

system of internal controls because it failed to require vouchers, expense statements, or similar documentation for the activities or services for which certain expenditures were made.

SEC v. Page Airways, Inc., et al., Civil Action
No. 78-0656 (DDC April 12, 1978)

The Commission alleged in its Complaint that Page Airways, Inc. ("Page") and six individual defendants violated, among other things, Section 13(b)(2) of the Exchange Act. The Complaint alleged that Page and the individual defendants paid in excess of \$2.5 million of the corporation's funds to officials of foreign governments, their agents, or entities controlled by them as part of their efforts to sell Gulfstream II aircraft and spare parts. The Complaint alleged that Page violated the recordkeeping requirements because it disguised the payments to government officials and other payments through false, incomplete and misleading entries in its books and records. The Complaint also alleged that Page violated the internal accounting controls provision because many expenditures were effected without adequate documentation to ensure that expenditures were made for the purposes indicated.

DIVERSION OF CORPORATE ASSETS/INSIDER SELF DEALING

SEC v. Numex Corporation, et al., Civil Action No. 83-0919 (DPC, March 30, 1983)

On March 30, 1983, the Commission filed a civil injunctive action against Numex Corporation, David Duquette, William Laskarzewski and James Duquette. The individual defendants are officers and directors of Numex. The Complaint alleges violations of the antifraud provisions of the Securities Act by each of the defendants and violations of the antifraud, reporting and recordkeeping provisions of the Exchange Act by Numex, David Duquette and Laskarzewski.

The Complaint alleged that from at least nine months prior to its registered public offering of September 1980 and June 1981, Numex maintained a bank account which was not reflected on its books and records. It is alleged that customer payments were diverted to the off-books account and ultimately transferred from the off-books account to the company by means of improperly booked transactions including related party transactions between Numex and its executive officers. The Complaint further alleged that these activities violated the terms of the company's loan agreement with its commercial lender as well as the provisions of the securities laws. It is further alleged that Numex, David Duquette and Laskarzewski concealed the existence of the off-books account from the company's independent accountants in connection with the registered public offering. It is further alleged that when the accountants came to suspect the existence of the account during the year-end audit following the public offering, Numex, David Duquette and Laskarzewski forged bank account documents and intercepted and forged confirmations sent by the accountants to the bank in order to conceal the duration and extent of use of the off-books account. The Complaint also alleges that David Duquette and Laskarzewski made material misstatements to the independent accountants concerning the off-books account and the forged documents. It is alleged that as a consequence of these transactions the company's filings with the Commission were materially false and misleading.

Simultaneous with the filing of the Complaint, the defendants consented, without admitting or denying the allegations of the Complaint, to the entry of Final Judgments of Permanent Injunction.

SEC v. El Dorado International, Inc., et al.,
Civil Action No. 81-0532 (DDC March 5, 1981)

The Commission alleged in its Complaint that Deil O. Gustafson ("Gustafson"); Roger F. Newstrom; El Dorado International, Inc. ("El Dorado"); InnTernational, Inc. ("InnTernational"); Hotel Conquistador, Inc. ("Conquistador"); Consolidated Financial Corp. ("CFC") and Jay H. Brown, Esq. violated, variously, Section 17(a) of the Securities Act and Sections 10(b), 13(a), 13(b)(2) and 14(f) of the Exchange Act. The complaint alleged that these violations occurred in connection with the takeover and operation of El Dorado by Gustafson and the other defendant corporations which he controlled. Specifically, the Complaint alleged that the defendants engaged on a scheme pursuant to which InnTernational attempted to merge with El Dorado through an exchange of InnTernational stock for El Dorado stock resulting in control of El Dorado passing to Gustafson; that Gustafson diverted \$1,960,000 of El Dorado's funds by causing an advance to himself, CFC, InnTernational and Conquistador for his benefit and the benefit of his related corporations.

SEC v. John E. Margusee et al., 80 Civil 2289,
(SDNY April 28, 1980)

The Commission filed a Complaint seeking to enjoin John E. Margusee ("Margusee") and Sheldon Lubitz ("Lubitz") from further violations of the antifraud, reporting and FCPA provisions of the Exchange Act, and for other equitable relief. The Complaint alleged that Margusee and Lubitz, officers of Atlantic Improvement Corporation ("Atlantic") diverted about \$3,200,000 in assets from Atlantic to a corporation owned by Margusee and his family. In furtherance of this scheme, the Complaint alleged that the defendants falsified Atlantic's books and records to reflect that the transfers of funds related to the purchase of commercial paper. Defendants consented to the entry of an Order of Permanent Injunction from any future violations of said provisions.

