

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 75843 / September 4, 2015

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3681 / September 4, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16783

In the Matter of

RAYMON HOLMDAHL, CPA, and
KANAKO MATSUMOTO, CPA,

Respondents.

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

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 4C¹ of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e) of the Commission’s Rules of Practice² against Raymon Holmdahl, CPA, and Kanako Matsumoto, CPA (collectively, “Respondents”).

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 . . . to have engaged in . . . improper professional conduct.

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

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

II.

In anticipation of the institution of these proceedings, Respondents have each submitted an Offer 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 Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds³ that:

A. SUMMARY

1. These proceedings arise out of Respondents’ improper professional conduct during Peterson Sullivan, LLP’s (“Peterson Sullivan”) audit of a private investment fund’s financial statements for fiscal year 2013 (“FY2013”). Raymon Holmdahl and Kanako Matsumoto served as the partner and manager, respectively, on this engagement to audit the financial statements of Summit Stable Value Fund (“SSVF”), a private pooled investment vehicle advised by Summit Asset Strategies Investment Management, LLC (“Investment Management”).

2. SSVF’s audited financial statements for the year ended December 31, 2013, which Investment Management provided to SSVF’s investors, materially overstated the value of the fund’s assets by approximately \$1.69 million. Because Investment Management was entitled to receive SSVF’s net fund profits as its compensation for advising SSVF, the overstatement allowed Investment Management to withdraw significantly more money from SSVF than was authorized under the terms of the fund’s private placement memorandum (“PPM”).

3. Respondents caused Peterson Sullivan to issue an audit report containing an opinion that SSVF’s financial statements for the period ended December 31, 2013, which included the valuations of the fund’s assets and Investment Management’s draws from the fund, were presented fairly, in all material respects, in conformity with general accepted accounting principles (“GAAP”). Peterson Sullivan’s audit report also stated that the audit was conducted in accordance with auditing standards generally accepted in the United States. However, Respondents’ audit failed to comply with numerous American Institute of Certified Public Accountants (“AICPA”) auditing standards, the applicable professional standards for the audit of SSVF. These included failing to obtain sufficient appropriate audit evidence about the existence of certain fund assets, failing to exercise appropriate professional judgment and professional skepticism, and failing to properly supervise the financial statement audit. Respondent Holmdahl also authorized the issuance of a report with an

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

inaccurate audit opinion. Peterson Sullivan voluntarily withdrew its audit report for SSVF's 2013 financial statements based on the material overstatement of SSVF's valuation and ownership interest in certain of its assets. Respondents' conduct, as described below, constituted improper professional conduct pursuant to Rule 102(e)(1)(iv)(B)(1) and (2).

B. RESPONDENTS

4. **Raymon Holmdahl, CPA**, 57, resides in Lake Forest Park, Washington. Holmdahl is currently a partner at Peterson Sullivan, an accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB"), and has worked for Peterson Sullivan since 1980. Holmdahl served as the engagement partner for Peterson Sullivan's FY2013 audit of SSVF and related audit work, and served as an engagement partner for audits of public companies. Holmdahl is a certified public accountant licensed in Washington State.

5. **Kanako Matsumoto, CPA**, 50, resides in Seattle, Washington. Matsumoto is currently a senior manager at Peterson Sullivan, and initially joined the firm in 1999. Matsumoto served as the manager for Peterson Sullivan's FY2013 audit of SSVF and related audit work, and has worked on audits of several broker-dealers. Matsumoto is a certified public accountant licensed in Washington State.

C. OTHER RELEVANT ENTITIES

6. **Summit Asset Strategies Investment Management, LLC ("Investment Management")** is a Washington limited liability company based in Bellevue, Washington and served as the investment adviser to three private investment funds, including SSVF. During the relevant timeframe, Investment Management, through its principal/CEO, made investment decisions on behalf of SSVF and was entitled to receive SSVF's net fund profits as its compensation.

