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RECENT SEC ACCOUNTING AND AUDITING ENFORCEMENT RELEASES

The SEC's Website lists "Accounting and Auditing Enforcement Releases" or "AAERs" going back to 1999.[2] AAERs announce new injunctive and administrative enforcement actions and thus, within their coverage area, generally duplicate Litigation Releases and Administrative Proceedings Releases. Like Litigation Releases and Administrative Proceedings Releases, AAERs report not only new enforcement cases but also follow-on cases brought against the same or additional defendants. AAERs also mark unfolding developments (such as settlements) in cases that begin life as contested proceedings. As a result, a single enforcement investigation often will generate multiple AAERs.

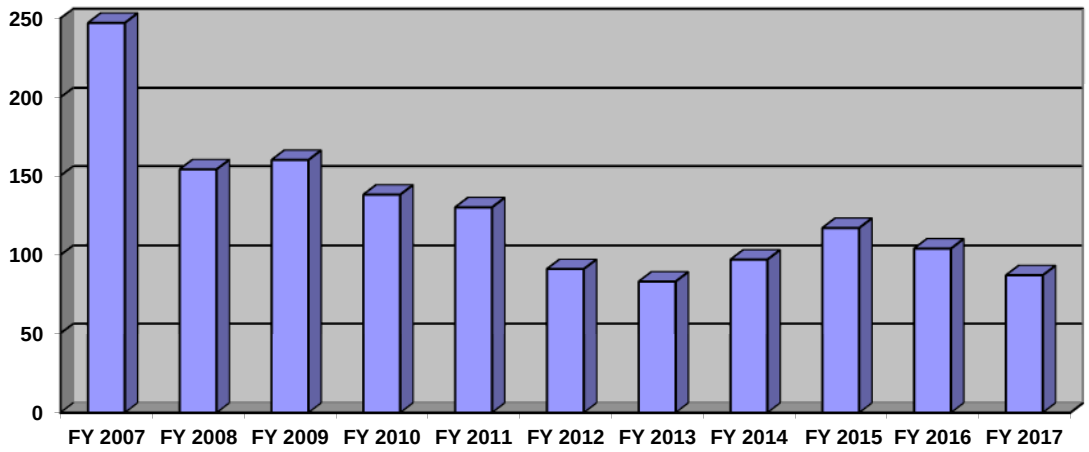
AAERs can be viewed as a barometer of the Division of Enforcement's docket in the accountant/auditor enforcement space (which the SEC defines somewhat broadly, see note 5 below and accompanying text). Looked at in this way, the numbers of AAERs issued in the last eleven fiscal years[3] are illuminating: compared to fiscal 2007 (247

[1] Partner, Morgan, Lewis & Bockius LLP, Washington, D.C.

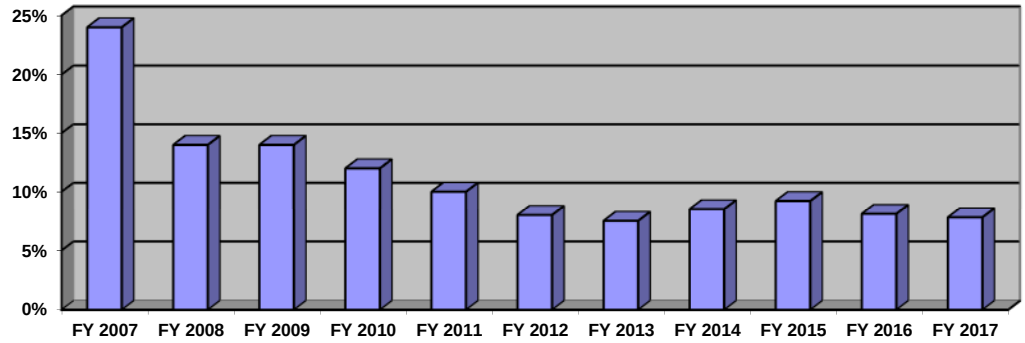
[2] www.sec.gov, under "Enforcement."

[3] The SEC's fiscal years end on September 30, so Fiscal Year 2017 has just been completed.

