

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 79880 / January 26, 2017**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3856 / January 26, 2017**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-17816**

**In the Matter of**

**Anderson Bradshaw PLLC,  
Russell Anderson, CPA,  
Sandra Chen, CPA, and  
William Denney, CPA,**

**Respondents.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 4C AND 21C OF  
THE SECURITIES EXCHANGE ACT OF  
1934, AND RULE 102(e) OF THE  
COMMISSION'S RULES OF PRACTICE,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that administrative and cease-and-desist proceedings be, and hereby are, instituted against Anderson Bradshaw PLLC; Russell Anderson, CPA; Sandra Chen, CPA; and William Denney, CPA (the “Respondents”) pursuant to Sections 4C<sup>1</sup> and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Rule 102(e)(1)(ii) and 102(e)(1)(iii) of the Commission’s Rules of Practice.<sup>2</sup>

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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.

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

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

## II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934, and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

## III.

On the basis of this Order and Respondents’ Offer, the Commission finds that:

### A. Respondents

1. Anderson Bradshaw PLLC (“AB”) is a public accounting firm.<sup>3</sup> AB was the independent auditor for Longwei Petroleum Investment Holding Limited (“Longwei” or the “Company”) from August 2, 2012 to May 30, 2013. AB audited Longwei’s financial statements for its fiscal year ended June 30, 2012, and later conducted additional inquiries and audit procedures, including an investigation of allegations of fraud at Longwei that could have directly affected AB’s audit report on Longwei’s financial statements for 2012.

2. Russell Anderson, age 53, of West Valley City, Utah, is a certified public accountant licensed in Utah and currently a partner at AB. Before that, Anderson was a partner at Child Van Wagoner & Bradshaw PLLC (“CVB”). Anderson was listed as a Consulting Partner for AB’s 2012 audit of Longwei, but did not play an active role in the audit. On July 8, 2014, the Commission filed administrative proceedings against Anderson, CVB, and others in connection with the audits of Yuhe International, Inc. *In the Matter of Child, Van Wagoner & Bradshaw,*

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

<sup>3</sup> On August 2, 2012, AB filed a Form 4 with the PCAOB to succeed to the registration status of Child Van Wagoner & Bradshaw PLLC. CVB was a public accounting firm registered with the PCAOB that was Longwei’s independent auditor from January 1, 2006 to August 2, 2012. On July 8, 2014, the Commission filed administrative proceedings against CVB and others in connection with the audits of Yuhe International, Inc. *In the Matter of Child, Van Wagoner & Bradshaw, PLLC, et al.* (Rel. No. 34-72557). On February 11, 2015, CVB agreed to the entry of an order, among other things, denying it the privilege of appearing or practicing before the Commission. (Rel. No. 34-74262).

*PLLC, et al.* (Rel. No. 34-72557). On February 11, 2015, Anderson agreed to the entry of an order that, among other things, denied him the privilege of appearing or practicing before the Commission as an accountant, with the right to apply for reinstatement after a period of three years. (Rel. No. 34-74262).

3. Sandra Chen, age 48, of West Jordan, Utah, is a certified public accountant licensed in Utah and, during the relevant time period, was a partner at AB. Chen served as the engagement partner for AB's audit of Longwei's financial statements for 2012. She also participated during January 2013 in AB's additional inquiries and audit procedures regarding allegations of fraud at Longwei. Before that, Chen was an employee of CVB and served as the Audit Manager on CVB's audit of Longwei's financial statements for 2011.

4. William Denney, age 59, of East Murray, Utah, is a certified public accountant licensed in Utah and currently a partner at AB. Denney served as the engagement quality review partner for AB's audit of Longwei's financial statements for 2012. Before that, Denney was a partner at CVB.

#### B. Relevant Issuer

5. Longwei Petroleum Investment Holding Limited is a Colorado corporation headquartered in Shanxi Province, China. All of its operations are in China. At all relevant times, its common stock was registered with the Commission pursuant to Exchange Act Section 12(b), and was traded on the NYSE MKT stock exchange. On March 22, 2013, the NYSE MKT delisted Longwei's stock after the Company failed to respond adequately to requests for documents and information. Longwei's common stock currently trades on the "Grey Market" of the OTC under the symbol "LPIH."

#### C. Background

6. Longwei purports to be an energy company engaged in the wholesale distribution of finished petroleum products in the People's Republic of China. For its fiscal years ended June 30, 2011, and June 30, 2012, Longwei claimed to derive 95.1% and 96% of its revenues from direct product sales of finished petroleum products. For its direct product sales, Longwei purchased, took physical possession of, and then sold diesel, gasoline, fuel oil, and solvents. For each of those fiscal years, over 95% of the products it purportedly sold consisted of diesel and gasoline, while fuel oil and solvents comprised less than 5% of products sold.