7. **Summit Stable Value Fund, LLC ("SSVF")** is a Washington limited liability company based in Bellevue, Washington. SSVF is a private pooled investment vehicle formed by Investment Management's principal in 2010 and was at all times advised by Investment Management.

D. FACTS

Investment Management Materially Overstated the Value of SSVF's Assets

8. According to SSVF's PPM, Investment Management was entitled to receive SSVF's net fund profits as compensation for its work in advising SSVF. The PPM permitted Investment Management to withdraw estimated "net fund profits" (defined as the profit less principal, interest payments, and fund expenses) from the fund on a monthly basis, but also required Investment Management to "true up" any distributions to match net fund profits as "determined in the Fund's annual audit." Accordingly, it was important for Investment Management to properly value SSVF's assets, as its compensation was specifically tied to the unrealized gains and losses in those assets each year.

9. Investment Management caused SSVF to materially overstate its asset values in its FY2013 financial statements. Specifically, Investment Management falsely claimed that SSVF had purchased 500,000 shares of an entity called Prime Pacific Bank in December 2012. Because the Prime Pacific Bank security was purportedly illiquid, Investment Management developed a financial model to value this asset. For FY2013, this model showed that SSVF's interest in Prime Pacific Bank had more than tripled in value from the shares' purported purchase price of \$1.00 per share to \$3.22 per share by the end of the fiscal year. As such, SSVF's FY2013 financial statements presented the value of the claimed Prime Pacific Bank security as approximately \$1.6 million. The putative increase in Prime Pacific Bank's value enabled Investment Management to withdraw significantly more money as net fund profits from SSVF than it would otherwise have been entitled to under the terms of SSVF's PPM.

10. In reality, SSVF did not own any shares of Prime Pacific Bank. Instead, SSVF held 250,000 shares in a different entity, Prime Pacific Financial Services, Inc. ("PPFS"), which had a quoted trading price ranging between \$0.27 per share to \$0.70 per share in 2012 and 2013. Accordingly, SSVF's interest in PPFS had a value worth less than \$175,000 at fiscal year-end 2013. As a result of these irregularities, SSVF's financial statements for FY2013 were materially overstated.

Respondents' Deficient FY2013 Audit

11. Peterson Sullivan's audit report for SSVF's FY2013 financial statements states that the audit was conducted in accordance with "auditing standards generally accepted in the United States." These standards are codified by AICPA professional auditing standards.⁴ Holmdahl, as engagement partner, was responsible for supervising the audit team and reviewing audit work for compliance with these professional standards. Holmdahl was also responsible for considering whether the audit team adequately documented in the working papers their findings, analysis, and information upon which they relied, and that the working papers provided a reasonable basis to render an audit opinion. Matsumoto, as audit manager, was principally responsible for performing the audit procedures, supervising junior staff, and assisting Holmdahl in his role as engagement partner.

12. During the FY2013 audit, Holmdahl approved the audit program and reviewed the working papers with Matsumoto. At the outset, Holmdahl and Matsumoto each recognized that the presentation of SSVF's asset values posed "significant" risk, and could result in a material misstatement of the fund's financial statements. In addition, Respondents were aware that the fund's predecessor auditor had disagreed with Investment Management's valuation of the purported Prime Pacific Bank security and subsequently resigned due to its inability to "gather adequate audit evidence to support audit opinions" regarding, among other things, the existence and valuation of assets, during the FY2013 audit. In response to these heightened risks,

⁴ GAAS and the professional standards applicable to the preparation and issuance of audit reports are embodied in Statements on Auditing Standards, as issued by the Auditing Standards Board of the AICPA and codified in the *U.S. Auditing Standards-AICPA (clarified)*. Relevant auditing standards will be referenced as "AU-C" herein.

Respondents specifically planned in their audit procedures to rely on third-party confirmation of all investment account balances and investment income.