SEC v. Aminex Resources Corp., et al., Civil
Action No. 78-0140 (DDC March 9, 1978)

The Commission alleged in its Complaint that Aminex Resources Corp. ("Aminex") and two of its officers had engaged in a scheme of corporate looting which diverted corporate assets to defendants' benefit. According to the Complaint, this scheme included corporations controlled by the individual defendants billing Aminex for services which were never rendered; misappropriating the proceeds of an auto refinancing plan and the sale of a corporate boat; and paying unauthorized salaries to officers and/or directors. The Complaint also alleged that Aminex violated the internal accounting controls provision because it failed to devise a system to adequately monitor corporate transactions and dispositions.

On May 24, 1978, the individual defendants and certain corporations consented to the entry of a Final Judgement of Permanent Injunction against future violations and to ancillary relief including disgorgement of about \$1.24 million to Aminex.

In the Matter of Government Securities Management
Company Investment Advisors Act Release No. 814, issued
July 21, 1982)

The Commission instituted proceedings pursuant to Section 203(e) of the Investment Advisors Act against Government Securities Management Company ("GSMC"), an investment advisor. The Commission found, among other things, that from about March, 1981 to June 1981, GSMC, through an affiliate (Fundlink Information Services, Inc.), failed to maintain adequate accounting controls over the redemption of Fund shares through wire transfers. This failure occurred partly because: (1) wire transfer instructions were sent to Fund's bank without signatures; and (2) there were inadequate controls to ensure that the wire transfer instructions were routinely reviewed by supervisory personnel or to ensure proper segregation of assigned duties in Fundlink's accounting department. The investigation revealed that these deficiencies made possible the embezzlement of \$1.55 million from the Fund by a clerk and prevented discovery of the embezzlement. The Commission found that GSMC aided and abetted violations of Section 13(b)(2) of the Exchange Act in that through its affiliate it maintained an inadequate system of internal controls. GSMC submitted an Offer of Settlement to the Commission which the Commission accepted.

SEC v. Goldfield Deep Mines Company of Nevada, et al., Civil Action No. 83-2013 (C.D. Cal. May 3, 1983)

On April 19, 1983, after a six day evidentiary hearing, the Court entered a preliminary injunction and other ancillary relief against Goldfield Deep Mines Company of Nevada, AAA Financial Corporation of Nevada, City Continental Financial, AG, John C. Rebenstorf III, C. Orin Swain and Morton Johnson. The Order enjoins defendants from further violations of Section 17(a) of the Securities Act, Sections 10(b), 12(g) and 13(b)(2) of the Exchange Act and Rule 12b-20 thereunder, appoints a temporary receiver for Goldfield, Triple A and City Continental, freezes bank accounts and enjoins dissipation of corporate assets. In addition to the order, the Court stated that it would prepare a memorandum opinion.

At the hearing, the Commission presented evidence that City Continental, supposedly a Liechtenstein lending institution, does not exist. Over \$4.5 million of notes receivable, due from City Continental, were reported as assets on Goldfield's Forms 10 filed with the Commission and disseminated to OTC market makers in Goldstein common stock. These notes receivable, which represent over 75% of Goldfield's total assets were worthless.

Further the evidence showed that the defendants are engaged in the ongoing fraudulent offer and sale of investment contracts in the form of ownership interests in a Goldfield ore purchase program ("ore interest"). Moreover, the evidence showed that defendant Rebenstorf had removed over \$140,000 from the corporate bank accounts the day before the Temporary Restraining Order was issued and that he and his family had previously used the accounts routinely for personal expenses. Thus, in connection with both the offer and sale of ore interests and the secondary trading of Goldfield's common stock, the defendants have made misstatements and omissions of material fact regarding, among other things: the use of proceeds; the amount of assets of Goldfield; the existence of City Continental; the risks involved in purchasing Goldfield common stock or ore interests; and Goldfield's, Rebenstorf's and Swain's history of securities violations. The court also ordered a hearing for the defendants and creditors of the companies to show cause, if any, why a permanent receiver should not be appointed.

