



*Summary of Accounting and
Auditing Enforcement Releases
for the Year Ended
December 31, 2015*

ANNUAL REPORT 2015

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Introduction and Our Objective

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission, Division of Enforcement’s Accounting and Auditing Enforcement Releases (“AAERs”) for the year ended December 31, 2015.

As an independent consulting firm with financial and accounting expertise, we are committed to contributing thought leadership and relevant research regarding financial reporting matters that will assist our clients in today’s fast-paced and demanding market. This report is just one example of how we intend to fulfill this commitment.

The Division of Enforcement at the U.S. Securities and Exchange Commission (“SEC”) is a law enforcement agency established to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. As such, the actions they take and releases they issue provide very useful interpretations and applications of the securities laws.

For those involved in financial reporting, SEC releases concerning civil litigation and administrative actions that are identified as related to “accounting and auditing” are of particular importance. Our objective is to summarize and report on the major items disclosed in the AAERs, while also providing useful insights that the readers of our report will find valuable.

We welcome your comments and feedback, especially requests for any additional analysis you would find helpful.

Floyd Advisory
JANUARY 2016

Our Process and Methodology

The SEC identifies and discloses accounting- and auditing-related enforcement actions from within its population of civil lawsuits brought in federal court, and its notices and orders concerning the institution and/or settlement of administrative proceedings as Accounting and Auditing Enforcement Releases (“AAERs”). The disclosed AAERs are intended to highlight certain actions and are not meant to be a complete and exhaustive compilation of all of the actions that may fit into the definition above.

To meet our objective of summarizing the major items reported in the AAERs, we reviewed those releases identified and disclosed by the SEC on its website, www.sec.gov.

As part of our review, we gathered information and key facts, identified common attributes, noted trends, and observed material events. Applying our professional judgment to the information provided by the SEC, we sorted the releases into major categories (e.g., Rule 102(e) Actions, Financial Reporting Frauds, Foreign Corrupt Practices Act violations (“FCPA”), Reinstatements to Appear and Practice before the SEC, Violations of Books and Records, and Other) and classifications of the financial reporting issues involved (e.g., Improper Revenue Recognition, Manipulation of Reserves, Intentional Misstatement of Expenses, Balance Sheet Manipulation and Errors, Options Backdating and Defalcations). Do note, when a release included more than one allegation, admission, or violation, we placed the release into the category which represented the most significant issue. For our summary of financial reporting issues, we recorded each accounting problem identified as a separate item. Based on this process and methodology, we prepared a database of the key facts in each release.

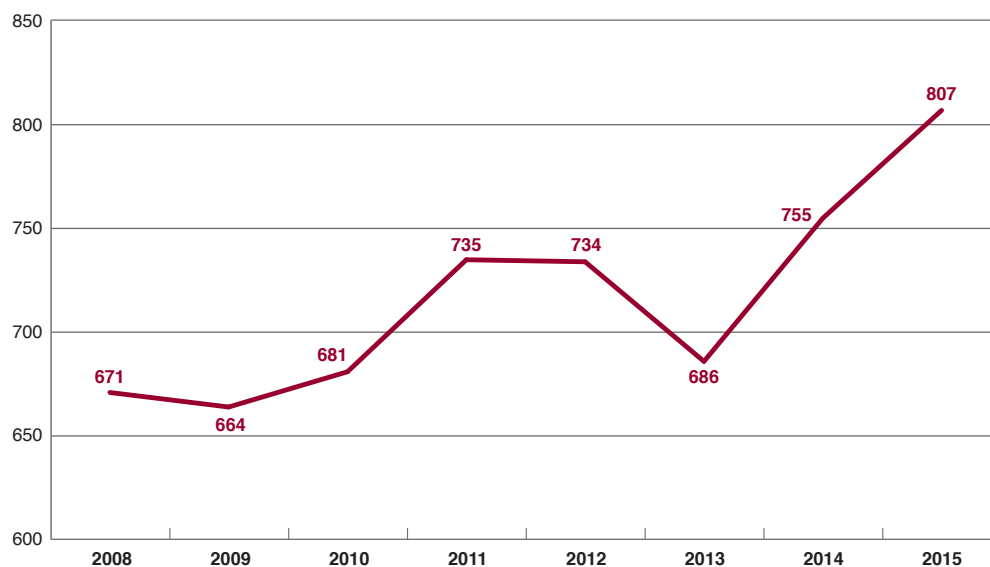
REVIEW PROCESS

- Gathered information and key facts
- Identified common attributes
- Noted trends
- Observed material events
- Sorted the releases into major categories
- Prepared a database of the key facts

SEC Enforcement Activity for the Year Ended December 31, 2015

Before reporting information related to the 2015 population of AAERs, summarizing the SEC's overall enforcement actions provides insights into the trends and types of actions receiving the most attention. As reflected on the chart below, the volume of actions filed for the year ended September 30, 2015 increased approximately 7% from 2014.

Total SEC Enforcement Actions
For The Years Ended September 30,



Within the 807 enforcement actions are 507 independent, or new, actions for violations of federal securities laws. The remaining 300 actions related to either delinquent filings or administrative proceedings arising out of previously announced actions. The majority of these actions bar individuals under Rule 102(e) from appearing before the SEC based on criminal convictions, civil injunctions, or other orders.

