

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 67767 / August 31, 2012

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3403 / August 31, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-15001

In the Matter of

FEDERICO QUINTO, JR., CPA,

Respondent.

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

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative proceedings be, and hereby are, instituted against Federico Quinto, Jr., CPA (“Respondent” or “Quinto”) pursuant to Section 4C¹ of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

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

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others . . . (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

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

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

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 him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

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

A. SUMMARY

1. These proceedings arise out of Respondent’s improper professional conduct as the engagement partner on the 2007 audit (the “Audit”) and first three quarterly reviews of 2008 (the “Quarterly Reviews”) of Soyo Group, Inc.’s (“Soyo”) financials. In this capacity, Quinto failed to ensure that Vasquez & Company, LLP’s (“Vasquez”) engagement team for Soyo adhered to the Standards of the Public Company Accounting Oversight Board (“PCAOB Standards”) in performing audit and review procedures in key areas, such as debt and going concern. Quinto’s improper professional conduct included: failure to obtain sufficient competent evidential matter; failure to properly consider Soyo’s ability to continue as a going concern; failure to modify the auditor’s report appropriately when Soyo did not make required disclosures; failure to act with due professional care; failure to prepare and maintain adequate work papers; and failure to adhere to standards of conducting reviews of interim financial information.

B. RESPONDENT

2. **Federico “Jun” Quinto, Jr., CPA**, age 57, is a resident of Cerritos, California. Quinto is a principal at the Vasquez accounting firm and served as the engagement partner on the Soyo Audit and Quarterly Reviews. As the engagement partner, Quinto was ultimately responsible for the overall conduct of the Audit and Quarterly Reviews. Quinto is a certified public accountant licensed in the state of California.

³ 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.

C. OTHER RELEVANT PARTIES

3. **Vasquez & Company, LLP**, a limited liability partnership headquartered in Los Angeles, California, is a public accounting firm registered with the Public Company Accounting Oversight Board (“Board”) engaged in the business of providing auditing, tax, and consulting services. Vasquez issued an unqualified opinion in its auditor’s report in connection with its audit of Soyo’s 2007 financial statements and included, with Vasquez’s consent, in Soyo’s 2007 Form 10-K. Vasquez personnel also performed the Quarterly Reviews.

4. **Soyo Group, Inc.** was, at the time of the relevant conduct discussed herein, a Nevada corporation located in Ontario, California, primarily in the business of selling televisions, monitors, computer parts and peripherals through its wholly-owned subsidiary. Soyo voluntarily filed periodic reports with the Commission and Vasquez committed to perform its engagements associated with such filings in accordance with PCAOB Standards. Soyo’s common stock had been quoted on OTC Link, but such quotations have now been discontinued. On May 5, 2009, Soyo filed for bankruptcy protection. Soyo has ceased all business operations and is liquidating under the supervision of a receiver.

D. FACTS

Background

5. During 2007 and the first three quarters of 2008, Soyo booked over \$47 million in sales from at least 120 fictitious transactions with 21 customers, resulting in material overstatements in Soyo’s reported net revenues in several periodic reports filed with the Commission. While this fraud was being committed, Soyo was financing its business operations through millions in borrowings from United Commercial Bank (“UCB”). Notwithstanding the phony profits, Soyo struggled to obtain enough cash to continue its operations and it regularly violated its debt covenants with UCB. Indeed, to obtain additional bank financing for Soyo and keep its existing line of credit with UCB from defaulting, Soyo falsely reported in the second and third quarter of 2008 that it completed a \$6 million debt-for-equity transaction with one of its vendors.

Failure to Obtain Sufficient Competent Evidential Matter

6. Under PCAOB Standards, the Vasquez audit team was required to obtain sufficient competent evidential matter by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit. See PCAOB Interim Standard – AU § 326, *Evidential Matter*.⁴

⁴ “AU” refers to the specific sections of the codification of the American Institute of Certified Public Accountants (“AICPA”) professional standards, known as the Statements on Auditing Standards, as issued by the Auditing Standards Board of the AICPA. Following passage of the Sarbanes-Oxley Act of 2002, these standards were adopted as the PCAOB Standards in 2003. References in this Order are to the standards in effect at the time of the relevant conduct.

7. Quinto failed to ensure that the audit team performed appropriate audit procedures in the area of Soyo's debt obligations. In planning the Audit, the Vasquez audit team identified Soyo's asset-based credit line ("ABL") with UCB as a contract that had audit significance given the magnitude of the UCB debt on Soyo's balance sheet.⁵ The audit team performed an analysis of the ABL and noted that Soyo was not in compliance with three of its six debt covenants as of December 31, 2007. The debt covenant violations were important because they were events of default under Soyo's lending agreement with UCB, and could have triggered the termination of the credit line and acceleration of the UCB debt. Such actions by UCB could have forced Soyo into bankruptcy as the company was highly dependent on its credit line to fund its ongoing business operations and Soyo did not have sufficient cash (or assets readily convertible to cash) to repay the UCB debt. Accordingly, the debt covenant violations, if not waived, could have had catastrophic consequences for Soyo. Yet Quinto and the other members of the audit team did not make any inquiries of UCB about Soyo's ABL debt covenant violations or otherwise obtain evidence supporting a waiver.

8. In addition, the Vasquez audit team's work with respect to the multi-million dollar purchase order financing line with UCB was also deficient, as there was a complete absence of documentation or analysis of the terms and conditions of the purchase order financing line, rendering it impossible to determine if Soyo was in compliance with that debt obligation as of December 31, 2007.⁶

Failure to Properly Consider Soyo's Ability to Continue as a Going Concern

9. Under PCAOB Standards, the Vasquez audit team had the responsibility to evaluate whether there was substantial doubt about Soyo's ability to continue as a going concern for a reasonable period of time. *See* PCAOB Interim Standard – AU § 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

10. There were numerous conditions and events Quinto knew or should have known during the Audit that, in the aggregate, indicated there could be substantial doubt about Soyo's ability to continue as a going concern for a reasonable period of time. Those conditions and events were that:

⁵ As of December 31, 2007, Soyo's total debt with UCB was approximately \$27.8 million, or 63 percent of Soyo's total liabilities. Around \$16.9 million of this debt was associated with the ABL with UCB while the remainder was a purchase order financing line with UCB.

⁶ The audit team also failed to obtain sufficient competent evidential matter to support increases to the ABL during 2007 (from \$12 million to \$17 million) that were disclosed in Soyo's 2007 Form 10-K. For example, there is no support in Vasquez's audit work papers that the credit limits for the ABL were increased in April and December of 2007, or that all other terms of those agreements were unmodified. Moreover, Vasquez's audit work papers reflect no inquiry about why Soyo overdrawed its ABL by approximately \$1 million in the third quarter of 2007.

- Soyo was in violation of its debt covenants with UCB;⁷
- Soyo was heavily reliant on its borrowings with UCB;
- Soyo needed to extend the maturity date of the ABL due to its inability to pay;
- Soyo received credit limit increases to the ABL;
- Soyo had, during the year, exceeded its credit limit with UCB;
- Soyo was very near its credit limit on the ABL;
- UCB required Soyo’s chief executive officer (“CEO”) and chief financial officer (“CFO”) to jointly sign a \$6.5 million personal guaranty to obtain the ABL;
- UCB did not renew the purchase order financing line when it expired in February 2008; and
- Additional financing was expensive for Soyo.

11. Vasquez’s audit work papers are devoid of any consideration of these events as they relate to going concern or any rationale for Vasquez’s failure to evaluate going concern, even though during the pre-audit planning meeting the Vasquez audit team identified debt covenants as an area that needed testing because it could affect going concern.

Failure to Modify the Auditor’s Report Appropriately When Soyo Did Not Make Required Disclosures

12. Under PCAOB Standards, if management omits from the financial statements, including the accompanying notes, information that is required by generally accepted accounting principles (“GAAP”), the auditor should express a qualified or an adverse opinion and should provide the information in the auditor’s report, if practicable, unless its omission from the auditor’s report is specifically recognized as appropriate. See PCAOB Interim Standard – AU § 431, *Adequacy of Disclosure in Financial Statements*.