PROCEEDINGS AGAINST ACCOUNTANTS

SEC v. Joseph S. Amundsen, Civil Action No.
83-00711 (N.D. Cal. February 15, 1983)

The Commission filed a Complaint seeking injunctive relief against Joseph S. Amundsen, a C.P.A., in connection with an audit he conducted and an unqualified report he signed with respect to the financial statements of Olympic Gas & Oil, Inc. The Complaint alleged that Amundsen had failed to: (1) obtain sufficient competent, evidential matter to afford a reasonable basis for his opinion; (2) take necessary steps to test sales or costs of sales; (3) obtain written representatives of management confirming oral representations; and, (4) re-open and re-examine the audit upon the subsequent discovery of certain facts. In addition, the Complaint alleged that the financial statements for 1979 were not prepared in accordance with generally accepted accounting principles because proceeds of money market securities were included in reported sales and costs of sales causing same to be materially overstated and because certain marketable securities were valued in excess of their market prices.

Amundsen consented to the entry of the final judgment of permanent injunction without admitting or denying the allegations in the Commission's Complaint. Amundsen's consent was submitted with the understanding that an administrative proceeding pursuant to Rule 2(e), instituted by the Commission against him, would be dismissed.

In the Matter of Louis Pokat, P.A., P.C. and Louis Pokat, Securities Exchange Act Release No. 34-18976, August 18, 1982)

The Commission instituted an administrative proceeding pursuant to Rule 2(e) of the Commission's Rules of Practice against Louis Pokat Company ("the firm") and Louis Pokat ("Pokat") in connection with the firm's audits of Hermitite Corp. The Commission's investigation revealed, among other things, that Hermitite's financial statements for the fiscal years 1978, 1979 and 1980 were materially false and misleading. The Commission found that Hermitite's inventories were not valued in accordance with GAAP and that false disclosures were made regarding the basis for valuation of

the inventories. The Commission also found that the firm had failed to properly audit the areas of inventory and cash and accounts payable. In addition, the Commission found that the firm was deficient in its overall planning, supervisory and review procedures with respect to the audits. Moreover, as a result of the deficient audits, the firm did not become aware of a material embezzlement of corporate funds. The Commission found that Pokat caused audit work papers to be altered and made false reports and statements to an officer of Hermitite in connection with his investigation of the embezzlement. In addition, the Commission found that Pokat was not independent with regard to the audits and was unduly influenced by Hermitite's management.

The Commission concluded that Pokat engaged in unethical and improper professional conduct within the meaning of Rule 2(e)(1)(ii) and that Pokat and the firm violated Section 10(b) of the Exchange Act and aided and abetted violations of Sections 13(a) and 14(c) of the Exchange Act, within the meaning of Rule 2(e)(1)(iii). Respondents submitted settlement offers to the Commission consenting to the issuance of the Opinion and Order. Pokat and the firm were permanently denied the privilege of practicing before the Commission. The Order provides that after five years respondents may apply to resume practice before the Commission upon certain showings.

In the Matter of Arthur Andersen & Co. Securities Exchange Act Release No. 34-17878 issued June 22, 1981

The Commission instituted proceedings pursuant to Rule 2(e)(1) of the Commission's Rules of Practice against Arthur Anderson & Co. ("AA & Co."), a partnership engaged in the practice of public accounting, in connection with the audits of financial statements of Mattel, Inc. ("Mattel") and Geon Industries, Inc. ("Geon").

Mattel, Inc. The Commission's investigation revealed that AA & Co.'s audit of Mattel's financial statements was deficient in that it failed to discover a calculated scheme by certain officers and directors of Mattel which led to a substantial overstatement of the company's pre-tax income for 1971 and a substantial overstatement of its pre-tax loss for 1972. The fraud was perpetrated by, among other things, the preparation

of forged or falsified records and accounting entries and false responses by Mattel personnel which misled AA & Co. The overstatements were a result of, among other things: (1) improper recording of sales, where no merchandise was shipped and customers could cancel orders prior to shipment; (2) failure to adequately reduce the value of inventory for obsolete merchandise; (3) improper deferral of tooling costs; (4) improper deferral of royalty expenses; and (5) the recording of an insurance claim in an improper account. In addition, the Commission found that AA & Co. accepted various management representations with little or no verification or documentation.

Geon Industries, Inc. The Commission's investigation revealed that AA & Co.'s audit of Geon was deficient and that AA & Co.'s reports on financial statements were false and misleading because the firm failed to detect or verify several material deviations from the G.A.A.P. Among other things, AA & Co. allegedly: (1) failed to eliminate material amounts of inventory profits from consolidated income; (2) treated corrections of understated inventories of pooled companies as current income; (3) used an unacceptable method of pricing inventory (FIFO) since the inventory turnover was slow; (4) did not indicate in its work papers that it correlated audit procedures with known internal control weaknesses. In addition, AA & Co. was alleged to have accepted various management representations with little or no verification or documentation.

