
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS

In the Matter of Donna Lynn Johnson, CPA,

Respondent.

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) PCAOB Release No. 105-2017-005
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) February 23, 2017
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring Donna Lynn Johnson, CPA ("Johnson" or "Respondent"), and suspending her from being an associated person of a registered public accounting firm for a period of one year from the date of this Order. The Board is imposing these sanctions on Respondent on the basis of its findings that she violated PCAOB rules and auditing standards in connection with the audit of one issuer client.

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 ("Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of the 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 her 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

¹ The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

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III.

On the basis of Respondent's Offer, the Board finds² that:

A. Respondent

1. Donna Lynn Johnson, CPA, 62, is a resident of Westminster, Colorado. Respondent is a certified public accountant licensed by the Colorado Board of Accountancy (License No. 0009658). She served as a member of the Cutler & Co., LLC (the "Firm")³ engagement team for the issuer audit identified below, reporting directly to the engagement partner.⁴ Johnson was, at all relevant times, 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). Johnson left the Firm in October 2015.

B. Summary

2. This matter concerns Respondent's violations of PCAOB rules and standards in connection with the Firm's issuance of an audit report on Sungame Corp.'s ("Sungame") financial statements for the year ended December 31, 2013 (the "Audit"). Respondent performed the majority of the procedures during the Audit, under the supervision of the engagement partner.

3. As detailed below, Respondent, under the supervision of the engagement partner, failed to exercise due professional care, including professional skepticism, and failed to obtain sufficient appropriate audit evidence to support the opinion expressed in the auditor's report. Specifically, Respondent failed to perform sufficient appropriate procedures, and to obtain sufficient appropriate evidence, to address identified fraud

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 such sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in 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.

³ See *Cutler & Co., LLC, and David J. C. Cutler, CPA*, PCAOB Rel. No. 105-2017-003 (Feb. 23, 2017).

⁴ Id.

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risks related to Sungame's revenue and unearned revenue. Respondent also failed to adequately document critical aspects of the audit.

C. Respondent Violated PCAOB Rules and Standards

4. 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 all applicable Board 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 that opinion on the basis of an audit performed in accordance with PCAOB standards.⁶ Those standards require, among other things, that an auditor plan and perform the audit to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.⁷ PCAOB standards further require an auditor to exercise due professional care and professional skepticism in performing the audit.⁸

5. In addition, PCAOB standards require the auditor to design and implement audit responses that address the identified risks of material misstatement.⁹ As the assessed risk of material misstatement increases, the amount of evidence that the auditor should obtain also increases.¹⁰ "The auditor should perform substantive procedures for each relevant assertion of each significant account and disclosure, regardless of the assessed level of control risk."¹¹ If the auditor performs confirmation

⁵ See PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*; 3200T, *Interim Auditing Standards*. All references to PCAOB standards in this Order are to the versions of those standards in effect for the Audit.

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

⁷ See Auditing Standard No. 15, *Audit Evidence* ("AS 15"), ¶ 4.

⁸ See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

⁹ See Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13"), ¶ 3.

¹⁰ See AS 15 ¶ 5; AS 13 ¶¶ 9(a), 37.

¹¹ AS 13 ¶ 36.

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procedures, "[t]he auditor should direct the confirmation request to a third party who the auditor believes is knowledgeable about the information to be confirmed."¹²

6. 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 fraudulent financial reporting or conceal misappropriation of assets.¹³ The auditor should also perform substantive procedures, including tests of details, that are specifically responsive to the assessed significant risks, including any fraud risks.¹⁴

7. The auditor's assessment of the risks of material misstatement, including fraud risks, should continue throughout the audit.¹⁵ "When the auditor obtains audit evidence during the course of the audit that contradicts the audit evidence on which the auditor originally based his or her risk assessment, the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments."¹⁶

8. "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."¹⁷ "[I]f the auditor has doubts about the reliability of information to be used as audit evidence, 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."¹⁸ "[T]he auditor should not be satisfied with less-

¹² See AU § 330.26, *The Confirmation Process*.

¹³ See AU § 316.66, *Consideration of Fraud in a Financial Statement Audit*, see also AS 13 ¶ 15(c).

¹⁴ See AS 13 ¶¶ 11, 13.

¹⁵ See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶ 74.

¹⁶ *Id.*

¹⁷ AS 13 ¶ 7.

¹⁸ AS 15 ¶ 29.



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than-persuasive evidence because of a belief that management is honest."¹⁹ Moreover, "[i]f 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."²⁰

9. As detailed below, Respondent failed to comply with the aforementioned rules and standards, among others, in connection with the Audit.

1. Background

10. Sungame was, at all relevant times, a Delaware corporation with its principal office located in Las Vegas, Nevada. Sungame's public filings disclosed that it was a development stage company, seeking to develop a media content management and discovery platform, called "Flightdeck," and a business directory service, called "Vidirectory." During 2013, Sungame also began a new line of business, selling glasses-free 3D tablets. Sungame had no history of producing or selling such tablets. At all relevant times, Sungame's common stock was registered under Section 12(g) of the Securities Exchange Act of 1934, and was traded on the OTCBB exchange. At all relevant times, Sungame was an "issuer" as the term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

11. In its Form 10-K for the year ended December 31, 2012, filed on March 29, 2013,²¹ Sungame disclosed that it was "grossly undercapitalized in 2012 and unable to raise a significant amount of capital, other than receiving \$653,593 in advances from our majority shareholder." Sungame reported that its only assets at year-end 2012 consisted of \$2,604 in cash, \$612 in fixed assets and \$121,043 in capitalized software. At the same time, it reported \$1.9 million in liabilities, virtually all of which were attributable to loans and accounts payable that were due to related-parties. Sungame further disclosed that it had "no significant revenues from operations," and that "if we do not begin to generate revenue or cannot raise additional needed funds, we will either have to suspend development operations until we do raise the funds, or cease operations entirely."

¹⁹ AU § 316.13.

²⁰ AU § 333.04, *Management Representations*.

²¹ The 2012 financial statements were audited by Ronald R. Chadwick, P.C., whose Board registration was revoked in 2015. See *In the Matter of Ronald R. Chadwick, P.C. and Ronald R. Chadwick, CPA*, PCAOB Rel. No. 105-2015-009 (Apr. 28, 2015).

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12. In January 2014, Sungame retained the Firm to serve as Sungame's independent auditor. The Firm audited Sungame's financial statements for the year ended December 31, 2013, and issued an audit report, dated April 15, 2014, containing an unqualified opinion on those financial statements. The audit report also included going concern explanatory language regarding those financial statements. The audit report was included in a Form 10-K filed by Sungame with the U.S. Securities and Exchange Commission (the "Commission") on April 15, 2014.

13. Respondent was the only member of the engagement team besides the engagement partner during the fieldwork and completion phases of the audit. Respondent performed the majority of the substantive testing for the Audit, and prepared the majority of the audit documentation.

14. During the Audit, Respondent did not speak to any Sungame executive officer or director. Respondent only obtained written representations and brief responses to questionnaires from Sungame's CEO. All of Respondent's verbal communications with Sungame during the audit were either with a consultant or with Sungame's controller, who she understood acted as a bookkeeper.

2. Respondents Failed to Gather Sufficient Appropriate Audit Evidence

15. During the audit, the engagement team identified several significant risks. Among others, the engagement team identified a fraud risk involving improper revenue recognition.²² The engagement team also identified fraud risks related to "a clear lack of segregation of duties and a high risk of management override of controls." The engagement team further identified a specific fraud risk of misappropriation of assets by management, including a risk that the cash deposits could have been inappropriately diverted by management to related parties. Respondent performed the audit procedures for both revenue and unearned revenue, subject to the supervision of the engagement partner. However, Respondent failed to perform sufficient appropriate procedures to specifically address the identified risks.

16. Sungame disclosed in its 2013 financial statements approximately \$122,000 in revenue from tablet computer sales in 2013. Fifty-four percent of the revenue (\$66,000) was attributed to sales to Sungame's majority shareholder,

²² See AS 12 ¶ 71 (fraud risks are significant risks); see also AS 12 ¶ 68 (the auditor should presume a fraud risk involving improper revenue recognition).



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Chandran Holding Media, Inc. ("CHMI"), which was controlled by Sungame's CEO. Approximately \$43,000 (35%) of Sungame's revenue was recorded on the last day of the Company's fiscal year, December 31, 2013. Other than obtaining written management representations concerning related party revenue, Respondent failed to perform any procedures regarding Sungame's revenue.

17. As of year-end 2013, Sungame reported approximately \$1.9 million in unearned revenue, which it attributed to deposits for future deliveries of tablet computers and advertising services. Sungame disclosed in its 2013 Form 10-K that the unearned revenue originated from deposits received from "resellers" and a new "master distributor." Respondent identified that Sungame's unearned revenue was a significant account, and that the transactions underlying Sungame's unearned revenue were "unusual."

18. Sungame represented to Respondent that virtually all of the deposits for Sungame's unearned revenue balance had been obtained through the master distributor. Respondent obtained a confirmation from the master distributor, confirming \$1.78 million (95%) of Sungame's unearned revenue balance. However, during the audit, Respondent learned that the vast majority of the deposits had been received directly from individuals, and not from the distributor. Additionally, the master distribution agreement wasn't signed until 2014 and stated that it was effective as of December 31, 2013 (i.e., it was not effective until the last day of the year under audit). Moreover, the agreement did not cover prepayments for tablets by third parties; the agreement provided for the distributor's purchase of tablets for resale and distribution, with payment occurring after delivery. Despite this information, Respondent, under the supervision of the engagement partner, failed to consider whether the master distributor was sufficiently knowledgeable to provide confirmation of Sungame's year-end 2013 unearned revenue balance and failed to perform procedures necessary to resolve any doubts about the reliability of the information received.²³

19. During the audit, Respondent also learned that Sungame had not received approximately \$500,000 of the deposits recorded as unearned revenue. Instead, those deposits had been paid to CHMI rather than Sungame. In lieu of receiving the cash, Sungame received credits against an undocumented loan from CHMI. Respondent failed to gain an understanding of the business rationale for the undocumented loan to determine whether it may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.²⁴

²³ See AU § 330.26; AU § 333.04; AS 15 ¶ 29.

²⁴ See AS 13 ¶ 15(c); AU § 316.66.

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20. In addition, Respondent failed to evaluate red flags concerning Sungame's unearned revenue. For example, Respondent reviewed receipts sent to Sungame's customers for their deposits, and realized that they lacked both customer contact information and terms, and might not be reliable. In addition, Respondent reviewed Sungame's bank statements, which reflected that numerous deposits had been sent with notations indicating they were an "investment" or for the purchase of stock. Respondent, however, failed to perform any audit procedures necessary to resolve those inconsistencies and determine the effect, if any, on other aspects of the audit before the Firm, as authorized by the engagement partner, issued its audit report.²⁵

21. On August 15, 2014, Sungame filed a Form 8-K with the Commission, announcing that Sungame's audited December 31, 2013 financial statements should no longer be relied upon.²⁶ Sungame subsequently disclosed, in a Form 10-Q filing for the period ended June 30, 2014,²⁷ that, "all items previously recognized as revenue and deferred revenue [for the year ended 2013 and the first quarter of 2014] will be restated as rebate liability, advances payable, or debt."

3. Respondent Failed to Prepare Appropriate Audit Documentation

22. PCAOB standards require that auditor document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.²⁸ "Audit documentation must clearly demonstrate that

²⁵ See AS 15 ¶ 29.

²⁶ Subsequent to the Audit, in July 2014, a consultant hired by the Firm to perform a post-issuance review of the Audit identified publicly available information that raised concerns related to Sungame's recorded revenue and unearned revenue balances. Some of that information was publicly available at the time of the Audit. The Firm conveyed that information to Sungame in July 2014. Sungame thereafter conducted an internal investigation, which led to the August 15, 2014 Form 8-K filing.

²⁷ That Form 10-Q, filed with the Commission on September 18, 2014, stated that the financial information contained therein had not been reviewed by Sungame's independent accountant.

²⁸ See Auditing Standard No. 3, *Audit Documentation*, ¶ 6.

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the work was in fact performed."²⁹ Among other things, the auditor must document significant findings or issues, actions taken to address them (including additional evidence obtained), and the basis for the conclusions reached in connection with each engagement.³⁰ Significant findings or issues that must be documented include risks of material misstatement that are determined to be significant risks and the results of the auditing procedures performed in response to those risks.³¹ "The auditor must identify all significant findings or issues in an engagement completion document."³²

23. Respondent violated the foregoing standards during the Audit because she failed to adequately document significant issues and findings and failed to adequately document other audit procedures so that an auditor with no previous connection with the engagement could understand the nature, timing, extent, and results of the procedures performed, evidence obtained and conclusions reached.

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), Donna Lynn Johnson, CPA, is hereby censured;

²⁹ Id. ¶ 6.

³⁰ See id. ¶ 12.

³¹ See id. ¶ 12(f-1).

³² Id. ¶ 13.

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- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Donna Lynn Johnson, CPA, is 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 and PCAOB Rule 1001(p)(i).³³

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

February 23, 2017

³³ As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Johnson. 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 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."