
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS

*In the Matter of Ronald R. Chadwick, P.C. and
Ronald R. Chadwick, CPA,*

Respondents.

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) PCAOB Release No. 105-2015-009
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) April 28, 2015
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring Ronald R. Chadwick, P.C. (the "Firm"), and Ronald R. Chadwick, CPA ("Chadwick"), revoking the registration of the Firm,¹ and barring Chadwick from being an associated person of a registered public accounting firm.² The Board is imposing these sanctions on the Firm and Chadwick (collectively, "Respondents") on the basis of its findings that Respondents violated PCAOB rules and auditing standards in connection with the audits of the financial statements of five (5) issuer clients.

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 Respondents.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party,

¹ The Firm may reapply for registration after three (3) years from the date of this Order.

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

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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 are admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.³

III.

On the basis of Respondents' Offers, the Board finds⁴ that:

A. Respondents

1. Ronald R. Chadwick, P.C. is a registered public accounting firm located in Aurora, Colorado. The Firm is licensed by the state of Colorado (License No. FRM.0006687). Chadwick is the sole proprietor of the Firm. The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB Rules since 2003.

2. Ronald R. Chadwick, CPA, 59, is a resident of Aurora, Colorado. Chadwick is a certified public accountant licensed by the state of Colorado (License No. CPA.0014681). He was the engagement partner for the Firm's audits of the financial statements of the five (5) issuers discussed below and authorized the issuance of the Firm's audit reports on those financial statements. Chadwick is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

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

⁴ The 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 Respondents' 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.

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B. Summary

3. This matter concerns Respondents' numerous and repeated violations of PCAOB rules and standards in connection with the issuance of audit reports on the financial statements of five (5) issuers in 2011 or 2012 (collectively, the "Audits").⁵

4. Further, Respondents, among other things, repeatedly: (1) failed to plan and perform audit work sufficiently; (2) failed to exercise sufficient due professional care and professional skepticism in connection with the Audits; (3) failed to identify and assess the risk of fraud in planning several of the Audits; (4) failed to properly identify and assess audit risk, including the risk of material misstatement; (5) failed to appropriately evaluate the results of the Audits to determine whether the audit evidence obtained was sufficient and appropriate; (6) failed to obtain sufficient and appropriate audit evidence in support of the Firm's audit opinions; and (7) improperly authorized the issuance of the Firm's audit reports which incorrectly stated that the Firm had conducted those Audits in accordance with PCAOB standards.

5. Finally, in connection with two of the Audits, Respondents violated PCAOB standards by adding information to the audit work papers after the documentation completion date without indicating the date such information was added, the name of the person who added it, and the reason for adding such information months after the documentation completion date.

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

6. 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.⁶ Under PCAOB auditing standards, an auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed that opinion on the

⁵ Specifically, the Audits consist of Respondents' audits of: (1) Hinto Energy, Inc. ("Hinto") for fiscal year ended December 31, 2011; (2) Medina International Holdings, Inc. ("Medina") for fiscal year ended April 30, 2012; (3) maniaTV, Inc. ("maniaTV") for fiscal year ended December 31, 2012; (4) RD&G Holdings Corporation ("RD&G") for fiscal year ended December 31, 2012; and (5) TransBiotec, Inc. ("TransBiotec") for fiscal year ended December 31, 2012.

⁶ See PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*; 3200T, *Interim Auditing Standards*.

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basis of an audit performed in accordance with PCAOB standards.⁷ Those standards state that "[t]he objective of the auditor is to conduct the audit of financial statements in a manner that reduces audit risk to an appropriately low level."⁸ Auditors are required to "plan the audit so that the audit is conducted effectively,"⁹ exercise due professional care and professional skepticism,¹⁰ and "obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report."¹¹

7. Further, PCAOB standards require an auditor to "perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures."¹² In order to address the risks of material misstatement, the auditor must design and implement audit responses that address those risks that were identified and assessed.¹³ PCAOB standards also provide that "[t]he auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud."¹⁴ PCAOB standards also provide that "[t]he

⁷ See AU § 508.07, *Reports on Audited Financial Statements*. All references to PCAOB standards in this Order are to the versions of those standards in effect for the Audits.

