

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 85518 / April 5, 2019**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4037 / April 5, 2019**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-19132**

**In the Matter of**

**KLJ & Associates, LLP, Kent  
L. Jensen, CPA, and Ronald A.  
Burgmeier, CPA**

**Respondents.**

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

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative proceedings be, and hereby are, instituted against KLJ & Associates, LLP (“KLJ”), Kent L. Jensen, CPA (“Jensen”), and Ronald A. Burgmeier, CPA (“Burgmeier”) (collectively, “Respondents”) pursuant to Section 4C<sup>1</sup> of the Securities Exchange Act of 1934 (“Exchange Act”)

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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 issued thereunder.

and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.<sup>2</sup>

## II.

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

## III.

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

### Summary

1. This matter concerns Respondents’ multiple failures to comply with Public Company Accounting Oversight Board (“PCAOB”) standards in connection with ten audits and 11 interim reviews – for the years ended June 30, 2012 through December 31, 2015 and for the periods ended September 30, 2014 through March 31, 2016, respectively, (collectively, the “relevant period”) – for five issuer clients.<sup>3</sup>

2. Specifically, in connection with their work on audits and interim reviews referenced herein during the relevant period, KLJ and Jensen failed to: (i) obtain sufficient appropriate evidence to provide a reasonable basis for KLJ’s audit reports, properly evaluate management’s accounting estimates, and adequately document the audit procedures performed; (ii) document required communications with the issuers’ audit committees; (iii) document analytical procedures for reviews of interim financial information; (iv) obtain written representations from management; (v) prepare engagement completion documents; and (vi) exercise due professional care and professional skepticism. Moreover, Burgmeier failed to (i) comply with the

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

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

<sup>3</sup> References to PCAOB auditing standards refer to the standards in effect at the time of the conduct described herein.

requirements for engagement quality reviews (“EQR”) and (ii) exercise due professional care and professional skepticism.

3. By failing to conduct audits and interim reviews in accordance with PCAOB standards, Respondents engaged in improper professional conduct.

### **Respondents**

4. **KLJ & Associates, LLP** is a Minnesota limited liability partnership with two CPA partners and locations in Edina, Minnesota and West Chicago, Illinois. KLJ was registered with the PCAOB until December 2017, when it voluntarily withdrew its registration.

5. **Kent L. Jensen**, age 47, holds a CPA license in Illinois and was licensed as a CPA in Minnesota until December 31, 2017. He is the managing partner and 60% owner of KLJ and was the leader of the firm’s SEC audit practice until late 2017. Jensen was the Engagement Partner on all of the audits and interim reviews, and the primary preparer of the audit work papers, referenced herein.

6. **Ronald A. Burgmeier**, age 58, holds a Minnesota CPA license. He joined KLJ in 2013 and is the firm’s minority partner, owning a 40% share of the partnership. Burgmeier served as the EQR partner for all of the audits and reviews referenced herein.

### **Other Relevant Entities**

7. **Issuer A** is a Nevada corporation with its principal place of business in Washington State. Issuer A’s business includes the sale of lingerie and sexual health and wellness products. From May 14, 2014 through December 31, 2014, Issuer A had a reporting obligation under Section 15(d) of the Exchange Act. Issuer A was quoted on the Over the Counter market (“OTC”) until November 2017. Relevant to this Order, KLJ audited Issuer A’s financial statements and notes to the financial statements (collectively, “financial statements”) for the years ended December 31, 2014 and 2015, which were included in Issuer A’s Form 10-K for the year ended December 31, 2015. KLJ also performed reviews of interim financial information for the periods ended March 31, 2015, June 30, 2015, September 30, 2015, and March 31, 2016, included in Forms 10-Q.<sup>4</sup>

8. **Issuer B** is a Nevada corporation with its principal place of business in Ontario, Canada. Issuer B’s business includes the sale of pharmaceutical and natural health products. Issuer B has never had a reporting obligation. Issuer B was quoted on the OTC until June 2017. Relevant to this Order, KLJ audited Issuer B’s financial statements for the years ended

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<sup>4</sup> “Periods ended” represents the three months and year-to-date periods that end on the respective financial statement date. For example, the period ended June 30, 2015 would represent the financial results for the three months and six months ended on June 30, 2015.

December 31, 2013 and 2014, and performed a review of interim financial information for the three and six months ended June 30, 2015. The annual financial statements and interim financial information KLJ audited and reviewed were included in Forms S-1 and S-1/A, filed with the Commission, which never became effective.

9. **Issuer C** is a Texas corporation with its principal place of business in Texas. Issuer C's business includes the sale of investment research. Issuer C had a reporting obligation under Section 15(d) of the Exchange Act starting on June 17, 2015. Relevant to this Order, KLJ audited Issuer C's financial statements for the years ended December 31, 2013 and 2014, and performed the reviews of interim financial information for the three and nine months ended September 30, 2014. These annual financial statements and interim financial information were included in Forms S-1, which became effective June 17, 2015.

10. **Issuer D** is a Delaware corporation with its principal place of business in Nebraska. Issuer D's business includes the retail sale of cellular and consumer finance services. Issuer D's stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act and it has a reporting obligation pursuant to Section 13(a) of the Exchange Act. It is quoted on the OTC. Relevant to this Order, KLJ performed reviews of Issuer D's interim financial information that was included in the Forms 10-Q for the periods ended June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015, and September 30, 2015.

11. **Issuer E** is a Nevada corporation with its principal place of business in Nevada. Issuer E is a development stage company with no operations that purportedly intends to acquire assets or shares of other entities. Issuer E had a reporting obligation under Section 15(d) of the Exchange Act from August 12, 2010 through June 30, 2011. Relevant to this Order, KLJ audited Issuer E's financial statements for the years ended June 30, 2012 and 2013, which were included in Forms 10-K for those years.

### Facts

#### **A. Failure to Obtain Sufficient Appropriate Audit Evidence to Support the Audit Opinion, Properly Evaluate the Accounting Estimates Made by Management, Properly Audit Fair Value Measurements, and Adequately Document the Audit Procedures Performed (AS No. 15, AU § 342, AU § 328 and AS No. 3)**

12. PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), requires that the auditor plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion. When using the information provided by an issuer as audit evidence, the auditor should evaluate the evidence by testing its accuracy and

completeness and evaluating whether it is sufficiently precise and detailed for the purposes of the audit.<sup>5</sup>

13. Pursuant to PCAOB Auditing Standard AU § 342.07, *Auditing Accounting Estimates*, the auditor's objective when evaluating accounting estimates is to obtain sufficient appropriate evidential matter to provide reasonable assurance that all accounting estimates that could be material to the financial statements have been developed, those accounting estimates are reasonable under the circumstances, the accounting estimates are presented in conformity with applicable accounting principles, and are properly disclosed.

14. PCAOB Auditing Standard AU § 328, *Auditing Fair Value Measurements and Disclosures*, states that an auditor should obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures are in conformity with GAAP. The auditor should test the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management's assumptions. Specifically, the auditor evaluates whether the data on which the fair value measurements are based, including the data used in the work of a specialist, is accurate, complete, and relevant; and whether fair value measurements have been properly determined using such data and management's assumptions.<sup>6</sup>

15. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), requires an auditor to prepare and retain documentation that provides a written record of the basis for the auditors' conclusions. Audit documentation must clearly demonstrate that the work was in fact performed. Among other items, the audit documentation must contain 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. Audit documentation must also contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine, among other things, the person who reviewed the work and the date of such review.<sup>7</sup> The following examples demonstrate Respondents' violations of these auditing standards.

16. Jensen was KLJ's Engagement Partner for each audit referenced herein, and in many instances performed the audit work himself. The PCAOB defines the engagement partner as the member of the engagement team with primary responsibility for the audit.<sup>8</sup> Accordingly, the engagement partner is responsible for, among other things, compliance with PCAOB standards in connection with the audit.

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<sup>5</sup> AS No. 15 at .4 and .10.

<sup>6</sup> AU § 328 at .03, and .39.

<sup>7</sup> AS No. 3 at .1, .5, and .6.

<sup>8</sup> AS No. 10.

**i. Issuer A Audit for the Year Ended December 31, 2014**

17. As reflected in the audit work papers for the audit of Issuer A's 2014 financial statements included in its Form 10-K for the year ended December 31, 2015, Jensen and KLJ did not obtain sufficient appropriate audit evidence or document procedures performed for cost of goods sold totaling approximately \$13.7 million or for selling, general and administrative expenses totaling approximately \$21 million. These expenses comprised approximately 94% of the company's expenses included in the "Income (loss) from operations" line in the Consolidated Statement of Operations. Although the work papers included an audit program with suggested auditing procedures for these expenses, it was not completed. In fact, for the majority of the procedures listed in the audit program, there is no evidence in the work papers that such audit work was performed.

**ii. Issuer A Audit for the Year Ended December 31, 2015**

18. Similarly, Jensen and KLJ's audit work papers for the audit of Issuer A's 2015 financial statements (included in its Form 10-K for the year ended December 31, 2015) also failed to include any evidence or documentation of the auditing procedures performed concerning cost of goods sold totaling approximately \$14.8 million and selling, general and administrative expenses totaling approximately \$21 million. As with the prior year's audit, the work papers included an audit program with suggested auditing procedures for these expenses, but the program was not completed and there is no other evidence that such audit work was performed. In addition, the financial statement included approximately \$4.3 million in depreciation and amortization. Together, these expenses comprised approximately 50% of the company's expenses included in the "Income (Loss) from operations" line in the Consolidated Statement of Operations. Yet, the auditing procedures concerning these expenses consisted solely of obtaining a supporting schedule from Issuer A and agreeing it to Issuer A's accounting records. Jensen and KLJ failed to obtain sufficient appropriate audit evidence to validate these expenses.

19. During 2015, Issuer A also recorded a goodwill impairment of approximately \$40.6 million, which reduced the goodwill by 100%. Prior to the impairment, goodwill represented approximately 83% of Issuer A's assets. The work papers, however, included an analysis prepared by a third party valuation specialist and a memorandum prepared by Jensen, which both concluded that no goodwill impairment was necessary. Jensen documented his preparation of these work papers and, therefore, was aware of the evidence that undermined the validity of the goodwill impairment. Yet, the work papers did not include any documentation demonstrating that Jensen performed any auditing procedures concerning Issuer A's decision to impair goodwill.

**iii. Issuer B Audit for the Year Ended December 31, 2013**

20. As reflected in the audit work papers for the audit of Issuer B's 2013 financial statements, Jensen and KLJ did not obtain sufficient appropriate audit evidence or document

auditing procedures concerning two approximately \$3.2 million expenses; one related to the “Excess purchase price over fair value of assets acquired” (“Excess Loss”) and another related to the extinguishment of debt. Together, these expenses comprised approximately 91% of the company’s net loss presented in the 2013 financial statements.

21. The Excess Loss related to an asset purchase agreement whereby Issuer B transferred cash and stock valued at approximately \$3.2 million to a third party and received inventory and intangible assets valued at approximately \$60,000 in return. Issuer B recorded an expense for the value of the cash and stock that exceeded the value of the assets received. Despite the significance of the loss, Jensen performed no auditing procedures in connection with this expense.

22. With respect to the extinguishment of debt, Issuer B issued stock valued at \$3.2 million to a debt holder to extinguish a \$4,000 debt, which resulted in an expense of approximately \$3.2 million. As with the Excess Loss, Jensen performed no auditing procedures in connection with this expense.

**iv. Issuer C Audit for the Year Ended December 31, 2013 and Subsequent Restatement Audit**

23. In 2013, Issuer C issued shares – valued at approximately \$20.5 million – in exchange for “advisory services.” The company valued the shares issued based on the proposed public stock offering price of \$0.25 per share, and the audit documentation described the services as, among other things, “marketing, business development and consulting.”

24. At the time the stock was issued, however, Issuer C had total assets of \$1,523 and total revenues of \$29 for the year ended December 31, 2013, while a \$0.25 share price would have valued Issuer C at approximately \$400 million.

25. In an equity transaction with nonemployees, however, Generally Accepted Accounting Principles (“GAAP”) require that the transaction be measured at the fair value of the consideration received or the fair value of the equity instrument issued, whichever value is more readily determinable.<sup>9</sup> In turn, PCAOB auditing standards require the auditor to obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures were in conformity with GAAP.

26. Despite the large disparity between Issuer C’s book value and the \$400 million value indicated by a \$0.25 share price, Jensen performed no audit procedures to test the data used to develop the \$0.25 share price. On the contrary, information in the work papers, which were prepared by Jensen and reviewed by Burgmeier, called into question the reliability of using the proposed stock offering price as the fair value, stating that a “readily determinable market price

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<sup>9</sup> ASC 505 *Equity* at 505-50-30.

cannot be determined.” Accordingly, there was not sufficient evidence in the work papers to support Jensen’s conclusions regarding the valuation.

27. Ultimately, Issuer C restated its financial statements after receiving multiple comments from the SEC’s Division of Corporation Finance and determining that use of the proposed share price for the transaction as the fair value was incorrect. Specifically, after estimating the value of the services provided, Issuer C reduced the value attributed to the shares issued by \$20.3 million, or 99% of its original value.

28. Despite the fact that Issuer C restated its financial statements for the reasons discussed above, when Jensen and KLJ audited the restated financial statements, they failed to comply with PCAOB standards because they did not document the audit procedures performed in connection with the restatement.

### **B. Failure to Document Communications With the Audit Committees (AS No. 16)**

29. PCAOB Auditing Standard No. 16, *Communications with Audit Committees* (“AS No. 16”), requires the auditor to communicate with an engagement client’s audit committee, or if no such committee exists, the entire board of directors of the company, to obtain information relevant to the audit and to provide certain information regarding the conduct of an audit. The auditor must document these communications with the audit committee in the work papers and describe whether they were oral or in writing.<sup>10</sup>

30. Jensen and KLJ did not document in the work papers the requisite communications with the boards of directors for the following audits: Issuer A, for the years ended December 31, 2014 and 2015; Issuer B, for the years ended December 31, 2013 and 2014; Issuer C, for the years ended December 31, 2013 and 2014; and Issuer E, for the years ended June 30, 2012 and 2013.<sup>11</sup> Jensen completed audit checklists, which Burgmeier reviewed, indicating that KLJ communicated with the audit committees for Issuers A, B, and E, and incorrectly stated that the communications and the method of communication had been documented in the work papers.

### **C. Failure to Document Analytical Procedures for Reviews of Interim Financial Information (AU § 722)**

31. PCAOB Auditing Standard AU § 722, *Interim Financial Information*, states that an auditor should apply analytical procedures during a review of interim financial information to identify, and provide a basis for inquiry about, items that appear to be unusual and may indicate

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<sup>10</sup> AS No. 16 at .01 and .25.

<sup>11</sup> The applicable PCAOB standard for KLJ’s audit of Issuer E was AU 380 because AS No. 16 was effective for audits of fiscal years beginning on or after Dec. 15, 2012. AU 380.03 stated that audit committee communications may be oral or written, but required the auditor to document the communication in the work papers if the communication was oral.



a material misstatement. These analytical procedures should include “comparing the quarterly interim financial information with comparable information for the immediately preceding interim period and the quarterly and year-to-date interim financial information with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the entity’s business and specific transactions.”<sup>12</sup> Further an accountant should prepare documentation in connection with a review of interim financial information, the form and content of which should be designed to meet the circumstances of the particular engagement.<sup>13</sup>

32. Jensen and KLJ did not document the analytical procedures performed for: Issuer A, for the periods ended March 31, 2015, June 30, 2015, September 30, 2015, and March 31, 2016; Issuer D, for the periods ended June 30, 2014, September 30, 2014, June 30, 2015, and September 30, 2015. Although Jensen and KLJ’s work papers contained completed checklists for these interim reviews, that documentation was insufficient to “enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent and results of the review procedures performed.”<sup>14</sup> Issuer A’s and Issuer D’s interim review work papers, for example, only contained an interim review checklist, initialed and dated by Jensen, indicating that the analytical procedures had been performed and documented.

#### **D. Failure to Obtain Written Representations from Management (AU § 333 and AU § 722)**

33. PCAOB Standard AU § 333, *Management Representations*, requires an auditor to obtain written representations from management for all financial statements and periods covered by the auditor’s report.<sup>15</sup> The representations should address, among other things: financial statements; completeness of the information; recognition, measurement and disclosure; and subsequent events.<sup>16</sup> Similarly, AU § 722, *Interim Financial Information*, requires auditors to obtain written representations from management for all interim financial information presented and for all periods covered by the auditor’s review.<sup>17</sup>

34. Jensen and KLJ’s work papers for the audit of Issuer C’s year ended December 31, 2013, and the subsequent restatement of that year, however, did not include a management representation letter.

35. Jensen and KLJ’s work papers for the interim review of Issuer C’s three and nine months ended September 30, 2014, were similarly deficient. Despite the fact that no

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<sup>12</sup> AU § 722 at .16.

<sup>13</sup> AU § 722 at .51.

<sup>14</sup> AU § 722 at .52.

<sup>15</sup> AU § 333 at .05.

<sup>16</sup> AU § 333 at .06.

<sup>17</sup> AU § 722 at .24.

management representation letter was included in the work papers for this interim review, Jensen completed, and Burgmeier reviewed, a checklist indicating that Jensen had obtained and reviewed the management representation letter.

**E. Failure to Exercise Due Professional Care and Properly Respond to the Risks of Material Misstatement (AU § 230 and AS No. 13)**

36. PCAOB standards require auditors to exercise due professional care in the planning and performance of audits and interim reviews.<sup>18</sup> Due professional care requires the auditor to exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.<sup>19</sup> Additionally, in performing audits the auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence. Examples of the application of professional skepticism in response to the assessed fraud risks include "obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters, such as through third-party confirmation, use of a specialist engaged or employed by the auditor, or examination of documentation from independent sources."<sup>20</sup>

37. In connection with the audits and interim reviews described in this Order, and as evidenced by the repeated audit deficiencies noted above, Jensen and KLJ failed to exercise due professional care. They also failed to perform critical assessments of audit and interim review evidence. In particular, for multiple audits and interim reviews, Jensen and KLJ failed to: (i) obtain sufficient appropriate evidence to support the conclusions reached by Jensen and his engagement teams; (ii) obtain sufficient appropriate audit evidence for significant financial statement balances and transactions; (iii) document that KLJ engaged in the requisite communications with certain issuers' audit committees; (iv) document the analytical procedures Jensen used for an interim review; (v) obtain written representations from management; or (vi) prepare engagement completion documents.

**F. Failure to Prepare Engagement Completion Documents (AS No. 3)**

38. For each engagement, PCAOB auditing standard AS No. 3 ("AS No. 3") requires an auditor to prepare an engagement completion document that identifies all the significant findings or issues from the engagement.<sup>21</sup> AS No. 3 defines "significant findings or issues" as substantive

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<sup>18</sup> AU § 230.01, AU § 722.01.

<sup>19</sup> AU § 230.07.

<sup>20</sup> AS No. 13 at .7.

<sup>21</sup> AS No. 3 at .13.

matters that are important to the procedures performed, evidence obtained, or conclusions reached during an engagement.<sup>22</sup>

39. Jensen and KLJ’s work papers indicate that Jensen identified significant risks while performing the following audits: Issuer A, for the years ended December 31, 2014 and 2015; and Issuer B, for the year ended December 31, 2013. In particular, the work papers for the Issuer A audits reflect that revenue recognition and lack of segregation of duties represented significant risks, while the work papers for the Issuer B audit reflect a significant risk relating to management’s ability to override controls. Despite identifying these audit risks, Jensen did not prepare engagement completion documents which would have enabled a reviewer to understand the significant risks associated with these audits and the results of the auditing procedures performed in response to those risks.

#### **G. Failure to Comply with Engagement Quality Review Requirements (AS No. 7)**

40. PCAOB Auditing Standard No. 7, *Engagement Quality Review* (“AS 7”), requires an engagement quality review and concurring approval of issuance for each annual audit and interim review. The engagement quality reviewer should, among other things, evaluate the significant judgments made by the engagement team and the related conclusions it reached in forming the overall conclusion on the engagement. To the extent necessary to properly evaluate these judgments and conclusions, the engagement quality reviewer should hold discussions with the engagement partner and review documentation. The engagement quality reviewer should also review the engagement completion document. The engagement quality review documentation should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer and include information that identifies: (i) the engagement quality reviewer; (ii) the documents reviewed by the engagement quality reviewer; and (iii) the date the engagement quality reviewer provided concurring approval of issuance. Documentation of the engagement quality review should be included in the engagement documentation.<sup>23</sup>

41. Moreover, AS No. 7 provides that the engagement quality reviewer may provide concurring approval of issuance only if, after performing the engagement quality review with due professional care, he or she is not aware of a significant engagement deficiency.<sup>24</sup> In addition to the factors identified in paragraph 36 above, due professional care entails possessing the degree of skill commonly possessed by other auditors and exercising it with reasonable care and diligence.<sup>25</sup>

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<sup>22</sup> AS No. 3 at .12.

<sup>23</sup> AS No. 7 at .01, .9, 10e, and .19-.20.

<sup>24</sup> AS No. 7 at .12.

<sup>25</sup> AU § 230 *Due Professional Care in the Performance of Work* at .03-.05.

42. As noted, Burgmeier served as the engagement quality reviewer for all of the audits and interim reviews described above and had access to all of the documents in the associated work papers.

43. Burgmeier did not perform an engagement quality review as required by AS 7 for the following engagements: Issuer B annual audit for the year ended December 31, 2013, and Issuer B restatement audit for the year ended December 31, 2013; four interim reviews for periods ended in 2015 and 2016 for Issuer A; and Issuer D interim review for the period ended March 31, 2015.<sup>26</sup>

44. In particular, Burgmeier did not evaluate the significant judgments made by Jensen and his engagement teams and the related conclusions they reached in forming the overall conclusions regarding the engagements. Additionally, there is no evidence in the work papers that Burgmeier discussed the engagements with Jensen or reviewed audit or interim review documentation for those engagements.

45. In connection with two other annual audits,<sup>27</sup> although there is some limited evidence that Burgmeier conducted engagement quality reviews, the audit work papers did not indicate the inquiries he made of Jensen and his engagement teams, the procedures he performed, or whether he held discussions with the engagement teams to evaluate the significant judgments they made related to engagement planning and their assessment of, and audit responses to, significant risks.

46. First, in connection with his review of the audits and interim reviews described above in Section III.B., Burgmeier completed engagement quality review checklists indicating that he evaluated whether Jensen had communicated appropriate information to the issuers' audit committees on a timely basis. But, Burgmeier did not perform this procedure because the work papers he reviewed for those engagements contained no evidence that any such communications had been made and no other evidence indicates he performed such review.

47. In addition, on the audits and interim reviews described above in Section III.E., Burgmeier provided his concurring approval of issuance after indicating that he had reviewed Jensen's engagement completion documents for certain audits. But, the work papers for those engagements contained no such documents and no other evidence indicates he performed such review.

48. Finally, the work papers for the audits and interim reviews described above also demonstrate that Burgmeier, like Jensen, failed to exercise due professional care in conducting his engagement quality reviews. In particular, in the above noted engagements, Burgmeier indicated that he reviewed documents that were not part of the work paper file and no other

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<sup>26</sup> This auditing standards violation existed for the Issuer D interim review for the period ended March 31, 2015, which was not discussed above.

<sup>27</sup> The annual audits for Issuer A for the year ended December 31, 2015, and for Issuer C for the year ended December 31, 2013.

evidence indicates he performed such review in the following areas: (i) documentation that KLJ engaged in the requisite communications with certain issuers' audit committees; (ii) documentation that analytical procedures had been completed for the interim reviews; (iii) written representations from management; and (iv) engagement completion documents.

### **Violations**

49. Based on the foregoing, 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. Section 4C of the Exchange Act and Rule 102(e)(1)(ii) provide, in pertinent part, that the Commission may censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct. Section 4C(b) and Rule 102(e)(1)(iv) define improper professional conduct with respect to persons licensed to practice as accountants.

50. Under Section 4C(b) and Rule 102(e)(1)(iv)(B), the term "improper professional conduct" means negligent conduct in the form of:

- (1) A single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant, a registered public accounting firm, or associated person knows, or should know, that heightened scrutiny is warranted.
- (2) Repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

51. Respondents' failures to abide by PCAOB standards in the audits and reviews described above constitute repeated instances of unreasonable conduct.

### **Findings**

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

## **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. Jensen and Burgmeier are denied the privilege of appearing or practicing before the Commission as accountants.
- i. After five years from the date of this order, Jensen 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 Securities Exchange Act of 1934). Such an application must satisfy the Commission that Jensen'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.
- (a) Such an application must satisfy the Commission that:
- i. Jensen, 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;
  - ii. Jensen, 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 Jensen will not receive appropriate supervision;
  - iii. Jensen 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

- iv. Jensen 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 Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.
  4. The Commission will consider an application by Jensen 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 Jensen'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.
- ii. After five years from the date of this order, Burgmeier 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 Securities Exchange Act of 1934). Such an application must satisfy the Commission that Burgmeier'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.
    - (a) Such an application must satisfy the Commission that:

- i. Burgmeier, 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;
        - ii. Burgmeier, 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 Burgmeier will not receive appropriate supervision;
        - iii. Burgmeier 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
        - iv. Burgmeier 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 Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.
  4. The Commission will consider an application by Burgmeier 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 Burgmeier’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.
- B. KLJ is denied the privilege of appearing or practicing before the Commission as an accountant.
- i. After five years from the date of this order, KLJ 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 (other than 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 must satisfy the Commission that KLJ's work in its practice before the Commission as an accountant 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.

(a) Such an application must satisfy the Commission that:

- i. KLJ is registered with the PCAOB in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective. However, if registration with the PCAOB is dependent upon reinstatement by the Commission, the Commission will consider the application on its other merits;
- ii. KLJ has hired an independent CPA consultant ("consultant"), who is not unacceptable to staff of the Commission and is affiliated with a public accounting firm registered with the Board, that has conducted a review of KLJ'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 KLJ's employees will not receive appropriate supervision. KLJ 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 the completion of the review, the consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with KLJ, 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 shall not, without prior written consent of the staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with KLJ, or any of its present or former affiliates, directors, employees, or agents acting in their capacity as such for a period of two years after the review;
- iii. KLJ 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

- iv. KLJ 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 PCAOB, including, but not limited to, all requirements relating to registration, inspections, engagement quality reviews and quality control standards.
3. The Commission will consider an application by KLJ to resume appearing or practicing before the Commission provided that its state CPA license is current and it has resolved any 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 matter relating to KLJ's character, integrity, professional conduct, or qualifications to appear 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.

Vanessa A. Countryman  
Acting Secretary