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II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (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 them 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 (the "Order") as set forth below.^{2/}

III.

On the basis of Respondents' Offers, the Board finds^{3/} that:

A. Respondents

1. Hood & Associates CPAs, P.C. is, and at all relevant times was, a professional corporation organized and licensed under the laws of the state of Oklahoma (License No. 13387), and headquartered in Tulsa, Oklahoma. The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB rules since October 22, 2003. At all relevant times, the Firm was the external auditor for each of the issuers identified below during the relevant audit years.^{4/}

^{2/} The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

^{3/} The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondent's conduct described in this Order meets the condition set out in Section 105(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.

^{4/} The Firm issued certain of the relevant audit reports while operating under the names Hood Sutton Robinson & Freeman CPAs, P.C., and Sutton Robinson & Freeman CPAs, P.C.



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2. Rick C. Freeman, 54, of Tulsa, Oklahoma, is a certified public accountant licensed under the laws of the State of Missouri (License No. 2001003942), the State of Oklahoma (License No. 13676), and the State of Texas (License No. 087868). At all relevant times, Freeman was the sole audit partner at the Firm, and was the auditor with final responsibility for, and authorized the issuance of, the Firm's audits of the financial statements of each of the issuers identified below. Additionally, Freeman was the only person at the Firm staffing the relevant audit engagements. At all relevant times, Freeman 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

3. This matter concerns Respondents' violations of PCAOB rules and auditing standards in connection with the issuance of audit reports on the financial statements of three issuers over a multiple year period (collectively, the "Audits").^{5/} Respondents failed repeatedly, among other things, to plan, perform, and document audit work in accordance with PCAOB standards, and failed to exercise due professional care and to exercise professional skepticism in connection with the Audits. Respondents also violated Section 10A(a) of the Exchange Act by failing to include procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts in connection with the audit of one issuer client.

4. Respondents also repeatedly violated Section 10A(j) of the Exchange Act, Exchange Act Rule 10A-2, and PCAOB rules and standards that require a registered public accounting firm and its associated persons be independent of the firm's audit client throughout the audit and professional engagement period. Respondents were not independent with respect to two issuer clients because Freeman served as lead audit partner on the audits of those issuers for more than five consecutive years.^{6/}

^{5/} Specifically, the Audits consist of the Firm's audits of: (a) the 2010 and 2011 financial statements of FullNet Communications, Inc. ("FullNet"); (b) the 2010 and 2011 financial statements of Revolutions Medical Corporation. ("Revolutions"); and (c) the 2011 financial statements of NightCulture, Inc. (f/k/a XXX Acquisitions, Inc.) ("NightCulture").

^{6/} See Section 10A(j) of the Exchange Act; Exchange Act Rule 10A-2, *Auditor Independence*, 17 C.F.R. 240.10A-2; PCAOB Rule 3520, *Auditor Independence*; and AU §§ 220, *Independence*.

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5. Moreover, the Firm failed to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"), in the course of the Audits. The Firm and Freeman failed to have an engagement quality review performed on any of the Audits, even though an engagement quality review was required to be performed.^{7/}

6. By issuing audit reports stating that the 2011 audits of FullNet, Revolutions, and NightCulture had been performed in accordance with PCAOB standards when it knew, or was reckless in not knowing, that the statement was false, the Firm violated Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder. Freeman took or omitted to take actions that he knew or was reckless in not knowing, would directly and substantially contribute to the Firm's violations of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

7. Finally, the Firm failed to comply with PCAOB quality control standards in connection with the Audits, and Freeman took or omitted to take, actions during the Audits that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

C. Respondents' Violations of PCAOB Rules and Auditing Standards, Independence Standards, and the Exchange Act

Respondents Violated PCAOB Rules and Standards in Connection with the Audits

8. 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.^{8/} 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.^{9/} Among other things, those standards require that an auditor

^{7/} See AS No. 7 ¶ 1.

^{8/} See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*; PCAOB Rule 3400T, *Interim Quality Control Standards*.

^{9/} See AU § 508.07, *Reports on Audited Financial Statements*.

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exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.^{10/} PCAOB standards also require that audit work be adequately planned^{11/} and require auditors to perform procedures to identify, assess, and respond to risks of material misstatement due to fraud.^{12/}

9. Additionally, PCAOB audit documentation standards provide that the documentation for an audit must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement: (a) to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.^{13/} Moreover, AS No. 3 requires an auditor to prepare an engagement completion document that identifies all "significant findings or issues," such as matters that could result in a modification of the audit report and audit adjustments.^{14/}

10. As detailed below, Respondents failed to comply with the aforementioned rules and standards, among others, in connection with the Audits.

Audits of FullNet's 2010-2011 Financial Statements

11. FullNet is, and at all relevant times was, an Oklahoma corporation headquartered in Oklahoma City, Oklahoma. FullNet's public filings disclose that it is an integrated communications provider for individuals, businesses, organizations, educational institutions, and government agencies. Its common stock is registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board. At

^{10/} See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; AU § 326, *Evidential Matter*, Auditing Standard No. 15 ("AS No. 15"), *Audit Evidence*.

^{11/} See AU § 150.02; AU § 311, *Planning and Supervision*; Auditing Standard No. 9 ("AS No. 9"), *Audit Planning*.

^{12/} See AU § 316, *Consideration of Fraud in a Financial Statement Audit*.

^{13/} Auditing Standard No. 3 ("AS No. 3") ¶ 6, *Audit Documentation*.

^{14/} AS No. 3, ¶¶ 12, 13. PCAOB standards define "significant findings or issues" as "substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached...." *Id.* ¶ 12.



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all relevant times, FullNet was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

12. The Firm was engaged as FullNet's external auditor in October 2010 for the audit of FullNet's financial statements for the year ending December 31, 2010. The Firm issued an audit report dated March 31, 2011, expressing an unqualified opinion, with an explanatory going concern paragraph, on FullNet's 2010 financial statements that accompanied FullNet's Form 10-K filed with the Commission on the same day. For the subsequent fiscal year, the Firm issued an audit report dated March 29, 2012, expressing an unqualified opinion, with an explanatory going concern paragraph, on FullNet's 2011 financial statements filed with the Commission on March 29, 2012, in FullNet's Form 10-K. Freeman served as the lead audit partner on the FullNet engagements and authorized the issuance of all relevant audit reports.

13. During the 2010 audit, Freeman and the Firm failed to comply with the applicable professional standards. First, Freeman and the Firm failed to adequately plan the audit. Other than using a standardized audit program and checklists, Respondents failed to take any steps to obtain a level of knowledge of the company's business to enable them to appropriately plan and perform the audit.^{15/} Respondents also failed to adequately assess the risk of material misstatement on numerous accounts and balances, including accounts receivable, sales, inventory and cost of sales.^{16/} Freeman and the Firm additionally failed to gain an adequate understanding of and document the company's internal controls.^{17/} Respondents further failed to appropriately consider the risk of fraud and failed to test journal entries.^{18/}

14. In performing the 2010 audit, Freeman and the Firm failed to exercise due care and obtain sufficient competent evidence with respect to certain critical aspects of the audit including: revenue, forgiveness of debt, and income.^{19/} For example, Freeman and the Firm failed to perform adequate procedures relating to FullNet's reported

^{15/} AU § 311.06, *Planning and Supervision*.

^{16/} AU § 312, *Audit Risk and Materiality in Conducting an Audit*.

^{17/} AU § 319.02, *Consideration of Internal Control in a Financial Statement Audit*.

^{18/} AU § 316.58, *Consideration of Fraud in a Financial Statement Audit*.

^{19/} AU § 230; AU § 326.



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revenue of \$1,687,945 for the year ended December 31, 2010. Freeman and the Firm's audit procedures were primarily limited to obtaining a series of schedules detailing revenue by product, by month and then performing a high level analytical review by comparing monthly revenues from 2009 to 2010. These procedures did not constitute substantive analytical procedures because Respondents failed to develop sufficiently precise expectations and failed to investigate or evaluate significant unexpected differences identified in the audit.^{20/} Freeman and the Firm also failed to perform any tests of the underlying detail and failed to test the accuracy of any of the data reflected in the revenue schedules. Having not performed any tests of controls, Respondents had no basis to rely on the data in those schedules. In addition, Freeman and the Firm failed to reconcile the schedules to revenue reported in the financial statements.

15. In 2010, FullNet's financial statements reported other income of approximately \$1.2 million. According to the public filings, this other income was the result of FullNet determining that certain outstanding liabilities were no longer collectible and should be written off. Freeman and Firm failed to perform sufficient procedures to corroborate management's representations regarding the treatment of the debt.

16. During the 2011 audit, Freeman and the Firm failed to adequately plan and perform the audit in accordance with PCAOB audit standards. Respondents inappropriately assessed the inherent and control risks for many accounts, including accounts receivables and sales, resulting in insufficient audit testing. Respondents also failed to properly test journal entries.

17. As in 2010, Freeman and the Firm repeatedly relied on analytical review procedures as substantive audit tests during the 2011 audit, when such procedures did not constitute substantive analytical procedures.^{21/} Respondents again failed to test the accuracy of data reflected in the revenue schedules and, having not performed any tests of controls, had no basis to rely on the data in those schedules.

Audits of Revolutions' 2010-2011 Financial Statements

18. Revolutions is, and at all relevant times was, a Nevada corporation headquartered in Charleston, South Carolina that designs, develops and commercializes auto retractable vacuum safety syringes. Its common stock was

^{20/} AU §§ 329.09-.21, *Analytical Procedures*.

^{21/} AU §§ 329.09-.21.

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registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board. At all relevant times, Revolutions was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

19. The Firm issued an audit report dated March 30, 2011, expressing an unqualified opinion on Revolutions' financial statements for the year ended December 31, 2010, that accompanied Revolutions' Form 10-K filed with the Commission on March 31, 2011.^{22/} On September 16, 2011, Revolutions' filed a Form 10-K/A with the Commission that amended and restated Revolutions' financial statements and related disclosures for the period ended December 31, 2010.^{23/} The Firm issued a revised audit opinion, dated September 1, 2011, in connection with Revolutions' Form 10-K/A. For the subsequent year, the Firm issued an audit report dated March 30, 2012, expressing an unqualified opinion, with an explanatory going concern paragraph, on Revolutions' 2011 financial statements in Revolutions' Form 10-K filed with the Commission on the same day.^{24/} Freeman served as the lead audit partner on the Revolutions engagements and authorized the issuance of all relevant audit reports.

20. During the 2010 audit, Freeman and the Firm failed to adequately plan the audit. Other than using a standardized audit program and checklists, Respondents failed to take any steps to obtain a level of knowledge of the company's business to enable them to appropriately plan and perform the audit.^{25/}

^{22/} The audit report included an explanatory going concern paragraph, and included an incorrect issuance date of March 30, 2010. This date was subsequently corrected to March 30, 2011, as part of Revolutions' 2010 Form 10-K/A, filed September 16, 2011.

^{23/} The restatement included, among other errors, the acknowledgment that Revolutions had failed to bifurcate a convertible debt agreement and fair value the associated embedded derivative as an embedded derivative liability in its 2010 financial statements.

^{24/} On May 2, 2013, Revolutions filed a Form 10-K for the year ended December 31, 2012, with the Commission that restated its 2011 financial statements to correct, among other errors, the \$311,000 gain from litigation and the corresponding amount reflected as due from litigation based on uncertain collectability of the gain. The Firm issued an unqualified audit opinion with an explanatory going concern paragraph on both Revolutions' 2012 and restated 2011 financial statements.