7. As part of its business, Longwei ostensibly stored finished petroleum products at fuel depot storage facilities in three Chinese cities (Taiyuan, Gujiao, and Huajie), and recorded those amounts on its financial statements as inventory. In reports filed with the Commission, Longwei claimed that its storage facilities had the following storage capacities: eight tanks with a combined storage capacity of 50,000 metric tons at Taiyuan; eight tanks with a combined storage capacity of 70,000 metric tons at Gujiao; and twelve tanks with a combined storage capacity of 100,000 metric tons at Huajie.<sup>4</sup> Longwei used a computerized system to

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<sup>4</sup> Longwei acquired the Huajie facility in September 2012. So, it was not reviewed by AB during its audit of Longwei's financial statements for the fiscal year ended June 30, 2012. However, as described below,

monitor the inventory at each of its storage facilities. This system consisted of a float gauge that measured the height of the fluid in each tank and a computerized reading of the volume in each tank.

8. Longwei, however, reported its storage capacities in units of weight (metric tons), and not volume (cubic meters), in its reports filed with the Commission. This created the potential for inconsistencies and improper reporting because diesel and gasoline have different densities, which means they have different weights per cubic meter. As a result, the products stored by Longwei required different formulas for conversion from cubic meters (the unit by which they were measured by Longwei's inventory system) to metric tons (the units in which Longwei reported its inventory). Respondents never questioned this reporting practice, nor considered its implications. In fact, AB's workpapers for the 2012 audit show that AB confused volume and weight in its own calculations.

D. AB and Chen Failed to Conduct, and Denney failed to Review, the 2012 Longwei Audit in Accordance with PCAOB Audit Standards<sup>5</sup>

9. Longwei engaged CVB to audit Longwei's financial statements for the fiscal year ended June 30, 2011. On September 12, 2011, CVB issued an audit report containing an unqualified opinion on Longwei's 2011 financial statements, which Longwei included in a Form 10-K that it filed with the Commission on September 13, 2011.

10. In July 2012, the PCAOB staff conducted an inspection of CVB. As part of that inspection, on August 2, 2012, the PCAOB staff informed CVB that CVB had failed to perform sufficient procedures to test the existence or quantity of Longwei's inventory during the 2011 audit because CVB had not tested the accuracy of the Company's computerized inventory system or the contents of its fuel storage tanks. Chen was the Audit Manager on the 2011 audit, and was immediately made aware of the PCAOB staff's findings. In a response to the PCAOB, Russell Anderson, writing on behalf of CVB, claimed that CVB had conducted a dip test of the tanks in previous years to determine what fuel the tanks held. However, CVB's work papers contained no evidence that those tests had been performed.

11. On August 2, 2012, after AB filed a PCAOB Form 4 with the PCAOB to succeed to the registration status of CVB, Longwei engaged AB to audit Longwei's financial statements for its fiscal year ended June 30, 2012. AB hired a Hong Kong-based accounting firm (the "Foreign Audit Staff") to perform the fieldwork for the AB audit. On August 3, AB held a planning meeting with the Foreign Audit Staff, during which Chen identified inventory as a high risk area, and instructed the Foreign Audit Staff to (1) use a dipstick to verify the accuracy of the readings provided by Longwei's computerized inventory system; (2) use "water finding paste" to ensure that the storage tanks were not contaminated with water; and (3) perform an inventory rollover test, which is a reconciliation between prior and current inventory levels using records reflecting fuel sales and acquisitions.

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Huajie was reviewed by AB as part of the additional audit procedures AB performed in December 2012 and January 2013.

<sup>5</sup> All references are to PCAOB auditing standards in effect during AB's audit of Longwei's 2012 financial statements.

12. On August 4, 2012, the Foreign Audit Staff viewed and recorded the readings of volume for each of the eight tanks at the Taiyuan facility provided by Longwei's computerized inventory system. Those readings provided a combined inventory for that facility of 41,462 cubic meters. The Foreign Audit Staff attempted to verify the accuracy of those readings by observing a Longwei employee use a dipstick to measure the height of the fluid in two of the tanks at that facility (Tanks 7 and 8). The Foreign Audit Staff compared those measurements to the measurements of height provided by the float gauges in those tanks. After determining that the measurements of height the Longwei employee obtained with the dipstick matched the measurements of height provided by the float gauges in those tanks, the Foreign Audit Staff concluded that the computerized readings of volume for all of the tanks at the Taiyuan Facility were accurate and reliable. However, even though Chen had identified inventory as a high risk area, and although the PCAOB inspections staff found that in 2011 CVB did not sufficiently test the accuracy of Longwei's computerized inventory system, the Foreign Audit Staff did not measure or obtain the tanks' circumference through other procedures, which was necessary to determine whether the system accurately converted the measurements of height into volume. As a result, the Foreign Audit Staff did not gather adequate information to support AB's conclusion that the computerized readings of volume for the tanks at the Taiyuan Facility were accurate and reliable.

13. Also on August 4, 2012, the Foreign Audit Staff tested samples of fluids taken only from Tanks 7 and 8 at the Taiyuan facility. They did not take samples from any other tanks. Further, they did not sufficiently test for water content. For example, the Foreign Audit Staff did not use water finding paste; instead, they simply observed that the samples had a "heavy smell" and "evaporated quickly under the sunlight." Based on those observations, the Foreign Audit Staff concluded that Tanks 7 and 8 were not filled with water. However, those observations were insufficient to determine what type of fuel was in Tank 7 or 8. As noted, because Longwei reported its fuel storage inventory by weight rather than volume, and because each type of fuel had a different density, it was critical for AB to verify what specific liquid was in each tank. Accordingly, on August 6, 2012, the lead auditor for the Foreign Audit Staff suggested to Chen that AB retain an "independent inspection company" to confirm the tanks' contents. Chen neither responded to this request nor instructed the Foreign Audit Staff to perform additional procedures in order for AB to obtain sufficient appropriate audit evidence regarding inventory.

14. Also on August 4, 2012, the Foreign Audit Staff viewed and recorded the computerized readings of volume for each of the eight tanks at the Gujiao facility. However, the Foreign Audit Staff was not allowed access to the tanks themselves. Rather, when the Foreign Audit Staff arrived at the facility on August 4, 2012, Longwei employees informed the Foreign Audit Staff that they could not perform any tests because the tanks at that facility were "under maintenance." As a result, the Foreign Audit Staff did not test the accuracy of the computerized readings – such as by measuring the height of the fluid, the circumference of the tanks, and the type of fluid the tanks contained. Although Chen claims that, on or around August 18, 2012, she did test the height and content of two (of the eight) Gujiao tanks, the work papers do not reflect any such testing. Moreover, Chen conceded in testimony that AB never had the actual dimensions for the tanks at Gujiao.

15. During its audit of Longwei in 2012, AB performed inventory price testing. However, these procedures did not address the concerns about the testing of Longwei's inventory raised by the PCAOB staff after CVB's 2011 audit of Longwei. In an email exchange on January 14, 2013, the lead auditor from the Foreign Audit Staff informed Chen that they had relied entirely on documents Longwei had provided, telling her, "there are no supporting documents showing the suppliers have delivered the stocks to their customers except for the internal warehouse out stock records for every sales transactions[sic]."

16. On September 12, 2012, AB issued an audit report containing an unqualified opinion on Longwei's financial statements for 2012. AB stated that it conducted its audit "in accordance with the standards of [PCAOB]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement." In its audited financial statements, Longwei reported inventory of 50,405 metric tons, valued at approximately \$53 million, which represented approximately 15% of Longwei's total assets and 25% of its current assets.

#### E. AB Conducts Additional Inquiries and Audit Procedures

17. On December 28, 2012, Anderson received an unsolicited email from an individual claiming to be a Longwei shareholder. The email stated that after reviewing Longwei's audited financials, as well as photos and other reference materials, "it seems unrealistic to believe that the storage capacity of [Longwei's] facilities is as described." The email continued that, taking into account the type of fuel in the tanks, "it appears the [Taiyuan] facility has less than 19,651 MT [metric tons] – not the 50,000 MT of capacity described." Anderson shared the email with Chen, who searched AB's files for documents listing the dimensions of the tanks at Longwei's fuel storage facilities. As a result of that search, Chen found an Excel spreadsheet that Longwei had provided to CVB in 2007, which listed the dimensions of the tanks at the Taiyuan facility. The dimensions listed on the spreadsheet indicated that the Taiyuan tanks had only 78% to 89% (depending on the contents) of the storage capacity that Longwei claimed in its public filings. Chen was unable to find any documents or support for the disclosed dimensions of the storage tanks at the Gujiao facility or recently purchased Huajie facility.

18. Chen then asked an employee of the Foreign Audit Staff to re-calculate the inventory at the Taiyuan facility based on the dimensions found in the Excel spreadsheet. The employee calculated that the inventory was approximately 40% *less* than the inventory recorded when the Foreign Audit Staff performed their fieldwork for the 2012 audit, and which Longwei reported in its Form 10-K filed with the Commission on September 13, 2012. After receiving these calculations, Chen sent Longwei's CFO an email asking him - for the first time - to explain how Longwei's computerized inventory system worked.

19. On January 3, 2013, a private research firm issued a public report questioning the legitimacy of Longwei's business and claiming that Longwei must have substantially exaggerated its sales and overstated its revenues. The research firm reported that video surveillance of all three Longwei facilities showed very little tanker truck fueling activity,

and photographic evidence that railroad tracks providing access to Longwei's facilities appeared to be unused because they were covered with vegetation.

20. As a result of the research report, as well as the questions posed by the unsolicited email concerning the stated capacity of Longwei's fuel storage facilities, AB undertook additional inquiries and procedures expressly intended to determine whether AB needed to withdraw its audit report on Longwei's 2012 financial statements.

21. On or around January 5, 2013, Chen alerted Longwei's management that she and Anderson planned an immediate visit to Longwei's facilities in China with Longwei's CFO. Anderson, Chen, and Longwei's CFO arrived at Longwei's Chinese headquarters on January 10, 2013. All three were denied access to Longwei's accounting records, purportedly because Longwei's CEO was out of town and its controller was unavailable due to a family emergency.

22. On January 10, 2013, Anderson and Chen made on-site visits to Longwei's facilities in Taiyuan and Gujiao, where they observed and recorded tanker trucks fueling. However, Anderson could not reconcile that day's "scale tickets" – Longwei's records of trucks that fueled at Taiyuan – to his observations. In his memo, Anderson deemed the records "unreliable." Further, while at the Taiyuan facility, a purported company representative showed Anderson and Chen a video that he claimed Longwei captured and kept for "fire safety requirements." The video, which appeared to be date-stamped December 9, 2012, purported to show greater tanker truck activity at the Taiyuan facility than the video taken by the research firm for the same day. However, the origin and legitimacy of the video was unclear. Longwei claimed it could not access the video itself, which required an outside specialist familiar with the camera system. The company representative told Anderson and Chen that he was not, in fact, a Longwei employee, but claimed to have worked in the past for Longwei's security contractor.

23. While at the Taiyuan facility, Anderson observed a physical measurement of the circumference of two fuel storage tanks and found that these dimensions were consistent with the dimensions that appeared in the 2007 Excel spreadsheet Chen discovered in December 2012. Anderson then used these dimensions to calculate the volume of the fluids in all of the storage tanks at the Taiyuan Facility. Anderson compared his calculations to the readings provided by Longwei's computerized inventory system that AB had relied on in its audit, and found that the inventory system's calculations were as much as 2.8 times higher than Anderson's calculations.

24. Anderson questioned the COO of the Taiyuan facility about this discrepancy and was told that readings provided by Longwei's computerized inventory system were inaccurate during periods of activity and that the best time to accurately measure was early morning, before activity started. The COO then told Anderson and Chen that they could not access Longwei's fuel storage depots, including the Taiyuan facility, for the next two days because of purported province-wide inspections prompted by a recent leak at another fuel storage facility.

25. Anderson and Chen visited the Huajie facility on January 14, 2013. According to Anderson, while travelling to the facility, a company representative informed

Anderson and Chen that “not all of the company’s revenue was derived from tankers loading at the three facilities.” Upon arrival, Anderson and Chen discovered the facility gate was locked and had to be opened manually. Once inside, they saw no evidence to indicate the facility was in operation. This lack of apparent activity called into question the accuracy of a Longwei press release issued on December 19, 2012, in which Longwei reported sales of 16,290 metric tons for the Huajie facility in the two-month period ended November 30, 2012.

26. On January 15, 2013, Longwei employees once again denied Anderson and Chen access to any of Longwei’s fuel storage depots, claiming that Longwei’s CEO and controller needed to be present, but were still unavailable. Anderson and Chen then returned to the U.S. on January 16, 2013, without conducting any additional inquiries or audit procedures.

27. On January 18, 2013, Anderson and Chen provided an update to the Chair of Longwei’s audit committee on the additional inquiries and audit procedures undertaken in response to the unsolicited email and the January 3, 2013 research report. During that conversation, Anderson and Chen did not disclose that Longwei’s computerized inventory appeared to overstate the actual inventory. They also failed to disclose that they had been denied access to Longwei’s accounting records and to fuel storage depots on several days. Nor did they disclose that they saw evidence that Longwei’s largest fuel storage depot had not been in operation.

28. AB’s response to the information that Anderson and Chen obtained in China was deficient. While in China, Anderson and Chen became aware of several significant red flags that should have led them to conclude that the information contained in Longwei’s 2012 financial statements might be unreliable. In particular, they discovered that Longwei’s computerized inventory substantially overstated its holdings, that the company refused to provide access to facilities and accounting records, and that a key facility appeared dormant. Despite learning this information, AB has not withdrawn its audit opinion on Longwei’s 2012 financial statements, and neither Anderson nor Chen ever informed Longwei’s audit committee or its board of directors of their concerns or the red flags they noticed while in China. AB did not resign as Longwei’s auditor until May 30, 2013.

#### E. Respondents’ Audit Failures

29. Respondents’ conduct, described above, violated several PCAOB auditing and other professional standards.

##### i. Failure to Adequately Plan Longwei’s 2012 Audit

30. PCAOB Auditing Standard No. 9, *Audit Planning*, states that auditors should properly plan an audit. AS 9 ¶ 4. To do so, auditors should evaluate the matters in AS 9 ¶ 7 to determine the nature and extent of the planning activities that are necessary, taking into account the size and complexity of the company, the auditor’s previous experience with the company, and changes in circumstances that occur during the audit. AS 9 ¶ 7. Additionally the auditor should determine whether specialized skill or knowledge is needed to perform

appropriate risk assessments, plan or perform audit procedures, or evaluate audit results. AS 9 ¶ 16.

31. AB and Chen failed to adequately plan the 2012 audit because they failed to properly plan audit procedures to address areas of particular risk at Longwei. For example, inventory comprised 15% of Longwei's total assets, and Chen identified it as a "high risk area" for the 2012 audit. In fact, on August 2, 2012, before Chen held the planning meeting for the 2012 audit, Chen was put on notice by the PCAOB staff that Longwei's 2011 audit was deficient because, among other things, CVB had failed to perform sufficient procedures to test the existence or quantity of Longwei's inventory during the 2011 audit because CVB did not test the accuracy of the Company's computerized inventory system. Accordingly, Chen knew that verifying the accuracy of Longwei's computerized inventory system was a critical issue for the 2012 audit, but still failed to plan adequate procedures for understanding the inventory system, inventory observation, and to obtain sufficient audit evidence of Longwei's inventory.

32. AB and Chen failed to adequately plan the audit because Chen failed to instruct the Foreign Audit Staff to perform any procedures to determine whether Longwei's fuel storage tanks actually contained the specific petroleum products the Company claimed to have in inventory. Even though Chen was put on notice by the PCAOB staff that Longwei's 2011 audit was deficient because CVB had failed to verify the contents of the fuel storage tanks, Chen instructed the Foreign Audit Staff to confirm only that the tanks were not filled or contaminated with water.

