

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 95948 / September 30, 2022**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4346 / September 30, 2022**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-21183**

**In the Matter of**

**RSM US LLP,**

**Respondent.**

**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 RSM US LLP (“Respondent”) pursuant to Sections 4C<sup>1</sup> and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.<sup>2</sup>

---

<sup>1</sup> 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 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.

<sup>2</sup> Rule 102(e)(1)(ii) provides, in pertinent part, that:

## II.

In anticipation of the institution of these proceedings, Respondent has 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 it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this 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 (“Order”), as set forth below.

## III.

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>3</sup> that:

### A. SUMMARY

1. During the period 2015 to 2018, RSM engaged in improper professional conduct during multiple audits of Revolution Lighting Technologies, Inc. (“Revolution”). RSM failed to properly conduct audits of Revolution’s financial statements and internal control over financial reporting. RSM failed to adhere to Public Company Accounting Oversight Board (“PCAOB”) auditing and quality control standards, from planning and supervision of the audit through the evaluation of the audit results and review of Revolution’s disclosures. PCAOB is an entity established by Congress to, among other things, oversee the audits of public companies in order to protect investors. Among PCAOB’s primary duties are establishing the standards that registered public accounting firms must meet when they audit public companies.

2. Revolution’s financial statements were materially misstated because they included improperly recognized revenue from “bill and hold” sales, which are generally a type of transaction that involves a company selling a product to a customer but not delivering the product to the customer until some later date. Bill and hold sales need to satisfy several criteria in order for a company to be able to recognize them as revenue (meaning the sales get recorded as revenue in a company’s books and records and reported as revenue in a company’s financial statements). Audit evidence provided to RSM’s audit team during the audits demonstrated that Revolution was violating U.S. Generally Accepted Accounting Principles (“GAAP”) with respect to recognition of revenue in its

---

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.

<sup>3</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

financial statements from these bill and hold sales. RSM's audit team unreasonably failed to comply with professional standards by concluding that Revolution's accounting and financial statements conformed with GAAP.

3. For each audit, RSM issued two types of audit reports: (i) a report opining that Revolution's financial statements presented fairly, in all material respects, Revolution's financial position and that they conformed with GAAP; and (ii) a report opining that Revolution maintained, in all material respects, effective internal control over financial reporting. Both reports also stated that RSM conducted its audits in accordance with the standards of the PCAOB. As a result of RSM's improper professional conduct, RSM's audit reports were inaccurate in their representations that the audits were conducted in accordance with PCAOB standards. RSM violated Rule 2-02(b) of Regulation S-X. In addition, by inaccurately stating in its audit reports accompanying Revolution's 2014 to 2017 Forms 10-K filed with the Commission that RSM had conducted each audit in accordance with PCAOB standards, RSM caused Revolution to violate Section 13(a) of the Exchange Act and Rule 13a-1 thereunder.

4. During the course of RSM's audit of Revolution's fiscal year 2017 financial statements (the "2017 Audit"; prior years' audits will be named the "201X Audit"), RSM's engagement team and national office concluded that Revolution had improperly recognized revenue in fiscal year 2017 due to Revolution's failure to adhere to fixed delivery dates for its bill and hold sales, and presumed that this issue also impacted revenue recognition in each of the preceding three years. RSM then concluded that Revolution's revenue misstatements were immaterial and therefore Revolution did not need to restate its financial statements. RSM's conclusion was unreasonable because it was based on faulty estimates, and it rested upon its determination that qualitative factors outweighed the fact that, even under its faulty estimates, Revolution's misstatements of revenue significantly exceeded the quantitative audit materiality level that RSM had identified for several of the periods in question. In reaching the decision that qualitative factors rendered immaterial the fact that revenue figures for multiple years were misstated, RSM effectively abandoned the audit team's own prior determination, in each of the years in question, that reported revenue was a key metric of interest to shareholders of Revolution. During this analysis, RSM violated the applicable PCAOB standards.

5. Overall, rather than exercise an appropriate level of skepticism in this area – an area requiring heightened scrutiny – RSM made unreasonable determinations in concluding that Revolution's misstatements were immaterial. The lack of due professional care by RSM's personnel had the effect of hiding the RSM engagement team's failure to properly conduct an audit for fiscal years 2014 – 2017.

## **B. RESPONDENT**

6. **RSM US LLP**, a limited liability partnership with its headquarters in Chicago, Illinois, is a public accounting firm registered with the PCAOB. RSM served as the auditor of Revolution, a company with publicly traded stock that was required to file

periodic reports with the Commission, including reports that included audited financial statements, from at least 2010 until it resigned from that role in June 2019.

### **C. OTHER RELEVANT ENTITY**

7. **Revolution Lighting Technologies, Inc.** is a Delaware corporation headquartered in Stamford, Connecticut. Revolution manufactures and markets LED lighting solutions. Its common stock was registered with the Commission under Exchange Act Section 12(g) until August 24, 2020. Before October 14, 2019, Revolution traded on the NASDAQ under the ticker symbol RVLV. On June 29, 2020, the Commission temporarily suspended trading in Revolution's securities because its periodic Commission filings were delinquent. On August 21, 2020, the Commission revoked the registration of Revolution's securities pursuant to Section 12(j) of the Exchange Act. On September 24, 2020, the Commission brought a settled action against Revolution and four of its executives for violations of the federal securities laws in connection with the bill and hold transactions at issue.

### **D. FACTS**

#### **I. RSM IMPROPERLY TESTED BILL AND HOLD REVENUE**

##### **a. Revolution Began Relying on Bill and Hold Sales at the End of 2014**

8. During 2014, Revolution acquired Value Lighting, Inc. ("Value Lighting") and made Value Lighting a business division. Revenue from Value Lighting immediately became the large majority of Revolution's reported revenue.

9. Historically, Revolution recognized revenue on a sale upon shipment or delivery to its customers. At the end of 2014, however, Revolution deviated from prior practice and implemented a program at Value Lighting of recognizing revenue on so-called bill and hold sales. Broadly speaking, a bill and hold sale is a sale of a product to a customer in which the seller maintains possession of the product until some later date when the customer needs the product delivered. If certain criteria are met, a seller may properly recognize revenue from bill and hold sales before delivering the product to the customer. However, bill and hold sales are subject to abuse by companies, such as Revolution, that seek to inflate their revenues by improperly recording sales of products that have not been shipped and that do not satisfy the criteria for recognizing revenue.

10. RSM began audit work for Revolution in 2010. During its 2014 Audit, RSM learned Revolution had used bill and hold sales on December 31, 2014, the last day of Revolution's 2014 fiscal year. RSM's audit team sampled and tested Revolution's bill and hold revenue for GAAP compliance.

11. Under GAAP applicable at the time of the audits, revenue could not be recognized until it was: (1) earned and (2) realized or realizable. Bill and hold sales were required to meet specific criteria under GAAP for a company to recognize revenue from

those transactions. RSM's work papers reflected that the team applied the following seven criteria to test Revolution's recognition of revenue from purported bill and hold sales:

- Risks of ownership must have passed to buyer.
- Buyer has a fixed commitment to purchase, preferably in writing.
- Buyer, not seller, requested the bill and hold transaction and there is a substantial business purpose for ordering the goods on a bill and hold basis.
- A fixed delivery schedule with reasonable delivery dates exists.
- Seller has not retained any specific performance obligations.
- Product is complete and ready for shipment.
- The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders.

12. RSM nominally applied these criteria during its 2014 Audit through the 2017 Audit. These seven well-established criteria closely tracked the language set forth in the Commission's Accounting and Auditing Enforcement Release ("AAER") 108 and Staff Accounting Bulletin ("SAB") No. 104. RSM understood that failure to satisfy any of the criteria disqualified the revenue from being recognized on a bill and hold basis.

**b. RSM Failed to Adequately Plan the Audit, Design and Implement Bill and Hold Testing Procedures, and Supervise the Audit Team Members Performing Bill and Hold Revenue Testing**

13. Preceding each audit, the RSM audit team completed an annual risk assessment form to evaluate the risks of material misstatement and to design audit procedures responsive to the assessed risks. Based on the audit team's inputs, RSM's risk assessment tool rated the Revolution audit at RSM's highest audit risk level. RSM's audit team identified bill and hold sales as a "significant risk" of material misstatement due to fraud (the highest risk designation under the auditing standards).

14. Despite the fact that Revolution was at the top of RSM's audit risk scale, and RSM's determination that the bill and hold transactions presented a significant risk of material misstatement due to fraud, RSM's engagement partner and senior manager assigned the testing of Revolution's bill and hold sales to junior members of the audit team (who lacked experience with bill and hold testing), and failed to adequately supervise the testing.

15. When RSM's audit team first began testing Revolution's bill and hold sales during the 2014 Audit, no one on the team other than the engagement partner had any experience with bill and hold sales. Despite this, RSM did not provide any formal training to the audit team members on how to apply the bill and hold criteria. Additionally, RSM did not require bill and hold training.

16. Under the audit's design and planning, the reviewers of the bill and hold testing were not required to review the underlying audit evidence for such testing. RSM's audit team continued this approach through the 2017 Audit. Despite issues coming to the attention of the engagement partner and senior members of RSM's audit team during the

2014 and 2015 Audits and despite finding in 2016 that there was a deficiency in Revolution's internal control over financial reporting relating to bill and hold sales, RSM did not assign more experienced auditors to this significant risk area or review more closely the bill and hold testing performed by junior associates. Instead, RSM's audit team kept placing the highest risks of the audit on the shoulders of the least experienced team members.

