

ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS,
AND IMPOSING SANCTIONS

*In the Matter of Morrill & Associates, LLC,
Douglas W. Morrill, CPA, and
Grant L. Hardy, CPA,*

Respondents.

PCAOB Release No. 105-2015-001

January 12, 2015

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Morrill & Associates, LLC (the "Firm"), revoking the Firm's registration, and imposing a civil money penalty in the amount of \$20,000 upon the Firm;¹ censuring Douglas W. Morrill, CPA ("Morrill"), barring him from being an associated person of a registered public accounting firm, and making him jointly and severally liable for the Firm's civil monetary penalty;² and censuring Grant L. Hardy, CPA ("Hardy") and suspending him 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 the basis of its findings that: (a) Morrill and the Firm violated PCAOB rules and auditing standards in connection with the audits of four issuer clients; (b) Morrill and the Firm violated Section 10A(j) of the Securities Exchange Act of 1934 ("Exchange Act"), Exchange Act Rule 10A-2, and PCAOB rules and auditing standards in connection with the Firm's audits of one issuer client; (c) Hardy violated PCAOB rules and auditing standards in connection with his engagement quality reviews ("EQRs") of the Firm's audits of three issuer clients; and (d) the Firm violated PCAOB quality control standards and Morrill directly and substantially contributed to the Firm's violation of PCAOB quality control standards.

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

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

ORDER

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against the Firm, Morrill, and Hardy (collectively "Respondents").

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.³

III.

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

A. Respondents

1. Morrill & Associates, LLC, is, and at all relevant times was, a sole

³ 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.

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 conditions 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.



ORDER

proprietorship organized and licensed under the laws of the state of Utah (License no. 5168488-2603), and headquartered in Clinton, Utah. The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB rules since November 16, 2010.⁵ At all relevant times, the Firm was the independent auditor for the issuers identified herein.

2. Douglas W. Morrill, 44, of West Haven, Utah, is the sole owner and managing partner of Morrill & Associates, LLC, and a certified public accountant licensed by the Utah Division of Occupational and Professional Licensing (License no. 3082647-2601). Morrill was the auditor with final responsibility for, and authorized the issuance of, the Firm's audits of the financial statements of The American Energy Group, Ltd. ("AEG"), COPsync, Inc. ("COPsync"), ForeverGreen Worldwide Corp. ("ForeverGreen"), and Fuelstream, Inc. ("Fuelstream"), identified below. At all relevant times, Morrill 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. Grant L. Hardy, 61, of Taylorsville, Utah, is a certified public accountant licensed by the Utah Division of Occupational and Professional Licensing (License no. 141081-2601), and a partner at a PCAOB registered firm other than Morrill & Associates, LLC. Hardy, a partner outside the Firm, served as the engagement quality reviewer and provided his concurring approval of issuance for the Firm's audit reports on COPsync and ForeverGreen's December 31, 2010 financial statements and AEG's June 30, 2011 financial statements. At all relevant times, Hardy 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

4. This matter concerns Morrill and the Firm's violations of PCAOB rules and auditing standards in connection with the issuance of audit reports on the financial statements of four issuers over a two year period. As detailed below, Morrill and the Firm failed repeatedly, among other things, to obtain sufficient competent audit evidence, exercise due professional care, and exercise professional skepticism in connection with these audits.

⁵ The Firm was previously registered with the PCAOB under the name of Bouwhuis, Morrill & Company, LLC from October 2003 until March 2009, at which time it withdrew its registration. The Firm reapplied for registration in October 2010, and the application was accepted by the Board on November 16, 2010.



ORDER

5. Morrill and the Firm also 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. Morrill and the Firm were not independent with respect to the 2009 and 2010 audits of Fuelstream because Morrill resumed the role of lead audit partner within the five year cooling off period after having already served as the lead audit partner for the maximum five consecutive year period.⁶

6. Hardy violated PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS 7") by providing his concurring approval of issuance without performing with due professional care the EQRs required by this standard for the Firm's audits of COPsync and ForeverGreen's December 31, 2010 financial statements and AEG's June 30, 2011 financial statements.

7. Finally, the Firm failed to comply with PCAOB quality control standards in connection with the audits described herein, when it did not have procedures providing reasonable assurance that: the Firm and its personnel were independent from their audit clients;⁷ the work performed by the engagement personnel met applicable professional standards, regulatory requirements, and the firm's standards of quality;⁸ and the policies and procedures established by the firm for the elements of quality control described above were suitably designed and were being effectively applied.⁹ The Firm also violated quality control standards by failing to communicate its quality control policies and procedures applicable to an EQR to Hardy¹⁰ and failing to establish monitoring procedures sufficient to enable the Firm to obtain reasonable assurance that

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*.