⁸ Auditing Standard No. 8, *Audit Risk* ("AS 8"), ¶ 2.

⁹ Auditing Standard No. 9, *Audit Planning* ("AS 9"), ¶ 2.

¹⁰ See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

¹¹ Auditing Standard No. 15, *Audit Evidence* ("AS 15"), ¶ 3.

¹² Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶ 4.

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

¹⁴ AU § 316.01, *Consideration of Fraud in a Financial Statement Audit* (quoting AU § 110.02, *Responsibilities and Functions of the Independent Auditor*). PCAOB standards explain that "[t]wo types of misstatements are relevant to the auditor's consideration of fraud—misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets." AU § 316.06.

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auditor's assessment of the risks of material misstatement, including fraud risks, should continue throughout the audit. 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."¹⁵

8. 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."¹⁶ Further, "[i]n forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, 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."¹⁷ Although management representations "are part of the evidential matter the independent auditor obtains, ... they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit."¹⁸ Moreover, if a management representation "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 management's representations relating to other aspects of the financial statements is appropriate and justified."¹⁹

9. In the case of "significant transactions that are outside the normal course of business for the entity [under audit], or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment," the auditor "should 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

¹⁵ AS 12 ¶ 74.

¹⁶ AU § 230.09.

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

¹⁸ AU § 333.02, *Management Representations*.

¹⁹ AU § 333.04.

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assets."²⁰ PCAOB standards further provide that, "[i]n understanding the business rationale for the transactions, the auditor should consider [among other things] ... "[w]hether the transactions involve previously unidentified related parties", and "[w]hether management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction."²¹

10. PCAOB standards also require an auditor to obtain satisfaction concerning the purpose, nature, and extent of material transactions involving related parties, through the performance of procedures that extend beyond inquiry of management.²² In addition, PCAOB standards require the auditor to evaluate the information available concerning material related party transactions in order to satisfy the auditor that they have been adequately disclosed in the financial statements.²³

11. Additionally, PCAOB standards provide that information may be added to the audit documentation after the deadline for assembling a complete and final set of audit documentation (the "documentation completion date"); however, any information added must indicate: (a) the date the information was added; (b) the name of the person who prepared the additional documentation; and (c) the reason for adding it.²⁴

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

Violations Relating to the Audit of Hinto's 2011 Financial Statements

13. Hinto was, at all relevant times, a Wyoming corporation with its principal office located in Arvada, Colorado. Hinto's public filings disclose that it is a company that engages in the acquisition, exploration, and development of oil and gas prospects in the Rocky Mountain region. In 2011, Hinto was required to file reports under Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Hinto's common

²⁰ AU § 316.66.

²¹ AU § 316.67; see also AU § 334.06, *Related Parties*.

²² See AU § 334.09.

²³ AU § 334.11.

²⁴ Auditing Standard No. 3, *Audit Documentation* ("AS 3"), ¶ 16; see id. ¶ 15 (defining documentation completion date as "a date not more than 45 days after the report release date").

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stock is quoted Over The Counter ("OTC") on the pink sheets under the ticker symbol "HENI." At all relevant times, Hinto was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

14. The Firm audited Hinto's financial statements for the year ended December 31, 2011, and issued an audit report containing an unqualified opinion dated March 30, 2012, which included going concern explanatory language regarding those financial statements (the "Hinto Audit"). The audit report was included in a Form 10-K filed by Hinto with the U.S. Securities and Exchange Commission (the "Commission") on April 13, 2012.

15. Respondents failed to plan and perform the Hinto Audit to obtain reasonable assurance about whether Hinto's financial statements were free of material misstatement, whether caused by error or fraud.²⁵ In addition, Respondents failed to exercise due professional care and professional skepticism in connection with the Audit.²⁶ Specifically, despite several red flags, Respondents failed to obtain an understanding of the business rationale for a series of significant unusual transactions involving a party related to Hinto,²⁷ and failed to evaluate whether those related party transactions were adequately disclosed in the financial statements.²⁸

16. Hinto's periodic filings and Respondents' work papers indicate that, during the fourth quarter of 2011, Hinto raised approximately \$710,000 in cash proceeds from the sale of Hinto stock in a private placement and from the issuance of a convertible note payable (the "Convertible Note").²⁹ Respondents' work papers indicate that, during that same quarter, Hinto (a) advanced approximately one-third of those cash proceeds, \$239,000, to its majority shareholder; (b) recorded the advance as an "inter-company receivable;" and then (c) fully impaired the "inter-company receivable." The impairment represented approximately 69% of Hinto's net loss for the year ended December 31, 2011.

