

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9725 / February 13, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 74273 / February 13, 2015

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3638 / February 13, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16386

In the Matter of

TRACI J. ANDERSON, CPA,
TIMOTHY W. CARNAHAN,
AND
CYIOS CORPORATION

Respondents.

ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933,
SECTIONS 4C AND 21C OF THE
SECURITIES EXCHANGE ACT OF
1934, AND RULE 102(e) OF THE
COMMISSION'S RULES OF
PRACTICE

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted against: (i) Traci J. Anderson, CPA (“Anderson”) pursuant to Sections 4C¹ and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and 102(e)(1)(iii)² of the Commission’s

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

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

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

The Commission may censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or

Rules of Practice; and (ii) Timothy W. Carnahan (“Carnahan”) and CYIOS Corporation (“CYIOS”) pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 21C of the Exchange Act.

II.

After an investigation, the Division of Enforcement and the Office of the Chief Accountant allege that:

A. RESPONDENTS

1. **Traci J. Anderson, CPA**, age 46 and a resident of Charlotte, North Carolina, has functioned as a contract CFO to CYIOS Corporation since July 2007. From 2003 through August 2010 Anderson was the sole proprietor of a PCAOB-registered public accounting firm and was engaged as CYIOS Corporation’s auditor from September 2005 until she resigned in July 2007 to become the company’s internal accountant. Anderson consented to a PCAOB order dated August 12, 2010 pursuant to which she was barred from being an associated person of a registered public accounting firm. Additionally, Anderson consented in January 2012 to an order pursuant to which she forfeited her CPA license in North Carolina. Anderson remains licensed as a CPA in Florida.

2. **Timothy W. Carnahan**, age 47 and a resident of Pompano Beach, Florida, is the founder and is disclosed as the sole officer and director of CYIOS. Between 2006 and November 2012, Carnahan signed and certified each of CYIOS’s periodic filings in the capacities of principal executive and principal financial officer.

3. **CYIOS Corporation**, a Nevada corporation headquartered in Washington D.C., is a Department of Defense contractor providing: systems integration; web and database development; business process management and improvement; and solutions for compliance with Sarbanes-Oxley regulations and Defense Contract Audit Agency and performance-based contracting for government contractors. Its common stock was registered under Section 12(g) of the Exchange Act and was traded on the OTC Bulletin Board (Symbol: CYIO). After receiving a letter dated May 12, 2014 from the Commission’s Division of Corporation Finance informing CYIOS that it was not in compliance with its reporting requirements under Section 13(a) of the Exchange Act, CYIOS filed a Form 15-12G on May 30, 2014 terminating the registration of its common stock.

B. ANDERSON WAS UNLAWFULLY ASSOCIATED WITH CYIOS AFTER THE PCAOB BARRED HER FROM ASSOCIATING WITH A REGISTERED PUBLIC ACCOUNTING FIRM

4. Section 105(c)(7)(B) of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) states that it is “unlawful for any person that is ... barred from being associated with a registered public accounting firm [...] willfully to become or remain associated with any issuer [...] in an accountancy or financial management capacity [...] without the consent of the [PCAOB] or the

willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

Commission.” Section 105(c)(7)(B) also states that it is unlawful for any “issuer [...] that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission.”

5. On August 12, 2010, the PCAOB filed a settled action against Anderson and her firm, Traci Jo Anderson, for multiple deficiencies in audit work performed between 2007 and 2009 on public companies engagements unrelated to CYIOS (the “PCAOB Order”).³ The PCAOB Order, which was and is available on its website, revoked the registration of her accounting firm and barred Anderson from being an associated person of a registered public accounting firm.

6. Following the issuance of the PCAOB Order, Anderson advised each of her firm’s public company audit clients that she must withdraw because she had been barred by the PCAOB as a result of violations of PCAOB rules and auditing standards.

7. Around the same time, Anderson orally notified Carnahan—who was already aware of the PCAOB’s investigation of Anderson—and CYIOS’s then Director of Finance about the existence of the PCAOB Order and directed him to the PCAOB website. Consequently, CYIOS and Carnahan knew or, in the exercise of reasonable care, should have known that Anderson had been barred from associating with a registered public accounting firm.

8. After the PCAOB Order was issued, Anderson continued to perform accountancy and financial management services for CYIOS. It was Carnahan’s decision to maintain CYIOS’s business relationship with Anderson. Anderson’s services included providing CFO and general accounting services, assisting CYIOS’s CEO in preparing Commission filings – including Forms 10-Q and 10-K – as well as other prohibited services. CYIOS paid Anderson at least \$244,035 for her services between August 2010 and June 2014.

9. Anderson never requested or received consent from the PCAOB or the Commission to remain associated with CYIOS in this capacity.

C. CYIOS FAILED TO MAKE PERIODIC FILINGS REQUIRED UNDER SECTION 13(A) OF THE EXCHANGE ACT

10. Section 13(a) of the Exchange Act and the rules promulgated thereunder require issuers with classes of securities registered pursuant to Section 12 of the Exchange Act to file periodic and other reports with the Commission. Rules 13a-1 and 13a-13 require, respectively, the filing of accurate annual and quarterly reports (i.e., Forms 10-K and 10-Q).

11. CYIOS ceased making filings required under Section 13(a) of the Exchange Act after it filed its third quarter 2012 Form 10-Q in November 2012. Specifically, CYIOS failed to file its 2012 Form 10-K, its 2013 Forms 10-Q and 10-K, and its first quarter 2014 Form 10-Q.⁴ CYIOS filed a Form 15-12g on May 30, 2014 which terminated the registration of its common

³ See PCAOB Release No. 105-2010-007, available at http://pcaobus.org/Enforcement/Decisions/Documents/Traci_Jo_Anderson.pdf.

⁴ CYIOS filed Forms 12b-25 to disclose it was unable to file its 2012 Form 10-K or first quarter 2013 Form 10-Q when due, but did not do so for subsequently due filings.

stock. Carnahan authorized each filing CYIOS made with the Commission and was responsible for CYIOS not making filings required under Section 13(a) of the Exchange Act.

D. CARNAHAN FAILED TO ASSESS INTERNAL CONTROLS

i. Legal Requirements

12. In relevant part, Rule 13a-15(a) states that every issuer with a class of securities registered under Section 12 of the Exchange Act and was either required to file an annual report pursuant to Section 13(a) or 15(d) of the Exchange Act for the prior fiscal year or had filed an annual report for the prior fiscal year, must maintain internal control over financial reporting (“ICFR”). Rule 13a-15(f) defines ICFR as process designed by the issuer’s executive management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

13. Rule 13a-15(c) requires management of such issuers to evaluate, with the participation of the principal executive and principal financial officers (or persons performing similar functions) the effectiveness of the issuer’s ICFR as of the end of each fiscal year. Rule 13a-15(c) states that there are many different ways to conduct an evaluation of internal controls over financial reporting to meet the requirements of this rule, and that an issuer can comply with this requirement by conducting an evaluation in accordance with interpretive guidance issued by the Commission in Release No. 34-55929, *Commission Guidance Regarding Management’s Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, (the “2007 Guidance”).

14. The registrant “must maintain evidential matter, including documentation, to provide reasonable support for management’s assessment of the effectiveness of the registrant’s internal control over financial reporting,” as stated in the instructions to Regulation SK, Item 308, *Internal Control over Financial Reporting*. The 2007 Guidance similarly states “Management is responsible for maintaining evidential matter, including documentation to provide reasonable support for its assessment.

15. Rule 13a-14, *Certification of Disclosure in Annual and Quarterly Reports*, requires each Form 10-Q and 10-K to include certifications signed by each principal executive and principal financial officer of the issuer (or persons performing similar functions). Among other things, the certifying officers must confirm that the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by [the] report.

ii. Carnahan’s Assessments of Internal Control over Financial Reporting

16. CYIOS’s Forms 10-K for the fiscal years ended December 31, 2009, 2010, and 2011 include management’s report on ICFR, as required by Exchange Act Rule 13a-15(c) and Item 308 of Regulation S-K. CYIOS also included management’s report on ICFR in its 2010, 2011, and

2012 Forms 10-Q.⁵ CYIOS stated in each report that management had assessed ICFR using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (the “COSO Framework”).

