A's Reserves calculation to the Reserve workbook. During the 2016 examination, Puglisi and the engagement team used the Reserve

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<sup>33</sup> An auditor is required to inquire of management and others regarding regulatory examinations relevant to the broker-dealer's assertions. *See id.* at ¶ (9)(h).

<sup>34</sup> *See id.* at ¶ 9(b).

<sup>35</sup> *See id.* at ¶ 25.

<sup>36</sup> *See id.* at ¶¶ 3, 4.

<sup>37</sup> *See id.* at ¶ 21, Note.

workbook as audit evidence, but failed to: (a) test the IT controls over the system that generated the Reserve workbook; (b) test the design and operating effectiveness of controls related to the Reserve workbook; and (c) perform sufficient substantive examination procedures to otherwise test the completeness and accuracy of the Reserve workbook.<sup>38</sup>

29. Further, Puglisi failed to test sufficiently in 2016, or test at all in 2017, Broker-Dealer A's designation of whether accounts were appropriately classified as customer accounts or PAB accounts. Specifically, in 2016, Puglisi tested Broker-Dealer A's customer account or PAB account designation by selecting samples from the population of new accounts opened during the year and reviewing certain documents to ascertain whether Broker-Dealer A appropriately classified the account as either a customer account or a PAB account. By excluding existing accounts from the population subject to testing, Puglisi failed to address the risk of non-compliance for existing accounts in light of FINRA's repeated examination findings. In 2017, Puglisi failed to perform, or cause the engagement team to perform, any procedures to test Broker-Dealer A's customer account or PAB account designation for either existing accounts or new accounts.

30. Accordingly, Puglisi failed to obtain sufficient appropriate evidence to obtain reasonable assurance that Broker-Dealer A maintained compliance with the Reserve Requirements Rule as of the end of the 2016 and 2017 fiscal years.<sup>39</sup>

## **E. Puglisi Violated PCAOB Rules and Standards in the Firm's Audits of Broker-Dealer A's 2016 and 2017 Supporting Schedules**

31. Rule 17a-5 required that Broker-Dealer A file certain supplemental information in supporting schedules accompanying its 2016 and 2017 financial statements,<sup>40</sup> and that those supporting schedules be audited by a PCAOB-registered firm.<sup>41</sup>

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<sup>38</sup> Under AT No. 1, an auditor must test the completeness and accuracy of the information in the schedules (AT No. 1 ¶ 21(b)), and evaluate whether the amounts in the schedules were determined in accordance with the Reserve Requirements Rule (*id.* at ¶ 21(a)).

<sup>39</sup> See AT No. 1 at ¶¶ 3, 4, 27.

<sup>40</sup> See *supra* note 10 and accompanying text. Supporting schedules include, from Part II or Part IIA of Form X-17A-5 (17 C.F.R. § 249.617): (i) a Computation of Net Capital Under Rule 15c3-1; (ii) a Computation for Determination of the Reserve Requirements under Exhibit A of Rule 15c3-3; and (iii) Information Relating to the Possession or Control Requirements Under Rule 15c3-3. See Rule 17a-5(d)(2)(ii).

<sup>41</sup> See Rule 17a-5(d)(1)(i)(A), (d)(1)(i)(C), (d)(2), (g).

32. In connection with the preparation or issuance of an audit report on such supplemental information, PCAOB rules require that a registered public accounting firm and its associated persons comply with all applicable auditing and related professional practice standards.<sup>42</sup> Among other things, PCAOB standards require an auditor to exercise due professional care and professional skepticism in performing the audit.<sup>43</sup>

33. PCAOB standards also require the auditor to perform audit procedures to obtain appropriate evidence that is sufficient to support the auditor's opinion about whether the supplemental information is fairly stated, in relation to the financial statements as a whole.<sup>44</sup> Among other things, the auditor should perform procedures to test the completeness and accuracy of the information presented in the supplemental information to the extent it was not tested as part of the audit of the financial statements, and evaluate whether the supplemental information complies with relevant regulatory requirements.<sup>45</sup> The standards also provide that, when an auditor uses information produced by a company as audit evidence, the auditor should evaluate whether the information was sufficient and appropriate for purposes of the audit by performing procedures to, among other things, test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.<sup>46</sup>

34. According to PCAOB standards, if an auditor is unable to obtain sufficient appropriate audit evidence to support an opinion on the supplemental information, the auditor should disclaim an opinion on the supplemental information.<sup>47</sup>

35. As described below, Puglisi failed to comply with PCAOB rules and standards in connection with the audit procedures performed on the supplemental information in supporting schedules accompanying Broker-Dealer A's 2016 and 2017 financial statements.