17. The leadership of RSM's audit team also failed to design and implement adequate bill and hold testing. They directed the RSM audit team to use "bill and hold agreements" as the principal documentary evidence to test bill and hold revenue recognition. Those agreements were the only documents that purportedly transferred risk of loss and title to Revolution's customers by quarter end. However, the bill and hold agreements between Revolution and its customers were often executed after the quarter close, which was clear from the dates on those agreements. Yet RSM failed to find any error with recognizing revenue on sales for which the bill and hold arrangements were agreed to after the quarter close, in part, because the RSM audit team did not design or apply adequate cut-off testing to verify that revenue was recognized in the appropriate period. In addition, the RSM audit team did not design and implement adequate procedures to test whether a customer had initiated the bill and hold arrangement and whether it had a "substantial business purpose" for requesting it. RSM's audit team also did not require adequate documentation demonstrating that a customer initiated the bill and hold arrangement.

18. In general, RSM's audit team leadership did not perform regular reviews or even spot checks on the audit evidence underlying the bill and hold testing. Leadership failed to review the audit evidence to ensure that the junior associates were testing correctly in the highest risk area of RSM's audit. Audit team leadership even failed to meaningfully question illogical and insufficient explanations written on bill and hold work papers. The lack of supervision contributed to RSM's overall audit failures.

19. Based upon the information presented to RSM's audit team, almost all of the revenue from Revolution's bill and hold sales tested by RSM was not earned and realizable in the periods in which Revolution recorded the revenue. But year after year, RSM signed off on Revolution's improper accounting because the audit team's leadership improperly supervised the junior members of the audit team, who had failed to adequately assess Revolution's application of the seven bill and hold criteria. RSM violated PCAOB standards on audit planning and supervision by inadequately assigning and supervising the testing of Revolution's bill and hold sales by the junior members of the audit team, which contributed to RSM's audit failures.

## **II. RSM FAILED TO REASONABLY APPLY THE SEVEN BILL AND HOLD CRITERIA**

### **a. During the 2014 Audit, RSM Failed to Identify Revolution's Accounting Errors**

20. During the 2014 Audit, junior members of the RSM audit team identified problems with Revolution's bill and hold sales. In February 2015, RSM wrote to Revolution's CFO about the poor quality of the audit evidence that RSM had received from Revolution for the bill and hold sales. RSM wrote that Revolution's bill and hold agreements were insufficient to show that the sales satisfied the bill and hold criteria. RSM also wrote to Revolution finance personnel in February 2015, upon receipt of a customer confirmation ("Customer A"); there, RSM expressed concern about the bill and hold audit evidence, including that the customer expressly represented it did not accept ownership of the product as of the end of Revolution's fiscal year, December 31, 2014, among other deficiencies with the bill and hold revenue recognition criteria. While RSM's audit team initially raised these problems to Revolution, RSM did not obtain sufficient audit evidence to resolve these issues, even after receiving inadequate and/or contradictory responses.

21. Despite the audit team's criticism of Revolution's bill and hold agreements, RSM reversed its position and did so without documenting the basis for this change. RSM's 2014 Audit work papers state that RSM relied on Revolution's bill and hold agreements to establish certain bill and hold criteria, even though RSM's audit team manager on the audit had said the agreements were insufficient for that very purpose. RSM's engagement partner and the senior manager signed off on the bill and hold testing work paper, which failed to document the existence and reconciliation of disconfirming audit evidence about which they knew.

22. RSM's audit team procured a second customer confirmation for the sale to Customer A that directly contradicted the first one. However, the RSM audit team never documented in the 2014 Audit work papers: (i) the existence of the first disconfirming customer confirmation; (ii) whether Revolution provided additional relevant audit evidence; (iii) how RSM reconciled any contradictory audit evidence; and (iv) why RSM changed its position and decided that Revolution could recognize revenue from the purported sale.

**b. RSM Ignored Audit Evidence that Some Bill and Hold Customers Had Not Agreed to Accept Ownership (and Risk of Loss) Prior to Shipment**

23. The first bill and hold criterion required the risk of ownership of the product to pass to Revolution's customers before revenue could be recognized for that sale. For Revolution to recognize revenue in a particular quarter, the risk of ownership must pass before the end of the fiscal quarter. In other words, the buyer and Revolution must agree to the terms of the bill and hold arrangement (including the passage of the risk of loss to the customer) during—not after—the quarter when the revenue is recognized.

24. Revolution's bill and hold agreements were the only documents that evidenced the customer's agreement to the bill and hold terms and the date *when* the customer and Revolution agreed to the bill and hold terms. RSM's audit team relied upon the bill and hold agreements to establish if and when risk of loss passed to the customer.

25. Throughout the audits, when problems came to the RSM audit team's attention, they failed to evaluate adequately the significance of those issues, and failed to evaluate adequately evidence that raised questions about whether Revolution could appropriately recognize revenue on a bill and hold basis. Even though the bill and hold agreements were usually entered into after quarter end, RSM did not question whether revenue could be recognized during such quarter or require evidence that the bill and hold arrangements in fact had been entered into during the quarter in which Revolution was recognizing revenue.

26. For instance, in February 2016, Revolution emailed to RSM the bill and hold agreements for all of the bill and hold sales that RSM selected for testing during its 2015 Audit. More than two-thirds of the bill and hold agreements that Revolution then sent to RSM were dated after the period in which the revenue was recognized, inconsistent with recognizing revenue during those respective periods. The senior manager on RSM's audit team personally received these agreements during the audit. Yet RSM did not reasonably apply the first bill and hold criterion and failed to find that Revolution improperly recognized the revenue.

27. Based upon the information presented to RSM's audit team, almost all of the revenue from Revolution's bill and hold sales tested by RSM was not earned and realizable in the periods in which Revolution recognized the revenue. In fact, more than two-thirds of the bill and hold agreements RSM tested during its 2015 to 2017 Audits were dated after the period when Revolution recognized revenue.

**c. RSM Did Not Require Audit Evidence To Show That Bill and Hold Customers Made a Fixed Commitment to Purchase Products**

28. The second bill and hold criterion required Revolution's customers to commit to purchase product. RSM accepted Revolution's revenue recognition even without contemporaneous evidence of the customer's commitment to purchase the product, and RSM did not reasonably apply the second bill and hold criterion. The engagement partner and senior manager did not design procedures that adequately tested this criterion. RSM's work papers claim it tested this criterion by analyzing the purchase orders from Revolution's customers and the corresponding invoices sent by Revolution. But when Revolution either provided a purchase order dated after the close of the reporting period or gave no purchase order at all, RSM's audit team did not find that Revolution improperly recognized the revenue in that reporting period.

29. During RSM's later reevaluation of the bill and hold transactions in connection with Revolution's anticipated restatement in late 2018 and early 2019, for the majority of reported bill and hold sales from 2015 to 2018, management was either unable to provide purchase orders, or the purchase orders that management did provide at that point were dated after the period for which Revolution recognized revenue.



**d. RSM Did Not Require Audit Evidence to Establish that Customers Had Requested Bill and Hold Arrangements**

30. The third bill and hold criterion required that Revolution's customer – and not Revolution – request the bill and hold arrangement, and that the customer have a “substantial business purpose” for doing so. RSM's audit testing did not reasonably apply the third bill and hold criterion. During its audit testing, RSM's audit team did not require adequate documentation demonstrating that a customer initiated the bill and hold arrangement.

31. The engagement partner and senior manager also did not design and implement adequate procedures to test whether a customer had initiated the bill and hold arrangement and whether it had a “substantial business purpose” for requesting later delivery. RSM's audit team did not require adequate audit evidence that documented the specific customer's reason for requesting a bill and hold arrangement.

32. During the 2014 Audit, RSM's audit team accepted Revolution's representations that its customers requested bill and hold arrangements because of supply constraints due to the Chinese New Year (most of Revolution's products were manufactured in China). RSM's audit team did not adequately test Revolution's blanket assertion.

33. Only later did RSM's audit team attempt to test Revolution's customers' substantial business purpose, when it revised the format of the audit confirmation it used to test the transactions. However, the RSM audit team's design of the confirmation failed to provide sufficient, appropriate audit evidence to confirm the customer's substantial business purpose for requesting a bill and hold arrangement.

34. The language of the customer confirmation was neither transaction- nor customer-specific, and did not meet the audit objective. RSM's audit team carried forward this generalized language without sufficient testing or any factual basis.

**e. RSM Did Not Require Audit Evidence of Fixed Delivery Schedules**

35. The fourth bill and hold criterion required a fixed delivery schedule with reasonable delivery dates for bill and hold sales. RSM unreasonably applied this criterion; its testing did not require Revolution to establish that there was a fixed delivery schedule for its bill and hold sales. Most of Revolution's bill and hold agreements with its customers expressly stated that Revolution was to “not ship the goods and services covered by such job, until further notice from” the customer. RSM's audit team received a bill and hold agreement with this or similar language for most bill and hold sales that it tested. In those instances, the very terms of the bill and hold agreements indicated that the delivery schedule was not fixed but subject to change or dependent upon when the goods were needed at the customer job site. The engagement partner and senior manager both reviewed and were familiar with the language of Revolution's bill and hold agreements.

36. In addition, the RSM audit team did not appropriately evaluate evidence about whether Revolution agreed to fixed delivery schedules with its bill and hold customers to satisfy the fourth bill and hold criterion. For example:

- Revolution told RSM on at least two occasions that it did not agree to fixed delivery schedules with its customers. An RSM audit team member questioned Revolution’s CFO in November 2015 about a delivery schedule for a bill and hold sale, to which the CFO replied in an email that the customer never provided Revolution a delivery schedule, but rather the customer called whenever it wanted product delivered.
- In February 2018, Value Lighting’s CFO wrote to the senior manager admitting, “[w]e do not have fixed delivery schedules as we’ve discussed...” Value Lighting’s CFO also wrote that the team was imposing “a new requirement that was not in place in 2016.” Instead of providing fixed delivery schedules, Value Lighting’s CFO offered RSM the same generic job release schedules Revolution had always provided.