AA & Co. waived institution of formal administrative proceedings under Rule 2(e)(1) and, without admitting or denying any of the statements or conclusions set forth in the Order, consented to the issuance of the Opinion and Order.

In the Matter of Kenneth Leventhal & Company;
Joseph F. King Securities Exchange Act Release No.
34-17576 issued February 26, 1981

The Commission instituted proceedings under Rule 2(e)(1) of the Commission's Rules of Practice in connection with certain audits of the financial statements of Emersons Ltd. ("Emersons"). The audits were performed by Kenneth Leventhal & Co. ("KL & Co."), a partnership engaged in the practice of public accounting, and Joseph F. King ("King"), a C.P.A. and partner

in the Washington, D.C. office of KL & Co. The Commission's investigation revealed, among other things, that Emersons' financial statements for fiscal 1972, 1974 and 1975 were materially false and misleading in various respects, in part, because of multiple management fraud. The Commission found that KL & Co.'s examinations of those financial statements were not made in accordance with GAAS in that: (1) the company's advertising expenses were improperly capitalized; (2) KL & Co. failed to extend auditing procedures when the company's treatment of particular assets strongly suggested a need for a follow-up; and (3) the company's computer, construction, and pre-opening costs were improperly capitalized. In addition, the staff's investigation discovered that KL & Co.'s approach to the retention of working papers departed, in several instances, from the guidelines established by the Statement on Auditing Standards No. 1. KL & Co. and King submitted Offers of Settlement which were accepted by the Commission. KL & Co. was censured.

In the Matter of Lester Witte & Co., John P. Shea,
Securities Exchange Act Release No. 34-17424, ASR-285,
January 7, 1981

The Commission instituted an administrative proceeding under Rule 2(e)(1) of the Commission's Rules of Practice in connection with the December 1977 audit of the financial statements of J. B. Lippincott Co. ("Lippincott"). The audit was performed by Lester Witte & Co. ("Lester Witte") a public accounting firm, and John P. Shea ("Shea"), a C.P.A. and a partner in Lester Witte's New York office. Lippincott filed its Annual Report on Form 10-K for 1977 with the Commission which contained Lester Witte's report and unqualified opinion that Lippincott's 1977 financials were presented in conformity with G.A.A.P. and that its audit was made in accordance with G.A.A.S. On August 4, 1978 Lippincott filed an amended 1977 report reflecting a net loss of \$1,876,000, as compared to the previously reported net income of \$32,277.

The Commission concluded that Lester Witte had: (1) failed to obtain sufficient competent, evidential matter to afford a reasonable basis for its opinion; (2) failed to complete critical audit procedures; (3) overlooked significant indicators that the financial statements contained possible misstatements; (4) failed

to properly plan and supervise the audit staff in conduct of the engagement; and (5) failed, in its "concurring partner" review to discover the deficiencies in the audit. In addition, the investigation revealed that various work papers were in an incomplete and disorganized condition, including a lack of cross references and proper documentation, and were unnumbered, undated and uninitialled. Lester Witte & Shea submitted Offers of Settlement which the Commission accepted. Lester Witte was censured.

In the Matter of Norlin G. Boyum, ASR-283, October 30, 1980)

The Commission instituted an administrative proceeding pursuant to Rule 2(e) in connection with the November 30, 1976 audit of Shaughnessy & Co., Inc., a registered brokerdealer, by Norlin G. Boyum, a partner in the accounting firm of Boyum & Barenocheer. The Commission's investigation found that the audit report issued by Boyum was deficient in that it failed to indicate that the accounting principles were not applied on a basis consistent with the preceding period as applied by a predecessor auditor especially with regard to accrued liability for audit fees. The Commission also found that window dressing transactions were not discovered because of a failure by the firm to audit related party transactions. In addition, the Commission stated that Boyum's supplemental report on internal controls was deficient in that it failed to disclose continuous violations of Sections 15(c) and 17(a) of the Exchange Act and Rules 15c3-1 and 17a-13 thereunder. Boyum submitted an Offer of Settlement which the Commission accepted. Boyum agreed to comply with certain undertakings set forth in his Offer of Settlement and in the Order.

In the Matter of Saul Glazer ASR No. 282 issued September 29, 1980)

The Commission instituted administrative proceedings under Rule 2(e) of the Commission's Rules of Practice in connection with certain audits and accountant's reports prepared by Saul Glazer for SNG & Oil Energy Company ("SNG"). The staff's investigation revealed that Glazer departed from standard auditing procedures by failing to send bank confirmations to the banks which SNG and a related company did business.

The Commission found Glazer's auditing deficient because he: (1) overly relied on management's representations; (2) relied on the company's predecessor auditor's opinion for valuation of assets without contacting him or reviewing his workpapers; and (3) failed to obtain a written representation from management confirming oral representations, concerning, among other things, satisfactory title to assets and existence of liabilities as required by Statement on Auditing Standards No. 19. Glazer submitted an Offer of Settlement which the Commission accepted. Glazer was thereby suspended from practicing before the Commission for nine months.

In the Matter of Darrell L. Nielson, Securities Exchange Act Release No. 34-16479, ASR-275, January 10, 1980)

The Commission entered an order, pursuant to Rule 2(e)(3)(i) of its Rules of Practice suspending Darrell L. Neilson, an accountant, from appearing or practicing before the Commission. The order was entered after a permanent injunction had been ordered against Nielson in SEC v. Richard L. Chatham, et al., (C78-0104), D. Utah, June 7, 1979). In that case the Court found that Nielson had aided and abetted violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Nielson was alleged to have aided and abetted a conspiracy to defraud investors by certifying financial statements which he knew were fraudulent. Nielson failed to petition the Commission to lift the suspension within 30 days and was therefore indefinitely barred from practice before the Commission.

Litigation Involving Martineau and Bushman ASR No. 273, December 3, 1979

The Commission filed a Complaint seeking injunctive relief against Grady Sanders, Houston Complex, Inc., Network One, Inc., Leland Martineau and the accounting firm of Martineau and Bushman ("M&B"). The Complaint alleges that Martineau and M&B failed to conduct the examination of the financial statements of Network One in accordance with G.A.A.S. The Complaint further alleges that the statements were not prepared in accordance with generally accepted accounting principles in that they failed to disclose:

(1) that a material portion of Network One's revenue was based only on a contract in which Network was only to receive a percentage fee based on cost of equipment sold; (2) a related party transaction; and (3) that options for the purchase of a significant amount of stock had been granted to directors of the company.

Martineau and M&B consented to the entry of a final judgment enjoining violations of Section 17(a) of the Exchange Act and Sections 10(b), 12(g) and 13(a) of the Exchange Act. In lieu of a Rule 2(e) proceeding, Martineau and M&B agreed to submit to a peer review.

In the Matter of Martin E. Davis, ASR No. 267,
July 2, 1979

The Commission issued an Opinion and Order in an administrative proceeding instituted pursuant to Rule 2(e) against Martin E. Davis, a C.P.A. The Commission found that while Davis was a Vice President and the Chief Financial Officer of the ISC Financial Corp. ("ISC") he participated in the preparation of several false and misleading financials, for ISC, which were filed with the Commission. The Commission found that certain false statements were made regarding the insurance and reinsurance business of ISC's subsidiary, the Old Security Life Insurance Co. The Commission noted that the breakdown of Old Security's internal controls had prevented ISC, and Davis, from making accurate financial disclosures. Davis submitted an Offer of Settlement whereby he agreed not to practice before the Commission for at least two (2) years and other remedial sanctions.

In the Matter of Phillip Steven Lieberman, ASR
No. 262, February 26, 1979

The Commission instituted an administrative proceeding under Rule 2(e) in connection with certain audits of Sanders Career Schools, Inc. ("Sanders") by Phillip Steven Lieberman, a C.P.A. The Commission found that the financial statements of Sanders for a period of five years were false and misleading and not prepared in accordance with generally accepted accounting principles. In particular, the investigation revealed that the audit and reports were deficient in that: (1) the audit report was unqualified even though financial

statements were prepared on a cash basis; (2) disclosure of the revenue recognition policy was false; and (3) the allowance for uncollectible receivables was inadequate. Lieberman had consented to the entry on May 19, 1978 of a judgment of permanent injunction in SEC v. Sanders Career Schools, et al., 78 Civ. 1900. Lieberman offered to voluntarily resign from practicing before the Commission in settlement of the administrative proceeding.

In the Matter of Gerald J. Flannelly, Securities Exchange Act Release No. 34-15181, ASR-255, September 22, 1978

The Commission issued an Order and Opinion in an administrative proceeding instituted pursuant to Rule 2(e)(1) of its Rules of Practice against Gerald J. Flannelly, a C.P.A. The Commission found that while Flannelly was a Vice President for finance of SCA Services, Inc., false and misleading financials of the company were filed with the Commission. The Commission, in a related action, alleged that the former President/Director of SCA and others had misappropriated about \$4 million of SCA assets and had altered the company's books and records in order to conceal the diversion. This diversion of funds was accomplished by: (1) cash advances to the individual defendants being recorded as advances to corporations; (2) the involvement of SCA in various fraudulent land transactions in which the company paid the insider an aggregate of about \$2.5 million more than the insider had paid; and, (3) the use of corporate funds to pay insider debts. Flannelly was censured.