**a. Puglisi's Testing of Broker-Dealer A's Supplemental Information**

36. Included in Broker-Dealer A's annual reports for 2016 and 2017 filed with the Commission were the Firm's audit reports for the Audits, dated February 27, 2017, and

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<sup>42</sup> See PCAOB Rule 3100; PCAOB Rule 3200, *Auditing Standards*.

<sup>43</sup> See AS 1015.01 and .07, *Due Professional Care in the Performance of Work*.

<sup>44</sup> See AS 2701.02, .03, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

<sup>45</sup> See *id.* at .04(e)-(f).

<sup>46</sup> See AS 1105.10, *Audit Evidence*.

<sup>47</sup> See AS 2701.15.

February 28, 2018, respectively (collectively, the “Audit Reports”). Puglisi authorized the Firm’s issuance of the Audit Reports, each of which expressed an unqualified opinion on Broker-Dealer A’s related financial statements and supplemental information, and stated, among other things, that the Firm’s Audits were conducted in accordance with PCAOB standards. Schniebolk and Cavallone, as the EQR reviewers for 2016 and 2017, respectively, provided concurring approval of the Firm’s issuance of the Audit Reports.

37. The Audit Reports also stated that the supplemental information was subjected to audit procedures in connection with the Audits. In particular, the Firm represented that it had performed procedures to “test the completeness and accuracy of the information presented in the supplemental information.”

38. For both 2016 and 2017, Broker-Dealer A’s supplemental information included schedules reported on its compliance with the Reserve Requirements Rule.<sup>48</sup> In these supporting schedules, Broker-Dealer A reported, for each fiscal year end, that it maintained cash segregated in a Customer Reserve Bank Account and a PAB Reserve Bank Account in excess of the amounts required by the Reserve Requirements Rule. Broker-Dealer A’s supplemental information also included the possession or control supplemental information,<sup>49</sup> which represented that, as of the report date, all customers’ fully paid securities and excess margin securities were in Broker-Dealer A’s possession or held in a Good Control Location in compliance with the Possession or Control Requirements.

39. Puglisi, however, failed to perform, or cause the engagement team to perform, sufficient procedures to test the completeness and accuracy of the information presented in the possession or control supplemental information for FYE December 31, 2016, and whether that information, including its form and content, complied with Rule 15c3-3.<sup>50</sup>

40. In addition, as of the FYE December 31, 2016 and FYE December 31, 2017, Broker-Dealer A held customer securities in, among other locations, a U.S. bank, a foreign custodian bank, and its foreign broker-dealer affiliate, which Broker-Dealer A claimed were

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<sup>48</sup> See *supra* note 40. Specifically, Broker-Dealer A included supplemental information for the “Computation for Determination of Reserve Requirements” and “Computation for Determination of PAB Reserve Requirements.”

<sup>49</sup> See *id.* Specifically, Broker-Dealer A included supplemental information “Relating to Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission.”

<sup>50</sup> See AS 2701.04(e)-(f).

Good Control Locations under Rule 15c3-3(c).<sup>51</sup> Notwithstanding that the amounts at these locations exceeded the Firm's materiality for the Audits,<sup>52</sup> Puglisi failed to perform, or cause the engagement team to perform, any procedures as part of auditing Broker-Dealer A's supplemental information to obtain audit evidence that these three locations were indeed Good Control Locations.