37. During RSM’s later reevaluation of the bill and hold transactions in connection with Revolution’s anticipated restatement in late 2018 and early 2019, Revolution was only able to provide at that time an actual “fixed delivery schedule” for four of the 198 bill and hold sales from 2015 through 2017.

### **III. RSM UNREASONABLY CONCLUDED REVOLUTION’S ACCOUNTING ERRORS WERE IMMATERIAL**

38. During the 2017 Audit, after the RSM audit team recognized that Revolution had improperly recognized revenue for the preceding four years, RSM’s audit team, in consultation with its national office, concluded – based on its analysis that Revolution’s potential accounting errors from bill and hold sales were immaterial – that Revolution did not have to restate its 2014 through 2017 financial statements. RSM’s analysis was flawed as to both quantitative and qualitative factors. The failure to restate effectively hid from investors Revolution’s four years of improperly recognized revenue.

#### **a. RSM Finally Begins to Question Revolution’s Bill and Hold Sales and Initiates a Record of Consultation**

39. By the fall of 2017, RSM’s audit team became concerned that Revolution’s accounts receivable balance for bill and hold sales kept growing. RSM’s audit team noted that some of Revolution’s bill and hold customers were not paying for lighting product when billed, but instead were paying after the product was shipped. The trend suggested that transactions that Revolution had recognized as bill and hold sales were not in fact appropriate to recognize as sales. It also meant that payment was contingent upon Revolution’s shipment of the product, thereby violating the fifth bill and hold criterion (seller has completed all of its obligations).

40. During the fall of 2017, the senior manager reached out to the “SEC Reviewer” assigned to RSM’s audit of Revolution to discuss Revolution’s bill and hold accounting and whether Revolution was satisfying the criterion requiring a fixed delivery schedule. The SEC Reviewer was an RSM partner and revenue recognition specialist in RSM’s regional Professional Practice Office (“PPO”). The PPO is a part of RSM’s national office providing help to RSM professionals on a consulting basis when needed. The senior manager and the SEC Reviewer for the Revolution audits discussed whether Revolution was satisfying the criterion requiring a fixed delivery schedule. The SEC Reviewer recommended that RSM’s audit team pursue a formal consultation with the national office concerning Revolution’s bill and hold sales.

41. In early November 2017, RSM’s audit team met to plan for the 2017 Audit. The team identified bill and hold sales as presenting a significant risk, especially Revolution’s collections for bill and hold sales. In its audit planning work paper, the RSM audit team identified fraudulent revenue recognition as a significant risk, and, in particular, bill and hold accounting at Value Lighting. RSM noted that Value Lighting allowed accounts receivables to “age well past 90 days prior to collection.”

42. Later that month, the engagement partner, the senior manager, and other RSM personnel met with Revolution personnel to discuss Revolution’s upcoming audit. Before the meeting, the RSM audit team sent Revolution an agenda, originally drafted by the senior manager, identifying bill and hold sales as RSM’s “#1 priority.” The agenda stated that bill and hold sales would be “much less of an issue” if Revolution could significantly shrink its accounts receivables for bill and hold sales by year end. RSM also noted that two bill and hold sales from 2016 and 2017, respectively, that had yet to ship, would “be an issue” if Revolution had not shipped any product to the customers within two or three months of entering into the arrangement. In addition to the meeting, the senior manager spoke separately with Value Lighting’s CFO in November 2017 to discuss bill and hold sales.

43. At that time, RSM’s audit team was planning on drafting a formal “Record of Consultation” (“ROC”) to send to RSM’s national office. The ROC sought guidance regarding applying the GAAP criteria in light of Revolution’s long delays in shipping product on bill and hold sales and in light of the pattern of aged accounts receivable for bill and hold sales.

44. In planning for the 2017 Audit, RSM’s audit team had determined that “revenues are the most appropriate benchmark” and are most important to the primary users of Revolution’s financial statements. RSM’s audit team used revenue as its primary benchmark to set the audit materiality limit for its 2014 to 2017 Audits. For the 2017 Audit, RSM set the limit at \$1.79 million (roughly 1% of Revolution’s projected revenue).

45. In late January 2018, the RSM senior manager sent a draft ROC to the SEC Reviewer, copying the engagement partner. Following a call with the SEC Reviewer, the senior manager repeated to the engagement partner that bill and hold testing needed to be

the audit team's "#1 priority." Yet the engagement partner and senior manager continued with the same bill and hold testing procedures.

46. During the testing for the 2017 Audit, the audit team determined that all 2017 sampled revenue from bill and hold sales satisfied the seven criteria and GAAP.

**b. RSM Tries to Solve the Problem of Bill and Hold Sales  
(February 2018)**

47. On February 23, 2018 (less than two weeks before Revolution was scheduled to file its Form 10-K), the RSM senior manager and engagement partner emailed the SEC Reviewer informing him that the bill and hold testing was completed and directed him to the team's bill and hold work paper and an updated draft of the ROC. The engagement partner, SEC Reviewer, and senior manager discussed the bill and hold accounting the next day, Saturday, February 24, 2018.

48. After the discussion with the SEC Reviewer on Saturday, RSM's senior manager asked Value Lighting's CFO for the unshipped inventory for open bill and hold projects as of December 31, 2016. RSM already had the data as of December 31, 2017, from the 2017 Audit. The senior manager said that he needed the data to establish the bill and hold trend year-over-year so that the SEC Reviewer could sign off on Revolution's recognition of revenue from bill and hold sales.

49. Value Lighting's CFO replied after 10 pm on Saturday night, February 24, 2018, that Revolution did not have on hand the data RSM wanted and that it would take time to construct the information from the purchase orders, invoices, and shipping documents.

50. On Sunday, February 25, 2018, the senior manager provided to the engagement partner a self-described "rough estimate" of the amount of unshipped bill and hold inventory as of December 31, 2016. The RSM audit team used the "rough estimate" to calculate the magnitude of a potential adjustment to the financial statements. The senior manager emailed the information to the engagement partner telling him that without the requested data from Revolution, the "best we can do" was to apply the same rate of unshipped inventory to 2016 as was present in the third and fourth quarters of fiscal year 2017.

51. Later on Sunday night, February 25, 2018, in an email to the senior manager, Value Lighting's CFO distinguished Revolution's 2016 bill and hold sales practices from those in 2017. He explained that Revolution had completed (*i.e.* fully shipped) many more bill and hold sales within 2017 than it had completed within 2016. He wrote that Revolution had changed its business strategy with respect to bill and hold sales within the last six months. Despite being made aware of the noted differences in practice between 2016 and 2017, the RSM audit team continued to estimate the amount of unshipped inventory in 2016 based on Revolution's representations about shipping practices in late 2017.

52. By Monday, February 26, 2018, the SEC Reviewer had reached out to the Regional Director of the Northeast and Southeast PPO (“the regional audit director”), to discuss the audit team’s concern about Revolution’s bill and hold sales. The regional audit director reported to RSM’s National Director of Accounting. To RSM, the amount of unshipped inventory represented the size of Revolution’s potential error for 2016. The senior manager’s communication to the regional audit director included an earlier e-mail chain between the SEC Reviewer and the senior manager indicating that the unshipped percentage as of December 31, 2016 was an estimate based upon the unshipped percentage from late 2017. That information was also contained in notes embedded in certain cells in the spreadsheet.

53. The regional audit director directed the audit team to consult with another partner from RSM’s national office who was a specialist in revenue recognition for the national accounting group.

**c. RSM Concludes Errors Exist Within the Bill and Hold Sales**

54. On Tuesday, February 27, 2018, the RSM specialist, the engagement partner, the senior manager, and the SEC Reviewer discussed Revolution’s bill and hold sales.

55. As a result of the discussion with the RSM specialist, the audit team recognized that at least some of Revolution’s bill and hold sales did not support revenue recognition because they, at a minimum, failed the fixed delivery schedule criterion.

56. Following the discussion, the regional audit director spoke with the RSM specialist. The regional audit director agreed with the specialist’s input and the audit team’s conclusion that there were revenue recognition errors for some bill and hold sales.

57. The audit team, however, did not adequately document this conclusion in its work papers. For example, RSM failed to identify any specific bill and hold sale that was erroneously recognized. Instead, RSM’s bill and hold testing work papers for the 2017 Audit continued to reflect that all tested bill and hold sales satisfied GAAP.

58. RSM did not perform any additional audit procedures to determine which of the 2016 bill and hold sales failed to satisfy the GAAP criteria, based on the information from the national office consultation. Instead, the engagement partner, senior manager, and the RSM audit team assumed Revolution’s bill and hold practices in 2017 were comparable to those in 2016, even though they had evidence to the contrary. As a result, the engagement partner, senior manager, and the RSM audit team undercounted the potential misstatement of Revolution’s 2016 annual revenue by at least 44%. In addition, they failed to account for more than one million dollars of bill and hold revenue from another Revolution division, compounding the error.

59. Given the heightened risk associated with bill and hold sales and the imprecision of the estimate, RSM and the engagement partner failed to exercise due professional care and skepticism by relying on an erroneous estimate and by not requiring

Revolution to produce the actual historical information necessary to calculate the actual impact of the bill and hold revenue recognition errors.

