

## Insights from Accounting and Auditing Enforcement Releases for the Quarter Ended March 31, 2025



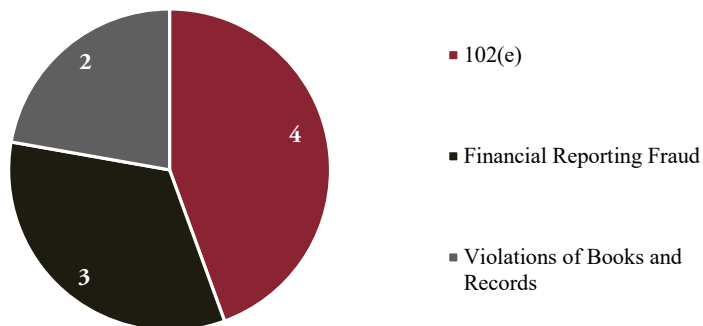
### Introduction

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission’s (“SEC” or “Commission”) Division of Enforcement’s Accounting and Auditing Enforcement Releases (“AAERs”) for the quarter ended March 31, 2025. The AAERs issued by the SEC are defined as financial reporting-related enforcement actions concerning civil lawsuits brought in federal court and notices and orders concerning the institution and/or settlement of administrative proceedings.

### Q1 2025 Overview

The SEC released nine AAERs during Q1 2025. Notably, 102(e) Actions was the most prevalent category, followed closely by Financial Reporting Fraud and Violations of Books and Records, as depicted in the graph below:<sup>1</sup>

Q1 2025 AAERs by Category



<sup>1</sup> One AAER released during this quarter related to Financial Reporting Fraud and a 102(e) Action. For purposes of this summary and the analyses herein, we have categorized the AAER as Financial Reporting Fraud.

## Highlights

- The Commission imposed penalties this quarter totaling nearly \$31 million. While this amount marks a 75% decrease from the total penalties imposed in Q1 last year (over \$124 million), there were fewer AAERs issued this quarter.
- 102(e) Actions accounted for 44% of total releases this quarter, a significant increase from 7% in Q1 of last year. Notably, one of the 102(e) Actions this quarter related to an audit engagement partner for allegedly violating auditor independence rules as well as the terms of a prior SEC-imposed sanction.
- The three Financial Reporting Fraud-related releases accounted for one-third of releases this quarter and resulted in 88% of the total penalties issued. Two of these releases are summarized in our “Notable AAERs” section below.
- The SEC issued two AAERs this quarter related to Violations of Books and Records. One release was the result of a company’s longstanding material internal control weaknesses, particularly with respect to related party transactions and revenue recognition, and the other the result of failing to maintain effective controls for non-financial disclosures.
- There were nine releases issued in Q1 2025, which is tied with Q4 2023 for the least number of quarterly AAERs issued since Q1 2021 (six releases). This and other trends are summarized in our “Quarterly Trends” section on the next page.

## Notable AAERs

While understanding the categorical breakdown of the types of releases issued by the SEC each quarter can be insightful, we have also summarized two specific releases below that relate to Financial Reporting Fraud and resulted in \$27 million of penalties:

- ***A food distributor raised \$80 million in funds after providing certain investors with materially overstated financial information.*** The release alleges that from 2019 to early 2021, the California-based food distributor provided investors with financial statements that materially overstated historical revenues. These financial statements were prepared by a former employee with limited accounting experience. In 2019, in preparation for an audit and potential IPO, the company hired a CPA as its Corporate Controller (later promoted to CFO) who determined that the “original” financial statements could not be independently verified and instead began concurrently preparing a revised version that was supportable and traceable. The Commission alleges that despite clear indications by 2020 that the “original” financial statements contained material issues, the company continued to issue them to potential investors through early 2021 and, in at least one case, alerted an investor of the revised financial statements only after an investment was received. The SEC acknowledged certain remedial measures undertaken by the company but nonetheless ordered the food distributor to pay a civil money penalty of \$8 million for the alleged misconduct.
- ***A public holding company received a cease-and-desist order for misleading investors about its connection to a multi-year political corruption scheme.*** According to the release, starting in December 2014, the company funded and directed a 501(c)(4) organization (“nonprofit organization”) to contribute millions of dollars to other nonprofit organizations that were associated with politicians in an effort to further its own interests. These contributions included \$1.2 million to an organization that benefited a politician who was criminally charged in July 2020 for federal racketeering and conspiracy as a result of accepting bribes from an unrelated company. Following the public arrest of that individual and a news article linking the holding company to schemes that he was involved in, the company issued a press release that falsely asserted it had not made any contributions to nonprofit organizations linked to the individual. In addition, the release alleges that, among other things, the company failed to disclose material related party transactions in its 2019 10-K. For the Company’s alleged fraudulent disclosures and other misconduct,<sup>2</sup> the SEC ordered the holding company to pay a civil money penalty of \$19 million and assist the Commission with the distribution of monetary relief to the affected investors.

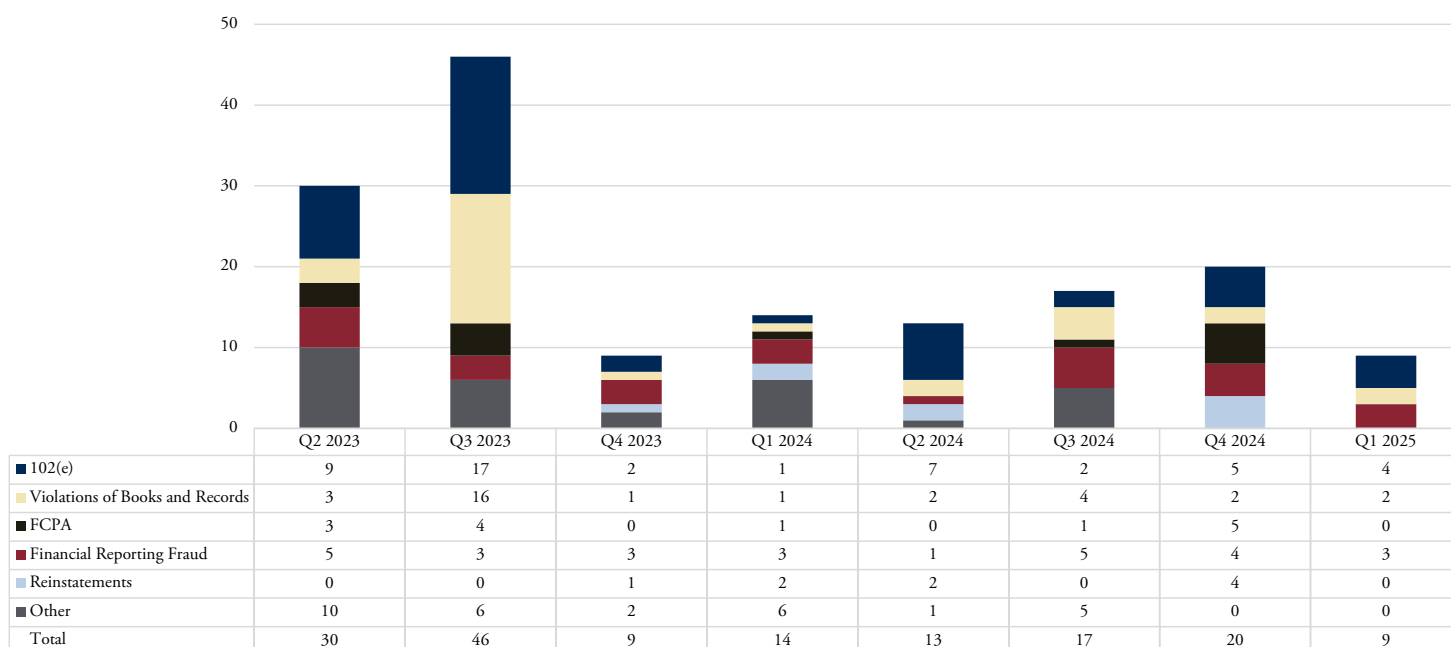
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2 See SEC’s summary related to this matter for Administrative Proceeding File No. 3-22425 issued January 17, 2025.

## Quarterly Trends

Comparisons of the number of AAERs between periods can be a useful gauge of the SEC's activities. The following chart maps quarterly totals for each category over the past eight quarters.

Quarterly AAER Comparison: Q2 2023 through Q1 2025



We have made the following observations based on the releases issued this quarter and in past quarters:

- Notably, there were no FCPA-related releases this quarter, compared to five last quarter. This is consistent with recent trends where, following a quarter (or multiple quarters) with multiple FCPA-related matters, the Commission's focus appears to shift away from the category in the current quarter.
- Similarly, there were no Reinstatements this quarter, compared to four last quarter. In calendar year 2024, the SEC reinstated eight individuals, compared to only one in calendar year 2023.
- Of the four 102(e) Actions issued this quarter, only one (25%) related to an auditor and issues that arose during an audit, compared to the seven preceding quarters where, on average, 37% of the 102(e) Actions related to auditors or audit firms and issues that arose during audits.
- There were two Violations of Books and Records releases this quarter, and three Financial Reporting Fraud releases. The number of releases this quarter for both categories is consistent with the average number of releases for each category in the preceding five quarters.

**ACKNOWLEDGEMENT:** We wish to acknowledge the valuable contribution to this analysis by Amanda Savona, Rachel Seow, and Marni Kaufman. For more information, please contact LeeAnn Manning at 617.586.1076 or Meghan Mellott at 646.449.7265.

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