

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 83622 / July 12, 2018

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3951 / July 12, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18292

In the Matter of

**Anton & Chia, LLP,
Gregory A. Wahl, CPA,
Michael Deutchman, CPA,
Georgia Chung, CPA,
and Tommy Shek, CPA,**

Respondents.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS
PURSUANT TO SECTION 4C OF THE
SECURITIES EXCHANGE ACT OF 1934
AND RULE 102(e) OF THE
COMMISSION'S RULES OF PRACTICE
AS TO RESPONDENT TOMMY SHEK,
CPA**

I.

On December 4, 2017, the Securities and Exchange Commission (“Commission”) instituted public administrative and cease-and-desist proceedings against Anton & Chia, LLP (“A&C”), Gregory A. Wahl, CPA (“Wahl”), and Michael Deutchman, CPA (“Deutchman”), pursuant to Sections 4C¹ and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) and (iii) of the Commission’s Rules of Practice,² and against Georgia Chung, CPA (“Chung”) and Tommy Shek, CPA (“Shek” or “Respondent”) pursuant to Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.

¹ Section 4C provides, in pertinent part, that the Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . to have engaged in unethical or improper professional conduct; or to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

² Rule 102(e)(1)(ii) and (iii) provide, 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; or 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.

II.

Shek has 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 him and the subject matter of these proceedings, which are admitted, Shek consents to the entry of this Order Making Findings and Imposing Remedial Sanctions Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice as to Respondent Tommy Shek, CPA, as set forth below.

III.

On the basis of this Order and Respondent Shek’s Offer, the Commission finds³ that:

SUMMARY

1. These proceedings arise out of improper professional conduct by Shek, an audit manager at A&C, related to the interim reviews of the financial statements of CannaVEST Corp. (“CannaVEST”) for the first through third quarters of 2013. In performing the interim reviews of CannaVEST’s financial statements, Shek engaged in improper professional conduct by failing to adhere to standards of the Public Company Accounting Oversight Board (“PCAOB”) and ignoring a number of red flags that indicated that CannaVEST’s financial information contained material misstatements. As a result, Shek 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.

RESPONDENT

2. **Tommy Shek, CPA**, age 34, of Rowland Heights, California, was an A&C audit manager. Shek is a licensed CPA in California. Shek worked at A&C from July 2011 through at least October 2015. Shek was an A&C audit manager from January 2013 to July 2014. In July 2014, Shek was promoted by A&C to senior audit manager. Shek served as the audit manager for CannaVEST’s 2013 interim reviews.

OTHER RELEVANT PERSONS AND ENTITIES

3. **Anton & Chia, LLP**, a PCAOB registered audit firm since 2009, is a California limited liability partnership headquartered in Newport Beach, California, with additional offices in San Diego and Westlake Village, California. A&C was founded in 2009 by Chung, and is

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

currently co-owned by Chung and her husband, Wahl. A&C performed CannaVEST's 2013 interim reviews.

4. **Gregory A. Wahl, CPA**, age 43, of Irvine, California, is A&C's managing partner, and co-owner with Chung. Wahl is a licensed CPA in California and New York, and a chartered accountant in British Columbia, Canada. Wahl served as the engagement partner for CannaVEST's 2013 interim reviews.

5. **Georgia Chung, CPA**, age 49, of Irvine, California, is A&C's co-owner with Wahl. Chung is a licensed CPA in California and Colorado. Chung served as the engagement quality reviewer ("EQR") for CannaVEST's first quarter of 2013 interim review.

6. **CannaVEST Corp.**, is a Delaware corporation headquartered in Las Vegas, Nevada. CannaVEST, originally a shell company named Foreclosure Solutions, Inc., changed its name to CannaVEST Corp. (OTCBB, ticker: CANV) on January 29, 2013. CannaVEST entered into the business of acquiring raw hemp product from suppliers in Europe and reselling it to third parties and also developing, producing, and selling consumer products that contain Cannabidiol ("CBD") oil (a type of hemp oil). In early January 2016, CannaVEST changed its name to CV Sciences, Inc. (OTCQB, ticker: CVSI), and claimed to develop pharmaceutical drugs that contain CBD oil. CannaVEST's common stock is registered with the Commission pursuant to Exchange Act Section 12(g).