**d. Materiality Memo Drafted by Revolution**

60. Following the discussion with the RSM national office specialist, the engagement partner and senior manager informed Revolution’s CFO that there was an issue with the accounting for bill and hold sales. They told Revolution’s CFO that Revolution needed to evaluate the impact on Revolution’s financial statements if Revolution only recognized revenue when the product was shipped. They asked Revolution’s CFO to draft a materiality assessment in accordance with the SEC’s Staff Accounting Bulletin No. 99 and guided Revolution’s CFO on what to do.

61. On February 28, 2018, Revolution sent the RSM audit team a draft materiality memo. It was drafted in less than one day, and presented Revolution’s view that any errors from bill and hold sales were immaterial. The draft materiality memo was riddled with errors, but the engagement partner and the senior manager did not question Revolution’s numbers, in part, because Revolution adopted RSM’s ROC figures, including the senior manager’s “rough estimate” (\$12.6 million) of the unshipped inventory as of December 31, 2016. According to the draft materiality memo, the net effect for 2016 was a decrease in revenue of only \$1.3 million, or 0.7%. See Figure 1.

	Year Ended December 31,			
	2017	2016	2015	2014
	(In millions)			
<b>Reported Revenue</b> .....	\$ 152.3	\$ 172.1	\$ 129.7	\$ 76.8
<b>Bill &amp; Hold Transactions Impact:</b>				
2017.....	(5.4)			
2016.....	12.6	(12.6)		
2015.....		11.3	(11.3)	
2014.....			4.8	(4.8)
Net effect.....	7.2	(1.3)	(6.5)	(4.8)
<b>Adjusted Revenue</b> .....	159.5	170.8	123.2	72.0
% Change.....	+4.5%	(0.7%)	(5.0%)	(6.2%)

The annual impact on adjusted revenue is deemed not material, as it represents less than 5% of the annual revenue for 2017, 2016 and 2015 and 6.2% for 2014. More importantly, the trends of revenue (over the 4 year period) increased from \$76.8 million to \$152.3 million approximately 100% and, after adjusted, 120%. Also, the trends from year to year were not impacted in any meaningful way.

Figure 1. Excerpt from Revolution’s Draft Materiality Memo, February 28, 2018.

62. After it rushed to file its 2017 Form 10-K on March 8, 2018, Revolution later concluded in October 2018 that its estimate of unshipped inventory was inaccurate because it failed to include the unshipped bill and hold sales from its All Around Lighting division and that it had materially misstated its financial statements. Revolution ultimately determined that it misstated revenue in 2016 not by 0.7%, but by 7.0%.

63. RSM’s estimation error also affected the rollover impact analysis for fiscal year 2017 revenue. Revolution’s draft materiality memo stated that the net effect on Revolution’s 2017 revenue was \$7.2 million or 4.5%. Revolution later calculated that, in reality, it was \$17.5 million or 10.3%. See Figure 2.

<i>In 000s Except Percentages</i>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Revenue As Reported	76,840	129,656	172,121	152,312
Bill & Hold Adjustments	(4,769)	(5,912)	(11,314)	17,546
Revenue As Adjusted for Bill and Holds	72,071	123,744	160,807	169,858
Misstatement as % of As Adjusted Revenue (Absolute Value)	6.6%	4.8%	7.0%	10.3%

Figure 2. Excerpted Data from Revolution’s Later 2019 Restatement Analysis

64. RSM, including the engagement partner, did not object to Revolution’s use of the “rough estimate.” RSM also did not object when the rollover analysis contradicted the audit evidence it possessed. For example, Value Lighting’s CFO had given the RSM audit team schedules that showed that some 2015 bill and hold sales did not ship until 2017. Nonetheless, Revolution placed all deferred 2015 revenue into 2016, instead of apportioning it accurately. The spreadsheet that the engagement partner and the audit team ultimately presented to the regional audit director used this “rough estimate” to evaluate the materiality of Revolution’s bill and hold errors.

**e. The March 1<sup>st</sup> and 2<sup>nd</sup> Revised Draft ROCs Presented to the Regional Audit Director Concluded that the Potential Misstatements to Revolution’s 2017 Financial Statements were Immaterial**

65. Following the February 27, 2018 discussion with the RSM specialist, the RSM audit team and the engagement partner revised the ROC. Even before receiving Revolution’s analysis on February 28 about whether the errors were material, RSM treated the errors as immaterial and suggested that the potential misstatements did not need to be corrected. On March 1, 2018, the engagement partner, senior manager, and the RSM audit team sent the revised ROC (“March 1 ROC”) to the regional audit director along with a draft of Revolution’s materiality memo. The audit team consulted the regional audit director on a possible restatement of 2017 because situations where the uncorrected misstatements exceed RSM’s audit planning materiality thresholds required sign off by a regional PPO member per RSM’s protocols. Before speaking with the audit team, the regional audit director forwarded the March 1 ROC to RSM’s National Director of Accounting.

66. On March 2, 2018, the RSM audit team consulted with the regional audit director and incorporated his suggestions into a new ROC (“March 2 ROC”). The March 2 ROC analyzed the necessity of adjusting Revolution’s 2017 financial statements and

restating prior year financial statements for the effect of bill and hold revenue that had not been shipped.

67. Similar to situations where uncorrected misstatements exceeded RSM thresholds, RSM's protocols required sign off by either the regional audit director or RSM's National Director of Accounting in order to approve a ROC relating to a possible restatement of a client's financial statements.

68. The March 2 ROC stated that RSM was concerned that shipping dates for bill and hold sales were not adhering to the "original fixed delivery schedules entered into with its customers." In general, the concern misstated the nature of the problem: in reality, Revolution had never actually entered into fixed delivery schedules with its purported bill and hold customers. The March 2 ROC concluded that Revolution's bill and hold misstatements were not material and that prior years' financial statements did not need to be restated.

#### **f. March 8 Final ROC**

69. On March 5, 2018, the regional audit director forwarded the March 2 ROC to the National Director of Accounting and asked to speak with him about it before starting "some heavier editing." As the RSM audit team prepared that day for its meeting with Revolution's audit committee, the ROC revision process was still ongoing.

70. The regional audit director edited the ROC and directed the senior manager to make changes where the regional audit director thought the analysis needed further support or where he believed the evidence given did not support the proposition.

71. The regional audit director approved the final version of the ROC ("final ROC") on March 8, 2018 – the very day that Revolution filed its Form 10-K. That final version used the flawed estimate of unshipped inventory and incorrectly measured the impact of the improper bill and hold revenue. Revolution's and RSM's faulty analysis miscalculated the actual (larger) size of the potential misstatement in 2016 and 2017. The incorrect smaller impact contributed to Revolution's and RSM's erroneous conclusion that the misstatements in Revolution's financial statements were immaterial.

72. RSM determined that Revolution's potential accounting errors from 2014 through 2017 were quantitatively material based on several metrics (revenue; net income; and earnings before interest, taxes, depreciation, and amortization ("EBITDA")). The misstated revenue was many times greater than the audit materiality levels for each year. RSM, which based its audit materiality threshold on 1% of expected revenue, found the potential revenue misstatement exceeded 5% for each of the prior three years on a cumulative basis, using the "iron curtain" method. Under the "iron curtain" method, the cumulative effect of correcting a prior period misstatement in the current period financial statements, irrespective of the misstatement's year of origin, is considered rather than just the impact of the error originating in each period. RSM also used the rollover method to quantify the potential misstatement. The rollover method quantifies a misstatement for a particular period based on the amount of error originating in that period's income



statement. If errors affect the timing of revenue, the cumulative quantitative impact of correcting a continuing fraud in the current period’s financial statements can be muted under a rollover analysis. Even using the rollover method, RSM concluded that the potential revenue misstatement exceeded 5% in two of the prior three years based on its calculation of materiality, as follows:

<b>IRON CURTAIN IMPACT (\$000s)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Reported Revenue	76,840	129,656	172,121	152,300
Bill and Hold Revenue Impact (Iron Curtain)	(4,769)	(11,342)	(12,591)	(5,421)
Adjusted Revenue (Iron Curtain)	72,071	118,314	159,530	146,879
Percent Misstated	<b>-6.6%</b>	<b>-9.6%</b>	<b>-7.9%</b>	<b>-3.7%</b>
<b>ROLLOVER IMPACT (\$000s)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Reported Revenue	76,840	129,656	172,121	152,300
Bill and Hold Revenue Impact (Rollover)	(4,769)	(6,573)	(1,249)	7,170
Adjusted Revenue (Rollover)	72,071	123,083	170,872	159,470
Percent Misstated	<b>-6.6%</b>	<b>-5.3%</b>	<b>-0.7%</b>	<b>4.5%</b>

73. The regional audit director and the audit team deemed the misstatements immaterial for qualitative reasons, despite the quantitative impacts. RSM found that any erroneously recognized bill and hold revenues did not mask any trends at Revolution: after adjusting revenue into the appropriate periods, Revolution’s revenue still grew, it still lost money every year, and it still failed to achieve revenue and other metric forecasts. According to RSM, because these macro trend lines would not change if Revolution’s financial statements were restated, the impact of the bill and hold error was immaterial to investors.

74. Even though the audit’s materiality levels were exceeded by a substantial margin, the engagement partner, senior manager, and regional audit director concluded that: (i) no restatement was required; and (ii) no revision was required. The final ROC also stated that no material weakness in internal control over financial reporting existed. The engagement partner and the senior manager inaccurately concluded that there was only a significant deficiency over adherence to shipping schedules. In conducting their analysis, the engagement partner, senior manager, and regional audit director did not have any RSM firm guidance on how to weigh qualitative factors against quantitative factors in restatement analyses.