⁷ QC §§ 20.07 and 20.09-.10, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁸ QC §§ 20.07 and 20.17-.19.

⁹ QC §§ 20.07 and 20.20.

¹⁰ QC § 20.23.

ORDER

its system of quality control was effective.¹¹ Morrill 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*.¹²

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

Morrill and the Firm Violated PCAOB Rules and Standards in Connection with the Audits of COPsync, Fuelstream, ForeverGreen, and AEG

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.¹³ 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.¹⁴ Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.¹⁵

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

¹¹ QC §§ 30.02-.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

¹² All references to PCAOB auditing and quality control standards in this Order are to the versions of those standards in effect for the audits described herein.

¹³ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

¹⁴ See AU § 508.07, *Reports on Audited Financial Statements*.

¹⁵ See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; AU § 326, *Evidential Matter*.

ORDER

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.¹⁶ Moreover, AS 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 adjustments¹⁷ and assemble for retention a complete and final set of audit documentation as of a date not more than 45 days after the report release date, defined in AS 3 as the "documentation completion date."¹⁸

10. As detailed below, Morrill and the Firm failed to comply with the aforementioned rules and standards, among others, in connection with the audits.

Reaudits of COPsync and Fuelstream's December 31, 2009 Financial Statements

11. COPsync is a Delaware corporation headquartered in Canyon Lake, Texas. COPsync's public filings disclose that it sells the COPsync™ service, which is a real-time data collection and information sharing solution for law enforcement agencies. Its common stock was registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board. At all relevant times, COPsync was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

12. Fuelstream is a Delaware corporation headquartered in Fort Lauderdale, Florida. Fuelstream's public filings disclose that prior to April 2010, the Company operated under the name of "SportsNuts, Inc." and had been primarily engaged in sports marketing and management. Following its reorganization in April 2010, Fuelstream has operated as an in-wing and on-location supplier and distributor of aviation fuel to corporate, commercial, military, and privately-owned aircraft. Its common stock is quoted on the OTC Pink marketplace. At all relevant times, Fuelstream was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

13. COPsync and Fuelstream's 2009 financial statements were originally audited by Chisholm, Bierwolf, Nilson & Morrill, LLC ("CBNM"), where Morrill was an

¹⁶ Auditing Standard No. 3 ("AS 3") ¶ 6, *Audit Documentation*.

¹⁷ AS 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.

¹⁸ AS 3 ¶ 15.



ORDER

audit partner. On April 8, 2011, the Board revoked the registration of CBNM, and barred two of the firm's partners, Todd D. Chisholm, CPA, and Troy F. Nilson, CPA, from being associated persons of a registered public accounting firm.¹⁹ As a result of the revocation of CBNM's registration by the Board, COPsync and Fuelstream could no longer include CBNM audit reports in future public filings, and their 2009 financial statements had to be reaudited by another registered firm to be included in their 2010 Form 10-Ks.

14. In March 2011, the Firm became COPsync and Fuelstream's external auditors and was engaged to perform an audit of their financial statements for the years ended December 31, 2009 and December 31, 2010. The Firm issued an audit report dated April 15, 2011, expressing an unqualified opinion on COPsync's 2009 and 2010 financial statements that was included in COPsync's Form 10-K filed with the Commission on the same day. The Firm issued an audit report dated April 14, 2011, expressing an unqualified opinion on Fuelstream's 2009 and 2010 financial statements that was included in Fuelstream's Form 10-K filed with the Commission on April 15, 2011. Morrill served as the auditor with final responsibility on the COPsync and Fuelstream engagements and authorized the issuance of all relevant audit reports.

15. PCAOB standards require that "[s]ufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit."²⁰ Where an auditor is asked to audit and report on financial statements that have been previously audited and reported on, the auditor is considered a successor auditor.²¹ PCAOB standards permit a successor auditor, as part of a reaudit engagement, to "consider the information obtained from inquiries of the predecessor auditor and review the predecessor auditor's report and working papers in planning the reaudit."²² However, the PCAOB standards make clear that "the information obtained from those inquiries and any review of the predecessor auditor's report and working papers is not sufficient to afford a basis for expressing an opinion."²³ The nature, timing, and extent

¹⁹ See *Chisholm, Bierwolf, Nilson and Morrill, LLC, Todd D. Chisholm, CPA and Troy F. Nilson, CPA*, PCAOB Release No. 105-2011-003 (April 8, 2011).

²⁰ AU § 326.01, *Evidential Matter*.

