

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 87159 / September 30, 2019**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4098 / September 30, 2019**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-19566**

**In the Matter of**

**MARLA P. MANOWITZ, CPA,**  
**THOMAS R. VREELAND, CPA,**  
**and**  
**KENNETH J. GRALAK, CPA,**

**Respondents.**

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

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Marla P. Manowitz, CPA (“Manowitz”), Thomas R. Vreeland, CPA (“Vreeland”), and Kenneth J. Gralak, CPA (“Gralak”), (collectively, “Respondents”) 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>

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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:

## II.

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

## III.

On the basis of this Order and Respondents’ Offers, the Commission finds<sup>3</sup> that:

### SUMMARY

1. These proceedings arise out of deficient audit and review engagements performed by Respondents Manowitz, Vreeland, and Gralak, while acting in their capacity as principals of the public accounting firm Schulman Lobel Zand Katzen Williams & Blackman, LLP a/k/a Schulman Lobel LLP (“SL”), for Quadrant 4 System Corp. (“QFOR”), a former issuer, as follows:

- 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;

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

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

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

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

- 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. Respondents failed to comply with the standards of the Public Company Accounting Oversight Board ("PCAOB") when they did not: (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 material misstatement; (7) conduct proper engagement quality reviews; and (8) exercise due professional care and professional skepticism. Additionally, Respondents aided and abetted and caused SL's violations of Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

### **RESPONDENTS**

3. **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.

4. **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. He is currently employed by a consulting firm as a field examiner and loan covenant compliance consultant. 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.

5. **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.

### **OTHER RELEVANT ENTITIES**

6. **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.<sup>4</sup>

7. **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.

## 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 thereafter engaged to perform the 2014 Audit. 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

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<sup>4</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 and Notice of Hearing against SL concerning its conduct in audit and review engagements for QFOR (Exchange Act Rel. No. 34-87157).

engagements and the issuance of the firm's report. They each focused on different audit areas but performed some review of each other's work. 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.

### **Manowitz, Vreeland, and Gralak 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>5</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.

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 he or she 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 satisfy himself or herself on the basis of his or her 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

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<sup>5</sup> References to PCAOB standards refer to the standards in effect at the time of the relevant conduct.

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 he or she 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, Manowitz and Vreeland identified Stonegate and an affiliated entity as related parties of QFOR. Manowitz and Vreeland 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. Manowitz and Vreeland were 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. Manowitz and Vreeland did not identify these transactions as related party transactions and did not conduct procedures to evaluate whether they were adequately disclosed.

23. Workpapers prepared by Manowitz and reviewed by Vreeland in connection with the 2013 Audit also contained documents indicating that the judgment that QFOR purportedly assigned to Stonegate was jointly owed by QFOR, Thondavadi, and Desai. Manowitz and Vreeland did not identify this as a related party transaction, did not identify this as a significant unusual transaction, did not obtain sufficient appropriate audit evidence to substantiate the transaction and understand its business rationale, did not consider whether Stonegate had the

capability to satisfy the judgment, and did not 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. Manowitz 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. Manowitz 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. Manowitz requested copies of Thondavadi's and Desai's consulting agreements and tax records regarding their compensation for the purported consulting services, but Thondavadi told her that QFOR did not have any such records. Manowitz 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. Manowitz also did not 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, by and through Manowitz, issued an unqualified opinion on the 2015 Form 10-K/A.

27. Despite newly learning of previously undisclosed related party transactions, Manowitz did not 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, Manowitz 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." Manowitz prepared this workpaper but 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, Manowitz did not evaluate whether past transactions with Stonegate should be disclosed as related party transactions.

28. During the 2015 Form 10-K/A Audit, Manowitz also did not 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. Manowitz did not perform any procedures to determine whether QFOR had previously entered into transactions with Global Technology or Congruent.