²⁵ See AU § 316.01.

²⁶ See, e.g., AU § 230.

²⁷ See AU § 316.66.

²⁸ See AU § 334.11; see also AS 14 ¶¶ 30-31; AS 15 ¶ 4.

²⁹ See Hinto 2011 Form 10-K (filed April 13, 2012), at F-5, see also Hinto September 30, 2011 Form 10-Q (filed October 31, 2011), at F-4.

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17. During the Hinto Audit, Respondents performed a review of bank statements and inquiries of management.³⁰ But they failed to obtain a sufficient understanding of the business rationale for Hinto's cash advances to its majority shareholder, a related party.³¹ They also failed to obtain sufficient appropriate audit evidence concerning Hinto's decision to impair almost immediately the related-party receivable arising from the cash advances.

18. In addition, Respondents failed to obtain sufficient appropriate audit evidence concerning the entity to which some of the cash was actually paid. Specifically, although Respondents' work papers list Hinto's majority shareholder as the recipient of the entire \$239,000 in cash, the work papers also indicate that \$100,000 of that amount was actually paid to another party. However, Respondents failed to gain an understanding of who that other party was and its relationship with Hinto and its majority shareholder.³²

19. Furthermore, Respondents failed to perform procedures to provide a basis to evaluate whether Hinto's related party transactions were adequately disclosed in the financial statements as required by U.S. generally accepted accounting principles ("GAAP").³³ For example, the only place that Hinto disclosed the cash advances and subsequent impairment in its financial statements were in two financial statement line items: "impairment of intercompany receivable" on the statements of operations; and "increase in advances to parent company" on the statement of cash flows.

20. Finally, during the Hinto Audit, Respondents also failed to obtain sufficient appropriate audit evidence to support Hinto's accounting for the Convertible Note it had issued in the fourth quarter.³⁴ According to Respondents' work papers, the

³⁰ See AU §§ 333.02, .04; AU §§ 334.09-.10; see also AS 13 ¶ 39 (inquiry alone does not provide sufficient appropriate evidence to support a conclusion about a relevant assertion).

³¹ See AU §§ 316.66-67; AU §§ 334.09a, .11.

³² See AU § 316.66; AU § 334.09; AS 15 ¶ 4.

³³ See AU § 334.11; AS 14 ¶ 30-31; see also FASB ASC Subtopic 850-10-50, *Related Party Transactions* (disclosures of material related party transactions shall include such other information deemed necessary to an understanding of the effects of the transactions on the financial statements).

³⁴ The Convertible Note represented approximately 87% of Hinto's total reported liabilities at December 31, 2011.

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Convertible Note contained a feature that allowed the note to be converted to Hinto's common stock at \$1 per share. Respondents relied on a management representation that the conversion feature was not "in-the-money" and required no separate valuation. According to Chadwick, Hinto management represented that, for purposes of determining whether the note's conversion feature was beneficial, it was appropriate to value Hinto's common stock at \$0.50 per share based on recent cash sales in private placements. Without performing any other procedures, Respondents inappropriately accepted management's representation that Hinto's common stock should be valued at \$0.50 per share.³⁵ They did so despite Chadwick's understanding that private placement sales can occur at a discount, and notwithstanding contradictory audit evidence,³⁶ including: (1) Hinto's publicly available \$1.50 per share price, which was documented in Respondents' audit work papers; and (2) Hinto's disclosed high/low share price, which ranged from \$1.75 per share to \$1.50 per share for the quarter ended December 31, 2011, a valuation that was at least 50 percent higher per share than the valuation Respondents indicated management had used.³⁷

Violations Relating to the Audit of Medina's Fiscal Year 2012 Financial Statements

21. Medina was, at all relevant times, a Colorado corporation with its principal offices located in Corona, California. According to Medina's fiscal year 2012 Form 10-K, the company's business plan focuses on rescue, emergency, defense and recreational watercraft manufacturing through its wholly owned subsidiary, Harbor Guard Boats, Inc. Medina's common stock is registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board under the ticker symbol "MIHI." At all relevant times, Medina was an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

22. The Firm audited Medina's financial statements for the fiscal year ended April 30, 2012, and issued an audit report containing an unqualified opinion dated July 26, 2012, which included going concern explanatory language regarding those financial statements (the "Medina Audit"). The audit report was included in a Form 10-K filed by Medina with the Commission on August 14, 2012.

23. For the Medina Audit, Respondents failed to plan and perform audit procedures sufficient to identify and appropriately address departures from GAAP

³⁵ See AU §§ 333.02, .04; see also AS 13 ¶ 39.

³⁶ See AS 14 ¶ 3; AS 15 ¶ 29.

³⁷ See Hinto 2011 Form 10-K, at 19 (Item 5).

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concerning discontinued operations.³⁸ Respondents also failed to identify and appropriately assess the risks of material misstatement.³⁹ Respondents further failed to appropriately evaluate several significant unusual transactions and whether Medina had appropriately disclosed all material related party transactions. All of those failures related to a significant acquisition that Medina disclosed it had entered into during fiscal year 2012, but then dissolved prior to the end of the fiscal year.

24. Specifically, in its fiscal year 2012 Form 10-K, Medina disclosed that, on June 28, 2011, the company had entered into a Contribution and Exchange Agreement (the "Acquisition") with WinTec Protective Systems, Inc., ("WinTec"), whereby Medina acquired "51% of the issued and outstanding common stock of WinTec, making WinTec a subsidiary of the company."⁴⁰ Medina consolidated the results of operations and financial position of WinTec in its interim financial statements, during each of the quarterly periods ending July 30, 2011, October 31, 2011, and January 31, 2012.⁴¹

25. However, at Medina's fiscal year-end (April 30, 2012), Medina did not consolidate WinTec's results and financial position. Instead, Medina disclosed in its 2012 Form 10-K that, on March 28, 2012, it had entered into a Settlement Agreement and Mutual Release ("Release") with WinTec and another entity.⁴² According to Medina's disclosure, all "agreements entered into in 2011 [were] terminated and cancelled effective immediately.... As a result of the termination, WinTec is no longer a subsidiary of the Company."⁴³ Respondents understood that as a result of the Release, Medina derecognized WinTec's operating results, assets and liabilities from its consolidated financial statements.

³⁸ See AS 12 ¶¶ 12-13; AS 14 ¶¶ 30-31.

³⁹ See, e.g., AS 12 ¶¶ 4, 67.

⁴⁰ Medina 2012 Form 10-K (filed August 14, 2012), at 2.

⁴¹ See Medina Form 10-Q (Q1) (filed September 16, 2011), at F-8; Medina Form 10-Q (Q2) (filed December 8, 2011), at F-8; and Medina Form 10-Q (Q3) (filed March 19, 2012), at F-8.

⁴² Medina 2012 Form 10-K, at 3.

⁴³ Id.

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26. PCAOB standards required Respondents to evaluate whether Medina's financial statements were presented fairly, in all material respects, in conformity with GAAP.⁴⁴ Under GAAP, Medina should have (1) included the operating results of WinTec in its audited consolidated financial statements as discontinued operations for the year under audit;⁴⁵ (2) recognized a gain or loss as a result of derecognizing the acquired company;⁴⁶ and (3) included disclosures related to the Release and discontinued operations in the notes to its financial statements.⁴⁷ Medina's failure to do so constituted departures from GAAP, and Respondents should have identified and addressed those departures.⁴⁸

27. Respondents also failed to exercise due professional care and professional skepticism and failed to obtain sufficient appropriate audit evidence in connection with the Medina Audit.⁴⁹ In particular, Respondents failed to obtain a sufficient understanding of the business rationale for the Release, which was a significant unusual transaction in that it involved the dissolution of a recently completed acquisition and included another entity that was not a party to the original acquisition agreement, a copy of which was included in Respondents' work papers.⁵⁰ During the Medina Audit, Respondents failed to take any steps to understand the other

⁴⁴ See AS 14 ¶ 30.

⁴⁵ See FASB ASC Subtopic 205-20-45, *Presentation of Financial Statements*.

⁴⁶ See FASB ASC Subtopic 810-10-40, *Consolidation*.

⁴⁷ See FASB ASC Subtopic 205-20-50 and FASB ASC Topic 810.

⁴⁸ 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.

⁴⁹ See, e.g., AU § 230; AS 15 ¶ 4.

⁵⁰ See AU § 316.66-67; AU § 334.09-.10.

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entity's relationship to Medina or WinTec or the reason for that entity's inclusion in the Release. Respondents failed to do so, despite including in their work papers minutes from a meeting of Medina's Board of Directors indicating that Medina may have entered into the Release due to litigation threats made by the other entity.

28. Respondents also failed to appropriately evaluate other significant unusual transactions that Medina entered into during 2012. Specifically, subsequent to the WinTec Acquisition, Medina advanced approximately \$237,000 in cash to WinTec and recorded the advances as "intercompany receivables."⁵¹ At the time of the Release, Medina converted the entire intercompany receivable balance into a two-year note. Shortly thereafter, however, Medina reserved for the full amount of that note (based on an audit adjustment proposed by Respondents). Also upon Release, Medina executed a business consulting agreement with the president of WinTec in exchange for 500,000 shares of Medina's common stock.

29. Respondents failed to take steps to obtain a sufficient understanding of (1) the business rationale for Medina's consulting agreement with WinTec, and (2) the transactions surrounding the two-year note from WinTec before they proposed the audit adjustment that led to the write-off of the note.⁵² Moreover, Respondents failed to evaluate whether Medina should have disclosed any or all of the transactions with WinTec as material related party transactions in its 2012 financial statements.⁵³

Violations Relating to the Audit of maniaTV's 2012 Financial Statements

30. maniaTV is, and at all relevant times, was, a Colorado corporation with its principal offices in West Hollywood, California. maniaTV filed a Form S-1 registration statement for the offering of its common stock on December 5, 2012, and subsequently filed amended Forms S-1/A on January 23, 2013, April 5, 2013, and May

⁵¹ In its quarterly financial statements filed with the Commission, Medina disclosed that all intercompany balances were eliminated in consolidation. See, e.g., Medina Form 10-Q (Q3) (filed March 19, 2012), at F-8.

⁵² See AU §§ 316.66-.67; AU § 334.09-.10.

⁵³ See AU § 334.11; AS 14 ¶¶ 30-31. See also FASB ASC Topic 850 (Financial statements shall include disclosures of material related party transactions. The disclosures shall include, among other things, the nature of the relationship(s) involved, a description of the transactions, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements.).

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9, 2013. The Firm issued its consent to include its audit reports in each of maniaTV's Forms S-1/A. maniaTV's registration statement became effective on May 13, 2013, which required the company to file reports under Section 15(d) of the Exchange Act. maniaTV is pending listing on the OTC Bulletin Board. According to its filings, maniaTV provides a library of shows for online and application-based viewing by consumers. At all relevant times, maniaTV was an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

31. The Firm audited maniaTV's financial statements for the year ended December 31 2012, and issued an audit report containing an unqualified audit opinion on March 25, 2013 (the "maniaTV Audit"). The audit report was included in the above-described Form S-1 and Forms S-1/A maniaTV filed with the Commission.

32. Respondents failed to exercise due professional care and professional skepticism and failed to obtain sufficient appropriate audit evidence in connection with the maniaTV Audit.⁵⁴ In filings with the Commission, maniaTV disclosed that it generates revenue from online advertising agencies and advertising networks to provide advertising on the company's website, and recognizes revenue in accordance with contract terms.⁵⁵ maniaTV's reported revenue increased approximately 690% in 2012. Despite that increase and the requirement that auditors should presume that there is a fraud risk involving improper revenue recognition,⁵⁶ Respondents did not identify a risk of fraud associated with revenue recognition, nor did the audit work papers document any reasons why a fraud risk was not identified.⁵⁷

33. Additionally, Respondents failed to plan and perform sufficient audit procedures with respect to revenue.⁵⁸ Specifically, despite Chadwick's understanding that maniaTV recognized revenue based on contract terms, Respondents did not obtain and review maniaTV's sales contracts. Because respondents did not test controls and performed limited substantive audit procedures for revenue, e.g., they vouched a selection of sales to invoices and cash receipts, they did not obtain sufficient appropriate audit evidence to conclude that (1) persuasive evidence of an

⁵⁴ See, e.g., AU § 230; AS 15 ¶ 4.

⁵⁵ maniaTV Form S-1/A (filed May 9, 2013), at F-8.

⁵⁶ See AS 12 ¶ 68.

⁵⁷ See AU § 316.83.

⁵⁸ See AS 8 ¶ 3; AS 9 ¶ 4; AS 15 ¶ 4.

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arrangement existed between maniaTV and any customers, (2) services had been rendered by maniaTV, and (3) the price of any contract was fixed or determinable. As a result, Respondents failed to appropriately evaluate whether maniaTV recognized revenue in accordance with GAAP.

Violations Relating to the Audit of RD&G's 2012 Financial Statements

34. RD&G is, and at all relevant times was, a Colorado corporation with its principal offices in Englewood, Colorado. RD&G filed a Form S-1 registration statement for the offering of its common stock on July 22, 2013, and subsequently filed amended Forms S-1/A on September 11, 2013, October 17, 2013, November 4, 2013, January 8, 2014, and February 10, 2014. The Commission has not yet declared RD&G's registration effective under the Securities Act of 1933, and RD&G has not withdrawn its registration request. RD&G is pending listing on the OTC Bulletin Board. According to its filings with the Commission, RD&G engages in screen-printing and embroidery services for the promotion products industry. At all relevant times, RD&G was an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

35. The Firm audited RD&G's financial statements for the year ended December 31, 2012, and issued an audit report containing an unqualified audit opinion dated June 20, 2013, which included going concern explanatory language regarding those financial statements (the "RD&G Audit"). The Firm issued its consent to include its audit report in each of RD&G's Forms S-1/A.

36. Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the RD&G Audit in accordance with PCAOB standards.⁵⁹ As in the maniaTV Audit, Respondents failed in the RD&G Audit to identify a risk of fraud associated with revenue recognition⁶⁰ and failed to document any reasons why a fraud risk was not identified.⁶¹

37. Respondents also failed to obtain sufficient appropriate audit evidence with respect to accounts receivable.⁶² Further, Respondents failed to evaluate

⁵⁹ See, e.g., AU § 230.

⁶⁰ See AS 12 ¶ 68.

⁶¹ See AU § 316.83.

⁶² See AS 15 ¶ 4.

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conditions relating to the assessment of fraud risks.⁶³ As of December 31, 2012, accounts receivable represented approximately 33% of RD&G's reported total assets. In order to test accounts receivable, Respondents sent accounts receivable confirmation requests, but failed to maintain any records of how accounts were selected for confirmation or how many confirmation requests were sent. The work papers contain a limited number of confirmation responses, but the work papers provide no evidence that Respondents used an appropriate sampling approach for selecting the accounts to be confirmed.⁶⁴ Therefore, the responses failed to provide reasonable assurance as to the existence of the entire accounts receivable balance.

38. In addition, one of the confirmation responses received by Respondents was a negative response (the party stated that it did not know who RD&G was). Respondents failed to identify the negative confirmation response as a matter that might affect the assessment of fraud risks and, therefore, failed to evaluate sufficiently the results of the auditing procedures on the RD&G fraud risk assessments and failed to evaluate whether additional audit procedures needed to be performed.⁶⁵ Instead, Chadwick viewed the negative response as an "incomplete reply" and failed to re-evaluate the related risk assessments. He also undertook no additional audit procedures or steps with respect to RD&G's accounts receivable.⁶⁶

Violations Relating to the Audit of TransBiotec's 2012 Financial Statements

39. TransBiotec was, at all relevant times, a Delaware corporation with its principal offices in Long Beach, California. According to its filings, TransBiotec is a development stage company in the process of developing an alcohol detection device

⁶³ See AS 14 ¶ 28.

⁶⁴ PCAOB standards provide that "[s]ample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected." See AU § 350.24, *Audit Sampling*; see also AU §350.03.