²¹ AU § 315.14, *Communications Between Predecessor and Successor Auditors*.

²² AU § 315.15.

²³ AU § 315.15.



ORDER

of the audit work performed and the conclusions reached in the reaudit are solely the responsibility of the successor auditor performing the reaudit.²⁴

16. Morrill and the Firm failed to comply with these standards. Morrill had no involvement with CBNM's 2009 audits of COPsync and Fuelstream, but obtained the predecessor auditor's workpapers for its 2009 audits through his prior association with CBNM. In violation of PCAOB standards, Morrill and the Firm failed to perform audit procedures or obtain sufficient competent evidential matter for the 2009 COPsync and Fuelstream reaudits. Although Morrill obtained updated trial balances for both issuers, Morrill and the Firm improperly relied on the predecessor auditor's substantive audit procedures and audit evidence as the basis for expressing the Firm's opinion on the reaudited 2009 financial statements that were filed with COPsync and Fuelstream's 2010 Form 10-Ks. Consequently, Morrill improperly authorized the issuance of the Firm's audit reports for COPsync and Fuelstream's 2009 financial statements, which incorrectly stated that the Firm had conducted its audits in accordance with PCAOB standards.²⁵

Audit of COPsync's December 31, 2010 Financial Statements

17. Concurrent with the 2009 COPsync reaudit, Morrill and the Firm performed the audit of COPsync's December 31, 2010 financial statements. During the 2010 COPsync audit, Morrill and the Firm failed to perform sufficient audit procedures concerning revenue and deferred revenue. For 2010, total revenue was \$2.4 million, while total deferred revenue was \$1.1 million and accounted for 48% of COPsync's total liabilities. COPsync's Form 10-K for the year ended December 31, 2010 disclosed that its sales arrangements include Multiple-Element Arrangements, "which typically include computer hardware, hardware installation, license fees and other miscellaneous revenues related to training and interface development." COPsync also disclosed that, to the extent that the secondary deliverables are other than perfunctory, it recognized revenue on each deliverable, if separable, or on the completion of all deliverables, if not separable, based on the allocation of the deliverables' fair value. Furthermore, COPsync disclosed that its licensing fees are recognized on a monthly basis over the life of the licensing agreement when all revenue recognition criteria have been met.

18. Morrill identified revenue as a significant audit area and as a risk of fraud involving improper revenue recognition, and planned to perform extended procedures,

²⁴ AU § 315.15.

²⁵ AU § 508.07.



ORDER

as part of a substantive audit approach, in response to those risks. Other than obtaining COPsync's 2010 detailed sales ledger by revenue type and performing limited sales cut-off procedures at year-end, Morrill and the Firm failed to perform any other procedures related to revenue. Further, Morrill and the Firm failed to perform any procedures to test COPsync's deferred revenue. As a consequence, Morrill and the Firm failed to obtain sufficient competent evidential matter regarding COPsync's revenue and deferred revenue.

19. Morrill and the Firm also failed to perform sufficient audit procedures with respect to COPsync's capitalized software development costs. COPsync's capitalized software development costs were \$1.7 million for the fiscal year ended December 31, 2010, and accounted for 75% of COPsync's total assets. Despite the significance of capitalized software development costs to COPsync's financial statements, Morrill and the Firm only obtained and reviewed a schedule from COPsync's management reflecting quarterly and cumulative capitalized software development costs and amortization expenses from inception to December 31, 2010. Morrill and the Firm failed to perform any other procedures concerning COPsync's capitalized software development costs and, as a result, failed to obtain sufficient competent evidential matter with respect to COPsync's capitalized software development costs.

Audit of ForeverGreen's December 31, 2010 Financial Statements

20. ForeverGreen is a Nevada corporation headquartered in Orem, Utah. ForeverGreen's public filings disclose that, through a wholly-owned subsidiary, it is engaged in the research, development, marketing and sales of whole foods, nutritional supplements, personal care products and essential oil. Its common stock is registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board. At all relevant times, ForeverGreen was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

21. The Firm issued an audit report dated May 12, 2011, expressing an unqualified opinion on ForeverGreen's financial statements for the year ended December 31, 2010, that was included in ForeverGreen's Form 10-K filed with the Commission on May 16, 2011. Morrill served as the auditor with final responsibility on the ForeverGreen engagement and authorized the issuance of the audit report.

22. Morrill and the Firm failed to perform sufficient audit procedures concerning the goodwill on ForeverGreen's December 31, 2010 financial statements. ForeverGreen's goodwill on its December 31, 2010 financial statements was \$7 million and accounted for 78% of its total assets during that period. Morrill identified other assets, which included goodwill, as a significant audit area while planning the 2010 ForeverGreen audit. As part of the audit, Morrill obtained and reviewed a schedule of

ORDER

management's annual goodwill impairment assessment that concluded goodwill was not impaired. Morrill and the Firm failed to perform any other audit procedures to evaluate whether ForeverGreen's goodwill was properly valued and, as a result, failed to obtain sufficient competent evidential matter with respect to ForeverGreen's goodwill.

23. In addition, PCAOB standards require an auditor to state whether a company's financial statements are presented in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") and to identify circumstances in which such principles have not been consistently observed.²⁶ Morrill failed to perform procedures to identify whether ForeverGreen's goodwill impairment testing was in conformity with GAAP during the 2010 audit.

24. On April 4, 2012, in a Form 8-K, ForeverGreen announced non-reliance on its financial statements for the years ended December 31, 2009 and December 31, 2010, based on the Firm's determination, following a PCAOB inspection, that ForeverGreen's goodwill impairment test was not performed in accordance with GAAP.²⁷ On September 28, 2012, ForeverGreen filed a Form 10-K/A with the Commission that amended and restated ForeverGreen's financial statements and related disclosures for the year ended December 31, 2010, impairing goodwill from \$7 million down to zero. The Firm issued an audit report in connection with ForeverGreen's Form 10-K/A, dated June 3, 2011, except for Note 13, which was dated May 16, 2012.²⁸

25. In addition, Morrill identified revenue as a significant audit area and as a risk of fraud involving improper revenue recognition while planning the 2010 ForeverGreen audit. In response to this risk, Morrill and the Firm planned to perform extended procedures as part of a substantive audit approach. For the year ended December 31, 2010, ForeverGreen reported revenue of \$10.6 million. Despite the identified fraud risk and significance of revenue to ForeverGreen's financial statements,

²⁶ See AU § 110.01, *Responsibilities and Functions of the Independent Auditor*, AU § 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

²⁷ See Financial Accounting Standards Board, Accounting Standard Codification 350-20-35, *Intangibles – Goodwill and Other*.

²⁸ The Firm was dismissed as ForeverGreen's external auditor on August 1, 2011, and the audit report on ForeverGreen's December 31, 2011 financial statements included in ForeverGreen's September 29, 2012 Form 10-K/A was issued by the successor firm.

ORDER

Morrill and the Firm failed to perform any audit procedures to test ForeverGreen's revenue during the 2010 audit. As a consequence, Morrill and the Firm failed to obtain sufficient competent evidential matter with respect to ForeverGreen's revenue.

Audit of AEG's June 30, 2011 Financial Statements

26. AEG is a Nevada corporation headquartered in Westport, Connecticut. AEG's public filings disclose that it is an independent oil and natural gas company, and that it now maintains and manages certain royalties and convertible working interests in oil and gas leases after it emerged from bankruptcy in 2004. Its common stock is registered under Section 12(g) of the Exchange Act and is quoted on the OTC Bulletin Board. At all relevant times, AEG was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

27. The Firm issued an audit report dated October 11, 2011, expressing an unqualified opinion on AEG's financial statements for the year ended June 30, 2011, that was included in AEG's Form 10-K filed with the Commission on October 13, 2011. Morrill served as the auditor with final responsibility on the AEG engagement and authorized the issuance of the audit report.

28. Morrill and the Firm failed to perform sufficient audit procedures to test AEG's investment in an oil and gas working interest that AEG disclosed in its Form 10-K as being acquired from a related party. AEG's investment in an oil and gas working interest was valued at approximately \$1.6 million and accounted for 82% of AEG's total assets for the year ended June 30, 2011. In planning AEG's 2011 audit and assessing audit risk, Morrill identified other assets, which included AEG's investment in the oil and gas working interest, as a significant audit area.

29. During the AEG audit, Morrill obtained a memorandum prepared by management that relied primarily on excerpts and representations from the website of the operator of the acquired oil and gas working interests to support that the value of AEG's investment was not impaired. Beyond reviewing the memorandum and making inquiries of management, Morrill and the Firm failed to perform any other procedures to corroborate management's representations or otherwise obtain sufficient competent evidential matter that AEG's investment in the oil and gas working interest was appropriately valued as of June 30, 2011.