7. **Michael J. Mona, Jr.**, age 63, of Las Vegas, Nevada, is CannaVEST's CEO and a board member. Mona became CannaVEST's CEO in November 2012, and a board member in January 2013.

2013 CANNAVEST INTERIM REVIEWS

Background

8. CannaVEST was originally a shell company with no operations, no revenues, and only \$431 in assets at December 31, 2012. In December 2012, the company entered into an agreement to buy PhytoSphere Systems, LLC ("PhytoSphere") from Medical Marijuana, Inc. ("MJNA") for a stated purchase price of \$35 million. On January 29, 2013, the PhytoSphere acquisition closed, and the company was transformed from a shell company into a business allegedly with over \$35 million in assets and operations in the hemp business.

9. In connection with this acquisition, on June 15, 2017, the Commission filed an injunctive action against CannaVEST and its CEO Mona (Case No. 2:17-CV-01681-APG-PAL). The Commission's complaint alleges that CannaVEST and Mona made material misrepresentations and/or misleading omissions on CannaVEST's quarterly reports filed with the SEC for its first three quarters of 2013.

10. The Commission's complaint alleges that in CannaVEST's Forms 10-Q for the first two quarters of 2013, CannaVEST and Mona overstated CannaVEST's total assets. The overstatements related to CannaVEST's acquisition of PhytoSphere in the first quarter of 2013.

CannaVEST agreed to the purported \$35 million purchase price only because CannaVEST could pay it primarily with CannaVEST shares that had little or no trading volume at the time, and which Mona believed had little value, and a small amount of cash. The Commission alleges that Mona knew that CannaVEST was paying substantially less than \$35 million to acquire the PhytoSphere business, that PhytoSphere was not worth \$35 million, and that CannaVEST would have never agreed to the purported purchase price if CannaVEST were required to pay cash for PhytoSphere.

11. The Commission's complaint alleges that Mona, nevertheless, had CannaVEST record \$35 million worth of assets related to the PhytoSphere acquisition on CannaVEST's balance sheet in its Form 10-Q for the first quarter of 2013. As a result, CannaVEST materially overstated its assets on its balance sheet for the first quarter of 2013. The Commission alleges that in CannaVEST's Form 10-Q for the second quarter of 2013, CannaVEST continued to report falsely the value of its assets related to the PhytoSphere acquisition.

12. The Commission's complaint alleges that in CannaVEST's Form 10-Q for the third quarter of 2013, CannaVEST and Mona wrote down the value of the assets related to the PhytoSphere acquisition to \$8 million after obtaining a third-party valuation report that valued PhytoSphere at \$8 million as of January 29, 2013. CannaVEST, however, failed to disclose that it had never paid \$35 million for those assets, that the assets were never worth \$35 million, and that the balance sheets for the first and second quarters of 2013 were materially overstated.

13. In April 2014, CannaVEST restated all three quarters to reflect \$8 million in assets related to the PhytoSphere acquisition on CannaVEST's balance sheet.

14. A&C conducted the interim reviews for CannaVEST's Q1 through Q3 2013 financial information.

15. Wahl served as the engagement partner for CannaVEST's Q1 through Q3 2013 interim reviews.

16. Chung served as the EQR for CannaVEST's Q1 interim review.

17. Shek served as the audit manager for CannaVEST's Q1 through Q3 interim reviews.

Shek Failed to Make Adequate Inquiries and Perform Appropriate Analytical Procedures in CannaVEST's Q1 and Q2 2013 Interim Reviews

18. PCAOB Standard AU § 722, *Interim Financial Information*, provides that the objective of an interim review is to provide the accountant with a basis for communicating whether he is aware of any material modifications that should be made to the interim financial information for it to conform with GAAP. (AU § 722.07). A review consists principally of making inquiries of management and performing analytical procedures. (AU §§ 722.07, 722.15).