In the Matter of Donald R. Ford, ASR No. 252, August 24, 1978)

In lieu of an administrative proceeding pursuant to Rule 2(e), Donald R. Ford, a C.P.A., agreed to resign from practice before the Commission as an accountant. The Commission accepted Ford's permanent resignation. On December 8, 1977 the Commission had filed a Complaint alleging, among other things, that Ford had violated the federal securities laws in connection with the preparation of certain financial statements for Cal-Am Corporation ("Cal-Am"). SEC v. Donald R. Ford, et al., (77-4586, C.D. Cal.) Ford consented in that

action to the issuance of an order of permanent injunction from future violations of the related provisions of the federal securities laws. In particular Ford's audit was alleged to have: (1) failed to disclose major contingent liabilities; (2) failed to disclose the use of cash basis accounting; (3) included undisclosed related party transactions as major amounts of income; and (3) failed to reflect all material transactions.

In the Matter of Ernst & Ernst, Cleveland, Ohio, Clarence T. Isensee, and John F. Maurer, ASR No. 248, May 31, 1978

The Commission instituted an administrative proceeding pursuant to Rule 2(e) against Ernst & Ernst ("E&E"), a national accounting firm, and two of its partners in connection with their audits and E&E's certification of the financial statements of Western Equities, Inc. ("Western"). Among other things, the Commission found that the audit was deficient for the following reasons: (1) it included an improper premium recognition method; (2) the auditors relied on unsupported and questionable representations of management; and (3) the auditors used an incorrect use of the pooling method. In addition, the Commission found that respondents should have extended the audit work because of the suspicious circumstances.

In the Matter of Clifford E. Roop, Securities Exchange Act Release No. 34-14507, ASR-243, February 28, 1978

The Commission's staff conducted a non-public investigative proceeding to determine if Clifford E. Roop, a C.P.A., wilfully violated and/or aided and abetted violations of § 13 of the Exchange Act in connection with an accountant's report, signed by Roop, on the financial statements of Continental Dynamics, Ltd. The staff concluded that the report was deficient in that it failed to state: (1) the accounting principles reflected in the financials; and, (2) the consistency of the application of the accounting principles, or the change in such principles which had a material effect on the statements. In addition, the staff determined that the omission of a statement

stating whether the opinion was qualified or adverse was misleading and at variance with generally accepted accounting principles. Roop submitted his resignation from practicing before the Commission. The Commission determined that no further action was necessary and accepted his resignation.

In the Matter of Haskins & Sells, Eugene Cobauger, Timothy Fitzgerald and Billy R. Thomas, Securities Exchange Act Release No. 34-14450, ASR-241, February 10, 1978

The Commission instituted a proceeding pursuant to Rule 2(e)(1) of the Rules of Practice against Haskins & Sells ("H&S"), a public accounting firm, and certain of its partners in connection with audits of financial statements of FISCO, Inc., Falstaff Brewing Corp., Oceanography Mariculture Industries, Inc., and Ampeco Securities, Inc.

As to FISCO the investigation revealed: (1) understated casualty claims reserves; (2) an inadequate system of supervision of audit personnel; and (3) an improper premium recognition method. As to Falstaff the investigation revealed, among other things, an overreliance on management representations by H&S at variance with generally accepted auditing standards. As to Oceanography the investigation revealed, among other things, that the disclosures as to material advances were inadequate. Finally, as to Ampeco Securities the investigation revealed, among other things, that H&S's audit: (1) did not include a statement of changes in financial position; (2) did not contain footnote disclosures; and (3) did not fulfill the requirements of Rule 17a-5(g)(1) for broker-dealers. Each of the Respondents submitted an Offer of Settlement waiving formal proceedings and consented to the entry of the Opinion and Order.

In the Matter of Paul N. Conner, ASR No. 239, January 16, 1978

The Commission issued an Opinion and Order in an administrative proceeding instituted pursuant to Rule 2(e)(1) against Paul N. Conner ("Conner"), a C.P.A.. The Commission found that while Conner was a treasurer and vice president of Continental Advisors ("CA") and

while assistant treasurer of Continental Mortgage Investors ("CMI") he participated in the preparation of several false and misleading financials, for CMI, which were filed with the Commission. According to the Commission, Conner in preparing CMI's financial statements agreed to the use of accounting treatments which he believed were questionable or improper and he failed to take reasonable steps which would have revealed substantial deficiencies which were not appropriately disclosed in CMI's loss allowance. Specifically, the Commission found, among other things, that CMI's accounts receivables reserves were inadequate. Without admitting or denying any of the Commission's findings Conner consented to the entry of the Commission's Opinion and Order.

In the Matter of Norman A. Weiner, C.P.A., Securities Exchange Act Release No. 34-14249, ASR No. 233, December 12, 1977

The Commission instituted an administrative proceeding pursuant to Rule 2(e) of the Commission's Rules of Practice against Norman A. Weiner ("Weiner"), a certified public accountant, in connection with his audit of the financial condition of Aberdeen Securities Co. ("Aberdeen"). The Commission found that the audit and financial statements of Aberdeen were materially deficient. Specifically, the Commission found that Weiner: (1) failed to record loans to the company properly on its books and records and that several loans had not been recorded as liabilities at all; (2) had included stock in the trading account of Aberdeen which the company did not possess; (3) had not disclosed that over \$18,000 of securities from Aberdeen accounts were "parked" in customer accounts; and (4) failed to obtain confirmations from significant customers to whom he had sent inaccurate statements. In addition, the Commission found that Weiner did not follow generally accepted auditing standards. Weiner submitted an Offer of Settlement which the Commission accepted, in which he consented to the entry of an order barring him from practice before the Commission as an accountant.

In the Matter of Stephen Kneapler, ASR No. 232,
October 28, 1977

The Commission accepted an Offer of Resignation from Practice Before the Commission (as an accountant) from Stephen Kneapler ("Kneapler") in lieu of instituting an administrative proceeding pursuant to Rule 2(e) against him. The proposed proceeding was based on the fact that on March 24, 1977 Kneapler had consented to a permanent injunction from further violations of Sections 10(b), 13(a), and 14(a) of the Exchange Act and Rules 10b-5, 13a-1, 13a-11, 13a-13, 14a-13 and 14a-9 thereunder. (SEC v. Stephen Kneapler, et al., S.D. Fla., Civil Action No. 77-969). The Complaint in that action alleged that Kneapler, while Chairman of the Board at Richford Industries, Inc. engineered and devised a scheme to falsify the closing inventory figures for the company for the years 1974 and 1975. The Complaint further alleged that Kneapler had used corporate funds to pay for improvements to his home and had concealed the diversion of funds by falsifying the company's books and records.

In the Matter of Harvey Fein, ASR No. 231, October 28, 1977

The Commission accepted an Offer of Resignation from Practice Before the Commission (as an accountant) from Harvey Fein ("Fein") in lieu of instituting an administrative proceeding pursuant to Rule 2(e) against him. The Order accepting resignation was issued after Fein had consented to an order of permanent injunction from future violations of Sections 10(b), 13(a), and 14(a) of the Exchange Act and certain rules thereunder in an action entitled SEC v. Stephen Kneapler, et al., (S.D. Fla. Civil Action No. 77-969, March 24, 1977). The Complaint in that injunctive action alleged that Fein, as the treasurer and a director of Richford Industries, Inc. had participated in a scheme to falsify the closing inventory figures of the company. The Complaint also alleged that as a result of the falsification of the inventory the company's earnings were falsely increased.

In the Matter of Bruce Flamm, ASR No. 230, October 28, 1977

The Commission accepted an Offer of Resignation from Practice Before the Commission (as an accountant) from Bruce Flamm ("Flamm") in lieu of instituting an

administrative proceeding pursuant to Rule 2(e) against him. The Order accepting resignation was issued after Flamm had consented to an Order of Permanent Injunction from future violations of Sections 10(b), 13(a), and 14(a) of the Exchange Act and certain rules thereunder in an action entitled SEC v. Stephen Kneapler, et al., supra. The Complaint in that action alleged that Flamm as assistant comptroller of Richford Industries, Inc. had participated in a scheme to falsify the closing inventory figures of the company. Flamm's offer to resign as an accountant was made with the understanding that after six months he may apply for reinstatement.