33. AB and Chen also failed to adapt the audit plan to changes in circumstances that occurred during the audit. Specifically, AB and Chen failed to follow up on warnings raised by the Foreign Audit Staff during the course of the audit. As noted above, in an August 6, 2012 email to Chen, the Foreign Audit Staff warned Chen of the need to engage an independent party to perform testing that would verify the contents of Longwei's tanks. In the same email, the Foreign Audit Staff indicated to Chen that Longwei's computer inventory readings may be unreliable. Specifically, the lead auditor for the Foreign Audit Staff stated that photos on June 19, 2012 and August 4, 2012 showed that "the height [reading] changed a little bit but the volume of reading increased 10 times!" The lead auditor for the Foreign Audit Staff also told Chen that Longwei did not "reasonably explain[]" its use of certain gasoline and fuel. In all cases, besides asking for "more input" on the inventory issue and encouraging the Foreign Audit Staff to "inquire more" about the gasoline use, AB and Chen did nothing to follow up.

ii. Failure to Identify and Assess Risks of Material Misstatement

34. PCAOB Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, states that the auditor should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing risks of material misstatement, whether due to error or fraud, and designing further audit procedures. AS 12 ¶4. The auditor should obtain an understanding of the company and its environment to understand the events, conditions, and company activities that might reasonably be expected to have a significant effect on the risks of material misstatement. AS 12 ¶ 7. The auditor should obtain a sufficient understanding of each component of internal control over financial reporting. AS 12 ¶

18. The auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting. AS 12 ¶ 28. A company's business processes are the activities designed to develop, purchase, produce, sell and distribute a company's products or services and record information, including accounting and financial reporting information. AS 12 ¶ 30 (a) and (b).

35. Here, AB and Chen did not adequately identify and assess the risks of material misstatement of the Company's inventory, even though fuel inventory was an essential asset, and a significant account, for Longwei, and even though Chen had identified inventory as a "high risk area."

36. AB and Chen did not obtain adequate knowledge of Longwei's business, including its inventory procedures and internal controls. They failed to obtain a sufficient understanding of Longwei's computerized inventory system and had no understanding of how its readings were calculated or whether they were accurate. Although Chen did instruct the Foreign Audit Staff to attempt to verify the accuracy of the computerized inventory system by performing a dipstick test, they performed that test on only two of Longwei's tanks at a single storage facility. Moreover, the test did not verify the accuracy of the system's volume calculations because it only verified the readings of height, but not circumference, when both measurements were necessary to calculate volume.

37. Even though AB and Chen failed to obtain an adequate basis for relying on the accuracy of the volume measurements produced by Longwei's computerized inventory system, Chen nevertheless instructed the Foreign Audit Staff to rely on the computerized inventory system when they performed fieldwork for the 2012 audit.

iii. Failure to Properly Supervise the Foreign Audit Staff

38. PCAOB Auditing Standard No. 10, *Supervision of the Audit Engagement*, requires supervision of the audit engagement, including supervising the work of engagement team members, so that the work is performed as directed and supports the conclusions reached. AS 10 ¶ 2. The engagement partner is responsible for the engagement and its performance. Accordingly, the engagement partner is responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards including standards regarding using the work of specialists, other auditors, internal auditors, and others who are involved in testing controls. AS 10 ¶ 3. The engagement partner and, as applicable, other engagement team members performing supervisory activities, should review the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work support the conclusions reached. AS 10 ¶ 5(c).

39. Chen was the engagement partner for Longwei's 2012 audit. AB and Chen failed to properly supervise the 2012 audit. Although the Foreign Audit Staff's work papers showed multiple instances of audit procedures not being followed, Chen accepted the work papers and failed to inquire why the audit procedures were not followed. For example, Chen did not document raising any questions into why the Foreign Audit Staff failed to follow

her instructions to use “water finding paste” to determine whether the fluids in Longwei’s fuel storage tanks were uncontaminated. There is also no documentation that Chen ever asked why the Foreign Audit Staff performed a dip-stick test on only two of the eight fuel storage tanks at the Taiyuan Facility. Instead, Chen simply accepted the Foreign Audit Staff’s work without asking them to perform additional procedures.

iv. Failure to Perform an Adequate Observation of Inventories

40. AU 331, *Inventories*, provides that when inventory quantities are determined solely by means of a physical count, it is ordinarily necessary for the independent auditor to be present at the time of the count. It is also ordinarily necessary that the auditor use suitable observation, tests, and inquiries to satisfy himself that the methods of inventory-taking are effective and to determine how much reliance may be placed upon the client’s representations about the inventory. AU 331.09. If the independent auditor is not present at the time of the count or does not use suitable observation, tests, and inquiries to satisfy himself as to inventories in the possession of the client, tests of the accounting records alone will not be sufficient for him to become satisfied as to quantities; it will always be necessary for the auditor to make, or observe, some physical counts of the inventory and apply appropriate tests of intervening transactions. This should be coupled with inspection of the records of any client’s counts and procedures relating to the physical inventory on which the balance-sheet inventory is based. AU 331.12.

41. As previously discussed, Longwei’s inventory consisted of various types of petroleum fluids. AB and Chen failed adequately to observe, or supervise observation of, these inventories during the 2012 audit. In fact, there is no indication in AB’s work papers that the Company ever performed a physical inventory observation of the 14 tanks for which AB failed to conduct even a dipstick test. In addition, no evidence exists that AB obtained, tested, or evaluated any physical inventory procedures performed by the Company. Considering this, AB’s procedures for testing the accuracy of Longwei’s inventories in the remaining 14 tanks were insufficient - AB relied only on dipstick tests from two tanks and readings from the computerized inventory system, the accuracy of which AB did not verify.

42. Also, the dipstick and float gauge measurements that the Foreign Audit Staff observed, and that AB and Chen relied on, were insufficient to provide assurance that Longwei’s storage tanks held the represented quantities of specific petroleum fluids. AB and Chen did not know the dimensions or capacity of the fuel storage tanks at Gujiao, and did not consider the dimensions of the fuel storage tanks at Taiyuan in conducting their testing, even though such information was in AB’s files. If AB and Chen had properly considered the Taiyuan dimensions during the 2012 audit, they would have realized that this facility had significantly less capacity than Longwei claimed.

43. Second, because Longwei’s financial statements disclosed fluid inventories in figures derived from weight, not volume, it was critical that AB and Chen confirm the specific petroleum fluids that were in the tanks. A cubic meter of diesel fuel weighs more than a cubic meter of gasoline. Accordingly, even if one confirms the volume of a given container, that measurement does not provide assurance that inventory representations based on

the weight of product in that container are accurate. In order to accurately perform the conversion from volume to weight, one must know what the product is. Thus, AB and Chen failed to perform an adequate observation of inventories to obtain reasonable assurance that the products in the tanks were as Longwei claimed.

44. Contrary to AU 331, AB and Chen placed undue reliance on Longwei's accounting systems over inventory. AB and Chen did not understand how Longwei's inventory measurement systems worked, yet the audit work papers reflect that AB and Chen relied heavily on Longwei's representations of inventory in its accounting records. AB and Chen directed the Foreign Audit Staff to undertake inventory price testing as an alternative procedure. However, this procedure failed to provide sufficient evidence under the circumstances because the testing depended on documents that Longwei provided and that AB failed to evaluate for sufficiency and appropriateness for purposes of the audit.<sup>6</sup>

v. Failure to Obtain Sufficient Appropriate Audit Evidence

45. PCAOB Auditing Standard No. 15, *Audit Evidence*, provides that the objective of the auditor is to plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report. AS 15 ¶ 3. Under this standard, sufficiency is the measure of the quantity of audit evidence, and the quantity of evidence needed is affected by the risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of internal control over financial reporting) and the quality of the audit evidence obtained. AS 15 ¶ 5. As the risk increases, the amount of evidence that the auditor should obtain also increases. *Id.* Appropriateness is the measure of the quality of audit evidence. To be appropriate, audit evidence must be both relevant and reliable in providing support for conclusions on which the auditor's opinion is based. AS 15 ¶ 6.

46. AB and Chen failed to obtain sufficient appropriate audit evidence. As an initial matter, Chen failed to obtain sufficient evidence of the capacities of Longwei's fuel storage depots because she did not consider the dimensions of the fuel storage tanks at the Taiyuan Facility that were in AB's files, or request or receive the dimensions of the fuel storage tanks at the Gujiao Facility. Chen also failed to obtain sufficient evidence of the quantity of inventory at Longwei's depots because she permitted the Foreign Audit Staff to rely on the Company's computerized inventory system without performing any procedures that could provide reasonable assurance that the readings of volume that system provided were accurate. Further, Chen failed to obtain sufficient evidence of the existence of inventory because she permitted the Foreign Audit Staff to test two of Longwei's fuel storage tanks for water contamination by merely sniffing samples of their contents and watching those samples evaporate in the sunlight, and she failed to instruct the Foreign Audit Staff to perform any procedures that could have provided reasonable assurance that the fuel storage tanks actually contained the specific petroleum products Longwei claimed to have in inventory.

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<sup>6</sup> See AS 15 ¶ 10. Further, pursuant to AS 15 ¶ 8, in general, evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources.

47. Performing a “smell test” and watching liquid samples from two of Longwei’s tanks was not appropriate audit evidence. Here, a member of the Foreign Audit Staff suggested to Chen that they use the enhanced procedure of obtaining an independent inspection company, but Chen did not use that procedure or even follow up. Chen’s failure was particularly unreasonable in light of the previous warning she had received regarding the risk associated with Longwei’s inventory. For example, when describing CVB’s fiscal 2011 audit deficiencies in a Small Firm Inspection Comment Form dated August 2, 2012, the PCAOB staff stated, in part, “Further, the Firm failed to obtain audit evidence to verify that the liquid within each tank was the fuel type asserted by the Issuer.”

vi. Failure to Conduct an Adequate Engagement Quality Review

48. PCAOB Auditing Standard No. 7, *Engagement Quality Review*, provides that the objective of the engagement quality reviewer is to perform an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report. AS 7 ¶ 2. To evaluate such judgments and conclusions, the engagement quality reviewer should, to the extent necessary to satisfy the requirements, hold discussions with the engagement partner and other members of the engagement team and review documentation. AS 7 ¶ 9.

49. Denney was the engagement quality reviewer for the Longwei engagement and failed to fulfill the requirements of AS 7. The work papers for the 2012 audit showed that Chen failed to properly supervise the Foreign Audit Staff, that the procedures the Foreign Audit Staff performed to audit Longwei’s inventory were inadequate, and that AB did not address the concerns the PCAOB staff raised with respect to Longwei’s 2011 audit, *i.e.*, CVB’s failure to test the accuracy of the computerized inventory system or the contents of the fuel storage tanks. Denney reviewed these inventory work papers in connection with performing his duties as the engagement quality review partner on the 2012 audit, and he was aware of the PCAOB staff’s concerns when he did so. However, despite the deficiencies in the work papers, Denney completed his review and provided concurring approval of issuance without raising any concerns or asking the engagement team any questions.

50. Specifically, Denny failed to follow-up on the findings in the PCAOB inspection report to see how the deficiencies of the 2011 audit were addressed in the 2012 audit. Denny also failed to recognize that all planned audit procedures were not conducted, including a proper analysis of how the audit team conducted its testing of Longwei’s tank capacities – which he knew to be a significant issue. Further, Denny failed to realize that the audit procedures performed failed to verify the type of liquid in the tanks.

vii. Failure to Properly Consider Information Learned After Issuance of Audit Report

51. AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report*, provides that when an auditor becomes aware of information that 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 should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of his report. In connection with this obligation, the auditor should discuss the matter with his client at whatever management levels he deems appropriate, including the board of directors, and request cooperation in whatever investigation may be necessary. AU 561.04. 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.

52. AB, Chen, and Anderson failed to comply with AU 561. In December 2012, about three months after AB issued an audit report expressing an unqualified opinion on Longwei's financial statements, AB, Chen, and Anderson became aware of information indicating that Longwei might have overstated its storage capacity, inventory, and revenues. First, they received an email from a third-party questioning the manner in which Longwei reported its storage capacity as well as the figures themselves. While investigating these claims, Chen found an Excel spreadsheet in AB's files, originally obtained by CVB during its 2007 audit of the Company, which showed the dimensions of the tanks at the Taiyuan facility. Those dimensions indicated that the tanks had only 78% to 89% of the capacity that Longwei represented them to have. Chen then asked the Foreign Audit Staff to use the dimensions to recalculate the inventory at the Taiyuan facility as of August 4, 2012, the day the Foreign Audit Staff performed the inventory fieldwork for the 2012 audit. The Foreign Audit Staff's new calculations showed that inventory was over 40% less than what the Foreign Audit Staff reviewed and recorded during their fieldwork, and which Longwei subsequently reported in its public filings.

53. Later, in January 2013, Chen and Anderson traveled to China to perform additional procedures to determine whether allegations of fraud made against Longwei have merit, whether Longwei had overstated the capacity of its fuel storage tanks, and whether AB needed to withdraw its audit opinion on Longwei's 2012 financial statements. In the course of performing these procedures, Anderson observed a physical measurement of the circumference of two fuel storage tanks at the Taiyuan Facility, and found that those dimensions were consistent with the dimensions that appeared in the Excel spreadsheet Chen had found in AB's files (and were different from those reported by the Company). Anderson then used those dimensions to perform his own calculations of the inventory at the Taiyuan Facility, and discovered that Longwei's computerized system had overstated the contents of the tanks at the Taiyuan Facility by as much as 280%.

54. Anderson and Chen's additional audit procedures raised serious questions about the accuracy of Longwei's accounting records – records that Longwei refused to provide – and the overall legitimacy of Longwei's business, which had come under detailed attack by investors and a private research firm. Longwei's refusal to allow Anderson and Chen to visit certain Longwei facilities, and the discovery that a key facility was apparently not in use, should have led AB, Anderson, and Chen to advise Company management and to disclose publicly that Longwei's 2012 financial statements should no longer be relied upon. *See* AU 561.06. They failed to do so, and therefore did not comply with AU 561.

viii. Failure to exercise due professional care

55. PCAOB auditing standards require auditors to exercise due professional care in the planning and performance of an audit and the preparation of the audit report. Due professional care requires that the auditor exercise professional skepticism: an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. AU 230.01, .07, and .09. Moreover, gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Because evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process. AU 230.08.

56. AB, Chen, and Denney failed to exercise due professional care in the 2012 audit of Longwei. AB and Chen failed properly to plan, supervise, and perform the audit to provide reasonable assurance of detecting material errors in the financial statements, and failed to exercise due professional care to obtain reasonable assurance that the financial statements were not materially misstated. Denney, as the engagement quality review partner, also failed to exercise due professional care. Denney had responsibility for evaluating the significant judgments made by the engagement team and the related conclusions reached for the 2012 audit, so he knew (or reasonably should have known) that AB and Chen had not adequately planned, conducted, or supervised the audit.

57. AB, Chen, and Anderson also failed to exercise due professional care after conducting additional inquiries and audit procedures in 2013. After learning information indicating that Longwei had likely overstated its storage capacity and inventory, and may have overstated its revenues, AB, Chen, and Anderson failed to investigate further or advise Longwei to disclose publicly that its 2012 financial statements should no longer be relied upon, and as a result, did not comply with AU 230.

F. Violations

58. Rule 2-02(b)(1) of Regulation S-X mandates that an accountant's report "state whether the audit was made in accordance with generally accepted auditing standards..." "[R]eferences in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission." *See Interpretation: Commission Guidance Regarding the Public Company Accounting Oversight Board's Auditing and Related Professional Practice Standard No. 1*, SEC Rel. No. 34-49708 (May 14, 2004). "Thus, an auditor violates Regulation S-X Rule 2-02(b)(1) if it issues a report stating that it had conducted its audit in accordance with PCAOB Standards when it had not." *In re Andrew Sims, CPA*, Rel. No. 34-59584, AAER Rel. No. 2950 (Mar. 17, 2009). As a result of the conduct described above, AB willfully violated, and Chen and Denney willfully aided and abetted and caused violations of, Rule 2-02(b)(1) of Regulation S-X.

59. As a result of the conduct described above, AB, Anderson, Chen, and Denney engaged in improper professional conduct as defined in Section 4C(b)(2) of the Exchange

Act and Rule 102(e)(1)(iv)(B) of the Commission's Rules of Practice in that their conduct constituted negligent conduct, consisting of single instances of highly unreasonable conduct by AB, Anderson, Chen, and Denney, and repeated instances of unreasonable conduct by AB and Chen, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

60. As a result of the conduct described above, AB willfully violated, and Chen and Denney willfully aided and abetted violations of certain provisions of the federal securities laws and the rules and regulations thereunder, which constitutes conduct subject to Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

G. Findings

Based on the foregoing, the Commission finds that:

- a. AB, Anderson, Chen, and Denney engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice; and
- b. AB willfully violated Rule 2-02(b)(1) of Regulation S-X; and
- c. Chen and Denney willfully aided and abetted and caused AB's violation of Rule 2-02(b)(1) of Regulation S-X.

IV.

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

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

- A. AB, Chen, and Denney shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b)(1) of Regulation S-X.
- B. Respondents are denied the privilege of appearing or practicing before the Commission as accountants.
- C. After four years from the date of this order, AB may request that the Commission consider its 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 AB's work in its practice before the Commission will be reviewed either by the independent audit committee

of the public company for which it works or in some other acceptable manner, as long as it practices before the Commission in this capacity; and/or

2. an independent accountant.

Such an application must satisfy the Commission that:

(a) AB 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. However, if registration with the Board is dependent upon reinstatement by the Commission, the Commission will consider the application on its other merits;

(b) AB has hired an independent CPA consultant (“consultant”), who is not unacceptable to the staff of the Commission and is affiliated with a public accounting firm registered with the Board, that has conducted a review of AB’s quality control system and submitted to the staff of the Commission a report that describes the review conducted and procedures performed, and represents that the review did not identify any criticisms of or potential defects in the firm’s quality control system that would indicate that any of AB’s employees will not receive appropriate supervision. AB agrees to require the consultant, if and when retained, to enter into an agreement that provides that for the period of review and for a period of two years from completion of the review, the consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with AB, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the consultant in performance of his/her duties under this Offer shall not, without prior written consent of the staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with AB, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the review and for a period of two years after the review;

(c) AB 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) AB acknowledges its responsibility, as long as it 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 AB to resume appearing or practicing before the Commission provided that its CPA license is current and it 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 own merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to AB's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

E. After two years from February 11, 2018 (the first date that the Commission may consider an application by Anderson for reinstatement to resume appearing or practicing before the Commission as an accountant under the Order issued in *In the Matter of Child, Van Wagoner & Bradshaw, PLLC, et al.* (Rel. No. 34-74262)), Anderson 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 Anderson'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) Anderson, 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) Anderson, 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 the respondent's or the firm's quality control system that would indicate that Anderson will not receive appropriate supervision;
- (c) Anderson 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) Anderson acknowledges his responsibility, as long as Anderson 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.

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

G. After four years from the date of this order, Chen may request that the Commission consider 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 Chen's work in her practice before the Commission will be reviewed either by the independent audit committee of the public company for which she works or in some other acceptable manner, as long as she practices before the Commission in this capacity; and/or
2. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Chen, or the public accounting firm with which she 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) Chen, or the registered public accounting firm with which she is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the respondent's or the firm's quality control system that would indicate that the respondent will not receive appropriate supervision;
- (c) Chen 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) Chen acknowledges her responsibility, as long as Chen 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.

H. The Commission will consider an application by Chen to resume appearing or practicing before the Commission provided that her state CPA license is current and she 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 Chen's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

I. After one year from the date of this order, Denney 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 Denney'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) Denney, 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) Denney, 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 the respondent's or the firm's quality control system that would indicate that the respondent will not receive appropriate supervision;
- (c) Denney 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) Denney acknowledges his responsibility, as long as Denney 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.

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

K. Each of Chen and Denney shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$5,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

- (1) Chen and Denney may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Chen and Denney may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Chen and Denney 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 Chen and Denney as Respondents 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 David Peavler, Division of Enforcement, Securities and Exchange Commission, 801 Cherry St., Suite 1900, Fort Worth, TX 76102.

L. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil

penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary