

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 87157 / September 30, 2019**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4097 / September 30, 2019**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-19564**

**In the Matter of**

**SCHULMAN LOBEL ZAND  
KATZEN WILLIAMS &  
BLACKMAN, LLP A/K/A  
SCHULMAN LOBEL LLP,**

**Respondent.**

**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  
AND NOTICE OF HEARING**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 4C<sup>1</sup> 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 Practice<sup>2</sup> against

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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.

<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.

Schulman Lobel Zand Katzen Williams & Blackman, LLP a/k/a Schulman Lobel LLP (“Respondent” or “SL”).

## II.

After an investigation, the Division of Enforcement alleges that:

### SUMMARY

1. This matter concerns violations of the federal securities laws and improper professional conduct by SL in connection with the following audits and reviews of the financial statements and interim financial information of Quadrant 4 System Corp. (“QFOR”):
  - a. the audit of QFOR’s financial statements for the year ended December 31, 2013 (the “2013 Audit”), which were included in a Form 10-K filed with the Commission on August 21, 2015 (the “2014 Form 10-K”);
  - b. the audit of QFOR’s financial statements for the year ended December 31, 2014 (the “2014 Audit”), which were also included in the 2014 Form 10-K;
  - c. the review of QFOR’s interim financial information for the quarter ended June 30, 2016 (the “2Q2016 Review”), which was included in a Form 10-Q filed on August 15, 2016 (the “2Q2016 Form 10-Q”); and
  - d. the audit of QFOR’s amended financial statements for the year ended December 31, 2015 (the “2015 Form 10-K/A Audit”), which were included in a Form 10-K/A filed on September 22, 2016 (the “2015 Form 10-K/A”).
2. SL failed to comply with the standards of the Public Company Accounting Oversight Board (“PCAOB”) when conducting the 2013 Audit, 2014 Audit, 2Q2016 Review, and 2015 Form 10-K/A Audit. SL repeatedly engaged in improper professional conduct that resulted in violations of professional standards and demonstrated a lack of competence to practice before the Commission. As detailed in the Facts Section below, SL’s departures from professional standards included the failure to: (1) identify and properly audit related party transactions; (2) obtain sufficient appropriate audit evidence; (3) conduct appropriate procedures to obtain reasonable assurance that the financial statements were free of material misstatements caused by fraud; (4) conduct appropriate procedures upon the subsequent discovery of facts existing at the date of a previous audit report; (5) conduct appropriate procedures in connection with a review of interim financial information; (6) properly plan the audit and assess and respond to risks of

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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.

material misstatement; (7) conduct proper engagement quality reviews; (8) exercise due professional care and professional skepticism; and (9) maintain an adequate system of quality control, including policies and procedures regarding engagement acceptance and continuance as well as supervision, review, and approval. Additionally, SL willfully violated Section 10A(a)(2) of the Exchange Act when it conducted the 2013 and 2015 Form 10-K/A Audits without including procedures that were adequately designed to identify related party transactions. Finally, SL willfully violated Rule 2-02(b)(1) of Regulation S-X when it stated that the 2013, 2014, and 2015 Form 10-K/A Audits had been conducted in accordance with PCAOB standards, when the audits had not been.

### **RESPONDENT**

3. **Schulman Lobel Zand Katzen Williams & Blackman, LLP a/k/a Schulman Lobel LLP (“SL”)** is a PCAOB-registered audit firm based in Princeton, New Jersey. SL served as QFOR’s auditor from April 2015 until it resigned in October 2016. SL completed audits of QFOR’s financial statements for the years ended 2013, 2014, and 2015 and reviews of QFOR’s interim financial information for each quarter of 2015 and the first two quarters of 2016. SL also completed an audit of QFOR’s amended financial statements contained in the 2015 Form 10-K/A.

### **AUDITED ENTITY**

4. **Quadrant 4 System Corp.** (CIK No. 878802) was an Illinois corporation headquartered in Schaumburg, Illinois, that provided software products and IT consulting and software development services. QFOR did not have any class of securities registered with the Commission, but was a reporting company pursuant to Section 15(d) of the Exchange Act. QFOR’s common stock was quoted on OTC Link (formerly “Pink Sheets”) operated by OTC Markets Group, Inc. under the symbol “QFOR.” On June 29, 2017, QFOR filed for bankruptcy, and its remaining assets are now under the control of a liquidating trustee. All equity interests in QFOR, including its common stock, were extinguished on September 13, 2018.

### **OTHER RELEVANT INDIVIDUALS<sup>3</sup>**

5. **Marla P. Manowitz, CPA**, age 67, is a resident of Westbury, New York, and a CPA licensed in the State of New York. She is employed by SL as a Principal. She served as the engagement principal on the audit of QFOR’s amended financial statements contained in the 2015 Form 10-K/A. She served as a co-engagement principal on the audits of QFOR’s 2013, 2014, and 2015 financial statements and reviews of QFOR’s interim financial information for each quarter of 2015 and the first two quarters of 2016.

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<sup>3</sup> On September 30, 2019, the Commission instituted an 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 against Marla P. Manowitz, CPA, Thomas R. Vreeland, CPA, and Kenneth J. Galak, CPA, concerning their conduct in audit and review engagements for QFOR (Exchange Act Re. No. 34-87159).

6. **Thomas R. Vreeland, CPA**, age 57, is a resident of Lambertville, New Jersey, and a CPA licensed in the State of New York. During the relevant time frame, he was employed by SL as a Principal. Vreeland served as a co-engagement principal on the audits of QFOR's 2013, 2014, and 2015 financial statements and reviews of QFOR's interim financial information for each quarter of 2015 and the first two quarters of 2016.

7. **Kenneth J. Gralak, CPA**, age 69, is a resident of Stormville, New York, and a CPA licensed in the State of New York. He is employed by SL as a Principal and Director of Quality Control. Gralak served as the engagement quality reviewer ("EQR") on the review of QFOR's interim financial information for the second quarter of 2016 and the audit of QFOR's amended financial statements contained in the 2015 Form 10-K/A.

## **FACTS**

### **Background of QFOR's Fraud**

8. Between at least June 2012 and November 2016, Nandu Thondavadi ("Thondavadi") and Dhru Desai ("Desai") perpetrated a fraudulent scheme through QFOR, a public company. Thondavadi, as CEO, and Desai, as CFO, used several fraudulent means to overstate QFOR's revenue, overstate its assets, understate its liabilities, and conceal their misappropriation of at least \$4.1 million. Among other things, they caused QFOR to enter into undisclosed related party transactions, misstated the terms of various acquisitions, and concealed liabilities through a variety of means. Between March 2013 and November 2016, Thondavadi and Desai caused QFOR to file false and misleading Forms 10-Q, 10-K, and 8-K, which included numerous material misstatements and omissions regarding QFOR's revenue, acquisitions, assets, liabilities, and related party transactions and Thondavadi's and Desai's misappropriation and stock ownership.

### **SL's Engagements for QFOR**

9. On April 2, 2015, QFOR's previous auditor resigned after discovering that QFOR had issued fraudulent invoices and that unknown individuals affiliated with QFOR had returned false audit confirmations to them. SL was engaged to perform the 2014 Audit the following day. In June 2015, after being informed that QFOR's previous auditor would not reissue its 2013 audit report due to an inability to rely on management's representations, SL was engaged to conduct the 2013 Audit.

10. SL's engagement acceptance and planning workpapers for the 2013 and 2014 Audits noted that QFOR had internal control deficiencies and characterized the audits as "high-risk." Manowitz and Vreeland served as co-engagement principals, sharing responsibility for the engagements and the issuance of the firm's report. SL completed the 2013 and 2014 Audits in August 2015. Manowitz and Vreeland consented to the issuance of SL's audit report that contained an unqualified opinion, which was dated August 21, 2015, and incorporated in QFOR's 2014 Form 10-K filed the same day.

11. SL performed the 2Q2016 Review with Manowitz and Vreeland again serving as co-engagement principals, and Gralak serving as the EQR. Manowitz and Vreeland consented to,

and Gralak provided concurring approval of issuance of, the release of QFOR's 2Q2016 Form 10-Q, which was filed on August 15, 2016.

12. SL audited QFOR's financial statements for the year ended December 31, 2015 (the "2015 Audit"). In late August or early September 2016, QFOR told SL that QFOR intended to file an amended Form 10-K for the year ended December 31, 2015, that would disclose, among other things, new information about certain related party transactions. On September 6, 2016, SL was engaged to audit the amended financial statements in the 2015 Form 10-K/A, which included footnote disclosures regarding certain related party transactions. Manowitz served as the engagement principal for the 2015 Form 10-K/A Audit, and Gralak served as the EQR. Manowitz and Gralak consented to the issuance of SL's audit report that contained an unqualified opinion, which was dual-dated as of September 22, 2016, as to Notes 11 and 14 (which included the new disclosures regarding related party transactions) and March 28, 2016, as to the remainder of the financial statements, and was incorporated in QFOR's 2015 Form 10-K/A filed on September 22, 2016.

13. SL resigned as QFOR's auditor on October 21, 2016, citing concerns about the firm's ability to rely on management's representations. Thondavadi and Desai were arrested on federal charges including wire fraud and certifying false financial reports on November 30, 2016, and resigned from QFOR shortly thereafter. After the arrests, QFOR filed a Form 8-K in December 2016 announcing that the Board of Directors had concluded that QFOR's financial statements for the previous three years did not fairly present the financial condition of the company, required restatement, and should no longer be relied upon. No restatement occurred, and QFOR has since filed for bankruptcy and been liquidated. On June 29, 2017, the Commission filed a civil injunctive action against QFOR, Thondavadi, and Desai alleging multiple violations of the securities laws.

### **SL Failed to Perform Procedures to Identify and Comply with Relevant Audit Standards in Connection with Related Party Transactions**

14. Section 10A(a)(2) of the Exchange Act requires that the audit of the financial statements of an issuer by a registered public accounting firm shall include procedures designed to identify related party transactions that are material to the financial statements or otherwise require disclosure therein.

15. PCAOB Standard AU Section 334, *Related Parties* ("AU § 334"),<sup>4</sup> which applies to the 2013 and 2014 Audits, provides guidance on procedures to consider in identifying related party relationships and transactions and to satisfy the auditor concerning the required disclosure of related party transactions. AU § 334.07 provides that the auditor should place "emphasis on testing material transactions with parties he knows are related to the reporting entity," and also provides for specific audit procedures that may be included to determine the existence of related party relationships that are not clearly evident.

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<sup>4</sup> References to PCAOB standards refer to the standards in effect at the time of the relevant conduct.

16. AU § 334.09 requires an auditor to test related party transactions by “obtaining and evaluating sufficient appropriate evidential matter” which “should extend beyond inquiry of management.” The standard also makes clear that, when necessary to fully understand a particular transaction, the auditor should consider “inspect[ing] evidence in possession of the other party or parties to the transaction” and “confirm[ing] or discuss[ing] significant information with intermediaries, such as banks, guarantors, agents, or attorneys to obtain a better understanding.” AU § 334.10. Additionally, the auditor should consider procedures to “obtain information about the financial capability of the other party or parties to the transaction” when there are “material uncollected balances, guarantees, and other obligations.” *Id.*

17. Finally, AU § 334.11 requires that, for each material related party transaction, the auditor should consider whether the auditor has obtained sufficient appropriate evidential matter to understand the relationship of the parties and the effects of the transaction on the financial statements. The auditor should evaluate all of the available information and be satisfied on the basis of the auditor’s professional judgment that the transaction is adequately disclosed in the financial statements.

18. PCAOB Auditing Standard No. 18, *Related Parties* (“AS No. 18”), which applies to the 2015 Form 10-K/A Audit, sets forth procedures the auditor should perform to “obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.” AS No. 18.2. Among other things, the standard requires the auditor to “identify[] and assess[] the risks of material misstatement associated with related parties,” AS No. 18.10; perform various procedures for each related party transaction required to be disclosed or determined to be a significant risk, including evaluating the terms of the transaction and the circumstances under which it was authorized, AS No. 18.12; “evaluate whether the company has properly identified” its related parties and transactions with related parties, AS No. 18.14; and “evaluate whether related party transactions have been properly accounted for and disclosed in the financial statements,” AS No. 18.17.

19. AS No. 18 provides that, when evaluating whether the company has properly identified related parties and related party transactions, the auditor’s responsibility requires “more than assessing the process used by the company,” and “requires the auditor to perform procedures to test the accuracy and completeness” of the company’s identification of related parties and related party transactions. AS No. 18.14. The standard provides that, if the auditor identifies information that indicates that previously undisclosed related parties might exist, “the auditor should perform the procedures necessary to determine whether previously undisclosed relationships or transactions with related parties, in fact, exist,” and these procedures “should extend beyond inquiry of management.” AS No. 18.15. Furthermore, the standard outlines a number of procedures the auditor should perform if the auditor determines that a previously undisclosed related party or related party transaction does exist, including, among other things, evaluating why it was previously undisclosed and how this bears on the auditor’s ability to rely on management’s representations relating to other aspects of the financial statements and evaluating the implications for the audit if the nondisclosure indicates that fraud or an illegal act may have occurred. AS No. 18.16.

20. Finally, AS No. 18 provides that, if the financial statements state that related party transactions were conducted on an arm's-length basis, the auditor should determine "whether evidence supports or contradicts management's assertion," and express a qualified or adverse opinion if the auditor "is unable to obtain sufficient appropriate audit evidence to substantiate management's assertion." AS No. 18.18.

21. SL did not perform sufficient procedures designed to identify related party transactions in connection with the 2013 and 2015 Form 10-K/A Audits. QFOR was involved in transactions with certain significant shareholders, purported vendors, and customers that should have been disclosed as related party transactions. These related party entities included, among others: Global Technology Ventures Corp. ("Global Technology"); Congruent Ventures LLC and Congruent Ventures Ltd. (collectively, "Congruent"); Stonegate Holdings, Inc. ("Stonegate"); Core Information Technology Solutions, Inc. ("CITS"); and Surrex Solutions Corp. ("Surrex"). In its 2015 Form 10-K/A, QFOR made disclosures regarding related party transactions with CITS, Surrex, and a vendor owned by Stonegate. However, the 2015 Form 10-K/A disclosures were incomplete and materially misleading, and QFOR did not disclose other material related party transactions with Stonegate, Global Technology, or Congruent in its 2014 Form 10-K or 2015 Form 10-K/A.

22. Prior to the 2013 Audit, SL, in workpapers prepared and/or reviewed by Manowitz and Vreeland, identified Stonegate and an affiliated entity as related parties of QFOR. The engagement team also prepared and/or reviewed workpapers indicating that Stonegate and an affiliated entity collectively owned 14.8% of QFOR's common stock as of year-end 2013 and 13% of QFOR's common stock as of year-end 2014. The engagement team was aware that QFOR had entered into two material transactions with Stonegate during 2013: the conversion of a \$1.1 million debt to equity and the purported assignment of a legal judgment to Stonegate in exchange for approximately 1.8 million shares of QFOR common stock. These transactions were not disclosed as related party transactions in the 2014 Form 10-K. SL failed to identify these transactions as related party transactions and failed to conduct procedures to evaluate whether they were adequately disclosed.

23. SL's 2013 Audit workpapers also contained documents indicating that the judgment that QFOR purportedly assigned to Stonegate was jointly owed by QFOR, Thondavadi, and Desai. SL failed to identify this as a related party transaction, failed to identify this as a significant unusual transaction, failed to obtain sufficient appropriate audit evidence to substantiate the transaction and understand its business rationale, failed to consider whether Stonegate had the capability to satisfy the judgment, and failed to evaluate whether the transaction was adequately disclosed.

24. The 2015 Form 10-K/A disclosed that QFOR's transactions with CITS, Surrex, and a significant vendor were related party transactions. Among other things, the 2015 Form 10-K/A stated that the vendor was owned by Stonegate, that Thondavadi and Desai had guaranteed certain obligations of CITS, and that Thondavadi held signatory authority on CITS and Surrex bank accounts. The 2015 Form 10-K/A also stated that Thondavadi and Desai had provided management and consulting services to an affiliate of CITS and received compensation for those services, which was paid to Global Technology and Congruent. Global Technology and Congruent were described as inactive entities owned by Thondavadi and Desai, respectively. The

related party relationships disclosed in the 2015 Form 10-K/A were all described as being structured on an arm's-length basis.

25. SL failed to obtain sufficient appropriate audit evidence to support the disclosures contained in the 2015 Form 10-K/A regarding the relationship between QFOR and Surrex and CITS. The engagement team did not obtain any documentary evidence regarding Thondavadi's signatory authority over Surrex and CITS bank accounts or the nature and terms of the consulting services Thondavadi and Desai provided to the affiliate of CITS. The engagement team requested copies of Thondavadi's and Desai's consulting agreements and tax records regarding their compensation for the purported consulting services, but Thondavadi told the engagement team that QFOR did not have any such records. The engagement team relied solely upon management representations regarding the nature of the services Thondavadi and Desai performed and the amounts of the payments they received in lieu of obtaining any documentary evidence.

26. SL also failed to evaluate QFOR's assertions that its relationships with the vendor, CITS, and Surrex were structured on an arm's-length basis. SL's workpapers for the 2015 Form 10-K/A Audit do not contain any documentation regarding the terms of the transactions. Despite failing to obtain sufficient appropriate audit evidence to substantiate these assertions, SL issued an unqualified opinion on the 2015 Form 10-K/A.

27. Despite newly learning of previously undisclosed related party transactions, SL failed to evaluate whether QFOR had properly identified and disclosed its related parties and relationships and transactions with related parties, as required by AS Nos. 18.14-16. In addition to the transactions that were disclosed in the 2015 Form 10-K/A, the engagement team learned of other undisclosed related party transactions during the course of the 2015 Form 10-K/A Audit, including a loan from Global Technology to QFOR that was issued and converted to QFOR common stock during 2013. SL's 2015 Form 10-K/A workpapers included a copy of the 2013 promissory note issued to Global Technology, which included a note added by Manowitz reading: "Entity owned by Nandu – related party not disclosed prior." The engagement team did not perform any procedures to evaluate why this past related party transaction was not previously disclosed or whether it should be disclosed either in the 2015 Form 10-K/A or through an amendment of prior filings. Additionally, after being notified once more that Stonegate was a related party of QFOR, the engagement team did not evaluate whether past transactions with Stonegate should be disclosed as related party transactions.

28. During the 2015 Form 10-K/A Audit, SL also failed to undertake any procedures, beyond inquiry of management or its agents, to identify whether other previously undisclosed relationships or transactions with related parties existed, as required by AS No. 18.15. SL's workpapers for prior periods contained a number of other documents evidencing past related party transactions between QFOR and Global Technology and Congruent, including documents regarding the conversion of the 2013 Global Technology debt to equity, a 2015 promissory note issued to Global Technology, and general ledgers listing transactions with Global Technology and Congruent in 2014 and 2015. The engagement team failed to perform any procedures to determine whether QFOR had previously entered into transactions with Global Technology or Congruent.

## **SL Failed to Obtain Sufficient Appropriate Audit Evidence**

29. PCAOB Auditing Standard No. 15, *Audit Evidence* (“AS No. 15”), requires the auditor to “plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.” AS No. 15.04. To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor’s opinion is based. *See* AS No. 15.6. The reliability of evidence depends on its nature and source, and the circumstances under which it is obtained. Evidence obtained directly by the auditor and from a knowledgeable independent third party is more reliable than evidence obtained directly from the company. *See* AS No. 15.8.

30. PCAOB Standard AU Section 330, *The Confirmation Process* (“AU § 330”), provides guidance about the audit confirmation process, including the relationship of confirmation procedures to the assessment of audit risk and the performance of alternative procedures when responses to confirmation requests are not received. AU § 330.28 requires an auditor to maintain control over confirmation requests and responses, which means establishing direct communication between the intended recipient and the auditor to minimize the possibility that the results will be biased because of interception and alteration. When an auditor does not receive a response to certain confirmations, AU § 330.31 provides that the auditor should apply alternative procedures to obtain the evidence necessary to reduce audit risk to an acceptably low level.

31. Further, PCAOB Standard AU Section 333, *Management Representations* (“AU § 333”), states that management representations “are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit,” AU § 333.02, and requires conflicts between management representations and other audit evidence to be investigated, AU § 333.04.

32. PCAOB Standard AU Section 337, *Inquiry of a Client’s Lawyer Concerning Litigation, Claims, and Assessments* (“AU § 337”), provides guidance on procedures an auditor should consider for identifying and evaluating the accounting and reporting for litigation, claims, and assessments. For all material litigation, claims, and assessments, AU § 337.06 requires an auditor to “request the client’s management to send a letter of inquiry to those lawyers with whom management consulted concerning” such matters.

33. In connection with the 2013 and 2014 Audits, SL failed to obtain sufficient appropriate audit evidence to support SL’s unqualified opinion included in the 2014 Form 10-K, particularly regarding QFOR’s reported liabilities. Much of the deficient testing fell within audit areas that SL determined were high-risk areas and identified in its planning workpapers as requiring “extended procedures.”

34. SL failed to obtain sufficient appropriate audit evidence regarding a \$1.1 million debt to a hedge fund (“Lender A”) that was purportedly converted to equity in 2013. The engagement team obtained extensive documentation of the convertible debenture giving rise to the liability. However, the engagement team’s testing of the purported equity conversion, which occurred only weeks later and did not satisfy the terms of the convertible debenture, was inadequate. For example, the engagement team did not obtain any documentation signed by Lender A consenting to or otherwise substantiating the conversion or confirming the liability had

been extinguished as of year-end 2013. In reality, Lender A had not consented to convert its debt to equity in 2013, and a liability of least \$885,045 was still owed to Lender A as of December 31, 2013.

35. SL also failed to obtain sufficient appropriate audit evidence regarding a debt to an entity (“Lender B”). In documents provided by QFOR management to the engagement team, SL learned that, during 2013, QFOR had made approximately \$700,000 in payments on the debt and converted \$2 million to equity, leaving a liability of approximately \$3.1 million as of year-end 2013. In reality, QFOR did not make any payments to Lender B during 2013, and the purported loan payments were actually misappropriated by Thondavadi and Desai. The engagement team did not obtain any documentation signed by Lender B authorizing the purported debt conversion or substantiating the balance due at year-end 2013. The engagement team also did not conduct any testing of the purported debt payments to Lender B in 2013. For example, had the engagement team traced these payments to underlying transaction support from QFOR’s bank, it would have discovered that Lender B was not the true recipient of the funds.

36. SL failed to adhere to the procedures set forth in AU § 330 in connection with the testing of the Lender A and Lender B liabilities, as well as a material liability owed to an individual. After receiving no response to initial debt confirmations sent to Lender A, Lender B, and the individual, the engagement team failed to either follow up with a second request or apply alternate procedures to reduce the audit risk to an acceptably low level, as required under AU §§ 330.30-31.

37. The 2014 Form 10-K contained material misrepresentations and omissions regarding the resolution of a breach of contract suit filed by a New York-based lender (“Plaintiff A”). The 2014 Form 10-K reported a \$692,000 expense for “litigation settlement” in 2013, and the notes to the financial statements included a disclosure that the lawsuit was settled for 1,870,270 shares of QFOR stock valued at \$692,000. QFOR told SL that, rather than issuing the stock to Plaintiff A, QFOR had assigned the obligation it owed Plaintiff A to Stonegate in exchange for 1,870,270 shares of QFOR common stock. Though QFOR did issue the stock to Stonegate, Stonegate never made any payments toward the settlement, and Plaintiff A did not consent to the assignment of the liability owed to it. Instead, QFOR, Thondavadi, Desai, and a third individual entered into a settlement agreement with Plaintiff A in December 2013. Between December 2013 and March 2014, QFOR paid approximately \$1.8 million pursuant to the settlement agreement, largely through a series of wire transfers to Plaintiff A’s lawyers (“Law Firm A”). QFOR falsely recorded many of these wire transfers as payments related to acquisitions completed earlier in 2013. As of year-end 2013, the outstanding liability on the settlement agreement was \$1.25 million, which was not reported on QFOR’s balance sheet in the 2014 Form 10-K.

