UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10482 / April 12, 2018

SECURITIES EXCHANGE ACT OF 1934
Release No. 83036 / April 12, 2018

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3934 / April 12, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18436

In the Matter of **LI AND COMPANY, PC and TONY ZHICONG LI, CPA,** **Respondents.**	**ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 4C OF THE SECURITIES EXCHANGE ACT OF 1934, AND RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Li and Company, PC ("Li & Co.") and Tony Zhicong Li, CPA ("Li") (collectively, the "Respondents") pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 4C[1] of the Securities Exchange Act of 1934 ("Exchange Act"), and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.[2]

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[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

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. 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, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Public Administrative and Cease-And-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 4C of the Securities Exchange Act of 1934, and Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-And-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds[3] that:

A. SUMMARY

1. These proceedings arise out of improper professional conduct by Li & Co. and Li in connection with the audit and interim reviews of the financial statements of Wellness Center USA, Inc. ("Wellness"). Li & Co. acted as the independent public accountant with respect to the financial statements included in Wellness' 2013 Form 10-K ("Wellness Audit") and each of its 2013 Forms 10-Q ("Wellness Reviews").[4] Li was the engagement partner for the Wellness Audit and Wellness Reviews.

2. Throughout Wellness' fiscal year ending September 30, 2013, Wellness' Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") Andrew Kandalepas made numerous unauthorized withdrawals of corporate funds. Wellness' quarterly financial statements

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> any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others . . . (2) to be lacking in character or 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 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' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

included in its 2013 Forms 10-Q and 2013 Form 10-K did not properly disclose these withdrawals by Kandalepas.

3. Li & Co. and Li engaged in improper professional conduct by failing to comply with the standards of the Public Company Accounting Oversight Board ("PCAOB") in connection with the audit and interim reviews of Wellness' 2013 annual and quarterly financial statements. Specifically, Li & Co. and Li: (1) failed to satisfy the standards for reviews of interim financial information with respect to the numerous unauthorized withdrawals of corporate funds by Wellness' CEO; (2) failed to design and perform audit procedures to address the material weaknesses in Wellness' internal control over financial reporting; (3) improperly relied on management's representations concerning the CEO's unauthorized withdrawals; (4) failed to exercise due professional care and skepticism regarding a $250,000 back-dated promissory note to the CEO; and (5) failed to perform appropriate audit procedures for subsequent events.

4. Moreover, Li & Co. and Li caused Wellness' violations of Section 17(a)(2) of the Securities Act by proposing during the 2013 audit that Kandalepas execute a promissory note and classify his unauthorized withdrawals as a Note Payable in Wellness' financial statements and then by issuing an unqualified audit opinion on those financial statements despite their inaccurate description of Kandalepas' withdrawals.

B. RESPONDENTS

5. **Tony Zhicong Li ("Li")**, age 54, is a resident of Belle Mead, New Jersey and has been licensed as a certified public accountant with the State of New Jersey since 2000. Since July 2000, Li has been the President, a partner and fifty-percent owner of Li & Co. Li was the lead engagement partner for Wellness for the fiscal year 2012 through 2015 audits. On June 14, 2016, the PCAOB censured and barred Li from being an associated person of a registered accounting firm for failure to cooperate with a PCAOB investigation.

6. **Li and Company, PC ("Li & Co.")** is a public accounting firm headquartered in Skillman, New Jersey founded in 2000. Li & Co. acted as Wellness' auditor from 2011 through April 29, 2016. Li & Co. was registered with the PCAOB from September 2006 until June 14, 2016 when its registration was revoked for failure to cooperate with a PCAOB investigation.

C. OTHER RELEVANT PARTIES

7. **Wellness Center USA, Inc. ("Wellness")** is a Nevada corporation formed in June 2010 with its principal place of business in Hoffman Estates, Illinois. Since 2012, Wellness' common stock has been quoted on the Over-the-Counter Bulletin Board under the symbol WCUI.

8. **Andrew J. Kandalepas ("Kandalepas")** was at all relevant times the President, Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors of Wellness.

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[4] Wellness operates on a September 30 fiscal year.

D. FACTS

Wellness Background

9. Wellness was originally an online vitamin and nutritional supplement distributor, and subsequently through a series of acquisitions became the holding company for four subsidiaries involved in the alternative medicine and healthcare sectors. Since its inception in 2010, Wellness has had less than $500,000 revenue every year, and has had annual net losses between $100,000 and $7 million. Wellness has primarily funded its operations through sales of stock, having raised approximately $18.6 million since 2011.

10. Since Wellness' inception, Kandalepas has unilaterally controlled all its business functions and operations. He appointed himself as Wellness' CEO, CFO, and President. He also appointed himself to serve as Chairman of Wellness' Board of Directors. Kandalepas had sole control over Wellness' bank accounts and its bookkeeping. As Wellness' only officer, Kandalepas was also responsible for the preparation of its periodic reports.

11. Li & Co. served as Wellness' independent accountant from 2011 through April 29, 2016 and performed quarterly reviews of interim financial information and annual audits during this period. Li was the engagement partner on the Wellness audits and reviews during this period. According to Li & Co., from at least 2012 to 2014, Wellness had material weaknesses in its internal control over financial reporting, including the lack of financial expertise, the lack of an independent board, and insufficient segregation of duties.

Kandalepas' Compensation

12. From 2010 through fiscal 2012, Kandalepas did not take compensation from Wellness outside of receiving 3.7 million Wellness shares and options for another 1.6 million shares in 2010. According to Wellness' bylaws, officer salary and compensation was to be fixed by the Board of Directors ("Board"). Between 2010 and early 2012, Kandalepas loaned Wellness more than $100,000 to fund its operations, although by the end of fiscal 2012 Kandalepas repaid himself by taking withdrawals from Wellness' bank account at will and without the Board's knowledge or involvement. From 2011 through mid-2013, Wellness reported in periodic filings with the Commission that "Kandalepas has elected not to receive any compensation for his services, until the Company is financially capable to compensate him."

Kandalepas Made Unauthorized Withdrawals From Wellness

13. In early fiscal 2013, after repaying himself for his advances to the company, Kandalepas continued to withdraw money from the company without Board knowledge or authorization. Kandalepas took however much he wanted when he wanted, in varying amounts and on no consistent schedule. By the end of fiscal 2013, Kandalepas had made unauthorized withdrawals of $457,058, characterizing the withdrawals on Wellness' financial statements as a combination of salary, prepayments, or loans. During fiscal 2013, Kandalepas caused Wellness to

issue Forms 10-K and 10-Q that misrepresented his compensation and failed to properly disclose his unauthorized withdrawals.

14. In February 2013, as part of the closing of Wellness' books for the first quarter of fiscal year 2013, Wellness' bookkeeper informed Kandalepas and Li that during the quarter Kandalepas had withdrawn from the company $68,433 beyond what he had lent the company. In response, Kandalepas unilaterally and retroactively declared, without consulting the Board, that he would receive a $200,000 salary, or $50,000 per quarter, to account for his withdrawals.

15. Each quarter, Wellness recorded $50,000 in compensation for Kandalepas in its accounting records. But Kandalepas took more money. Throughout 2013, Kandalepas withdrew money from Wellness whenever he pleased, opting for frequent withdrawals of inconsistent amounts rather than a regular salary, and he did not limit himself to his new salary. Wellness booked any withdrawals exceeding Kandalepas' $50,000 quarterly salary as "prepaid expenses." By the end of fiscal 2013, Kandalepas had taken $457,058 from the company.

Wellness' Misleading 2013 Forms 10-Q

16. Wellness concealed the payments to Kandalepas in its 2013 Forms 10-Q. Its first and second quarter Forms 10-Q falsely stated that "Kandalepas has elected not to receive any compensation for his services, until the Company is financially capable to compensate him," even though Wellness had paid Kandalepas $100,000 in "compensation" over the first two quarters. In those quarters, Wellness' consolidated income statements reported "salaries-officers" at the parent company of $50,000 and $100,000 respectively, although they did not attribute this compensation to Kandalepas. Wellness' third quarter Form 10-Q omitted the misstatement that Kandalepas was not being compensated, but still did not affirmatively disclose that Kandalepas was receiving a salary or withdrawing funds from the company.

17. In each of Wellness' 2013 Forms 10-Q, Wellness classified Kandalepas' excess withdrawals in a non-descript balance sheet line item entitled "prepayments and other current assets." There was no way to tell from the quarterly reports that this amount represented payments to Kandalepas.

Wellness' Misleading 2013 Form 10-K

18. During the 2013 fiscal year audit, Li discussed the $257,058 of Kandalepas' excess withdrawals with Kandalepas. Kandalepas told Li that he was entitled to the excess withdrawals as back pay for previous years' services for which he was not compensated. Li responded that Kandalepas could not take back pay since Wellness had not accrued salary for him in prior periods.

19. Days before the Form 10-K filing date, Li requested that Kandalepas pay back these "advances" before the company filed its 10-K, but Kandalepas declined. Li presented him with two other options for dealing with the overpayments: recognize the overpayments as compensation (bringing Kandalepas' compensation to $457,000 for 2013) or execute a promissory note with the company for $250,000. Between midnight and 3:00 a.m. on January 14, 2014, the day Wellness

filed its Form 10-K, Kandalepas, without Board consultation or authorization, finalized and executed a promissory note to pay Wellness $250,000 plus interest. Kandalepas sent Li a draft note before executing and asked if it was what Li had in mind. The promissory note was backdated to September 30, 2013, Wellness' fiscal year end. The overpayments were reclassified on Wellness' balance sheet from prepaid expenses to a note receivable. Li never communicated with Wellness' Board about Kandalepas' withdrawals or this last minute promissory note and never took steps to assess whether the Board had approved such withdrawals or the promissory note.

20. Wellness' 2013 Form 10-K made false representations concerning Kandalepas' excess withdrawals. In Item 13 of Form 10-K concerning related-party transactions, Wellness falsely stated that "[o]n September 30, 2013, Mr. Kandalepas borrowed $250,000 from the Company pursuant to a promissory note." In fact, Kandalepas did not borrow any money from Wellness on September 30, 2013; he took that sum throughout the previous twelve months. Moreover, the note was executed on January 14, 2014, not "on September 30, 2013." In Note 10 of the financial statements, *Related Party Transactions*, the company falsely stated that "[o]n September 30, 2013, Chairman, President, and CEO ("Maker") hereby promises to pay [$250,000] to the order of Wellness Center." However, this promise, *i.e.*, the execution of the note, occurred on January 14, 2014, not on September 30, 2013. The Form 10-K attached a copy of the falsely dated note as an exhibit.

21. In addition to being false, these disclosures were misleading because Kandalepas did not have the financial ability to repay the note. As of January 2014, Kandalepas was past due on his mortgage, had tens of thousands of dollars in credit card debt, and had minimal liquid assets available to repay the loan. Kandalepas failed to make even the full first required payment in April 2014 and quickly fell far behind on the required payments.

22. In its Forms 10-K and 10-Q for fiscal 2014 and 2015, Wellness continued to misrepresent that Kandalepas had issued a promissory note on September 30, 2013 and failed to disclose the circumstances that gave rise to that note. In early 2016, after Wellness retained a new independent accountant, Wellness wrote off the nearly $200,000 still owed under Kandalepas' promissory note as compensation.

Li & Co. and Li Caused Wellness' Violations of Section 17(a)(2)

23. Li & Co. and Li played a central role in Kandalepas' concealment of his unauthorized withdrawals. Li suggested the creation of a promissory note immediately before Wellness' 2013 Form 10-K was issued. As described above, Li assisted Wellness in conceiving this promissory note, which served as a method for concealing the true amount of money that Kandalepas had withdrawn from the company throughout 2013. Li and Li & Co. knew or should have known that the promissory note's date misrepresented when the note was executed and that the resulting disclosures in Wellness' Form 10-K misrepresented the circumstances surrounding Kandalepas' withdrawals. Li and Li & Co. also knew or should have known that Wellness intended to issue securities through private offerings following the filing of the 2013 Form 10-K.

Li & Co., through Li, issued an audit report expressing an unqualified audit opinion that accompanied Wellness' 2013 Form 10-K. In light of this conduct, Li & Co. and Li caused Wellness' material misrepresentations and omissions in its Form 10-K.

Li and Co. and Li Failed to Satisfy Applicable Review and Audit Standards

24. Wellness' 2013 Form 10-K included an audit report from Li & Co. that stated its audit of Wellness' financial statements was conducted "in accordance with the standards of the Public Company Accounting Oversight Board" and that, in Li & Co.'s opinion, Wellness' financial statements presented fairly, in all material respects, the company's financial position and results of its operations in accordance with generally accepted accounting principles ("GAAP"). As described below, Li & Co.'s 2013 audit of Wellness was not conducted in accordance with PCAOB standards. Moreover, the financial statements included in Wellness' Form 2013 10-K were materially misstated because they incorrectly represented that Kandalepas had executed a promissory note for $250,000 on September 30, 2013 when in fact that transaction occurred on January 14, 2014.

25. Likewise, Li & Co. and Li failed to adhere to the standards for review of Wellness' interim financial information in Wellness' Forms 10-Q for fiscal 2013.

Li & Co. and Li Failed to Satisfy the Standards for Reviews of Interim Financial Information (AU 722)

26. A review of interim financial information consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters.[5] AU 722.07.[6] The specific inquiries and analytical procedures to be performed should be tailored by the accountant's knowledge of the company's business and its internal control. AU 722.15. The accountant should inquire, among other things, about matters dealt with at meetings of stockholders, directors, and other appropriate committees for which minutes are not available, significant transactions occurring or recognized in the last several days of the interim period, and significant journal entries and other adjustments. AU 722.18. Although in a review an accountant ordinarily is not required to corroborate management's responses with other evidence, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the company's internal control. AU 722.17. When the accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with GAAP in all material respects, then the accountant should make additional inquiries or perform other procedures that the accountant considers appropriate to provide a basis for communicating whether he or she is aware

[5] "The objective of a review of interim financial information . . . is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles." AU 722.07.

[6] All cites are to the PCAOB standards in effect at the time of the relevant conduct.

of any material modifications that should be made to the interim financial information. AU 722.22. Written representations from management should be obtained for all interim financial information presented, including representations related to unrecorded transactions and amounts receivable from or payable to related parties. AU 722.24. Accountants should read other information contained in the Form 10-Q and consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information. AU 722.18(f).

27. Li & Co. and Li failed to satisfy these standards in each interim review for fiscal year 2013 with respect to Kandalepas' unauthorized withdrawals of corporate funds in those quarters. Although they were aware that Wellness had material weaknesses with respect to its internal control over financial reporting, Li & Co. and Li did not tailor their inquiries or perform analytical procedures that addressed significant risk areas in accounting and disclosure matters related to the interim financial information to be reported.

28. When Li & Co. and Li found out in February 2013 that Kandalepas had withdrawn funds from the company that exceeded what he was owed for loan repayments, they accepted Kandalepas' decision to unilaterally and retroactively set a salary for himself as a post-hoc justification for most of the amount withdrawn, despite the Wellness bylaws' requirement that officer compensation be set by the Board. Li & Co. did not conduct any additional inquiry as to whether this salary was properly authorized, even in light of the suspicious circumstances in which it was set (after Kandalepas had already taken the money). Li & Co. knew the withdrawals in excess of Kandalepas' self-proclaimed "salary" were classified as "prepayments" and did not take any steps to consider whether the Wellness' quarterly financial statements reflected that those payments were advances to Kandalepas.[7]

29. Li & Co. also failed to take action regarding materially inconsistent information contained in the first and second quarter Forms 10-Q concerning Kandalepas' compensation. In those Forms 10-Q, Wellness falsely stated that Kandalepas had elected not to receive compensation, which contradicted both Li's personal knowledge that Kandalepas had declared a salary and the financial statements, which accrued $50,000 of salary each quarter.

Li & Co. and Li Failed to Design and Perform Audit Procedures Responsive to Assessed Risks (AS 13, AU 110, 316, and 317)

30. PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, states "the auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure." AS 13 at ¶ 8. Once an auditor identifies the possibility of a material misstatement, AS 13 requires him to exercise professional skepticism in gathering and

[7] Rule 4-08(k) of Regulation S-X ("Related party transactions should be identified and the amounts stated on the face of the balance sheet, income statement, or statement of cash flows."); ASC Topic 850-10-50-2 (requires that amounts receivable from related parties be stated separately).

evaluating audit evidence, including gathering evidence to corroborate management's explanations or representations.[8] *Id.* at ¶ 7. Thus, PCAOB Auditing Standards required Li & Co. and Li to perform substantive audit procedures specifically designed to be responsive to fraud risk.

31. Moreover, PCAOB AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, provides that an 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. AU 316.01; AU 110.02. Auditors consider two types of fraud – misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. AU 316.06. Fraudulent financial reporting may be accomplished by falsifying or altering "accounting records or supporting documents from which financial statements are prepared" or by misrepresentation of transactions. AU 316.06. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented, in all material respects, in conformity with GAAP. Misappropriation of assets can be accomplished in various ways and may be accompanied by false or misleading records or documents, possibly created by circumventing controls. AU 316.06. PCAOB AU Section 317, *Illegal Acts by Clients*, provides that the auditor's responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on the determination of financial statement amounts is the same as that for misstatements caused by error or fraud as described in AU 110. AU 317.05.

32. During the planning of the Wellness Audit, Li & Co. concluded that Wellness' lack of internal control over financial reporting was a material weakness and deemed Wellness' lack of segregation of duties and its lack of sufficient internal controls as areas of the audit with significant risks. Li & Co. concluded that Wellness' internal controls could not be relied upon and therefore more in-depth substantive procedures were required .[9] Therefore, to comply with AS 13, Li & Co and Li should have included procedures designed to address the risk of material misstatement due to Kandalepas' dominance over the company's operations and financial reporting, especially in light of Kandalepas' frequent withdrawals of cash from the company.

33. The Wellness Audit lacked procedures designed to obtain sufficient audit evidence that payments to Kandalepas were properly authorized and did not constitute fraud or illegal acts that have a direct and material effect on the determination of the financial statement amounts, or

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[8] "For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks." AS 13 at ¶ 11. PCAOB Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, states that a fraud risk is a significant risk. *Id.* at ¶ 71.

[9] Under PCAOB AU 325, *Communications About Control Deficiencies in an Audit of Financial Statements*, a material weakness is a "deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis." AU 325.03.

that those payments were being recognized correctly in the company's accounting records and financial statements. In fact, Kandalepas explained to Li that the excess withdrawals were in fact "back pay," which Li knew was not authorized and had not been accrued. Thus, even when Li faced circumstances requiring heightened scrutiny, and facts strongly suggestive of fraud, he failed to perform any additional auditing steps that were warranted by the situation. Instead, Li helped craft a solution that misrepresented the true nature of the excess withdrawals, classifying the withdrawals as loans rather than compensation.

34. Li & Co. also failed to obtain reasonable assurance that there were no material misstatements arising from the misappropriation of assets. The promissory note was not treated as a subsequent event and was misrepresented in the annual report as if the company consciously lent Kandalepas money pursuant to an agreement in September 2013.

Li & Co. and Li Improperly Relied on Management's Representations Concerning Kandalepas' Withdrawals (AU 333, 334)

35. PCAOB AU Section 333, *Management Representations*, states that representations from a company's management "are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit." AU 333.02. AU 333 further states that "[i]f a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made. Based on the circumstances, the auditor should consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified." AU 333.04. PCAOB AU Section 334, *Related Parties*, states that the auditor should perform procedures to obtain and evaluate sufficient appropriate evidential matter concerning related party transactions, and that such procedures should extend beyond inquiry of management. AU 334.09. Auditors should consider, among other things, obtaining an understanding of the business purpose of the transactions, examining agreements, contracts, and other pertinent documents to the transactions, and determining whether the transactions were approved by the board of directors or other appropriate officials. AU 334.09.

36. Li improperly relied on Kandalepas' representations concerning his compensation in at least two ways. First, Li took no steps to independently confirm that Kandalepas had been authorized to receive a salary of $200,000, despite the bylaws' requirement that the Board set officer compensation. In the face of other audit evidence showing that Kandalepas had withdrawn more than his annual salary throughout fiscal year 2013, Li should have investigated, in the context of potential fraud, the circumstances and reliability of Kandalepas' representation that he was to receive a $200,000 salary, or that he was entitled to additional withdrawals beyond his salary. Second, when Kandalepas presented Li with a back-dated promissory note for $250,000 in the early morning hours of January 14, 2014, Li failed to investigate whether the financial arrangement had been properly authorized by the Board of Directors and whether the date of the note was appropriate given the discussions Li had just had with Kandalepas.

37. Li failed to determine whether the disclosures in the financial statements concerning Kandalepas' excess withdrawals properly reflected the nature of the transactions.[10] To the contrary, Li assisted in redefining the true nature of the transactions – back pay according to Kandalepas – by proposing that Kandalepas could execute a promissory note and recharacterize the withdrawals as related party loans rather than compensation.

Li & Co. and Li Failed to Exercise Due Professional Care (*AU 230)*

38. PCAOB AU Section 230, *Due Professional Care in Performance of Work*, states that auditors are to exercise due professional care in the planning and performance of the audit and the preparation of the report. AU 230.01. Due professional care requires that the auditor exercise professional skepticism throughout the audit process, including when considering the risks of material misstatement due to fraud. AU 230.07-.08; *see also* AU 316.13. Under this standard, "[p]rofessional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence" AU 230.07, and auditors "consider the competency and sufficiency of the evidence" AU 230.08 and "neither assume[] that management is dishonest nor assume[] unquestioned honesty." AU 230.09.

39. When Li had to address the excess $250,000 in payments that Kandalepas had received throughout 2013, Li failed to exercise the requisite professional skepticism to determine whether these payments created a risk of material misstatement due to fraud. Rather than conduct a critical assessment of whether these payments were evidence of misappropriation by the CEO, Li assumed that the payments were authorized and suggested to Kandalepas a method for legitimizing the payments in the company's books (the promissory note) that he knew did not reflect the circumstances under which those withdrawals were made (unauthorized back pay). Thus, Li failed to exercise the requisite level of professional skepticism when considering the risk of material misstatement due to fraud in the payments to Kandalepas.

Li & Co. and Li Failed to Perform Appropriate Audit Procedures for Subsequent Events (AU 560)

40. PCAOB AU Section 560, *Subsequent Events*, requires auditors to evaluate events or transactions that occur subsequent to the balance-sheet date but prior to the issuance of the financial statements that have a material effect on the financial statements. AU 560.01, .12. Transactions to be evaluated include those that did not exist at the date of the balance sheet being reported on but arose subsequent to that date. AU 560.05. Accordingly, an auditor should perform auditing procedures for the period after the balance-sheet date to ascertain the occurrence of subsequent events that may require disclosure. AU 560.12.

41. As described above, Li & Co. and Li were aware that a significant, new related party transaction took place after the balance sheet date of September 30, 2013 (the Kandalepas

[10] *See* ASC Topic 850-10-50-1 (disclosure of related party transactions shall include the nature of the relationship involved and a description of the transactions).

promissory note). In fact, Li was involved in the creation of that note in mid-January 2014. Yet, Li & Co. and Li failed to perform auditing procedures to determine whether this transaction should be disclosed as a subsequent event. This note had a material effect on the financial statements, and should have been reported as a subsequent event since the transaction took place after September 30, 2013. Thus, Li & Co. and Li failed to perform appropriate audit procedures in connection with the promissory note that Kandalepas executed after the balance-sheet date but prior to the issuance of the financial statements.

Wellness' Forms 10-Q and 10-K in Subsequent Years

42. Li & Co. and Li also failed to adhere to applicable professional standards in connection with their review of interim financial information included in Wellness' 2014 and 2015 Forms 10-Q and their audits for fiscal years 2014 and 2015. In each Form 10-Q and 10-K filed during this period, Wellness disclosed in the footnotes to its financial statements that Kandalepas had issued a promissory note to the company on September 30, 2013. Li & Co. and Li knew that Kandalepas did not issue the promissory note on that date, yet they failed to take steps to consider whether these disclosures were accurate and not misleading. AU 722.22; AS 13 at ¶ 8.

E. FINDINGS

43. Based on the foregoing, the Commission finds that Li & Co. and Li caused Wellness' violations of Section 17(a)(2) of the Securities Act.

44. Based on the foregoing, the Commission finds that Li & Co. and Li 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.

F. UNDERTAKING

45. Cooperation with the Commission's Investigation and Related Litigation. Respondent Li & Co. (including its partners, principals, officers, agents, and employees) and Respondent Li shall cooperate fully with the Commission in any and all investigations, litigations, administrative and other proceedings commenced by the Commission or to which the Commission is a party relating to or arising from the matters described in this Order. In connection with such investigation, litigation, administrative or other proceedings, Respondents (i) will accept service by mail, facsimile transmission, or email of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearing, or trials; (ii) appoint counsel Thomas F. Falkenberg, Falkenberg Ives LLP, as their agent to receive service of such notices and subpoenas; (iii) with respect to such notices and subpoenas, waive the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedures and any applicable local rules, provided that the party requesting the testimony reimburses Respondents' travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (iv) consent to personal jurisdiction over Respondents in any United States District Court for purposes of enforcing any such subpoena.

46. In determining whether to accept the Offer, the Commission has considered this undertaking.

IV.

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

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

A. Li & Co. and Li shall cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

B. Li & Co. is denied the privilege of appearing or practicing before the Commission as an accountant.

C. Li is denied the privilege of appearing or practicing before the Commission as an accountant.

D. Respondent Li & Co. shall, within 14 days of the entry of this Order, pay disgorgement of $22,500, prejudgment interest of $2,643 for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

E. Respondent Li shall, within 14 days of the entry of this Order, pay, disgorgement of $22,500, prejudgment interest of $2,643 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

F. Respondents shall, within 14 days of the entry of this Order, pay, jointly and severally, a civil money penalty of $45,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

G. Payment pursuant to paragraphs D through F above must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents 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) Respondents 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 Li & Co. or Li as Respondents 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 Jeffrey A. Shank, Assistant Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 1450, Chicago, IL 60604.

H. 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, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they 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 either or both Respondents 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.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent Li, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Li under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent Li of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary