PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-0757
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of HJ & Associates, LLC, S. Jeffrey Jones, CPA, Robert M. Jensen, CPA, and Charles D. Roe, CPA,

Respondents.

PCAOB Release No. 105-2017-001

January 24, 2017

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring HJ & Associates ("HJ" or the "Firm"), revoking the Firm's registration, and imposing a civil money penalty in the amount of $10,000 upon the Firm;[1] censuring S. Jeffrey Jones, CPA ("Jones"), barring Jones from being an associated person of a registered public accounting firm, and imposing a civil money penalty in the amount of $10,000 upon Jones;[2] censuring Robert M. Jensen, CPA ("Jensen") and suspending him from being an associated person of a registered public accounting firm for a period of one (1) year from the date of this Order; and censuring Charles D. Roe, CPA ("Roe") and suspending him from being an associated person of a registered public accounting firm for a period of one (1) year from the date of this Order.

The Board is imposing these sanctions on the basis of its findings that the Firm, Jones, Jensen, and Roe (collectively, "Respondents") violated PCAOB rules and standards, as follows: (a) the Firm, Jones, and Roe failed to comply with PCAOB auditing standards in connection with the audits of two issuers; (b) Jensen failed to comply with PCAOB auditing standards in connection with the audit of one issuer; and (c) the Firm failed to comply with PCAOB quality control standards.

---

[1] The Firm may reapply for registration after two (2) years from the date of this Order.

[2] Jones may file a petition for Board consent to associate with a registered public accounting firm after three (3) years from the date of this Order.

ORDER

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 Sarbanes-Oxley Act of 2002, as amended (the "Act") and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the "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 Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), as set forth below.[3]

III.

On the basis of Respondents' Offers, the Board finds that:[4]

A. Respondents

1. HJ & Associates, LLC is, and at all relevant times was, a professional corporation organized under the laws of the state of Utah, and headquartered in Salt Lake City, Utah. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice public accountancy by the state

---

[3] The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

[4] The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) 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.

of Utah (license no. 114967-2603). At all relevant times, the Firm was the external auditor for Blue Earth, Inc. ("Blue Earth") and Jameson Stanford Resource Corporation ("Jameson").

2. S. Jeffrey Jones, age 50, of South Jordan, Utah, is a certified public accountant licensed by the state of Utah (license no. 326621-2601). At all relevant times, Jones was a partner of the Firm and had primary responsibility for HJ's audit practice. Jones served as the engagement partner for the Blue Earth and Jameson audits discussed below. At all relevant times, Jones was 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).

3. Robert M. Jensen, age 59, of Salt Lake City, Utah, is a certified public accountant licensed by the state of Utah (license no. 149726-2601). At all relevant times, Jensen was the managing partner of the Firm, and he served as the engagement quality reviewer for HJ's audit of the 2012 financial statements of Blue Earth. At all relevant times, Jensen was 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).

4. Charles D. Roe, age 65, of Salt Lake City, Utah, was at all relevant times a certified public accountant licensed by the state of Utah (license no. 145257-2601). Roe's license with the state of Utah expired on September 30, 2016. At all relevant times, Roe was a partner of the Firm, and he served as the engagement quality reviewer for HJ's audits of the 2013 financial statements of Jameson, the 2013 financial statements of Blue Earth, and the 2013 internal control over financial reporting ("ICFR") of Blue Earth. At all relevant times, Roe was 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

5. This matter concerns Respondents' violations of PCAOB rules and auditing standards in connection with the audits of the 2013 financial statements of Jameson, the 2012 and 2013 financial statements of Blue Earth, and the 2013 ICFR of Blue Earth (collectively, the "Audits"). Respondents repeatedly failed to obtain sufficient appropriate audit evidence and to exercise due care and professional skepticism in connection with the Audits. More specifically: (a) the Firm and Jones failed to comply with PCAOB auditing standards in connection with each of the Audits; (b) Jensen failed to comply with PCAOB auditing standards in connection with the audit of Blue Earth's 2012 financial statements; and (c) Roe failed to comply with PCAOB auditing standards in connection with the audit of Jameson's 2013 financial statements, and the audits of Blue Earth's 2013 financial statements and ICFR.

ORDER

6. This matter also concerns the Firm's violations of PCAOB rules and quality control standards by failing to establish and implement quality control policies and procedures sufficient to provide HJ with reasonable assurance that Firm personnel would comply with applicable professional standards and the Firm's standards of quality.

C. Respondents Violated PCAOB Rules and Auditing Standards in Connection with the Audits.

7. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[5] 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.[6] Among other things, those standards require that an auditor exercise due professional care and professional skepticism in performing the audit.[7]

8. PCAOB standards require auditors to take certain steps in connection with the identification and assessment of risks of material misstatement. The auditor should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures.[8] The assessment of risk should continue throughout the audit and, when the auditor obtains audit evidence that contradicts audit evidence on which the original risk assessment was made, "the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments."[9]

---

[5] See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; and PCAOB Rule 3200T, *Interim Auditing Standards*.

[6] See AU § 508.07, *Reports on Audited Financial Statements.*

[7] See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

[8] See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS12") ¶ 4.

[9] Id. ¶ 74; see also Auditing Standard No. 9, *Audit Planning* ("AS9") ¶ 15 (auditors should modify overall strategy and audit plan as necessary if circumstances

ORDER

9. In the case of significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment, PCAOB standards require the auditor to gain an understanding of the business rationale for such transactions and whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraud.[10] And the auditor should evaluate whether the company's selection and application of accounting principles are appropriate for its business and consistent with the applicable financial reporting framework and accounting principles used in the relevant industry.[11]

10. PCAOB auditing standards require auditors to design and implement appropriate audit responses to the risks of material misstatement.[12] The auditor should determine whether it is necessary to make pervasive changes to the nature, timing, or extent of audit procedures to address adequately the assessed risks of material misstatement.[13] "The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence."[14] Where a risk of fraud is identified, the auditor is required to perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks.[15]

11. The auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[16] The "auditor should take into account all relevant audit evidence, regardless of whether it

---

change significantly during audit, including discovery of previously unidentified risk of material misstatement or revised assessment of risk of material misstatement).

[10] See AU § 316.66, *Consideration of Fraud in a Financial Statement Audit*.

[11] See AS12 ¶¶ 12-13.

[12] See Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS13") ¶ 3.

[13] See id. ¶ 6.

[14] Id. ¶ 7.

[15] Id. ¶ 13.

[16] See Auditing Standard No. 15, *Audit Evidence* ("AS15") ¶ 4.

appears to corroborate or to contradict the assertions in the financial statements."[17] The auditor should evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.[18] "If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion . . . the auditor should perform procedures to obtain further audit evidence to address the matter."[19] The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[20]

12. The auditor must evaluate the reasonableness "of accounting estimates made by management in the context of the financial statements taken as a whole."[21] Further, while management representations are part of the evidential matter the auditor obtains, they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.[22] If management representations are contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made and, based on the circumstances, consider whether his reliance on management's representations relating to other aspects of the financial statements is appropriate and justified.[23]

13. As described below, HJ and Jones failed to comply with the above PCAOB rules and auditing standards in connection with the Audits.

---

[17] Auditing Standard No. 14, *Evaluating Audit Results* ("AS14") ¶ 3.

[18] See id. ¶ 4.

[19] Id. ¶ 35.

[20] See id. ¶¶ 30-31.

[21] AU § 342.04, *Auditing Accounting Estimates;* see also id. § 342.07.

[22] See AU § 333.02, *Management Representations*.

[23] Id. § 333.04.

Jameson Stanford Resource Corporation

14. At all relevant times, Jameson Stanford Resource Corporation[24] was a Nevada corporation headquartered in Las Vegas, Nevada. The public filings of Jameson disclosed that it was a mining development company. At all relevant times, its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") and was quoted on the OTCQB marketplace. At all relevant times, Jameson was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

15. Jones was the engagement partner for the Firm's audit of the December 31, 2013 financial statements of Jameson, and he supervised the work of the engagement team. On April 15, 2014, Jones granted permission for the Firm's issuance of an audit report expressing an unqualified opinion on Jameson's 2013 financial statements. The audit report was included in the Form 10-K that Jameson filed with the Commission on April 15, 2014. HJ and Jones failed to exercise due professional care and professional skepticism, and failed to obtain sufficient appropriate audit evidence in connection with the audit of Jameson's 2013 financial statements.[25]

Common Stock

16. HJ and Jones failed to comply with PCAOB auditing standards in connection with their audit of Jameson's reported common stock. During the audit, HJ and Jones learned that the CEO and majority shareholder of Jameson (the "CEO") sold Jameson common stock to a third party for approximately $750,000,[26] failed to record the issuance of the common stock in Jameson's books and records, and deposited the proceeds from the stock sale into the bank account of an entity that the CEO controlled. HJ and Jones also learned that the CEO: (a) purportedly used these funds to pay company expenses; (b) caused Jameson to issue a note payable to himself to cover those expenses; and (c) later caused Jameson to extinguish that note payable in exchange for approximately 1.5 million shares of company stock.