75. In reaching its conclusion, RSM took a number of unreasonable missteps and made unsupported conclusions, which contradicted or deviated from RSM’s audit work for fiscal years 2014 – 2017, without adequate explanation or support, including:

- RSM deviated from its prior conclusion in its work papers that, for the primary users of the financial statements (including shareholders), “revenues are the most appropriate benchmark” and the one that was “most important” to those users.
- In assessing the materiality of the misstatements, RSM also erroneously used the numbers from Revolution’s early forecasts of revenue instead of

Revolution's most current revenue forecasts. It concluded without any support that once a company misses its revenue forecasts, any lower revenue results would not be significant to an investor.

- The final ROC stated that "RSM determined that revenue, net income, and EBITDA are all important metrics that [Revolution's] investors and analysts frequently review;" however, RSM's earlier audit work had concluded that net income was not an appropriate benchmark for materiality because investors expected losses.

76. The final ROC concluded, without support, that because Revolution had already missed its revenue forecasts, any further reduction in revenue creating an even larger miss "would likely not have had a significant impact on investor's views of the performance." The final ROC stated this conclusively, and it did not explain why a quantitatively larger miss in revenue compared to the forecasted guidance would not significantly alter the total mix of information important to an investor.

77. The regional audit director, engagement partner, and senior manager did not exercise due professional care when weighing the qualitative factors against quantitative factors, and they inconsistently applied the qualitative factors to certain time periods. For example:

- The underlying premise of much of RSM's argument for immateriality was that a miss to guidance is important to investors, but not the magnitude of the miss. Yet in analyzing 2015, when Revolution would have missed guidance but for the erroneous bill and hold revenue, RSM reversed course and deemed a failure to meet the analysts' expectations not material to investors.
- The assessment of qualitative factors in the final ROC was based on analyst calls from a limited time period, 2014 and early 2015, which were used to evaluate what investors cared about during different periods, instead of an analysis of the qualitative factors for the reasonable investor in each analyzed year to determine what was material at that time. For example, one section of the final ROC attempted to explain why the missed forecast was not significant. It stated that RSM reviewed an analyst report from December 2014, an analyst report from March 2015, and a 2015 earnings call, and found that the analysts' questions were primarily centered on long-term growth.
- The final ROC also did not address whether the analyst reports and earnings calls discussed whether Revolution met the revenue forecast. RSM also did not look to analysts' reports after Revolution reported it missed revenue guidance to see if that guidance miss was discussed by analysts.

78. RSM also noted in its materiality analysis that its concern was mitigated by Revolution's representations that it planned to cease using bill and hold sales going

forward. Revolution's representations about its future bill and hold practices should not have entered into RSM's analysis of the materiality of Revolution's past improper revenue recognition.

79. Further, RSM decided no additional audit procedures were necessary to determine the scope or impact of the potential accounting errors and issued its unqualified opinion for both Revolution's financial statements and its internal control over financial reporting.

80. RSM failed to exercise due professional care when analyzing Revolution's failure to satisfy the bill and hold revenue recognition criteria. The final ROC improperly evaluated Revolution's failure to satisfy the fixed delivery schedule criterion. RSM said that Revolution thought it was acceptable to delay shipment when requested by the customer, in accordance with a cited accounting resource. In reality, Revolution did not agree to fixed delivery schedules with its bill and hold customers in the first place, as Value Lighting's CFO told the senior manager in February 2018.

#### **IV. RSM IMPROPERLY AUDITED REVOLUTION'S INTERNAL CONTROL OVER FINANCIAL REPORTING**

81. During its audit of Revolution's internal control over financial reporting, RSM did not correctly identify the causes of the problems it identified with bill and hold revenues, instead taking an unreasonably narrow view of the deficiencies concerning the recognition of bill and hold revenue.

82. RSM also did not properly analyze the scope of the control deficiency identified during the 2017 Audit, and came to contradictory conclusions about it. RSM's analysis should have led it to conclude that Revolution's deficiencies associated with bill and hold revenues were, in fact, a material weakness.

##### **a. RSM Misidentified the Control Deficiencies**

83. RSM misidentified the causes and extent of Revolution's control deficiencies because it focused exclusively on adherence to delivery schedules. In its 2017 work papers, the RSM audit team concluded that a significant deficiency existed in Revolution's internal control over financial reporting. The audit team wrote that certain revenue related to "bill and [hold] transactions did not meet the 1<sup>st</sup> criteria (fixed delivery schedule) due to project delays which is common in the construction industry." The audit team explained that Revolution's interpretation of the fixed delivery schedule criterion was different than RSM's interpretation. The audit team wrote that the "root cause did not appear in other components of internal control, [and] no other deficiencies noted in testing of bill and hold transactions."

84. But, as discussed above, Revolution had agreed with its bill and hold customers that the date of delivery would be set in the future and was not fixed. The real control failure arose at the point of sale and not later when Revolution failed to "adhere" to a fixed delivery schedule. A fixed delivery schedule had never existed. So the "root

cause” was actually separate or undocumented arrangements between Revolution and its customers.

85. This root cause of the deficiency for the fixed delivery schedules (separate or undocumented arrangements with customers), however, did appear in other components of internal control, and could apply to any Revolution sale.

86. Revolution’s practice of separate or undocumented arrangements with customers was also consistent with another control failure that drew both RSM’s and Revolution’s attention: Revolution’s practice of allowing bill and hold customers to pay after shipment. Yet RSM unreasonably did not find this practice to reflect a control deficiency.

87. In the fall of 2017, RSM’s audit team viewed Revolution’s large aged accounts receivables for bill and hold revenue as an “issue.” But RSM did not design or implement any new testing to determine if Revolution was making undocumented arrangements with its customers.

88. In addition, during the 2017 Audit, Revolution acknowledged that it was not collecting payment from some bill and hold customers until shipment. In its draft and final materiality memos, Revolution wrote that “it was noted that...the fixed delivery dates were not always adhered to by the customer. As a result, shipping dates were extended on a number of occasions and *cash was not always collected within the stated period.*” (emphasis added). This statement should have alerted RSM that there was reason to question whether the purported bill and hold sales were consummated sales or whether payment was contingent upon delivery. The latter arrangement would disqualify the bill and hold sales from revenue recognition.

89. The regional audit director and engagement partner received and reviewed (or should have reviewed) the draft materiality memo that stated Revolution did not always collect payment in the stated period. After receipt, they neither took nor directed any actions to identify the scope or cause of Revolution’s failure to collect payments. This inaction, after being made aware of the longer delays in shipping bill and hold sales and payment delays by their client, breached RSM’s duty of professional care.

90. Unlike Revolution’s draft materiality memo, the final ROC ignored Revolution’s practice of allowing customers to wait to pay until after the held product was shipped. Instead, the final ROC limited its discussion of potential control deficiencies to Revolution’s failure to adhere to fixed delivery schedules. The final ROC stated that Revolution “hit on every other criteria in the B&H guidance, therefore, was a close call in evaluating all of the guidance and comparing to the realities of Revolution’s customers.” The regional audit director, engagement partner, and the senior manager should have concluded from a review of Revolution’s draft materiality memo that this final ROC statement was inaccurate.

91. While RSM's work papers and final ROC failed to find a deficiency with Revolution's collection of bill and hold payments, RSM's March 7, 2018 letter to Revolution's audit committee nevertheless lists it as a deficiency: "[c]ertain revenue related to bill and hold transactions did not meet required fixed delivery schedule and/or payment terms criteria. Revolution's controls over bill and hold revenue recognition did not properly identify when certain project delays or collection patterns results in a project no longer meeting the proper recognition criteria." Yet RSM's work papers do not support the conclusion in the letter to the audit committee or reference collection patterns at all. These contradictory conclusions illustrate RSM's failure properly to analyze Revolution's control deficiencies.

**b. RSM Improperly Classified the Control Deficiency as a Significant Deficiency When It was a Material Weakness**

92. According to Auditing Standard No. 2201, 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 entity's annual or interim financial statements will not be prevented or detected on a timely basis.

93. During 2017, RSM's audit team unreasonably concluded that the lack of adherence to fixed delivery schedules was only a significant deficiency and not a material weakness. If RSM had found a material weakness, Revolution would have had to disclose the material weakness in its internal control disclosures in its Form 10-K. RSM's finding of only a significant deficiency meant that Revolution did not disclose the problems with revenue-related controls.

94. RSM's audit team made at least three mistakes. First, the audit team inaccurately determined the size of the error caused by the control failure. Second, RSM unreasonably concluded that the \$2.2 million impact upon income was immaterial, and thus the control deficiencies were not material weaknesses. Third, the audit team inaccurately scoped the possible impact of the control failure.

95. Moreover, RSM's and the engagement partner's determination of the maximum amount caused by the control failure failed to recognize that:

- Revolution's underlying problems with fixed delivery schedules and payment collection were not reasonably limited to bill and hold revenue. Revolution's problems with collections and undocumented side arrangements with customers relating to payment terms and Revolution's future performance obligations could reasonably impact any sale – not just bill and hold sales.
- RSM's work papers improperly assumed Revolution possessed a fixed delivery schedule at the point of sale. But Revolution had explicitly alerted RSM to contrary information: that it did not have fixed delivery schedules. And audit team members had reviewed job schedules that did not contain fixed delivery schedules.

96. RSM should have determined that the potential amount of the misstatement of income was much higher than its estimate, and that the control deficiency was more pervasive than RSM's work papers reflected.

97. RSM's analysis was also flawed because the materiality of Revolution's misstatements should not have determined whether the deficiency was a material weakness. Even as described by RSM, Revolution's deficiency *could* have led to a material misstatement, and the internal control deficiencies caused misstatements that far exceeded the materiality level.

98. RSM improperly bolstered its determination that there were not any material weaknesses with the promise by Revolution's management that it had stopped recognizing revenue from bill and hold sales.

99. Thus, RSM and the engagement partner failed to exercise due professional care and skepticism in their evaluation of Revolution's internal control over financial reporting.

**V. RSM'S REPORTS CONTAINED FALSE STATEMENTS, WHICH REVOLUTION INCORPORATED INTO ITS ANNUAL FILINGS**

100. For the audits for each of the years 2014 through 2017, RSM sent Revolution its financial statement and internal control over financial reporting audit reports and Revolution included those reports with Revolution's annual SEC filings. In each of those reports, RSM attested that it had conducted its audits "in accordance with the standards of the PCAOB." In reality, as detailed above, RSM did not conduct its audits from 2014 to 2017 in accordance with PCAOB standards and its attestation to the contrary was therefore false. RSM knew that Revolution would incorporate its reports into Revolution's annual filings with the Commission. In this manner, RSM caused Revolution to include false statements in its annual filings with the Commission.

**VI. RSM UNREASONABLY CONCLUDED THAT REVOLUTION'S REVENUE RECOGNITION POLICY DISCLOSURE WAS ADEQUATE**

101. As part of its audit, RSM reviewed Revolution's Form 10-K disclosures about its revenue recognition policies. From 2014 to 2017, Revolution's Forms 10-K stated that Revolution "recognize[d] revenue upon shipment or delivery to [its] customers in accordance with the respective contractual arrangements." This was false as to bill and hold transactions. As RSM was well aware, Revolution recognized a significant amount of its reported revenue on a bill and hold basis, not upon shipment or delivery. Indeed, revenue attributed to bill and hold sales exceeded 20% of Revolution's largest division's total revenue.

102. RSM specifically considered whether Revolution’s bill and hold practices should be disclosed. For the 2014, 2015, and 2016 Audits, RSM unreasonably concluded that Revolution’s disclosure about recognizing revenue upon shipment or delivery somehow encompassed bill and hold sales for which Revolution recognized revenue prior to shipment or delivery.

103. For the 2017 Audit, RSM took a different approach. It unreasonably concluded that Revolution’s recognition of revenue on a bill and hold basis was “not applicable” to Revolution’s revenue recognition disclosure. The RSM audit team offered no explanation or analysis to support this unreasonable conclusion.

104. For each of the 2014 to 2017 Audits, RSM had substantial evidence that the disclosure in Revolution’s Form 10-K did not encompass Revolution’s bill and hold sales.

## **VII. RSM VIOLATED NUMEROUS PCAOB AUDITING STANDARDS**

### **a. Failure to Adequately Plan the Audit (AS 2101)**

105. PCAOB Auditing Standard (AS) 2101 requires an auditor to properly plan the work of an audit. An auditor must plan the nature, timing, and extent of tests of controls and substantive procedures.

106. By virtue of the conduct described above, RSM failed to plan for and design effective testing of Revolution’s high-risk bill and hold sales. For instance, RSM did not design a test to identify the date on which the parties agreed to conduct each transaction on a bill and hold basis. RSM did not plan to have experienced and adequately trained audit staff conduct the bill and hold testing and did not require more senior members of the audit team to review critical underlying audit evidence in the highest risk area of the audit.

### **b. Failure to Obtain Appropriate Audit Evidence (AS 1105)**

107. PCAOB Auditing Standard 1105 requires an auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.

108. By virtue of the conduct described above, RSM failed to plan and perform adequate audit procedures to obtain sufficient appropriate audit evidence of fixed delivery schedules; the customers’ requests for bill and hold arrangements; the timing of such requests; and the substantial business purpose for such customer requests. In addition, RSM failed to plan and perform adequate audit procedures to effectively identify special terms Revolution offered (*e.g.*, discounts) to incentivize customers to enter into bill and hold agreements.

### **c. Failure to Document the Audit Properly (AS 1215)**

109. PCAOB Auditing Standard 1215 requires an auditor to prepare audit documentation in detail sufficient to provide a clear understanding of its purpose, source,

and conclusions reached. Audit documentation must also include information the auditor has identified that contradicts the auditor's final conclusions on significant findings or issues.

110. By virtue of the conduct described above, RSM failed to document disconfirming audit evidence and bill and hold agreements that controverted Revolution's recognition of revenue. Instead, the work papers stated, without adequate support, that Revolution's bill and hold sales satisfied the fixed delivery schedule criterion.

**d. Failure to Perform Confirmation Procedures Properly (AS 2310)**

111. PCAOB Auditing Standard 2310 addresses confirmations to obtain evidence from third parties about financial statement assertions made by management. Confirmations must be reliable and relevant, and an auditor should exercise an appropriate level of professional skepticism throughout the confirmation process, including in designing the confirmation itself.

112. By virtue of the conduct described above, RSM failed to perform adequate confirmation procedures by failing to adequately review confirmations that were incomplete and, in some instances, that were inconsistent with bill and hold revenue recognition. RSM also failed to perform adequate confirmation procedures because the audit team designed confirmations that did not obtain sufficient evidence of a customer's substantial business purpose for requesting the bill and hold arrangement.

**e. Failure to Supervise the Engagement Team Properly (AS 1010 & 1201)**

113. PCAOB Auditing Standard 1010 requires an engagement partner to exercise seasoned judgment in the varying degrees of his supervision and review of the work done and judgments exercised by his subordinates. PCAOB Auditing Standard 1201 requires an auditor to supervise the audit engagement (including the work of engagement team members) so that the work is performed as directed and supports the conclusions reached. The engagement partner is responsible for the engagement and its performance. The partner must review the work of engagement team members to evaluate whether: (i) the work was performed and documented; (ii) the objectives of the procedures were achieved; and (iii) the results of the work support the conclusions reached.

114. PCAOB Auditing Standard 1201 requires an auditor to supervise the audit engagement (including the work of engagement team members) so that the work is performed as directed and supports the conclusions reached. Audit managers are responsible for the parts of the audit they manage and supervise. A manager should review the work of engagement team members to evaluate whether: (i) the work was performed and documented; (ii) the objectives of the procedures were achieved; and (iii) the results of the work support the conclusions reached.

115. By virtue of the conduct described above, RSM failed to properly supervise the audit team's testing of bill and hold sales. RSM did not directly review sufficient audit



evidence to ensure that the evidence satisfied the testing requirements or GAAP criteria. And, when contradictory evidence came to the audit team's attention, RSM did not verify that the audit evidence supported the conclusions reached. Rather, the audit team's testing of bill and hold sales was effectively left as the sole responsibility of the junior associates, and the level of supervision exercised by the engagement partner and the senior manager did not correspond to the risks associated with bill and hold sales.

**f. Failure to Properly Evaluate Audit Results (AS 2810)**

116. PCAOB Auditing Standard 2810 requires an auditor to evaluate whether sufficient and appropriate audit evidence has been obtained and to evaluate the presentation of the financial statements, including the disclosures.

117. By virtue of the conduct described above, RSM failed to properly evaluate the audit evidence, which did not support the conclusion that revenue recognition was proper. RSM also did not properly evaluate the disclosures in Revolution's financial statements, which omitted Revolution's policy of recognizing revenue from bill and hold sales and thus misrepresented Revolution's revenue recognition policy. Lastly, even using its erroneous underestimate, RSM did not support with evidence its conclusion that the potential impact of bill and hold sales was immaterial.

**g. Failure to Properly Perform an Audit of Internal Control Over Financial Reporting (AS 2201)**

118. Under PCAOB Auditing Standard 2201, if one or more material weaknesses exist, a company's internal control over financial reporting cannot be considered effective. A material weakness in internal control over financial reporting may exist even when financial statements are not materially misstated. The auditor must evaluate the severity of each control deficiency that comes to his or her attention to determine whether the deficiencies are material weaknesses, meaning whether there is a reasonable possibility that the company's controls will fail to prevent or detect on a timely basis a material misstatement. In conducting the audit of internal control over financial reporting, the auditor should use the same materiality levels as those used in the audit of annual financial statements.

119. By virtue of the conduct described above, RSM failed to properly evaluate the basis and severity of Revolution's internal control deficiencies. RSM unreasonably found that Revolution's internal control over financial reporting suffered only from a significant deficiency (instead of a material weakness), based on an unreasonably narrow conclusion that Revolution's controls did not properly identify "when certain project delays or collection patterns result[ed] in a project no longer meeting the proper recognition criteria."

**VIII. RSM VIOLATED NUMEROUS PCAOB AUDIT AND QUALITY CONTROL STANDARDS**

**a. Failure to Exercise Due Professional Care (AS 1015)**

120. Under PCAOB Auditing Standard 1015, “due professional care” requires each professional within an independent auditor’s organization to exercise reasonable care and diligence. It requires the auditor to exercise professional skepticism – “an attitude that includes a questioning mind and a critical assessment of audit evidence.”

121. As a result of the conduct described above, RSM failed to exercise an appropriate level of professional skepticism or due professional care. For instance, Revolution in several instances provided RSM auditors with copies of bill and hold agreements that were dated nearly two months after the fiscal year ended, despite RSM’s timely request for these documents. Revolution’s inability to provide the bill and hold agreements punctually during the audits should have suggested to a reasonably skeptical auditor that Revolution and the customer had not entered into the agreements before December 31 on any given year. Yet RSM and the engagement partner accepted the bill and hold agreements without question.

122. RSM also failed to exercise due professional care in the restatement analysis it prepared in 2018. That analysis was based on a “rough estimate” that did not align with Revolution’s bill and hold practices. RSM therefore failed to exercise due professional care because it did not require Revolution to provide the actual historical data before calculating the impact of the errors and relying on that calculation. Revolution’s inability to produce its own actual unshipped inventory records of sales at the end of the year indicated a control deficiency. RSM failed to exercise a sufficient level of professional skepticism by: (a) not recognizing Revolution’s failure to have these records available and to produce them in a timely manner as a control deficiency, and (b) not waiting for Revolution to determine the actual bill and hold unshipped inventory amounts.

123. RSM also should not have permitted Revolution to simply copy RSM’s “rough estimate” into Revolution’s materiality restatement analysis. RSM should not have been supplying Revolution, the audit client, with estimated unshipped inventory amounts.

124. RSM failed to exercise due professional care by not considering all of Revolution’s bill and hold sales. RSM only included bill and hold revenue from Value Lighting in its restatement analysis, failing to include bill and hold revenue from All Around Lighting, even though the engagement partner knew Revolution had recognized bill and hold revenue in that subsidiary. As a result, RSM’s restatement analysis underestimated by over one million dollars the potential impact of Revolution’s erroneous recognition of bill and hold sales as revenue.

125. Lastly, RSM did not exercise due professional care in the restatement analysis and materiality assessment. AS 2810 requires an auditor to assess the risk of a material misstatement due to fraud and properly evaluate the materiality of any uncorrected misstatements. As noted in AS 2810, “A fact is material if there is a substantial likelihood that the...fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.” AS 2810 lists qualitative factors to

consider and specifically identifies that earnings and earnings per share matter to public company investors.

126. For the 2014 through 2017 Audits, the engagement partner determined that revenue was the financial metric most important to investors. The engagement partner set the revenue materiality level for the 2017 Audit at \$1.79 million. In the final ROC, RSM used the same revenue materiality level. In reviewing the ROC, the regional audit director accepted the previously determined audit materiality level. Then, the engagement partner and regional audit director agreed that Revolution's cumulative uncorrected misstatements exceeded the revenue materiality threshold by more than three times in 2017 and more than seven times in 2016. They understood that the materiality level for other metrics, such as net income, were also exceeded by multiples in the 2014 through 2016 financial statements. Yet the engagement team and RSM's national office concluded that Revolution's persistent practice of overstating revenue by more than 5% (iron curtain) would not be material to the reasonable investor. This conclusion was unreasonable because of the earlier determinations of materiality levels and qualitative factors, including that revenue was the most important financial metric for investors and that net income and EBITDA were also important metrics.

127. The engagement partner and regional audit director's conclusion was also based on the unsupported assertion that (a) whether Revolution met or missed forecasts and (b) the amount by which Revolution missed any forecasts for these important metrics would not have had a significant impact on investors' view of performance. For example, the ROC reflected that restating bill and hold revenue would cause Revolution to miss 2015 revenue guidance that it otherwise met. Even though that would yield a classic example of qualitative materiality, they dismissed the idea that this was qualitatively material. They supported this approach, in part, by noting—with hindsight reasoning—that revenue in 2016 still grew. But an investor reading Revolution's financial statements and press releases in 2015 could not have known what 2016's annual revenue would be.

128. The engagement partner, regional audit director, and RSM's analysis was driven by the outcome they wished to get. The RSM audit team believed the problem with bill and hold revenue would be eliminated soon (as they wrote in the ROC) because Revolution said it had stopped using bill and hold sales toward the end of 2017. In their haste to meet Revolution's filing deadline, RSM and the engagement partner negligently failed to include bill and hold revenue from its All Around Lighting division, and RSM unreasonably used bad estimates. As a result, RSM significantly undercounted the impact of Revolution's errors. Even with the underestimate, the misstatement was still multiples of the audit planning quantitative materiality threshold. But RSM nevertheless determined that qualitative factors outweighed quantitative factors and, ultimately, concluded that Revolution's investors would not find large changes in revenue, net income, and EBITDA to be material. Rather than exercise an appropriate level of skepticism in this area – an area they knew required heightened scrutiny – RSM made unreasonable determinations in concluding that Revolution's misstatements were immaterial. RSM's lack of due professional care served to hide the engagement team's failure to properly conduct an audit for fiscal years 2014 – 2017.

**b. Failure to Ensure Adequate Supervision, Training, and Review (QC 20.03, QC 20.11, QC 20.12, QC 20.13)**

129. PCAOB's Quality Control ("QC") standards, and in particular PCAOB QC 20.03, require an audit firm to ensure that its personnel comply with professional auditing standards, and to implement a system of quality controls to ensure that services are competently delivered and adequately supervised.

130. PCAOB QC 20.11 states: "A firm's quality control system depends heavily on the proficiency of its personnel. In making assignments, the nature and extent of supervision to be provided should be considered."

131. PCAOB QC 20.12 states: "The quality of a firm's work ultimately depends on the integrity, objectivity, intelligence, competence, experience, and motivation of personnel who perform, supervise, and review the work. Thus a firm's personnel management policies and procedures factor into maintaining such quality."

132. PCAOB QC Standard 20.13 requires an audit firm to establish policies and procedures to provide reasonable assurance that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances. PCAOB QC 40.02 also imposes this requirement.

133. By virtue of the conduct described above, RSM failed to provide reasonable assurance that personnel conducting bill and hold testing were adequately trained and supervised in that significant risk area, and RSM failed to provide reasonable assurance that the level of supervision over the bill and hold testing was commensurate with the experience of the personnel conducting the testing.

**c. Failure to Establish Policies and Procedures Concerning Professional Standards (QC 20.17, QC 20.18 & QC 20.19)**

134. PCAOB QC Standard 20.17 requires an audit firm to establish policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality. PCAOB Quality Control Standard 20.18 states that the policies and procedures encompass all phases of the engagements. PCAOB Quality Control Standard 20.19 requires policies and procedures to provide reasonable assurance that direct engagement personnel "consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues)."

135. By virtue of the conduct described above, RSM failed sufficiently to establish policies and procedures concerning professional standards. Here, RSM had inadequate consultation policies and procedures. It did not require audit teams to consult with revenue recognition specialists or its national office when confronted with the complexities of high-risk revenue contracts with customers, such as those with bill and

hold arrangements. When the Revolution audit team finally consulted with a revenue recognition specialist in 2018, the national office determined that the engagement team had inappropriately applied the bill and hold criteria since the 2014 Audit; yet the national office did not sufficiently challenge any of the judgments made by the audit team.

136. The national office also failed to conduct a robust consultation. RSM did not have a policy adequately addressing how to apply qualitative factors in a materiality analysis. The national office consultation failed to challenge the judgments of the audit team. As a result, when confronted with a quantitatively large misstatement of revenue in 2018, the audit team and regional audit director concluded that the qualitative factors outweighed quantitative factors, even though the team had in previous years concluded that revenue was the most important metric to investors.

## **IX. VIOLATIONS**

137. Through the conduct described above, RSM engaged in improper professional conduct in violation of Section 4C(a)(2) of the Exchange Act and Rule 102(e) of the Commission's Rules of Practice. Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice provide, in part, that the Commission may censure a person 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. With respect to persons licensed to practice as accountants, "improper professional conduct" includes either of the following two types of negligent conduct: (i) a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted; or (ii) repeated instances of unreasonable conduct, each resulting in violations of applicable professional standards, that indicate a lack of competence to practice before the Commission. *See* Rule 102(e)(1)(iv)(B)(1) and (2). By failing to comply with PCAOB standards in connection with the 2014 through 2017 Audits of Revolution, as described above, RSM engaged in improper professional conduct as defined in Rule 102(e)(1)(iv).

138. Through the conduct described above, RSM violated Rule 2-02(b)(1) of Regulation S-X. Then Rule 2-02(b)(1) of Regulation S-X required an accountant's report to state whether the audit was performed in accordance with applicable auditing standards. 17 CFR 210.2-02(b)(1). RSM issued audit reports for Revolution's fiscal years 2014 through 2017 attesting that it had conducted those audits in accordance with PCAOB standards when it had not.

139. Through the conduct described above, RSM caused Revolution's violations of Section 13(a) of the Exchange Act and Rule 13a-1 thereunder. Section 13(a) of the Exchange Act and Rule 13a-1 require issuers of securities registered under Section 12 to file annual reports with the Commission. Those annual reports must be audited by an independent public accountant registered with the PCAOB. Revolution filed an annual report on Form 10-K for fiscal years 2014 through 2017, and included RSM's audit reports.

Those audit reports falsely stated that RSM had conducted its audits in accordance with PCAOB standards.

## **X. FINDINGS**

140. Based on the foregoing, the Commission finds that RSM 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.

141. Based on the foregoing, the Commission finds that RSM violated Rule 2-02(b) of Regulation S-X.

142. Based on the foregoing, the Commission finds that RSM caused Revolution's violations of Section 13(a) of the Exchange Act and Rule 13a-1 promulgated thereunder.

## **XI. UNDERTAKINGS**

### **a. Independent Consultant**

143. Respondent RSM has undertaken to retain, within 120 days after the entry of this Order, an independent consultant ("Independent Consultant"), not unacceptable to the Commission staff. RSM shall provide to the Commission staff a copy of the engagement letter detailing the scope of the Independent Consultant's responsibilities. RSM shall, upon request by the staff, provide information about the Independent Consultant's work plan to the staff including the Independent Consultant's experience, ability to staff the engagement, and expertise in auditing and audit firm quality controls. The Independent Consultant's compensation and expenses shall be borne exclusively by RSM.

### **b. Independence**

144. To ensure the independence of the Independent Consultant, RSM: (1) shall not have the authority to terminate the Independent Consultant or substitute another independent consultant for the initial Independent Consultant, without the prior written approval of the Commission staff; and (2) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

145. RSM will require the Independent Consultant to enter into an agreement that provides that, for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with RSM, or any of its present or former affiliates, directors, officers, partners, employees, or agents acting in their capacity as such. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in

the performance of his/her duties under this Order shall not, without prior written consent of the Division of Enforcement, enter into any employment, consultant, attorney-client, auditing or other professional relationship with RSM, or any of its present or former affiliates, directors, officers, partners, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

146. RSM will not assert any privilege over communications with or work product prepared by the Independent Consultant.

### **c. Scope of Independent Consultant's Review**

147. Within the time periods specified below, the Independent Consultant will review and evaluate RSM's audit, review, and quality control policies and procedures as to, among other aspects, their sufficiency, adequacy, design, implementation, and effectiveness, applicable to Audit Clients<sup>4</sup> regarding the subjects set forth below. The Independent Consultant's purpose for this review and evaluation will be to make recommendations for improvements to these policies and procedures:

- i. The exercise of due professional care and professional skepticism involving significant unusual revenue recognition (*See, e.g., AS 1015*);
- ii. Audit planning for significant unusual revenue recognition, including bill and hold revenue recognition (*See, e.g., AS 2101*);
- iii. Obtaining appropriate audit evidence for significant unusual revenue recognition, including bill and hold revenue recognition that is sufficient to support the opinion expressed in the auditor's report, including satisfaction of applicable bill and hold revenue recognition criteria under GAAP (*See, e.g., AS 1105*);
- iv. Evaluation of audit results for significant unusual revenue recognition, including bill and hold revenue recognition, including whether sufficient and appropriate audit evidence has been obtained and whether disclosures of a company's financial statements are presented properly (*See, e.g., AS 2810*);
- v. Evaluation of audit results to determine whether there are material errors or material misstatements to an Audit Client's financial statements when potential errors quantitatively equal or exceed audit planning materiality levels or quantitative materiality thresholds (*See, e.g., AS 2810*);
- vi. The consideration of fraud in an audit involving significant unusual revenue recognition (*See, e.g., AS 2401*);
- vii. The audit confirmation process over significant unusual revenue recognition, including bill and hold revenue recognition (*See, e.g., AS 2310*);

---

<sup>4</sup> An "Audit Client," for purposes of these undertakings, means any SEC registrant or any client for which the audit or review was required by the federal securities laws.

- viii. Supervision of engagements involving significant unusual revenue recognition, including staffing of such audit engagements, exercising seasoned judgment by partners and senior managers in the varying degrees of supervision and review of the work done and judgments exercised by subordinates, and supervising the audit work of other engagement team members so that the work is performed as directed and supports the conclusions reached (*See, e.g.*, AS 1010 and AS 1201);
- ix. The adequacy of audit documentation that clearly demonstrates the audit steps and procedures performed over significant unusual revenue recognition, including bill and hold revenue recognition, including the conclusions reached and the basis for those conclusions (*See, e.g.*, AS 1215);
- x. Evaluation of the severity of control deficiencies involving significant unusual revenue recognition in audits of Internal Control Over Financial Reporting, including whether the deficiencies are significant deficiencies, material weaknesses, or there is a reasonable possibility that an Audit Client's controls will fail to prevent or detect a material misstatement (*See, e.g.*, AS 2201);
- xi. Formal or informal communications or consultations with the Firm's National Professional Standards Group or Professional Practice Offices or personnel, or any person or group performing a similar function, concerning auditing or accounting for significant unusual revenue recognition, including bill and hold sales and the documentation of such consultations, including but not limited to the scope of consultation, the conclusions reached, and the basis for those conclusions;
- xii. Formal or informal communications or consultations with the Firm's National Professional Standards Group or Professional Practice Offices or personnel, or any person or group performing a similar function, concerning the review and evaluation of:
  - 1. Financial statement errors and misstatements; and
  - 2. Materiality and restatement assessments;including, but not limited to, consultations where the audit team has concluded that quantitative factors would meet materiality thresholds, but the misstatements were deemed immaterial to the reasonable user of the financial statements when qualitative factors were considered;
- xiii. RSM's review program(s) established in connection with the Firm's compliance with QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, and QC 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*, concerning auditing or accounting for significant unusual revenue recognition, including bill and hold revenue recognition, and evaluating



the materiality of errors or misstatements to an Audit Client's financial statements in connection with restatement assessments;

- xiv. The sufficiency of RSM's professional development and training programs concerning subject matters set forth in subsections (i) through (xiii) above.

148. RSM shall cooperate fully with the Independent Consultant and shall provide reasonable and timely access to firm personnel, information, and records (including audit and consultation documents) as the Independent Consultant may reasonably request for the Independent Consultant's review and evaluation described in Paragraph 147 and the reports specified in Paragraphs 149 through 155 below.

#### **d. Independent Consultant Reports and Certifications**

149. Within six (6) months of the Independent Consultant being retained, RSM shall require the Independent Consultant to issue a detailed written report ("Report") to RSM: (a) summarizing the Independent Consultant's review and evaluation of the areas identified in Paragraph 147 and its subsections above; and (b) making recommendations, where appropriate, reasonably designed to ensure that audits conducted by RSM comply with Commission regulations and with PCAOB standards and rules. RSM shall require the Independent Consultant to provide a copy of the Report to the Commission staff when the Report is issued. RSM shall also make the Independent Consultant available to staff to discuss its work both periodically and after issuance of the report.

150. RSM will adopt all recommendations of the Independent Consultant in the Report. Provided, however, that within thirty (30) days of issuance of the Report, RSM may advise the Independent Consultant in writing of any recommendation that it considers to be unnecessary, unduly burdensome, or impractical, and provide an explanation for its conclusion. RSM need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the Commission staff an alternative policy or procedure designed to achieve the same objective or purpose. RSM shall provide a copy of such written proposal and its explanation to the Commission staff within seven (7) days of issuance of such proposal. RSM and the Independent Consultant will engage in good-faith negotiations in an effort to reach agreement on any recommendations objected to by RSM.

151. In the event that the Independent Consultant and RSM are unable to agree on an alternative proposal within sixty (60) days of RSM's submission of its proposal, RSM either will abide by the determinations of the Independent Consultant or seek approval from the Commission staff pursuant to Paragraph 144 above to engage, at RSM's expense, a qualified third party acceptable to the Commission staff to promptly resolve the issue(s).

152. Within sixty (60) days of issuance of the Report, but not sooner than thirty (30) days after a copy of the Report is provided to the Commission staff, RSM will certify to the Commission staff in writing that it has adopted and has implemented or will implement all recommendations of the Independent Consultant ("Certification of

Compliance”), as modified pursuant to the process set forth in Paragraphs 150 and 151. RSM will provide a copy of the Certification of Compliance to the Commission staff. To the extent that RSM has not implemented all recommendations contained in the Report by that time, RSM will certify to the Commission staff in writing, by thirty (30) days after their implementation, that RSM has adopted and has implemented all recommendations contained in the Report (“Implementation Certification”).

153. Within six (6) months of the issuance of the Report or the Implementation Certification, whichever is later, RSM shall require the Independent Consultant to complete testing of whether RSM has implemented the written policies and procedures concerning the areas specified in Paragraph 147 and its subsections above and assess the effectiveness of the design and implementation of those policies and procedures. Within thirty (30) days of the completion of this testing, RSM shall require the Independent Consultant to issue a written final report summarizing the results of the Independent Consultant’s testing and assessment (“Final Report”) and to provide a copy of the Final Report to the Commission staff. At this time, if the Independent Consultant determines that RSM has adopted and implemented all recommendations set forth in the Report, RSM shall require the Independent Consultant to certify in writing that RSM has satisfied such undertakings (“Independent Consultant Certification”) and provide a copy of this certification to the Commission staff. In all events, RSM must complete all undertakings concerning the implementation of the recommendations set forth in the Independent Consultant’s Report and provide the Independent Consultant Certification to the Commission staff no later than twenty-four (24) months after the entry of this Order.

154. The Report, Final Report, Certification of Compliance, Independent Consultant Certification, and any related correspondence or other documents shall be submitted to John Dugan, Associate Director, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 24th Floor, Boston, MA 02110, with a copy to the Office of Chief Counsel of the Enforcement Division.

155. The Report and Final Report by the Independent Consultant will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of these reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, these reports and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission’s discharge of its duties and responsibilities, or (4) is otherwise required by law.

156. No later than sixty (60) days from the completion of the undertakings, RSM’s CEO shall also certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and RSM agrees to provide such evidence. This certification and

supporting material shall be submitted to John Dugan, Associate Director, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 24th Floor, Boston, MA 02110, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

157. 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.

158. RSM agrees that if the Division of Enforcement believes that RSM has not satisfied these undertakings, it may petition the Commission to reopen the matter to determine whether additional sanctions are appropriate.

#### IV.

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

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

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

B. RSM is censured.

C. RSM shall comply with its undertakings enumerated in Paragraphs 143-158 of Section III above.

D. RSM shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$3,750,000 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.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent 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) Respondent 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 RSM US LLP 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 John Dugan, Associate Director, Division of Enforcement, Securities and Exchange Commission, 33 Arch Street, 24th Floor, Boston, MA 01770.

E. 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, Respondent 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 Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent 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 Respondent 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.

By the Commission.

Vanessa A. Countryman  
Secretary