

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 81678 / September 21, 2017

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3899 / September 21, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18197

In the Matter of

**PARITZ & COMPANY, P.A.,
LESTER S. ALBERT, CPA,
and BRIAN A. SEROTTA,
CPA,**

Respondents.

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

I.

The Securities and Exchange Commission (“**Commission**”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 4C¹ and 21C of the Securities Exchange Act of 1934 (“**Exchange Act**”) and Rules 102(e)(1)(ii) and 102(e)(1)(iii) of the Commission’s Rules of Practice² against Paritz &

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.

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

Company, P.A. (“**Paritz**”), Lester S. Albert, CPA (“**Albert**”), and Brian A. Serotta, CPA (“**Serotta**,” and collectively, “**Respondents**”).

II.

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

III.

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

Summary

1. This proceeding involves the Respondents’ audit and review failures related to the valuation of two private companies held by INVENT Ventures, Inc. (“**INVENT**”), a public business development company. The Commission found that, from 2010 through the first quarter of 2014, INVENT materially overstated the value of its interests in two of the companies it owned – LottoPals, Inc. (“**LottoPals**”) and Clowd, Inc. (“**Clowd**”) – in periodic reports filed with the Commission. These valuations were unreasonable as they were based on limited, private sales of the companies’ securities, and did not properly consider other relevant factors in

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

Rule 102(e)(1)(iii) 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 willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

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

determining whether the valuations reflected the prices INVENT could obtain for its interests in these companies in current market transactions with market participants.

2. Paritz audited INVENT's financial statements for the years ended 2010-2013, and reviewed INVENT's interim financial information. The engagement partner on all of the audits and reviews was Albert, and the engagement quality reviewer was Serotta. The Respondents failed to comply with the standards of the Public Company Accounting Oversight Board ("PCAOB") in their audits and reviews of INVENT's financial statements. Paritz' procedures related to INVENT's fair value measurements and disclosures for LottoPals and Clowd were deficient, and Paritz and Albert failed to obtain sufficient appropriate audit evidence in performing the INVENT audit. Serotta did not provide adequate engagement quality reviews of Paritz' audits. All three Respondents failed to exercise due professional care. Paritz failed to staff the INVENT audits with staff possessing adequate competence and experience to perform the audits, Albert failed to properly evaluate management's valuation of LottoPals and Clowd, and Serotta did not exercise professional skepticism in connection with his engagement quality reviews. Finally, Paritz and Albert failed to prepare certain audit documentation required by PCAOB standards.

Respondents

3. **Paritz & Company, P.A.** is a Hackensack, New Jersey based certified public accounting firm licensed in New Jersey since November 1, 1981. Paritz primarily provides accounting, tax, and auditing services to individuals, private, and public entities and has been registered with the PCAOB since November 13, 2003. Paritz has never been subject to any disciplinary or regulatory proceedings.

4. **Lester S. Albert**, age 60, resides in Pine Brook, New Jersey. Albert has been a certified public accountant licensed in New Jersey since March 1, 1984 and has been auditing publicly traded companies since 1996. During the relevant period, Albert was a partner at Paritz. Albert has never been subject to any disciplinary or regulatory proceedings.

5. **Brian A. Serotta**, age 69, resides in Syosset, New York. Serotta has been a certified public accountant licensed in New York since August 12, 1971. During the relevant period, Serotta was a partner at Paritz. Serotta has never been subject to any disciplinary or regulatory proceedings.

Other Relevant Entities

6. **INVENT Ventures, Inc.** ("INVENT") was an internally managed, non-diversified closed-end investment company that elected to be regulated as a business

development company (“**BDC**”)⁴ under the Investment Company Act of 1940 (“**Investment Company Act**”) on April 12, 2010 until it filed a notice of withdrawal on July 24, 2015. Among other names, INVENT was previously named Los Angeles Syndicate of Technology, Inc. INVENT is incorporated in Nevada and is headquartered in Santa Monica, California. INVENT’s common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act until April 18, 2017, when it filed a Form 15 terminating its duty to file reports with the Commission. At all relevant times, INVENT’s stock traded on the OTCQB market under the symbol “IDEA,” but now trades on OTC Link. On January 14, 2016, in *INVENT Ventures, Inc.*, Exchange Act Rel. No. 76916 (Jan. 14, 2016) (“INVENT Order”), the Commission instituted settled administrative and cease-and-desist proceedings against INVENT and its president for material misrepresentations in connection with the valuation of portfolio companies, without either respondent admitting or denying the allegations contained in the INVENT Order except as to jurisdiction.

7. **LottoPals, Inc.** (“**LottoPals**”), a private company, was incorporated in Nevada on June 1, 2010. In July 2010, INVENT purchased all six million shares of LottoPals for \$6,000.

8. **Clowd, Inc.** (“**Clowd**”), a private company, was incorporated in Delaware on August 20, 2008. In September 2010, INVENT purchased all Clowd shares for approximately \$65,000 of INVENT stock.

Background

9. From 2010 through the first quarter of 2014, INVENT reported the value of its interests in two companies, LottoPals and Clowd, in periodic reports filed with the Commission. According to the INVENT Order, INVENT improperly valued LottoPals and Clowd by basing its valuations on limited, private sales of the companies’ securities, and not properly considering or accounting for other factors relevant to valuation.

10. In the case of LottoPals, although INVENT purchased all outstanding LottoPals shares in July 2010 for \$6,000, it valued LottoPals at \$3 million as of December 31, 2010. In reaching this valuation, INVENT purportedly relied on limited sales of LottoPals shares to five individuals for \$0.50 per share in the months after INVENT’s purchase of LottoPals. While these sales comprised only 2% of LottoPals’ then outstanding stock, INVENT applied the share price to all of LottoPals’ outstanding stock yielding the \$3 million valuation. INVENT’s valuation of LottoPals increased INVENT’s reported net asset value 105%.

⁴ A BDC is a closed-end investment company authorized by Congress for the purpose of making capital more readily available to certain types of companies. Under the Investment Company Act, a closed-end investment company meeting certain eligibility criteria may elect to be regulated as a BDC by filing a notification with the Commission on Form N-54A. A company filing such a notification is regulated under Sections 55 through 65 of the Investment Company Act. These sections set forth rules governing the investments BDCs may make, transactions BDCs may enter into, the governance of BDCs, and various other rules governing BDCs.

11. In the case of Clowd, although INVENT purchased all outstanding Clowd shares in September 2010 for approximately \$65,000 of INVENT stock, it valued Clowd at \$3 million as of March 31, 2011. In reaching this valuation, INVENT purportedly relied on sales of Clowd shares to five individuals for \$0.50 per share in the months after INVENT's purchase of Clowd. While these limited sales of Clowd shares comprised less than 0.5% of the amount of shares INVENT understood were Clowd's authorized shares, INVENT similarly applied the share price to all of Clowd's outstanding stock yielding the \$3 million valuation. INVENT's valuation of Clowd increased INVENT's reported net asset value by an additional 34% beyond the 105% increase in net asset value resulting from the \$3 million valuation of LottoPals.

12. INVENT maintained its \$3 million valuation for LottoPals in quarterly and annual reports filed with the Commission for three years, adjusting it downward to \$81,912 in its first quarter Form 10-Q for 2014. Clowd's \$3 million valuation was maintained in INVENT's quarterly and annual reports until it was adjusted downward to \$1,486,375 starting in its second quarter Form 10-Q for 2012; to \$743,187 in the 2013 Form 10-K; and to \$99,742 in the second quarter Form 10-Q for 2014. The valuations for LottoPals comprised between 26% and 51% of INVENT's net asset value during the relevant period. The valuations for Clowd comprised between 8% and 26% of INVENT's net asset value during the relevant period. According to the INVENT Order, these valuations resulted in INVENT's net asset value during the relevant periods being materially misstated in periodic filings.

13. For fiscal years 2010 to 2013, Paritz was engaged as INVENT's auditor. During this time, Albert was the engagement partner and Serotta was the engagement quality reviewer for each of INVENT's audits and reviews even though neither of them had sufficient relevant experience with the auditing work that was needed to audit INVENT's financial statements considering the company was a business development company that held start-up technology companies. Between 2011 and 2014, Paritz issued audit reports containing unqualified opinions stating that INVENT's financial statements were presented fairly, in all material respects, in conformity with generally accepted accounting principles ("GAAP") and that its audits were conducted in accordance with the standards of the PCAOB ("PCAOB Standards").

Respondents' Improper Professional Conduct

14. Contrary to the representations in the audit reports, Paritz' audits were not conducted in accordance with PCAOB Standards. The Respondents deviated from PCAOB Standards in significant ways that resulted in the issuance of audit reports that contained unqualified opinions that were not supported by sufficient appropriate audit evidence.

Failures Auditing Fair Value Measurements and Disclosures (AU § 328)

15. AU § 328.09 states that the auditor should obtain an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant controls sufficient to develop an effective audit approach.⁵ AU § 328.12 provides that when obtaining an understanding of the entity's process for determining fair value measurements and disclosures, the auditor considers, for example, the significant management assumptions used in determining fair value; the documentation supporting management's assumptions; the process used to develop and apply management assumptions; and the extent to which the entity engages or employs specialists in determining fair value measurements and disclosures. The auditor uses both the understanding of management's process for determining fair value measurements and his or her assessment of the risk of material misstatement to determine the nature, timing, and extent of the audit procedures. AU § 328.25. AU § 328.23 provides, "[b]ased on the auditor's assessment of the risk of material misstatement, the auditor should test the entity's fair value measurements and disclosures." Substantive tests of the fair value measurements may involve (a) testing management's significant assumptions, the valuation model, and the underlying data, (b) developing independent fair value estimates for corroborative purposes, or (c) reviewing subsequent events and transactions. When an auditor test's management's significant assumptions, the valuation model, and the underlying data, as Paritz set out to do in this instance, an auditor evaluates whether "(a) management's assumptions are reasonable and reflect, or are not inconsistent with, market information . . . (b) the fair value measurement was determined using an appropriate model . . . [and] (c) management used relevant information that was reasonably available at the time." AU § 328.26.

16. Paritz and Albert failed to comply with these requirements for their audits of INVENT's 2010 through 2013 financial statements. In connection with the 2010 audit, Albert identified a risk of material misstatement regarding INVENT's LottoPals valuation, but did not design and perform appropriate audit procedures to address this risk. Specifically, Albert reviewed management's valuation model, and questioned why it would be appropriate to use stock transactions representing only 2% of the company's shares as the basis for the company's value. In response, INVENT provided Albert with a third-party valuation report supporting its valuation. On April 12, 2011, several days *after* the date of Paritz' audit report on INVENT's financial statements, Albert e-mailed INVENT's management and wrote, "[f]or many different reasons, we do not place much stock in the 3rd party valuations and believe that from a technical valuation standpoint, these are at best, weak." He went on to point out that "Lotto Pals [sic] is owned almost 98% by [INVENT] with the remaining 2% held by outside investors. It is not reasonable to treat the value of the entire 100% based on 2% without weighting the results." Albert later testified that the third-party valuation report was only one of many inputs he used regarding the LottoPals valuation. Despite identifying the risk of using stock sales representing only 2% of the company's shares as the basis for a significant increase in LottoPals' valuation, Albert did not prepare an audit program or document procedures for testing management's

⁵ Citations to "AU" and "AS" are citations to PCAOB Standards in effect at the time of the relevant conduct.

valuation model. Instead, he simply confirmed that applying a \$0.50 per share valuation to 100% of the company's shares did, in fact, result in a \$3 million valuation. There is no evidence supporting how Albert became comfortable with the fact that INVENT valued LottoPals at \$3 million five months after purchasing it for \$6,000. Nevertheless, Albert authorized the inclusion of Paritz' audit report that included an unqualified opinion in INVENT's Form 10-K filed April 15, 2011.

17. A similar situation occurred during the 2011 INVENT audit. INVENT valued Clowd at \$3 million six months after purchasing it for approximately \$65,000 of INVENT stock. This valuation was based on limited stock sales to five friends and acquaintances of INVENT's management. In connection with the 2011 audit, Paritz and Albert failed to comply with AU § 328. Specifically, the significant increase in the Clowd valuation posed similar risks of material misstatement that existed with LottoPals, but there is no evidence that Albert evaluated the significant assumptions used as a basis for the valuation. During the 2011 INVENT audit, while Albert documented management's assumptions, he failed to evaluate the significant assumptions and the appropriateness of management's fair value model. Albert's auditing procedures for LottoPals' and Clowd's fair values were limited to testing the stock transactions at issue by confirming the transactions in the stock ledgers, and reviewing stock subscription agreements and operating expenses.

18. Albert's failures to appropriately evaluate the valuation methodology employed for LottoPals continued in the 2011 through 2013 INVENT audits. While he began including investment memoranda in the work papers regarding LottoPals and Clowd, the memoranda did not describe how he tested fair value measurements and disclosures on an annual basis in order to comply with AU § 328. Albert continued to use LottoPals' limited stock sales during 2010 as the evidence for the 2011 through 2013 valuations despite the fact that he had questioned the 2010 valuations provided by management.⁶ In 2013, he raised concerns with INVENT management regarding the age of the 2010 stock sales and INVENT management told him that an additional stock sale similar to the ones in 2010 had been made, and that an underwriter had tentatively agreed to offer LottoPals shares to investors at \$0.50/share. However, in the 2013 investment memoranda regarding LottoPals, there is no evidence that Albert reviewed or analyzed the purported additional stock sale or the terms of the proposed offering, and in fact, no offering ever took place. In addition, Albert's work papers do not reflect that he considered evidence other than the initial 2011 Clowd stock sales for the fair value of the company, despite the fact that INVENT management, starting in 2012, no longer used those sales as the only input in the valuation analysis. Specifically, during 2012, instead of only using limited stock sales as the basis for Clowd's valuation, INVENT management chose to value Clowd based largely on comparable companies in the area. This resulted in an approximately 50% reduction in Clowd's value in 2012, but there is no evidence that Albert tested or evaluated the change in inputs or the reduction in value.

⁶ Moreover, even if it were appropriate to rely on such sales as evidence for the valuation in 2010, those sales would have become less relevant as evidence as time progressed.

Failure to Obtain Sufficient Competent Evidential Matter (AU § 326)

19. For audits of fiscal years beginning before December 15, 2010, an auditor is required to obtain sufficient competent evidential matter “through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.” AU § 326.01. In connection with INVENT’s 2010 audit, Paritz and Albert did not obtain sufficient competent evidential matter to afford a reasonable basis for the unqualified opinion Paritz issued. Specifically, there is little evidence that audit work was performed on the valuation of LottoPals, which comprised over 35% of INVENT’s total assets as of December 31, 2010. Accordingly, Paritz and Albert failed to obtain sufficient reliable evidence concerning the nature of the LottoPals transactions.

Failure to Obtain Sufficient Appropriate Audit Evidence (AS No. 15)

20. For audits of fiscal years beginning on or after December 15, 2010, AS No. 15.4 provides that the “auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.” Audit procedures for obtaining audit evidence include inspection, observation, inquiry, confirmation, recalculation, reperformance, and analytical procedures. AS No. 15.13-21. In connection with INVENT’s 2011 through 2013 audits, Paritz and Albert did not obtain sufficient appropriate audit evidence to afford a reasonable basis for the unqualified opinions Paritz issued. While the work papers included memorialization of INVENT’s valuation methodology and the Paritz audit procedures performed, the work papers do not reflect that sufficient appropriate audit evidence was obtained related to INVENT’s valuations of LottoPals or Clowd, and does not indicate that any consideration was given to LottoPals’ or Clowd’s business development. The 2011 work papers documented management’s valuation methodology, but did not include the auditor’s evaluation of the reasonableness of the significant assumptions and appropriateness of management’s fair value model. The work papers for the 2012 and 2013 audits simply carried forward the same information from prior years without new updates or evaluations. The audit procedures performed during this time were limited to the same initial calculations that had been done to recalculate that applying the transaction share price in limited stock sales to 100% of the companies’ outstanding shares resulted in the valuations provided by management. In addition, for the 2012 audit, although Clowd’s valuation was reduced from \$3 million to approximately \$1.4 million, there is no evidence that Albert performed audit procedures that would provide a reasonable basis for Paritz’ unqualified opinion. Specifically, in 2012, INVENT management looked at other comparable companies in the area to value Clowd instead of only using Clowd’s limited stock sales, resulting in the significant reduction in value. Although INVENT provided this information to Albert, his 2012 investment memo did not reflect the write-down or the change in inputs, and instead discussed Clowd’s stock sales as the basis of its valuation. Clowd’s valuation was further reduced by 50% in 2013, but again, there was no discussion, evaluation, or documentation about this additional write-down.

Failure to Adequately Prepare Required Audit Documentation (AS No. 3)

21. AS No. 3.2 provides that “[a]udit documentation is the written record of the basis for the auditor’s conclusions that provides the support for the auditor’s representations, whether those representations are contained in the auditor’s report or otherwise.” Additionally, AS No. 3.6 provides that:

The auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions. Audit documentation must clearly demonstrate that the work was in fact performed. This documentation requirement applies to the work of all those who participate in the engagement as well as to the work of specialists the auditor uses as evidential matter in evaluating relevant financial statement assertions. Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement (a) to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.

22. Paritz and Albert failed to comply with AS No. 3 for their 2010-2013 audits of INVENT’s financial statements because they failed to document the procedures performed in sufficient detail to provide a clear understanding of the evidence obtained and conclusions reached with respect to relevant financial statement assertions. For example, the standardized Risk Assessment Summary Forms included no detail linking the identified risks of misstatement to the auditor’s responses to those risks. In addition, documentation for fraud risk brainstorming discussions and fraud inquiries with management did not exist for the 2010, 2011 and 2013 INVENT audits.

23. In addition, the work papers for the 2010-2013 INVENT audits did not include sufficient information to enable an experienced auditor having no previous connection with the engagement to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached; or to determine who performed and reviewed the work and the relevant dates of review. While Albert prepared memoranda that were separate from the checklists documenting information regarding LottoPals and Clowd, the documentation in the aggregate was extremely limited, did not explain what evidence was obtained or how he reached his conclusions, and in some cases, contained significant factual errors. For example, in Albert’s 2012 investment memo, the business description of Clowd was incorrect, and the valuation methodology described was simply carried forward from the last year despite the fact that INVENT had written down the fair value of Clowd using additional inputs. Specifically, instead of only using limited stock sales as the basis for Clowd’s valuation, INVENT also looked

at other comparable companies in the area to value Clowd, resulting in an approximately 50% reduction in Clowd's valuation. Albert's 2012 investment memo did not reflect any of this information.

24. AS No. 3.18 provides that the office of the firm issuing the auditor's report is responsible for ensuring that all audit documentation sufficient to meet the requirements of AS No. 3.4-13 is prepared and retained. Paritz failed to comply with AS No. 3 because the INVENT work papers lack sufficient documentation in key areas such as fraud risk assessments and discussions, and fair value measurements. Additionally, AS No. 3.15 provides that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (i.e., documentation completion date). Paritz failed to assemble and retain a complete and final set of INVENT's 2010 and 2011 audit work papers. In particular, Paritz produced to the Commission staff different versions of certain key audit work papers, and Albert and Serotta could not adequately identify the final versions or explain the discrepancies.

*Failures in Conducting Reviews of
Interim Financial Information (AU § 722)*

25. Under AU § 722, procedures for conducting a review of interim financial information generally are limited to analytical procedures, inquiries, and other procedures that address significant accounting and disclosure matters relating to the interim financial information to be reported. AU § 722.07. The accountant performs these procedures to obtain a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with GAAP. The specific inquiries made and the analytical and other procedures performed should be tailored to the engagement based on the accountant's knowledge of the entity's business and its internal control. AU § 722.15. AU § 722.51 provides that auditors "should prepare documentation in connection with a review of interim financial information." The standard stipulates that the "documentation should (a) enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent, and results of the review procedures performed; (b) identify the engagement team member(s) who performed and reviewed the work; and (c) identify the evidence the accountant obtained in support of the conclusion that the interim financial information being reviewed agreed or reconciled with the accounting records . . ." AU § 722.52.

26. The work papers prepared in connection with Paritz and Albert's reviews of INVENT's first quarter 2011 and second quarter 2012 financial statements do not evidence that any inquiry was performed or that any documentation was prepared regarding the material changes in Clowd's valuation that occurred during these periods. During the first quarter of 2011, INVENT valued Clowd at \$3 million six months after purchasing it for approximately \$65,000 of INVENT stock. Yet, the work papers do not include evidence of any inquiries or other procedures performed regarding the significant difference between the initial purchase price and the 2011 valuation. Similarly, there is no evidence that Albert performed any

analytical procedures in connection with the approximately 50% decrease in Clowd's valuation during the second quarter of 2012.

Failure to Provide Adequate Engagement Quality Review (AS No. 7)

27. AS No. 7 stipulates that an engagement quality reviewer should evaluate 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 7.02. 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 No. 7.9. The engagement quality reviewer, among other things, should evaluate the significant judgments that relate to engagement planning, including the consideration of the auditing firm's recent engagement experience with the company and risks identified in connection with the firm's client acceptance and retention process, the consideration of the company's business, recent significant activities, and related financial reporting issues and risks, and the judgments made about materiality and the effect of those judgments on the engagement strategy. AS No. 7.10. In an audit, the engagement quality reviewer should evaluate whether the engagement documentation reviewed when performing the procedures required indicates that the engagement team responded appropriately to significant risks and supports the conclusions reached by the engagement team with respect to the matters reviewed. AS No. 7.11. In an engagement to review interim financial information, the engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement. To evaluate such judgments and conclusions, the engagement quality reviewer should, to the extent necessary to satisfy requirements: (1) hold discussions with the engagement partner and other members of the engagement team, and (2) review documentation. AS No. 7.14-16.

28. Serotta failed to comply with AS No. 7 in connection with the 2010-2013 audits of INVENT's financial statements and interim reviews of INVENT's first quarter 2011 and second quarter 2012 financial statements. In addition, there is no documentary evidence that Serotta evaluated the significant judgments the engagement team made related to the risks identified in connection with the firm's client acceptance and retention process for the 2010 and 2011 audits. There is no documentary evidence that Serotta evaluated the engagement team's assessment of, and responses to, significant risks during the 2010, 2011 and 2013 audits. Other than participating in an engagement team discussion related to the 2012 audit, there is little documentary evidence of any communications between Serotta and the audit team. There is no documentary evidence that Serotta reviewed the engagement team's risk assessment form, which linked the engagement team's assessment of significant risks to their responses to such risks. There is no documentary evidence that Serotta reviewed any work papers relating to the valuation of LottoPals and Clowd, which he was required to evaluate because it involved significant judgments made by the engagement team. During the 2010 audit, Serotta signed the firm's Supervision, Review, and Approval form on April 6, 2011 at a time when Albert still had significant concerns regarding the LottoPals valuation, although he never signed the engagement

completion document. Finally, there is no documentary evidence that Serotta reviewed the work papers associated with the interim reviews of INVENT's first quarter 2011 and second quarter 2012 financial statements. As a result, Serotta failed to comply with AS No. 7.

Failure to Exercise Due Professional Care and Professional Skepticism (AU § 230)

29. PCAOB Standards require auditors to exercise due professional care in the planning and performance of an audit and the preparation of the report. AU § 230.01. Specifically, this standard “imposes a responsibility upon each professional within an independent auditor’s organization to observe the standards of field work and reporting.” AU § 230.02. Further, due professional care requires the auditor to exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of the audit evidence. AU § 230.07. Under this standard, the auditor is also required “to consider the competency and sufficiency of the evidence” in gathering and objectively evaluating audit evidence. AU § 230.08. The auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. AU § 230.09.

30. Paritz and Albert failed to exercise due professional care in several ways between 2010 and 2013. For example, during the 2010 audit, despite having significant concerns regarding LottoPals’ valuation, Paritz and Albert signed off on the audit with no explanation of how the competency and sufficiency of the evidence was considered as being supportive of the valuation reported in INVENT’s financial statements. Going forward, Paritz and Albert did not evaluate the appropriateness of using stale stock transactions as the basis for the LottoPals and Clowd valuations, assess the appropriateness or amount of Clowd’s write-downs in 2012 and 2013, or consider the business development of the portfolio companies. Paritz and Albert also prepared and reviewed audit documentation that lacked sufficient audit evidence, and authorized the issuance of audit reports despite insufficient audit evidence supporting the fair value of LottoPals and Clowd.

31. Serotta failed to exercise due professional care in connection with the 2010-2013 audits of INVENT’s financial statements. There is no evidence that he exercised professional skepticism by questioning the significant changes in the values of LottoPals or Clowd, or that he reviewed any specific documents regarding the valuations even though they related to significant judgments made by the engagement team.

*Failure to Maintain Adequate System of Quality Control
(QC §§ 20, 40)*

32. QC § 20.03 provides that a “firm has a responsibility to ensure that its personnel comply with the professional standards applicable to its accounting and auditing practice.”⁷ A

⁷ Citations to “QC” are citations to Statements on Quality Control Standards in effect at the time of the relevant conduct for PCAOB audits and review of financial statements.

firm is required to maintain policies and procedures that provide the firm with reasonable assurance that “(a) [t]hose hired possess the appropriate characteristics to enable them to perform competently; (b) [w]ork is assigned to personnel having the degree of technical training and proficiency required in the circumstances; (c) [p]ersonnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned, and satisfy applicable continuing professional education requirements of the AICPA and regulatory agencies; [and] (d) [p]ersonnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.” QC § 20.13; QC § 40.02. Policies and procedures should be established for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should also provide reasonable assurance that the firm (a) undertakes only those engagements that the firm can reasonably expect to be completed with professional competence; and (b) appropriately considers the risks associated with providing professional services in the particular circumstances. QC § 20.14-.15; QC § 20.17 provides that policies and procedures should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality.

33. Paritz failed to maintain an adequate system of quality control to provide reasonable assurance that its personnel complied with professional standards. Specifically, Paritz accepted INVENT as a client when the firm lacked sufficient competence and experience to audit INVENT’s financial statements considering the company was a business development company that held start-up technology companies. Albert lacked the technical skills and competence to audit INVENT, and Paritz did not ensure that the audit was assigned to personnel having the proficiency required under the circumstances. Paritz’ inadequate system of quality control is also evidenced by the fact that the INVENT audits and reviews were not conducted in accordance with PCAOB Standards.

Violations

34. As a result of the conduct described above, Respondents engaged in “improper professional conduct” within the meaning of Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice. In relevant part, Rule 102(e)(1)(iv)(B) of the Commission’s Rules of Practice defines “improper professional conduct” as one of two types of negligent conduct: (1) a single instance of highly unreasonable conduct in circumstances for which heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct that indicate a lack of competence.

35. Rule 2-02(b)(1) of Regulation S-X requires an accountant’s report to state whether the audit was made in accordance with generally accepted auditing standards. Exchange Act Release No. 49708 provides that, for financial statements dated after May 24, 2004, the Rule’s reference to “generally accepted auditing standards” means the standards of the PCAOB and the applicable Commission regulations. 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

[S]tandards when it had not. As a result of the conduct described above, Paritz willfully violated, and Albert willfully aided and abetted and caused Paritz' violations of Rule 2-02(b)(1) of Regulation S-X by issuing an audit report stating that it had conducted its audit in accordance with PCAOB Standards when it had not.

36. As a result of the conduct described above, Paritz willfully violated and Albert willfully aided and abetted and caused violations of provisions of the federal securities laws and rules and regulations thereunder within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

Findings

37. Based on the foregoing, the Commission finds that Respondents engaged in improper professional conduct within the meaning of Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

38. Based on the foregoing, the Commission finds that Paritz willfully violated, and Albert willfully aided and abetted and caused Paritz' violations of Rule 2-02(b)(1) of Regulation S-X within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

Undertakings

39. **Review of Written Policies and Procedures.** Paritz shall, within sixty (60) days after the entry of this Order, evaluate its existing audit and interim review written policies and procedures and shall make such revisions as may be necessary in order to adopt, implement, and enforce written policies and procedures to provide reasonable assurance that Paritz' audits and reviews are conducted in compliance with (a) the relevant Commission regulations and (b) professional standards relevant to appearing and practicing before the Commission. Paritz shall review and revise as necessary its written policies and procedures in the following areas: (i) auditing fair value measurements and disclosures; (ii) obtaining sufficient appropriate audit evidence; (iii) adequately preparing required audit documentation; (iv) conducting reviews of interim financial information; (v) providing adequate engagement quality review; (vi) exercising due professional care and professional skepticism; and (vii) maintaining an adequate system of quality control.

40. **Retention of an Independent Consultant.** Paritz shall retain, within sixty (60) days after entry of this Order, an independent consultant ("Independent Consultant"), not unacceptable to the Commission staff. Paritz will require the Independent Consultant to review and evaluate the audit and interim review policies and procedures of Paritz including but not limited to those set forth in paragraph 39 above. Paritz will require that the Independent Consultant's review and evaluation assess the foregoing areas to determine whether Paritz' policies and procedures are adequate and sufficient to provide reasonable assurance of compliance with (a) the relevant Commission regulations and (b) professional standards relevant

to appearing and practicing before the Commission. Paritz will cooperate fully with the Independent Consultant and will provide reasonable access to firm personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's reviews and evaluations. Paritz will provide the Commission staff a copy of the engagement letter detailing the scope of the Independent Consultant's responsibilities.

41. Within ninety (90) days of being retained, Paritz will require the Independent Consultant to issue a report ("Report") to Paritz: (a) summarizing the Independent Consultant's review and evaluation; and (b) making recommendations, where appropriate, reasonably designed to ensure that audits and reviews conducted by Paritz comply with Commission regulations and relevant professional standards. At Paritz' direction, the Independent Consultant shall provide a copy of the Report to the Commission staff when the Report is issued.

42. Paritz shall adopt, as soon as practicable, all recommendations of the Independent Consultant in the Report. Provided, however, that within thirty (30) days of issuance of the Report, Paritz may advise the Independent Consultant in writing of any recommendation that it considers to be unnecessary, outside the scope of this Order, unduly burdensome, or impractical. Paritz need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the Commission staff an alternative policy or procedure designed to achieve the same objective or purpose. Paritz and the Independent Consultant shall engage in good-faith negotiations in an effort to reach agreement on any recommendations objected to by Paritz. In the event that the Independent Consultant and Paritz are unable to agree on an alternative proposal within thirty (30) days, Paritz shall abide by the determinations of the Independent Consultant.

43. To ensure the independence of the Independent Consultant, Paritz: (1) shall not have the authority to terminate the Independent Consultant or substitute another independent compliance consultant for the initial Independent Consultant, without the prior written approval of the Commission staff; and (2) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

44. Paritz shall require the Independent Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Paritz, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent 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 Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's Los Angeles Regional Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Paritz, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

45. **Certification of Compliance.** Paritz shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Paritz agrees to provide such evidence. The certification and supporting material shall be submitted to Sara D. Kalin, Esq., Assistant Regional Director, Los Angeles Regional Office, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

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

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

A. Respondents Albert and Paritz shall cease and desist from committing or causing any violations of and any future violations of Rule 2-02(b)(1) of Regulation S-X.

B. Respondent Paritz is censured.

C. Respondent Paritz shall comply with the undertakings set forth in paragraphs 39 through 45, above.

D. Respondents Albert and Serotta are denied the privilege of appearing or practicing before the Commission as accountants.

E. After two (2) years from the date of this Order, Respondent Albert 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 (other than as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Exchange Act). Such an application must satisfy the Commission that Respondent Albert's work in his practice before the Commission as an accountant 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. 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 as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Respondent Albert, or the public accounting firm with which he 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 Albert, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in Respondent Albert's or the firm's quality control system that would indicate that Respondent Albert will not receive appropriate supervision;
- (c) Respondent Albert 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 Albert acknowledges his responsibility, as long as he 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, concurring partner reviews and quality control standards.

F. The Commission will consider an application by Respondent Albert to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent Albert's character, integrity, professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

G. After one (1) year from the date of this Order, Respondent Serotta 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 (other than as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Exchange Act). Such an application must satisfy the Commission that Respondent Serotta's work in his practice before the Commission as an accountant 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. 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 as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Respondent Serotta, or the public accounting firm with which he 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 Serotta, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in Respondent Serotta's or the firm's quality control system that would indicate that Respondent Serotta will not receive appropriate supervision;
- (c) Respondent Serotta 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 Serotta acknowledges his responsibility, as long as he 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, concurring partner reviews and quality control standards.

H. The Commission will consider an application by Respondent Serotta to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent Serotta's character, integrity, professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

I. Respondent Albert shall, within 20 days of the entry of this Order, pay a civil money penalty in the amount of \$15,000 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.

J. Respondent Paritz shall, within 20 days of the entry of this Order, pay a civil money penalty in the amount of \$60,000 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.

K. Respondent Paritz shall, within 20 days of the entry of this Order, pay disgorgement of \$64,476 and prejudgment interest of \$7,573 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 SEC Rule of Practice 600.

L. Payments must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents 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) Respondents 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 the Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to C. Dabney O'Riordan, Co-Chief, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 444 S. Flower Street, 9th Floor, Los Angeles, California 90071.

M. 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 any Respondent 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 Respondent Albert, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Albert 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 Respondent Albert 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