13. Quinto failed to ensure adherence to this PCAOB Standard. Soyo was required to make specific disclosures in its financial statements with regard to its debt obligations, including the terms and conditions of the debt and whether Soyo had any events of non-compliance with its debt. See Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, ¶¶ 18-19; SEC Regulation S-X, Rules 4-08(c) (requiring disclosures of covenant breaches and waivers) and 5-02-19(b) (requiring disclosure of the terms and conditions of significant short-term debt). Further, Vasquez’s audit team advised Soyo that the company needed to make such disclosures. Soyo did not. Despite the known reporting deficiencies, Vasquez expressed an unqualified opinion and Quinto did not note the reporting deficiencies in Vasquez’s auditor’s report for 2007.⁸ As discussed above, the debt covenant violations were likely material given that:

⁷ AU § 341.06 states that conditions and events that could raise a going concern issue would include, for example, defaults on loan or similar agreements and the restructuring of debt.

⁸ PCAOB Interim Standard – AU § 312.38, *Audit Risk and Materiality in Conducting an Audit*, states:

- Soyo was heavily dependent on the UCB debt to fund its business operations;
- Soyo had violated multiple debt covenants with UCB;
- Soyo's debt with UCB constituted a large percentage of Soyo's total liabilities; and
- Soyo did not have sufficient cash (or other liquid assets) or other available sources of financing to repay the UCB debt if called.

Vasquez only noted in its work papers that Soyo had debt covenants with respect to the ABL and was not in compliance with them, and that such would be disclosed in Soyo's next filing (which they were not).

Failure to Act with Due Professional Care

14. PCAOB Standards required Quinto to exercise due professional care throughout the audit. Due professional care means the auditor must act with professional skepticism – an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. See PCAOB Interim Standard – AU § 230, *Due Professional Care in the Performance of Work*.

15. Quinto failed to maintain an attitude of professional skepticism in performing and reviewing the audit procedures with respect to Soyo's debt and with respect to evaluating Soyo as a going concern. As discussed above, Quinto did not probe whether Soyo's debt covenant violations, and other conditions and events related to its debt, presented any concerns, and ignored the impact of the debt covenant violations regarding the issue of going concern. In addition, although Quinto knew or should have known of the reporting deficiencies associated with Soyo's debt obligations, he did not appropriately modify Vasquez's opinion on the financial statements due to the omission of information required by GAAP.

Failure to Prepare and Maintain Adequate Work Papers

16. PCAOB Standards require that the auditor's work papers clearly demonstrate that the work was in fact performed. Audit documentation must also contain sufficient information to enable an experienced auditor, having no previous connection to the engagement, to: (1) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached and (2) determine who performed the work, when the work was completed, and identify when the work was reviewed and by whom. See PCAOB Auditing Standard ("PCAOB AS") No. 3, *Audit Documentation*.

If the auditor concludes, based on the accumulation of sufficient evidential matter, that the effects of likely misstatements, individually or in the aggregate, cause the financial statements to be materially misstated, the auditor should request management to eliminate the misstatement. If the material misstatement is not eliminated, the auditor should issue a qualified or an adverse opinion on the financial statements.

17. Quinto failed to ensure that the Vasquez audit team documented the work that they performed in a manner consistent with PCAOB Standards. Vasquez's audit work papers do not include any discussion of a waiver of Soyo's debt covenant violations, and there is no documentation of the rationale behind concluding that no substantial doubt exists about Soyo's ability to continue as a going concern for a reasonable period of time. Moreover, many of Vasquez's significant audit findings and issues are not included in Vasquez's engagement completion document.⁹ These include, for instance, that:

- Soyo had violated its debt covenants with UCB;
- Soyo had overdrawn its credit limit on the ABL in the third quarter of 2007;
- UCB had increased the credit limit for the ABL in April and December of 2007;
- Soyo had almost fully utilized its available credit limit on the ABL with UCB;
- UCB had extended the maturity date for the ABL;
- Soyo's CEO and CFO provided a \$6.5 million personal guaranty to UCB;
- UCB did not renew Soyo's purchase order financing line;
- Soyo had obtained an additional financing line at a high cost; and
- Soyo had the ability to continue as a going concern for a reasonable period of time.

Failure to Adhere to Standards of Conducting Reviews of Interim Financial Information

18. Quinto also failed to ensure that the Quarterly Reviews were performed in accordance with PCAOB Standards. A review of interim financial information consists primarily of analytical procedures and inquiries designed to address significant accounting and disclosure matters relating to the interim financial information to be reported. This would ordinarily include making inquiries regarding compliance with debt covenants and, if the auditor becomes aware of significant adverse conditions or events, going concern. Moreover, the auditor should prepare documentation of the interim review work performed that includes any significant findings or issues. See PCAOB Interim Standard – AU § 722, *Interim Financial Information*. As discussed below, each of the Quarterly Reviews of Soyo's financials was deficient.

First Quarter of 2008

19. As with the Audit, Vasquez's interim review work in the areas of debt, going concern, and documentation were inadequate. Vasquez's work papers for the first quarter of 2008 note that Soyo's ABL with UCB matured on May 5, 2008, yet no inquiry was made regarding Soyo's plans to repay or extend the debt prior to the filing of Soyo's first quarter 2008 Form 10-Q on May 15, 2008. Quinto was also informed that Soyo again overdrew the credit limit of its ABL by approximately \$1 million (without UCB's consent) during the first quarter of 2008, but the

⁹ PCAOB AS No. 3, ¶13 requires an auditor to identify all significant findings or issues in an engagement completion document.

work papers reflect no inquiry by Vasquez on this issue.¹⁰ Further, the first quarter work papers show no inquiry regarding Soyo's compliance with its debt covenants related to the ABL, despite the fact that debt covenant violations were noted as of December 31, 2007. Quinto also did not require that Soyo correct the previously identified disclosure deficiencies in its financial statements regarding the failure to report its debt covenants and lack of compliance with them, which became even more significant as the debt covenant violations extended over multiple periods.

20. Although Vasquez's "Engagement Continuance Form" for the first quarter of 2008 states that Vasquez would assess going concern due to Soyo's liquidity issues, Vasquez failed to perform any such inquiries during its interim review. In addition to the adverse conditions and events regarding Soyo's debt that existed during the Audit, in the first quarter of 2008, Quinto knew or should have known that the following circumstances further indicated that there could be substantial doubt about Soyo's ability to continue as a going concern for a reasonable period of time:

- Soyo's ABL with UCB was due on May 5, 2009 (prior to filing the Form 10-Q for the period ended March 31, 2008), but was not paid off at maturity;
- Soyo had exceeded its credit limit on the ABL without UCB's consent in the first quarter of 2008;
- Vasquez's analytic review states that Soyo's accounts payable had increased in the first quarter of 2008 due to a liquidity problem; and
- Soyo's accounts receivables over 30 days due increased sharply from 11 percent to 27 percent in the first quarter of 2008, thus indicating possible collection issues.

Under these circumstances, Quinto should have ensured that the Soyo engagement team made inquiries regarding management's plan to address the adverse conditions and document their findings. He did not.

21. In addition, none of the issues discussed in this section were included in Vasquez's engagement completion document for the first quarter of 2008.

Second Quarter of 2008

22. Vasquez's deficient interim review work continued into the second quarter of 2008. Vasquez's interim review work papers for that quarter confirm that Soyo had, in fact, been in violation of its debt covenants with UCB in the first quarter of 2008.¹¹ Again, no inquiry was performed in the second quarter about any waiver of the historical debt covenant violations.

¹⁰ Soyo's first quarter 2008 Form 10-Q states that the ABL credit limit was raised from \$17 million to \$18 million, which would negate a default, but the work papers do not reflect any inquiry by the Soyo engagement team regarding this purported credit limit increase.

¹¹ As mentioned previously, Soyo was in compliance with its debt covenants in the second quarter of 2008, but due only to its recording of the phony \$6 million debt-for-equity swap.

Furthermore, Soyo ignored Vasquez's comments in the second quarter of 2008 to include additional disclosures regarding the terms of its debt obligations. Yet the work papers reflect no inquiry by Quinto (or anyone else) of Soyo's management as to why Vasquez's comments were not addressed. Moreover, in the second quarter of 2008, Quinto again failed to ensure that the Soyo engagement team consider the going concern issue, even though there were further indicators that Soyo's viability was uncertain. These included, in addition to the conditions previously mentioned, that:

- Vasquez stated, in its "Business Risk Identification and Planning Form," that it expected Soyo to have difficulty meeting its financing and working capital requirements;
- Soyo had utilized 99.6 percent of its consolidated credit line with UCB by June 30, 2008;
- Soyo had applied for, but did not obtain, new lines of credit in the second quarter of 2008;
- Quinto was aware that Soyo was struggling to maintain its profitability in order to obtain additional financing; and
- Only 44 percent of Soyo's accounts receivable were current (as opposed to 88 percent as of December 31, 2007) by the end of the second quarter of 2008.

23. As with the first quarter, none of the issues discussed in this section were mentioned in the engagement completion document for the second quarter of 2008.

Third Quarter of 2008

24. In the third quarter of 2008, Quinto again failed to ensure that the Soyo engagement team properly consider whether there was substantial doubt about Soyo's ability to continue as a going concern for a reasonable period of time. Adding to the already sizable amount of evidence indicating that Soyo faced significant financial difficulties, during the third quarter, Quinto knew or should have known of the following additional events and conditions:

- Quinto was informed that Soyo was struggling to find financing;
- Soyo's accounts receivables balance, aging (days sales outstanding), and bad debt write-offs all increased, indicating that Soyo was continuing to have difficulty collecting from its customers;
- Soyo obtained an additional loan from UCB that matured on November 5, 2008, without being paid off (prior to the filing of the Form 10-Q for the third quarter of 2008), and Soyo's CEO and CFO had to provide an additional \$900,000 personal guaranty on this loan;
- Vasquez's "Business Risk Identification and Planning Form" stated that Soyo had used all available credit by the end of the third quarter; and
- Soyo had to obtain a \$557,000 loan from a friend of its CFO, reflecting that the company was forced to resort to unconventional means of financing.

25. Nevertheless, neither the third quarter engagement completion document nor the work papers as a whole reflect any inquiry or consideration in the area of going concern.

E. VIOLATIONS

26. Rule 102(e)(1)(ii) provides that the Commission may temporarily or permanently deny an accountant the privilege of appearing or practicing before it if it finds, after notice and opportunity for hearing, that the accountant engaged in “improper professional conduct.” Such improper professional conduct includes, as applicable here, negligent conduct, defined as “[r]epeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.” Rule 102(e)(1)(iv)(B)(2).

27. Quinto, as engagement partner, was responsible for ensuring that the Audit and Quarterly Reviews were conducted in accordance with PCAOB Standards. Instead, under Quinto’s leadership, Vasquez’s engagement team for Soyo: failed to obtain sufficient competent evidential matter, AU § 326; failed to properly consider Soyo’s ability to continue as a going concern, AU § 341; failed to modify the auditor’s report appropriately when Soyo did not make required disclosures, AU § 431; failed to act with due professional care, AU § 230; failed to prepare and maintain adequate work papers, PCAOB AS No. 3; and failed to adhere to standards of conducting reviews of interim financial information, AU § 722. These multiple audit and quarterly review failures demonstrate that Quinto’s actions during the Soyo engagements were unreasonable, failed to conform to applicable professional standards, and indicate a lack of competence to practice before the Commission.

F. FINDINGS

28. Based on the foregoing, the Commission finds that Quinto engaged in improper professional conduct pursuant to Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.

IV.

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

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

A. Quinto is denied the privilege of appearing or practicing before the Commission as an accountant.

B. After one year from the date of this Order, Respondent may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Respondent's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

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

(b) Respondent, or the registered public accounting firm with which he is associated, has been inspected by the Board and that that inspection did not identify any criticisms of or potential defects in the Respondent's or the firm's quality control system that would indicate that the Respondent will not receive appropriate supervision;

(c) Respondent has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

(d) Respondent acknowledges his responsibility, as long as Respondent appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

C. The Commission will consider an application by Respondent to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Elizabeth M. Murphy
Secretary