

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 70823 / November 6, 2013**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3512 / November 6, 2013**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15609**

**In the Matter of**

**SHERB & CO., LLP,  
STEVEN J. SHERB, CPA,  
CHRISTOPHER A. VALLEAU,  
CPA, MARK MYCIO, CPA, and  
STEVEN N. EPSTEIN, CPA**

**Respondents.**

**ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS PURSUANT  
TO SECTIONS 4C AND 21C OF THE  
SECURITIES EXCHANGE ACT OF 1934  
AND RULE 102(e) OF THE COMMISSION'S  
RULES OF PRACTICE, MAKING  
FINDINGS, AND IMPOSING REMEDIAL  
SANCTIONS AND 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 pursuant to Section 4C<sup>1</sup> of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the

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<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 thereunder.”

Commission's Rules of Practice<sup>2</sup> against Sherb & Co., LLP, Steven J. Sherb, CPA, Christopher A. Valleau, CPA, Mark Mycio, CPA, and Steven N. Epstein, CPA (collectively, "Respondents"), and pursuant to Section 21C of the Exchange Act against Sherb & Co., LLP and Mark Mycio.

## II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative 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 Cease-and-Desist Order ("Order"), as set forth below.

## III.

On the basis of this Order and Respondents' Offers, the Commission finds<sup>3</sup> that:

### A. SUMMARY

1. Sherb & Co., LLP ("Sherb LLP"), three of its partners, Steven J. Sherb ("Sherb"), Christopher A. Valleau ("Valleau") and Mark Mycio ("Mycio"), and an audit manager, Steven N. Epstein ("Epstein"), engaged in improper professional conduct within the meaning of Rule 102(e) of the Commission's Rules of Practice. Sherb LLP, Sherb, Valleau and Epstein engaged in improper professional conduct in connection with the audit of the 2007 year-end financial statements of China Sky One Medical, Inc. ("CSKI"); Sherb LLP, Valleau, Mycio and Epstein engaged in improper professional conduct in connection with the audit of the 2010 year-end financial statements of China Education Alliance, Inc. ("CEU"); and Sherb LLP, Sherb, Valleau, Mycio and Epstein engaged in improper professional conduct with respect to some or all of the audits of the financial statements of Wowjoint Holdings Ltd. ("Wowjoint") for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and the years ended December 31, 2010 and 2011.

2. Sherb LLP and Mycio also violated Section 10A(b)(1) in connection with the CEU audit.

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<sup>2</sup> 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."

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

## **B. RESPONDENTS**

3. Sherb & Co., LLP is a certified public accountancy partnership licensed in the State of New York, and has been registered with the Public Company Accounting Oversight Board (the “PCAOB”) since 2003. Sherb LLP audited and reviewed the financial statements of CSKI for the 2007 year-end, and issued an unqualified audit report for CSKI’s 2007 financial statements that was included in CSKI’s 2007 Form 10-K filed on March 31, 2008. Sherb LLP ceased to be CSKI’s auditor effective May 21, 2008. Sherb LLP also audited CEU’s financial statements for fiscal years 2007 through 2010. Sherb LLP issued an unqualified audit report for CEU’s 2010 financial statements that was included in CEU’s 2010 Form 10-K filed on April 15, 2011. Sherb LLP ceased to be CEU’s auditor effective March 12, 2012. Sherb LLP audited Wowjoint’s financial statements for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and the years ended December 31, 2010 and 2011. Sherb LLP issued unqualified audit reports on these financial statements that were included by Wowjoint in its Form F-1 registration statements on May 3, 2010, its ten subsequent amendments, and three Forms 20-F filed on November 12, 2010, June 30, 2011, and April 20, 2012. Sherb LLP resigned as Wowjoint’s auditor in April 2013.

4. Steven J. Sherb, CPA is the managing partner and sole equity partner of Sherb LLP, and is also responsible for Sherb LLP’s quality assurance and controls for all audits. He is a certified public accountant licensed in New York, California, Florida, Georgia and Texas. Sherb served as the concurring partner for the audit of CSKI’s 2007 year-end financial statements, and as the concurring partner for audits of Wowjoint’s financial statements for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and as engagement quality review partner for audits of the years ended December 31, 2010 and 2011.

5. Christopher A. Valleau, CPA is a non-equity partner of Sherb LLP and is a certified public accountant licensed in New York and Florida. During the time relevant to this proceeding, Valleau served as the engagement partner for the audit of CSKI’s 2007 year-end financial statements. Valleau served as the engagement quality review partner for the audit of CEU’s 2010 year-end financial statements. Valleau was the engagement partner for the audits of Wowjoint’s financial statements for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and the year ended December 31, 2010.

6. Mark Mycio, CPA is a certified public accountant licensed in New York, and was a non-equity partner with Sherb LLP in 2011 and 2012. Mycio served as the engagement partner for the audit of CEU’s 2010 year-end financial statements, and was also assigned to be the engagement partner for the audits of Wowjoint’s 2010 and 2011 year-end financial statements. From 2009 through 2011, Mycio served as Chair of the Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants.

7. Steven N. Epstein, CPA is a certified public accountant who has been licensed in New York since 1991. Epstein joined Sherb LLP in January 2005. Epstein served as the engagement manager for the audit of CSKI’s 2007 year-end financial statements and the audits

of Wowjoint's financial statements for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and the year ended December 31, 2010. Epstein, in his capacity as a Sherb LLP senior audit manager, also performed key services in connection with the audit of CEU's 2010 year-end financial statements.

C. **FACTS**

**2007 AUDIT OF CHINA SKY ONE MEDICAL, INC.**

**BACKGROUND**

8. CSKI was at all relevant times a Nevada corporation headquartered in Harbin, Heilongjiang Province, China. CSKI's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act until June 12, 2012, and continues to be registered with the Commission pursuant to Section 12(g). The company's stock traded on the Nasdaq Global Market under the symbol "CSKI" from September 14, 2008 through February 15, 2012, and currently trades on the OTC market. At all relevant times, CSKI purported to manufacture and sell medicinal and diagnostic products, and all of its operations were carried out in China.

9. Sherb LLP audited CSKI's financial statements for the 2007 year-end, and issued an unqualified audit report for CSKI's 2007 financial statements that was included in CSKI's 2007 Form 10-K filed on March 31, 2008 (the "2007 CSKI Audit").

10. Valleau served as the engagement partner for the 2007 CSKI Audit.

11. Sherb served as the concurring partner for the 2007 CSKI Audit.

12. Epstein served as the engagement manager, assisting the engagement partner for the 2007 CSKI Audit.

**CSKI AUDIT FACTS**

**The Commission Filed an Injunctive Action Against CSKI Based Upon Alleged Misstatements of Revenue and Net Income in Its 2007 Form 10-K**

13. In 2007, CSKI reported in its filings with the Commission that it had entered into a strategic distribution agreement with a Malaysian distributor, pursuant to which the Malaysian distributor was appointed as CSKI's "exclusive" distributor in Malaysia and undertook to generate \$1 million per month in sales. In its public filings, CSKI reported export sales to

Malaysia of over \$12.2 million for 2007 (constituting 25% of its total revenues), all of which were for one product, CSKI's slim patch weight loss product.<sup>4</sup>

14. CSKI's Form 10-K for 2007 also identified its top two purported customers, Customer A and Customer B, which together accounted for 25% of CSKI's total revenues for 2007. CSKI claimed Customer A and Customer B were sales agents for the Malaysian distributor, and that all of CSKI's sales to Customer A and Customer B were export sales to Malaysia via the Malaysian distributor.

15. In fact, the Malaysian distributor only purchased a total of \$167,542 in slim patches from CSKI for 2007, a small fraction of what was reported in CSKI's public filings. Moreover, the Malaysian distributor never entered into any distribution agreement with CSKI and never had any relationship with, or purchased any goods through, Customer A or Customer B.

16. On September 4, 2012, the Commission filed an injunctive action in federal court against CSKI and its CEO for, among other things, fabricating export sales of its slim patch product and materially misstating its revenues and net income for fiscal year 2007. The Commission's complaint alleges that \$12.2 million in revenue for CSKI's purported export sales in 2007 were fabricated and should not have been recorded. The case against CSKI and its CEO is pending.

#### **Valleau, Epstein, and Sherb LLP Failed to Adequately Plan the 2007 CSKI Audit**

17. Under PCAOB Standard AU Section 311 (*Planning and Supervision*), an auditor must adequately plan the audit. This standard requires that the auditor obtain a level of knowledge of the entity's business that will enable him to plan and perform his audit in accordance with PCAOB Standards. That level of knowledge should enable the auditor to obtain an understanding of the events, transactions, and practices that, in his judgment, may have a significant effect on the financial statements. Knowledge of the entity's business helps the auditor to identify areas that may need special consideration, assess conditions under which accounting data are produced, processed, reviewed and accumulated within the organization, and evaluate the reasonableness of management representations, among others. (AU § 311.06) In planning the audit, among other considerations, an auditor should consider matters such as the entity's business, accounting policies and procedures and assessed level of control risk. (AU § 311.03)

18. As the engagement partner and manager of the 2007 CSKI Audit, respectively, Valleau and Epstein failed to adequately plan the audit. They failed to obtain a proper understanding of CSKI's business and environment, including its accounting policies and

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<sup>4</sup> CSKI reported extraordinary growth for fiscal year 2007, including increasing its revenues 148% from 2006's \$19.9 million to 2007's \$49.3 million. CSKI's slim patch sales purportedly increased from 2006's \$1.2 million to 2007's \$12.3 million.

procedures and internal controls. Sherb LLP's work papers for the planning phase of the audit process were inadequate and incomplete.

19. Sherb LLP's work papers required for the planning phase of the audit consist of only a few forms with generic checklists, and even these were not properly completed. Moreover, the work papers made no reference to CSKI's significant distribution agreement with the Malaysian distributor, which purportedly accounted for 25% of CSKI's total sales for 2007 and was one of the main reasons CSKI's revenues increased by 148% from 2006. Valteau's and Epstein's inadequate understanding of CSKI's business hampered their ability to identify the agreement with the Malaysian distributor as a contract possessing audit significance, and requiring additional or extended audit procedures. Valteau and Epstein failed to inquire about or review the agreement with the Malaysian distributor, severely handicapping their chances of discovering that the agreement was not even signed by the Malaysian distributor, and that it did not mention Customer A and Customer B as the Malaysian distributor's sales agents.

20. Under PCAOB Standard AU Section 316 (*Consideration of Fraud in a Financial Statement Audit*), an auditor is required to plan an audit "to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." Pursuant to this standard, the auditor should discuss among engagement personnel the risk of material misstatement due to fraud, and obtain information needed to identify such risk, including making inquiries of management and others within the company regarding such risk. (AU § 316, at .14-.27) The auditor also should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition. (AU § 316.41)

21. Valteau and Epstein did not adequately consider the risks of material misstatement due to fraud at CSKI in planning the 2007 CSKI Audit. For example, there is no evidence in the work papers that they ever met to discuss the susceptibility of CSKI's financial statements to material misstatement due to fraud, or that they ever inquired of CSKI management or its employees about fraud, and revenue recognition was not recognized as a fraud risk. As a result, Valteau and Epstein failed to identify any fraud risks specific to CSKI, and did not design sufficient procedures to address the risks of fraud.

**Sherb LLP Engaged a Contract Auditor to Perform Most of the 2007 CSKI Audit Work, but Valteau and Epstein Did Not Adequately Supervise Her**

22. PCAOB Standard AU Section 311 (*Planning and Supervision*) requires that assistants be properly supervised. This standard states that supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives are accomplished. Elements of supervision include instructing assistants, keeping informed of significant problems encountered, and reviewing the work performed, among others. The extent of supervision appropriate in a given instance depends on many factors, including the complexity of the subject matter and the qualifications of persons performing the work. (AU § 311.11-.13)

23. Sherb LLP engaged a Hong Kong-based auditor (“contract auditor”) and her three-person staff to perform all of the audit fieldwork for CSKI’s Chinese operations, which consisted of over 98% of CSKI’s total assets. The contract auditor was the person who had introduced Sherb LLP to CSKI. The contract auditor and her firm were not registered with the PCAOB.

24. Valleau and Epstein did not have a complete understanding of the contract auditor’s qualifications. The only inquiry Valleau and Epstein made into the contract auditor and her firm was to have a senior auditor from Sherb LLP, who spoke Chinese, call and question the contract auditor regarding her background. There is no evidence that anyone from Sherb LLP verified the qualifications of the contract auditor, her firm, or her staff, to ensure they possessed adequate technical training and proficiency to work on the audit. As a result, Valleau’s and Epstein’s supervision of the contract auditor and her staff was inadequate. Since Valleau and Epstein never worked with the contract auditor and did not have an understanding of her background and qualifications, they should have closely supervised her to ensure the audit was executed properly. Valleau did not adequately supervise the contract auditor and only reviewed the work papers she prepared at the end of the audit. Although Epstein purportedly was the primary contact with the contract auditor, there is no audit documentation evidencing the contract auditor’s communication with Epstein or participation in any meetings with the engagement team except for a single email between Epstein and the contract auditor.

25. The work papers purportedly completed by the contract auditor and her staff contained numerous obvious errors and were incomplete. In particular, the work papers showed instances of audit programs not being followed. Additionally, the work papers were not correctly signed off by the contract auditor and the contract auditor failed to document her procedures in sufficient detail to provide a clear understanding of their purposes, sources, and the conclusions reached. Valleau and Epstein signed off on all the deficient work papers prepared by the contract auditor and her staff.

**The Audit Work Performed by the Contract Auditor, and Signed Off by Valleau and Epstein, Raised Red Flags that Valleau and Epstein Did Not Properly Investigate**

26. Under PCAOB Standard AU Section 326 (*Evidential Matter*), an auditor is required to obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. In developing his opinion, an auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (AU § 326.25) PCAOB Standards also state that evidential matter obtained from independent sources outside the entity provides greater assurance of reliability than information obtained solely within the entity. (AU § 326.21) In addressing an identified risk of material misstatement due to fraud, an auditor may need to change the nature, timing and extent of auditing procedures to obtain evidence that is more reliable or to obtain additional corroborative information. For example, more evidential matter may be needed from independent sources outside the audited entity, such as information from public records about the existence and nature of key customers, vendors, or counterparties in a major transaction. (AU § 316.52)

27. Valteau and Epstein failed to obtain sufficient competent evidence to support Sherb LLP's audit report for the 2007 CSKI Audit. The contract auditor performed transaction testing of CSKI's sales. Over 80% of the sales transaction samples tested by the contract auditor were sales made to Customer A and Customer B. Despite this, Valteau, Epstein and the contract auditor did not make any inquiries about Customer A or Customer B, did not attempt to identify their purported relationship with the Malaysian distributor, and did not ask to review the agreement between CSKI and the Malaysian distributor.

28. During the sales testing, the auditors discovered that CSKI did not have any value-added tax ("VAT") sales invoices in its records for its sales to Customer A and Customer B. There were VAT invoices for other CSKI customers. VAT invoices are one of the main documents Chinese companies use to record and track sales revenues.<sup>5</sup> The VAT invoices would have been a way for the auditors to substantiate the purported significant sales to Customer A and Customer B.

29. When the contract auditor discovered that there were no VAT sales invoices for CSKI's sales to Customers A and B, she made an inquiry with CSKI. A CSKI manager told the contract auditor that there were no VAT sales invoices because Customer A and Customer B were sales agents for overseas customers and that those customers did not request VAT sales invoices. This explanation is highly suspect because VAT invoices are one of the main ways in which an overseas customer would have been able to claim a credit for or refunds of VAT from the Chinese government. Because Customer A and Customer B would have been entitled to a VAT refund of over \$2 million, CSKI's explanation that Customer A and Customer B never requested VAT invoices was a significant red flag warranting further inquiry. Furthermore, the audit team's VAT payable testing indicated that VAT was paid by all customers including Customer A and Customer B. Valteau and Epstein nonetheless accepted the explanation given by the CSKI manager that the overseas customers did not request VAT invoices, and included that explanation in Sherb LLP's work papers without expressing any concerns about that unlikely explanation.

30. The contract auditor performed additional audit procedures for sales made to Customer A and Customer B by inspecting CSKI's "goods delivery notes" and bank statements. However, such procedures did not produce sufficient competent evidence that the purported sales were actually made and revenues were earned. According to the audit work papers, the "goods delivery notes" the contract auditor inspected appeared to be generated internally by CSKI. These basic forms reflected the product name, unit, and sales price, but did not evidence that the goods were actually sold, shipped to or accepted by Customer A and Customer B. In fact, there is not even a customer address printed on the notes. The contract auditor also traced sales amounts to bank statements. Yet this testing was insufficient because the bank statements did not identify payor information, and the contract auditor did not review any documents to determine whether the deposits shown on the bank statements actually reflected cash collected for sales made to Customer A and Customer B. Indeed, the sales proceeds purportedly deposited by Customer A and Customer B took place before the purchases (sometimes over 20 days prior

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<sup>5</sup> In China, a standard VAT of 17% is imposed on all sales of goods, imports and certain services. Exports outside China are entitled to refunds of VAT.

to the purchase), which is inconsistent with both CSKI's credit policy and its agreement with the Malaysian distributor.

31. Valleau and Epstein signed off on the contract auditor's sales testing, without properly inquiring about the red flags identified by the lack of VAT invoices and CSKI's problematic explanation, and without properly evaluating the additional procedures performed and evidence reviewed by the contract auditor. Valleau and Epstein should have heightened their professional skepticism when presented with these red flags, because sales had been identified as a high risk area for the CSKI audit.

### **Valleau and Epstein Failed to Exercise Due Professional Care**

32. Under PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work*), auditors are required to exercise due professional care throughout the audit. Due professional care requires that the auditor exercise professional skepticism. Under this standard, "[p]rofessional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence."

33. Valleau and Epstein failed to exercise due professional care when planning the 2007 CSKI Audit and reviewing the audit procedures with respect to sales revenues and the preparation of the audit report. Valleau and Epstein failed to plan and perform the audit properly to provide reasonable assurance of detecting material errors or irregularities in the financial statements, and failed to exercise sufficient professional skepticism. Valleau and Epstein also failed to be skeptical about the sales testing and CSKI's explanation for the missing VAT invoices, and failed to probe how sales made to Customer A and Customer B were processed, approved, and recorded, and ignored the inconsistencies presented in the evidence and explanations obtained.

### **Sherb Failed to Perform an Adequate Concurring Partner Review**

34. Sherb served as concurring partner on the CSKI audit engagement, including the 2007 CSKI Audit. As such, he was required to perform an objective review of significant auditing, accounting, and financial reporting matters and to conclude, based on all the relevant facts and circumstances of which he had knowledge, that no matters had come to his attention that would cause him to believe that CSKI's financial statements were not in conformity with GAAP in all material respects or that the audit was not performed in accordance with PCAOB Standards.<sup>6</sup>

35. Sherb did not perform the required review. Sherb did not participate in any meetings or discussions with Valleau or the engagement team about the identification and audit of high-risk transactions and account balances. Even though Sherb signed off on two concurring review checklists, he did not note the extremely inadequate planning and risk assessment

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<sup>6</sup> See Interim Quality Control Standards, AICPA SEC Practice Section ("SECPS") § 1000.08(f) and Appendix E of SECPS § 1000.39. These standards were adopted by the PCAOB in April 2003. Sherb LLP was a member of the AICPA SEC Practice Section. Therefore, these standards were applicable at the time of the relevant conduct.

process, and did not raise concerns about the quality and documentation of the process. As a result, Sherb failed to review or obtain sufficient information necessary for him to perform a meaningful concurring partner review.

### **Valleau, Epstein and Sherb LLP Failed to Prepare and Retain Adequate Audit Work Papers**

36. Under PCAOB Standard No. 3 (*Audit Documentation*), “[a]udit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement: (a) to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.”

37. Valleau, Epstein and Sherb LLP failed to ensure that the audit team documented the work they performed in a manner consistent with PCAOB Standard No. 3. For example, Valleau and Epstein repeatedly claimed they had performed planning and risk assessment procedures for the 2007 CSKI Audit, but no audit documentation regarding their claimed work exists in the work papers of Sherb LLP. They were also unable to explain or understand certain evidence and conclusions documented by the contract auditor and her staff.

### **Sherb LLP Failed to Issue an Accurate Audit Report**

38. PCAOB Standards require that the auditor’s report contain an opinion on the financial statements taken as a whole and contain a clear indication of the character of the auditor’s work. Under PCAOB Standard AU Section 508 (*Reports on Audited Financial Statements*), the auditor can determine that he is able to issue an audit report containing an unqualified opinion only if he has conducted his audit in accordance with PCAOB Standards.

39. As the engagement partner with final responsibility for the CSKI audit, Valleau approved the issuance of the unqualified audit report that falsely stated that the auditors conducted their audit in accordance with PCAOB Standards, when in reality they had not.

### **Valleau and Sherb LLP Failed to Communicate with CSKI’s Predecessor Auditors**

40. Under PCAOB Standard AU Section 315 (*Communications Between Predecessor and Successor Auditors*), an auditor should not accept an engagement until certain communications have been evaluated. Those communications include inquiries of the predecessor auditors about the integrity of management, disagreements with management regarding accounting principles or auditing procedures, communications with the audit committee regarding client fraud or illegal acts, and the reason for the change of auditors.

41. Valleau and Sherb LLP failed to timely undertake this “necessary procedure”. They did not communicate with CSKI’s former auditors before agreeing to the audit engagement with CSKI. Only after Sherb LLP accepted CSKI as a client did the firm send inquiry letters to the

former auditors. Moreover, Valleau did not properly follow up with their inquiries. One of the former auditors responded to the inquiries on March 24, 2008, and the other responded on March 31, 2008 - the same day CSKI filed its Form 10-K.

## **2010 AUDIT OF CHINA EDUCATION ALLIANCE, INC.**

### **BACKGROUND**

42. China Education Alliance, Inc. (“CEU”) is a North Carolina corporation with headquarters and operations in Harbin, China. CEU claims that it provides educational products and tutoring services to primary school students online and through training centers located in China. CEU has never had any business operations in the United States. CEU’s common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act. The company’s stock was traded on the New York Stock Exchange from January 27, 2010 through December 28, 2011, and currently trades on the OTC market.

43. Sherb LLP issued an unqualified audit report for CEU’s 2010 financial statements that were included in CEU’s 2010 Form 10-K filed on April 15, 2011.

44. Mycio served as the engagement partner and supervised and conducted Sherb LLP’s audit of CEU’s 2010 financial statements (hereinafter, the “2010 CEU Audit”). As the engagement partner, Mycio was responsible for the issuance of Sherb LLP’s unqualified audit report for CEU’s 2010 financial statements, and was responsible for ensuring that the audit was conducted in accordance with PCAOB Standards.

45. Epstein, in his capacity as a Sherb LLP senior audit manager, performed key services in connection with the audit of CEU’s 2010 year-end financial statements.

46. Valleau served as the engagement quality review partner for the 2010 CEU Audit.

### **CEU AUDIT FACTS**

#### **Mycio and Sherb LLP Failed to Adequately Plan and Supervise the Audit**

47. Under PCAOB Standard AU Section 311 (*Planning and Supervision*), an auditor must adequately plan and supervise the audit. This standard provides guidance on the considerations and procedures applicable to planning and supervision, including preparing an audit program, obtaining knowledge of the entity’s business, and dealing with differences of opinion among firm personnel.

48. Mycio failed to conduct any formal audit planning meetings or to formulate an audit plan before commencing work on the 2010 CEU Audit. Mycio also failed to conduct sufficient inquiry into CEU’s business developments and public filings both prior to and during the 2010 CEU Audit. Further, although Sherb LLP engaged a Hong Kong-based contract auditor to

perform much of the audit fieldwork, Mycio failed to provide adequate instructions to the contract auditor prior to the commencement of her fieldwork.

49. Mycio also failed to adequately supervise the Sherb LLP staff auditors working on the 2010 CEU Audit. In particular, Mycio did not provide these staff auditors with specific guidance on the performance of audit procedures to be conducted to verify CEU's bank account balances and revenue. Mycio also failed to adequately review the work performed by his staff. For example, Mycio assigned Epstein to perform certain procedures for the verification of CEU's fixed assets, but never communicated with him to confirm that those procedures had been performed. In fact, Epstein did not perform the assigned asset verification.

50. PCAOB Standard AU Section 316 (*Consideration of Fraud in a Financial Statement Audit*) provide that an auditor is required to plan an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. (AU § 316.01.)

51. Mycio failed to conduct an adequate assessment of audit risks prior to the 2010 CEU Audit fieldwork. Mycio photocopied a fraud risk assessment memorandum from a prior audit of CEU in which he had not been involved, changed several dates, crossed out the name of the prior engagement partner, and inserted his own name. In that memorandum, Mycio purported that he conducted audit risk interviews with members of CEU's management, a member of CEU's audit committee, and a CEU employee. In fact, Mycio did not conduct any audit risk interviews. Mycio also failed to complete a risk assessment summary form, which is intended to document specific audit risks and planned responses. The 2010 CEU Audit work papers contained a risk assessment summary form that Mycio had initialed but otherwise left blank.

### **Mycio, Epstein, and Sherb LLP Failed to Obtain Sufficient Evidential Matter**

52. Under PCAOB Standard AU Section 326 (*Evidential Matter* at .01), an auditor is required to obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. Under PCAOB Standard AU Section 330 (*The Confirmation Process* at .28), an auditor performing confirmation procedures should establish direct communication between the intended recipient and the auditor to minimize the possibility that the results will be biased because of interception and alteration of the confirmation requests or responses.

53. Mycio and the engagement team failed to obtain sufficient competent evidence through confirmation of CEU's bank account balances. CEU reported that a vast majority of its assets at year-end 2010 were held as cash deposits at a number of banks. CEU also purported that it conducted a significant amount of business activities in cash throughout the year. These factors posed significant audit risks and required specific audit procedures to address those risks. Moreover, by early 2011, Mycio and Epstein had become aware of information that warranted heightened audit scrutiny of CEU's bank account cash balances, including media reports of fraud involving China-based issuers and specific public allegations of fraud at CEU.

54. On several occasions in connection with the 2010 CEU Audit, Mycio, Epstein and the audit team failed to obtain adequate verification of CEU's bank account balances. During a field visit to Harbin in early March 2011, a Sherb LLP staff auditor attempted unsuccessfully to obtain bank statements directly from the banks where CEU claimed that it held its accounts. At one bank, a bank employee told the staff auditor that the bank could not print out CEU's bank statements, even though the staff auditor had called that same bank anonymously beforehand and had been told that statements could be printed for a small fee. In late March 2011, another team under Mycio's supervision attempted to obtain bank statements directly from the banks. The banks refused to provide bank statements to this team as well.

55. In April 2011, days before Sherb LLP issued an unqualified report for CEU's 2010 financial statements, Epstein, at Mycio's direction, visited Harbin to make a third and final attempt to obtain bank statements directly from the banks. Prior to his visit, Epstein specifically requested CEU management that he personally obtain CEU's bank statements from branch managers at the banks. Despite these instructions, a CEU employee went to the first bank prior to Epstein's arrival and purportedly obtained the bank statements from the bank. The CEU employee then gave the purported bank statements to Epstein in the lobby of the bank when he arrived. Epstein was unable to meet with any bank official at that bank nor did he witness the procurement of the bank statements. At the second bank, Epstein was given a set of bank statements by a purported bank teller who refused to provide her name. A purported manager at that bank refused to give Epstein her business card and declined to authenticate the bank statements. Despite his inability to obtain the account statements directly from the banks as called for by the planned audit procedures, Epstein drafted a memorandum for the audit engagement team expressing the conclusion that the bank statements he obtained were authentic. Thus, despite multiple field visits to Harbin in March and April 2011, Mycio, Epstein and the audit team failed to complete audit procedures and obtain sufficient competent evidence for the verification of CEU's bank account balances.

56. Mycio and the engagement team also failed to obtain sufficient competent evidence to confirm CEU's reported training center revenue. In March 2011, Sherb LLP staff auditors under Mycio's supervision attempted to visit various training centers operated by CEU, and to review student records at those training centers. The Sherb LLP staff auditors allowed CEU management to select the training center locations they would visit, and kept no records of the training centers that they visited. When the audit team asked the staff at one of the training centers to allow them to review student application records, the CEU manager accompanying the audit team asserted that those records were confidential and the audit team was not allowed to review them. Moreover, at one training center purportedly operated by CEU, the center's staff demanded to know the identities of the CEU managers and the Sherb LLP auditors and the purpose of their visit. According to the Sherb LLP staff auditor, the CEU managers then hastily exited from that training center with the Sherb LLP staff auditors, who concluded based on the unusual encounter that the training center did not belong to CEU. Despite receiving a report from a staff auditor expressing concern regarding these irregularities, Mycio did not undertake any further procedures to obtain the necessary information or to address the concerns raised by the suspicious encounters at the training centers. During his visit to Harbin in April 2011, Epstein visited certain purported CEU training centers. Epstein, however, did not select which training centers he was taken to and

then only walked through the training centers, but did not perform any substantive audit procedures regarding CEU's reported training center revenue.

57. Mycio and the engagement team also failed to obtain sufficient competent evidence regarding CEU's fixed assets. CEU reported a 51% increase in its fixed assets at year-end 2010 from the prior year. Despite this, Mycio did not conduct any physical inspection of fixed assets or undertake any analytical procedures to evaluate whether the quantity and type of those fixed assets were reasonable for the nature and scale of CEU's purported business operations. In April 2011, Mycio directed Epstein to perform certain limited procedures to verify CEU's fixed assets during Epstein's visit to Harbin. However, Epstein accepted questionable explanations from CEU and did not perform those limited procedures. Finally, Mycio failed to communicate with Epstein about whether the limited procedures were appropriately completed and the results of those procedures.

#### **Mycio, Epstein, and Sherb LLP Failed to Exercise Due Professional Care**

58. Under PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work*), auditors are required to exercise due professional care throughout the audit. Due professional care requires that the auditor exercise professional skepticism. Under this standard, professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. (AU § 230, at .01-.02, .07-.08.) Mycio failed to exercise due professional care when planning and supervising the audit; Mycio and Epstein failed to exercise due professional care when verifying CEU's bank account balances and when performing procedures on training center revenue and fixed assets.

#### **Sherb LLP and Mycio Failed to Investigate and Report a Potentially Illegal Act**

59. In March 2011, at the end of a field visit during which Sherb LLP staff auditors under Mycio's supervision had been unable to obtain bank statements and had been taken to a training center that apparently did not belong to CEU, a Sherb LLP staff auditor reported to Mycio that a CEU manager offered him an apparent bribe in an attempt to influence the 2010 CEU Audit. Mycio failed to investigate this reported bribe, and he did not address the reported bribe with any member of CEU's management or board of directors.

#### **Mycio, Epstein, and Sherb LLP Failed to Prepare and Retain Adequate Audit Work Papers**

60. Under PCAOB Standard No. 3 (*Audit Documentation* at .6), audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached; and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review. The audit documentation also must include information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions. (AS No.3 at .8.)

61. Mycio and Epstein failed to prepare and retain adequate audit documentation. Mycio signed audit work papers that were left completely blank or that were photocopied from the prior year's audit work papers and purported to reflect audit work that was not actually performed during the 2010 CEU Audit. Moreover, the audit work papers did not contain any information other than the memorandum prepared by Epstein about the failed attempt to perform bank statement verification procedures in late March 2011, the irregularities encountered during the audit team's attempts to visit training center locations in March 2011, or the attempted bribe reported by a staff auditor.

### **Mycio and Sherb LLP Were Responsible for the Issuance of an Inaccurate Audit Report**

62. PCAOB Standard AU Section 508 (*Reports on Audited Financial Statements* at .04 and .07) requires that the auditor's report contain an opinion on the financial statements taken as a whole and contain a clear indication of the character of the auditor's work. The auditor can determine that he is able to issue an audit report containing an unqualified opinion only if he has conducted his audit in accordance with PCAOB Standards.

63. As the engagement partner with final responsibility for the CEU audit, Mycio approved the issuance of the unqualified audit report that falsely stated that the audit was conducted in accordance with PCAOB Standards.

### **Valleau Was Disqualified to Serve As the Engagement Quality Reviewer**

64. PCAOB Auditing Standard No. 7 (*Engagement Quality Review* at .8) provides that the person who served as the engagement partner during either of the two audits preceding the audit subject to the engagement quality review may not be the engagement quality reviewer.

65. Valleau served as the engagement partner for Sherb LLP's audit of CEU's 2008 financial statements. Valleau thus was disqualified from serving as the engagement quality reviewer for the 2010 Audit because he had served as the engagement partner during one of the two preceding audits. Sherb LLP assigned Valleau as the engagement quality reviewer even though he was disqualified from serving in that role.

### **Valleau Failed to Conduct an Adequate Engagement Quality Review**

66. PCAOB Auditing Standard No. 7 (at .10-.11) provides that an engagement quality reviewer should evaluate the engagement team's significant judgments and related conclusions, including its assessment of and responses to significant risks, and, for the documentation reviewed by the engagement quality reviewer when performing the engagement quality review, that the documentation indicates that the engagement team responded appropriately to significant risks, and supports the conclusions reached by the engagement team with respect to the matters reviewed.

67. Prior to and during the audit, Valleau became aware of information that indicated a need for heightened audit scrutiny, including media reports of fraud involving China-based issuers

and specific public allegations of fraud at CEU. Valleau also became aware that the audit engagement team had failed repeatedly to perform procedures sufficient to verify CEU's bank account balances, and that the engagement team had encountered irregularities and red flags when attempting to verify CEU's training center revenue. Valleau further became aware of a staff auditor's report that a CEU manager had attempted to bribe him.

68. Despite this, Valleau failed to properly evaluate the audit team's significant judgments and its responses to significant risks. Specifically, Valleau failed to perform his own evaluation of the audit engagement team's conclusions with respect to the auditing of CEU's bank account balances and training center revenue. Valleau also failed to conduct a reasonable and appropriate evaluation and follow-up of the field auditor's allegation of an attempted bribe.

69. Valleau also failed to assess the engagement team's audit documentation that he reviewed when performing the engagement quality review. Even though he was aware of numerous red flags and troubling irregularities encountered by the engagement team, Valleau did not ensure that the audit work papers documented those red flags and how they were addressed by the audit team. Valleau also signed off on forms and checklists, including a Fraud Risk Information Form and Risk Assessment Summary Form, which were left blank or were copied from a prior audit.

## **WOWJOINT AUDITS**

### **BACKGROUND**

70. Wowjoint is a Cayman Islands company with headquarters and operations in and around Beijing, China. Wowjoint claims that its operating subsidiary, Beijing Wowjoint, designs, engineers, and manufactures large, customized industrial equipment used in construction of Chinese transportation infrastructure, including roads, railroads, subways, bridges, and viaducts. Wowjoint's ordinary shares, warrants, and units are registered with the Commission pursuant to Section 12(b) of the Exchange Act. The company's securities (symbols "BWOWF" and "BWOWU") were traded on Nasdaq in 2010, but were delisted in 2011, and currently trade on the OTC market.

71. Sherb LLP issued audit reports for Wowjoint's financial statements for the years ended August 31, 2008 and 2009, a four-month transition period ended December 31, 2009, and the years ended December 31, 2010 and 2011 that were included in Wowjoint's Forms 20-F filed on November 12, 2010, June 30, 2011 and April 30, 2012, respectively, and a registration statement on Form F-1 first filed on May 3, 2010, with ten subsequent amendments filed through December 12, 2011.

### **WOWJOINT AUDITS FACTS**

#### **Valleau and Epstein Failed to Adequately Plan and Supervise the Audits**

72. PCAOB Standards require an auditor to adequately plan the audit and properly supervise assistants. AU Section 150.02 (*Generally Accepted Auditing Standards*) and AU

Section 311.01 (*Planning and Supervision*). PCAOB Standard AU 311 at .06 requires that the auditor obtain a level of knowledge of the entity's business that will enable him to plan and perform his audit in accordance with PCAOB Standards. Valteau failed to properly plan the audit and properly supervise his assistants, and failed to obtain sufficient knowledge about Wowjoint's business, including its accounting policies and procedures and its internal controls. Although Valteau was the engagement partner for the 2008-2010 audits, he had minimal involvement, if any, in these audits. Valteau was not even copied on most email communications concerning audit issues. Valteau also did not charge any time to this client until May 2011. Valteau's lack of involvement left Epstein to provide most, if not all, of the day to day supervision and management of the audits. Epstein reviewed the work papers prepared by the audit team, including those of other audit managers. Epstein dealt directly with Wowjoint senior management and Wowjoint's SEC counsel. Epstein also primarily communicated Sherb LLP's consents and approvals to Wowjoint's SEC counsel. Valteau's supervision of the audit and his review of the audit work papers were grossly deficient.

73. PCAOB Quality Control Standards require that "[Audit firms should] have in place internal quality-control procedures to ensure that services are competently delivered and adequately supervised." (QC § 20.02) They also require that audit firms establish policies and procedures "to provide the firm with reasonable assurance that...work is assigned to personnel having the degree of technical training and proficiency required in the circumstances." (QC § 40.02) Wowjoint's use of the Percentage of Completion ("POC") accounting method to compute its contract revenue for U.S. reporting purposes, and its specialized heavy equipment manufacturing business, requires an auditor with sufficient knowledge of that accounting method and industry, respectively. Sherb LLP, and its managing partner Sherb, in particular, failed to assign staff with the requisite technical training and proficiency necessary to perform the audits as required under QC § 20.13(b). Prior to the Wowjoint engagement, Epstein had never worked on an audit of a heavy machinery manufacturer that used the POC method to calculate revenue to be recognized, and had an inadequate understanding of the POC method. Although Sherb LLP assigned one staff member with experience with the POC accounting method used in Taiwan for the audits of the periods ended August 31, 2008 and 2009, he had no experience in the audit of the POC accounting method used in the U.S. In planning for the 2008-2010 audits, Epstein claimed he researched and studied the POC accounting method to determine revenue for contracts, but he could neither explain the fundamentals of the POC accounting method,<sup>7</sup> nor how Sherb LLP performed its testing of Wowjoint's revenue computation.

74. PCAOB Standard AU Section 342 (*Auditing Accounting Estimates* at .04) states, "The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole." It also requires the auditor to use one or a combination of the following approaches to evaluate the reasonableness of management's accounting estimates: (a) review and test the process used by management to

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<sup>7</sup> While there may be complexities in determining the costs incurred to date, total estimated costs and total estimated project revenue, the simple arithmetic for the percentage of completion for a project is total cost incurred divided by total estimated costs for that project.

develop the estimate; (b) develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate; (c) review subsequent events or transactions occurring prior to the date of the auditor's report. (AU § 342.10.) Sherb LLP failed to plan and design adequate audit procedures to test the reasonableness of Wowjoint's estimates of revenue under each contract. Valleau and Epstein failed to plan adequate procedures to test two critical components used in the POC computation, the total estimated costs for each project and the total costs already incurred on that project. This planning failure is especially problematic in light of Sherb LLP's assessment during the client acceptance process that Wowjoint's financial reporting system appeared to be "insufficient to provide evidence to support that transactions have occurred and that all the transactions that should be recorded are, in fact, recorded." Sherb LLP's failure to properly test those two components allowed Wowjoint's omission of certain costs to go undetected for the first two financial periods that Sherb LLP audited.

75. Valleau and Epstein also failed to recognize and adequately address the audit and accounting issues related to certain contracts with unusual payment structures involving a third party ("Wowjoint's contract co-party"). Wowjoint's contract co-party was a co-party with Wowjoint on several of Wowjoint's machinery contracts whereby Wowjoint's customers are required to make payments to Wowjoint's contract co-party instead of Wowjoint. Wowjoint's contract co-party collected the payments for those contracts, and was supposed to reimburse Wowjoint promptly after deductions for commissions and other fees. Wowjoint's contract co-party, however, withheld a significant amount of such funds, leaving Wowjoint with a large accounts receivable balance. As of December 31, 2009, the largest outstanding receivable was due from Wowjoint's contract co-party, which constituted 43% of all outstanding accounts receivable. Sherb LLP failed to evaluate the reasonableness of this unusual business arrangement, the related accounting disclosure requirements, and how it ultimately affected the collectability of its receivables.

### **The Audit Team Failed to Test Wowjoint's Revenue Computations**

76. Valleau and Epstein's lack of proper audit planning, failure to design and perform adequate audit procedures to test the critical components of the POC formula, lack of knowledge of common Chinese business practices and accounting, and Epstein's inadequate understanding of the POC method, resulted in their failure to verify that Wowjoint correctly computed and recorded its contract-based revenue. Due to the lack of adequate audit procedures, Valleau and Epstein failed to detect Wowjoint's errors in converting from cash basis accounting, a common Chinese GAAP practice, to accrual accounting for U.S. reporting purposes.

77. U.S. GAAP requires an accrual basis of accounting. The revenue computed by Wowjoint was purported to be based on a POC method, which generally calculates revenue to be recognized by dividing the costs incurred as of the measurement date on an individual project into the projected total costs for the completed project. Costs incurred but not recorded must be accrued under U.S. GAAP. Projected total costs for a project also requires periodic updating to reflect changes in costs and quantity of materials, inflation, and other unforeseen costs. The quotient of costs incurred into projected total costs is factored against the projected revenue for a project to determine the revenue to be recognized during that fiscal period (after subtracting

revenue already recognized in prior periods) for that project. Accordingly, the numerator and denominator in that formula are integral to revenue recognition and should have been subject to audit procedures. The evidence gathered from the work papers prepared by the audit team and reviewed by Valteau and Epstein, however, suggests that the projected total costs (the denominator in the POC formula) for the individual projects, and their updates, were not subject to audit procedures. Valteau and Epstein simply accepted Wowjoint's estimates at face value. Valteau and Epstein also failed to adequately test the completeness and existence of costs allegedly incurred by Wowjoint for each project (the numerator in the POC formula), and to adequately test the proper allocation of costs amongst the various projects and financial periods.

78. Valteau's and Epstein's failure to perform adequate audit procedures to test contract costs resulted in Sherb LLP taking the numbers at face value from Wowjoint. Wowjoint, meanwhile, did not properly compute and update its projected total costs and failed to properly accrue and allocate costs incurred, including the cost of goods sold ("COGS"), to the correct periods for the fiscal years ended August 31, 2008 and August 31, 2009. Valteau's and Epstein's failure enabled Wowjoint to incorrectly report that its net income increased rapidly from \$3.9 million in 2008 to \$9.8 million in 2009.

**Epstein and Sherb LLP Failed to Conduct Sufficient Inquiry and Procedures Following Wowjoint's Admission of Cash Basis Accounting**

79. Under PCAOB Standard AU Section 561 (*Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* at .04-.08), when an auditor becomes aware of information which relates to financial statements previously reported on by him, but which was not known to him at the date of his report and which is of such a nature and from such a source that he would have investigated it had it come to his attention during the course of the audit, he is required, as soon as practicable, to undertake to determine whether the information is reliable and whether the facts existed at the date of his report. If the information is found to be reliable and would have affected his report, he is required to take certain actions, including actions to prevent future reliance on his report.

80. After the two fiscal years ended August 31, 2008 and August 31, 2009, Wowjoint filed a Form F-1, which included the comparative financial statements and consent from Sherb LLP to include its audit reports for those two fiscal years. After filing the Form F-1, Wowjoint changed its fiscal year end to December 31 and prepared to file financial statements for that four-month transition period on Form 20-F, and also to include in an amendment to its Form F-1. Wowjoint engaged Sherb LLP to audit the transition period financial statements. Wowjoint's financial statements for the transition period ended December 31, 2009 disclosed a dramatic swing from profitability to a historic \$6 million loss in just that four-month transition period. The swing in profitability stemmed from a large topside journal entry. The entry recorded approximately RMB 43 million in costs that were incurred in prior periods into COGS during the transition period, which Epstein has acknowledged was a material amount. As part of his review of audit work papers prepared by the audit team, Epstein sent an email to Wowjoint's controller at the time, raising concerns about the journal entry:

*This is an interesting situation. We have costs for contracts that have been fully completed in prior period included in COGS for the 4 months ended December 31, 2009. Are these costs for equipment that needed additional expenses after they were completed? Perhaps there were problems in these equipment order, filled in the previous years, which need fixing that was not to be offset by future revenue. Or is it costs on old contracts that were not known at the time the contracts concluded and came about in the four months ended December 31, 2009. Please advise. [Sics omitted.]*

Wowjoint's controller responded in an email which was copied to Epstein and Sherb:

*Prior to December 2009, the company's accounting book is in **cash basis**. They never accrue liabilities for those inventories received or expenses incurred, but not paid. Despite we finished equipment and we delivered to our customers, certain amount of raw materials expenses are omitted to be recorded because we did not pay to suppliers. Even though those raw materials are used already, their costs did not go to cost of sales because of cash basis. As a result, **underestimate of liabilities lead to understatement of cost of sales and then overstatement of profit**. [Emphasis added; sics omitted.]*

81. Wowjoint's controller plainly informed Epstein and Sherb that the company had been using the cash basis method of accounting for its revenue, which fails to comply with U.S. GAAP. Moreover, Wowjoint's controller disclosed that the use of the cash basis method, and incorrect recordation of COGS, caused misstatements of prior financial statements. Nevertheless, Epstein and Sherb LLP simply wrote in their work papers that "the production cost is reasonable" without any testing or further inquiry.

82. Wowjoint's controller's email should have triggered immediate alarm bells for Epstein, Sherb, and Sherb LLP. Wowjoint's controller's statement to Epstein and Sherb was a clear admission that the company's prior period financial statements were not in accordance with U.S. GAAP and that the December 31, 2009 numbers would also be incorrect. Therefore, Epstein, Sherb, and Sherb LLP were on notice that not only the financial statements for the transition period were inaccurate, but that the financial statements for the two prior fiscal years, for which Sherb LLP had already issued unqualified audit reports, were also inaccurate. Despite this information having been provided to Epstein and Sherb, and subsequently brought to the attention of Valleau, Sherb LLP performed no further audit procedures to analyze and verify these allegedly omitted prior period costs or to determine the proper reallocation of these costs to the correct periods, made no assessment of the materiality of these costs to the prior period financial statements, and did not appear to have assessed the need to withdraw its audit reports for the prior periods. Instead, Sherb LLP issued another unqualified audit report for the December 31, 2009 transition period. Those financial statements were then used in Wowjoint's Form 20-F for the transition period and in an amended Form F-1, with Sherb LLP's consent.

**Epstein and the Sherb LLP Audit Team Failed to Perform Adequate Auditing Procedures to Determine Collectability of Wowjoint's Large and Long-Outstanding Accounts Receivable Balance**

83. Under PCAOB Standard AU Section 326 (*Evidential Matter* at .01), an auditor is required to obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

84. Accounts receivable comprised the majority of Wowjoint's current assets listed on its balance sheets as of August 31, 2008, August 31, 2009, and December 31, 2009. A substantial portion of those accounts receivable were greater than one year delinquent, raising concerns about collectability of those purported assets. Epstein inquired about the large, outstanding receivables for contracts finished several years earlier and asked whether Wowjoint's allowance for uncollectible debt was adequate. Wowjoint informed Epstein that historical records of payment from its customers, though delayed, were sufficient to support collectability. Wowjoint also explained that because most of its clients were Chinese government owned entities, payment was likely, despite their slow remuneration. From these representations, Epstein accepted Wowjoint's conclusory rationale and representations concerning the collectability of all the receivables. This is despite Epstein and Sherb LLP's knowledge that Wowjoint's largest receivable was not, in fact, from a Chinese government owned entity.

85. A private entity that was a co-party with Wowjoint on several contracts with unusual payment structures held the largest outstanding accounts receivable for the first three fiscal periods audited by Sherb LLP, and most of those balances stretched back several years. The unusual relationship between Wowjoint's contract co-party and Wowjoint was apparent based upon a cursory review of contracts for each of the contracts involving Wowjoint's contract co-party. Wowjoint's contract co-party was a co-party on most of Wowjoint's early contracts, not an end-user customer. Instead, Wowjoint would produce the equipment and deliver it to the end-user customers, and those customers would pay Wowjoint's contract co-party, rather than Wowjoint. According to agreements between Wowjoint and Wowjoint's contract co-party, the payment for the equipment would be promptly forwarded by Wowjoint's contract co-party to Wowjoint, with Wowjoint's contract co-party collecting a service fee from that payment. Because the arrangement was unlike that of an ordinary customer and manufacturer relationship, and that Wowjoint allowed the co-party to fail to make timely payments as required by their arrangements, it warranted further procedures to determine whether the accounts receivable recordation and classification by Wowjoint was appropriate.

86. After some prodding by Epstein for evidence that Wowjoint's contract co-party would pay its long outstanding bills, Wowjoint provided Epstein with Wowjoint's contract co-party's balance sheet showing its asset levels. Wowjoint asserted this as sufficient proof of Wowjoint's contract co-party's ability to pay. Wowjoint also provided a bank statement for Wowjoint's contract co-party, showing its cash balance at that particular time, again asserted as evidence that Wowjoint's contract co-party was capable of paying Wowjoint. At most, these

documents proved only Wowjoint's contract co-party's financial position, not its inclination to pay. Furthermore, the validity of the cash balance shown on the bank statement was questionable because it had been recently substantially increased by a large cash deposit just days before the date of the statement. Prior to that date, the cash balance had been significantly lower.

87. PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work* at .01-.02, .07-.08) requires auditors to exercise due professional care and professional skepticism throughout the audit. Epstein and Sherb LLP failed to evaluate the unusual arrangements between Wowjoint and its contract co-party that should have heightened their sensitivity regarding Wowjoint's contract co-party's inclination to pay its debts. Additional audit procedures should have, accordingly, been planned to test whether the transactions between Wowjoint's contract co-party and Wowjoint were at arm's length and whether there were unusual payment terms that would affect the collectability and valuation of this receivable.

88. An audit procedure commonly used to assess collectability of accounts receivable is to monitor subsequent collection following the fiscal period being audited. The audit team claimed to have reviewed subsequent collections as a basis for measuring the adequacy of collectability and allowance for bad debt for accounts receivable. Sherb LLP's audit work papers, however, did not reflect any such review of the subsequent collections. In the work papers for accounts receivable, Sherb LLP had created two columns to document their subsequent collection testing. These two columns were left blank. Nevertheless, the audit staff claimed it was done and wrote, "[s]ubsequent collection test. Auditor's field work till January 2010, and auditor check all the subsequent collection to supporting document." [sic omitted] Both Epstein and Valteau affixed their initials to that work paper, indicating their review.

### **Valteau, Epstein and Sherb LLP Failed to Retain Adequate Audit Documentation**

89. Under PCAOB Standard No. 3 (*Audit Documentation* at .6), "[a]udit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement: (a) to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review."

90. The audit documentation retained by Valteau, Epstein and Sherb LLP is deficient. To begin with, it cannot be determined from the work papers who comprised the engagement teams for the August 31, 2008, August 31, 2009, and December 31, 2009 Wowjoint audits. The finalized work papers include only illegible initialing by various staff members and partners. Many work papers do not reflect the name of the preparer nor the date they were prepared.

91. The revenue section for the December 31, 2009 transition period audit provides an example of Valteau, Epstein and Sherb LLP's deficient audit documentation. The revenue work papers provide only conclusory findings with no documented support for those findings. Epstein was unable to identify what procedures were performed to verify the profit and loss figures

provided by Wowjoint even when he was given the opportunity to review the work papers that he approved.

92. The audit documentation also must include information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions. (AS No.3 at .8.) The auditor must also document significant findings or issues, actions taken to address them (including additional evidence obtained), and the basis for conclusions reached in connection with each engagement. (AS No. 3 at .12) Sherb LLP's work papers failed to document the audit issues raised by the discovery of the omitted prior period costs during the transition period audit and how Sherb LLP resolved that issue, as required by PCAOB Auditing Standard No. 3.

### **Valleau's and Epstein's Reviews of the Work Papers were Inadequate**

93. PCAOB Standards AU Section 150 (*Generally Accepted Auditing Standards*) and AU Section 311 (*Planning and Supervision*) require an auditor to properly supervise assistants. PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work* at .01-.02, and .07-.08) also requires auditors to exercise due professional care and professional skepticism throughout the audit. The reviews by Valleau and Epstein, for Wowjoint's fiscal periods ended August 31, 2008, August 31, 2009, and December 31, 2009, were inadequate. Valleau and Epstein aggregately initialed most pages of the work papers, indicating that they had reviewed them to ensure their accuracy and sufficiency. Many of the pages are, however, written in full or in part in Chinese. Neither Valleau nor Epstein speak or read Chinese. Epstein could not identify a single line in Chinese that he understood and was unable to distinguish between Wowjoint's different customers in the revenue section. Epstein also signed off on work papers that reflected audit procedures that were not completed, as well as many work papers that contained obvious errors, demonstrating his lack of due professional care in his review of work papers.

### **The 2010 Wowjoint Audit was Deficient**

94. PCAOB Standards AU Section 150 (*Generally Accepted Auditing Standards*) and AU Section 311 (*Planning and Supervision*) require an auditor to properly supervise assistants. PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work* at .01-.02, .07-.08) also requires auditors to exercise due professional care and professional skepticism throughout the audit. Despite their knowledge of the earlier deficient audits and Wowjoint's failure to record costs incurred in the proper periods, Valleau and Epstein failed to implement additional audit procedures or exercise due professional care in the 2010 audit (the "2010 Wowjoint Audit") to ensure that these mistakes did not occur again. Despite their knowledge of Wowjoint's failure to accurately estimate and update the total costs for its projects, Valleau and Epstein did not object to the continued incorrect application of the POC method to compute its revenue. The 2010 Wowjoint Audit performed by Sherb LLP was recklessly managed, supervised, and performed.

95. Mycio was initially assigned to be the engagement partner for this audit. He visited Wowjoint in China for one week to get familiar with the client, and allegedly performed some

audit planning and answered some technical questions. However, Mycio inexplicably and recklessly failed to continue his supervision of the 2010 Wowjoint Audit after he returned to the U.S., without first transferring his responsibilities to another audit partner. He did not even follow up to ascertain whether the audit was completed and whether any other audit partner was ever assigned to the audit. Mycio failed to exercise due professional care and properly supervise assistants as required by PCAOB Standards AU Section 230 and AU Section 311. The audit work papers do not reflect any work performed by Mycio.

96. PCAOB Interim Quality Control Standards Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* at .02 requires that “[Audit firms should] have in place internal quality-control procedures to ensure that services are competently delivered and adequately supervised.” PCAOB Interim Quality Control Standards Section 40, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement* at .02 requires that audit firms establish policies and procedures “to provide the firm with reasonable assurance that...work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.” Sherb LLP failed to ensure that the assigned personnel properly performed their duties. It is unclear when Valleau took over this audit. Valleau signed the audit completion form and dated his signature in March 2011. Sherb also signed off as engagement quality reviewer and dated his initials in March 2011. However, the audit work papers reflect that the audit was still in progress in May 2011. While Valleau's initials appear on some work papers, they were all dated May 2011. Alarming, many key audit work papers did not reflect the identity of the preparer as required under PCAOB Auditing Standard No. 3 at .06. They only reflected Epstein's initials.

97. Valleau stated that he had no recollection of being assigned to be the engagement partner for the 2010 Wowjoint Audit, and stated that he was only asked by Epstein to help out on a few work papers in May 2011. However, Valleau was not able to explain an audit completion form bearing his signature dated March 2011. At a minimum, this indicated the audit was recklessly supervised and managed. Nevertheless, an unqualified audit report was issued by Sherb LLP, signed by Epstein, who for all practical purposes, was functioning as if he was the audit partner. The approval to file was communicated to Wowjoint's outside counsel by Epstein.

98. The audit work papers, similar to prior periods, contained many errors and forms that were incomplete. They also reflected that Wowjoint continued to record during this audit year costs for projects that were allegedly completed in prior periods. One work paper which purportedly demonstrated that Sherb LLP had performed audit procedures to test costs of service revenue was evidently just copied from a prior audit, as it reflected costs identical to a prior period that had no relationship to service revenue earned in 2010. It was nevertheless reviewed and approved by Epstein.

### **The 2011 Wowjoint Audit was Deficient**

99. PCAOB Auditing Standard No. 9 *Audit Planning* at .4-.5 requires an auditor to properly plan an audit and to develop an audit plan which includes planned risk assessment procedures and planned responses to the risks of material misstatement. PCAOB Auditing

Standard AU Section 230 (*Due Professional Care in the Performance of Work* at .01-.02, .07-.08) also requires auditors to exercise due professional care and professional skepticism throughout the audit. Mycio returned as the engagement partner for the 2011 audit. As with the earlier audits, this audit failed to test the key components for Wowjoint's revenue computation. Sherb LLP again accepted Wowjoint's numbers and computation at face value. Sherb LLP failed to notice obvious errors in Wowjoint's revenue computation worksheet, such as one project incorrectly computed as 50% complete when it should have been only 40% complete. Sherb LLP also raised no objection where Wowjoint apparently accelerated its revenue recognition on a number of projects simply by accruing for costs that had not yet been incurred. This allowed Wowjoint to recognize 100% of the revenue on those projects even though the underlying machines had not been completed. This is not in accordance with U.S. GAAP. Sherb LLP also failed to properly test the actual costs allegedly incurred.

100. Under PCAOB Auditing Standard No. 15 (*Audit Evidence* at .4), an auditor is required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion. To be appropriate, audit evidence must be both relevant and reliable. (AS No. 15.6) Mycio violated this standard by accepting Wowjoint's numbers for the total estimated costs and total costs incurred for each project at face value, without performing procedures to verify that the cost estimates calculated by Wowjoint were reliable.

101. Under PCAOB Standard AU Section 230 (*Due Professional Care in the Performance of Work* at .01-.02, .07 and .08), auditors are required to exercise due professional care throughout the audit. Due professional care requires that the auditor exercise professional skepticism. Under this standard, professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Mycio failed to design adequate audit procedures to verify the costs estimated and recorded for each project, and failed to notice that Wowjoint had accelerated revenue recognition on certain projects by accruing for costs that had not been incurred.

102. Under PCAOB Auditing Standard No. 3 (*Audit Documentation* at .6), audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached; and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review. Mycio failed to prepare and retain adequate audit documentation, as many key audit work papers did not identify the names of the preparers and the dates the relevant work was completed. The audit documentation also did not accurately reflect the date the engagement quality review was purportedly performed, and any work papers reviewed by the engagement quality reviewer.

### **Sherb Failed to Perform Adequate Concurring Partner and Engagement Quality Reviews**

103. Sherb was the concurring partner for the first three audits under the superseded standards (SECPS § 1000.08(f) and Appendix E of SECPS § 1000.39) and was the engagement quality reviewer for the last two audits pursuant to the current standard (Auditing Standard No. 7). Given the audit team's clearly inadequate planning, failure to properly identify and audit high-risk transactions and account balances, and the many obvious errors in the audit work papers, Sherb's concurring and engagement quality reviews were obviously deficient.

104. As concurring partner and engagement quality reviewer for the five audits, Sherb failed to properly document what significant audit issues he had discussed with the audit team, what audit work papers he had reviewed, and his evaluation of the audit team's judgment and resolution on significant audit issues as required under Paras. b and c of Appendix E of SECPS § 1000.39 and AS No. 7.19. The only documentation of Sherb's concurring partner review and engagement quality review were a few generic checklists where he simply checked off each item and placed his initials at the end. He did not provide any reference to audit work papers he reviewed as the checklists requested. He signed his engagement quality review approval two months before the completion of the 2010 audit.

105. There is no evidence that Sherb actually reviewed any audit planning work papers for the initial audits. Had he done so, he would have realized that the initial client acceptance form clearly indicated the audit team's assessment that Wowjoint's financial reporting system appeared to be "insufficient to provide evidence to support that transactions have occurred and that all the transactions that should be recorded are, in fact, recorded." This is an alarming deficiency that an auditor needs to compensate and address through properly designed substantive audit procedures. Instead, the audit planning documents did not reflect any audit procedures designed to address this risk. Sherb LLP did not even obtain and properly document its understanding of Wowjoint's internal control system. During the transition period audit, Sherb was copied on the email exchanges between Epstein and Wowjoint's controller regarding the posting of material costs omitted from prior periods into the transition period. Sherb was instrumental in convincing Valleau to allow Wowjoint to do so. Sherb should have ensured that the audit work papers reflected how the audit team evaluated this important audit issue, how it resolved the issue, and the basis of the audit team's determination. Sherb failed to do so.

### **Sherb's Overall Responsibility for Quality Control**

106. Sherb is the sole equity partner and managing partner of Sherb LLP and as such has overall and ultimate responsibilities for the firm-wide quality control policies and practices required by PCAOB Interim Quality Control Standards Section 20 and Section 40. The deficiencies noted above clearly demonstrated that there is a complete failure in the firm's quality control policies and system in actual practice. These failures include Sherb's failures to assign competent staff to each audit, to properly perform each audit, to properly take corrective actions when errors were brought to his attention, to modify Sherb LLP audit approaches when they learned of their own audit deficiencies, to ensure each engagement was clearly assigned to a

particular partner, and the quality control deficiency which allowed the issuance of an audit report by Epstein with partner approvals granted two months prior to the completion of the 2010 audit.

### **Valleau and Mycio Failed to Issue Accurate Audit Reports**

107. PCAOB Standard AU Section 508 (*Reports on Audited Financial Statements* at .04) requires that the auditor's report contain an opinion on the financial statements taken as a whole and a clear indication of the character of the auditor's work. The auditor can determine that he is able to issue an audit report containing an unqualified opinion only if he has conducted his audit in accordance with PCAOB Standards (at .07). Here, the audit reports for which Valleau and Mycio were responsible falsely stated that they conducted their audits in accordance with PCAOB Standards.

### **D. VIOLATIONS**

108. Section 4C of the Exchange Act and Rule 102(e)(1)(iv) of the Commission's Rules of Practice define improper professional conduct with respect to persons licensed to practice as accountants. Section 4C of the Exchange Act and Rule 102(e)(1)(iv)(B)(2) of the Commission's Rules of Practice provide that improper professional conduct includes "[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."

109. As a result of the conduct described above, Sherb LLP engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule 102(e)(1)(iv)(B)(2) of the Commission's Rules of Practice. Sherb LLP's unreasonable conduct included the failures of Sherb, Valleau, Mycio, and Epstein with respect to the 2007 CSKI Audit, 2010 CEU Audit, and the Wowjoint audits. These repeated instances of unreasonable conduct resulted in violations of PCAOB Standards AU Section 150, AU Section 230, AU Section 311, AU Section 315, AU Section 316, AU Section 326, AU Section 330, AU Section 342, AU Section 508, AU Section 561, Auditing Standard No. 3, Auditing Standard No. 7, Auditing Standard No. 9, Auditing Standard No. 15, AICPA SECPS § 1000.08(f) and Appendix E of SECPS § 1000.39, PCAOB Interim Quality Control Standard Section 20, and PCAOB Interim Quality Control Standard Section 40.

110. As a result of the conduct described above, Sherb engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule 102(e)(1)(iv)(B)(2) of the Commission's Rules of Practice. Sherb repeatedly engaged in unreasonable conduct with respect to the 2007 CSKI Audit and the Wowjoint audits, which resulted in violation of Interim Quality Control Standards, AICPA SECPS § 1000.08(f) and Appendix E of SECPS § 1000.39 and Auditing Standard No. 7, PCAOB Interim Quality Control Standard Section 20, and PCAOB Interim Quality Control Standard Section 40.

111. As a result of the conduct described above, Valleau engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule

102(e)(1)(iv)(B)(2) of the Commission’s Rules of Practice. Valleau repeatedly engaged in unreasonable conduct with respect to the 2007 CSKI Audit, 2010 CEU Audit and the Wowjoint audits, which resulted in violations of PCAOB Standards, AU Section 150, AU Section 230, AU Section 311, AU Section 315, AU Section 316, AU Section 326, AU Section 342, AU Section 508, AU Section 561, Auditing Standard No. 3, and Auditing Standard No. 7.

112. As a result of the conduct described above, Mycio engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule 102(e)(1)(iv)(B)(2) of the Commission’s Rules of Practice. Mycio repeatedly engaged in unreasonable conduct with respect to the 2010 CEU Audit and the 2011 Wowjoint audit that resulted in violations of PCAOB Standards AU Section 230, AU Section 311, AU Section 316, AU Section 326, AU Section 330, AU Section 342, AU Section 508, Auditing Standard No. 3, and Auditing Standard No. 9 and Auditing Standard No. 15.

113. As a result of the conduct described above, Epstein engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule 102(e)(1)(iv)(B)(2) of the Commission’s Rules of Practice. Epstein repeatedly engaged in unreasonable conduct with respect to the 2007 CSKI Audit, 2010 CEU audit, and the 2008 to 2010 Wowjoint audits that resulted in violations of PCAOB Standards AU Section 230, and AU Section 311, AU Section 316, AU Section 326, AU Section 330, AU Section 561, and Auditing Standard No. 3.

114. Section 10A(b)(1) of the Exchange Act provides that if “the registered public accounting firm detects or otherwise becomes aware of information indicating that an illegal act (whether or not perceived to have a material effect on the financial statements of the issuer) has or may have occurred, the firm shall . . . determine whether it is likely that an illegal act has occurred; and . . . if so, determine and consider the possible effect of the illegal act on the financial statements of the issuer . . . and . . . as soon as practicable, inform the appropriate level of the management of the issuer and assure that the audit committee of the issuer, or the board of directors of the issuer in the absence of such a committee, is adequately informed with respect to illegal acts that have been detected . . . .”

115. As a result of the conduct described above, Mycio and Sherb LLP willfully violated Section 10A(b)(1) of the Exchange Act. During the performance of the audit, Mycio became aware of a report by a Sherb LLP staff auditor that a CEU senior management official had attempted to bribe him in an effort to influence the performance of the audit, in potential violation of Rule 13b2-2(b)(1) under the Exchange Act. Mycio and Sherb LLP failed to undertake an appropriate investigation to determine whether it was likely that an illegal act had occurred, failed to consider the possible effect of the illegal act on the company’s financial statements, and failed to inform the company’s management or board of directors as required under Section 10A(b)(1) of the Exchange Act.

**E. FINDINGS**

116. Based on the foregoing, the Commission finds that Sherb LLP, Sherb, Valleau, Mycio and Epstein engaged in improper professional conduct pursuant to Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

117. Based on the foregoing, the Commission finds that Sherb LLP and Mycio violated Section 10A(b)(1) of the Exchange Act.

**IV.**

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

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

**Sherb LLP**

A. Sherb LLP shall cease and desist from committing or causing any violations and any future violations of Section 10A(b)(1) of the Exchange Act.

B. Sherb LLP is denied the privilege of appearing or practicing before the Commission as an accountant.

C. Sherb LLP shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$75,000 to the United States Treasury. 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 make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

(2) 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 Sherb 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 Yuri B. Zelinsky, Assistant Director,

Division of Enforcement,, Securities and Exchange Commission, 100 F Street, N.E. Washington, DC 20549-5041.

**Sherb**

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

B. After five years from the date of this order, Sherb 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 Sherb'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) Sherb, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

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

(c) Sherb 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) Sherb acknowledges his responsibility, as long as Sherb 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 Sherb 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 Sherb's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

**Valleau**

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

B. After five years from the date of this order, Valleau 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 Valleau'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) Valleau, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

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

(c) Valleau 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) Valleau acknowledges his responsibility, as long as Valleau 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 Valleau 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 Valleau's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

**Mycio**

A. Mycio shall cease and desist from committing or causing any violations and any future violations of Section 10A(b)(1) of the Exchange Act.

B. Mycio is denied the privilege of appearing or practicing before the Commission as an accountant.

C. After five years from the date of this order, Mycio 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 Mycio'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) Mycio, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

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

(c) Mycio 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) Mycio acknowledges his responsibility, as long as Mycio 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.

D. The Commission will consider an application by Mycio 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 Mycio's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

### **Epstein**

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

B. After three years from the date of this order, Epstein 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 Epstein'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) Epstein, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

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

(c) Epstein 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) Epstein acknowledges his responsibility, as long as Epstein 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 Epstein 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 Epstein's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Elizabeth M. Murphy  
Secretary