AAERs), the most recent ten years have seen much more modest activity in accounting and auditing cases, as shown by the graph immediately below:



The next graph illustrates that the number of AAERs has fallen not just absolutely, but also as a percentage of all Litigation Releases and Administrative Proceedings Releases in the same fiscal year:



Measured either way, the number of accounting and auditing cases has stabilized over the past six years at 30-40% of the 2007 benchmark.

Summary of AAERs in Fiscal 2017

In fiscal 2017 the SEC issued 87 AAERs. Of these,

- 11 reported on litigation developments, including settlements, in pending accounting cases;[4]
- 11 were pure Foreign Corrupt Practices Act ("FCPA") cases (in which the facts and the charges relate to accounting only in the attenuated sense that FCPA cases typically involve misstated corporate books and records and deficiencies in internal controls), or were cases that otherwise presented no accounting or financial reporting issues against the defendant;[5] and
- 8 were reinstatements of previously-barred accountants.[6]

The remaining 57 AAERs have the following interesting characteristics:

- 23 involved revenue (or expense) recognition as the underlying accounting problem, showing the continuing importance of this issue in the SEC's accounting/auditing enforcement program;[7]
- 3 involved auditor independence;[8]
- 5 announced the launch of cases regarding valuation issues;[9]

[4] AAERs 3818, 3819, 3857, 3875, 3876, 3878, 3881, 3882, 3885, 3887, and 3892. The 2017 settlement of *In the Matter of Elliot R. Berman, CPA and Berman & Company, P.A.*, a Rule 102(e) proceeding covered in last year's outline, was not given an AAER number. *See* Securities Exchange Act Rel. No. 79723 (Jan. 3, 2017).

[5] AAERs 3824 (FCPA), 3843 (FCPA), 3851 (FCPA), 3853 (false statement to FINRA about knowledge of insider trader), 3854 (insider trading), 3863 (insider trading), 3872 (failure by SEC accountant to report trades), 3872 (insider trading), 3884 (FCPA), 3898 (FCPA), and 3900 (insider trading).

[6] AAERs 3828, 3829, 3830, 3831, 3832, 3838, 3842, and 3894.

[7] AAERs 3814, 3817, 3823, 3825, 3835, 3844, 3845, 3846, 3847, 3848, 3858, 3859, 3862, 3866, 3867, 3868, 3869, 3874, 3886, 3890, 3891, 3893, and 3896. Another revenue recognition matter involving a public company and its former CFO appears to have escaped the AAER cataloguing process. *See* Lit Rel. No. 23793 (March 29, 2017), reporting on *SEC v. Mark McKinnies*, No. 17-cv-00566 (D.D.C.) and *In the Matter of Advanced Emissions Solutions, Inc.*, Securities Act Rel. No. 10329.

[8] AAERs 3825, 3836, and 3860.

- 1 involved related party transactions;[10]
- 34 announced the institution of proceedings aimed at bars, suspensions, or censures under Rule 102(e);[11] of those, 19 involved corporate officers[12] and 15 involved outside auditors;[13] and
- 1 was a non-Rule 102(e), cease and desist proceeding brought against a major firm for failure to retain audit workpapers that the SEC had requested.[14]

Releases in Fiscal 2017 That Involved Outside Auditors

As noted above, Fiscal Year 2017 saw fifteen new Rule 102(e) proceedings and one non-Rule 102(e) proceeding involving outside auditors and substantive accounting or auditing issues. These are broken down below into settled cases and litigated cases. In FY 2017 there were no new SEC decisions on the merits of proceedings brought against outside auditors, one procedural ruling by the SEC regarding automatic stays of PCAOB sanctions, and one initial decision by an SEC administrative law judge in a Rule 102(e) case brought against an outside auditor. Those matters are summarized below.

New Settled Proceedings

In the Matter of Ernst & Young LLP, Craig R. Fronckiewicz, CPA, and Sarah Adams, CPA, AAER No. 3814 (Oct. 18, 2016). Ernst & Young were the longtime auditors of

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[9] AAERs 3870, 3871, 3883, 3888, and 3899.

[10] AAER 3820.

[11] AAERs 3814, 3815, 3816, 3817, 3820, 3821, 3825, 3826, 3827, 3836, 3837, 3839, 3846, 3856, 3860, 3864, 3866, 3868, 3869, 3870, 3871, 3874, 3879, 3880, 3883, 3886, 3888, 3889, 3890, 3891, 3893, 3896, 3897, and 3899.

[12] AAERs 3816, 3817, 3837, 3839, 3846, 3866, 3868, 3869, 3874, 3879, 3880, 3883, 3886, 3889, 3890, 3891, 3893, 3896, and 3897.

[13] AAERs 3814, 3815, 3820, 3821, 3825, 3826, 3827, 3836, 3856, 3860, 3864, 3870, 3871, 3888, and 3899.

[14] AAER 3834.

Weatherford International, a provider of oil and natural gas equipment and services. During the relevant years (2007-2010), Fronckiewicz was the partner responsible for E&Y's audits of Weatherford, and Adams was the tax partner on the Weatherford audit engagement team. Weatherford engaged in a four-year income tax accounting fraud that accounted for $461 million of a total $500 million reduction in previously-reported net income that Weatherford made in a 2011 restatement. Specifically, during 2007-2010 Weatherford personnel lowered its effective tax rate and its tax expense by reversing correct accounting data in its systems and replacing that data with "plug" entries. The Division of Enforcement alleged that Fronckiewicz and Adams were aware of the relevant adjustments but failed to perform audit procedures that likely would have uncovered the scheme. The Commission's settled order found that E&Y, Fronckiewicz, and Adams violated both the "repeated instances of unreasonable conduct" and the "highly unreasonable conduct" prongs of Rule 102(e), and also caused Weatherford's violations of Exchange Act Section 13(a) and relevant rules under that section. All respondents were ordered to cease and desist from further violations of Section 13(a) and the relevant rules. E&Y was ordered to disgorge $9,000,000 along with prejudgment interest, was fined $1,000,000, was censured, and agreed to a broad set of undertakings directed at enhancing its quality controls system. Fronckiewicz was barred from SEC practice with a right to reapply in two years; Adams was barred with a right to reapply in one year.

In the Matter of Domenick F. Consolo, CPA and PKF O'Connor Davies, LLP, AAER No. 3821 (Oct. 31, 2016). O'Connor Davies was the independent auditor, and Consolo the engagement partner, on the audits of the Town of Ramapo, New York and the

Ramapo Local Development Corporation for fiscal years 2009-2014. The audit reports were incorporated in municipal securities offering documents by the town and the corporation. The Commission's order alleged that the town's financial statements included a $3,080,000 receivable (75% of the town's general fund balance) from the town's sale of certain land to the corporation, and that the corporation's financial statements listed the land as an asset, even though the sale was never consummated. In the latter years of the engagement, Consolo also failed to respond adequately after employees in the Town's finance department expressed concern over the financial statements or declined to complete a financial questionnaire, and after Consolo learned that the FBI and U.S. Attorney's Office were investigating his audit clients and the $3,080,000 receivable specifically. To settle the matter, Consolo undertook not to serve as the engagement partner or engagement quality reviewer in connection with any municipal audit engagement for five years after the date of the order and to cooperate with the Commission in future investigation and litigation. O'Connor Davies undertook to review its quality controls surrounding a number of auditing standard, to submit a written report on that review, to require its staff to undergo training, and to post the SEC's order on its website. Consolo agreed to a cease and desist order against further violations of Section 10(b)/Rule 10b-5 and Section 17(a) of the Securities Act, to be barred from SEC practice, and to pay a $75,000 civil money penalty. O'Connor Davies agreed to a cease and desist order from further violations of Sections 17(a)(2) and (3), to be censured, to disgorge $355,600, and to pay a civil money penalty of $100,000.

In the Matter of PMB Helin Donovan, LLP, Christopher Bauer, CPA, and Jeffrey Jamieson, CPA, AAER No. 3825 (Nov. 21, 2016). This case involved two distinct

groups of violations. The first, summarized briefly in the order, involve PMBHD's failure to comply with partner rotation requirements, leaving seven issuer clients (one named, and six unnamed in the order) without audits by independent auditors. The second group of violations involved a named audit client, Uni-Pixel, Inc., which like the unnamed six was deprived of independent audits due to a failure of partner rotation by PMBHD, but which also had improperly recognized revenue from its license agreements with Dell and Intel despite its failure to have reached benchmarks required by those agreements or to have disclosed the terms of the agreements as required by GAAP, and as to whom the SEC alleged that PMBHD had conducted an insufficient audit. To settle the case, PMBHD undertook to retain an independent consultant on partner rotation, and also agreed to a cease and desist order and to pay a civil money penalty of $160,000. Bauer (formerly PMBHD's CFO, partner in charge of the firm's Texas audit practice, and chair of the firm's audit quality committee, and also the lead engagement partner on the Uni-Pixel audit) and Jamieson (the managing partner of PMBHD's Dallas office and the engagement quality review partner and later engagement partner on the Uni-Pixel audit) each agreed to be barred from SEC practice with a right to reapply in one year, and to pay a $15,000 civil money penalty.

In the Matter of Grassi & Co., CPAs, P.C., AAER No. 3826 (Nov. 21, 2016). The extraordinarily long and detailed order in this case concerns audits by Grassi & Co. of private funds advised by ClearPath Wealth Management, LLC and ClearPath's principal, Patrick Churchville. Grassi & Co.'s audits failed to detect the advisers' misappropriation of millions of dollars' worth of fund assets and misstatements to investors about fund assets over multiple years. Grassi & Co. settled the case by

agreeing to retain an independent consultant to review Grassi & Co.'s quality controls surrounding audit planning, fieldwork and reporting, and design and monitoring of compliance with quality control standards, and to undertake training of its personnel. Grassi & Co. also consented to a cease and desist order against further violations of Sections 206(2) and 206(4) of the Investment Advisers Act, to be censured under Rule 102(e), to disgorge $130,000 plus prejudgment interest, and to pay a civil money penalty of $260,000.

In the Matter of Gary R. Purwin, CPA, AAER No. 3827 (Nov. 21, 2016). Purwin was the engagement partner on Grassi & Co.'s ClearPath audits, described above. According to the SEC's Order, during the audit work Purwin "experienced health issues that left him cognitively impaired," and was on medical leave during several months in one of the relevant years, during which time another Grassi & Co. partner filled in for him. The SEC's order goes on to allege that

> In January 2013, after Grassi discovered that Purwin had circumvented a firm policy with regard to non-ClearPath work, Purwin's health worsened. Despite Purwin's violation of the firm policy, Grassi instructed Purwin to participate in the final review of the 2011 audits of ClearPath funds and the related audit reports and permitted him to authorize the release of these audit reports. Purwin did not substantively review workpapers himself before authorizing the release of the 2011 audit reports and thereby failed to take the review steps required as part of his engagement partner responsibilities to certify that the audits had been performed in accordance with U.S. generally accepted auditing standards ….

Shortly thereafter, Purwin left Grassi & Co., becoming the sole owner and principal of a firm that provided accounting, financial reporting, and consulting services to broker-dealers and then, beginning in January 2015, a manager at another audit firm. Purwin settled the SEC's case by agreeing to cease and desist from further violations of Sections

206(2) and 206(4) of the Investment Advisers Act, to be barred from SEC practice with a right to reapply in one year, and to pay a civil money penalty of $20,000.

In the Matter of KPMG LLP, AAER No. 3834 (Dec. 6, 2016). Breaking the Rule 102(e) mold in matters involving outside auditors, this cease and desist proceeding concerned KPMG's failure to maintain in their entirety workpapers related to KPMG's 2008 audit of St. Joe Company. The missing workpapers were called to KPMG's attention by the SEC Staff; a subsequent investigation by KPMG revealed that a binder containing the missing items had been checked out by a junior member of the engagement team during 2009 and, when returned in 2010 (before the commencement of the SEC staff's investigation), no longer contained a summary memorandum and certain client-prepared schedules. The SEC, noting KPMG's efforts to enhance its policies and procedures regarding workpaper retention, charged this conduct as a violation by KPMG of Rule 2-06 of Regulation S-X, ordered KPMG to cease and desist from further violations of that rule, and fined the firm $230,000.

In the Matter of Alok Saraf, CA, AAER No. 3836 (Dec. 22, 2016). Saraf was a staff auditor, and ultimately an Audit Manager, at KPMG India, which was the auditor of Wipro Limited, an Indian IT service company. Saraf accepted the rupee equivalent of $15,543 from a Wipro internal accountant, Anup Agarwal, who was embezzling several million dollars from Wipro. Saraf maintained that Agarwal's payments to him were loans or, in one case, investment proceeds. The SEC charged the case as an independence matter, but also took issue with Saraf's sampling methods on the Wipro audit. Saraf settled by agreeing to a cease and desist order from further violations of Rule 2-02(b)(1)

of Regulation S-X, Exchange Act Section 13(a), and Rule 13a-1, and agreeing to be barred from SEC practice with a right to reapply in three years.

In the Matter of Anderson Bradshaw PLLC, Russell Anderson, CPA, Sandra Chen, CPA, and William Denney, CPA, AAER No. 3856 (Jan. 26, 2017). Anderson Bradshaw PLLC audited the financial statements of Longwei Petroleum Investment Holding Limited for the year ended June 30, 2012, and later conducted additional audit procedures and an investigation in response to post-audit allegations of fraud at Longwei. Russell Anderson, Chen, and Denney respectively were Anderson Bradshaw's consulting partner, engagement partner, and engagement quality review partner on the 2012 Longwei audit. The case involved multiple failures to comply with auditing standards on the seemingly prosaic topic of how much diesel oil and gasoline inventory actually was contained in Longwei's three above-ground tank storage facilities located in China (including, for example, not determining the actual dimensions of the tanks), and then a failure to follow up on post-audit allegations that those inventories were in fact much less than Longwei had reported (in which the Anderson Bradshaw team, which visited the facilities, was repeatedly put off from relevant inspections by client excuses). In the SEC's settled order, all the respondents agreed to an order that they cease and desist from further violations of Rule 2-10(b)(1) of Regulation S-X; Anderson Bradshaw, Chen, and Denney were barred from SEC practice with the right to reapply in four years, four years, and one year, respectively; and Russell Anderson, who already was the subject of a bar order with a right to reapply in three years in connection with *In the Matter of Child, Van Wagoner & Bradshaw, PLLC, et al.,* AAER No. 3637 (Feb. 11, 2015), had his right to reapply

delayed for a further two years. Chen and Denney each also agreed to pay civil money penalties of $5,000.

In the Matter of William Joseph Kouser Jr., CPA, and Ryan James Dougherty, CPA, AAER No. 3864 (April 4, 2017). Kouser and Dougherty were a partner and a manager in an accounting firm called BBD, LLP. BBD was the auditor of the GL Beyond Income Fund, an investment company, which was the victim of a $16 million misappropriation by its adviser and his registered investment firm. The SEC charged Kouser and Dougherty with multiple auditing failures including not acting with due professional care and professional skepticism, not obtaining sufficient audit evidence, and not preparing proper audit documentation. Kouser was barred from SEC practice with a right to reapply in three years, and Dougherty was barred from SEC practice with a right to reapply in two years.

In the Matter of Daniel Millmann, CPA, AAER No. 3870 (May 23, 2017). This settled matter was a companion to *In the Matter of Lisa Hanmer, CPA*, discussed in the next section. Millman was the engagement partner on RSM US LLP's 2011 audit of Madison Capital Energy Income Fund LLP, an oil and gas investment fund. The substantive heart of this case was the mis-valuation of the oil and gas royalty interests held by the fund and the failure to follow adequate procedures in auditing those values – a failure which Hanmer, the engagement manager, was charged with concealing from RSM and Millman. The conduct charged against Millman had to do with planning and risk assessment of the audit, the failure to separately report in the financial statements the fair value of each individual investment, Millman's failure to satisfy himself that all review comments were adequately resolved, and improper delegation of most of his engagement partner

responsibilities to Hanmer. Millman agreed to be barred from SEC practice with a right to reapply in two years.

In the Matter of KPMG LLP and John Riordan, CPA, AAER No. 3888 (Aug. 15, 2017). This case is the latest in a long-running series of AAERs having to do with Miller Energy Resources, Inc. As reported in the 2015 outline for this conference, in *In the Matter of Miller Energy Resources, Inc., Paul W. Boyd, CPA, David M. Hall, and Carlton W. Vogt, III, CPA,* AAER No. 3673 (Aug. 6, 2015), the Division of Enforcement brought a case alleging that beginning in January 2010, Miller Energy had reported a false valuation of $480 million for Alaskan oil and gas assets that it acquired for approximately $2.25 million plus the assumption of roughly $2 million in liabilities, and wrongfully recognized a one-time "bargain purchase" gain of $277 million on those assets. KPMG was hired as Miller Energy's auditor during fiscal 2011.[15] The SEC charged that KPMG, as a successor auditor, was obliged to analyze the impact of Miller Energy's opening account balances on the current year-end financial statements, but failed to obtain competent evidence on that score despite knowing that management had not performed a proper fair value assessment in 2010. According to the SEC's order, the audit procedures that KPMG did undertake did not appropriately consider the facts surrounding Miller Energy's acquisition of the Alaskan assets and the fact that at one point those assets had been abandoned by their prior owner. More broadly, the SEC alleged that KPMG and the KPMG engagement partner, Riordan, did not properly assess the risks associated with Miller Energy as a client, did not properly staff the audit, and did not exercise appropriate

[15]Respondent Vogt, charged under Rule 102(e) in the original 2015 SEC case, was the lead engagement partner on Sherb & Co. LLP's audit of Miller Energy's financial statements for its fiscal 2010. Vogt later settled to a Rule 102(e) bar with a right to reapply in three years, *see* AAER No. 3780 (June 7, 2016). Sherb & Co. had already been barred from SEC practice as a result of unrelated failures in its audits of three China-based companies. *In the Matter of Sherb & Co., LLP, et al.,* AAER No. 3512 (Nov. 6, 2013).

professional care and skepticism. The SEC also criticized KPMG management and national office personnel for not taking sufficient action to determine that the engagement team had responded appropriately to the risk of overvaluation of the Alaskan assets. As part of the settlement, KPMG undertook to perform a review and evaluation of its quality controls in several specified areas, to report the results of that review to the SEC and to an independent consultant who then is to review KPMG's policies and procedures and make recommendations, to assess the adequacy of its training of its auditors, and to provide certain certifications from the Vice Chair of the firm. KPMG and Riordan both consented to the entry of orders to cease and desist from further violations of Exchange Act Section 13(a) and Rules 13a-1 and 13a-13; pursuant to Rule 102(e), KPMG was censured and Riordan was barred from SEC practice with a right to reapply in two years; KPMG was obliged to disgorge $4,675,680 plus prejudgment interest representing its audit and audit-related fees from Miller Energy over the life of their relationship; and KPMG and Riordan were required to pay civil money penalties of $1,000,000 and $25,000 respectively.

In the Matter of Paritz & Company, P.A., Lester S. Albert, CPA, and Brian A. Serotta, CPA, AAER No. 3899 (Sept. 21, 2017). Paritz & Company ("Paritz") was the auditor of a public business development company called INVENT Ventures, Inc. for the years 2010-2013. Albert was the engagement partner on the INVENT audit, and Serotta was the engagement quality reviewer. The underlying accounting issue was INVENT's valuation of two private company holdings, LottoPals, Inc. and Clowd, Inc. INVENT acquired LottoPals in July 2010 for $6,000, but valued LottoPals at $3 million as of year-end 2010 based upon limited private sales of LottoPals shares at $.50 per share in the

latter part of 2010; by 2014, INVENT was carrying LottoPals at only $81,912. INVENT acquired Clowd in September 2010 for $65,000, but valued Clowd at $3 million as of year-end 2010, again based on private sales of Clowd stock at $.50 per share. Paritz' audit team continued to accept the client's valuations based on these private sales in subsequent years, even though INVENT had changed its own valuation metric to "comparable" companies and wrote Clowd down by 50% during 2012, by another 50% in 2013, and ultimately to $99,742 in 2014. The SEC's Order found a long list of audit failures by the Paritz team. To settle the matter, Paritz agreed to hire an independent consultant to review its procedures, to cooperate with the consultant and to follow its recommendations, and to certify its compliance with those recommendations. Paritz also was censured, ordered to cease and desist from further violations of Rule 2-02(b)(1) of Regulation S-X, ordered to pay a $60,000 penalty, and to disgorge $64,476 plus prejudgment interest. Albert was barred from SEC practice with a right to reapply in two years, and fined $15,000. Serrota was barred from SEC practice with a right to reapply in one year.

New Litigated Proceedings

In the Matter of David A. Aronson, CPA, AAER No. 3815 (Oct. 19, 2016); *In the Matter of David A. Aronson, CPA,* AAER No. 3857 (Jan. 31, 2017). This proceeding, filed as a contested matter but quickly settled, involved an accountant who was barred by the PCAOB from being an associated person of a registered public accounting firm but then continued to perform paid accountancy or financial management services for two public companies despite Section 105(c)(7) of the Sarbanes-Oxley Act, which prohibits a person so barred from becoming or remaining associated with an issuer in an accountancy or

financial management capacity without the consent of the PCAOB or the Commission. In the settlement, Aronson agreed to a cease and desist order against further violations of Section 105(c)(7), to be barred from SEC practice, to disgorge $2,750 plus prejudgment interest, and to pay a civil money penalty of $15,000.

In the Matter of Adrian D. Beamish, CPA, AAER No. 3820 (Oct. 31, 2016); *In the Matter of Adrian D. Beamish, CPA,* AAER No. 3892 (Sept. 7, 2017). According to the Order Instituting Proceedings, Beamish, a partner in PriceWaterhouseCoopers, was the engagement partner on PwC's audits of Burrill Life Sciences Capital Fund III, a venture capital fund. The Division of Enforcement and OCA alleged that Beamish improperly signed audit reports for 2009-2012 with clean opinions despite the fact that the fund's founder had arranged for the fund to pay millions of dollars to other companies that the founder owned and controlled, purportedly as "advanced management fees." The SEC further alleged that the amounts of those advances greatly exceeded any potential future management fee obligations that the fund might owe, that Beamish did not inquire into whether the owner had the authority to accept the advance payments or into the rationale for the advances, and that the fund had rejected language proffered by the audit team that would have disclosed the fact that the advances exceeded the expected future management fee expenses for the remaining contractual life of the fund. In September of this year the SEC announced a settlement with Beamish in which he agreed to be barred from SEC practice with a right to reapply in one year.

In the Matter of Edward Richardson Jr., CPA and Edward Richardson Jr., AAER No. 3860 (Feb. 24, 2017); *In the Matter of Edward Richardson Jr., CPA and Edward Richardson Jr.,* AAER No. 3876 (June 14, 2017). "Edward Richardson Jr., CPA" (the

"Richardson Firm") is an accounting and auditing firm that employed one professional staff member in addition to Edward Richardson Jr. ("Richardson"), as well as a clerical assistant, to audit a large number of small broker-dealers. The Commission's Order faulted the respondents for failing to obtain engagement quality reviews and concurring approvals required by PCAOB for scores of clients; failing to demonstrate due care in numerous respects (for example, the Commission pointed out that despite its small size the Richardson Firm signed 70 audit reports dated February 16, 2015); and, in at least one instance, violating the independence rules by auditing client financial statements that the Richardson Firm had prepared. Within four months of the Order Instituting Proceedings, the SEC issued a settled order resolving the case based on Richardson and the Richardson Firm agreeing to cease and desist orders from further violations of Exchange Act Sections 13(a), 15(d), and 17(a) and the attendant rules, to be barred from SEC practice with the right to reapply in seven years, and to pay jointly and severally a civil money penalty of $35,000.

In the Matter of Lisa Hanmer, CPA, AAER No. 3871 (May 23, 2017); *In the Matter of Lisa Hanmer, CPA,* AAER No. 3875 (June 12, 2017). Many of the facts of this case, which respondent Hanmer settled within weeks of its filing, have been discussed above in connection with *In the Matter of Daniel Millmann, CPA.* The *Hanmer* order, unlike the *Millman* order, spells out the manner in which Hanmer concealed the audit failures surrounding valuation. Specifically, after the concurring partner on the audit pointed out the fact that the fund's schedule of investments did not break out the fund's individual royalty interests as required by GAAP, Hanmer responded by sending the original schedule to the audit client (in order to permit the release of the audit report), and sending

a falsified but broken-out schedule to the concurring partner. In addition Hanmer falsified the workpapers by inserting an audit staff member's initials next to certain audit procedures that never were done. In her settlement, Hanmer agreed to be barred from SEC practice. There is no reference to a right to reapply.

Commission Decisions

In fiscal 2017, the SEC issued no substantive opinions in accounting and auditing cases directed at outside auditors. The Commission did issue an order in *In the Matter of Mark E. Laccetti, CPA,* Exchange Act Rel. No. 7913 (Oct. 21, 2016) that resolved a somewhat arcane issue surrounding the automatic stays of PCAOB sanctions that flow from petitions to review PCAOB decisions. The SEC had previously sustained the PCAOB's findings of violations and sanctions against Laccetti's arguments that the Board's structure violated the Constitutional separation of powers doctrine, that PCAOB lacked authority to sanction him because its members had not taken oaths of office or received Presidential commissions, and that the PCAOB had violated his right to counsel by refusing to allow an accountant employed by Ernst & Young to accompany Laccetti to his investigative testimony. *In the Matter of Mark E. Laccetti, CPA,* Exchange Act Rel. No. 78764 (Sept. 2, 2016). The PCAOB then sought a Commission order lifting the interlocutory stay of its sanction that had gone into effect when Laccetti had first petitioned for Commission review of the PCAOB order. Laccetti contended that the stay should remain in effect at least until his time to appeal the Commission's decision to a court of appeals had run. The Commission sided with the PCAOB, pointing out that upon petitioning for review by a court of appeals, Laccetti would have available other means for obtaining a stay of the Commission order, and rejecting Laccetti's arguments

that the PCAOB order should remain on hold because it might ultimately be overturned, and that he did not pose an ongoing threat of violating PCAOB rules because he no longer audits public companies. Laccetti's petition for judicial review of the Commission's September 2, 2016 decision is currently pending. *Laccetti v. SEC*, No. 16-1368 (D.C. Cir., filed Oct. 26, 2016).

Decision by Administrative Law Judge in Rule 102(e) Proceeding

In the Matter of David S. Hall, P.C., et al., Init. Dec. Rel. No. 1114 (March 7, 2017) (deciding case as to Michelle L. Helterbran Cochran, CPA and Susan A. Cisneros), *finality order*, AAER No. 3878 (June 15, 2017).[16] The issues in this case surrounded the engagement quality reviews mandated by PCAOB Auditing Standard No. 7, in the context of a small auditing firm. Ms. Helterbran Cochran (referred to by her unmarried name of Helterbran throughout the initial decision) served as an engagement partner on numerous audits conducted by the David S. Hall firm; Ms. Cisneros, a non-CPA contractor with the David S. Hall firm, conducted engagement quality reviews on a number of audits for which Helterbran was the engagement partner, and a number of audits for which David Hall was the engagement partner. The Division of Enforcement alleged that Helterbran participated in six audits and nineteen reviews, and that Cisneros participated in seven audits and twelve reviews, that did not meet PCAOB standards, broken down into four categories: no engagement quality review performed; engagement quality review performed before other needed audit steps were complete; engagement

[16] Ten days after the finality order was issued, Ms. Helterbran Cochran requested the opportunity to respond to the initial decision, and for the Commission to review it, alleging that she had not been "served with" the initial decision. The Commission issued an order scheduling briefing on this request, limited to the issue of whether the request should be denied as untimely. The final brief was due on September 5. *See In the Matter of Michelle L. Helterbran Cochran*, AAER No. 3887 (August 8, 2017).

reviewer from the Hall firm, but not a partner; and engagement quality review performed by an incompetent reviewer. Administrative Law Judge Elliot agreed with the Division's contentions and barred Helterbran from SEC practice with a right to reapply in five years; suspended Cisneros from SEC practice for a year; fined Helterbran $22,500 and Cisneros $10,000; and issued cease and desist orders against both Helterbran and Cisneros.