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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of Richard H. Huff, Jr., CPA,

Respondent.

PCAOB Release No. 105-2019-001

February 26, 2019

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is: (1) censuring Richard H. Huff, Jr. ("Huff" or "Respondent"); (2) suspending Huff from being an associated person of a registered public accounting firm for the period of one year from the date of this Order; (3) limiting his activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for one year following the termination of the suspension, by prohibiting Huff from serving in certain capacities in any audit as described in Section IV herein; and (4) requiring Huff to complete ten hours of additional professional education as described in Section IV herein.

The Board is imposing these sanctions on the basis of its findings that Huff violated PCAOB rules and auditing standards in connection with the integrated audit of Issuer A's December 31, 2013 financial statements and internal control over financial reporting ("ICFR").

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 Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") 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 Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds that:[2]

A. Respondent

1. Richard H. Huff, Jr., age 57, of Blue Bell, Pennsylvania, is a certified public accountant licensed by the Pennsylvania State Board of Accountancy (license no. CA022709L) and the Maryland Board of Public Accountancy (license no. 37117). Huff originally joined Grant Thornton LLP ("Grant Thornton" or "GT") in 1987. Huff was the engagement partner on Grant Thornton's integrated audits of the December 31, 2012 and 2013 financial statements and ICFR of Issuer A. Huff, as engagement partner, authorized the issuance of Grant Thornton's March 3, 2014 audit report containing an unqualified opinion on Issuer A's December 31, 2013 financial statements and ICFR. At all relevant times, Huff was an audit partner in the Philadelphia office of Grant Thornton and an associated person of a registered public accounting firm as that term is defined by Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Huff retired from the Firm effective July 31, 2016, and is currently employed at another registered public accounting firm.

B. Relevant Entities

2. Grant Thornton LLP is a limited liability partnership organized under the laws of the state of Illinois, and headquartered in Chicago, Illinois. Grant Thornton registered with the Board on September 24, 2003, pursuant to Section 102 of the Act and PCAOB rules. Grant Thornton has served as Issuer A's independent auditor since Issuer A's inception in 2005.

3. Issuer A is a Maryland corporation with headquarters in New York, New York. Issuer A is a diversified real estate finance company that is organized and

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[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other persons or entities in this or any other proceeding.

[2] The Board finds that Respondent's 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: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

conducts its operations to qualify as a REIT. Issuer A's investment strategy focuses on commercial real estate, commercial real estate- related assets and, to a lesser extent, commercial finance assets. At all relevant times, Issuer A's common stock was registered under Section 12(b) of the Securities Exchange Act of 1934 and was traded on the NYSE. At all relevant times, Issuer A was an "issuer" as the term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

4. This matter concerns Huff's violations of PCAOB rules and auditing standards in connection with the integrated audit of Issuer A's December 31, 2013 financial statements and ICFR ("2013 audit"). Specifically, Huff, among other things, failed to exercise due professional care, including appropriate professional skepticism, and failed to obtain sufficient appropriate audit evidence concerning Issuer A's reported net loans and its allowance for loan losses ("ALL"), as well as its ALL-related internal controls. Huff further failed to appropriately evaluate the reasonableness of Issuer A's ALL—a known significant risk and significant accounting estimate. As a result of his failure to perform the audit in conformity with PCAOB standards, Huff lacked an appropriate basis to authorize the issuance of Grant Thornton's unqualified opinion on Issuer A's 2013 financial statements and ICFR.

5. Despite knowing that Issuer A's ALL presented significant risks to Issuer A's financial statements and ICFR, Huff failed to obtain sufficient appropriate audit evidence to evaluate the reasonableness of Issuer A's ALL. Although Huff knew that Issuer A had numerous material impaired loans for which it recorded zero specific reserves, he failed, among other things, to sufficiently evaluate whether the engagement team obtained sufficient appropriate evidence to corroborate that specific reserves were not required on those loans. Further, Huff failed to ensure that the engagement team tested an appropriate sample of material impaired loans, instead relying on a flawed sample that improperly eliminated material loans from selection. With respect to the loans tested that Huff did review, he failed to, among other things, (a) consider the impact of senior loans when assessing the collectability of Issuer A's subordinated loans; (b) perform any procedures to assess collateral valuation even though Issuer A relied on the borrower's ability to refinance to support full repayment of its loans; and (c) sufficiently test management's assertions that the borrower's operations were a source of repayment even where he should have been aware of contrary audit evidence indicating that those operations were insufficient to service both principal and interest repayment.

6. Huff's failures extended to, among other things, testing the design and operating effectiveness of certain of Issuer A's ALL-related controls, including, among others, controls related to measurement of impairment, identification of troubled debt restructurings ("TDRs"), loan reviews, loan file maintenance, monitoring of collateral, risk ratings, and disclosures.

7. Significantly, Huff violated PCAOB standards despite being on notice that his prior audit work, including audit procedures performed over the ALL on the 2012 Issuer A audit, was deficient.

D. Background

8. As of December 31, 2013, Issuer A reported total assets of $2.2 billion, including $1.4 billion in loans. Commercial real estate ("CRE") loans comprised $826 million or 59% of Issuer A's loan portfolio. Issuer A maintained an ALL to cover probable losses that existed in the loan portfolio. Issuer A's ALL for bank and CRE loans comprised two components: specific reserves based on estimated losses on individually reviewed impaired loans and a general loss reserve for non-impaired loans. GT's work papers also indicated that Issuer A relied on its loan review process, at least in part, to identify impaired loans, calculate specific reserves, and assess the sufficiency of its ALL.

9. Issuer A's impaired loans totaled $204 million or 9 percent of Issuer A's reported total assets at December 31, 2013. Impaired CRE loans comprised $194 million or 95% of total impaired loans. Issuer A reported an ALL of $13.8 million as of December 31, 2013, of which Issuer A allocated $4.6 million in specific reserves for impaired CRE loans.

10. GT placed Huff on a partner performance plan to address audit quality issues that arose before the 2013 audit. That plan mandated that Huff take certain steps to improve his performance, in mid-2013.[3] Shortly after the performance plan took effect, the Firm selected the 2012 Issuer A audit, for which Huff served as engagement partner, for an Audit Practice Review ("2013 APR"), an internal review during which another GT team reviewed the audit work papers to determine whether the engagement team complied with GT's policies and professional standards. The APR team identified numerous deficiencies in the audit and ultimately concluded that the 2012 Issuer A audit was noncompliant with Firm policies and PCAOB standards. The results of the 2013 APR were communicated to Huff and the engagement team in August 2013, prior to the commencement of fieldwork for the 2013 Issuer A audit.

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[3] See *Grant Thornton LLP*, PCAOB Rel. No. 105-2017-054 (Dec. 19, 2017).

E. Applicable PCAOB Rules and Auditing Standards[4]

11. 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, PCAOB standards require an auditor to exercise due professional care, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[7]

12. When planning and performing audit procedures to evaluate accounting estimates, PCAOB standards require the auditor to "consider, with an attitude of professional skepticism, both the subjective and objective factors" on which management's estimate is based.[8] When management's estimate involves fair value measurements, the auditor must comply with PCAOB auditing standards concerning the auditing of fair value measurements and disclosures.[9] Under those standards, when a fair value measurement, such as an appraisal, is dated other than at the relevant financial reporting date, the auditor is required to obtain "evidence that management has taken into account the effect of events, transactions, and changes in circumstances occurring between the date of the fair value measurement and the reporting date."[10]

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[4] All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audit or review. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017).

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

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

[7] See AU § 150.02, Generally Accepted Auditing Standards; AU § 230.01, Due Professional Care in the Performance of Work; Auditing Standard No. 13, The Auditor's Responses to the Risks of Material Misstatement ("AS No. 13"), ¶ 7; Auditing Standard No. 15, Audit Evidence ("AS No. 15"), ¶ 4.

[8] See AU § 342.04, Auditing Accounting Estimates.

[9] See AU § 328, Auditing Fair Value Measurements and Disclosures.

[10] See AU § 328.25.

The auditor also evaluates whether "[m]anagement's assumptions are reasonable and reflect, or are not inconsistent with, market information" and whether "[m]anagement used relevant information that was reasonably available at the time."[11]

13. Management representations "are part of the evidential matter the independent auditor obtains, but 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."[12] Under PCAOB standards "[t]he auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest."[13]

14. In designing the audit procedures to be performed, PCAOB auditing standards require that the auditor [o]btain more persuasive audit evidence the higher the auditor's assessment of risk."[14] PCAOB standards further require that an auditor 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.[15] The "auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."[16] Further, if audit evidence obtained from one source is inconsistent with that obtained from another, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.[17]

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[11] See AU § 328.26.

[12] See AU § 333.02, Management Representations.

[13] See AU § 230.09.

[14] See AS No. 13 ¶ 9; see also Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With An Audit of Financial Statements* ("AS No. 5"), ¶ 46 ("As the risk associated with the control being tested increases, the evidence that the auditor should obtain also increases.").

[15] See Auditing Standard No. 14, *Evaluating Audit Results* ("AS No. 14"), ¶ 2.

[16] See AS No. 14 ¶ 3; see also id. ¶ 34.b.

[17] See AS No. 15 ¶ 29; see also AU § 333.04 ("If a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made. Based on the circumstances, the auditor should consider whether his or her reliance on

15. Under PCAOB auditing standards, the auditor is required to assess the sufficiency of substantive tests of details. When planning a sample for a substantive test of details, the auditor should individually examine "those items for which, in his judgment, acceptance of some sampling risk is not justified."[18]

16. PCAOB standards require that the auditor form an opinion on the effectiveness of ICFR by evaluating evidence obtained from all sources, including the auditor's testing of controls, misstatements detected during the financial statement audit, and any identified control deficiencies.[19] In conducting an integrated audit, the auditor should design his or her testing of controls to obtain sufficient evidence to support 1) the auditor's opinion on ICFR as of year-end and 2) the auditor's control risk assessment for purposes of the audit of the financial statements.[20]

17. If an auditor plans to assess control risk at less than the maximum by relying on controls, and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire period of reliance.[21] The auditor should assess control risk for relevant assertions by evaluating evidence obtained from all sources, including the auditor's testing of controls for the audit of internal control and the audit of financial statements, misstatements detected during the financial statement audit, and any identified control deficiencies.[22] Auditors should also incorporate knowledge obtained in past audits of the

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management's representations relating to other aspects of the financial statements is appropriate and justified.").

[18] See AU § 350.21, Audit Sampling.

[19] See AS No. 5 ¶ 71.

[20] See AS No. 5 ¶ 7.

[21] See AS No. 13 ¶ 16. "A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met." AS No. 5 Appx. A ¶ A3. "A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively." Id.

[22] See AS No. 13 ¶ 32.

issuer's ICFR into the decision-making process for determining the nature, timing, and extent of testing necessary in subsequent years' audits.[23]

18. Control risk should be assessed at the maximum level for relevant assertions for which controls necessary to sufficiently address the risk of material misstatement in those assertions are missing or ineffective, or when the auditor has failed to obtain sufficient appropriate evidence to support a control risk assessment below the maximum level.[24]

19. The engagement partner is responsible for the engagement and its performance. Accordingly, the engagement partner is "responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards."[25] As part of those responsibilities, the engagement partner is required to (i) inform engagement team members of their responsibilities, (ii) direct engagement team members to bring significant accounting and auditing issues to his attention or the attention of other engagement team members performing supervisory activities, and (iii) review the work of engagement team members to evaluate whether: (1) the work was performed and documented; (2) the objectives of the procedures were achieved; and (3) the results of the work supported the conclusions reached.[26] In determining the extent of supervision necessary, the engagement partner is required to take into account (i) the nature of the company, (ii) the nature of the assigned work, (iii) the risks of material misstatement, and (iv) the knowledge, skill, and ability of each engagement team member.[27]

20. As described below, Huff failed to comply with these and other PCAOB auditing standards in connection with the audit procedures performed and the opinions he authorized on the 2013 Issuer A audit.

F. Huff Violated PCAOB Rules and Auditing Standards in Connection with GT's Audit of Issuer A's 2013 Financial Statements

21. Huff and the engagement team identified inadequate ALL as a significant risk and assessed the inherent risk as high for the ALL based on the complex

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[23] See AS No. 5 ¶ 57.

[24] See AS No. 13 ¶ 33.

[25] See Auditing Standard No. 10, *Supervision of the Audit Engagement* ("AS No. 10"), ¶ 3.

[26] See AS No. 10 ¶ 5.

[27] See AS No. 10 ¶ 6.

accounting and judgments associated with the significant estimates involved. GT's guidance also highlighted the heightened risk associated with ALL estimates, loan reviews, and appraisal evaluations. The guidance stated that, "[b]ecause of the subjective nature of the loan risk grading and review processes, experienced audit personnel with relevant knowledge should perform and/or supervise loan review procedures."

22. Huff and the engagement team were aware that $365 million or nearly 45% of the $826 million in Issuer A's CRE loans outstanding at December 31, 2013 had been originated prior to the financial crisis, and that the majority of those pre-financial crisis loans had been restructured and extended numerous times. Huff was also aware that many of these "legacy loans" had deferred payment terms and were serviced (a) by interest reserves established at loan origination or during subsequent modifications or (b) through Issuer A's extension of new mezzanine loans. Indeed, of the $194 million in impaired CRE loan relationships at December 31, 2013, all were originated prior to the financial crisis, and were determined to be TDRs. Despite the heightened risk, the specific reserves that Issuer A established for these loans totaled only $4.6 million or 2.36% of total impaired CRE loans.[28]

23. Accordingly, Huff was aware or should have been aware that the legacy CRE loans presented an increased risk and therefore required him to exercise sufficient professional skepticism in the performance of audit procedures with respect to those loans. Instead, however, Huff relied almost exclusively on management representations that the legacy CRE loans were collectible, ignoring potential red flags and contrary evidence. Huff did so despite claiming to have identified a fraud risk associated with Issuer A's ALL—a fraud risk he failed to document or communicate to anyone on the engagement team.

24. In response to identifying inadequate ALL as a significant risk, the engagement team documented that it planned to perform tests of controls and substantive tests of details aimed at evaluating management's process in calculating the allowance. The engagement team planned to evaluate the reasonableness of Issuer A's allowance by tracing its components back to source documents, testing whether significant assumptions were properly documented and supported by objective evidence, and confirming that there was an appropriate level of monitoring and review being performed by Issuer A personnel. The engagement team also planned to test specific controls including Issuer A's controls over loan file reviews and risk ratings, the identification and measurement of loan impairment, identification of TDRs, and inputs to the ALL calculation. Huff approved the engagement team's plan for auditing Issuer A's allowance.

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[28] The engagement team set planning materiality for the 2013 audit at $1.98 million.

25. In evaluating the reasonableness of Issuer A's recorded net loans and its ALL and ALL-related controls, Huff violated PCAOB audit standards in his performance or review of audit procedures over impairment measurement, loan reviews, identification of TDRs, and certain ALL-related controls. As a result, Huff failed to obtain sufficient appropriate audit evidence to support Grant Thornton's opinions on Issuer A's 2013 financial statements.

Substantive Impairment Test Work

26. Huff failed to properly assess whether Issuer A had adequate specific reserves for its impaired loans. Huff's failure occurred, in part, because he and the engagement team relied on a flawed sample that failed to adequately address the risks presented.[29] Indeed, the engagement team tested only two of Issuer A's impaired loan relationships to determine whether any associated reserves were sufficient. In light of the known risks, the scope of this testing of impaired loans was inadequate, given that only two percent of impaired loans had specific reserves.[30]

27. With respect to the two impaired loan relationships selected for testing, Huff and the engagement team failed to properly evaluate the reasonableness of the specific reserves against the loans in those relationships. In both instances, the engagement team failed to appropriately evaluate whether the impairment calculation it obtained from Issuer A complied with Generally Accepted Accounting Principles

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29 See AU § 350.16 ("When planning a particular sample for a substantive test of details, the auditor should consider [i] the relationship of the sample to the relevant audit objective[; 2] [t]olerable misstatement[; 3] [t]he auditor's allowable risk of incorrect acceptance[; and 4] [C]haracteristics of the population, that is, the items comprising the account balance or class of transactions of interest"); AU § 350.17 ("When planning a particular sample, the auditor should consider the specific audit objective to be achieved and should determine that the audit procedure, or combination of procedures, to be applied will achieve that objective. The auditor should determine that the population from which he draws the sample is appropriate for the specific audit objective."); AU § 350.21 ("The sufficiency of tests of details for a particular account balance or class of transactions is related to the individual importance of the items examined as well as to the potential for material misstatement. When planning a sample for a substantive test of details, the auditor uses his judgment to determine which items, if any, in an account balance or class of transactions should be individually examined and which items, if any, should be subject to sampling. The auditor should examine those items for which, in his judgment, acceptance of some sampling risk is not justified. For example, these may include items for which potential misstatements could individually equal or exceed the tolerable misstatement.")

30 See AU § 350.21.

("GAAP"), and, in both instances, the engagement team failed to assess whether Issuer A's controls over the calculation of impairment were designed and operating effectively.

28. With respect to one of the loan relationships selected for testing, which had a net recorded balance of $38 million and had been restructured in 2012, Huff failed to ensure that the engagement team performed any procedures to assess the reasonableness of management's conclusion that no specific reserve was required. Indeed, the only evidence the engagement team obtained was a cash flow calculation prepared by Issuer A as part of the 2012 restructuring to determine whether the loan was a TDR ("TDR cash flow").

29. Huff's use of the 2012 cash flow calculation as audit evidence to support the valuation of the selected impaired loan failed to comply with PCAOB standards for several reasons:

- GAAP requires that impairment be measured at each reporting date, but Huff failed to obtain any updated impairment calculation from Issuer A;[31]
- Huff and his team failed to assess the reasonableness of the significant assumptions Issuer A used to calculate the 2012 TDR cash flow, including the assumption that the borrower would repay the loans in full; and
- Huff failed to evaluate the effects of the 2012 restructuring in assessing management's conclusion that no specific reserve was necessary. Significantly, as part of that restructuring, the borrower was required to list for sale half of the collateral within two years of the restructuring. Huff, however, failed to perform or ensure the engagement team performed any procedures to develop an understanding of how the forced liquidation of the collateral was proceeding or whether the sales proceeds were sufficient to support repayment of the loans.

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[31] Under ASC 310-10-35-22, impairment should be measured at each reporting date based on the present value of expected future cash flows discounted at the loan's effective interest rate. As a practical expedient, a creditor may measure impairment based on the loan's observable market price or, for collateral dependent loans, the fair value of the collateral. The engagement team, however, did not adequately assess whether Issuer A used either of those methods to determine whether impairment reserves were required. Instead, the engagement team only obtained a comparison of the net present value of pre- and post-modification cash flows assuming 100% repayment and using a market interest rate rather than the loan's effective interest rate.

Substantive Loan File Reviews

30. GT's substantive loan review procedures, which Huff reviewed and signed-off on, failed to address adequately the known risks presented by Issuer A's reported net loans and ALL and did not provide sufficient appropriate evidence to conclude on the reasonableness of those accounts.

31. In testing to determine whether Issuer A properly risk-rated its loans and identified impaired loans, the engagement team relied on a flawed sample by failing to segregate out impaired loans from the population selected for loan reviews, and selecting only two non-impaired legacy loans.[32] Because impaired loans were included within the population eligible for sample selection, the selection of individually significant loans for testing was skewed. Indeed, because the sample selections included loans that had already been identified as impaired and TDRs, the review of such loans failed to achieve the objectives of testing management's rating process or its ability to timely identify impaired loans and TDRs. Huff, however, failed to recognize the problems with the sample, including that GT's loan review test work failed to achieve the objectives of testing management's ability to timely identify impaired loans and TDRs.

32. Huff also failed to obtain sufficient appropriate evidence in connection with certain specific loan reviews because he (a) repeatedly ignored red flags or contradictory evidence indicating that loans may have been improperly risk rated, impaired, and/or require reserves; (b) repeatedly relied on management representations without obtaining relevant and reliable evidence to corroborate those representations; and (c) failed to identify and evaluate potential control deficiencies.

33. Among the most egregious examples of Huff's failures to obtain sufficient appropriate audit evidence are the loan review procedures performed over four impaired loan relationships with a combined carrying value of $162 million. Across each of these loan reviews, which Huff reviewed and signed-off on, the engagement team:

- failed to accurately document and consider important loan terms such as the loan's guarantor, payment terms (e.g., amortizing versus interest only), the terms of any restructuring, and the subordinated position of the loan;

- failed to appropriately evaluate whether there were sufficient sources of repayment;

- relied on non-amortizing debt service coverage ("DSC") ratios;

- relied on loan-to-value ("LTV") ratios calculated using stale pre-financial crisis appraisals;

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[32] See AU §§ 350.16-17.

- failed to identify that the actual operating results of collateral fell far short of the assumptions used to value the collateral at origination;

- failed to evaluate the ability and intent of guarantors and partners to continue to service loans; and

- failed to evaluate the risk associated with the use of mezzanine loans to service loans.

34. With respect to their review of the loan relationship with a carrying value of $38 million, Huff failed to perform or ensure the engagement team performed sufficient procedures to assess whether (i) the ongoing operations of the remaining collateral would be sufficient to repay Issuer A's subordinated loans; or (ii) the proceeds from the sale of collateral would be sufficient to repay the senior and subordinated loans. Specifically, although the work papers cited the strong performance of the hotel properties and lack of an expected decrease in operations, as well as the DSC greater than 1.0 and the LTV of less than 85%, the work papers failed to note that the borrower was required to liquidate half the collateral by October 2014 and had already sold three hotel properties by December 31, 2013. In addition, the DSC that Huff and the engagement team used as audit evidence (i) included only the interest-only debt service on the subordinated loans held by Issuer A; and (ii) failed to include the debt service on more than $1.0 billion in senior loans or the impact of an amortizing payment. The LTV that the engagement team calculated (1.86%) failed to include any of the more than $1 billion in loans senior to Issuer A's loans and included three hotel properties that the borrower had sold prior to December 31, 2013. Moreover, the engagement team failed to note that the loans were only performing because, as a result of the 2012 restructuring, there was no principal debt service required during 2013 and Issuer A was advancing most, if not all, of the interest payments.

35. With respect to review of another loan relationship selected for testing with a carrying value of $33 million, Huff ignored contrary evidence indicating that specific reserves may have been necessary and failed to obtain or instruct his staff to obtain corroborating evidence to support management's representation that the loans were fully collectible. Significantly, Huff was aware or should have been aware that the operations of the property fell short of both the borrower's budget and the projections in the appraisal that the engagement team obtained, which should have prompted Huff to seek, or instruct his staff to seek, additional evidence to support management's assertion that no impairment reserves were required. Indeed, although Huff was aware that shortfalls were being covered by partner capital and additional funding, he failed to perform or instruct the engagement team to perform any procedures to test the ability and intent of the partner to continue to fund shortfalls. Huff also failed to consider the impact of the borrower's reliance on mezzanine funding to service the interest on the senior loan and the future availability of those funds for debt service.

36. Huff and the engagement team's substantive loan review test work over two non-impaired legacy loans selected for testing, with a combined carrying value of

$53 million, was likewise flawed. Huff and the engagement team agreed with management that the loans were (i) properly risk rated green/satisfactory performance, (ii) were not impaired, (iii) did not require specific reserves, (iv) were not TDRs, and (v) did not require charge-off. In both instances, Huff and the engagement team reached their conclusions based primarily on interest-only DSC ratios and LTV ratios calculated using pre-financial crisis appraisals, appraisals that were then more than six years old. Huff and the engagement team failed to note that neither loan was amortizing and that neither loan had sufficient cash flows from operations to repay the principal due at maturity. Huff and the engagement team further failed to identify any source of repayment that was sufficient to repay both the principal and interest due on the loans even though the loans had maturity dates of January 10, 2017 and January 5, 2019, respectively. The work papers, which Huff reviewed and signed-off on, provided no documented basis for how Issuer A and Huff determined that the loans were expected to repay in full.

37. Huff also failed to ensure the performance of any procedures to assess the reasonableness of relying on the pre-financial crisis appraisals when citing the LTV ratios as support for the risk rating and lack of reserves. Critically, Huff also failed to consider whether management's reliance on and use of non-amortizing DSC ratios to risk rate its loans and its failure to obtain current appraisals on its legacy loans constituted control deficiencies.

Troubled Debt Restructuring Disclosure

38. Huff violated PCAOB standards by (i) failing to obtain or instruct his staff to obtain sufficient appropriate evidence as to whether Issuer A had identified all TDRs that occurred during 2013 and (ii) failing to properly evaluate whether Issuer A's TDR disclosures complied with GAAP.[33]

39. Huff failed to test or ensure the engagement team tested the completeness and accuracy of Issuer A's list of restructured loans subject to TDR determinations. All of the loans selected for testing had been classified as TDRs prior to 2013, and thus, Huff failed to perform or ensure the engagement team performed sufficient procedures to evaluate whether Issuer A had missed classifying any loans as a TDR in 2013.

[33] ASC 310-10-50-33 requires entities to disclose quantitative and qualitative information about TDRs that occurred during each period for which a statement of income is presented, including how the financing receivables were modified and the financial effects of the modifications. The standard also requires disclosure, by portfolio segment, of qualitative information about how such modifications are factored into the determination of the allowance for credit losses.

40. In assessing whether loans should be classified as TDRs, Huff failed to ensure the engagement team appropriately obtained and documented evidence concerning the financial condition of the borrower or whether the borrower was granted a concession.[34]

41. Further, Huff failed to properly evaluate whether Issuer A's financial statements included essential information regarding TDRs.[35] Issuer A disclosed that in 2012 and 2013 it had modified $181 million and $143 million, respectively, in CRE loans that it classified as TDRs. Issuer A also disclosed that all of its CRE loans were performing as of December 31, 2012 and 2013. Huff, however, knew or should have known that many of Issuer A's TDRs were only "performing" because of deferred payments terms included in the restructurings, the use of interest reserves to service debt, and/or the use of mezzanine financing to service debt.[36]

G. Huff Violated PCAOB Rules and Auditing Standards in Connection with GT's Audit of Issuer A's 2013 ICFR

42. Huff, who adopted a controls reliance approach to the financial statement audit, failed to obtain sufficient appropriate evidence and failed to exercise sufficient due professional care and professional skepticism in his assessment of the design and operating effectiveness of certain of Issuer A's controls. Huff failed to test or instruct the engagement team to test the design effectiveness of certain key controls over the adequacy of the ALL for the CRE portfolio including controls concerning the

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[34] Under ASC 310-40, a loan should be classified as a TDR if Issuer A, in the course of restructuring a loan, "for economic or legal reasons related to the [borrower's] financial difficulties grant[ed] a concession to the [borrower] that it would not otherwise consider."

[35] AS No. 14 ¶¶ 30-31 requires that the auditor evaluate whether the financial statements are presented fairly, in all material respects, and that as part of its evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation in conformity with the financial reporting framework.

[36] An auditor's opinion that an issuer's financial statements are presented in conformity with GAAP must be based on an audit performed in accordance with PCAOB standards. PCAOB standards require an auditor to perform audit procedures sufficient to evaluate the issuer's adherence to GAAP. This Order's description of audit failures relating to GAAP departures in an issuer's financial statements necessarily reflects the Board's judgment concerning the proper application of GAAP. Any such description of GAAP departures, however, should not be understood as an indication that the Commission has considered or made any determination concerning the issuer's compliance with GAAP.

measurement of impairment, identification of TDRs, and loan reviews. In fact, rather than directly testing certain controls, Huff, instead relied on the results of audit procedures that were substantive in nature.

43. Huff and the engagement team identified inadequate ALL as a significant risk and identified "calculate and record impairment" as a very important process. Huff, however, failed to include in GT's test of controls any procedures to test the design and operating effectiveness of Issuer A's key controls related to the process for measuring impairment for CRE loans. Specifically, Huff failed to identify and test specific controls over Issuer A's calculation of specific reserves.

44. Huff and the engagement team also identified Issuer A's control over the identification of TDRs as a key control. Huff, however, failed to ensure that the engagement team assessed whether the control was designed effectively to assess Issuer A's TDR determinations.

45. In addition, Huff and the engagement team identified as a key control over Issuer A's process for monitoring the CRE loan portfolio the Senior Accountant's review of three loans from the watch list report to determine whether the risk ratings assigned by management were appropriate. Huff, however, failed to assess or instruct the engagement team to assess the design effectiveness of this control. Specifically, Huff failed to assess or instruct the engagement team to sufficiently assess (i) whether the control operator was qualified to perform a review of the loans and assess the appropriateness of the risk ratings assigned by management; (ii) whether the control operator had sufficient and timely information to make risk rating determinations; and (iii) whether the criteria used and sample selected by the control operator was sufficient. Additionally, Huff failed to note the substantive nature of the procedures performed and failed to ensure that any of the loans reviewed by the control operator were subject to control testing.

46. Last, Huff failed to identify or instruct the engagement team to identify any controls related to either the monitoring of collateral or the maintenance of loan files. As a result, neither Huff nor the engagement team performed any procedures to determine whether Issuer A had controls in place to ensure that loan files included timely and complete information and that collateral values for higher risk collateral dependent loans were updated to reflect current market values.

H. Huff Failed to Properly Supervise and Review the Work of the Engagement Team

47. Huff violated PCAOB standards by failing to properly assess the extent of supervision necessary for engagement team members to perform their work and form appropriate conclusions.[37] Specifically, Huff failed to adequately take into account the

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[37] See AS No. 10 ¶ 6.

knowledge, skill, and ability of each engagement team member, the nature of the assigned work, and the risks of material misstatement. Huff further violated PCAOB standards because he failed to inform engagement team members of their responsibilities in sufficient detail to ensure that sufficient appropriate evidence was obtained. Huff did not specifically instruct the staff as to which procedures to perform, the objectives of those procedures, or how the procedures should be performed. Instead, Huff relied on the senior manager on the audit, but failed to develop an understanding of the instructions the senior manager provided to the staff.[38] Critically, Huff also failed to inform the engagement team of the fraud risk he claims to have identified concerning the ALL. As a result, the work papers and test work performed failed to reflect and respond to a risk of fraud associated with the ALL.

48. Huff then failed to sufficiently review the work of the engagement team. To the extent Huff did review work papers, he failed to review them at a level sufficient to identify factual inaccuracies, conclusions not supported by sufficient appropriate evidence, various red flags, contrary audit evidence, and indications that audit procedures had not been properly performed. Moreover, Huff failed to discover that the engagement team did not document a fraud risk related to the ALL and did not adequately respond to such fraud risk.

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 Respondent's Offer. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Richard H. Huff, Jr., CPA, is hereby censured;

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Richard H. Huff, Jr., CPA, is suspended for a period of 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 and PCAOB Rule 1001(p)(i);[39]

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38 Indeed, Huff spent significantly less time in the field with the team during the 2013 audit despite the results of the 2012 APR and the risks associated with the 2013 Issuer A audit.

39 As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Huff. Section 105(c)(7)(B) 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

C. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for one (1) year following the termination of the suspension ordered in paragraph B, Richard H. Huff, Jr.'s role in any "audit" of an "issuer," as those terms are defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), and Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii), respectively, shall be restricted as follows: Huff shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10 or AS 1201, Supervision of the Audit Engagement; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's Auditing Standard 1220, Engagement Quality Review; (3) serve, or supervise the work of another person serving, in any role that is equivalent to, but differently denominated from, engagement partner (such as "lead partner" or "practitioner-in-charge") or engagement quality reviewer (such as "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer; (5) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in AS 1205, Part of the Audit Performed by Other Independent Auditors; or (6) serve, or supervise the work of another individual serving as a professional practice director; and

D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Richard H. Huff, Jr. is required to complete, within one (1) year from the date of this Order, ten (10) hours of additional financial services related professional education and training, covering among other topics the allowance for loan losses.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown
Secretary

February 26, 2019

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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."