⁶⁵ See AS 14 ¶ 28; see also AS 14, Appendix C, ¶ C1.b(6) (auditors should take into account conflicting or missing evidence, including unusual discrepancies between the company's records and confirmation responses).

⁶⁶ See AU § 330.33, *The Confirmation Process*; see also AS 13 ¶ 46; AS 14, ¶ 3 ("In forming an opinion...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."); AS 15 ¶ 29.

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called "SOBR." TransBiotec's common stock is registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board under the symbol "IMLE." At all relevant times, TransBiotec was an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

40. The Firm audited TransBiotec's financial statements for the year ended December 31, 2012, and issued an audit report containing an unqualified opinion on April 25, 2013, which included going concern explanatory language regarding those financial statements ("TransBiotec Audit"). The audit report was included in a Form 10-K filed by TransBiotec with the Commission on May 9, 2013.

41. Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the TransBiotec Audit in accordance with PCAOB standards.⁶⁷ Specifically, Respondents failed to plan and perform sufficient procedures to properly evaluate TransBiotec's accounting for the issuance of equity instruments as consideration for services provided.⁶⁸ In particular, during the TransBiotec Audit, Respondents failed to obtain sufficient appropriate evidence to evaluate whether TransBiotec had recorded in the proper period expenses for services provided.⁶⁹

42. TransBiotec reported in its 2012 financial statements that it issued approximately 3.8 million shares of common stock for services and recorded additional-paid-in-capital of approximately \$2.3 million for those equity transactions. The expenses TransBiotec reported related to the issuance of stock as consideration for services during 2012 equaled approximately 65% of TransBiotec's net loss for 2012.

43. According to Respondents' work papers, 2.28 million of the 3.8 million shares of common stock that TransBiotec issued for services during 2012 related to an agreement that TransBiotec had entered with a consultant during the prior fiscal year (the "Consulting Agreement"). Respondents included in their 2012 work papers a copy of the Consulting Agreement, pursuant to which the consultant would be paid based on the achievement of certain milestones. One of the milestones was assisting TransBiotec with completing a reverse merger transaction, which TransBiotec, in fact,

⁶⁷ See, e.g., AU § 230.

⁶⁸ See AS 8 ¶ 3; AS 9 ¶ 4.

⁶⁹ See, e.g., AS 15 ¶ 4.

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completed during 2011.⁷⁰ Despite the completion of the reverse merger during 2011, Respondents' work papers indicate that all stock issuances pursuant to the Consulting Agreement occurred during 2012. Respondents undertook no procedures to evaluate whether (and when) each of the milestones under the Consulting Agreement was reached, and whether some or all of the expenses related to TransBiotec's stock issuances under the Consulting Agreement should have been recorded in the prior year.⁷¹

Violations Relating to Audit Documentation

44. Respondents also violated the PCAOB audit documentation standard, AS 3, in connection with the maniaTV and RD&G audits. Specifically, long after the documentation completion dates for both audits, Respondents added information to the work papers. Respondents added information about the sale of common shares to a work paper documenting the activity in maniaTV's stockholders' equity accounts. Regarding RD&G, Respondents added notations to the accounts receivable work papers indicating customer balances for which subsequent cash collections were reviewed. Respondents added that documentation to the maniaTV and RD&G work papers without indicating the date of the additions, the reason the additions were made, and the name of the individual who made the additions, in violation of AS 3.⁷²

IV.

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

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Ronald R. Chadwick, P.C., is hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Ronald R. Chadwick, P.C., is revoked;

⁷⁰ TransBiotec 2012 Form 10-K (filed May 9, 2013), at F-8 and F-15.

⁷¹ See, e.g., AS 13 ¶¶ 8-11; AS 15 ¶ 4.

⁷² AS 3 ¶ 16.

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- C. After three (3) years from the date of this Order, Ronald R. Chadwick, P.C. may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- D. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Ronald Chadwick, CPA, is hereby censured;
- E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Ronald R. Chadwick, 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);⁷³ and
- F. After three (3) years from the date of this Order, Ronald R. Chadwick, CPA, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

April 28, 2015

⁷³ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Chadwick. 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."