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Public Company Accounting Oversight Board

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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS *In the Matter of Michael T. Studer, CPA, P.C. and Michael T. Studer, CPA,* *Respondents.*	PCAOB Release No. 105-2012-007 September 7, 2012

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring the registered public accounting firm Michael T. Studer, CPA, P.C., (the "Firm") and Michael T. Studer, CPA ("Studer") (collectively, "Respondents"); (2) requiring the Firm to retain an independent monitor; (3) temporarily limiting the activities, functions, and operations of the Firm, including by prohibiting the Firm from issuing an audit report for an issuer subject to the attestation and reporting requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended (the "Act") for a period of three years, further conditioned, without any time limitation, on issuance of a certificate of compliance by the independent monitor and Studer obtaining 60 hours of continuing professional education; and restricting the Firm, unless and until the independent monitor issues a certificate of compliance, from certain activities, functions, and operations relating to client acceptance, issuance of issuer audit reports, broker-dealer financial statement certification, and substantial role participation. In addition, the Firm is required to provide a copy of this Order to its issuer audit clients, and Studer is prohibited, unless and until the independent monitor issues a certificate of compliance, from serving as an assistant, engagement partner or engagement quality reviewer for an audit performed by another PCAOB-registered public accounting firm.

The Board is imposing these sanctions on the basis of its findings concerning Respondents' violations of PCAOB rules and auditing standards and PCAOB quality control standards in connection with the Firm's integrated audit of internal control over financial reporting and financial statements of one issuer client as of and for the year ended December 31, 2008, and the Firm's audits of the financial statements of two issuer clients for the years ended December 31, 2006 and 2007, respectively.

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I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against Michael T. Studer, CPA, P.C., and Michael T. Studer, CPA.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[1/]

III.

On the basis of Respondents' Offers, the Board finds[2/] that:

A. <u>Respondents</u>

1. Michael T. Studer, CPA, P.C., is a public accounting firm located in Freeport, New York. At all relevant times, the Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB Rules. The Firm is licensed by the New York State Board for Public Accountancy (License No. 020749).

[1/] The findings herein are made pursuant to the Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

[2/] The Board finds that each Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5)(A) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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2. Michael T. Studer, 62, of Amityville, New York, is a certified public accountant licensed in the State of New York (License No. 033662). He is the sole stockholder of the Firm and, at all relevant times, was President of the Firm and an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

3. This matter concerns Respondents' failure to comply with PCAOB auditing standards in auditing management's assessment of the effectiveness of internal control over financial reporting and the financial statements of Biocoral, Inc. ("Biocoral") as of and for the year ended December 31, 2008; the financial statements of China Clean Energy, Inc. ("China Clean") and China Kangtai Cactus Bio-Tech, Inc. ("China Kangtai") as of and for the years ended December 31, 2006 and 2007;[3/] and the Firm's failure during the relevant audits to comply with certain PCAOB quality control standards.[4/]

4. In March 2009, the Firm, at Studer's direction, issued an unqualified audit report on Biocoral's internal control over financial reporting ("ICFR") as of December 31, 2008, without sufficient basis for the opinion expressed in the report. The Firm issued the ICFR report despite Respondents' failure to perform required audit procedures including, among others, identification and testing of Biocoral's internal controls.[5/] The Firm concurrently issued an unqualified audit report (with a going concern explanatory paragraph) on Biocoral's financial statements as of and for the year ended December 31, 2008. Respondents violated PCAOB standards in connection with the Firm's audit of Biocoral's financial statements by failing to perform procedures to adequately test the existence and valuation of Biocoral's intangible assets.[6/] In addition, Respondents failed to prepare the Firm's audit documentation for the integrated audit in accordance with PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3").

3/ See PCAOB Rules 3100, 3200T; AU § 150.02, Generally Accepted Auditing Standards; AU § 230, Due Professional Care in the Performance of Work; AU § 311.11, Planning and Supervision, AU § 326, Evidential Matter; PCAOB Auditing Standard No. 3, Audit Documentation; AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.

4/ See PCAOB Rule 3400T, Interim Quality Control Standards; QC §§ 20.07, .13, .17-.20, .23, System of Quality Control for a CPA Firm's Accounting and Auditing Practice; QC §30.03, Monitoring a CPA Firm's Accounting and Auditing Practice.

5/ See AS No. 5.

6/ See AU §§ 150.02, 230, 326.

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5. The Firm, at Studer's direction, issued unqualified audit reports on the financial statements of two China-based issuers, China Clean and China Kangtai, as of and for the years ended December 31, 2006 and 2007 (dated March 8, 2007 and March 7, 2008 for China Clean and March 30, 2007 and April 11, 2008 for China Kangtai, respectively). In conducting these audits, Respondents used assistants based in Canada to perform field work in China and a significant portion of the Firm's audit procedures. Respondents failed, however, to direct the efforts of these assistants or review the work performed in order to ensure that the Firm's audit documentation would be prepared in accordance with PCAOB standards.[7/] A substantial amount of the Firm's audit documentation for each of these four audits was not prepared in accordance with AS No. 3 and failed to indicate who performed the work, the date such work was completed, who reviewed the work, and the date of such review.

6. PCAOB rules also require that a registered public accounting firm comply with certain quality control standards.[8/] During the relevant audits, Studer had sole responsibility for developing and maintaining the Firm's quality control policies and procedures. Under PCAOB standards, a firm should establish policies and procedures to encompass, among other things, (a) personnel management, (b) engagement performance, and (c) monitoring.[9/] Under Studer's direction, the Firm failed to establish policies and procedures that provided reasonable assurance that the Firm's audits would comply with applicable professional standards, regulatory requirements, and the Firm's standards of quality.[10/] The Firm failed to communicate the substance of its quality control policies and procedures to its personnel in a manner that provided reasonable assurance that those policies and procedures were understood and complied with, and failed to establish policies and procedures to provide reasonable assurance that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances.[11/] The Firm also failed to implement monitoring procedures to provide reasonable assurance that the Firm's system of quality control policies and procedures were suitably designed and were being

[7/] See AU § 311.11, .13; AS No. 3.

[8/] See PCAOB Rules 3100, 3400T.

[9/] QC §§ 20.07, .17-.20.

[10/] QC §§ 20.17-.19.

[11/] QC §§20.13, .23.

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effectively applied.[12] Studer knew, or was reckless in not knowing, that his actions or omissions to act would directly and substantially contribute to these violations, in violation of PCAOB Rule 3502.

C. Respondents Violated PCAOB Rules and Auditing Standards

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards and related professional practice standards.[13] An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[14] Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, obtain sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements, and properly supervise the efforts of assistants and review their work.[15] As detailed below, Respondents failed to meet these standards in connection with the integrated audit of the internal control over financial reporting and financial statements of Biocoral as of and for the year ended December 31, 2008. Respondents also failed to comply with PCAOB audit documentation standards in connection with the Firm's integrated audit of Biocoral as of and for the year ended December 31, 2008, and the Firm's audits of the financial statements of China Clean and China Kangtai as of and for the years ended December 31, 2006 and 2007.[16]

Integrated Audit of Biocoral's Internal Control Over Financial Reporting and Financial Statements as of and for the year ended December 31, 2008

8. Biocoral is a Delaware corporation based in La Garenne Colombes, France. Biocoral's public filings disclose that it is a biomaterials company specializing in the research, development, and commercialization of patented biotechnologies and biomaterials in the health care area. At all relevant times, Biocoral was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

12/ QC §§ 20.20, 30.02.

13/ See PCAOB Rules 3100, 3200T.

14/ See AU § 508.07, Reports on Audited Financial Statements.

15/ See PCAOB Rules 3100, 3200T; AU §§ 150.02, 230, 311.11, 326.

16/ See AS No. 3.

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9. The Firm, at Studer's direction, was engaged as Biocoral's independent auditor in February 2009, and issued an audit report dated March 27, 2009, expressing an unqualified opinion on Biocoral's ICFR as of December 31, 2008. The Firm also issued an audit report dated March 27, 2009, expressing an unqualified opinion (with a going concern explanatory paragraph) on Biocoral's financial statements as of and for the year ended December 31, 2008. These reports accompanied Biocoral's Form 10-K filed with the Commission on March 31, 2009. Studer authorized the issuance of the Firm's audit reports and understood that he had final responsibility, as that phrase is used in AU § 311, *Planning and Supervision*, for the integrated audit.

10. Prior to the Firm's ICFR audit report, Respondents had never performed an ICFR audit. Respondents were aware, however, that a PCAOB-registered French audit firm had issued audit reports dated February 20 and 27, 2009, respectively, for two of Biocoral's subsidiaries, Inoteb, Inc. and Biocoral France, on those entities' ICFR and financial statements as of and for the year ended December 31, 2008. Biocoral's consolidated financial statements as of and for the year ended December 31, 2008, included these two subsidiaries. Respondents did not participate in these audits.