19. In the Q1 2013 interim review, Shek failed to make adequate inquiries of management. As a result, he failed to become aware that material modifications should be made to the total asset value on CannaVEST's balance sheet for those quarters.

20. In the Q1 2013 interim review, Shek failed to make inquiries of Mona for the fair value of the consideration, *i.e.*, the fair value of CannaVEST's shares as of January 29, 2013, that CannaVEST would pay to MJNA. CannaVEST and Mona treated the PhytoSphere acquisition as a business combination. *See* ASC 805, *Business Combinations*, and ASC 820, *Fair Value Measurement*. Under ASC 805 and 820, CannaVEST and Mona should have determined the fair value of CannaVEST's stock (*i.e.*, the fair value of the consideration) as of the acquisition date, January 29, 2013, and used this fair value to determine how much CannaVEST was paying to acquire PhytoSphere. CannaVEST and Mona, however, never determined the fair value of CannaVEST's shares as of January 29, 2013, and Shek failed to make inquiries of Mona for the fair value.

21. Instead, Shek reviewed and relied on the PhytoSphere purchase agreement as the sole support for the \$35 million total asset value recorded on CannaVEST's balance sheet. The purchase agreement stated that CannaVEST would pay for PhytoSphere with CannaVEST shares and/or cash, and that CannaVEST would make these payments in five installments over the course of fiscal year 2013. Mona intended to pay the five installments primarily with CannaVEST shares and only a small amount of cash. In addition, the purchase agreement stated that CannaVEST's shares would be valued at a minimum of \$4.50 and a maximum of \$6.00 per share (the "collar"). Mona, however, had no basis for assigning a value of \$4.50 to \$6.00 per share and Mona only came up with the collar in order to cap the number of shares provided to MJNA. Mona did not know how much CannaVEST shares were worth because the shares were either not trading or had very little trading on the OTC market. Mona believed that CannaVEST's shares had little value.

22. In the Q1 2013 interim review, Shek also failed to make inquiries of Mona regarding how he determined the collar. If he had inquired, he would have found that Mona set the collar with no basis for the fair value of CannaVEST's shares, that Mona never took any steps to determine the fair value of CannaVEST's shares (unrestricted or restricted) as of January 29, 2013, and that Mona did not know the fair value of the shares. Shek should have made inquiries of Mona regarding what steps he planned to take to determine the fair value of the shares, and based on the shares' fair value, Shek would have become aware that material modifications to the total asset value on CannaVEST's balance sheet should have been made.⁴

⁴ CannaVEST ultimately provided a total of 5,825,000 restricted shares and paid \$950,000 in cash (borrowed from another entity) to MJNA during fiscal year 2013. CannaVEST and Mona never determined the fair value of CannaVEST's shares as of January 29, 2013. But in September 2013 CannaVEST had an independent valuation done on its shares (related to another transaction) that found CannaVEST's unrestricted shares were worth \$1.13 per share and its restricted shares were worth \$0.68, as of August 21, 2013.

23. In the Q2 2013 interim review, Shek failed to perform appropriate analytical procedures and failed to make adequate inquiries of management. As a result, Shek again did not become aware that material modifications to the total asset value on CannaVEST's balance sheet should have been made.

24. Shek failed to perform appropriate analytical procedures for the Q2 2013 interim review because he failed to prepare balance sheet analytics that compared the Q1 2013 balance sheet to the Q2 2013 balance sheet. Under PCAOB Standard AU § 722.16, *Analytical Procedures and Related Inquiries*, analytical procedures should include comparing the quarterly interim financial information with comparable information from the immediately preceding interim period. A&C's Q2 2013 balance sheet analytics only compared the FYE 2012 balance sheet to the Q2 2013 balance sheet. From Q1 to Q2 2013, CannaVEST made significant changes to the allocation of the \$35 million value among the individual assets related to the PhytoSphere acquisition. For example, from Q1 to Q2, CannaVEST decreased the value of its rights to purchase CBD oil from \$11.5 million to \$947,388, and increased the value of its goodwill from \$17,535,000 to \$26,998,125. An appropriate balance sheet analytics would have shown these substantial changes in allocation between Q1 and Q2. Instead, the balance sheet analytics only listed the new asset values for Q2, e.g. \$947,388 for rights to purchase CBD oil and \$26,998,125 for goodwill, and did not show how these asset values had changed significantly since Q1.

25. Shek reviewed the balance sheet analytics, but failed to identify that the analytics did not compare Q1 to Q2. If these significant changes between Q1 and Q2 had been documented in the analytics, the changes should have raised a red flag with Shek regarding the accuracy of the \$35 million total asset value for PhytoSphere. This should have then prompted Shek to make inquiries of management related to the fair value of the consideration paid by CannaVEST for PhytoSphere. If Shek had made such inquiries related to the fair value of the consideration, he would have become aware that material modifications to the total asset value on CannaVEST's balance sheet should have been made.

Shek Failed to Consider Whether a Restatement of CannaVEST's Q1 and Q2 2013 Financial Information Was Necessary During the Q3 2013 Interim Review

26. Under PCAOB Standard AU § 722, *Interim Financial Information*, misstatements identified by the accountant, or brought to the accountant's attention, should be evaluated to determine whether material modification should be made to the interim financial information for it to conform to GAAP, and the accountant should consider the nature, cause (if known), and amount of the misstatements, and whether the misstatements originated in the preceding year or interim periods of the current year. (AU § 722.26).

27. During the Q3 2013 interim review, Shek failed to consider whether a restatement of CannaVEST's Q1 and Q2 2013 financial information was necessary.

28. In October 2013, CannaVEST obtained a valuation report from a third-party valuation firm that reported PhytoSphere was worth \$8 million as of January 29, 2013. Shek reviewed this valuation report. As a result of the report, the engagement team prepared a memo that discussed impairing CannaVEST's goodwill in Q3 by \$26,998,125. Shek reviewed this

memo. The memo did not consider whether a restatement of CannaVEST's Q1 and Q2 financial information was necessary.

29. The valuation report should have been a red flag for Shek that the original \$35 million total asset value reported on CannaVEST's Q1 and Q2 2013 balance sheet may have been incorrect. This should have prompted Shek to make inquiries into the fair value of the consideration as of January 29, 2013 and consider whether a restatement of CannaVEST's financial statements included in its Q1 and Q2 2013 Forms 10-Q was necessary.

Shek Failed to Consider and Update His Knowledge of CannaVEST's Internal Controls and Lack of Personnel with Appropriate Accounting Qualifications When Planning the Q1 through Q3 2013 Interim Reviews

30. Under PCAOB Standard AU § 722, *Interim Financial Information*, in planning a review of interim financial information, the accountant should perform procedures to update his knowledge of the entity's business and its internal controls to: (a) aid in the determination of inquiries to be made and the analytical procedures to be performed, and (b) identify particular events, transactions, or assertions to which the inquiries may be directed or analytical procedures applied. (AU §§ 722.10-722.13).

31. Shek failed to consider and update his knowledge of CannaVEST's internal controls and lack of personnel with appropriate accounting qualifications when planning the Q1 through Q3 2013 interim reviews.

32. With regards to CannaVEST's internal controls, CannaVEST and Mona failed to devise a sufficient system of internal accounting controls, such that transactions (like the PhytoSphere acquisition) were properly recorded to permit preparation of financial statements in accordance with GAAP and to maintain accountability of assets. In addition, CannaVEST lacked personnel with appropriate accounting qualifications. CannaVEST did not have a CFO from Q1 through Q3 2013, and its Forms 10-Q for those quarters stated that management had identified a material weakness in the effectiveness of internal control over financial reporting related to CannaVEST's lack of personnel with appropriate accounting qualifications.

33. When planning the Q1 through Q3 2013 interim reviews, Shek failed to consider and update his knowledge of CannaVEST's internal controls and lack of accounting personnel, did not assess whether these matters increased the risk of material misstatement, and did not plan his interim review procedures accordingly to address that risk.

34. Moreover, when planning the Q2 and Q3 interim reviews, Shek did not have a sufficient understanding of CannaVEST's internal controls. A&C's inquiries checklist for the Q2 and Q3 interim reviews, which Shek reviewed, indicated that CannaVEST did not have any significant deficiencies or material weaknesses in internal control over financial reporting. This directly contradicted CannaVEST's disclosure in its Forms 10-Q, which stated that management had identified a material weakness in internal control over financial reporting related to CannaVEST's lack of personnel with appropriate accounting qualifications.

Shek Failed to Identify that the Engagement Team Did Not Prepare Adequate Documentation for CannaVEST's Q1 through Q3 2013 Interim Reviews

35. Under PCAOB Standard AS No. 3, *Audit Documentation*, an accountant's interim review documentation is the written record of the basis for the accountant's conclusions that provides the support for the accountant's representations. The documentation also facilitates the planning, performance, and supervision of the engagement, and is the basis for the review of the quality of the work because it provides the reviewer with written documentation of the evidence supporting the accountant's significant conclusions. Among other things, the documentation includes records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the accountant. (AS No. 3.2).

36. Under PCAOB Standard AU § 722, *Interim Financial Information*, an accountant's interim review documentation should include any findings or issues that in the accountant's judgment are significant, for example, the results of review procedures that indicate that the interim financial information could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached. In addition, 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 §§ 722.51-722.52).

37. Shek failed to identify that the engagement team did not prepare adequate documentation for CannaVEST's Q1 through Q3 2013 interim reviews. For example, for the Q1 interim review, Shek should have made inquiries of Mona for the fair value of the consideration related to the PhytoSphere acquisition, and had this amount documented in the work papers. For the Q2 interim review, Shek should have included a balance sheet analytics that compared Q1 to Q2 in the work papers. For the Q3 interim review, Shek should have considered whether a restatement was necessary and had this restatement analysis documented in the work papers. In addition, for the Q1 through Q3 interim reviews, Shek should have documented in the planning memo A&C's knowledge of CannaVEST's internal controls, including how the material weakness that related to the lack of accounting personnel increased the risk of material misstatement, and how the engagement team planned to address that risk through interim review procedures.

Shek Failed to Exercise Due Professional Care in CannaVEST's Q1 through Q3 2013 Interim Reviews

38. PCAOB Standard AU § 722, *Interim Financial Information*, requires that an accountant exercise due professional care, as provided in AU § 150.02, *Generally Accepted Auditing Standards*, in the performance of an interim review. (AU § 722.01). Under PCAOB Standard AU § 230, *Due Professional Care in the Performance of Work*, due professional care requires that an accountant exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of the evidence. (AU § 230.07).

39. Shek failed to exercise due professional care and failed to exercise a sufficient level of professional skepticism when performing CannaVEST's Q1 through Q3 2013 interim reviews. He failed to properly plan the interim reviews, properly assess the risk of material misstatement, consider how to address that risk through interim review procedures, make appropriate inquiries of management, perform appropriate analytics, and adequately document the interim reviews.

FINDINGS

40. As a result of the conduct described above, Shek 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 by engaging in conduct described in Rules 102(e)(1)(iv)(A) or 102(e)(1)(iv)(B).

IV.

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

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

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

B. After one year from the date of this Order, Shek 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 Shek'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 Exchange Act. 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) Shek, 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) Shek, 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 the respondent's or the firm's quality control system that would indicate that Shek will not receive appropriate supervision;
- (c) Shek 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) Shek 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.

C. The Commission will consider an application by Shek 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 Shek'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.

By the Commission.

Brent J. Fields
Secretary