

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 90699 / December 17, 2020

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4198 / December 17, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-20173

In the Matter of

MANCERA, S.C.,

**ALEJANDRO VALDEZ
MENDOZA, C.P.,**

and

**ANGEL RADAMES
CORRAL NIEBLAS, C.P.**

Respondents.

**ORDER INSTITUTING PUBLIC
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS PURSUANT TO
SECTIONS 4C AND 21C OF THE SECURITIES
EXCHANGE ACT OF 1934 AND RULE 102(e)
OF THE COMMISSION'S RULES OF
PRACTICE, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Mancera, S.C. (“Mancera”), Alejandro Valdez Mendoza, C.P. (“Valdez”), and Angel Radames Corral Nieblas, C.P. (“Corral”) (collectively, “Respondents”), pursuant to Sections 4C¹ and 21C of the

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

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or

Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Section 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

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

A. SUMMARY

1. This matter involves violations of the federal securities laws and improper professional conduct by Mancera (the Mexican member firm of Ernst & Young Global), and two members of Mancera’s engagement team – then-partner Valdez, and then-senior manager Corral – during Mancera’s audits of the 2010, 2011 and 2012 financial statements of Desarrolladora Homex, SAB de CV (“Homex”), a homebuilder headquartered in Sinaloa, Mexico.

2. Throughout the period of these audits, Homex’s common stock was listed on the New York Stock Exchange. Also throughout all three fiscal years covered by these audits, Homex engaged in a multi-billion dollar financial fraud by overstating both its number of homes sold and its revenues, in the aggregate of 106,000 units, or 317%, and of \$3.3 billion (MXN \$44 billion), or 355%, respectively.

integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

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

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

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

3. In their Homex audits, Respondents failed to comply with Public Company Accounting Oversight Board (“PCAOB”) auditing standards. These lapses included failures (i) to exercise due professional care and skepticism, (ii) to adequately plan the audits, (iii) to adequately train and supervise the engagement team, (iv) to prepare audit documentation in sufficient detail, (v) to obtain sufficient competent or appropriate audit evidence to support the audit opinions, and (vi) to properly evaluate audit results; and Mancera’s policies and procedures with respect to these failures failed to comply with PCAOB quality control standards.

B. RESPONDENTS

4. **Mancera, S.C.** (“Mancera”) is a Mexican civil company (*sociedad civil* or “S.C.”) and a PCAOB-registered public accounting firm with headquarters in Mexico City, Mexico. Mancera is a member firm of Ernst & Young Global. Mancera served as Homex’s independent auditor for at least the years ended 2010 to 2012. Mancera directed its services for Homex from its Culiacán, Sinaloa, office.

5. **Alejandro Valdez Mendoza (“Valdez”), C.P.**, age 46, a Mexican national who currently resides in Culiacán, Sinaloa, Mexico, is a *Contador Público*, the Mexican equivalent of a certified public accountant (“CPA”). Valdez was the Mancera engagement partner on, and had final audit responsibility over, the 2010 to 2012 year-end audits of Homex.

6. **Angel Radames Corral Nieblas (“Corral”), C.P.**, age 46, a Mexican national who currently resides in Mexico City, Mexico, is a *Contador Público*. Corral was the Mancera senior manager on the Homex audits for the years ended 2010 to 2012. He was responsible for supervising the audit managers and the significant audit areas, including the audit areas that are the subject of this Order. In approximately July 2015, Corral was promoted to his current position as a partner at Mancera.

C. OTHER RELEVANT ENTITIES

7. **Desarrolladora Homex, S.A.B. de C.V. (“Homex”)**, CIK 1293153, a foreign private issuer, is a Mexican corporation founded in 1989 in Culiacán, Sinaloa, Mexico, which is its principal place of business. At all relevant times, Homex has been engaged in the development, construction and sale of affordable and middle-income housing in Mexico. From its initial public offering (“IPO”) on June 29, 2004 through May 2014, Homex’s common stock was registered pursuant to Section 12(b) of the Exchange Act, and its securities were dually listed on the Mexican Stock Exchange and the New York Stock Exchange (“NYSE”), with the NYSE-listed securities being in the form of sponsored American Depository Shares (“ADSs”). On May 2, 2014 (in the wake of its April 30, 2014 filing for Mexico’s equivalent to bankruptcy reorganization), Homex’s stock was suspended from trading on (and, soon thereafter, delisted from) the NYSE. Thereafter, it was quoted on the OTC Link operated by OTC Markets Group. On December 9, 2016, the U.S. based facility for Homex’s ADSs was terminated. On March 3, 2017, the Commission: (i) filed a civil action in federal court against Homex, with Homex consenting to the entry of a final judgment that included injunctive relief and an agreement to be prohibited from offering securities

in the U.S. markets for at least five years, and (ii) simultaneously issued an Order of Suspension of Trading suspending trading in Homex stock.

D. MANCERA’S AUDITS OF HOMEX

1. The Fraud at Homex

8. Homex engaged in a massive fraudulent accounting scheme over at least a three year period. In particular, the Company inflated its number of homes sold during the years 2010 to 2012 by 106,000 units, or 317%, and overstated its revenues by USD \$3.3 billion (MXN \$44 billion), or 355%. Homex’s fraud consisted of, among other things, (i) manually entering both false revenue and corresponding false cost-of-sales and inventory information; and (ii) entering into and falsely accounting for with-recourse factoring agreements with at least 13 Mexican banks, which Homex was able to repay only by additional bank borrowing, in check-kiting fashion. The chart below illustrates the materiality of the fraud to Homex’s financial statements:

OVERSTATED REVENUES AND UNITS SOLD, FISCAL YEARS 2010-2012								
(Revenue Figures in Millions of MXN \$)								
	FY 2010		FY 2011		FY 2012		TOTAL 2010-2012	
	Revenue	Unit Sales	Revenue	Unit Sales	Revenue	Unit Sales	Revenue	Unit Sales
As Reported on Form 20-F	\$18,465	44,347	\$20,210	52,486	\$18,809	42,945	\$57,484	139,778
Actual Results	\$6,456	16,977	\$3,981	11,006	\$2,200	5,536	\$12,637	33,519
Revenue/Units Overstated	\$12,009	27,370	\$16,229	41,480	\$16,609	37,409	\$44,847	106,259
% Overstatement	186%	161%	408%	377%	755%	676%	355%	317%

2. Mancera’s Deficient Homex Audits

Background

9. Homex was the largest client for Mancera’s Sinaloa office and, at the time of Mancera’s 2010-2012 audits, purported to be the largest homebuilder in Mexico.

10. The Respondents were aware, during Mancera’s 2010 to 2012 audits, (i) that Homex claimed to have between 150 and 250 projects under construction across Mexico; (ii) that these projects’ sizes greatly varied, with each project ranging from 100 to 2,500 housing units, i.e., either single-family homes or multi-unit buildings; (iii) that multiple projects could be further organized into larger housing developments (e.g., during the 2011 audit, the Chulavista housing development in Cabo San Lucas was comprised of six projects (#820, #849, and #919-#922) for a total of 6,391 planned housing units); and (iv) that typically, it took years for all of the homes in a project to be built and sold. The Respondents also knew that, in order to track the construction and sale of homes, Homex utilized an internal data system called the “Sistema Integral de

Administración” (the “SIA” system), which identified each individual home by project, block, and lot number.

11. At the time of the 2010-2012 audits, the Respondents were likewise aware of the following: prior to construction, Homex prepared for each housing development a financial budget and development blueprint. These documents included various data and images reflecting the geographical location of the development, layout of all homes and projects within the development, and the total number of units to be built. As construction progressed, Homex maintained for each project a “*sembrado de viviendas*” report (“Sembrado Report”). Each Sembrado Report listed housing units by their block and lot numbers, the housing unit’s construction percentage, and in many instances its status as either “*operada*” or “*no operada*”.⁴

Awareness of Fraud Risks

12. In planning the 2010-2012 Homex audits, the Mancera engagement team, including Valdez and Corral, identified fraud as a potential source of risk of material misstatement over three financial statement accounts: titled-home revenues,⁵ accounts receivables on homes sold, and construction-in-process. In addition, during the planning stages of the 2012 Homex audit, and as early as August 2012, the Mancera engagement team, including Valdez and Corral, became aware that Homex was under SEC investigation. The foregoing, and other known factors including Homex’s overall liquidity and financial position that led to its bankruptcy the following year, led Mancera to re-evaluate and increase its rating of risk for Homex as an audit client from moderate to “close monitoring” (i.e., a category of audit client subject to a significant audit risk that required review of work papers by senior engagement team members and heightened due care and scrutiny). Despite the “close monitoring” risk designation in place during the 2012 audit, Respondents did not obtain sufficient appropriate audit evidence to support Mancera’s audit opinion.

The Respondents’ Improper Professional Conduct

13. The Respondents failed to meet professional standards and violated and/or caused violations of securities laws in a number of respects throughout the Homex 2010 to 2012 audits. As detailed below, these audits were flawed in their planning, supervision and execution. As an initial matter, the Mancera engagement team’s audit approach failed to take into account the nature of Homex’s operations and the planned audit procedures did not adequately address the identified fraud risks. For example, the planned audit procedures over revenues and construction-in-process balances were designed in isolation, without calling for corroborating information across work papers for consistency and accuracy. As discussed below, the Respondents each engaged in improper professional conduct by failing in one or more aspects of the Homex audits to: (i)

⁴ Although the literal meaning of *operada* is “operational,” the term had a more specialized meaning (with which Respondents were familiar at all relevant times) when used in documents and communications covered by Homex’s accounting policies, i.e., that revenue had been recognized by Homex, and that the pre-requisites for such recognition had been met (which, in the case of home sales, meant that, *inter alia*, the home had been at least 95% constructed).

⁵ “Titled-home revenues” are revenues derived from the construction of homes on Homex-owned land, representing the substantial majority of Homex’s revenues.

exercise due professional care and skepticism; (ii) adequately plan the audits; (iii) adequately train and supervise the engagement team; (iv) prepare audit documentation in sufficient detail; (v) obtain sufficient competent or appropriate audit evidence to support the audit opinions; and (vi) properly evaluate audit results.

Failures Relating to Construction-in-Process (“CIP”) for Years 2010 - 2012

14. For each of the 2010-2012 audits, CIP was a material component of Homex’s balance sheet, representing between 41% and 46% of Homex’s total assets.

15. The Mancera engagement team documented in its Fraud Considerations Forms (EY Form U104) that CIP had a risk of material misstatement due to fraud for “the improper capitalization of expenses.” The CIP balance was comprised of construction costs (i.e. land, labor, direct materials, and relevant indirect costs) incurred in housing development. Per the company’s policy, CIP for each house remained on Homex’s balance sheet until the house was built and sold. One of the Mancera engagement team’s procedures to audit CIP was to conduct site visits. As explained below, this audit step was not appropriately designed and executed, and, as a result, failed to generate sufficient competent or appropriate audit evidence over the CIP balance.

a. Failure to Adequately Audit Homex’s Housing Developments

16. According to site visit instructions, Mancera visited selected projects to confirm the existence of houses under construction and to compare the progress of work at the project against the CIP recorded on the books. As a result of inadequate training, supervision and review, as well as failure by Mancera’s audit team members to follow internal written site visit instructions, these visits did not yield sufficient competent or appropriate audit evidence to support Homex’s CIP year-end balances.

1. Inadequate Site Visit Training and Supervision

17. Valdez and Corral failed to adequately train and supervise audit team members in the performance of site visits. The engagement team conducting the site visits, some of whom were drawn from other Mancera offices due to personnel limitations, attended an optional training session that lasted approximately one hour. While this training covered basic matters such as a review of standard written site visit instructions – which an engagement team manager who took the training viewed as suggestions rather than requirements – it failed to address important topics including fraud risks associated with Homex’s home construction. Furthermore, these engagement team members were not provided with, for example, any other context for their site visit, including reported construction progress at the site to be visited, the number of home sales, or the site’s location.

18. This lack of training and supervision resulted in a failure by engagement team members in several cases to locate correctly the sites selected by Mancera for review. In order to locate the sites to be visited, the engagement team members relied on directions provided by Homex and site maps provided on arrival by Homex project managers. The engagement team

members never independently verified that the directions to the selected sites or the site maps thereof provided by Homex were accurate.⁶ As a result, in at least 29 of the 84 site visits conducted during the 2010 to 2012 Homex audits, engagement team members visited either the wrong project within the correct housing development, or the wrong housing development entirely.

19. Corral and Valdez failed to supervise properly the site visit process and to appropriately review the site visit work papers prepared by other members of the engagement team. There is no indication in the site visit work papers that Valdez reviewed them or asked any questions. For his part, Corral did review and sign off on the cover page of certain site visit work paper packets, but did not review any of the detailed work papers therein. Instead, Corral's review consisted of asking a manager: (i) who performed a detail review of the work papers; (ii) general questions about the procedures performed; (iii) if the manager had noted or observed something; and (iv) whether supporting documentation was complete.