13. Despite knowledge of these risks, Respondents failed to perform the fund's FY2013 audit in accordance with AICPA standards, particularly with respect to the fund's investments. Among the deficiencies, Respondents failed: (i) to obtain sufficient appropriate audit evidence about the existence of certain fund assets; (ii) to exercise appropriate professional judgment and professional skepticism; and (iii) to properly supervise the financial statement audit. Respondent Holmdahl, as engagement partner, also authorized the issuance of a report with an inaccurate audit opinion. As a result of these deficiencies, Respondents caused Peterson Sullivan to issue an unmodified opinion with respect to the fund's materially overstated financial statements.

Respondents Failed to Obtain Sufficient Appropriate Audit Evidence Regarding the Fund's Purported Investment in Prime Pacific Bank

14. AICPA Auditing Standards ("AU-C") require the auditor to "obtain sufficient appropriate audit evidence ... on which to base the auditor's opinion..." (AU-C § 500.04) and to "...design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence." (AU-C § 500.06).

15. Professional standards also require the auditor (1) to "perform substantive procedures for all relevant assertions related to each material class of transactions, account balance, and disclosure" (AU-C § 330.18); (2) to "design and implement overall responses to address the assessed risks of material misstatement at the financial statement level" (AU-C 330.05); (3) to "design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level" (AU-C 330.06); and (4) to "consider whether external confirmation procedures are to be performed as substantive audit procedures" (AU-C 330.19).

16. Respondents planned to obtain audit evidence of SSVF's investments through third party confirmation, but ultimately failed to send third party confirmation letters for the fund's purported investment in Prime Pacific Bank. Despite repeatedly recognizing in their workpapers the need for heightened scrutiny, Respondents did not confirm the fund's investment in PPFS with the bank or any third party for purposes of auditing the investment balance. In failing to follow their own audit plan, Respondents did not learn that the fund's purported Prime Pacific Bank investment did not exist. Had they executed on their plan to confirm the existence of investments, Respondents would have likely learned that SSVF's claimed investment in Prime Pacific Bank was nonexistent, and that it should not have been included in the fund's FY2013 financial statements.

17. In the absence of performing the planned third party confirmations, Respondents did not perform alternative or additional procedures to test the existence of SSVF's purported investment in Prime Pacific Bank. Indeed, the working papers do not reflect any audit procedures taken by Respondents to obtain sufficient appropriate audit evidence relevant to the existence of the Prime Pacific Bank security.

Respondents Committed Similar Failures With Respect to Other Assets Included in SSVF's Financial Statements

18. Respondents similarly failed to obtain sufficient appropriate audit evidence for two other assets reported in the fund's FY2013 financial statements: (1) SSVF's claimed investment in a Korean entity called Summit Asset Strategies Korea Co. Ltd. ("SASK"), which purportedly was a management consulting services company; and (2) SSVF's claimed \$3.6 million receivable from SASK. For instance, Respondents planned to test the existence of SSVF's investment in SASK through third party confirmations, but ultimately failed to do so. The workpapers otherwise reflect that Respondents did not perform other audit procedures to test the existence of these supposed assets or perform any alternative procedures to obtain sufficient appropriate audit evidence regarding the existence of these assets. These assets were significant to SSVF's FY2013 financial statements and comprised 63% of the fund's reported assets as of fiscal year-end 2013.

Respondents Failed to Exercise Appropriate Professional Judgment and Professional Skepticism

19. Under GAAS, auditors must exercise appropriate professional judgment and professional skepticism. (AU-C §200.08.) Professional skepticism includes demonstrating a questioning mind and a critical assessment of audit evidence. (AU-C § 200.14). In addition, AU-C §200.17 requires auditors to "plan and perform an audit with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated."

20. Respondents did not exercise the appropriate professional judgment when conducting the audit and issuing an opinion on SSVF's financial statements for FY2013. Respondents' assessment of the risks posed by SSVF's asset values should have caused them to place greater emphasis on obtaining sufficient appropriate audit evidence regarding the existence of the fund's investments. They did not. The working papers do not document any audit procedures taken by Respondents to address these risks.

Respondents Failed to Properly Supervise the Financial Statement Audit

21. GAAS requires the engagement partner to "take responsibility for the ... direction, supervision, and performance of the audit engagement in compliance with professional standards..." (AU-C § 220.17). "The engagement partner should take responsibility for reviews being performed in accordance with the firm's review policies and procedures." (AU-C § 220.18). Moreover, the engagement partner should review the audit documentation, have discussions with the audit engagement team and "be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued." (AU-C § 220.19).

22. Holmdahl failed to adequately supervise the FY2013 audit. Although Holmdahl appreciated the significant risks posed by the fund's valuations – as demonstrated by his approval of the audit plan – he did not adequately review the audit documentation to satisfy

himself that sufficient appropriate audit evidence was obtained about the existence of the fund's purported investments in Prime Pacific Bank and SASK.

23. GAAS provides that the engagement partner may use the assistance of other members of the engagement team and delegate certain procedures. (AU-C § 220.6 and (AU-C § 220.10). Matsumoto did not adequately supervise and review the audit team's response to the risk of material misstatement for SSVF's assets. Matsumoto knew that SSVF's asset values posed risks during the audit and planned to perform third party confirmations for SSVF's purported Prime Pacific Bank investment. Notwithstanding the plan, Matsumoto did not adequately review the work of junior staff members to consider whether: (i) the nature, timing, and extent of the work performed is appropriate and without need for revision; (ii) the work performed supports the conclusions reached and is appropriately documented; (iii) the evidence obtained is sufficient and appropriate to support the auditor's report; and (iv) the objectives of the engagement procedures have been achieved.

Holmdahl Was Responsible For Authorizing the Issuance of a Report with an Inaccurate Audit Opinion

24. GAAS requires an unmodified opinion to state that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, which, in the case of SSVF, is US-GAAP. (AU-C §700.35). An auditor should modify its opinion when it concludes that the financial statements as a whole are materially misstated or is unable to obtain sufficient appropriate audit evidence to conclude that they are free from material misstatement. (AU-C §705.07).

25. As audit partner with ultimate responsibility for SSVF's financial statement audit for FY2013, Holmdahl approved the issuance of an audit report containing an unmodified opinion. However, the fund's financial statements materially overstated its assets and "net fund profits," and as such, Peterson Sullivan should not have issued an audit report containing an unmodified opinion. Peterson Sullivan has since withdrawn its report and opinion based on the material overstatement of SSVF's valuation and ownership interest in its assets.

E. VIOLATIONS

26. 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) of the Commission's Rules of Practice provide that, with respect to persons licensed to practice as accountants, negligent improper professional conduct includes either (1) "[a] single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted," or (2) "[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."

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

102(e)(1)(iv)(B)(1)&(2) of the Commission's Rules of Practice. Respondents engaged in a single instance of highly unreasonable conduct where heightened scrutiny was warranted, or alternatively, repeated instances of unreasonable conduct indicating a lack of competence to practice before the Commission.

IV.

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

Accordingly, pursuant to Section 4C of the Exchange Act and Rule 102(e) of the Commission's Rules of Practice, it is hereby ORDERED that:

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

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

C. After three years from the date of this order, either Respondent may request that the Commission consider his or her 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 their work in their practice before the Commission will be reviewed either by the independent audit committee of the public company for which they work or in some other acceptable manner, as long as they practice before the Commission in this capacity; and/or

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

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

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

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

(d) Respondent acknowledges his or her responsibility, as long as he or she appears or practices before the Commission as an independent accountant, to comply with

all requirements of the Commission and the PCAOB, including, but not limited to, all requirements relating to registration, inspections, engagement quality reviews, and quality control standards.

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

By the Commission.

Brent J. Fields
Secretary