38. SL failed to obtain sufficient appropriate audit evidence regarding the liability owed to Plaintiff A. The engagement team failed to obtain a copy of the legal judgment, a settlement agreement or other documentation signed by Plaintiff A, or any other evidence of the size of the liability owed to Plaintiff A. It also failed to obtain any evidence that Plaintiff A consented to the purported assignment to Stonegate, that Stonegate had performed under the purported assignment, or that the liability owed to Plaintiff A had been extinguished. The engagement team also failed to identify the law firm that represented QFOR in the Plaintiff A litigation and did not request that QFOR management send a letter of inquiry to that law firm.

39. SL failed to obtain sufficient appropriate audit evidence in other areas. While performing journal entry testing for the 2014 Audit, the engagement team examined a journal entry for a \$445,000 payment to Law Firm A. It did not obtain any evidence, aside from a representation by management, regarding the purpose of this transaction.

40. Additionally, while testing earnouts associated with acquisitions that took place in 2013, the engagement team examined various wire transfers that were recorded as earnouts but actually sent to Law Firm A in payment of the Plaintiff A settlement. Based on the supporting schedules included in the workpapers: (1) two of the entities that received earnout payments had not met the revenue targets entitling them to earnout payments; and (2) the earnout payments were made piecemeal throughout the quarters, rather than in lump sum at the end of each quarter. Both of these factors should have prompted the engagement team to further scrutinize the relevant payments, but it failed to obtain sufficient appropriate audit evidence to support the recorded earnout payments. Many of the recorded earnout payments were made by wire transfer, and the engagement team tested them by tracing them to the bank statements. However, the bank statements did not provide any information regarding the counterparty to wire transfers. Rather than obtaining wire details, the engagement team relied solely on bank statement entries reading “Outgoing Wire Transfer” as evidence that the earnout payments were made.

41. SL failed to obtain sufficient appropriate audit evidence regarding payroll tax liabilities assumed in connection with an acquisition that took place in 2013. The engagement team failed to obtain sufficient evidence to support the original accrual recorded for assumed payroll tax liabilities, which was not consistent with the amount of assumed liabilities stated in the purported asset purchase agreement. The engagement team obtained schedules from QFOR listing purported payments on the tax liabilities, but did not trace them to any transaction support. After noting a material remaining balance for the accrual as of year-end 2014, the engagement team relied solely on management’s representation that this balance represented accounts payable incorrectly included in the tax payable, without performing any procedures to test that assertion. The engagement team also did not obtain documentation from the taxing authorities confirming that the liabilities had been extinguished. In reality, as of year-end 2014, more than \$500,000 in payroll tax liability remained outstanding and was not reported as a liability in the 2014 Form 10-K.

42. As discussed in paragraphs 24 to 28, SL failed to obtain sufficient appropriate audit evidence regarding the related party transaction disclosures contained in the 2015 Form 10-K/A. SL also inappropriately relied upon management’s representations, despite the engagement team’s awareness that those representations conflicted with prior representations made by management regarding their receipt of compensation.

### **SL Failed to Conduct Appropriate Procedures to Obtain Reasonable Assurance that the Financial Statements were Free of Material Misstatements Caused by Fraud**

43. PCAOB Standard AU Section 316, *Consideration of Fraud in a Financial Statement Audit* (AU § 316), requires an auditor to perform procedures to address the risk of fraud in a financial statement audit, including those fraud risks specifically arising from management override of internal controls. The standard requires an auditor to examine journal entries “for evidence of possible material misstatement due to fraud.” AU § 316.58. The auditor

should use professional judgment in determining the nature and extent of journal entry testing, but “the auditor’s procedures should include selecting from the general ledger journal entries to be tested and examining support for those items.” AU § 316.61.

44. Additionally, AU § 316, as in effect during the 2013 and 2014 Audits, requires an auditor to evaluate significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. The auditor should gain an understanding of the business purpose of each such transaction and consider whether the rationale for the transaction suggests that it may have been entered into for fraudulent purposes. AU § 316.66. When evaluating the business rationale for the transaction, an auditor should consider whether the transaction involves previously unidentified related parties or parties that do not have the ability to support the transaction without assistance from the entity under audit. AU § 316.67.

45. During the 2013 and 2014 Audits, SL failed to perform appropriate procedures to obtain reasonable assurance that the financial statements were free of material misstatements caused by fraud. It failed to appropriately perform journal entry testing, and failed to evaluate significant unusual transactions, including a transaction with Stonegate, an undisclosed related party.

46. Pursuant to PCAOB Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* (“AS No. 12”), the auditor is required to identify the risk of management override of controls as a fraud risk. AS No. 12.69. SL, through Manowitz and Vreeland, identified management override of controls as a significant risk while planning the 2013 and 2014 Audits, yet it failed to properly perform journal entry testing, one of the required procedures to address this risk. As discussed in paragraph 39, the engagement team examined a journal entry for a \$445,000 payment to Law Firm A while performing journal entry testing for the 2014 Audit. The only procedure the engagement team performed to test this journal entry was to ask Thondavadi about the purpose of the payment. Thondavadi told the engagement team that it related to an acquisition that took place in 2013, and the engagement team relied on this representation without performing any procedures to verify it. The engagement team did not obtain any additional evidence of the purpose of the payment, nor did it tie the payment to other workpapers in SL’s possession testing acquisition-related payments.

47. SL also failed to identify the assignment of the Plaintiff A judgment to Stonegate, an entity the engagement team had identified in planning workpapers as a related party, as a significant unusual transaction, and evaluate whether it may have been entered into to engage in fraudulent financial reporting. The transaction was outside the normal course of business for QFOR, material, and completed near year-end 2013. The engagement team failed to obtain an understanding of the substance of the transaction, particularly whether the purported assignment effectively satisfied the liability owed to Plaintiff A. The engagement team also failed to identify it as a transaction with a related party.

48. SL also failed to identify purported settlements of earnout obligations that took place in December 2013 as significant unusual transactions and evaluate whether they may have been entered into to engage in fraudulent financial reporting or conceal misappropriation. The earnout settlements were outside the normal course of business for QFOR, material, and completed as of December 31, 2013. They had the effect of materially increasing QFOR’s 2013

net income while also reducing its liabilities. The engagement team failed to obtain a full understanding of the transactions, including the business rationale for QFOR making substantial payments to settle contingent obligations to two entities even though the acquired business units had never met the revenue targets entitling them to earnout payments.

### **SL Failed to Conduct Appropriate Procedures upon the Subsequent Discovery of Facts Existing at the Date of a Previous Audit Report**

49. PCAOB Standard AU Section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* ("AU § 561"), sets forth procedures the auditor should follow when the auditor becomes aware that facts may have existed at the date of a prior audit report that might have affected the report if the auditor had been aware of such facts. AU § 561.04 requires that, when an auditor becomes aware of information that relates to financial statements upon which the auditor previously issued a report, and which the auditor would have investigated if the auditor had been aware of it during the audit, the auditor should, "as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of his report." Upon determining that the information is reliable and existed at the date of the auditor's report, the auditor is required to undertake certain procedures, including evaluating whether the information would have affected the audit report if it had been known but not reflected in the financial statements, evaluating whether there are persons likely to rely on the financial statements, and advising the client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements. AU §§ 561.05-.06.

50. During the 2Q2016 Review, SL failed to conduct appropriate procedures after being provided with additional information relating to the assignment of the Plaintiff A liability that was previously disclosed in the 2014 Form 10-K. During the planning for the review, QFOR informed the engagement team that it had cancelled the approximately 1.8 million shares previously issued to Stonegate because Stonegate had not performed on the assignment. QFOR provided the engagement team with a memorandum containing extensive new material information that was inconsistent with the disclosures contained in the 2014 Form 10-K related to the resolution of the Plaintiff A lawsuit. Among other things, the memorandum stated that Plaintiff A received a judgment that included reimbursement of legal fees and that QFOR actually ended up paying the judgment and legal fees rather than satisfying the balances due through the issuance of stock. The memorandum did not specify the amount of the legal fees or provide any information on when or how QFOR paid the judgment and legal fees. The engagement team did not perform any procedures to evaluate the value of the underlying liability to Plaintiff A; to determine whether, when, or how the liability to Plaintiff A had been extinguished; or to evaluate or assess the impact of the newly discovered facts on prior period financial statements and disclosures.

51. SL also failed to conduct appropriate procedures after learning that a 2013 loan from Global Technology to QFOR was a related party transaction during the 2015 Form 10-K/A Audit. Despite noting that the loan was a previously undisclosed related party transaction in a workpaper, the engagement team did not perform any procedures to consider whether this information would have affected SL's report on the 2013 financial statements or whether the information should be disclosed.

## **SL Failed to Conduct Appropriate Procedures in Connection with a Review of Interim Financial Information**

52. PCAOB Standard AU Section 722, *Interim Financial Information* (“AU § 722”), provides that, if “the accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles in all material respects, the accountant should make additional inquiries or perform other procedures that the accountant considers appropriate to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information.” AU § 722.22. Additionally, “if information comes to the accountant’s attention that leads him or her to question whether the interim financial information departs from generally accepted accounting principles with respect to litigation, claims, or assessments,” it may be appropriate to make an inquiry of the company’s legal counsel. AU § 722.20.

53. SL failed to conduct appropriate procedures after being provided with additional information regarding the assignment of the Plaintiff A liability to Stonegate during the 2Q2016 Review. After learning that Stonegate had not satisfied the Plaintiff A liability and being informed that QFOR had paid it at some unspecified time, the engagement team had sufficient information to question whether the interim financial information was in conformity with generally accepted accounting principles (“GAAP”) in all material respects. The engagement team failed to make additional inquiries or perform procedures to determine whether, when, and how the liability to Plaintiff A had been extinguished, and thus did not have a sufficient basis to communicate whether it was aware of any material modifications that should be made to the interim financial information.

## **SL Failed to Properly Plan the Audit and Assess and Respond to Risks of Material Misstatement**

54. PCAOB Auditing Standard No. 9, *Audit Planning* (“AS No. 9”), requires the auditor to properly plan the audit. The standard provides that planning is “a continual and iterative process,” AS No. 9.5, and requires the auditor to modify the audit strategy and plan as necessary if circumstances change significantly during the course of the audit, including due to the discovery of a previously unidentified risk of material misstatement, AS No. 9.15.

55. PCAOB Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* (“AS No. 12”), requires the auditor to “perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud.” AS No. 12.4. The standard provides that risk assessment should continue throughout the audit, and that the auditor should “revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments” when the auditor obtains evidence “that contradicts the audit evidence on which the auditor originally based his or her risk assessment.” AS No. 12.74.

56. PCAOB Auditing Standard No. 13, *The Auditor’s Responses to the Risks of Material Misstatement* (“AS No. 13”), requires the auditor when responding to the assessed risks of material misstatement, particularly fraud risks, to apply professional skepticism in gathering and evaluating audit evidence. Examples include: (a) modifying the planned audit procedures to

obtain more reliable evidence regarding relevant assertions, and (b) obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters. AS No. 13.7.

57. SL failed to properly plan the 2015 Form 10-K/A Audit or perform sufficient risk assessment procedures. The engagement team should have recognized that the newly disclosed related party transactions constituted a significant change in circumstances from the 2015 Audit and revealed previously unidentified risks of material misstatement. Additionally, the engagement team was aware that the three newly disclosed related parties were QFOR's most significant vendor and QFOR's second and third largest customers. The engagement team was also aware that some of the information provided by management during the 2015 Form 10-K/A Audit, particularly regarding management's receipt of compensation for consulting services to an affiliate of CITS, was inconsistent with prior management representations. Despite the inconsistencies in management's representations and the significance of the newly disclosed related parties to QFOR's business, the engagement team did not engage in any new risk assessment or planning activities in connection with the 2015 Form 10-K/A Audit.

### **SL Failed to Conduct Proper Engagement Quality Reviews**

58. PCAOB Audit Standard 7, *Engagement Quality Review* ("AS No. 7"), requires an EQR conducting a review of an engagement to "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 No. 7.2. For engagement quality reviews of both audits and reviews of interim financial information, the EQR should "evaluate" significant judgments as to planning, including consideration of "risks identified in connection with the firm's client acceptance and retention process" and the company's "recent significant activities." AS Nos. 7.9-10 (audits), 7.14-15 (reviews). Additionally, the EQR should "evaluate whether the engagement documentation" reviewed in connection with required procedures "[s]upports the conclusions reached by the engagement team with respect to the matters reviewed." AS Nos. 7.11 (audits), 7.16 (reviews).

59. If the EQR becomes aware of a significant engagement deficiency, including that the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, he or she cannot provide concurring approval of issuance. AS Nos. 7.12 (audits), 7.17 (reviews). For an audit, a significant engagement deficiency includes the failure to obtain sufficient appropriate evidence in accordance with PCAOB standards. AS No. 7.12. For a review of interim financial information, a significant engagement deficiency includes a failure to perform interim review procedures necessary in the circumstances of the engagement. AS No. 7.17.

60. SL, through Galak, failed to perform an adequate engagement quality review in connection with the 2Q2016 Review. The cancellation of the shares issued to Stonegate in connection with the Plaintiff A lawsuit was identified as a recent significant activity, and Galak reviewed the workpapers related to that transaction. However, he failed to recognize that the workpapers did not support the conclusions reached by the engagement team regarding that transaction or that the engagement team had failed to perform necessary procedures after receiving information that should have led them to believe that the interim financial information may not have been presented in conformity with GAAP.

61. SL, through Galak, also failed to perform an adequate engagement quality review in connection with the 2015 Form 10-K/A Audit. First, the engagement team did not perform any planning or risk assessment specific to the 2015 Form 10-K/A Audit, and Galak did not review any of the planning or risk assessment documentation associated with the 2015 Audit. Therefore, Galak failed to evaluate the significant judgments related to engagement planning or the engagement team’s assessment of, and audit responses to, significant risks, as required by AS No. 7.10.

62. Additionally, Galak provided concurring approval of the issuance of the audit report on the 2015 Form 10-K/A Audit despite the fact that, based on the workpapers he reviewed, he should have been aware that a significant engagement deficiency existed—namely, the failure to obtain sufficient appropriate audit evidence supporting the accuracy and completeness of the company’s disclosures regarding related party transactions. Galak reviewed nearly all of the workpapers related to the testing of the new disclosures regarding related party transactions, including the copy of the 2013 promissory note to Global Technology. However, Galak failed to recognize that the workpapers did not support the audit team’s conclusions that QFOR’s related party transactions were adequately tested and disclosed.

### **SL Failed to Exercise Due Professional Care and Professional Skepticism**

63. PCAOB Standard AU Section 230, *Due Professional Care in the Performance of Work* (“AU § 230”), requires an auditor to exercise due professional care throughout the audit. Under this standard, an auditor “should possess ‘the degree of skill commonly possessed’ by other auditors and should exercise it with ‘reasonable care and diligence.’” AU § 230.05. Due professional care also requires that the auditor exercise professional skepticism, which is “an attitude that includes a questioning mind and a critical assessment of audit evidence.” AU § 230.07. An auditor is required to “consider the competency and sufficiency of the evidence,” AU § 230.08, and “should not be satisfied with less than persuasive evidence because of a belief that management is honest,” AU § 230.09.

64. SL failed to exercise due professional care and professional skepticism in connection with the numerous audit failures described above during the 2013 Audit, 2014 Audit, 2Q2016 Review, and 2015 Form 10-K/A Audit.

65. SL, through Vreeland, also failed to exercise due professional care while performing the search for unrecorded liabilities during the 2013 Audit. Nine out of twenty-six payments that fell within the testing parameters were erroneously excluded from testing. The excluded payments included three of the Plaintiff A settlement payments (including a \$445,000 payment to Law Firm A), as well as a settlement payment for another undisclosed lawsuit.

### **SL’s Policies and Procedures were Deficient**

66. PCAOB Standard QC Section 20, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice* (“QC § 20”), requires a CPA firm to have a system of quality control for its auditing practice. The standard requires the firm to adopt policies and procedures that provide the firm with reasonable assurance that “the likelihood of association with a client whose management lacks integrity is minimized,” QC § 20.14; “the firm . . . appropriately

considers the risks associated with providing professional services in the particular circumstances,” QC § 20.15; and “the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality,” QC § 20.17. Firm policies and procedures should also provide reasonable assurance that the policies and procedures established for the elements of quality control described in the standard are “suitably designed and are being effectively applied.” QC § 20.20; *see also* AU § 161. SL failed to adhere to QC § 20 in several respects.

67. In 2014, SL hired Galak as Director of Quality Control in response to a peer review that found that SL’s system of quality control was not suitably designed or sufficiently complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Galak, along with SL’s Managing Partner, was responsible for administering and monitoring SL’s system of quality control. However, Galak had limited experience conducting public company audits, and SL’s Managing Partner had no public company audit experience. Galak and SL’s Managing Partner lacked the experience and expertise necessary to provide reasonable assurance that SL complied with the requirements of QC § 20.

68. SL’s policies and procedures regarding engagement acceptance and continuance were deficient because they placed the ultimate authority for decisions on engagement acceptance and resignation, as well as engagement staffing, with SL’s Managing Partner, who lacked the experience and expertise necessary to make those decisions.

69. SL failed to adopt and implement adequate policies and procedures regarding audit planning and risk assessment. Specifically, SL’s quality control document lacked policies and procedures addressing the need to engage in planning and risk assessment procedures throughout the course of an engagement or to modify engagement strategy to respond to changes in risk assessment and previously unidentified risks of material misstatement.

70. SL failed to adopt and implement adequate policies and procedures governing supervision, review, and approval. SL’s quality control document did not provide guidance on supervision and review that addressed engagements staffed by two co-equal principals, as was the case with most of the QFOR engagements. This contributed to a lack of clear lines of responsibility for the overall conduct of the engagements and an overly deferential review by the co-engagement principals of each other’s work.

71. SL also failed to adequately monitor the design and application of its system of quality control. Galak, in the exercise of his monitoring functions as Director of Quality Control, reviewed the workpaper binder at the conclusion of each attest engagement to provide reasonable assurance that it included all workpapers required by the firm’s quality control document. He knew or should have known that the engagement team had not performed the engagement acceptance and continuance, planning, and risk assessment procedures required by the firm’s quality control document in connection with the 2015 Form 10-K/A Audit, yet he took no action.

72. Additionally, in the exercise of his monitoring functions as Director of Quality Control, for every audit engagement, Galak reviewed and maintained copies of workpapers that, pursuant to the firm’s quality control document, the engagement partner or engagement principal

was required to sign to document his or her approval of the release of an audit report. These workpapers were incomplete for each of the QFOR audit engagements. Gralak knew or should have known that the engagement team had not documented the engagement principal's approval of the release of the audit report for any of the QFOR audits, as required by the firm's quality control document, yet he took no action.

## VIOLATIONS

73. Section 10A(a)(2) of the Exchange Act requires each audit to include procedures designed to identify related party transactions that are material to the financial statements or otherwise require disclosure therein. No showing of scienter is necessary to establish a violation of Section 10A of the Exchange Act. As a result of the conduct described above, SL willfully violated Section 10A(a)(2) of the Exchange Act.

74. 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" ("GAAS"). "[R]eferences in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission." See SEC Release No. 34-49708 (May 14, 2004). No showing of scienter is necessary to establish a violation of Rule 2-02(b)(1) of Regulation S-X. As a result of the conduct described above, SL willfully violated Regulation S-X Rule 2-02(b)(1) when SL issued audit reports stating that it had conducted its audits in accordance with PCAOB standards when it had not.

75. Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice provide, in part, that the Commission may deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission "[t]o have willfully violated, or willfully aided and abetted the violation of, any provision of the Federal securities laws or the rules and regulations thereunder." Through the conduct described above, SL willfully violated 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.

76. Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice provide, in part, that the Commission may 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. With respect to persons licensed to practice as accountants, "improper professional conduct" includes "intentional or knowing conduct, including reckless conduct that results in a violation of applicable professional standards." Rule 102(e)(1)(iv)(A). In addition, "improper professional conduct" includes either of the following two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted; or (2) 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. Rule 102(e)(1)(iv)(B). Through the conduct described above, SL 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.

### III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. Whether, pursuant to Section 21C of the Exchange Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X;

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 21C of the Exchange Act including, but not limited to, disgorgement and civil penalties pursuant to Section 21B of the Exchange Act; and

D. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 4C of the Exchange Act and Section 102(e) of the Commission's Rules of Practice.

### IV.

IT IS ORDERED that a public hearing before the Commission for the purposes of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed by further order of the Commission, pursuant to Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220(b) of the Commission's Rules of Practice, 17 C.F.R. § 201.220(b).

IT IS FURTHER ORDERED that the Division of Enforcement and Respondent shall conduct a prehearing conference pursuant to Rule 221 of the Commission's Rules of Practice, 17 C.F.R. § 201.221, within fourteen (14) days of service of the Answer. The parties may meet in person or participate by telephone or other remote means; following the conference, they shall file a statement with the Office of the Secretary advising the Commission of any agreements reached at said conference. If a prehearing conference was not held, a statement shall be filed with the Office of the Secretary advising the Commission of that fact and of the efforts made to meet and confer.

If Respondent fails to file the directed Answer, or fails to appear at a hearing or conference after being duly notified, Respondent may be deemed in default and the proceedings may be determined against it upon consideration of this Order, the allegations of which may be deemed to

be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f), and 201.310.

This Order shall be served forthwith upon Respondent by any means permitted by the Commission's Rules of Practice.

Attention is called to Rule 151(b) and (c) of the Commission's Rules of Practice, 17 C.F.R. § 201.151(b) and (c), providing that when, as here, a proceeding is set before the Commission, all papers (including those listed in the following paragraph) shall be filed with the Office of the Secretary and all motions, objections, or applications will be decided by the Commission. The Commission requests that an electronic courtesy copy of each filing should be emailed to [APFilings@sec.gov](mailto:APFilings@sec.gov) in PDF text-searchable format. Any exhibits should be sent as separate attachments, not a combined PDF.

The Commission finds that it would serve the interests of justice and not result in prejudice to any party to provide, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), that notwithstanding any contrary reference in the Rules of Practice to filing with or disposition by a hearing officer, all filings, including those under Rules 210, 221, 222, 230, 231, 232, 233, and 250 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.210, 221, 222, 230, 231, 232, 233, and 250, shall be directed to and, as appropriate, decided by the Commission. This proceeding shall be deemed to be one under the 120-day timeframe specified in Rule of Practice 360(a)(2)(i), 17 C.F.R. § 201.360(a)(2)(i), for the purposes of applying Rules of Practice 233 and 250, 17 C.F.R. §§ 201.233 and 250.

The Commission finds that it would serve the interests of justice and not result in prejudice to any party to provide, pursuant to Rule 100(c) of the Commission's Rules of Practice, 17 C.F.R. § 201.100(c), that the Commission shall issue a decision on the basis of the record in this proceeding, which shall consist of the items listed at Rule 350(a) of the Commission's Rules of Practice, 17 C.F.R. § 201.350(a), and any other document or item filed with the Office of the Secretary and accepted into the record by the Commission. The provisions of Rule 351 of the Commission's Rules of Practice, 17 C.F.R. § 201.351, relating to preparation and certification of a record index by the Office of the Secretary or the hearing officer are not applicable to this proceeding.

The Commission will issue a final order resolving the proceeding after one of the following: (A) The completion of post-hearing briefing in a proceeding where the public hearing has been completed; (B) The completion of briefing on a motion for a ruling on the pleadings or a motion for summary disposition pursuant to Rule 250 of the Commission's Rules of Practice, 17 C.F.R. § 201.250, where the Commission has determined that no public hearing is necessary; or (C) The determination that a party is deemed to be in default under Rule 155 of the Commission's Rules of Practice, 17 C.F.R. § 201.155, and no public hearing is necessary.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within

the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Vanessa A. Countryman  
Secretary