In the Matter of Luke J. LaLande, John F. Swart, Jr., William A. Owens, Securities Exchange Act Release No. 34-14108, ASR No. 229, October 27, 1977

The Commission instituted administrative proceedings pursuant to Rule 2(e) against Luke J. LaLande ("LaLande"), John F. Swart, Jr. ("Swart"), and William A. Owens ("Owens"), each certified public accountants, partners in an accounting firm. According to the Commission at the time when the firm was engaged in auditing the Vortex Corporation three of its partners were involved in investment contracts with the company. The Commission's investigation revealed a lack of independence by the auditors in that: (1) a creditor-debtor relationship existed with a client or officer of the company and the auditors; and (2) the partners had a direct financial interest in the company. Respondants submitted Offers of Settlement which the Commission accepted.

In the Matter of Laventhol & Horwath, Louis Goldfine, Jeffrey Lipschutz and Jack E. Klein, Securities Exchange Act Release No. 34-13976, ASR No. 227, September 21, 1977

The Commission instituted administrative proceedings against Laventhol & Horwath ("Laventhol") a partnership engaged in the practice of accounting, in connection with the firms audits of three companys: Cosmopolitan Investors Company, Western Properties Limited Partnership ("WPLP"), and Co-Build Companies, Inc. As to Cosmopolitan the Commission found, among other things, that: (1) no adequate audit steps were

taken to determine the authenticity of several investment transactions although the auditors knew or should have known that the individuals who were managing the investment funds had been indicted for bankruptcy fraud; and (2) no disclosures were made in the financial statements which reflected the relationships of certain officers and directors to the corporations from which investments were purchased. As to WPLP, the Commission found the audit deficient because: (1) advances to a general partner were improperly recorded; (2) the liability for a construction loan was not reported; (3) it failed to disclose modifications of supposedly cash basis financials; and (4) significant diversions of funds from WPLP to another company were not disclosed. With regard to Co-Build, the investigation revealed that the auditors: (1) failed to perform adequate test to determine the value and ownership of inventory purchased by the company; (2) knew or should have known that certain disclosures contained in the company's prospectus were inaccurate and that material facts were omitted; (3) were unable to determine that items capitalized by a credit to expense had never been charged to expense; and (4) did not obtain current financial statements of a purchaser to determine his ability to fulfill a sales contract. The Commission also found that the auditors overly relied on management representations.

In the Matter of Allen M. Lindenberg, Securities Exchange Act Release No. 34-13759, ASR No. 224, July 18, 1977

The Commission entered an Order, pursuant to Rule 2(e)(3)(i) of the Rules of Practice suspending Allen M. Lindenberg, an accountant, from appearing or practicing before the Commission. The order was entered after a permanent injunction had been ordered against Lindenberg in an action entitled SEC v. Allen M. Lindenberg (W.D. Penn., Civ. Action No. 75-1514, November 25, 1975). In that action, Lindenberg was permanently enjoined from future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The Complaint in that action alleged that Lindenberg, who was president and chairman of the board of Computab, Inc., together with others, directed a scheme to sell unregistered common

stock of Computab to more than 260 persons but caused the sales to be recorded in the Company's books in the names of only 24 persons and certificates issued only to those 24 names. Lindenberg failed to petition the Commission to lift the suspension issued against him within 30 days and was therefore indefinitely barred from practice before the Commission.

In the Matter of Thomas Leger & Co. and Thomas Leger, Securities Exchange Act Release No. 34-13692, ASR No. 223, June 28, 1977

The Commission issued an Opinion and Order pursuant to Rule 2(e) of the Rules of Practice Against Thomas Leger & Co. and Thomas Leger. Respondents submitted an Offer of Settlement accepting the entry of the Opinion and Order in order to dispose of a Rule 2(e) proceeding which was filed on the basis of the entry of a Final Order in an action entitled SEC v. Petrofunds, Inc., et al. (SDNY, 76 Civ. 2368, commenced May 26, 1976). The Complaint in that action alleged that Respondents had certified certain financial statements and had audited certain cash basis tax reports which were false and misleading. Respondents agreed to submit to a review of their current policies, practices and procedures.

In the Matter of Ernest C. Neuman, Securities Exchange Act Release No. 34-13677, ASR No. 222, June 24, 1977

The Commission entered an Order pursuant to Rule 2(e)(3)(i) of its Rules of Practice, suspending Ernest C. Neuman ("Neuman"), a C.P.A., from practicing before the Commission. The order was entered after a permanent injunction had been ordered against Neuman in an action entitled SEC v. Standard Life Corporation, et al., (W.D. Okla., Civ. Action No. CN75-0052-E, July 2, 1975). In that action Neuman was permanently enjoined from violating Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act. The Commission alleged in that action that Neuman as the vice-president - finance and treasurer of two defendant corporations had played a significant role in several violations of the federal securities laws. Specifically, the Complaint alleged that Standard Life