11. Respondents determined to serve as principal auditor for the integrated audit of Biocoral's ICFR and financial statements. As such, neither the Firm's ICFR nor financial statement audit reports made reference to the French audit firm or reliance on the work of other auditors.[17/]

ICFR Audit Failure

12. Respondents issued an unqualified ICFR audit report on March 27, 2009 accompanying Biocoral's Form 10-K filed with the Commission on March 31, 2009, but failed to perform an audit of Biocoral's ICFR in accordance with PCAOB standards, including the general standards requiring, among other things, technical training and proficiency as an auditor and the exercise of due professional care, including professional skepticism.[18/] Respondents did not perform procedures adequate to afford a reasonable basis for the Firm's ICFR report, and did not obtain competent evidence that was sufficient to obtain reasonable assurance about whether material weaknesses existed as of December 31, 2008—the date specified in management's assessment.[19/]

17/ See AU § 543.

18/ See AS No. 5, ¶4; AU §§ 150, 230.

19/ See AS No. 5, ¶¶3; AU § 150.02

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13. Studer personally performed the Firm's integrated Biocoral ICFR and financial statement audit. Studer visited Biocoral management in France during field work in early March 2009.

14. At the time he conducted field work, Studer did not have a written audit plan concerning ICFR and did not utilize any audit programs in connection with the audit of Biocoral's ICFR. As such, the Firm's audit documentation relating to ICFR resulting from Studer's field work was minimal. Indeed, the Firm's work papers do not evidence that Studer based the Firm's opinion at the time of the issuance of the Firm's ICFR report on any ICFR procedures performed by the Firm.

15. In fact, Respondents failed to adequately identify or test controls at Biocoral, and failed to perform other procedures required by AS No. 5. For example, Respondents failed to: use a top-down approach to select the controls to test, adequately test entity-level controls, identify significant accounts and disclosures and their relevant assertions, evaluate qualitative and quantitative risk factors related to the financial statement line items and disclosures, determine the likely sources of potential misstatements that would cause the financial statements to be materially misstated, understand how information technology affected the flow of transactions, select controls to test that were important to the conclusion about whether Biocoral's controls sufficiently addressed the risk of misstatement to each relevant assertion, and test the design effectiveness and operating effectiveness of controls.[20/]

16. Respondents also failed to gain an adequate understanding of the procedures performed by the French audit firm that supported its ICFR opinions of Biocoral subsidiaries Inoteb, Inc. and Biocoral France, and failed to evaluate the extent to which the work relating to the subsidiaries' ICFR could be used to reduce the work Respondents would otherwise have performed.[21/] Studer was unable to read the audit documentation prepared by the French firm, which was predominantly in French, and never had it translated. Under these circumstances, Respondents failed to participate sufficiently in the French firm's subsidiary's internal control audits to provide a basis for serving as the principal auditor of Biocoral's ICFR.[22/]

[20/] See AS No. 5, ¶¶21-22, 28-30, 36, 39, 42, 44.

[21/] See AS No. 5, ¶16.

[22/] See AS No. 5, Appendix C, ¶ C8 (referencing AU § 543, Part of Audit Performed by Other Independent Auditors).

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17. In addition, to the extent the Firm, as the principal auditor, wholly relied on the French audit firm's subsidiary ICFR audits to audit Biocoral's ICFR, such reliance was unreasonable under the circumstances, given the Firm's failure to perform ICFR audit procedures on the other Biocoral subsidiaries unaddressed by the French firm's audits. The French firm's ICFR reports did not address the ICFR of the issuer, Biocoral, Inc., nor did they address six of Biocoral's other subsidiaries, which comprised approximately $4.6 million, or 92%, of Biocoral's total consolidated liabilities of $5.0 million, approximately $800,000, or 57%, of Biocoral's total consolidated assets of $1.4 million, approximately $342,000, or 51% of Biocoral's total consolidated operating expenses of $676,000, and approximately $216,000, or 100%, of total consolidated interest expense, net.

18. Respondents also failed to obtain required written representations from management relating to Biocoral's ICFR.[23/] The Firm's failure to obtain written representations from management, including management's refusal to furnish them, constitutes a limitation on the scope of the audit.[24/] Under these circumstances, Respondents failed to either withdraw from the engagement or disclaim the Firm's opinion in accordance with PCAOB standards.[25/]

ICFR Audit Documentation Failure

19. Given the lack of sufficient ICFR procedures by Respondents, the Firm's audit documentation relating to ICFR did not clearly demonstrate that the work was in fact performed, and did not demonstrate that the engagement complied with PCAOB standards or contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and to determine who performed the work, the date such work was completed, the person who reviewed the work, and the date of such review.[26/] Prior to the report release date of March 27, 2009, Respondents had not, in violation of PCAOB standards, obtained sufficient evidence to support the Firm's ICFR opinion as of December 31, 2008.[27/]

23/ See AS No. 5, ¶75.

24/ See AS No. 5, ¶76.

25/ See AS No. 5, ¶¶74, 76.

26/ See AS No. 3, ¶¶5-6.

27/ Id.; AS No. 5, ¶7.

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Financial Statement Audit Failure - Intangible Assets

20. PCAOB standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements.[28] Respondents failed to adhere to these standards with respect to the Firm's audit of Biocoral's reported net intangible assets at December 31, 2008.

21. Biocoral's financial statements as of and for the year ended December 31, 2008, reported net intangible assets of $774,000, which comprised approximately 55% of Biocoral's total consolidated assets as of December 31, 2008. During the audit, Respondents determined that Biocoral's intangible assets, comprised primarily of patents, posed a significant audit risk.

22. Notwithstanding the identified significant audit risk, Respondents failed to sufficiently audit Biocoral's patents by failing to: (1) perform procedures sufficient to assess whether the amounts recorded as patents as of December 31, 2008 existed; and (2) sufficiently determine whether Biocoral's patents were impaired (*i.e.*, whether the carrying value of the patents exceeded their fair value). For example, Respondents failed to obtain sufficient competent evidential matter related to additions to the patent account balances during fiscal 2008.[29]

23. During 2008, Biocoral capitalized intangible assets totaling approximately $134,000—an amount equal to approximately 17% of the December 31, 2008 net intangible asset balance. Respondents obtained listings of legal invoices in French detailing the costs capitalized, but failed to adequately test whether the nature of the costs capitalized was related to the patents and had a future benefit. Accordingly, Respondents failed, in violation of PCAOB standards, to design procedures relating to Biocoral's intangible asset account balance to obtain reasonable assurance of detecting misstatements that they believed, based on the preliminary judgment about materiality, could be material, when aggregated with misstatements in other balances or classes, to the financial statements taken as a whole.[30]

24. Additionally, to test the existence of the patents, Respondents obtained and reviewed a listing of patents prepared by management. Studer knew the listing was

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[28] See AU §§ 150.02; 230; 326.

[29] See AU § 326.01.

[30] See AU § 312.25, Audit Risk and Materiality in Conducting an Audit.

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outdated, but did not obtain an updated listing or take steps to check whether the patents listed had a future benefit. Respondents also failed to adhere to PCAOB standards by failing to determine the reasonableness of the useful lives of the patents and whether the patents' useful lives related to the periods over which the patents were expected to contribute to Biocoral's future cash flows.[31/]

25. Studer also knew, or should have known, that under generally accepted accounting principles in the United States ("GAAP"), specifically, Statement of Financial Accounting Standards ("SFAS") 142, it was necessary for Biocoral to review its patents for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* To support the recoverability of its patents, Biocoral's management provided Respondents with a schedule of revenues that management projected would be generated by sales of product related to the patents during the next four years, with revenues increasing from $1.4 million in 2009 to $36.9 million in 2012.

26. Respondents knew that the projections on the schedule were overly optimistic, but accepted the schedule, without testing it or obtaining additional audit evidence, even though the schedule did not include all the information necessary to assess the valuation of the patents, such as the cash flows associated with: developing the products relating to the patents, generating revenues, or maintaining the patents.[32/] Moreover, Respondents knew that Biocoral had revenues of approximately $464,000 and $499,500 during the fiscal years ended December 31, 2007, and 2008, respectively, which were much lower than the projected revenues. Respondents were also aware that Biocoral had net losses from operations of approximately $438,000 and $388,000 and negative cash flows provided by operating activities of approximately $195,000 and $252,000 during the fiscal years ended December 31, 2007, and 2008, respectively—evidence suggesting continuing losses and significant cash outflows associated with the use of the patents. Respondents thus failed, in accordance with PCAOB standards, to be thorough and unbiased in the evaluation of the evidence obtained;[33/] to adequately review and test management's process for developing its estimate of the future cash flows associated with the patent costs recorded as intangible assets; and to adequately assess the reasonableness of management's estimate with

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31/ See AU § 230; Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, ¶ 11.

32/ SFAS 144, ¶ 16, provides that estimates of future cash flows to test recoverability should include cash inflows less associated cash outflows.

33/ See AU § 326.25.

professional skepticism in light of Biocoral's continuing losses and significant cash outflows.[34/]

Financial Statement Audit Documentation Failure

27. Studer, as the auditor with final responsibility for the audit, was responsible for ensuring that the Firm's audit of Biocoral's financial statements as of and for the year ended December 31, 2008 was properly documented under PCAOB standards. In violation of PCAOB standards, Respondents failed, in certain instances, to prepare and maintain audit documentation containing sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and the date such work was completed.[35/] For example, the Firm's audit documentation purporting to list Biocoral's patents, a listing of finished goods inventory, and a handwritten summary referencing the valuation of Biocoral's inventory, failed to contain this information.

Audits of the 2006 and 2007 Financial Statements of China Clean and China Kangtai

28. China Clean is a Delaware corporation with principal operations in Fujian, China. China Clean's filings disclose that its primary activity is the manufacture and distribution of biodiesel and specialty chemical products. At all relevant times, China Clean was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

29. China Kangtai is a Nevada corporation headquartered in Harbin, China, with principal operations in China. China Kangtai's public filings disclose that it produces and markets products derived from cacti, including cactus drinks and nutritional supplements. At all relevant times, China Kangtai was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

30. The Firm issued unqualified audit reports on China Clean's and China Kangtai's financial statements for the years ended December 31, 2006 and December 31, 2007, (dated March 8, 2007 and March 7, 2008 (China Clean) and March 30, 2007

[34/] See AU §§ 342.04, .07, .11, Auditing Accounting Estimates.

[35/] See AS No. 3, ¶6.

and April 11, 2008 (China Kangtai), respectively).[36/] Those reports accompanied the issuers' Form 10-KSB filings with the Commission on March 13, 2007, March 12, 2008, April 2, 2007, and April 15, 2008, respectively. Studer understood he had final responsibility, as that phrase is used in AU § 311, for these audits.

31. In August 2006, Studer, on behalf of the Firm, entered into an agreement with a Canadian consulting firm, which was not registered with the PCAOB, to serve as assistants on audits of the Firm's issuer clients, including China Clean and China Kangtai. Studer had not previously worked with the Canadian firm or any of the provided assistants.

32. Studer primarily communicated with the assistants in Canada via e-mail and telephone. He did not visit the assistants except for once in August 2006, when he met some, but not all, of the assistants his Firm relied upon for the Firm's China Clean and China Kangtai audits. Studer never traveled to China to observe or supervise field work for the Firm's audits of China Clean and China Kangtai's 2006 and 2007 financial statements.

Audit Documentation Failure and Failure to Supervise

33. Studer understood that the Firm's audits of China Clean and China Kangtai's 2006 and 2007 financial statements were required to be documented in accordance with AS No. 3 and that he was responsible for ensuring that the audit engagement's documentation complied with PCAOB standards. Studer understood that as the auditor with final responsibility for the Firm's audits, he was responsible for supervising the work of his assistants, including those assistants provided by the Canadian firm.

34. Certain documentation prepared by the Firm's assistants based in Canada for the Firm's audits of China Clean and China Kangtai's 2006 and 2007 financial statements was not prepared in accordance with AS No. 3.[37/]

35. The deficient audit documentation appears in multiple audit areas in both the China Clean and China Kangtai audits. For example, for the 2006 audit of China

[36/] Of 42 issuer audit reports issued by the Firm for the periods ended March 31, 2011 and 2012, 16 were for issuers with substantially all of their operations in the People's Republic of China, the Hong Kong Special Administrative Region, or Taiwan.

[37/] The Firm's assistants provided the audit documentation relating to these two China-based issuer audits to Studer in the United States.

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Clean, the Firm's fixed assets and cash lead sheets for Fujian Zhongde Technology Co., Ltd., the operating subsidiary for China Clean, do not contain any preparer or reviewer sign-offs and do not indicate the date of completion or review, as required by PCAOB standards.[38/] Inventory and receivables lead sheets from the audit work papers lack dates or any indication that they were reviewed during the audit. Similarly, the audit programs for the Firm's 2006 audit of China Clean show preparer initials in the "prepared by and date" column, but lack dates of completion or any evidence of review.

36. As these examples indicate, certain of Respondents' audit documentation for the Firm's audits of China Clean and China Kangtai's 2006 and 2007 financial statements does not, in violation of PCAOB standards, contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and the date such work was completed, and the person who reviewed the work and the date of such review.[39/] As such, it is difficult to determine if certain work was in fact performed.[40/] For example, the Firm's fraud risk procedures with respect to the 2006 and 2007 China Clean and China Kangtai audits, to the extent performed, were not documented.

37. In addition, certain of the audit programs in English included in the China Clean and China Kangtai audit work papers for the fiscal year ended December 31, 2007 were prepared by Firm assistants in late 2008, several months after the documentation completion dates for these audits. These audit programs include programs for the operating subsidiaries of China Clean and China Kangtai addressing planning; general auditing and completion; cash; accounts receivable and sales; inventory and cost of sales; inventory observation; property; other assets; accounts payable and other liabilities; notes payable and long-term debt; income taxes, capital stock and other equity accounts; income and expenses; and internal control procedures. This audit documentation failed to indicate the date the documentation was added, the name of the person who prepared the additional documentation, and the reason for adding the programs to the audit work papers after the documentation completion date.[41/]

[38/] See AS No. 3, ¶6.

[39/] Id.

[40/] Id.

[41/] See AS No. 3, ¶16.

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38. Respondents failed, in violation of PCAOB standards, to appropriately supervise the work of the Canada-based assistants. Studer, as the auditor with final responsibility for the audits, failed to ensure that the assistants understood the procedures to be performed in order to comply with PCAOB audit documentation standards, and he failed to adequately review the work performed.[42/]

D. Respondents Violated PCAOB Quality Control Standards and Studer Caused those Violations

39. PCAOB standards provide that a firm should establish policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[43/] A firm should establish policies and procedures to encompass, among other things, engagement performance, including the establishment of policies and procedures to provide reasonable assurance that, among other things, personnel consult on a timely basis with individuals within or outside the firm when appropriate, for example, when dealing with unfamiliar issues.[44/]

40. A firm should also establish quality control policies and procedures relating to monitoring to provide reasonable assurance that the firm's policies and procedures regarding, among other things, engagement performance, are suitably designed and are being effectively applied.[45/] A firm should also communicate its quality control policies and procedures to its personnel in a manner that provides reasonable assurance that those policies and procedures are understood and complied with, and establish policies and procedures to provide reasonable assurance that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.[46/] As described below, the Firm violated these quality control standards, and Studer directly and substantially contributed to those violations.

42/ See AU § 311.11. Given that a significant portion of the audit documentation was in Chinese, and Studer did not read Chinese and did not have the audit documentation translated into English, he also could not adequately review those portions of the work performed.

43/ QC § 20.17.

44/ QC §§ 20.17-.19.

45/ QC §§ 20.20, 30.03.

46/ QC §§ 20.13, .23.

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41. The Firm maintained and updated its quality control policies and procedures during the relevant audits. Those policies dictated, among other things, that work assigned to the Firm's assistants would, in accordance with PCAOB standards, be assigned to personnel having a requisite level of technical training and proficiency;[47/] that the work of assistants would be supervised and reviewed;[48/] and the Firm, when necessary, would consult with individuals with appropriate expertise within or outside the Firm to ensure the work performed meets appropriate standards of quality.[49/] The Firm also established monitoring procedures to effectuate the evaluation of, and compliance with, the Firm's quality control policies and procedures.[50/] The Firm, however, under Studer's direction, failed to adhere to these policies and procedures during the relevant audits.

42. During the Biocoral engagement, Studer, who had never performed an ICFR audit, failed to consult with individuals with appropriate expertise in order to ensure that the Firm's integrated audit met PCAOB standards, even though the Firm's quality control policies and procedures mandated that he do so.

43. During the China Clean and China Kangtai audits, the Firm heavily relied on audit assistants located in Canada who were unfamiliar with PCAOB audit documentation requirements. The Firm did not ensure that the work was assigned to assistants having the degree of technical training and proficiency required in the circumstances to comply with PCAOB audit documentation standards and did not provide adequate supervision to evaluate compliance with PCAOB standards. Studer failed to ensure that the Firm's quality control policies and procedures were followed, or ensure that the work of the Firm's Canada-based assistants was appropriately reviewed, supervised and evaluated to determine whether it complied with PCAOB standards.

44. Despite creating quality control monitoring policies and procedures during the relevant audits, Studer never performed, in accordance with those policies and procedures, an evaluation of their efficiency and effectiveness, an assessment of the Firm's compliance with its quality control policies and procedures, an evaluation of the

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47/ See QC §20.13.

48/ See QC § 20.18.

49/ See QC § 20.19.

50/ See QC §§ 20.20, 30.03.

training and experience of Firm personnel, or a review of whether the Firm's policies and procedures were reasonably designed and were being effectively applied.

45. Studer was the President of the Firm during the relevant time period. At all relevant times, Studer was responsible for designing, implementing, and monitoring the Firm's system of quality control. All of the Firm's conduct described above was either conduct of Studer's, or omissions to act for which Studer was responsible. With respect to all such acts and omissions, Studer knew, or was reckless in not knowing, that the act or omission would directly and substantially contribute to the quality control failings described above, which constituted violations of the Board's quality control standards. Studer thereby violated PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Michael T. Studer, CPA, P.C. and Michael T. Studer, CPA, are hereby censured;

B. Pursuant to Sections 105(c)(4)(C), (F), and (G) of the Act and PCAOB Rules 5300(a)(3), (6), (7) and (9); the Board ORDERS that:

1. <u>Acceptance of New SEC Issuer Audit Clients</u>. From the date of this Order, the Firm shall not accept any new SEC Issuer Audit clients prior to the issuance of the Certificate of Compliance (defined at paragraph B(7)(i) below). The term "SEC Issuer Audit" is defined to mean an engagement to audit the consolidated financial statements filed with the Commission of an "Issuer" as that term is defined in Section 2(a)(7) of the Act.

2. <u>Issuance of Audit Reports for SEC Issuers Subject to Section 404(b) of the Act</u>. For a period of three years from the date of this Order, the Firm shall not issue an audit report for an SEC Issuer subject to the attestation and reporting requirements of Section 404(b) of the Act. Further, the Firm shall not issue such a report prior to the issuance of the Certificate of Compliance, and unless and until Michael T. Studer, CPA obtains 60 hours of continuing professional education relating to PCAOB audit standards, including 20 hours relating to PCAOB Auditing Standard No. 5, *An Audit of*

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Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements. The term "audit report" is defined in Section 2(a)(4) of the Act.

3. Issuance of Audit Reports for SEC Issuers in the China Region. From the date of this Order, the Firm shall not issue an audit report for an SEC Issuer client with substantially all of its operations in the People's Republic of China, the Hong Kong Special Administrative Region, or Taiwan prior to the issuance of the Certificate of Compliance.

4. Certification of Broker-Dealer Financial Statements. From the date of this Order, the Firm shall not certify the financial statements, including the balance sheet and income statement, of a broker or dealer to be filed with the Commission pursuant to Section 17(e)(1)(A) of the Securities Exchange Act of 1934 ("Exchange Act") prior to the issuance of the Certificate of Compliance. The term "broker" means, as set forth in PCAOB Rule 1001(b)(iii), a broker (as defined in Section 3(a)(4) of the Exchange Act), that is required to file a balance sheet, income statement, or other financial statement under Section 17(e)(1)(A) of that Act, where such balance sheet, income statement, or financial statement is required to be certified by a registered public accounting firm. The term "dealer" means, as set forth in PCAOB Rule 1001 (d)(iii), a dealer (as defined in Section 3(a)(5) of the Exchange Act), that is required to file a balance sheet, income statement, or other financial statement under Section 17(e)(1)(A) of that Act, where such balance sheet, income statement, or financial statement is required to be certified by a registered public accounting firm.

5. Playing a Substantial Role in the Preparation or Furnishing of an Audit Report. From the date of this Order, the Firm shall not "play a substantial role in the preparation or furnishing of an audit report" of another PCAOB-registered public accounting firm, as that phrase is defined by PCAOB Rule 1001(p)(ii), prior to the issuance of the Certificate of Compliance.

6. Service as Assistant, Engagement Partner or Engagement Quality Reviewer. From the date of this Order, Studer shall not serve as an assistant, the auditor with primary responsibility, or as engagement quality reviewer for an audit (as defined in Section 2(a)(2) of the Act) performed by another PCAOB-registered public accounting firm prior to the issuance of the Certificate of Compliance.

7. Undertakings Related to the Role of the Independent Monitor.

a. Independent Monitor Selection and Retention. Michael T. Studer, CPA, P.C., will retain and pay for an independent third-party monitor not unacceptable

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to the PCAOB staff ("Independent Monitor") to review Respondents' compliance with the undertakings set forth in this Order.

Within 60 days after the entry of this Order, Respondents shall submit to the PCAOB staff a proposal setting forth the identity, qualifications, and proposed terms of retention of the Independent Monitor. Respondents may not retain as the Independent Monitor any individual or entity that has provided legal, auditing, or other services to, or has had any affiliation with either of the Respondents or any of the Firm's SEC Issuer, broker or dealer audit clients during the prior two years.

Respondents agree that their engagement agreement with the Independent Monitor shall require the Independent Monitor to agree that, for the period of engagement and for a period of two years from completion of the engagement, the Independent Monitor shall not enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such, and shall require that any firm with which the Independent Monitor is affiliated or of which the Independent Monitor is a member, or any person engaged to assist the Independent Monitor in performance of the Independent Monitor's duties under the Order shall not, without prior written consent of the PCAOB staff, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement. Respondents will provide to the PCAOB staff a copy of the engagement letter detailing the scope of the Independent Monitor's responsibilities. The date Respondents sign the engagement letter is the "Retention Date."

The term of the Independent Monitor shall expire upon the Certificate of Compliance Date. Respondents shall not have the authority to terminate the Independent Monitor before the Certificate of Compliance Date without the prior written approval of the PCAOB staff.

b. Role and Responsibilities Overview. The Independent Monitor will review and evaluate the quality control policies and procedures of Michael T. Studer, CPA, P. C., in areas including, but not limited to:

i. the requirements of PCAOB Rule 3400T, *Interim Quality Control Standards*, and related training;
ii. the requirements of QC § 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, and related training;

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iii. the requirements of QC § 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*, and related training;

iv. the requirements of PCAOB Auditing Standard No. 3, *Audit Documentation*, and related training;

v. the requirements of PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, and related training;

vi. the requirements of PCAOB Auditing Standard No. 9, *Audit Planning*, and related training; and

vii. the requirements of PCAOB Auditing Standard No. 10, *Supervision of the Audit Engagement*, and related training.

c. Review and Evaluation. The Independent Monitor's review and evaluation will assess the foregoing areas to determine whether the Firm has complied with this Order and whether the Firm's quality control policies and procedures provide reasonable assurance of compliance of the Firm's interim reviews and audits of SEC Issuer clients with PCAOB standards. Respondents will cooperate fully with the Independent Monitor and will provide reasonable access to firm personnel, information, and records as the Independent Monitor may reasonably request for the Independent Monitor's reviews and evaluations.

d. PCAOB Inspections. Respondents shall provide the Independent Monitor with PCAOB inspection comment forms and responses, and draft and final inspection reports in Respondents' possession pertaining to all prior PCAOB inspections of the Firm. The goal of this undertaking is to provide the Independent Monitor with additional information concerning criticisms or potential defects in the Firm's quality control system.

e. Report. Within 60 days of the Retention Date, the Independent Monitor will issue a written report ("Report") to the Firm: (a) summarizing the Independent Monitor's review and evaluation; and (b) making recommendations, where appropriate, reasonably designed to provide reasonable assurance of compliance of the Firm's interim reviews and audits of SEC Issuer clients with PCAOB standards. The Independent Monitor will provide a copy of the Report to the PCAOB staff when the Report is issued.

f. Firm Certification. Michael T. Studer, CPA, P.C, will adopt, as soon as practicable, all recommendations of the Independent Monitor in the Report. Within 30 days of the date of the issuance of the Report, Michael T. Studer, CPA, P. C., will certify in writing to the PCAOB staff that it has adopted and has implemented, or will implement without unnecessary delay, all recommendations of the Independent

Monitor ("Firm Certification"). The Firm Certification shall identify recommendations the Firm has implemented and a timeline for any recommendations to be implemented; provide written evidence of implementation in the form of a narrative; and set forth evidence sufficient to demonstrate that the recommendations have been, or will be, implemented in a timely manner. PCAOB staff may make reasonable requests for further evidence of implementation and Respondents agree to provide such evidence.

g. Second Review and Evaluation. Within 90 days of the date of issuance of the Firm Certification, the Independent Monitor will conduct a "Second Review and Evaluation," to assess whether the Firm has effectively adopted and implemented all recommendations of the Independent Monitor, and whether the Firm's quality control policies and procedures provide reasonable assurance of compliance of the Firm's interim reviews and audits of SEC Issuer clients with PCAOB standards. Respondents will cooperate fully with the Independent Monitor and will provide reasonable access to firm personnel, information, and records as the Independent Monitor may reasonably request for the Second Review and Evaluation.

h. Subsequent Evaluations. If the Independent Monitor does not issue the Certificate of Compliance within 30 days of the Second Review and Evaluation, the Independent Monitor shall make, on a quarterly basis, additional recommendations to, and subsequent periodic evaluations of, Respondents, until such time as the Independent Monitor issues the Certificate of Compliance. Respondents will adopt and implement, or implement without unnecessary delay, all recommendations of the Independent Monitor. The Independent Monitor shall notify the PCAOB staff of all such recommendations and evaluations. Respondents will cooperate fully with the Independent Monitor and will provide reasonable access to firm personnel, information, and records as the Independent Monitor may reasonably request for any such further review and evaluation.

i. Certificate of Compliance. Upon findings by the Independent Monitor that: (i) the Firm has complied with the undertakings set forth in this Order; and that (ii) the Firm has evidenced that its quality control policies and procedures provide reasonable assurance of compliance of the Firm's interim reviews and audits of SEC Issuer clients with PCAOB standards, the Independent Monitor will certify in writing that the Firm has satisfied each of the above specified conditions (the "Certificate of Compliance"). The Certificate of Compliance shall include a narrative supported by exhibits sufficient to demonstrate compliance. The Independent Monitor will provide a copy of the Certificate of Compliance to the PCAOB staff when issued.

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C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm shall provide a copy of this Order to its SEC Issuer audit clients by no later than 30 days after the date of this Order;

In determining whether to accept the Offers, the Board has considered these undertakings. Respondents agree that if the PCAOB staff believes that Respondents have not satisfied these undertakings within a reasonable time, said staff may petition the Board to reopen the matter to determine whether additional findings and sanctions are appropriate.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 7, 2012