^{25/} AU § 311.06.

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21. Respondents also failed to exercise due professional care and failed to obtain sufficient competent evidential matter to support its opinion on Revolution's 2010 financial statements. Revolutions reported fixed assets of \$812,478 for the year ended December 31, 2010, which accounted for 65% of reported assets. Freeman and the Firm failed to test the 2010 additions to the fixed assets against any supporting documents and corroborate that it was appropriate to capitalize such costs. Respondents also failed to assess the reasonableness of the company's depreciation method and calculation. They further failed to test journal entries.

22. Freeman and the Firm also failed to obtain sufficient evidence to test other current assets, which accounted for 24% of reported assets. Freeman and the Firm understood this reported asset to be substantially comprised of prepaid consulting fees, but they failed to obtain evidence corroborating that such costs had a future benefit and were appropriately reported as an asset. Freeman and the Firm also failed to properly test the reported notes payable. For expenses reported during 2010, Freeman and the Firm performed only high level analytical review procedures that were not substantive in nature.

23. In conducting the 2011 audit, Respondents failed to exercise due care and professional skepticism and failed to obtain sufficient appropriate audit evidence in performing the substantive audit work.^{26/} For example, Revolutions reported property and equipment of \$1,185,664 as of December 31, 2011. Despite being the largest reported asset as of December 31, 2011, Freeman and the Firm again failed to test the new additions to property and equipment against supporting documentation and failed to assess whether it was appropriate to capitalize such costs. For prepaid expenses, which accounted for 16% of reported assets, Freeman and the Firm failed to test such costs against supporting documentation and assess whether such costs had a future benefit and qualified as an asset.

24. Apart from inquiries with management, Freeman and the Firm failed to obtain any audit evidence to support the existence and valuation of a reported receivable and gain related to settlement of litigation.^{27/} Freeman and the Firm also relied solely on management inquiries and failed to obtain audit evidence to corroborate the value of embedded derivatives relating to convertible debt.^{28/} For example,

^{26/} AU § 230; AS No. 15.

^{27/} AS No. 15.

^{28/} AU §326; AS No. 15



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Freeman and the Firm failed to evaluate the qualifications of a specialist used by the company to value the derivatives, and obtain an understanding of the methods and assumptions used by the specialist.^{29/} Finally, for most other income and expenses recognized in 2011, Freeman and the Firm performed only high level analytical procedures that did not constitute substantive analytical procedures.^{30/}

Audit of NightCulture's 2011 Financial Statements

25. NightCulture is, and at all relevant times was, a Nevada corporation headquartered in Houston, Texas. According to its public filings, NightCulture promotes, produces, and sells merchandise at live concerts. Its common stock is registered under Section 12(g) of the Exchange Act and traded on the OTC Bulletin Board. At all relevant times, NightCulture was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

26. The Firm issued an audit report dated March 29, 2012, expressing an unqualified opinion with an explanatory going concern paragraph, on NightCulture's financial statements for the year ended December 31, 2011, that accompanied NightCulture's Form 10-K filed with the Commission on March 30, 2012. Freeman served as the lead audit partner on the NightCulture engagement and authorized the issuance of the March 29, 2012 audit report.

27. During the 2011 audit, Freeman and the Firm failed to adequately plan the audit in accordance with PCAOB standards by failing to appropriately assess the inherent and control risks for significant audit areas, such as notes payable and long-term debt.^{31/}

28. In 2011, prior to its name change, NightCulture participated in a reverse merger with NightCulture, Inc., a private entity. The acquisition was accounted for as a reverse merger. Consequently, the assets, liabilities and operations of the acquired company were reflected in the financial statements of NightCulture's 2011 Form 10-K as NightCulture's 2010 financial statements. Freeman and the Firm failed to perform any procedures to audit the acquired company's assets and liabilities as of December 31, 2010, and results of its operations for 2010. As such, Freeman and the Firm had no

^{29/} AU § 336, *Using the Work of a Specialist*.

^{30/} AU § 329.09-.21.

^{31/} AS No. 9; AS No. 15.



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basis to opine on the 2010 financial statements of NightCulture in the March 29, 2012 audit report.

29. With respect to NightCulture's 2011 financial statements, Freeman and the Firm failed to test NightCulture's journal entries. Respondents also failed to obtain sufficient appropriate audit evidence in critical aspects of the audit.^{32/} For example, NightCulture reportedly generated revenue primarily from the promotion and production of live music events, and recognized revenue after the performance occurred and settlement of the event took place. Rather than perform substantive audit procedures, Freeman and the Firm performed only high level analytical reviews of reported monthly revenue and expenses that did not constitute substantive analytical procedures.^{33/} Respondents failed to develop sufficiently precise expectations and failed to investigate or evaluate significant unexpected differences identified in the audit. They also failed to test the accuracy of data in the analytics and, having not performed any tests of controls, had no basis to rely on the data.

30. Freeman and the Firm also failed to obtain sufficient appropriate audit evidence to support the \$55,500 reported gain on the forgiveness of debt, which was material to NightCulture's 2011 financial statements.^{34/} Further, NightCulture disclosed that it had entered into a financing arrangement in March 2011 that resulted in the issuance of convertible debentures. Freeman and the Firm relied solely on management representations and failed to obtain any sufficient appropriate audit evidence regarding the fair valuation of the embedded derivatives related to the convertible debentures.

31. Finally, NightCulture's 2011 Form 10-K disclosed \$131,000 of notes receivable related to a loan from NightCulture to Stereo Live, Inc., whose Chief Executive Officer and 50 percent owner, Mike Long, was also the CEO of NightCulture. Freeman was aware of this connection and, as part of the 2011 audit, instructed Mike Long to send himself a confirmation of this receivable. Freeman failed to consider whether or not this loan from NightCulture to a corporation owned and controlled by the CEO of NightCulture might constitute an illegal act. As a result, Respondents violated Section 10A(a) of the Exchange Act by failing to include in the audit, procedures

^{32/} AS No. 15.

^{33/} AU § 329.09-.21.

^{34/} AS No. 15.

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designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts.^{35/}

Audit Documentation Failure

32. In addition to the audit deficiencies identified above, Freeman and the Firm also failed to comply with AS No. 3 in connection with the Audits. The audit documentation prepared by Freeman for the Audits consisted primarily of incomplete audit program checklists, and did not contain sufficient information to demonstrate the nature, timing, extent, and results of the procedures performed, evidence obtained, conclusions reached, and the dates such work was completed and reviewed.^{36/}

33. Freeman also failed to complete an engagement completion document that identified the significant findings or issues, such as matters that could result in a modification of the audit report and audit adjustments in connection with the Audits.^{37/}

34. Further, Freeman failed to comply with AS No. 3 in connection with the 2010 audits of FullNet and Revolutions by adding and modifying audit documentation after the audit documentation completion date, without recording the date that information was added, or the reason for adding it.^{38/} In both instances, Freeman added documents to the audit documentation months after the 45-day audit completion date had passed.

Respondents Failed to Comply with Audit Partner Rotation Requirements

35. PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm's audit client throughout the audit and professional engagement period.^{39/} "[A] registered public accounting firm or associated person's independence obligation with respect to an audit client that is an

^{35/} See 15 U.S.C. § 78j-1(a)(1).

^{36/} AS No. 3, at ¶ 6.

^{37/} AS No. 3, at ¶¶ 12-13.

^{38/} AS No. 3, at ¶¶ 15-16.

^{39/} See PCAOB Rule 3520; see also AU §§ 220.



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issuer encompasses not only an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws."^{40/}

36. Section 10A(j) of the Exchange Act provides, "[i]t shall be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has performed audit services for that issuer in each of the 5 previous fiscal years of that issuer."

37. Exchange Act Rule 10A-2 provides that it shall be unlawful for an auditor not to be independent with respect to, among other requirements, the partner rotation requirements of Commission Regulation S-X.

38. Rule 2-01 of Commission Regulation S-X provides that an accountant is not independent of an audit client when an audit partner performs the services of lead or concurring audit partner for the same issuer for more than five consecutive years and within the five consecutive year period following the performance of services for the maximum period permitted.^{41/}

39. In addition, PCAOB rules prohibit an associated person of a registered public accounting firm from omitting to take an action knowing, or recklessly not knowing, that the omission would directly and substantially contribute to violations by that firm of the Act, rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.^{42/}

40. As described below, Respondents failed to comply with Exchange Act 10A-2 and PCAOB rules and standards, the Firm failed to comply with Section 10A(j) of

^{40/} PCAOB Rule 3520, Note 1.

^{41/} See Rule 2-01 of Regulation S-X, 17 C.F.R. §§ 210.2-01. At all relevant times, the Firm had five or more audit clients that were issuers and did not qualify for the small firm exemption. *Id.* at § 210.2-01 (c)(6)(ii).

^{42/} See PCAOB Rule 3502.

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the Exchange Act, and Freeman directly and substantially contributed to the Firm's violations of Section 10A(j) of the Exchange Act.

Audits of NightCulture's Financial Statements

41. The Firm was engaged as NightCulture's external auditor in November 2004. The Firm issued audit reports that were included in NightCulture's financial statements filed with the Commission, expressing unqualified opinions on NightCulture's year ended financial statements in five consecutive fiscal years between 2004 and 2008.^{43/} Freeman served as the lead audit partner on the NightCulture engagements and authorized the issuance of all audit reports during this five year period.

42. After serving as lead audit partner for the aforementioned five year period, Freeman continued to serve as lead audit partner on the audits of NightCulture's financial statements for the fiscal years ended December 31, 2009 through December 31, 2011, in violation of Section 10A(j) of the Exchange Act, Exchange Act Rule 10A-2, PCAOB Rule 3520 and AU § 220.

Audits of Revolutions Financial Statements

43. The Firm issued audit reports on financial statements included in Revolutions' filings with the Commission, expressing unqualified opinions on Revolution's financial statements in consecutive fiscal years between 2003 and 2007.^{44/} Freeman served as the lead audit partner on the Firm's engagement during the audit of Revolutions' 2003 financial statements through the audit of Revolutions' 2007 financial statements.

44. After serving as lead partner for the aforementioned five year period, Freeman continued to serve as the lead partner on the audits of Revolutions financial statements for the years ended December 31, 2008 through December 31, 2011, in violation of Section 10A(j) of the Exchange Act, Exchange Act Rule 10A-2, PCAOB Rule 3520 and AU § 220.

^{43/} All of these audit reports included explanatory going concern paragraphs.

^{44/} All of these audit reports included explanatory going concern paragraphs.

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Respondents Failed to Comply with Engagement Quality Review Requirements

45. PCAOB Auditing Standard No. 7, *Engagement Quality Review*, provides that an engagement quality review and concurring approval of issuance are required for all audits and interim reviews for fiscal years beginning on or after December 15, 2009.^{45/} Pursuant to AS No. 7, a firm may grant permission to a client to use the engagement report only after the engagement quality reviewer provides concurring approval of issuance.^{46/}

46. AS No. 7 required that the Firm have an engagement quality review performed on the fiscal year 2010 and 2011 audits of FullNet, Revolutions, and NightCulture. In October 2010, Freeman contacted a former audit partner of the Firm about serving as an engagement quality reviewer. That partner initially agreed, but then allowed his certified public accountant license to lapse and declined to serve in the role of an engagement quality reviewer. Other efforts by Freeman and the Firm to identify an engagement quality reviewer were unsuccessful and no engagement quality review was performed for the Audits. As a result, for the 2010 and 2011 audits of FullNet, Revolutions, and NightCulture, the Firm violated AS No. 7.

47. Freeman knew, or was reckless in not knowing, that he was directly and substantially contributing to the Firm's violations of AS No. 7 when he improperly permitted the issuance of the audit opinions by the Firm without an engagement quality review and concurring approval of issuance.^{47/}

Respondents Received Notice from PCAOB Inspections of Independence and Engagement Quality Review Problems Prior to Issuing 2011 Audit Reports

48. In October 2011, the Firm was inspected by the PCAOB's Division of Registration and Inspections. As part of that process, the PCAOB inspection staff reviewed the Firm's audits of the 2010 financial statements of FullNet and Revolutions, and reviewed the Firm's independence with respect to NightCulture. The PCAOB inspection staff brought to the Firm's attention apparent failures by the Firm to both comply with independence requirements related to lead partner rotation for Revolutions

^{45/} See AS No. 7 ¶ 1.

^{46/} See AS No. 7 ¶ 13.

^{47/} See PCAOB Rule 3502.

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and NightCulture and to obtain an engagement quality review and concurring approval of issuance for the 2010 Audits.

49. Despite acknowledging the PCAOB inspection staff's findings, Freeman continued to serve as the lead audit partner with final responsibility for the Firm's audits of the 2011 financial statements of both Revolutions and NightCulture, and Respondents failed to obtain an engagement quality review and concurring approval of issuance for the 2011 audits of FullNet, Revolutions, or NightCulture. Further, Respondents prepared and included memoranda in the audit documentation for the 2011 audits of NightCulture and Revolutions documenting the independence problems and, in the case of NightCulture, acknowledging that the audit was completed without the required engagement quality review. On March 29, 2012, Freeman authorized the issuance of the Firm's audit reports that were included in the Form 10-Ks that FullNet and NightCulture filed with the Commission. On March 30, 2012, Freeman authorized the issuance of the Firm's audit report that was included in the Form 10-K that Revolutions filed with the Commission. For each of these audit reports, Respondents asserted that the audit had been conducted in accordance with the auditing standards of the PCAOB.

Respondents Violated Section 10(b) of the Exchange Act and Commission Rule 10b-5

50. Section 10(b) of the Exchange Act and Commission Rule 10b-5 thereunder prohibit a person, in connection with the purchase or sale of a security, from making an untrue statement of a material fact or from omitting to state a material fact necessary to make statements made, in light of the circumstances under which they were made, not misleading.^{48/} To violate Section 10(b) or Rule 10b-5, a defendant must act with scienter,^{49/} which the Supreme Court has defined as "a mental state embracing intent to deceive, manipulate, or defraud."^{50/} Scienter encompasses knowing or intentional conduct, or recklessness.^{51/}

^{48/} See Section 10(b) of the Exchange Act; Exchange Act Rule 10b-5, *Employment of Manipulative and Deceptive Practices*, 17 C.F.R. § 240.10b-5(b).

^{49/} *Aaron v. SEC*, 446 U.S. 680, 695, 701-02 (1980).

^{50/} *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976).

^{51/} See, e.g., *IIT v. Cornfeld*, 619 F.2d 909, 923 (2d Cir. 1980).

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51. An auditor violates Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by issuing an audit report stating that the audit has been performed in accordance with PCAOB standards when it knows, or is reckless in not knowing, that the statement is false.^{52/} These statements are clearly material, as "[f]ew matters could be more important to investors than that of whether an issuer's financial statements, contained in its filings with the Commission, had, in fact, been subjected to an annual audit conducted in accordance with [PCAOB standards] in all material respects."^{53/}

52. The Firm violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder when it issued audit reports falsely stating that the 2011 audits of FullNet, Revolutions, and NightCulture were conducted in accordance with PCAOB standards when Respondents knew, or were reckless in not knowing, that few substantive audit procedures were performed prior to the issuance of the Firm's audit reports; that the Firm was not independent of Revolutions and NightCulture, and that the Firm had not obtained an engagement quality review and concurring approval of issuance for the 2011 Audits.

53. Freeman knew, or was reckless in not knowing, that he was directly and substantially contributing to the Firm's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder when he improperly authorized the issuance of the Firm's 2011 audit opinions falsely stating that the audits were conducted in accordance with PCAOB standards.^{54/}

D. Respondents Violated PCAOB Rules and Standards Related to Quality Control

54. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.^{55/} PCAOB quality control standards require that a

^{52/} See *Lawrence H. Wolfe, CPA*, PCAOB Rel. No. 105-2012-005, at *5 (Sep. 7, 2012); *In re: The Blackwing Group, LLC and Sara L. Jenkins, CPA*, PCAOB Rel. No. 105-2009-007, at *9-10 (Dec. 22, 2009); *In re: Moore & Associates, Chartered, and Michael J. Moore, CPA*, PCAOB Rel. No. 105-2009-006, at *16 (Aug. 27, 2009); *In re: Richard P. Scalzo, CPA*, Exchange Act Rel. No. 48328, 2003 SEC LEXIS 1915, at *1 (August 13, 2003).

^{53/} *Scalzo*, 2003 SEC LEXIS 1915, at *52-53.

^{54/} PCAOB Rule 3502.

^{55/} PCAOB Rule 3100; PCAOB Rule 3400T.

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registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."^{56/} PCAOB quality control standards state that policies and procedures "should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."^{57/} Additionally, PCAOB quality control standards provide that policies and procedures "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control . . . are suitably designed and are being effectively applied," and that "its system of quality control is effective."^{58/}

55. PCAOB rules prohibit an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation of Board standards by that firm.^{59/}

56. When the Firm filed its Application for Registration with the PCAOB in 2003, it submitted a set of quality control policies covering, among other things, personnel management, engagement performance, and monitoring. Although the Firm underwent ownership changes subsequent to the initial Application for Registration, the Firm did not modify or update its quality control policies or procedures to reflect the new structure of the Firm, or to address the requirements of new PCAOB standards, such as AS No. 7.

57. Moreover, the Firm did not follow or monitor the policies in place during the Audits. No engagement quality review and concurring approval of issuance occurred for any of the Audits, despite the Firm's policy that "[o]n SEC reporting engagements, a second review of the report, financial statement and selected work papers by the Audit Manager or Shareholder having no other significant responsibilities on the engagement is required."

^{56/} QC § 20.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

^{57/} QC § 20.17.

^{58/} QC § 20.20; see also QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

^{59/} PCAOB Rule 3502.

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58. Further, the Firm's system of quality control also failed to provide reasonable assurance that engagement personnel complied with PCAOB audit documentation requirements, as set forth in AS No. 3. As noted above, as a result, the Firm's Audits violated AS No. 3 in multiple respects.

59. Overall, the Firm's monitoring procedures, taken as a whole, did not enable the Firm to obtain reasonable assurance that its system of quality control was effective.^{60/} For example, the Firm did not take appropriate steps to monitor whether its associated persons were, in fact, complying with Firm policies engagement quality review or audit documentation.

60. As a consequence of these violations, the Firm failed to comply with PCAOB quality control standards in connection with the Audits. Freeman, as the Firm's sole audit partner, took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in the 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), Hood & Associates CPAs, P.C. and Rick C. Freeman, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Rick C. Freeman, CPA is barred 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);
- C. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration Hood & Associates CPAs, is revoked;

^{60/} See QC § 30.02-.03.

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- D. After three (3) years from the date of the Order, Hood & Associates CPAs, P.C. may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- E. 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 Hood & Associates CPAs, P.C. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Hood & Associates CPAs, P.C. shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies Hood & Associates CPAs, P.C. as a Respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe 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

November 21, 2013