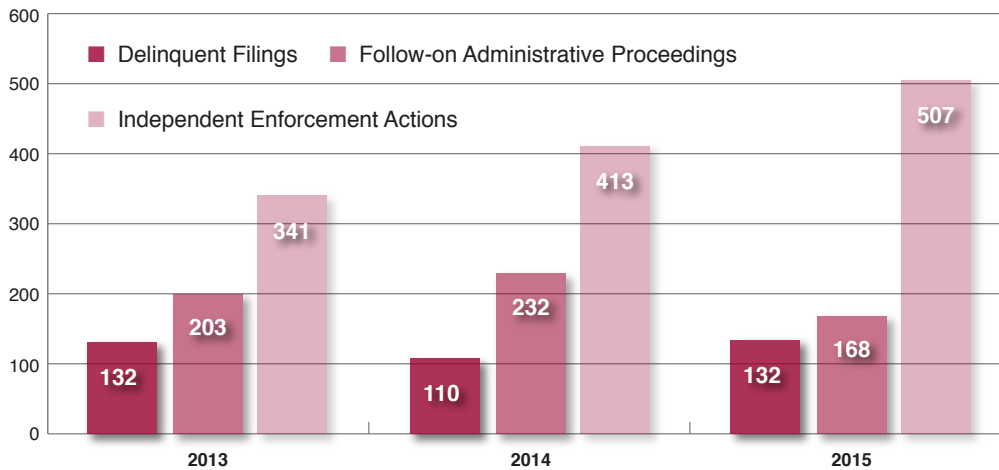
“Vigorous and comprehensive enforcement protects investors and reassures them that our financial markets operate with integrity and transparency, and the Commission continues that enforcement approach by bringing innovative cases holding executives and companies accountable for their wrongdoing sending clear warnings to would-be violators.”

Chair Mary Jo White
U.S. Securities and
Exchange Commission
Washington, DC
October 22, 2015

Press Release: SEC Announces
Enforcement Results For FY 2015

The chart below illustrates the trends in independent actions as well as for delinquent filings and follow-on proceedings for the three years ended September 30, 2015. Of significance, the rise in actions for the year ended September 30, 2015 is largely due to newly opened cases.

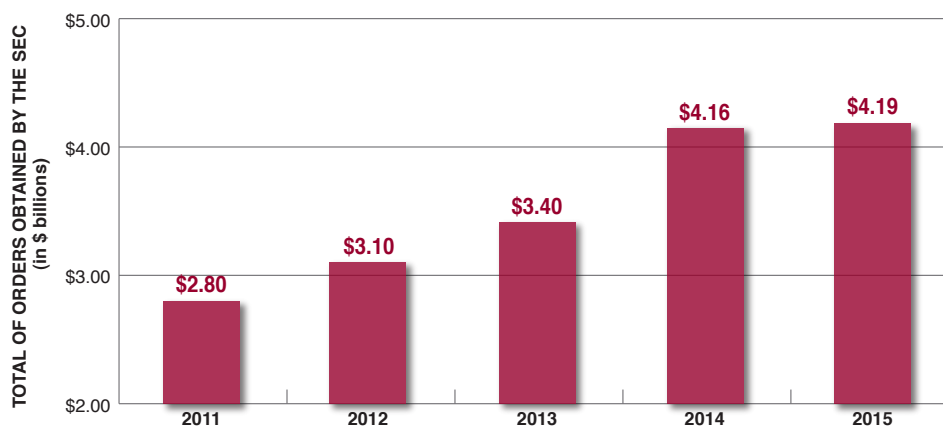
Independent Actions by the SEC For The three Years Ended September 30, 2015



SEC Disgorgement and Penalties: Another \$4.2 Billion Year

Disgorgement is used by the SEC to deny wrong-doers of their ill-gotten gains and discourage future misconduct or violations of securities regulations. Under the Securities Exchange Act of 1934, the SEC has the authority to require respondents to remit any amounts received from inappropriate conduct, including calculated interest, as part of administrative proceedings.

SEC Disgorgement and Penalties For The Years Ended September 30,



Amounts recovered from respondents may be returned to harmed investors or to the United States Treasury, and the SEC or a court may appoint a non-governmental entity such as a receiver or distribution agency to oversee the collection or administer the disbursement of the funds.

“The Division’s hard work, tremendous energy, and efficiency uncovered significant misconduct during the past fiscal year, and helped bring a significant number of high-impact, first-of-their-kind actions.”

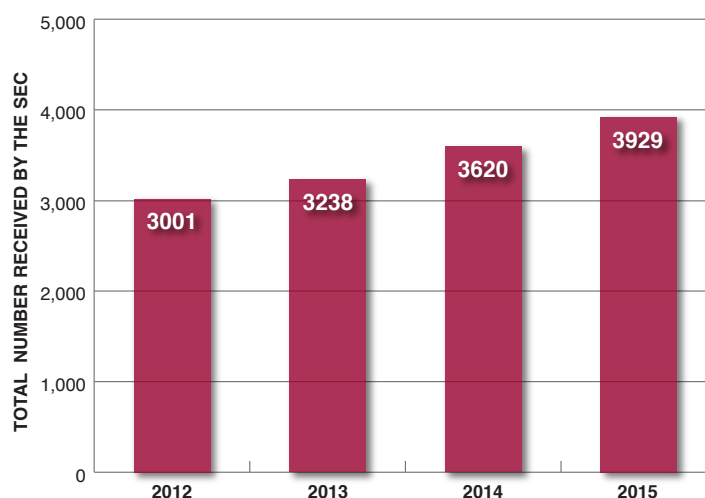
Andrew J. Ceresney
Director of the SEC’s
Enforcement Division
Washington, DC
October 22, 2015

Press Release: SEC Announces
Enforcement Results For FY 2015

Whistleblower Program Allegations

In FY 2015, the SEC's Office of the Whistleblower received a total of 3,929 allegations of wrongdoing. This is approximately 31% greater than the number received in FY 2012. The chart to the right illustrates the growth in whistleblower allegations for the four years ended September 30, 2015.

Whistleblower Allegations
For The Years Ended September 30,



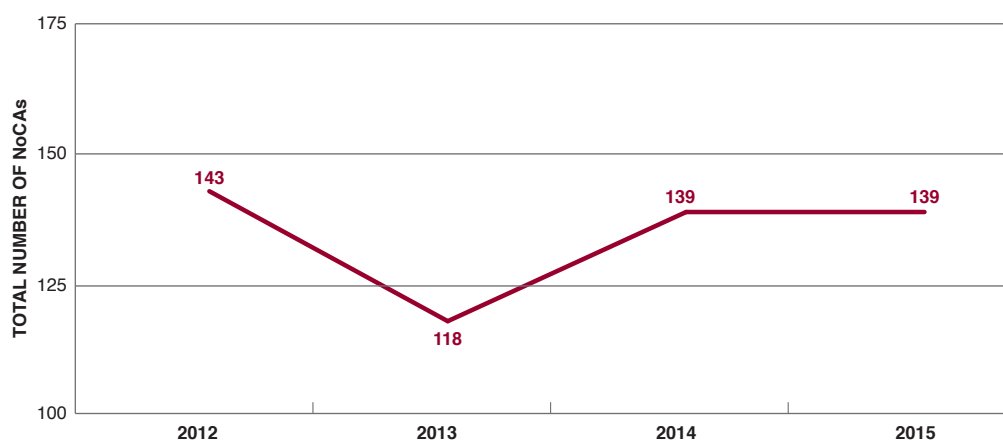
“We anticipate that the whistleblower program will continue to be a ‘game changer’ in the enforcement of the federal security laws and the protection of investors and the marketplace.”

Sean X. McKessy
Chief of the Office of the
Whistleblower
November 16, 2015

2015 Annual Report to
Congress on the Dodd-Frank
Whistleblower Program

However, the trend in Notices of Covered Actions (“NoCAs”) does not reflect a similar growth pattern. A NoCA is a public announcement by the SEC indicating that whistleblowers may be eligible for a payout in a particular case. To be eligible for a payment an individual must have contributed substantive information that aided in the SEC investigation. The chart below illustrates the change in NoCAs for the four years ended September 30, 2015.

SEC Notices of Covered Actions
For The Years Ended September 30,



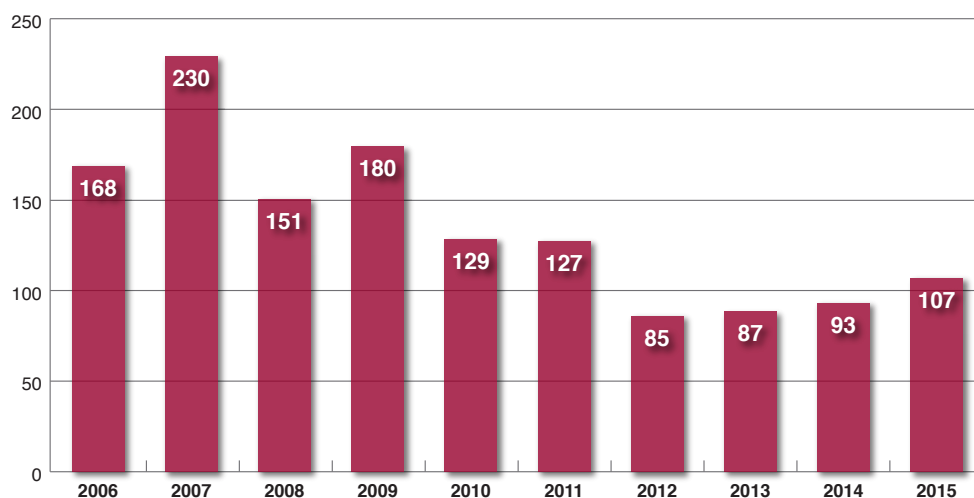
While there will always be a lag between the receipt of whistleblower information and any potential NoCA that arises from the SEC's investigation of an allegation, the lack of correlation between the whistleblower allegations received and the announcement of awards to whistleblowers raises questions as to the credibility of whistleblower information being received by the SEC.

AAERs for the Year Ended December 31, 2015: Major Observations and Insights

For the year ended December 31, 2015, the SEC issued 107 AAERs, representing an increase over the volume of AAERs reported during the three previous years. However, the volume remains lower than the AAERs issued by the SEC from 2006 until 2011.

Looking Back at Total AAERs in Preceding Years

For The Periods January 1 – December 31,



“We have also been closely scrutinizing the gatekeepers of financial reporting, continuing to hold accountants, auditors, and audit committees accountable in appropriate circumstances.”

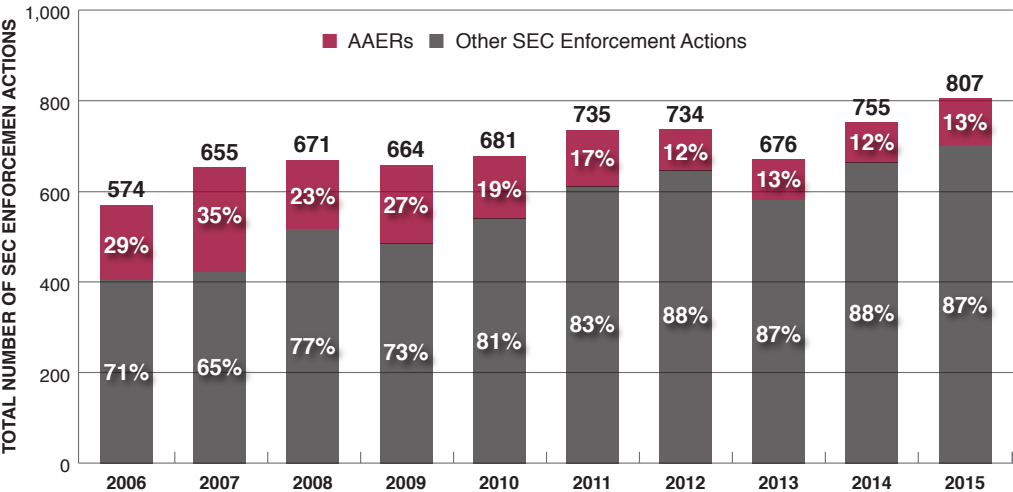
Chair Mary Jo White
U.S. Securities and
Exchange Commission
Washington, DC
December 9, 2015

Keynote Address at the 2015
AICPA National Conference:
“Maintaining High-Quality, Reliable
Financial Reporting: A Shared and
Weighty Responsibility”

AAERs highlight enforcement actions related to auditing and accounting matters and the SEC determines each enforcement release’s placement into the AAER subcategory. Interestingly, the total rise in SEC enforcement actions has not resulted in a proportionate increase in AAERs.

The table below illustrates how the percentage of enforcement actions designated as AAERs has diminished over the years from 2006 to 2015.

AAERs as a Percentage of Total SEC Enforcement Actions



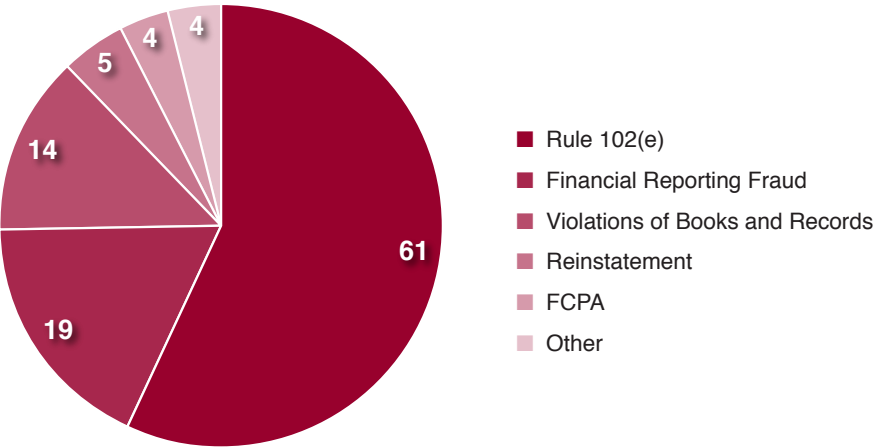
“Preparers, of course, are not solely responsible for maintaining the strength of financial reporting. It also depends on thorough and objective audits performed by independent, knowledgeable, and skeptical public accountants. Indeed, while preparers are the lynchpin of high quality financial reports, auditors are the key gatekeepers for those reports, protecting shareholders by ensuring that issues are promptly identified and addressed.”

Chair Mary Jo White
U.S. Securities and
Exchange Commission
Washington, DC
December 9, 2015

Keynote Address at the 2015
AICPA National Conference:
“Maintaining High-Quality, Reliable
Financial Reporting: A Shared and
Weighty Responsibility”

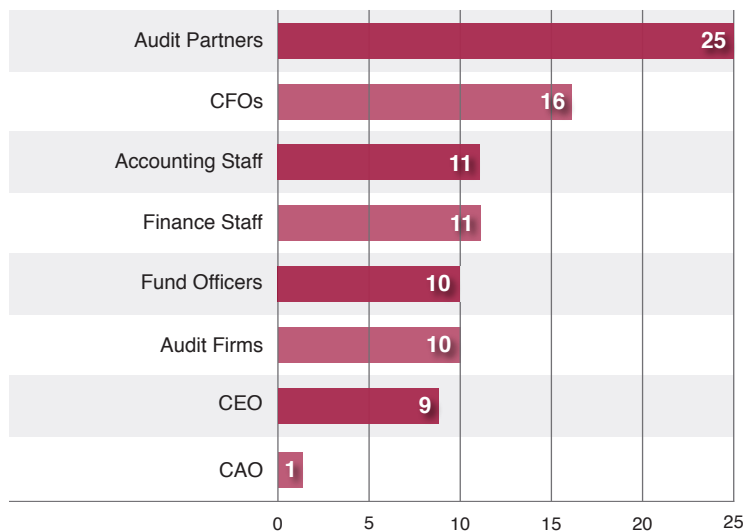
To evaluate the type of AAERs issued in 2015, we sorted the releases into major categories: Rule 102(e) Actions, Financial Reporting Frauds, Violations of Books and Records, Reinstatements, Foreign Corrupt Practices Act violations (“FCPA”), and Other. The chart below illustrates the number of AAERs in each category in 2015.

2015 AAERs by Category



Within the AAERs, the majority of the actions brought forth by the SEC are suspensions or disbarments from practicing before the SEC under SEC Rule of Practice 102(e). These can be temporary or permanent, and can be levied against either individuals working at a firm or against the firm as a whole. The chart below shows the parties named in 102(e) actions in 2015.

Rule 102(e) Enforcement Actions by Respondent's Role For The Year Ended December 31, 2015



Of note, during 2015 more audit firm partners received 102(e) actions than CFOs and CAOs combined.

“Holding individuals accountable for their wrongdoing is critical to effective deterrence and, therefore, the Division considers individual liability in every case.”

Andrew Ceresney
Director of the SEC's
Division of Enforcement
Washington, D.C.
November 17, 2015

ACI's 32nd FCPA Conference
Keynote Address

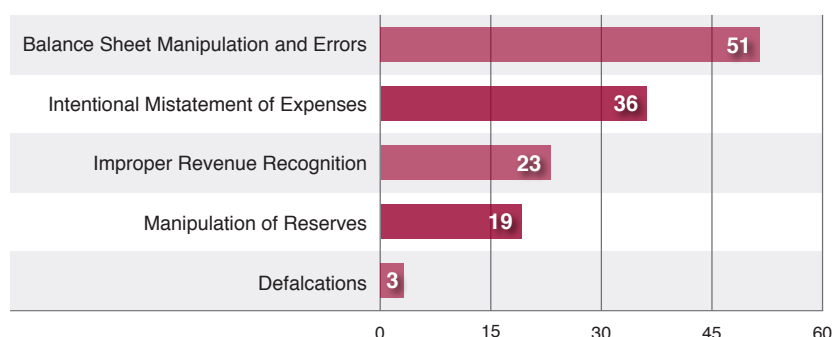
The 2015 AAERs: Summary of Financial Reporting Issues

To report on the frequency of financial reporting issues involved in 2015 AAERs, we identified the accounting problem(s) in each AAER based on the classification definition below.

Classification	Definition
Improper Revenue Recognition	Overstated, premature, and fabricated revenue transactions reported in public filings
Manipulation of Reserves	Improperly created, maintained, and released restructuring reserves, general reserves, and other falsified accruals
Intentional Misstatement of Expenses	Deceptive misclassifications and understatements of expenses
Balance Sheet Manipulation and Errors	Misstatement or misrepresentation of asset balances and the recording of transactions inconsistent with their substance
Defalcation	Thefts of funds and assets

As shown below, Balance Sheet Manipulation and Errors represented the most common financial reporting issue in the 2015 AAER population. Importantly, as we described in the “Our Process and Methodology” section, we record each accounting problem identified in the release as a separate item and therefore many actions involving improper revenue recognition, manipulation of reserves, and the intentional misstatement of expenses also have a balance sheet impact.

Financial Reporting Issues Identified in 2015 AAERs



“Companies that make a decision not to self-report misconduct take the chance that the Enforcement Division will learn of this misconduct through other means. The SEC’s whistleblower program has created real incentives for people to report wrongdoing to us. If the Enforcement Division finds the violations through its own investigation or from a whistleblower, the consequences to the company will likely be worse and the opportunity to earn additional cooperation credit may well be lost.”

Andrew Ceresney
Director of the SEC’s
Division of Enforcement
Washington, D.C.
November 17, 2015

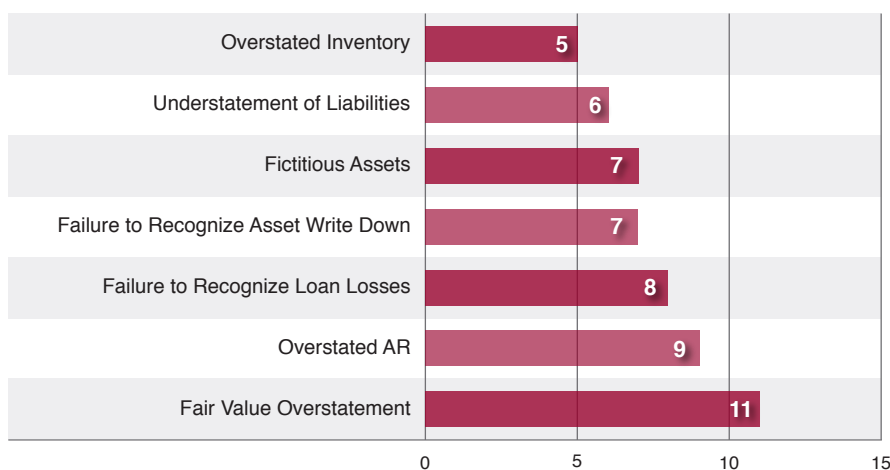
ACI’s 32nd FCPA Conference
Keynote Address

Balance Sheet Manipulation and Errors

Misstatement on the balance sheet, whether intentional or negligent, is the most prominent issue identified in the actions brought by the SEC in the AAERs.

The chart below categorizes the number of instances of Balance Sheet Manipulation and Errors for the year 2015. Certain firms had more than one issue reported in a release.

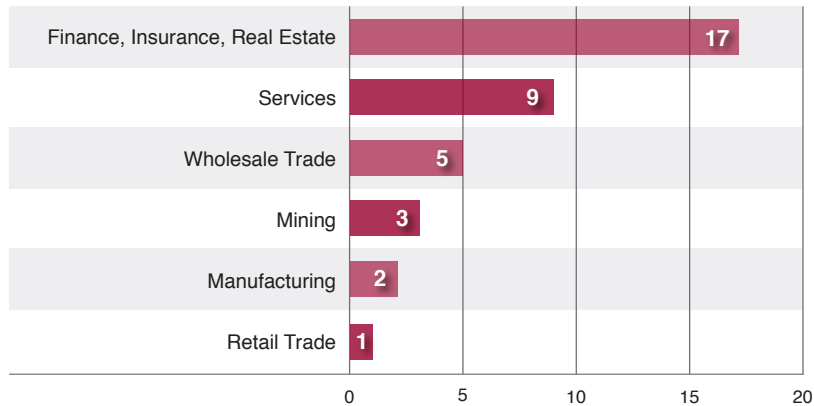
Balance Sheet Manipulation and Errors by Category For The Year Ended December 31, 2015



Within the population of 51 AAERs relating to balance sheet manipulation and errors, there are 37 entities with alleged wrongdoing related to their balance sheets. The chart below shows the standard industry classifications of the accused firms in the year 2015. As reflected in the chart, consistent with the large number of fair value overstatements and the failure to reconcile loan losses, the finance, insurance and real estate industry dominated the results.

Industry Analysis: Balance Sheet Manipulation and Errors

For The Year Ended December 31, 2015

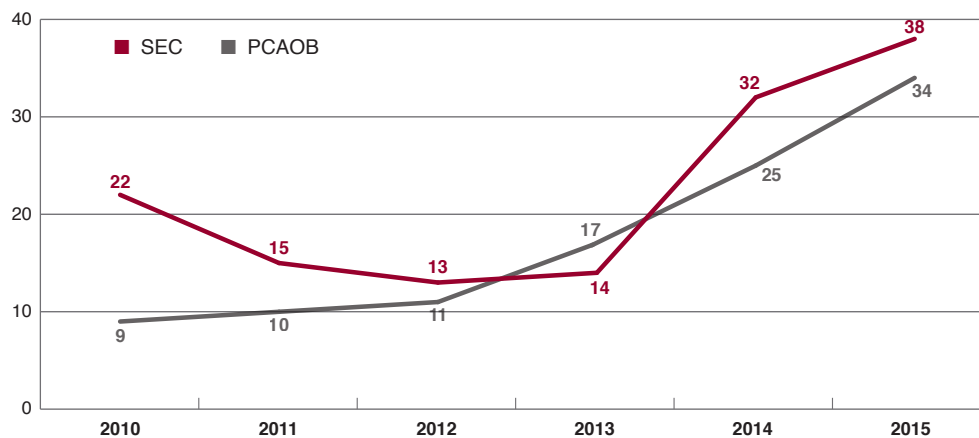


SEC and PCAOB Auditing-Related Enforcement and Disciplinary Actions

The SEC and PCAOB share the responsibility of taking action against auditors who violate SEC rules and regulations as well as professional standards. The chart below illustrates the significant increase in SEC and PCAOB Auditor-Related Enforcement and Disciplinary actions over the past six years.

SEC and PCAOB Auditor Enforcement and Disciplinary Actions

For The Years Ended December 31, 2015



“When we have charged a CCO with causing violations of this provision, we have not second guessed their professional judgment, critiquing the choices they made in the creation of policies; rather, we have brought actions when there was a wholesale failure to develop such policies or to implement them, and where the CCO was properly held responsible for that failure.”

Andrew Ceresney
Director of the SEC's
Division of Enforcement
Washington, D.C.
November 4, 2015

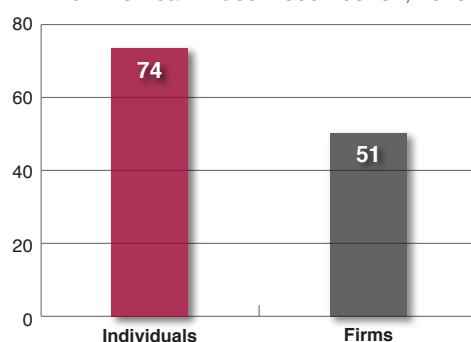
2015 National Society of
Compliance Professionals,
National Conference:
Keynote Speech

“Let us focus on making sure that material information, with a substantial likelihood of being considered important to reasonable investors, is quickly and efficiently distributed to the market. More importantly, let us allow corporate controllers and chief accounting officers to focus your expertise and limited time where it belongs, on making sure that financial statements are accurate in all material respects for the benefit of all investors.”

Commissioner Michael S. Piwowar
New York, New York
November 16, 2015

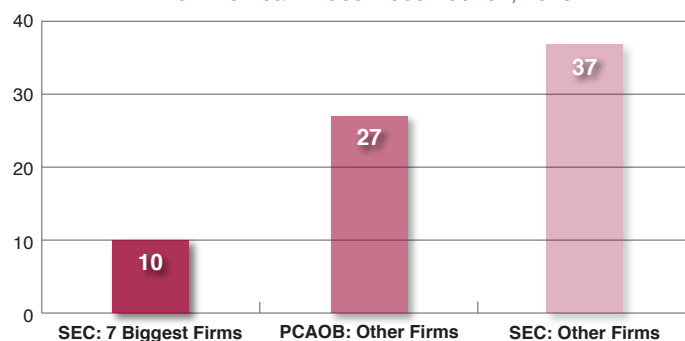
Remarks at the 34th
Annual Current Financial
Reporting Issues Conference

Number of Respondents to SEC and PCAOB Auditor Actions For The Year Ended December 31, 2015



The chart to the left illustrates the number of individuals and firms with enforcement and disciplinary actions from the SEC and PCAOB during the year ended December 31, 2015. Of significance, one action may name more than one party.

Number of Individual Auditors Receiving SEC and PCAOB Orders by Size of Firm For The Year Ended December 31, 2015



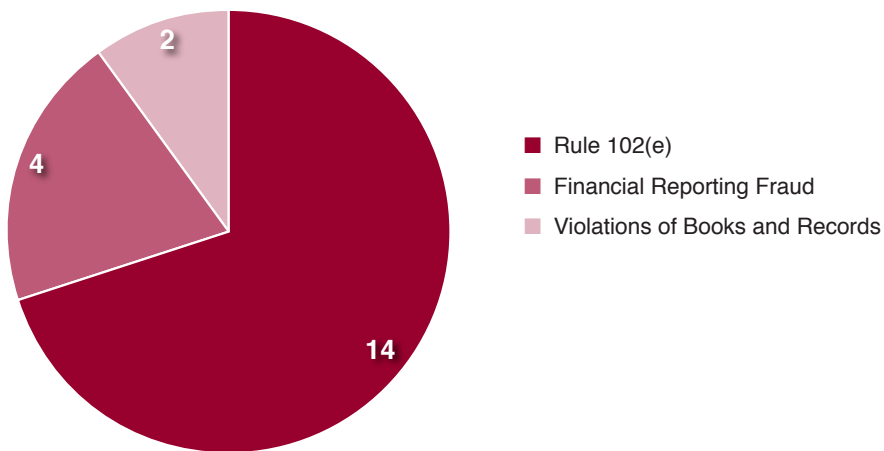
Notably, ten enforcement and disciplinary actions were filed by the SEC against individuals with the seven largest auditing firms, while none were filed by the PCAOB against individuals from these firms. In contrast, the SEC and PCAOB filed 37 and 27 enforcement and disciplinary actions, respectively, against individuals with smaller firms in 2015, reflecting a more balanced sharing of enforcement responsibilities.

Overview of Q4 2015 AAERs

As part of our annual report on AAER activity, we provide an abbreviated version of our quarterly reporting for the final quarter of the year.

The chart below illustrates the number of AAERs that fell into each category of violation during the fourth quarter of 2015. Rule 102(e) violations dominated the releases in Q4, accounting for 70% of the volume. Notably, none of the AAERs in the recent quarter were attributed to the Foreign Corrupt Practices Act or Reinstatement categories.

Q4 2015 AAERs by Category



Balance Sheet Manipulation and Errors were the most common issue in Q4, accounting for 35% of all AAERs. Improper revenue recognition accounted for 30%, intentional misstatement of expenses accounted for 25% and manipulation of reserves made up the other 10%.

Financial Reporting Issues Identified in Q4 2015 AAERs



“Self-reporting is critical to the success of SEC’s cooperation program. Self-reporting allows the Enforcement staff to discover misconduct more quickly and reliably than otherwise would be possible. In certain cases, particularly when misconduct occurs overseas, companies may be in a better position to quickly investigate misconduct and the information provided by companies as part of their self-reporting often gives a significant head start on our investigations.”

Andrew Ceresney
Director of the SEC’s
Division of Enforcement
Washington, D.C.
November 17, 2015

ACI’s 32nd FCPA Conference
Keynote Address

Notable Q4 2015 AAER for “Recommended Reading”

While reviewing all of the SEC’s AAERs would prove insightful, certain releases present information that is especially worthy of further review and analysis by those involved with financial reporting matters. We deem this particular release as earning the distinction of “recommended reading” for our clients.

***In the Matter of Melissa K. Koeppel, CPA, and Jeffrey J. Robinson,
CPA, ACCOUNTING AND AUDITING ENFORCEMENT Release No. 3719,
ADMINISTRATIVE PROCEEDING File No. 3-16977***

Respondents and auditors, Melissa K. Koeppel, CPA, and Jeffrey J. Robinson, CPA, consented to an entry of an Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934, and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “Order”).

Of note, among the matters discussed in the release, the auditors allegedly failed to exercise due professional care and skepticism regarding adjusting downward the asset value of an audit client’s customer relationships, an intangible asset reported on its balance sheet. In fact, a reduction of \$58 million in the form of an impairment charge was required because sales had diminished substantially with the customers. The discussion in the release provides useful information about indicia that should not be ignored with regard to intangible asset valuations and impairments as well as the difficulty in assessing estimates and assumptions in financial reporting.

To appreciate the need for the write down of the intangible assets, an understanding for how they are recorded is needed. Importantly, GAAP does not permit the recognition and recording of intangible assets, such as customer relationships, as assets on a company’s balance sheet unless the intangible assets are purchased in connection with a business combination. Even then, the valuation of the acquired intangibles is almost always based on management estimates and assumptions about the future, generally in the form of a present value calculation of future cash flows arising from the asset.

Once recorded, an intangible asset such as customer relationships is subject to periodic impairment testing. According to Accounting Standards Codification (“ASC”) 360, an intangible asset is impaired when the carrying amount of the asset reported on a company’s balance sheet exceeds its fair value. A company is required to make this determination whenever events or changes in circumstance indicate that its carrying amount may not be recoverable. Such events are referred to as “triggering events” for impairment testing.

“ . . . the PCAOB and other regulators around the world have expressed concern about the continued high rate of audit deficiencies identified in their inspections and other oversight activities. And many of these deficiencies appear to be associated with the insufficient exercise of professional skepticism.”

Jeanette M. Franzel
PCAOB Board Member
Anaheim, CA
August 5, 2013

American Accounting
Association Annual Meeting

One such triggering event is a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of an intangible asset. Other examples of triggering events include a significant adverse change in the extent or manner in which an intangible asset is being used by the company.

Per the discussion in this AAER, the respondents allegedly had knowledge and visibility into a material diminution in projected major customer sales activity, thereby indicating the value recorded on the company's balance sheet for these acquired customer relationships was impaired. Notably, the impairment would be made especially obvious since the valuation models used to record the customer relationship values were based on sales volumes that would be far greater than actually realized. Put simply, the facts were inconsistent with the estimates and assumptions.

Auditing fair value calculations and models, including those for intangible assets on financial statements, may be among the more difficult tasks performed by an auditor. On the surface, valuation calculations often appear highly quantitative and scientific in nature. However, behind the numbers in the models are management judgments, estimates and assumptions about future cash flows. Testing the reasonableness of these items is not an easy task.

Guidance on auditing fair value is found in the PCAOB's AU 328, Auditing Fair Value Measurements and Disclosures including,

- Understanding the Entity's Process for Determining Fair Value Measurements and Disclosures and the Relevant Controls, and Assessing Risk
- Evaluating Conformity of Fair Value Measurements and Disclosures with GAAP
- Engaging a Specialist
- Testing the Entity's Fair Value Measurements and Disclosures
- Disclosures About Fair Value
- Evaluating the Results of Audit Procedures
- Management Representations and
- Communication with Audit Committees

Predicting future events as part of any financial reporting decision presents unique challenges. That said, when facts are presented that are inconsistent with critical future assumptions underlying financial reporting assertions, they should not be dismissed or rationalized without substantial support and or disclosure.

The entire audit function is built on a foundation of professional skepticism. PCAOB standards define professional skepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence, and it is essential to the performance of effective audits under Board standards. PCAOB *Staff Audit Practice Alert No. 10: Maintaining and Applying Professional Skepticism in Audits* focuses on the importance of professional skepticism, discusses factors that impair an auditor's skepticism, and steps that firms and auditors can take to enhance their application of professional skepticism.

"Financial reporting is crucial for evaluating corporate performance. The use of generally accepted accounting principles (GAAP) strives to create consistent reporting that is comparable across different issuers and enhances analysis of such companies by the market. Such analysis tends to result in better valuations of issuers and more efficient markets. Hence, the benefits of accurate and high quality financial reporting are incalculable."

Commissioner Michael S. Piwowar
New York, New York
November 16, 2015

Remarks at the 34th Annual
Current Financial Reporting
Issues Conference

www.floydadvisory.com

ACKNOWLEDGEMENT

We wish to acknowledge the valuable contribution to this analysis by Selina Lee and Daniel J. Terceiro.

For more information, please contact George R. Ives at 646.449.7275.

ABOUT Floyd Advisory

Floyd Advisory is a consulting firm providing financial and accounting expertise in areas of Business Strategy, Valuation, SEC Reporting, and Transaction Analysis.

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