20. As detailed immediately below, the failure to properly train and supervise engagement team members performing site visits resulted in repeated instances of engagement team members (i) not following instructions, and (ii) not identifying inconsistencies in project documents provided by Homex.

2. Engagement Team Members Did Not Follow Written Site Visit Instructions

21. An engagement team member brought to the site visit a copy of the site visit instructions. Those site visit instructions required that the engagement team member, among other things (i) interview the Homex project site manager to determine the percentage completion of the project, (ii) collect specific documents from the visited site, including a Sembrado Report, and from Homex headquarters for inclusion in the audit work papers, and (iii) use the collected documents to assist in a physical inspection of each section of the site, to be summarized and supported by photographs in a site visit memorandum.

22. Engagement team members that performed the site visits failed both to obtain documents and to use the documents obtained as set forth in the site visit instructions. As a result, engagement team members did not have an adequate understanding of the projects that they visited and, in several instances, failed to visit the correct project site. For example, instead of obtaining detailed development blueprints for the project to be visited from Homex's corporate office, as required by the site visit instructions, prior to visiting a project site in order to gain an understanding of that development's location and layout, the engagement team relied on site maps obtained from Homex's on-site project managers. Several of these site maps were incorrectly labeled. As a result, engagement team members visited the incorrect project during at least 29 of the approximately 84 site visits conducted in connection with the 2010 to 2012 Homex audits. The audit evidence obtained for these 29 site visits therefore could not reasonably support the conclusions reached by the engagement team, which in each instance was that the physical inspection of the project site corroborated the CIP recorded by Homex.

⁶ For example, the engagement team did not use publicly available mapping resources such as Google Maps, which was used by engagement team members in planning site visits to test land acquired for future housing developments.

23. The engagement team also failed to conduct a physical inspection of each section of the visited project, as set forth in the site visit instructions. Rather, the standard practice, as reflected in site visit work papers, was for the engagement team member to identify and specifically document the construction progress of only two to three housing units. The engagement team members did not document their rationale or support for selecting the visited homes. The audit sampling and testing approach – i.e., using at most three homes to provide evidential audit matter for a Homex project potentially comprised of thousands of homes – did not provide sufficient competent or appropriate audit evidence to support the engagement team members’ conclusion that the physical inspection of these homes corroborated the CIP balance.

Audit Failures Relating to Home Revenues for Years 2010-2012

24. For each of the 2010 to 2012 audits, the engagement team identified in its Fraud Considerations Forms titled-home revenues and accounts receivables on home sales as being subject to a risk of material misstatement due to fraud. Specifically, the Mancera engagement team identified the risk that revenues (and related accounts receivable) “might be recognized for services not yet provided.” Although the Mancera engagement team performed audit procedures relating to revenue recognition, the team failed (i) to address the aforementioned risk, (ii) to obtain sufficient competent or appropriate audit evidence regarding titled-home revenues, and (iii) to properly analyze documents that it did obtain which raised red flags about potential revenue recognition issues.

a. Notary Confirmations for the 2010 and 2011 audits

25. Multiple failures pertained to Mancera’s procedures for confirming home sales through the use of confirmations from notaries public. During the 2010 and 2011 audits,⁷ Mancera sent confirmations to notaries public for those homes identified by Homex as “*operada sin entregada*” (i.e., sold-but-not-delivered). This designation meant that, according to Homex, each home so designated had been substantially (at least 95%) constructed, received a certificate of habitability, gone to closing, and its title had passed – and hence Homex had recognized revenue from its sale – but, nonetheless, the home’s purchaser had not taken possession of the home. The confirmation replies were on the notaries’ letterhead and confirmed only the name of the individual who purportedly purchased the home and either the date of closing or merely that the closing occurred sometime during the audit period. These confirmation replies did not confirm the specific locations (project, block and lot number) of the housing units purportedly purchased, the closing dates (for those homes in which the notary merely said the close happened during the audit year), nor the purchase prices, even though all of the foregoing information was purportedly requested by the engagement team’s confirmations and appeared in the title document signed at closing. The work papers do not identify any instance in which the engagement team followed-up with a notary to obtain and verify the accuracy of this omitted information, or performed alternative procedures.

⁷ This procedure was performed to test revenue and to obtain reasonable assurance as to the accuracy of a footnote disclosure in Homex’s financial statements that reconciled application of Mexican and U.S. GAAP. Mancera did not send confirmations to notaries public for the 2012 audit because Homex had adopted IFRS and thus no longer included in its financial statements any reconciliation of Mexican and U.S. GAAP.

Furthermore, the engagement team did not retain in the work papers for the 2010 and 2011 audits any copies of the confirmation requests sent to the notaries. The work papers instead contained a confirmation log and the confirmations received from the notaries. Ultimately, the engagement team did not obtain sufficient competent or appropriate evidence through the confirmation process to confirm specific location of homes designated as sold-but-not-delivered (“*operada sin entregada*”).

26. In addition, because the confirmations from the notaries public confirmed only the name of the buyer and the year of the sale, and the engagement team did not perform alternative procedures related to the omitted information, Mancera’s notary-confirmations procedure failed to detect situations in which Homex supplied the wrong project, block and lot number for home sales it had genuinely made, because Homex had already used those coordinates in prior periods for fictitious sales that it had recorded while the home sites in question had no homes built on them. During the course of Homex’s fraud, such sales occurred often. For example, a certain purchaser (“Purchaser A”) genuinely did buy from Homex a home having a certain project, block and lot number (“Location X”) on a certain date in December 2011; but because Homex had previously fraudulently recognized revenue from a fictitious sale of an as-yet-unbuilt home at Location X, Homex falsely recorded the location of the home it sold to Purchaser A as a different home site, on which, in fact, no home had yet been built. Homex designated this sale as “*operada sin entregada*”; Mancera performed its notary confirmation procedure; the notary confirmed that Purchaser A had indeed purchased a home in 2011; the Mancera engagement team did not perform alternative procedures and was, without sufficient cause, satisfied.

b. Failure to Perform Procedures to Resolve Inconsistencies Regarding the “Casas Operadas” Issue

27. During the 2012 audit, the Respondents learned, no later than February 2013, that several Homex Sembrado Reports obtained during engagement team site visits marked hundreds of homes as being both “*operada*” (see n.4 above) and less than 95% constructed. Mancera performed a frequency analysis containing all data across all Sembrado Reports collected during the 2012 audit site visits showing that the bulk of these homes (“*casas operadas*”) were identified as under 16% completed. Of the 630 homes identified in the analysis, 576, or 91.4%, came from a single project, Chulavista (Project #921).

28. During its 2012 audit, Mancera included, in an open audit issues email from Corral to Homex management, the inconsistency in Sembrado Reports discovered during the engagement team’s site inspections that simultaneously recorded homes as “*operada*” and significantly less than 95% constructed. Despite this, the engagement team failed to document in its work papers: (1) this inconsistency presenting a potential improper revenue recognition issue, (2) the communications it had with Homex management; (3) whether any audit procedures were specifically undertaken to analyze the issue; or (4) how the issue was resolved. In response to this open audit issue, Homex management represented to Valdez that management had investigated the issue and that there was nothing for the engagement team members to act on; that the Sembrado Reports were incorrect, and that revenue had not been recognized on any unbuilt units marked as “*operada*.” Relying upon these representations, Valdez deemed the issue resolved. Although

Respondents performed other revenue recognition procedures unrelated to the Sembrado Reports, they did not obtain sufficient appropriate audit evidence, including proper evaluation of inconsistent information identified and verification of management's representations to address the inconsistency presenting a potential improper revenue recognition issue, referenced above.

29. If the Respondents had sufficiently evaluated the completeness and accuracy of the Sembrado Reports, including through examination of the relevant documents in their possession, they might have identified additional inconsistencies related to Homex's fraud. For example, comparing the project, block and lot numbers of the homes identified in the frequency analysis referenced in ¶ 27 above to the revenue schedules in their work papers would have reflected that revenue was recognized on 21 of those homes, with revenue on 13 of them being recognized in 2012, and on 8 more in earlier years. None of those 21 homes, however, was located in Project #921, which, as noted in ¶ 27 above, alone accounted for 91.4% of the homes identified in the frequency analysis. Had Respondents examined relevant documents in their possession regarding Project #921, they would have learned that, according to Mancera's 2011 revenue work papers, 94% (or 1,491) of the 1,592 budgeted homes for Project #921 were reported as sold in 2011. Yet, as noted above, almost 600 homes were still marked in the 2012 Sembrado Report for Project #921 as being under 95% complete, and therefore could not have been sold. Further, none of the block and lot numbers for any of the homes reported as sold in 2011 agreed to the block and lot numbers in the 2012 Sembrado Report for Project #921.

2. Failure to Properly Evaluate the Responses to the Bank A Confirmations for the 2010 and 2012 Audits

30. Each year, the engagement team confirmed the cash balances in Homex's bank accounts. These included cash balances at one particular Mexican bank ("Bank A"). During the 2010 and 2012 audits, Mancera sent standard Ernst & Young bank confirmations to Bank A for all the accounts held by Homex (including Homex affiliates such as the construction and sales subsidiaries known by their acronyms "PICSA" and "BCEN"). As part of that confirmation process, Mancera also asked Bank A about any financial arrangements, including trust agreements and debts, involving Homex. With respect to five Homex bank accounts – three in 2010 and two in 2012 – that each had year-end cash balances in excess of MXN \$998 million (approximately USD \$80.6 and USD \$76.8 million in 2010 and 2012, respectively), Bank A responded to Mancera's request by sending its own form showing that Bank A held these accounts in trust for Homex subsidiaries PICSA or BCEN. Furthermore, Bank A's responses to Mancera showed that the three signatories to each of the aforementioned bank accounts were not Homex, PICSA or BCEN officers, like other confirmation replies showed, but rather Bank A employees, indicating that Homex did not have control of these accounts. In the section of Bank A's response to Mancera related to information about debt accounts, Bank A responded, "none."

31. Despite being told that the accounts' holders were Bank A trusts and that none of the accounts' signatories were identified as Homex employees, Mancera engagement team members did not follow up to learn more details about the trust arrangements. The engagement team members did not inquire into the nature of these bank accounts, to determine whether there were any associated agreements, and, if so, to obtain a copy of the terms of those agreements.

They also failed to follow up on the signatories who potentially had authorization on Homex accounts each amounting to nearly MXN \$1 billion but who were not Homex employees.

32. In fact, the trust agreements corresponding to each of the accounts in the Bank A confirms referenced in ¶ 30 above pertained to “with-recourse” factoring agreements that, as described at ¶ 8 above, were a key component of Homex’s fraud. Homex improperly recorded the amounts received under these agreements: rather than recording these with-recourse factored amounts as loans, collateralized by the related accounts receivable, Homex recorded the amounts as collections of accounts receivable. Many of the factored accounts receivable balances in the agreement were fictitious since they pertained to fraudulent sales on unbuilt homes. The Respondents therefore failed to obtain sufficient competent or appropriate audit evidence from the bank confirmation audit procedure, which might have led them to detect the undisclosed factoring arrangements.

3. Failure to Properly Test and Document the Review of Journal Entries for the 2010 Audit.

33. During its 2010 audit, the engagement team performed a test of journal entries in certain Homex entities to identify material misstatements due to fraud. For Homex’s PICSA entity, the engagement team selected 26 journal entries, including a MXN \$998,045,000 journal entry to a Bank A bank account (“Account A”) dated December 27, 2010 with a description of “different movements of the day.” The journal entry recorded was eight lines of MXN \$998,045,000 being moved in and out of five Bank A bank accounts, including Account A, and pertained to cash from one of Homex’s with-recourse factoring agreements. While the work papers indicated that the engagement team reviewed support for the entry, the supporting documentation is not in the work papers nor is there a description of the evidence the engagement team member reviewed. In fact, for 19 of the 26 journal entries tested, the work papers lacked either any purportedly reviewed documentation, or any detailed explanation concerning the same. Furthermore, for five of the 26 journal entries, the work papers term supporting documentation as “not applicable” without explanation; and the remaining two entries do not appear to have been tested because none of the audit steps are checked off. There is no persuasive evidence that the engagement team performed the procedures or obtained sufficient competent evidential matter.

E. VIOLATIONS

RULE 102(e) AND SECTION 4C OF THE EXCHANGE ACT

34. Mancera’s 2010, 2011, and 2012 audits of Homex were deficient and not performed in accordance with PCAOB standards.⁸ Section 4C(b)(2) and Rule 102(e)(1)(iv) define improper professional conduct to include two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of professional standards in circumstances in which

⁸ References to auditing standards in this Order are to PCAOB standards in effect at the time the audit work was performed. For example, the PCAOB risk assessment standards (AS 8-15) became effective for audits of fiscal years beginning on or after December 15, 2010 (*i.e.*, the 2011 audit of Homex) and superseded AU § 311, among others.

an accountant knows, or should know, that heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct, each resulting in violations of professional standards, that indicate a lack of competence.

35. Section 4C(a)(2) of the Exchange Act and CRP Rule 102(e)(1)(ii) provide, in part, that the Commission may censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct.

36. As set forth in more detail below, Respondents engaged in repeated violations of PCAOB standards including in areas that, for reasons stated in, e.g., ¶¶ 12 and 14 above, warranted heightened scrutiny. As such, Respondents' conduct constituted "improper professional conduct" within the meaning of Exchange Act Section 4C(a)(2) and CRP Rule 102(e)(1)(ii).

Respondents failed to demonstrate due professional care and professional skepticism during the 2010 to 2012 Homex audits (AU §§ 230, 316, and 330 and AS 13)

37. AU § 230, *Due Professional Care in the Performance of Work*, requires that "due professional care ... be exercised in the planning and performance of the audit and the preparation of the report" (¶ .01). Due professional care requires the auditor to exercise professional skepticism, which is "an attitude that includes a questioning mind and critical assessment of audit evidence" (¶ .07). AU § 230 further requires that "in exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest" (¶ 9). Separately, AU § 316, *Consideration of fraud in a Financial Statement Audit*, requires that "because of the characteristics of fraud, the auditor's exercise of professional skepticism is important when considering the fraud risks.⁹ The auditor should conduct the engagement with the mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity. Furthermore, professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred" (¶ .13). Finally, AU § 330, *The Confirmation Process*, provides that "the auditor should exercise an appropriate level of professional skepticism throughout the confirmation process" and professional skepticism is important in, among other things, "evaluating the results of the confirmation procedures" (¶ .15).

38. In addition, AS 13, *The Auditor's Response to the Risks of Material Misstatement*, also applies to the 2011 and 2012 audits and provides that once an auditor has assessed risks of a material misstatement, particularly fraud risks, they must exercise professional skepticism in gathering and evaluating audit evidence, including "obtaining sufficient appropriate evidence to corroborate management explanations or representations concerning important matters" (¶ .07).

⁹ This reference to AU § 316 incorporated an amendment as part of the PCAOB risk assessment standards and is applicable to the 2011 and 2012 Homex audits. For the 2010 Homex audit, AU § 316 ¶ .13 is identical other than replacing "the fraud risks" with "the risk of material misstatement due to fraud".

39. As a result of Respondents' conduct described above, each failed to exercise due professional care and professional skepticism in Mancera's 2010, 2011 and 2012 audits of Homex.

Respondents failed to adequately plan the 2010 to 2012 Homex audits (AU §§ 311 and 316, AS 9 and 12)

40. AU §311, *Planning and Supervision*, applies to the 2010 Homex audit and requires that "planning and supervision continue[] throughout the audit" (¶ .01) and that "the auditor should obtain a level of knowledge of the entity's business that will enable him" to "obtain an understanding of the events, transactions and practices" that may have a "significant effect on the financial statements" (¶ .06). Knowledge of the entity's business helps the auditor in "identifying areas that may need special consideration" (¶ .06a). In addition, AU § 316, *Consideration of Fraud in a Financial Statement Audit*, which applies to the 2010 through 2012 audits, states that "the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud" (¶ .01).

41. AS 9, *Audit Planning*, applies to the 2011 and 2012 Homex audits and requires that "when developing the audit strategy and audit plan" the auditor should evaluate whether certain matters are "important to the company's financial statements and internal control over financial reporting," including "matters relating to the company's business," including its "operating characteristics", and the "relative complexity of the company's operations" (¶ 7). In addition, AS 12, *Identifying and Assessing Risks of Material Misstatement*, requires that "the auditor should obtain an understanding of the company and its environment...to understand the events, conditions, and company activities that might reasonably be expected to have a significant effect on the risks of material misstatement" (¶ 7). AS 12 further requires that "obtaining an understanding of the nature of the company includes understanding... the company's operating characteristics, including its size and complexity" (¶ 10).

42. As a result of Respondents' conduct described above, each failed to properly plan Mancera's 2010, 2011 and 2012 audits of Homex.

Respondents failed to adequately supervise and train the engagement team during the 2010 to 2012 audits (AU § 311 and AS 10)

43. AU § 311, *Planning and Supervision*, which applies to the 2010 Homex audit, states that "planning and supervision continues throughout the audit" (¶ .01) and that "supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished." Among other things, "elements of supervision include instructing assistants" and "reviewing the work performed" (¶ .11). Finally, AU § 311 states that "the work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report" (¶ .13).

44. AS 10, *Supervision of the Audit Engagement*, which applies to the 2011 and 2012 Homex audits, states, “the engagement partner is responsible for the proper supervision of the work of engagement team members and for compliance with PCAOB standards” (¶ 3). In addition, “the engagement partner may seek assistance from appropriate team members in fulfilling his or her responsibilities pursuant to this standard” and these team members “should comply with the requirements of this standard with respect to supervisory responsibilities assigned to them” (¶ 4). Those performing supervisory activities should “review the work of engagement team members to evaluate whether: (1) the work was performed and documented; (2) objectives of the procedures were achieved; and (3) the results of the work support the conclusion reached” (¶ 5.c). Finally, “to determine the extent of supervision necessary for engagement team members to perform their work as directed and form appropriate conclusions, the engagement partner and other engagement team members performing supervisory activities should take into account: (a) the nature of the company, including its size and complexity; (b) the nature of the assigned work for each engagement team member; (c) the risks of material misstatement; and (d) the knowledge, skill and ability of each engagement team member” (¶ 6).

45. As a result of Respondents’ conduct described above, each failed to properly supervise and train the engagement team for the 2010, 2011 and 2012 Homex audits.

Respondents did not prepare required documentation during the 2010 to 2012 audits (AS 3)

46. AS 3, *Audit Documentation*, requires that “audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection to the engagement: (1) to understand the nature, timing, extent, and results of procedures performed, evidence obtained, and conclusions reached, and (2) to determine who performed the work and the date such work was completed as well as who reviewed the work and the date of such review” (¶ 6). It also states that “the auditor must identify all significant findings or issues in an engagement completion document” (¶ 13). Lastly, “documentation of auditing procedures related to the inspection of significant contracts or agreements should include abstracts or copies of the documents” (¶ 10).

47. As a result of Respondents’ conduct described above, each failed to prepare required audit documentation on Mancera’s 2010, 2011 and 2012 Homex audits.

Respondents failed to obtain sufficient competent or appropriate audit evidence to support the audit opinions for the 2010 to 2012 audits (AU § 326 and AS 15)

48. AU § 326, *Evidential Matter*, applies to the 2010 audit and requires that auditors obtain sufficient competent evidential matter “through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit” (¶ .01). In addition, “to be competent, evidence, regardless of its form, must be both valid and relevant” (¶ .21).

49. AS 15, *Audit Evidence*, applies to the 2011 and 2012 audits and states that “audit evidence is all the information, whether obtained from audit procedures or other sources that is

used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions" (§ 2). "To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based" (§ 6). "When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information" (§ 10). "If audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit" (§ 29).

50. As a result of Respondents' conduct describe above, each failed to obtain sufficient competent/appropriate audit evidence to support Mancera's audit opinions for the 2010, 2011, and 2012 Homex audits.

Respondents failed to properly evaluate audit results (AU § 316 and AS 14)

51. AU § 316, *Consideration of Fraud in a Financial Statement Audit*, as it applies to the 2010 audit, requires that "the auditor's response to the assessment of the risks of material misstatement due to fraud involves the application of professional skepticism in gathering and evaluating audit evidence" (§ .46). In addition, "[a]t or near the completion of fieldwork, the auditor should evaluate whether the accumulated results of auditing procedures and other observations... Such an evaluation may provide further insight about the risks of material misstatement due to fraud and whether there is a need to perform additional or different audit procedures." (§ .74).

52. AS 14, *Evaluating Audit Results*, which applies to the 2011 and 2012 audits, requires that in the audit of financial statements, the auditor's evaluation of audit results should include evaluation of the "conditions identified during the audit that relate to the assessment of the risk of material misstatement due to fraud" (§ 4.d.) and "the sufficiency and appropriateness of the audit evidence obtained" (§ 4.f.). "The auditor should obtain corroboration for management's explanations regarding significant unusual or unexpected transactions, events, amounts, or relationships" (§ 8). Finally, "factors that are relevant to the conclusion on whether sufficient appropriate audit evidence has been obtained" include, among others, "the results of audit procedures performed in the audit of financial statements, including whether the evidence obtained supports or contradicts management's assertions" and "whether such audit procedures identified specific instances of fraud" (§ 34.b).

53. As a result of Respondents' conduct described above, each failed to properly evaluate audit results for the 2010, 2011 and 2012 Homex audits.

Mancera's applicable policies and procedures were deficient (QC 20, QC 30 and QC 40)

54. PCAOB Quality Control Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, ("QC Section 20") states that, "[p]olicies and procedures should be established 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" (§ 17). QC Section 20 also states that a firm should communicate these policies and procedures to its personnel in a manner that provides reasonable assurance that these policies and procedures are understood and complied with (§ 23). In addition, PCAOB Quality Control Section 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*, ("QC Section 30") states, "[m]onitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective" (§ 3). Finally, PCAOB Quality Control Section 40, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*, ("QC Section 40") states that a firm's policies and procedures should be designed to provide a firm with reasonable assurance that "work is assigned to personnel having the degree of technical training and proficiency required in the circumstances" (§ 2) and "such individuals possess the kinds of competencies that are appropriate given the circumstances of individual client engagements" (§ 3).

55. As a result of Mancera's conduct described above, Mancera's policies and procedures with respect to (i) exercising due professional care and skepticism; (ii) adequately planning the audits; (iii) adequately training and supervising the engagement team; (iv) preparing audit documentation in sufficient detail; (v) obtaining sufficient competent or appropriate audit evidence to support the audit opinions; and (vi) properly evaluating audit results, failed to comply with QC Sections 20, 30 and 40.

SECTION 10A(a)(1) OF THE EXCHANGE ACT

56. Section 10A(a)(1) of the Exchange Act requires that the audit of the financial statements of an issuer include "procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts." No showing of scienter is necessary to establish a violation of Section 10A. *See SEC v. Solucorp Indus., Ltd.*, 197 F. Supp. 2d 4, 10 (S.D.N.Y. 2002) (rejecting defendant's attempt to read into the plain language of Section 10A a scienter requirement that does not exist" (citation omitted)).

57. As a result of the Respondents' conduct, Mancera violated, and Valdez and Corral caused Mancera to violate, Section 10A(a)(1) of the Exchange Act.

RULE 2-02(b)(1) OF REGULATION S-X

58. Rule 2-02(b) of Regulation S-X requires each accountant's report to state "whether the audit was made in accordance with generally accepted auditing standards" ("GAAS"). "[R]eferences in Commission rules and staff guidance in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission." *See SEC Release No. 34-*

49708 (May 14, 2004). An audit firm violates Rule 2-02(b)(1) of Regulation S-X if it issues a report stating that it has conducted its audit in accordance with PCAOB standards when it has not. *See In re Andrew Sims, CPA*, Exchange Act Rel. No. 34-59584, (Mar. 17, 2009) (settled order); *KPMG Australia*, Admin. No. 3-14276 (Feb. 28, 2011) (settled order).

59. As a result of the conduct discussed above, Mancera violated Regulation S-X Rule 2-02(b)(1) when it issued audit reports stating that it had conducted its audits in accordance with PCAOB standards when Mancera had not, and Valdez and Corral, as the audits' engagement partner and senior manager, respectively, caused Mancera's violations of that rule.

SECTION 13(a) OF THE EXCHANGE ACT AND RULE 13a-1 THEREUNDER

60. Section 13(a) of the Exchange Act and Rule 13a-1 thereunder require that every issuer of a security registered pursuant to Section 12 of the Exchange Act file with the Commission annual reports as the Commission may require. The obligation to file such reports embodies the requirement that they be true and correct. *See, e.g., SEC v. Savoy Indus.*, 587 F.2d 1149, 1165 (D.C. Cir. 1978). An issuer violates Section 13(a) of the Exchange Act and Rule 13a-1 thereunder when such issuer files with the Commission annual reports that contain materially false or misleading information. *SEC v. Falstaff Brewing Corp.*, 629 F.2d 62, 72 (D.C. Cir. 1980). Scienter is not required for a violation of Section 13(a). *SEC v. McNulty*, 137 F.3d 732, 741 (2d Cir. 1998).

61. Homex's 2010, 2011 and 2012 Forms 20-F were materially false and incorrect because they contained audit reports falsely stating that Mancera audits of Homex were conducted in accordance with PCAOB standards. Through their conduct, as described above, the Respondents were a cause of Homex's violations of these provisions in Homex's 2010-2012 Forms 20-F.

F. FINDINGS

62. Based on the foregoing, the Commission finds that: (a) Mancera, Valdez, and Corral engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice; (b) Mancera committed, and Valdez and Corral caused, violations of Section 10A(a)(1) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X; and (c) Mancera, Corral, and Valdez caused violations by Homex of Section 13(a) of the Exchange Act and Rule 13a-1 promulgated thereunder.

G. REMEDIAL ACTIONS

63. Since the Homex audits, Mancera, alone and in coordination with the global organization of the member firms of Ernst & Young, took a series of steps intended to enhance the relevant quality controls. In determining to accept Mancera's Offer, the Commission considered the remedial actions undertaken.

H. UNDERTAKINGS

Mancera has undertaken to complete the following actions:

1. **Notification.** Mancera shall provide all of its audit professionals both Spanish and English-language versions of this Order within ten (10) business days after entry of the Order.

2. **Mancera Policies Report and Validation Plan.** Within one hundred fifty (150) days after the entry of this Order, Mancera shall submit to the Commission staff a report (the “Mancera Policies Report”) describing in reasonable detail its quality controls set forth in its audit manual and audit-and quality-related guidance and policies, relating to its policies and procedures set forth therein for Mancera’s quality controls and its SEC issuer audit and interim review procedures regarding the audit subject areas specified below (hereinafter referred to as “Specified Mancera Policies”). The Mancera Policies Report shall also describe in reasonable detail Mancera’s methodology and work plan, including the internal quality inspection processes administered by Mancera, to review, test, and assess whether the Specified Mancera Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules in the performance of SEC issuer audit and interim reviews (the “Validation Plan”). The Commission staff may make reasonable requests for further evidence of the quality controls and validation plan set forth in the Mancera Policies Report and Validation Plan, and Mancera agrees to provide such evidence. The Validation Plan, not unacceptable to the Commission staff, shall describe Mancera’s review, testing, and assessment of Specified Mancera Policies regarding the following audit subject areas:

- a. exercising due professional care and professional skepticism in the planning and performance of the audit;
- b. consideration of fraud in a financial statement audit (including the risk of fraud involving the circumvention of controls), and appropriately responding to identified fraud risks;
- c. evaluation of policies related to the acceptance and continuance of client relationships;
- d. obtaining sufficient appropriate audit evidence;
- e. supervision of the audit engagement; and
- f. audit documentation and retention.

3. **Initial Validation Report and Certification.**

- a. **Initial Validation Report.** Within two hundred seventy (270) days after the issuance of the Mancera Policies Report and Validation Plan, Mancera shall submit to the Commission staff a written report setting forth a description of the testing, analysis, and results of its Validation Plan (“Validation Report”). In particular, the

Validation Report shall describe (i) the results of the processes identified in Paragraph 2, above, as they relate to the Specified Mancera Policies identified in the Mancera Policies Report, (ii) any deficiencies involving the Specified Mancera Policies identified as a result of such processes, and (iii) any remedial actions taken in response thereto.

- b. **Initial Validation Certification.** The Initial Validation Report shall include a certification executed by the Managing Partner for Mancera (“MP”) that the Specified Mancera Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules in the performance of SEC issuer audits and interim reviews, and if deficiencies in the design or operation of the Specified Mancera Policies are identified, shall report such deficiencies to the Commission staff (“Initial Validation Certification”). The Commission staff may make reasonable requests for further evidence of compliance, including the testing results, and Mancera agrees to provide such evidence. If substantial deficiencies are identified, Mancera shall report such deficiencies to the Commission staff and state that it cannot certify compliance.

4. **Second Validation Plan.** Within sixty (60) days after the issuance of the Initial Validation Report, Mancera shall submit to the Commission staff an updated validation plan not unacceptable to the Commission staff: (a) to review, test, and assess whether the Specified Mancera Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules in the performance of SEC issuer audits and interim reviews; and (b) a remediation plan that contains a description of any deficiencies identified, and a schedule of remedial measures to correct substantial deficiencies (collectively, the “Second Validation Plan”).

5. **Second Validation Report and Certification.**

- a. **Second Validation Report.** Within one (1) year after the issuance of the Initial Validation Report, Mancera shall submit to the Commission staff a written report setting forth a complete description of the testing, analysis, and results of its Second Validation Plan (“Second Validation Report”).
- b. **Second Validation Certification.** The Second Validation Report shall include a certification executed by the MP that the Specified Mancera Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules in the performance of SEC issuer audits and interim reviews, and if deficiencies in the design or operation of the Specified Mancera Policies are identified, shall report such deficiencies to the Commission staff (“Second Validation Certification”). The Commission staff may make reasonable requests for further evidence of compliance, including the testing results, and Mancera agrees to provide such evidence. If substantial deficiencies are identified, Mancera shall report such deficiencies to Commission staff and state that it cannot certify compliance.

6. **Subsequent Plans, Reports, and Certifications.** If Mancera identifies substantial deficiencies in the design or operation of the Specified Mancera Policies in the Second Validation Report, Mancera shall repeat the undertakings described in Paragraphs 4 and 5 annually until such time that no substantial deficiencies are identified. At that time, Mancera shall issue a Final Validation Report that includes a certification executed by the MP that Mancera executed the Final Validation Plan, that the Specified Mancera Policies are operating as designed and provide reasonable assurance of compliance with all Commission regulations and PCAOB standards and rules in the performance of SEC issuer audits and interim reviews, and that Mancera has complied with the undertakings described in Paragraphs 8 and 9, below (“Final Validation Certification”).

7. **Internal Team Leader.** Mancera shall appoint an Internal Team Leader (“ITL”) knowledgeable and experienced in U.S. GAAP, Commission regulations, and PCAOB standards and rules, and not unacceptable to Commission staff, to oversee these undertakings. If for any reason any vacancy occurs in the ITL position, Mancera shall promptly appoint a successor ITL, who shall likewise be knowledgeable and experienced in U.S. GAAP, Commission regulations, and PCAOB standards and rules, and likewise be not unacceptable to Commission staff, to oversee these undertakings. By so doing, Mancera shall maintain an ITL until all undertakings have been deemed satisfied by the Commission staff, per the terms of Paragraph 11, below. The ITL shall have overall responsibility for the planning and scope of all Validation Plans. The ITL also shall have overall responsibility for developing the methodology for the selection of Mancera controls subject to review not unacceptable to Commission staff. The methodology used to select Mancera controls subject to review shall be designed to include the operation of these controls on the audits of SEC Registrant clients, including those designated as clients subject to expanded monitoring procedures (“Close Monitoring Clients”). The ITL shall also oversee testing to determine whether the controls result in SEC registrant clients receiving the appropriate risk designations, including designation as Close Monitoring Clients, as appropriate. The ITL shall engage Mancera professionals with appropriate experience, and outside consultants or third-party support, if needed, to develop the Validation Plans and to perform all reviews, testing, and preparation of all reports described in these undertakings. The ITL shall oversee the preparation of all reports submitted to the Commission staff. Mancera shall provide the ITL with staffing and other resources as necessary to accomplish these undertakings in a timely manner. Mancera shall not impose any planning or limitations on the ITL in the execution of his or her duties and shall not interfere or attempt to influence the ITL during the course of these undertakings.

8. **Mancera Auditor Training.** Within two hundred seventy (270) days of the date of this Order, Mancera shall require each audit professional working on any SEC registrant client audit to complete successfully a minimum of 32 hours of audit-related training. This audit-related training shall cover the audit subject areas specified in Paragraph 2 above, with the following topics being accorded at least the following minimum number of training hours:

- a. At least 8 hours relating to the exercise of due care and professional skepticism in evaluating audit evidence, including in corroborating management’s explanations and representations;
- b. At least 8 hours related to fraud-detection training. This training shall include techniques for detecting and responding, in the course of SEC registrant audits, to

possible fraud by audit clients, or audit client employees, officers or directors. This training will focus particular attention on the auditor's consideration of the impact of audit findings on the assessment of fraud risks as discussed in AS 2810 (Par. 28-29), as well as the documentation requirements outlined in AS § 2401.83. This training will also detail the auditor's responsibilities under Section 10A of the Exchange Act;

- c. At least 3 hours related to the auditor's responsibilities with respect to audit documentation, including evidence obtained, significant findings and resulting actions, work paper sign-off, archiving, dating, and the retention of the foregoing, including the auditor's responsibilities with respect to AS 1215 and Rule 2-06 of Regulation S-X; and
- d. For engagement partners, senior managers and managers, at least 8 hours relating to supervision, including the review of work performed by the engagement team (as set forth in AS 1201).

9. **Recordkeeping.** Mancera shall preserve and retain all documentation regarding all certifications and reports for seven (7) years and will make it available to the staffs of the Commission or the PCAOB upon request.

10. **Submissions to the Commission Staff.** The Commission staff may request access to documents, internal review and PCAOB inspection materials, training materials, Mancera personnel, and/or meetings with Mancera, within thirty (30) days of receipt of any Report, Plan, or Certification. Within fifteen (15) days of receipt of the above requested information or meetings, the Commission staff may submit to Mancera any questions regarding the Reports, Plans, or Certifications, and Mancera agrees to address all such questions within fifteen (15) days of receipt. Unless otherwise directed by the Commission staff, all Reports, Plans and Certifications mentioned in these undertakings shall be submitted to Melissa Hodgman, Associate Director, Division of Enforcement, Mail Stop 5553, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549, or such other person as the Commission staff may request, with a copy to the Office of Chief Counsel of the Enforcement Division (the "Designees"). Mancera will make all Reports, Plans, and Certifications available to PCAOB staff upon request. All such Reports, Plans, Certifications, and other documents provided to the Commission staff pursuant to these undertakings likely will include proprietary, financial, confidential, and competitive business information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except (a) pursuant to court order, (b) as agreed by the parties in writing, (c) to the extent that the Commission staff determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (d) is otherwise required by law.

11. **Satisfaction.** Unless otherwise notified by the Division of Enforcement, these undertakings are deemed satisfied upon the later of: (a) three years after the entry of this Order; or

(b) written confirmation by the Designees that they have received a Final Validation Certification free from substantial deficiencies.

12. **Deadlines.** For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

13. **Cooperation.** Mancera shall cooperate fully with the Commission with respect to this proceeding and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party. Mancera's cooperation shall include, but is not limited to: (i) using reasonable efforts to secure the attendance and truthful statements or testimony of any current partner, agent, or employee of Mancera at such times and places as the staff requests upon reasonable notice; (ii) promptly and fully cooperating by taking any steps necessary to render documents or records produced by Mancera admissible in any U.S. court proceedings, which may include, without limitation, providing business-records certifications requested by the Commission; (iii) accepting service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iv) appointing George Canellos, Esq., Partner at Milbank LLP, 55 Hudson Yards, New York, NY US 10001-2163, as agent to receive service of such notices and subpoenas; (v) with respect to such notices and subpoenas, waiving the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Mancera's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (vi) consenting to personal jurisdiction over Mancera in any United States District Court for purposes of enforcing any such subpoena.

14. **Petition to Reopen Matter.** Mancera agrees that if the Division of Enforcement believes that Mancera has not satisfied these undertakings, it may petition the Commission to reopen the matter to determine whether additional sanctions are appropriate.

15. In determining whether to accept Mancera's Offer, the Commission has considered the undertakings in Paragraphs 1, 13 and 14, above.

IV.

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

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

A. Respondents shall cease and desist from committing or causing any violations and any future violations of Sections 10A(a)(1), and 13(a) of the Exchange Act and Rule 13a-1 promulgated thereunder, and Rule 2-02(b)(1) of Regulation S-X.

B. Mancera is hereby censured.

C. Mancera shall comply with the undertakings enumerated in Paragraphs 2 through 12 of Section III.H., above.

D. Mancera shall, within 14 days of the entry of this Order, pay disgorgement of \$950,000.00, prejudgment interest of \$139,926.43, and a civil money penalty in the amount of \$500,000.00 to the Securities and Exchange Commission. If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and if timely payment of a civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

E. Payment ordered in Paragraph D above must be made in one of the following ways:

- (1) Mancera may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Mancera may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Mancera may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Mancera as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Melissa R. Hodgman, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

F. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the disgorgement, prejudgment interest and penalties referenced in paragraph D above. The Fair Fund may be added to or combined with any other fund created in a related action arising out of the same investigative matter that is the basis of this action. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Mancera agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Mancera's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Mancera agrees that it shall, within 30 days after

entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Mancera by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

G. Valdez and Corral are denied the privilege of appearing or practicing before the Commission as an accountant.

H. After five years from the date of this order for Valdez, and after two years from the date of this order for Corral, Valdez and Corral may separately request that the Commission consider each of their reinstatements by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission (other than as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934). Such an application must satisfy the Commission that Respondent's work in his practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or
2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Respondent, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

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

I. The Commission will consider an application by Valdez or Corral separately to resume appearing or practicing before the Commission provided that their respective *contador público* license is current and Valdez or Corral has resolved all other disciplinary issues with the applicable boards of accountancy. However, if such licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Valdez's or Corral's character, integrity, professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

By the Commission.

Vanessa A. Countryman
Secretary