17. These statements were false. CYIOS either did not evaluate ICFR, or did not evaluate ICFR using the COSO Framework.

18. In addition, CYIOS did not maintain any documentation of management’s assessments of ICFR. As discussed in the 2007 Guidance and stated in the instructions to Regulation S-K, Item 308, a registrant “must maintain evidential matter, including documentation, to provide reasonable support for management’s assessment of the effectiveness of the registrant’s internal control over financial reporting.”

19. For these reasons, Carnahan’s certifications that CYIOS had assessed ICFR using the COSO Framework were false.

E. OFFERS AND SALES OF SECURITIES

20. After filing its 2009 Form 10-K on February 26, 2010, CYIOS issued, in exchange for consulting services and debt conversions, common stock under a registration statement filed on Form S-8 (No. 333-147695, filed November 29, 2007). This registration statement incorporated by reference subsequent filings, including CYIOS’s 2009 Form 10-K and 2010 Forms 10-Q.

F. VIOLATIONS

21. As a result of the conduct described above, Anderson willfully violated, CYIOS violated, and Carnahan caused CYIOS’s violation of, Section 105(c)(7)(B) of Sarbanes-Oxley, which prohibits a person barred from associating with a registered public accounting firm from willfully becoming or remaining associated with an issuer in an accountancy or financial management capacity without consent of the PCAOB or the Commission and prohibits an issuer that knew or, in the exercise of reasonable care, should have known of such a bar, to permit such an association, without the consent of the PCAOB or the Commission.

22. As a result of the conduct described above, CYIOS violated, and Carnahan caused CYIOS’s violations of, Sections 17(a)(2) and 17(a)(3) of the Securities Act. Section 17(a)(2) makes it unlawful to, in the offer or sale of securities, obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order make the statements made, in light of the circumstances under which they were made, not misleading. Section 17(a)(3) makes it unlawful to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

23. As a result of the conduct described above, CYIOS violated, and Carnahan caused CYIOS’s violations of, Section 13(a), and Rules 13a-1 and 13a-13 thereunder, which require

⁵ Issuers are not required to disclose its assessment of ICFR in quarterly filings, but CYIOS nonetheless included and asserted in each 2012 Form 10-Q that management had conducted an assessment of ICFR and concluded that it was “effective.”

issuers with classes of securities registered pursuant to Section 12 of the Exchange Act to file periodic and other reports with the Commission.

24. As a result of the conduct described above, Carnahan violated Rule 13a-14 of the Exchange Act, which requires an issuer's principal executive and principal financial officer to attest that the company's "report does not contain any untrue statement of a material fact."

25. As a result of the conduct described above, Carnahan violated Rule 13a-15(c) of the Exchange Act, which requires each issuer's management, with the participation of the principal executive and principal financial officer, or persons performing similar functions, to perform an evaluation of the company's ICFR as of the end of each fiscal year.

III.

In view of the allegations made by the Division of Enforcement and the Office of the Chief Accountant, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford each Respondent an opportunity to establish any defenses to such allegations;

B. Whether, pursuant to Section 21C of the Exchange Act, Respondents should be ordered to cease and desist from committing or causing any violation and any future violation of Section 105(c)(7)(B) of Sarbanes-Oxley.

C. Whether, pursuant to Section 8A of the Securities Act, CYIOS and Carnahan should be ordered to cease and desist from committing or causing any violation and any future violation of Sections 17(a)(2) and 17(a)(3) of the Securities Act;

D. Whether, pursuant to Section 21C of the Exchange Act, CYIOS and Carnahan should be ordered to cease and desist from committing or causing any violation and any future violation of Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder;

E. Whether, pursuant to Section 21C of the Exchange Act, Carnahan should be ordered to cease and desist from committing or causing any violation and any future violation of Rules 13a-14 and 13a-15;

F. Whether, pursuant to Section 4C of the Exchange Act and Rule 102(e) of the Commission's Rules of Practice, Anderson should be censured or denied, temporarily or permanently, the privilege of appearing or practicing before the Commission as an accountant;

G. Whether, pursuant to Section 8A of the Securities Act and Section 21B of the Exchange Act, civil penalties should be levied against Respondents; and

H. Whether, pursuant to Section 8A of the Securities Act and Sections 21B and 21C, respectively, of the Exchange Act, CYIOS and Anderson should be subject to disgorgement with prejudgment interest.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If a Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Brent J. Fields
Secretary