---

[24] On November 24, 2014, Jameson filed a Form DEF-14C, *Definitive Information Statement*, with the U.S. Securities and Exchange Commission ("Commission") stating that the company had changed its name to Star Mountain Resources, Inc.

[25] See AU § 150.02; see also AU § 230 and AS15 ¶ 4.

[26] For 2013, Jameson reported total assets of approximately $195,000.

ORDER

17. After becoming aware of these facts, HJ and Jones failed to revise their risk assessment or to consider modifying planned procedures or performing additional procedures to address these matters.[27] HJ and Jones also failed to gain a sufficient understanding of the business rationale for these significant unusual transactions to assess whether the transactions may have been entered into to engage in fraudulent financial reporting or to conceal the misappropriation of assets.[28]

18. HJ and Jones also failed to obtain sufficient appropriate audit evidence to evaluate Jameson's reported share balance. HJ and Jones identified a significant difference between the number of common shares outstanding, as reported by management, and the number of shares outstanding as set forth in a stock register that the Firm received from Jameson's stock transfer agent. HJ and Jones asked Jameson management about the discrepancy. Management replied that the company had improperly issued shares to the CEO, but represented that the company had rescinded the issuance of those shares as of the balance sheet date. HJ and Jones failed to obtain sufficient appropriate evidence to corroborate management's representations.[29] Indeed, HJ and Jones failed to reconcile conflicting audit evidence, including a board of directors' authorization to rescind the shares issued to the CEO that was not effective until four months *after* the year under audit. This evidence suggested that the shares issued to the CEO had not, in fact, been rescinded as of the balance sheet date.[30]

Reported Expenses

19. During audit planning, HJ and Jones identified a risk of material misstatement with respect to management override of controls. The Firm, moreover, understood that the company's general and administrative expenses increased by over 350 percent between 2012 and 2013. HJ and Jones, however, failed to design and implement appropriate audit responses to these identified risks.[31] Moreover, HJ and Jones failed to perform procedures to gather additional audit evidence to address red flags that they encountered during the course of audit.[32] These red flags indicated that

---

[27] See AS12 ¶ 74.

[28] See AU § 316.66.

[29] See AU § 333.02.

[30] See AS15 ¶ 29.

[31] See AS13 ¶ 3.

[32] See AS14 ¶¶ 34-35.

PCAOB
Public Company Accounting Oversight Board

ORDER

the CEO may have been improperly submitting and approving his own personal expenses as expenses of the company.

20. In the course of the 2013 audit, Jones reviewed work papers that documented first quarter of 2014 cash disbursements, including disbursements that appeared to be highly unusual. For example, the CEO submitted expense reports to Jameson for cash withdrawals from an ATM located in Las Vegas.

21. HJ and Jones failed to gain an understanding of the business rationale for these significant unusual business transactions, and whether that rationale (or lack thereof) suggested that the transactions may have been entered into in connection with fraudulent financial reporting or the misappropriation of assets.[33] Further, HJ and Jones failed to evaluate whether to revise their risk assessment in light of these facts.[34] Despite being aware of these red flags, HJ and Jones failed to perform any procedures to obtain further audit evidence to address these matters.

Restatement

22. On October 10, 2014, Jameson filed an amended Form 10-K with the Commission containing the company's restated 2013 financial statements. Jameson disclosed that it was restating its financial statements to correct "an error related to the failure to record the issuance of common stock to the [CEO] for the period covered by the Original Report." It further disclosed that the company's "Financial Statements also contained errors relating to the incorrect classification of our [CEO's] personal expenses as expenses of our Company." The restatement increased advances to related party shareholders from $0 to $1.23 million. This asset, as restated, constituted 87 percent of Jameson's total assets.

23. The amended Form 10-K also disclosed that the CEO had resigned and the company had filed a civil complaint against the former CEO for committing, among other things, "wrongful and fraudulent acts and omissions resulting in at least [approximately $2.6 million] in losses for the company, [approximately $1.3 million] in fraudulent claimed business expenses, [approximately $1.3 million in] investment monies diverted from the company and monies deposited directly into [the CEO's] personal accounts and the improper issuance to [the CEO] of 25,000,000 shares of the Company's common stock."

---

[33] See AU § 316.66.

[34] See AS12 ¶ 74.

ORDER

Blue Earth 2012 Financial Statement Audit

24. At all relevant times, Blue Earth, Inc. was a Nevada corporation headquartered in Henderson, Nevada. Blue Earth's public filings disclosed that it was a comprehensive provider of energy efficiency and renewable energy solutions for commercial and industrial facilities. At all relevant times, its common stock was registered under Section 12(g) of the Exchange Act and was quoted on the OTCQB marketplace.[35] At all relevant times, Blue Earth was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

25. Jones was the engagement partner for the Firm's audit of the December 31, 2012 financial statements of Blue Earth, and he supervised the work of the engagement team. On April 1, 2013, Jones granted permission for the Firm's issuance of an audit report expressing an unqualified opinion on Blue Earth's 2012 financial statements. The audit report was included in the Form 10-K that Blue Earth filed with the Commission on April 1, 2013. HJ and Jones failed to exercise due professional care and professional skepticism, and failed to obtain sufficient appropriate audit evidence in connection with the audit of Blue Earth's 2012 financial statements.[36]

Revenue

26. Blue Earth reported revenue of approximately $9.9 million in 2012, which constituted an increase of approximately 87 percent over the prior year. HJ and Jones failed to obtain sufficient appropriate audit evidence to support the occurrence, completeness, and valuation of Blue Earth's reported revenue for 2012. HJ and Jones identified revenue as a significant audit area and as a risk of fraud involving improper revenue recognition.[37] HJ and Jones also understood that Blue Earth management had identified a material weakness related to the company's revenue controls in 2012, and planned to test revenue solely through substantive procedures in response to those risks.

---

35 On August 1, 2016, Blue Earth filed with the Commission a Form 15, *Certification and Notice of Termination of Registration*.

36 See AU § 150.02; see also AU § 230 and AS15 ¶ 4.

37 An auditor "should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks." AS12 ¶ 68. "For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks." AS13 ¶ 11.

ORDER

27. To substantively test revenue, the engagement team tested major customer transactions for certain months. This approach did not constitute sampling under PCAOB auditing standards, and the results of the Firm's audit procedures could not be projected to the entire revenue population.[38] As a result, HJ's revenue testing did not provide any audit evidence for approximately 84 percent of Blue Earth's 2012 revenue.[39]

28. The engagement team also performed analytical procedures that the engagement team intended to serve as substantive procedures over Blue Earth's reported revenue. However, these procedures were not substantive analytical procedures because the engagement team failed: (1) to develop expectations at a sufficient level of precision to provide assurance that material differences would be identified for investigation, and (2) to establish a threshold for significant differences and evaluate whether there were significant, unexpected differences requiring further investigation.[40]

29. HJ and Jones also failed to gather sufficient appropriate audit evidence with respect to revenue that Blue Earth accounted for using the percentage of completion ("POC") method. HJ and Jones understood that more than half of Blue Earth's 2012 revenue was recognized using the POC method. To support reported POC revenue, management provided the Firm with budgets and estimates to complete ("ETCs") for projects that were accounted for using the POC method. HJ and Jones failed to obtain sufficient appropriate audit evidence to support the Firm's POC revenue estimates.[41]

Intangible Assets

30. Reported intangible assets constituted approximately $8.3 million, or 56 percent, of Blue Earth's total reported assets as of December 31, 2012. Under generally accepted accounting principles ("GAAP"), a company is required to assess intangible assets for impairment and to follow certain procedures in performing these

---

[38] See AS15 ¶¶ 25-27.

[39] The engagement team also confirmed transactions in Blue Earth's year-end accounts receivable balance; however, this testing covered 12 percent of revenue, and it only provided evidence regarding balances that were outstanding at year-end.

[40] See AU §§ 329.17 and .20, *Substantive Analytical Procedures*.

[41] See AU § 342.10.

assessments.[42] GAAP also requires that an assessment be made of the remaining useful life of an intangible asset to ensure that it has been amortized properly.[43]

31. Blue Earth evaluated intangible assets for impairment by comparing the carrying value of these assets at year-end to the present value of the estimated revenue projections for these assets. Blue Earth's impairment analysis, however, did not include cash outflows related to the revenue projections. HJ and Jones reviewed Blue Earth's impairment analysis and concurred with the company's conclusion that the carrying value of the intangible assets was recoverable because that value did not exceed the present value of the company's revenue projections for the assets.

32. HJ and Jones understood that, as of December 31, 2012, Blue Earth had approximately $34.1 million in accumulated deficit, and had a net loss of approximately $9.6 million, and a negative cash outflow from operations of approximately $5.5 million in 2012. HJ and Jones, nonetheless, failed to perform sufficient procedures to test Blue Earth's impairment analysis.[44] First, HJ and Jones failed to evaluate whether the projected revenues that Blue Earth used to test recoverability were reasonable. Indeed, HJ and Jones failed to perform any procedures beyond management inquiry to evaluate the assumptions underlying management's revenue projections. Second, HJ and Jones failed to evaluate whether management's analysis should have also included cash outflows associated with future expenditures necessary to maintain the value of the intangible assets. Finally, HJ and Jones failed to perform any procedures beyond management inquiry to evaluate the reasonableness of management's estimate of the intangible assets' remaining useful life.

<u>Blue Earth 2013 Financial Statement Audit</u>

33. HJ also audited Blue Earth's 2013 financial statements. Jones was the engagement partner for this audit and he supervised the work of the engagement team. On March 3, 2014, Jones granted permission for the Firm's issuance of an audit report expressing an unqualified opinion on Blue Earth's 2013 financial statements. The audit report was included in the Form 10-K that Blue Earth filed with the Commission on

---

[42] <u>See</u> Financial Accounting Standards Board Accounting Standards Codification ("ASC") Section 350-20-35, *Intangibles – Goodwill and Other – Goodwill – Subsequent Measurement*; ASC Section 350-30-35, *Intangibles – Goodwill and Other – General Intangibles Other Than Goodwill – Subsequent Measurement.*

[43] <u>See</u> ASC Section 350-30-35.

[44] <u>See</u> AU § 342.07.

PCAOB
Public Company Accounting Oversight Board

ORDER

March 3, 2014.[45] HJ and Jones failed to exercise due professional care and professional skepticism, and failed to obtain sufficient appropriate audit evidence in connection with the audit of Blue Earth's 2013 financial statements.[46]

34. The departures from PCAOB standards in the 2012 Blue Earth audit – related to revenue and impairment testing – were brought to HJ's and Jones's attention during a PCAOB inspection in summer 2013. However, as discussed below, in performing the 2013 audit of Blue Earth's financial statements, less than a year after receiving the inspection feedback, HJ and Jones violated PCAOB standards in precisely the same respects as they had in the earlier audit.

Revenue

35. Blue Earth reported revenue of $10.3 million in 2013. HJ and Jones again failed to obtain sufficient appropriate audit evidence relating to the occurrence, completeness, and valuation of revenue.

36. The engagement team used the same approach to test revenue in 2013 that it had used in 2012. This approach did not provide any audit evidence for approximately 50 percent of Blue Earth's 2013 revenue.[47] The engagement team also performed analytical procedures that were intended to serve as substantive procedures over revenue in 2013; however, these procedures – which were similar to the procedures used in 2012 – did not constitute substantive analytical procedures.[48]

---

[45] Blue Earth filed with the Commission four amendments to the company's Form 10-K to correct various errors or omissions in the company's original filing. The amended Form 10-Ks were filed with the Commission on the following dates: April 11, 2014; May 1, 2014; May 9, 2014; and May 13, 2014. In its amended filings, Blue Earth did not disclose that it was restating its financial statement footnotes or management's assessment of ICFR. In addition, HJ did not update its opinion on the company's financial statements or ICFR.

[46] See AU § 150.02; see also AU § 230 and AS15 ¶ 4.

[47] The engagement team also confirmed certain accounts receivable transactions, but those procedures covered only a small percentage of revenue, and those procedures only provided evidence for transactions that were outstanding at year-end. See AS15 ¶¶ 25-27.

[48] See AU §§ 329.17 and .20.

ORDER

37. HJ and Jones also failed, again, to gather sufficient appropriate audit evidence to evaluate Blue Earth's POC revenue. Approximately 60 percent of total revenue was recognized using the POC method in 2013. The engagement team's procedures for testing POC revenue in 2013 were similar to its procedures in 2012. HJ and Jones again failed to obtain sufficient appropriate audit evidence to support the Firm's POC revenue estimates.[49]

Intangible Assets

38. Reported intangible assets constituted approximately $19.8 million, or 23 percent, of total reported assets as of December 31, 2013. HJ and Jones failed to perform sufficient audit procedures to test Blue Earth's evaluation of intangible assets for impairment. As in the 2012 audit, in 2013 HJ and Jones again failed to gather sufficient appropriate audit evidence to evaluate Blue Earth's impairment analysis for certain intangible assets, which included cash inflows, but not associated cash outflows.[50]

39. Further, HJ and Jones failed to perform any procedures beyond management inquiry[51] to evaluate: (1) the assumptions underlying the revenue projections used in management's impairment analysis; and (2) the reasonableness of management's estimate of the intangible assets' remaining useful life,[52] despite Blue Earth's growing accumulated deficit, net loss, and negative cash flow.[53]

Evaluation of Notes Accompanying Financial Statements

40. HJ and Jones failed to evaluate Blue Earth's 2013 financial statements with due care and professional skepticism. The notes accompanying Blue Earth's 2013 financial statements disclosed that the company recognized revenue under the completed contract method of accounting. In fact, the majority of Blue Earth's 2013 revenue was recognized under the POC method. HJ and Jones failed, in their review of

---

[49] See AU §§ 342.07 and .10.

[50] See AU § 342.07.

[51] See AU § 333.02.

[52] See ASC Section 350-30-35.

[53] HJ and Jones understood that, as of December 31, 2013, Blue Earth had approximately $62.7 million in accumulated deficit, a net loss of approximately $25.4 million, and a negative cash outflow from operations of approximately $11.9 million.

Blue Earth's financial statements, to evaluate whether the notes accompanying the financial statements contained the information essential for a fair presentation of the financial statements in conformity with GAAP.[54]

41. The notes accompanying Blue Earth's financial statements also did not include a required disclosure related to the gross carrying amount and accumulated amortization of the company's intangible assets.[55] HJ and Jones failed to identify this omission in connection with their review of Blue Earth's financial statements.[56]

Acquisition Accounting

42. HJ and Jones also failed to gather sufficient appropriate audit evidence to evaluate Blue Earth's purchase accounting for three acquisitions. The acquired entities constituted approximately 69 percent of Blue Earth's total reported assets as of December 31, 2013. GAAP requires acquired intangible assets to be measured at their acquisition-date fair value.[57] For each of the acquisitions, Blue Earth management assigned values to the acquired assets and liabilities, and assigned the entire excess purchase price, $58.2 million, to intangible assets. HJ and Jones failed to perform any procedures, aside from recalculating the excess purchase price, to evaluate whether the values that management assigned to the individual intangible assets represented the fair value of those assets as of the acquisition dates.[58]

---

[54] See AS14 ¶ 31.

[55] See ASC Topic 350-30-50-2(a)(1), *Intangibles – Goodwill and Other – General Intangibles Other than Goodwill*.

[56] See AS14 ¶ 31. In response to a Commission comment letter, on April 11, 2014 Blue Earth filed a Form 10-K/A with the Commission. This filing included a restatement of the company's 2013 financial statements to include the missing mandatory disclosure. On May 1, 2014, Blue Earth filed another Form 10-K/A with the Commission, in which Blue Earth again restated its 2013 financial statements, to include a more complete version of the mandatory disclosure. Blue Earth did not identify the filing as a restatement. And HJ did not update its opinion on the company's financial statements or ICFR.

[57] See ASC Section 805-20-30-1, *Business Combinations – Identifiable Assets and Liabilities, and Any Non-Controlling Interest – Initial Measurement – General – Measurement Principle*.

[58] See AU § 328.15, *Auditing Fair Value Measurements and Disclosures.*

ORDER

43. The acquisition agreement for one of the acquired entities contained a provision for contingent consideration (the "earn-out provision"). GAAP requires companies to recognize the acquisition-date fair value of contingent consideration.[59] In its purchase price allocation, Blue Earth management did not assign any value to the earn-out provision. HJ and Jones understood that the acquired entity was expected to generate revenue. HJ and Jones, however, failed to perform any procedures beyond management inquiry[60] to evaluate whether it was appropriate not to recognize a liability for the earn-out provision.

Blue Earth 2013 ICFR Audit

44. HJ also audited Blue Earth's 2013 ICFR. Jones served as the engagement partner for the ICFR audit and he supervised the work of the engagement team. On March 3, 2014, Jones granted permission for the Firm's issuance of an audit report expressing an unqualified opinion on Blue Earth's ICFR. The audit report was included in the Form 10-K that Blue Earth filed with the Commission on March 3, 2014. HJ and Jones failed to perform procedures adequate to afford a reasonable basis for HJ's ICFR opinion, and they did not obtain appropriate audit evidence that was sufficient to obtain reasonable assurance about whether material weaknesses existed as of the date specified in management's assessment of Blue Earth's 2013 ICFR.[61]

45. When conducting an ICFR audit, auditors must plan and perform the audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether material weaknesses exist as of the date specified in management's assessment.[62] When forming an opinion on the effectiveness of ICFR, auditors should evaluate evidence from all sources, including misstatements detected during the financial statement audit, and any identified control deficiencies.[63] Indicators of material

---

[59] See ASC Topic 805-30-25-5, *Business Combinations – Goodwill or Gain from Bargain Purchase, Including Consideration Transferred – Recognition – General – Contingent Consideration*.

[60] See AU § 333.02.

[61] See Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* ("AS5") ¶ 3; see also AU § 150.02 and AU § 230.

[62] See AS5 ¶ 3.

[63] See id. ¶ 71.

ORDER

weaknesses in ICFR include, among other things, restatements of previously issued financial statements to reflect the correction of a material misstatement.[64] If, after issuing an ICFR report, an auditor becomes aware of conditions that existed at the date of the report that might have affected the opinion had he or she been aware of them, the auditor should evaluate what, if any, effect those conditions would have had on the audit report.[65]

46. HJ and Jones understood, at the time of the 2013 ICFR audit, that Blue Earth had determined that the company did not have effective ICFR in 2012. Management identified six 2012 control deficiencies, which constituted material weaknesses, related to controls over revenue and over the period-end financial reporting process. These facts should have, but did not, cause HJ and Jones to increase their due care and professional skepticism in connection with the 2013 ICFR audit.

47. HJ and Jones failed to evaluate evidence obtained from the 2013 Blue Earth financial statement audit when forming the Firm's 2013 ICFR audit opinion. Specifically, HJ and Jones knew from their substantive testing that management's impairment analysis for intangible assets included only cash inflows and did not include associated cash outflows. HJ and Jones failed to consider whether this omission from management's analysis suggested the existence of a control deficiency that required evaluation in forming the 2013 ICFR opinion.[66] That failure was particularly egregious because, in connection with their substantive testing, HJ and the Firm expressly documented for certain intangible assets that management had improperly failed to consider cash outflows.[67]

48. In addition, HJ and Jones understood from their substantive testing procedures that management assigned no value to the earn-out provision included in one of the purchase agreements. As stated above, in the course of the financial statement audit, HJ and Jones failed to exercise due care and professional skepticism

---

[64] See id. ¶ 69.

[65] See id. ¶ 98; see also AU § 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (setting forth procedures to follow when, subsequent to date of audit report, auditor becomes aware of facts that may have existed at date of audit report which might have affected report had auditor been aware of such facts).

[66] See AS5 ¶ 71.

[67] See id.

in evaluating whether this treatment was appropriate and instead relied on management inquiries.[68] HJ and Jones also failed to evaluate, for the ICFR audit, whether management's conclusion not to assign any value to the earn-out provision suggested the existence of another control deficiency that needed to be evaluated in forming the Firm's 2013 ICFR opinion.[69]

49. HJ and Jones also failed to identify and evaluate the potential ICFR implications of: (a) the omission of a GAAP-required financial statement footnote disclosure concerning intangible assets; and (b) a potentially inaccurate disclosure concerning Blue Earth's revenue recognition policy.[70]

50. HJ and Jones understood that, after the Firm issued its 2013 ICFR audit report, Blue Earth filed four amendments to its 2013 Form 10-K. Each of these amended filings contained restated 2013 financial statements to correct, among other things, errors and omissions identified in Commission comment letters. HJ and Jones failed to evaluate whether the multiple restatements reflected conditions that existed at the audit report date and, if so, whether those conditions would have affected the Firm's unqualified IFCR opinion.[71]

D. Respondents Failed to Comply with PCAOB Auditing Standards in Connection with the Engagement Quality Reviews for the Audits.

51. PCAOB auditing standards require that an engagement quality review ("EQR") be performed on audits and interim reviews of financial statements, among other engagements, conducted pursuant to PCAOB standards.[72] The engagement quality reviewer may provide concurring approval of the issuance of an audit report only if, after performing a review with due professional care, he or she is not aware of a significant engagement deficiency.[73]

---

68 See AU § 230; see also AU § 333.02.

69 See AS5 ¶ 71.

70 See id.

71 See id. ¶ 98.

72 See Auditing Standard No. 7, *Engagement Quality Review* ("AS7") ¶ 1.

73 See id. ¶ 12.

ORDER

52. A significant engagement deficiency exists when, among other things: (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with PCAOB standards; or (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement.[74]

53. HJ appointed Jensen to serve as the engagement quality reviewer for the audit of Blue Earth's 2012 financial statements. And HJ appointed Roe to serve as the engagement quality reviewer for the audit of Jameson's 2013 financial statements, and the audits of Blue Earth's 2013 financial statements and ICFR.

Jensen

54. Jensen failed to exercise due professional care when performing his EQR for the audit of Blue Earth's 2012 financial statements.[75] Jensen understood that the engagement team had identified improper revenue recognition as a fraud risk but failed to evaluate sufficiently the engagement team's audit response to this identified risk, as required by PCAOB standards.[76] Specifically, Jensen reviewed the revenue work papers and understood that the engagement team's methodology for testing revenue involved selecting only certain transactions involving major customers for detailed testing. Jensen, however, failed to evaluate sufficiently whether that approach resulted in sufficient coverage over total revenue. Jensen also failed to evaluate sufficiently whether the engagement team obtained sufficient appropriate audit evidence to support the Firm's POC revenue estimates.

55. In addition, Jensen understood that Blue Earth's valuation of intangible assets presented a risk of material misstatement. Jensen failed, however, to evaluate the engagement team's audit response to this identified risk, despite being aware of audit evidence showing that management's impairment analysis was flawed.[77] Jensen also failed to evaluate the engagement team's failure to perform any steps beyond management inquiry to test management's impairment analysis.[78]

---

[74] See id. and Note.

[75] See id. ¶ 12.

[76] See id. ¶ 10(b).

[77] See id. ¶ 12.

[78] See id.

Roe

56. Roe failed to exercise due professional care when performing his EQRs of the 2013 financial statements and the 2013 ICFR of Blue Earth. For example, despite his responsibility to review Blue Earth's financial statements, Roe failed to identify omissions and potential, material inaccuracies in the notes accompanying the 2013 financial statements when he performed his EQRs.[79] Further, despite being aware of potential significant deficiencies identified by PCAOB inspectors related to HJ's audit of Blue Earth's 2012 financial statements, Roe failed to evaluate whether the engagement team: (1) responded appropriately to identified significant risks related to revenue and intangible assets in planning and performing the 2013 audit; (2) obtained sufficient appropriate audit evidence to conclude that the 2013 financial statement notes were presented in accordance with GAAP; and (3) responded appropriately to significant risks related to whether Blue Earth's 2013 ICFR was operating effectively.[80]

57. Roe also failed to exercise due professional care when performing his EQR of the 2013 financial statements of Jameson. Roe was aware of evidence indicating that Jameson's CEO may have improperly deposited Jameson funds into a bank account that the CEO controlled. Despite the requirement that Roe evaluate the engagement team's response to fraud risks and confirm with the engagement partner that there are no significant unresolved matters,[81] Roe failed to discuss with the engagement team, or otherwise to evaluate appropriately, the engagement team's assessment of and responses to this known fraud risk.

E. The Firm Violated PCAOB Rules and Quality Control Standards.

58. PCAOB Rule 3400T requires registered public accounting firms and their associated persons to comply with PCAOB quality control standards.[82] PCAOB quality control standards require each registered firm to establish policies and procedures to provide the firm with reasonable assurance that work performed by engagement

---

[79] See id.

[80] See id. ¶¶ 10(b) and 12.

[81] See id. ¶¶ 10(b) and (e).

[82] See PCAOB Rule 3400T, *Interim Quality Control Standards*.

personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[83]

59. HJ violated PCAOB Rule 3400T and PCAOB quality control standards. During 2012 and 2013, the Firm failed to implement and maintain a system of quality control that would provide it with reasonable assurance that Firm personnel would comply with applicable professional standards. Indeed, as described above, multiple HJ audit partners committed multiple audit violations during the audits of multiple issuers conducted over the course of multiple years. Jones, Jensen, and Roe each failed to comply with PCAOB auditing standards in connection with the Audits. The Blue Earth audit failures in 2012, moreover, continued in 2013 despite the fact that the Firm received notice from PCAOB inspectors that the 2012 Blue Earth audit work did not appear to have been performed in compliance with professional standards.

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), HJ & Associates, LLC, S. Jeffrey Jones, Robert M. Jensen, and Charles D. Roe are hereby censured;

B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of HJ & Associates, LLC is revoked;

C. After two (2) years from the date of the Order, HJ & Associates, LLC may reapply for registration by filing an application pursuant to PCAOB Rule 2101;

D. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), S. Jeffrey Jones is barred from being an associated person of a registered

---

[83] See Quality Control Section 20.17, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

ORDER

public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[84]

E. After three (3) years from the date of this Order, S. Jeffrey Jones may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

F. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Robert M. Jensen and Charles D. Roe are each suspended, for one (1) year from the date of this Order, from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act;[85] and

G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $10,000 is imposed upon HJ & Associates, LLC, and a civil money penalty in the amount of $10,000 is imposed upon S. Jeffrey Jones. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. HJ & Associates, LLC and S. Jeffrey Jones shall each pay their respective civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under cover letters which identify HJ & Associates, LLC and S. Jeffrey Jones as Respondents in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant

---

[84] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Jones. Section 105(c)(7)(B) of the Act provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

[85] As a consequence of the suspensions, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra,* at n.84, will apply with respect to Jensen and Roe.

ORDER

to this Order. A copy of each cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

January 24, 2017