41. Further, Puglisi coordinated the audits of Broker-Dealer A's supplemental information with the testing of Broker-Dealer A's compliance with the Reserve Requirements Rule by relying on the procedures performed during the Examinations for the Audits.<sup>53</sup> Thus, the same failures by Puglisi to test Broker-Dealer A's compliance with the Reserve Requirements Rule discussed above also constituted a failure to perform sufficient procedures to test the supplemental information related to the Reserves for the end of the 2016 and 2017 fiscal years. Specifically, Puglisi failed to perform, or cause the engagement team to perform, sufficient audit procedures to test the completeness and accuracy of the Reserve workbook used by Broker-Dealer A to compute its Reserves during the 2016 examination,<sup>54</sup> and failed to test sufficiently in 2016, or test at all in 2017, Broker-Dealer A's designation of whether an account was appropriately classified as a customer account or a PAB account.

42. Consequently, Puglisi violated PCAOB standards in the Audits by failing to obtain sufficient appropriate audit evidence to support an opinion as to whether the supplemental information in Broker-Dealer A's 2016 and 2017 supporting schedules was fairly stated, in all material respects, in relation to the financial statements as a whole.<sup>55</sup>

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<sup>51</sup> See Rule 15c3-3(c)(4) and (c)(5); see also U.S. Securities and Exchange Commission, *Guidelines for Control Locations for Foreign Securities Pursuant to Subparagraphs (c)(4) and (c)(7) of Rule 15c3-3 Under the Securities Exchange Act of 1934*, Exchange Act Release 34-10429 (Oct. 12, 1973), available at <https://www.sec.gov/rules/interp/1973/34-10429.pdf>.

<sup>52</sup> Puglisi and the engagement team established materiality for the Audits at \$1,700,000 in 2016 and \$400,000 in 2017.

<sup>53</sup> According to PCAOB standards, "[t]he auditor should take into account relevant evidence from . . . the attestation engagement[] . . . in planning and performing audit procedures related to the supplemental information and in evaluating the results of the audit procedures to form the opinion on the supplemental information." AS 2701.03(c), Note.

<sup>54</sup> *Id.* at .04(e)-(f).

<sup>55</sup> See *id.* at .02.

## **F. Schniebolk and Cavallone Violated PCAOB Rules and Standards in Connection with the Engagement Quality Reviews for the Examinations and Audits**

43. PCAOB Rules provide that associated persons of registered public accounting firms shall comply with all applicable auditing and related professional practice standards.<sup>56</sup>

44. AS 1220 requires that an engagement quality review be performed on all audits and certain attestation engagements conducted pursuant to PCAOB standards, like the Audits and Examinations.<sup>57</sup> AS 1220 also provides that the engagement quality reviewer for an engagement performed pursuant to PCAOB auditing or attestation standards should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement.<sup>58</sup> In both audit engagements and attestation engagements performed pursuant to AT No. 1, a firm may grant permission to a client to use the firm's audit or attestation report only after an engagement quality reviewer provides concurring approval of issuance of the report.<sup>59</sup>

45. Moreover, under AS 1220, the engagement quality reviewer may provide concurring approval of issuance of an audit or attestation report only if, after performing with due professional care the review required by AS 1220, he or she is not aware of a significant engagement deficiency.<sup>60</sup> AS 1220 states that a significant engagement deficiency in an audit exists when, among other things, the engagement team failed to obtain sufficient appropriate evidence.<sup>61</sup> Similarly, a significant engagement deficiency in an attestation engagement exists when, among other things, "the engagement team failed to perform attestation procedures necessary in the circumstances of the engagement."<sup>62</sup>

46. In connection with the Examinations, Schniebolk and Cavallone failed to properly evaluate the conclusions reached by the engagement team with respect to significant areas of

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<sup>56</sup> See PCAOB Rule 3100; PCAOB Rule 3200.

<sup>57</sup> See AS 1220.01.

<sup>58</sup> See *id.* at .10, .18A.

<sup>59</sup> See *id.* at .13, .18C.

<sup>60</sup> See *id.* at .12, .18B.

<sup>61</sup> *Id.* at .12, Note.

<sup>62</sup> *Id.* at .18B, Note.



the Examinations, including the testing of Broker-Dealer A's ICOC and the testing of Broker-Dealer A's compliance with the Reserve Requirements Rule as of fiscal year end. Specifically, they failed to properly evaluate the failure of Puglisi and the engagement team to obtain an understanding of Broker-Dealer A's key controls to ensure compliance with the Customer Protection Rule and test whether those controls were designed and operating effectively.

47. During the 2016 audit and examination, Schniebolk failed to document his review of any of the work papers related to Puglisi's evaluation of Broker-Dealer A's ICOC or audit of Broker-Dealer A's financial statements and supplemental information. Schniebolk was aware that the engagement team had identified "compliance with the determination of reserve requirements and the information for possession or control requirements" as a significant risk to the client, but failed to document his review of any work papers reflecting the engagement team's responses to this significant risk, and failed to identify that Puglisi had not performed attestation procedures necessary in the circumstances of the engagement. As a result, Schniebolk failed to properly evaluate the significant judgments made by the engagement team and the conclusions reached in these areas prior to providing his concurring approval for the Firm to issue its reports on the 2016 audit and the 2016 examination.<sup>63</sup>

48. Cavallone, the EQR reviewer for the 2017 audit and the 2017 examination, also failed to properly evaluate the conclusions reached by Puglisi and the engagement team and failed to perform his engagement quality review with due professional care. Unlike Schniebolk, Cavallone documented that he reviewed the key work papers in each of the areas identified above where Puglisi violated PCAOB standards. However, Cavallone failed to perform his review with due professional care and professional skepticism, as he failed to identify that Puglisi and the engagement team had failed to perform attestation procedures necessary in the circumstances of the engagements and had reached conclusions unsupported by the procedures performed. Furthermore, although Cavallone was aware of FINRA's findings related to Broker-Dealer A's improper account designations, he failed to evaluate Puglisi's determination, a significant judgment, not to perform procedures to test those account designations.<sup>64</sup> Nevertheless, Cavallone provided his concurring approval for the Firm to issue its reports on the 2017 audit and the 2017 examination.

49. Accordingly, both Schniebolk and Cavallone failed to perform their engagement quality reviews with due professional care, in violation of AS 1220.

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<sup>63</sup> See *id.* at .10, .18A.

<sup>64</sup> See *id.* at .18B, Note.

## G. Citrin Violated PCAOB Rules and Quality Control Standards

50. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's quality control standards.<sup>65</sup> These standards require that a registered firm have a system of quality control for its accounting and auditing practice.<sup>66</sup> PCAOB quality control standards provide that a registered firm should establish policies and procedures "to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."<sup>67</sup> Such policies should "encompass all phases of the design and execution of the engagement."<sup>68</sup>

51. PCAOB quality control standards further provide that firms should establish policies and procedures to provide the firm with reasonable assurance that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.<sup>69</sup>

52. Citrin had a limited number of carrying broker-dealer clients. At the time of the 2016 Broker-Dealer A engagement, only two of Citrin's 35 broker-dealer clients were carrying broker-dealers requiring an examination under AT No. 1. Puglisi was the engagement partner for both of those clients, along with nine other non-carrying broker-dealers.

53. Citrin was also aware that the PCAOB's Division of Registration and Inspections had performed an inspection of the Firm's 2016 audit and 2016 examination of Broker-Dealer A, and that PCAOB inspectors had identified numerous deficiencies in the work performed by Puglisi, including that:

- Puglisi had failed to obtain appropriate evidence that was sufficient to obtain reasonable assurance about whether material weaknesses existed during 2016, and at December 31, 2016, as required by AT No. 1.

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<sup>65</sup> See PCAOB Rule 3100; Rule 3400T, *Interim Quality Control Standards*.

<sup>66</sup> See Quality Control Standard 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20"), .01.

<sup>67</sup> *Id.* at .17.

<sup>68</sup> *Id.* at .18.

<sup>69</sup> See *id.* at .13.

- Puglisi had failed to perform sufficient procedures to test controls that were important to determine whether Broker-Dealer A had maintained ICOC with respect to the Reserve Requirements Rule and the Possession and Control Requirements.
- Puglisi had failed to perform procedures sufficient to test the completeness and accuracy of the supplemental information related to the Customer Protection Rule.

54. Notwithstanding the deficiencies identified with respect to the 2016 audit and the 2016 examination, as discussed above, the Firm again assigned Puglisi, who had limited experience with carrying broker-dealers, to serve as the engagement partner for the 2017 engagement. The Firm did so without providing Puglisi with any additional support or resources, as the senior staff on the engagement did not change between 2016 and 2017. The Firm also assigned a new EQR reviewer, Cavallone, to perform the EQR on the 2017 engagement.

55. Puglisi again failed to obtain sufficient appropriate evidence to obtain reasonable assurance that Broker-Dealer A's ICOC related to the Customer Protection Rule were effective during, and as of the end of 2017, and that Broker-Dealer A had maintained compliance with the Reserve Requirements Rule as of the end of 2017. These repeated failures indicated that Citrin's system of quality control failed to provide it with reasonable assurance that the work performed by its engagement personnel met applicable professional standards, regulatory requirements, and the Firm's standards of quality.

56. In addition to failing to provide Puglisi with sufficient support and resources, the Firm's system of quality control failed to ensure that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances.<sup>70</sup> Specifically, during both 2016 and 2017, the Firm failed to perform evaluations of Puglisi's performance required by its quality control system and failed to adequately consider whether Puglisi possessed the degree of technical training and proficiency required to continue as the engagement partner for Broker-Dealer A.

57. Accordingly, Citrin violated PCAOB quality control standards in connection with the 2017 audit and examination.

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<sup>70</sup> See *id.*

#### 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), Citrin Cooperman & Company, LLP, Mark Schniebolk, and John Cavallone are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Joseph Puglisi is suspended, for one year from the date of this Order, from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act;<sup>71</sup>
- C. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for one year following the suspension ordered in paragraph IV.B, Puglisi's role in any audit or attestation engagement shall be restricted as follows: Puglisi shall not serve, or supervise the work of another person serving, as either an "engagement partner" (as used in AS 1201), "engagement quality reviewer" (as used in AS 1220), or any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "concurring partner" or "concurring reviewer"), for clients that are brokers or dealers that are required to file a compliance report under Securities Exchange Act of 1934 Rule 17a-5, 17 C.F.R. § 240.17a-5, of the U.S. Securities and Exchange Commission and that carry customer or broker or dealer accounts and receive or hold funds or securities for those persons;
- D. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date of this Order, Schniebolk's and Cavallone's

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<sup>71</sup> As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Joseph Puglisi, CPA. 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."

roles in any “audit,” as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Schniebolk and Cavallone shall not (1) serve, or supervise the work of another person serving, as an “engagement quality reviewer,” as that term is used in AS 1220; or (2) serve, or supervise the work of another person serving, in any role that is equivalent to engagement quality reviewer, but differently denominated (such as “concurring partner”);

E. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes the following civil money penalties:

1. Citrin Cooperman & Company, LLP, \$200,000;
2. Joseph Puglisi, \$25,000;
3. Mark Schniebolk, \$15,000; and
4. John Cavallone, \$15,000.

All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. Respondents shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier’s check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the firm or the person as a respondent in these proceedings, sets forth the title and PCAOB release number of 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 Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;

F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Puglisi, Schniebolk, and Cavallone, are required to complete, within one year from the date of this Order, 20 additional hours of continuing professional education (“CPE”) in subjects that are related to audits and examinations of broker-dealers under PCAOB auditing and attestation standards (such hours shall be in addition

to, and shall not be counted in, any CPE they are required to obtain in connection with any professional license); and

- G. Pursuant to Sections 105(c)(4)(G) of the Act and PCAOB Rules 5300(a)(9), Citrin is required:
1. Within 90 days of the entry of this Order, to: (a) undertake a self-assessment of its system of quality control, including its quality control policies and procedures related to the Firm's audits and examinations of broker-dealers, to ensure its current policies and procedures are compliant with PCAOB quality control standards; and (b) establish, revise or supplement, as necessary, its quality control policies and procedures, including monitoring procedures, to provide reasonable assurance that work performed by engagement personnel complies with applicable PCAOB auditing and attestation standards;
  2. Within 120 days of the entry of this Order, to provide a certification, signed by its Chief Executive Officer (or equivalent), to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.G.1 above. The certification shall identify the actions undertaken (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. Citrin shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

May 11, 2022