29. In connection with his engagement quality review of the 2015 Form 10-K/A Audit, which is discussed further in paragraphs 59-63, Gralak reviewed all of SL's workpapers relevant to the auditing of related party transactions. He did not identify the significant engagement deficiencies described above at paragraphs 24 through 28, including SL's failure to obtain sufficient appropriate audit evidence to support the disclosures regarding related party transactions. Gralak provided concurring approval of the issuance of SL's audit report that contained an unqualified opinion even though he should have been aware that SL had not performed procedures sufficient to identify and evaluate the disclosure of related party transactions material to the financial statements or required to be disclosed therein.

### **Manowitz and Vreeland Failed to Obtain Sufficient Appropriate Audit Evidence**

30. 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.

31. 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.

32. 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.

33. 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.

34. In connection with the 2013 and 2014 Audits, Manowitz and Vreeland did not 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 Manowitz and Vreeland determined were high risk areas and identified in their planning workpapers as requiring "extended procedures."

35. Manowitz and Vreeland did not 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. Manowitz obtained extensive documentation of the convertible debenture giving rise to the liability. However, her 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, Manowitz 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. Vreeland reviewed and signed off on the relevant workpapers.

36. Manowitz and Vreeland also did not 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. Manowitz did not obtain any documentation signed by Lender B authorizing the purported debt conversion or substantiating the balance due at year-end 2013. Manowitz also did not conduct any testing of the purported debt payments to Lender B in 2013. For example, had she traced these payments to underlying transaction support from QFOR's bank, she would have discovered that Lender B was not the true recipient of the funds. Vreeland reviewed and signed off on the relevant workpapers.

37. Manowitz and Vreeland did not 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, Manowitz did not 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. Vreeland reviewed and signed off on the relevant workpapers.

38. 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.

39. Manowitz and Vreeland did not obtain sufficient appropriate audit evidence regarding the liability owed to Plaintiff A. Manowitz did not 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. She also did not 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. Manowitz and Vreeland, who shared responsibility for preparing and logging letters of inquiry to law firms and responses thereto, also did not 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.

40. Manowitz and Vreeland did not obtain sufficient appropriate audit evidence in other areas. While performing journal entry testing for the 2014 Audit, Manowitz examined a journal entry for a \$445,000 payment to Law Firm A. She did not obtain any evidence, aside from a representation by management, regarding the purpose of this transaction. Vreeland reviewed and signed off on the relevant workpapers.

41. Additionally, while testing earnouts associated with acquisitions that took place in 2013, Manowitz 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 Manowitz to further scrutinize the relevant payments, but she did not obtain sufficient appropriate audit evidence to support the recorded earnout payments. Many of the recorded earnout payments were made by wire transfer, and Manowitz 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, Manowitz relied solely on bank statement entries reading "Outgoing Wire Transfer" as evidence that the earnout payments were made. Vreeland reviewed and signed off on the relevant workpapers.

42. Vreeland did not obtain sufficient appropriate audit evidence regarding payroll tax liabilities assumed in connection with an acquisition that took place in 2013. Vreeland did not 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. He obtained schedules from QFOR listing purported payments on the tax liabilities, but he did not trace them to any transaction support. Vreeland noted a material remaining balance for the accrual as of year-end 2014. He 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. Vreeland 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.

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

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

44. 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.

45. 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.

46. During the 2013 and 2014 Audits, Manowitz and Vreeland did not perform appropriate procedures to obtain reasonable assurance that the financial statements were free of material misstatements caused by fraud. They did not appropriately perform journal entry testing, and did not evaluate significant unusual transactions, including a transaction with Stonegate, an undisclosed related party.

47. 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. Manowitz and Vreeland identified

management override of controls as a significant risk while planning the 2013 and 2014 Audits, yet they failed to properly perform journal entry testing, one of the required procedures to address this risk. As discussed in paragraph 40, Manowitz 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 she performed to test this journal entry was to ask Thondavadi about the purpose of the payment. Thondavadi told her that it related to an acquisition that took place in 2013, and Manowitz relied on this representation without performing any procedures to verify it. She did not obtain any additional evidence of the purpose of the payment, and she did not tie it to other workpapers in SL's possession testing acquisition-related payments. Vreeland reviewed and signed off on Manowitz's deficient testing.

48. Manowitz and Vreeland also did not identify the assignment of the Plaintiff A judgment to Stonegate, an entity they 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. Manowitz and Vreeland did not obtain an understanding of the substance of the transaction, particularly whether the purported assignment effectively satisfied the liability owed to Plaintiff A. They also did not identify it as a transaction with a related party.

49. Manowitz and Vreeland also did not 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. Manowitz and Vreeland did not 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.

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

50. 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.

51. During the 2Q2016 Review, Manowitz did not 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 SL 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. Manowitz 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.

52. Manowitz also did not 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. Manowitz created a workpaper noting that the loan was a previously undisclosed related party transaction, but she 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.

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

53. 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.

54. Manowitz did not 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, Manowitz had sufficient information to question whether the interim financial information was in conformity with generally accepted accounting principles ("GAAP") in all material respects. Manowitz did not 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 she was aware of any material modifications that should be made to the interim financial information.

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

55. 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.

56. 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.

57. 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.

58. Manowitz did not properly plan the 2015 Form 10-K/A Audit or perform sufficient risk assessment procedures. Manowitz 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, Manowitz was aware that the three newly disclosed related parties were QFOR’s most significant vendor and QFOR’s second and third largest customers. Manowitz was also aware that some of the information provided by management during the 2015 Form 10-K/A Audit, particularly regarding their 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, Manowitz did not engage in any new risk assessment or planning activities in connection with the 2015 Form 10-K/A Audit.

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

59. 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).

60. 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.

61. Galak did not 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 did not recognize that the workpapers did not support the conclusions reached by the engagement team regarding that transaction or that the engagement team had not performed 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.

62. Galak also did not perform an adequate engagement quality review in connection with the 2015 Form 10-K/A Audit. The engagement team did not perform 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 did not 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.

63. Additionally, as discussed in paragraph 29, 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 did not recognize that the workpapers did not support the audit team’s conclusions that QFOR’s related party transactions were adequately tested and disclosed.

### **Manowitz, Vreeland, and Galak Failed to Exercise Due Professional Care and Professional Skepticism**

64. 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.

65. Manowitz and Vreeland did not exercise due professional care and professional skepticism in connection with the numerous audit failures described above during the 2013 and 2014 Audits. Similarly, Manowitz and Gralak did not exercise due professional care and professional skepticism in connection with the numerous engagement failures listed above during the 2Q2016 Review and 2015 Form 10-K/A Audit.

66. Vreeland also did not 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.

### **VIOLATIONS**

67. 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. SL, by and through Manowitz and Vreeland, conducted the 2013 Audit without including procedures which were adequately designed to identify related party transactions. Accordingly, through the conduct describe above, Manowitz and Vreeland willfully<sup>6</sup> aided and abetted and caused SL’s violations of Section 10A(a)(2) of the Exchange Act with respect to the 2013 Audit. Similarly, SL, by and through Manowitz and Gralak, conducted the 2015 Form 10-K/A Audit without including procedures which were adequately designed to identify related party transactions. Accordingly, through the conduct described above, Manowitz and Gralak willfully aided and abetted and caused SL’s violations of Section 10A(a)(2) of the Exchange Act with respect to the 2015 Form 10-K/A Audit.

68. 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. Despite Manowitz’s and Vreeland’s departures from applicable professional standards during the 2013 and 2014 Audits, SL, by and through Manowitz and Vreeland, issued an audit report stating that the 2013 and 2014 Audits had been conducted in

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<sup>6</sup> “Willfully,” for purposes of imposing relief under Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice, “means no more than that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

accordance with PCAOB standards, when they had not been. Accordingly, through the conduct described above, Manowitz and Vreeland willfully aided and abetted and caused SL's violation of Regulation S-X Rule 2-02(b)(1) when they authorized SL to issue its audit report dated August 21, 2015, stating that SL had conducted the 2013 and 2014 Audits in accordance with PCAOB standards when it had not. Similarly, despite Manowitz's and Gralak's departures from applicable professional standards during the 2015 Form 10-K/A Audit, SL, by and through Manowitz and Gralak, issued an audit report stating that the 2015 Form 10-K/A Audit had been conducted in accordance with PCAOB standards, when it had not been. Accordingly, through the conduct described above, Manowitz and Gralak willfully aided and abetted and caused SL's violation of Regulation S-X Rule 2-02(b)(1) when they authorized SL to issue its audit report dual-dated March 28, 2016, and September 22, 2016, stating that SL had conducted the 2015 Form 10-K/A Audit in accordance with PCAOB standards when it had not.

69. 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, Manowitz, Vreeland, and Gralak willfully aided and abetted SL's violations of the federal securities laws and rules and regulations thereunder within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

70. 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, Manowitz, Vreeland, and Gralak 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.

## **FINDINGS**

71. Based on the foregoing, the Commission finds that Manowitz, Vreeland, and Gralak caused, and willfully aided and abetted 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, SL's violations of Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

72. Based on the foregoing, the Commission finds that Manowitz, Vreeland, and Gralak engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

#### IV.

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

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

A. Respondents Manowitz, Vreeland, and Gralak shall cease and desist from committing or causing any violations and any future violations of Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

B. Respondent Manowitz is denied the privilege of appearing or practicing before the Commission as an accountant.

C. After three years from the date of this order, Manowitz may request that the Commission consider her reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission (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 Manowitz's work in her practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which she works or in some other acceptable manner, as long as she practices before the Commission in this capacity; and/or
2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Manowitz, or the public accounting firm with which she is associated, is registered with the Public Company Accounting

Oversight Board (“Board”) in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

- (b) Manowitz, or the registered public accounting firm with which she is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the respondent’s or the firm’s quality control system that would indicate that Manowitz will not receive appropriate supervision;
- (c) Manowitz has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and
- (d) Manowitz acknowledges her responsibility, as long as she 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, engagement quality reviews and quality control standards.

D. The Commission will consider an application by Manowitz to resume appearing or practicing before the Commission provided that her state CPA license is current and she has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission’s review may include consideration of, in addition to the matters referenced above, any other matters relating to Manowitz’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.

E. Respondent Vreeland is denied the privilege of appearing or practicing before the Commission as an accountant.

F. After two years from the date of this order, Vreeland 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 Vreeland’s work in his practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which he works

or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Vreeland, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) Vreeland, 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 Vreeland will not receive appropriate supervision;
- (c) Vreeland has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and
- (d) Vreeland 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, engagement quality reviews and quality control standards.

G. The Commission will consider an application by Vreeland 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 Vreeland'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.

H. Respondent Galak is denied the privilege of appearing or practicing before the Commission as an accountant.

I. After one year from the date of this order, Galak 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 Galak's work in his practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or
2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or
3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Galak, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) Galak, 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 Galak will not receive appropriate supervision;
- (c) Galak has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

- (d) Galak 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, engagement quality reviews and quality control standards.

J. The Commission will consider an application by Galak 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 Galak'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.

K. Respondent Manowitz shall, within 21 days of the entry of this Order, pay a civil money penalty in the amount of \$25,000 to the Securities and Exchange Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or transfer them to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

L. Respondent Vreeland shall pay a civil money penalty in the amount of \$15,000 to the Securities and Exchange Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or transfer them to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: \$2,500 to be paid within 21 days of the entry of this Order, and the remaining balance to be paid within 364 days of the entry of this Order. Payments shall be applied first to post order interest, which accrues pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-Order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

M. Respondent Gralak shall pay a civil money penalty in the amount of \$9,472 to the Securities and Exchange Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or transfer them to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: \$1,500 to be paid within 21 days of the entry of this Order, and the remaining balance to be paid within 364 days of the entry of this Order. Payments shall be applied first to post order interest, which accrues pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-Order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

N. Payments ordered in Paragraphs K through M above must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the Respondent by name as a Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Robert J. Burson, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 West Jackson Boulevard, Suite 1450, Chicago, Illinois 60604.

O. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all

purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

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

By the Commission.

Vanessa A. Countryman  
Secretary