Audit Documentation Failure

30. In addition to the audit deficiencies identified above, Morrill and the Firm also failed to comply with AS 3 in connection with the audits described herein. For the



ORDER

Firm's 2009 COPsync and Fuelstream reaudits, Morrill failed to complete an engagement completion document that identified the significant findings or issues.²⁹

31. Further, in connection with the 2010 COPsync and ForeverGreen audits and the June 30, 2011 AEG audit, the Firm's audit documentation did not indicate who performed the work and the date such work was completed, as well as the person who reviewed the work and date of such review.³⁰

32. Finally, Morrill and the Firm failed to comply with AS 3 in connection with the 2010 COPsync audit by failing to assemble a complete and final set of audit documentation by the documentation completion date.³¹

Morrill and the Firm Failed to Comply with Audit Partner Rotation Requirements

33. 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.³² "[A] registered public accounting firm or associated person's independence obligation with respect to an audit client that is an 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."³³

34. 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."

²⁹ AS 3 ¶¶12-13.

³⁰ AS 3 ¶6.

³¹ AS 3 ¶¶15-16.

³² See PCAOB Rule 3520; see also AU § 220.

³³ PCAOB Rule 3520, Note 1.

ORDER

35. 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.

36. 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 a 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.³⁴

37. 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.³⁵

38. While a partner at Bouwhuis, Morrill & Company, LLC, Morrill served five consecutive years as the lead audit partner for the audits of Fuelstream's financial statements for the years ended December 31, 2003 through December 31, 2007.³⁶ The 2007 Fuelstream audit was Morrill's fifth consecutive year serving as the lead audit partner and, as a consequence, Morrill was prohibited from serving as Fuelstream's lead audit partner for the five consecutive years thereafter. For the fiscal years ended December 31, 2008 and December 31, 2009, Fuelstream was audited by CBNM and Morrill did not participate in the audits.

39. On March 31, 2011, after the Firm changed its name to Morrill & Associates, LLC, the Firm was reappointed as Fuelstream's auditor to audit Fuelstream's December 31, 2009 and December 31, 2010 financial statements and

³⁴ 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).

³⁵ See PCAOB Rule 3502.

³⁶ Throughout this five year period, Bouwhuis, Morrill & Company, LLC had more than five public issuer clients and was subject to the audit partner rotation requirements of the Exchange Act and its related rules. 17 C.F.R. §§ 210.2-01(c)(6)(ii).

ORDER

Morrill resumed his role as lead audit partner. On April 14, 2011, Morrill authorized the issuance of the Firm's audit report on Fuelstream's financial statements for the fiscal years ended December 31, 2009 and December 31, 2010, that was included in Fuelstream's Form 10-K filed with the Commission on April 15, 2011.

40. By resuming his role as Fuelstream's lead audit partner within the five consecutive year period following the performance of services for the maximum period permitted, Morrill failed to comply with Exchange Act Rule 10A-2 and PCAOB rules and standards, and the Firm failed to comply with Section 10A(j) of the Exchange Act, with Morrill directly and substantially contributed to the Firm's violations of Section 10A(j) of the Exchange Act.

Hardy Failed to Comply with
Engagement Quality Review Requirements

41. PCAOB Auditing Standard No. 7, provides that an EQR and concurring approval of issuance are required for all audits and interim reviews for fiscal years beginning on or after December 15, 2009.³⁷ The Firm retained Hardy, a partner at another PCAOB registered firm, as the engagement quality reviewer for its audits of COPsync and ForeverGreen's December 31, 2010 financial statements, and AEG's June 30, 2011 financial statements.

42. Under AS 7, the engagement quality reviewer may provide concurring approval of issuance for an audit report only if, after performing with due professional care the review required by AS 7, he or she is not aware of a significant engagement deficiency.³⁸ AS 7 states that a significant engagement deficiency in an audit exists when: "(1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client."³⁹

43. An engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the

³⁷ AS 7 ¶1.

³⁸ AS 7 ¶12.

³⁹ AS 7 ¶12, Note.

ORDER

overall conclusion on the engagement and in preparing the engagement report.⁴⁰ In performing an EQR for an audit, the engagement quality reviewer should, among other things, evaluate the engagement team's assessment of, and audit responses to, significant risks, including fraud risks, identified by the engagement team or other significant risks identified by the engagement quality reviewer.⁴¹ The engagement quality reviewer should also evaluate whether the engagement documentation that he or she reviewed indicates that the engagement team responded appropriately to significant risks and whether the engagement documentation that he or she reviewed supports the conclusions reached by the engagement team with respect to matters reviewed.⁴²

44. For the 2010 COPsync audit, Hardy failed to evaluate the significant judgments made, and the related conclusions reached, by the engagement team with respect to revenue, deferred revenue, and capitalized software development costs. Although Hardy specifically requested workpapers for revenue and capitalized software development costs from Morrill during his EQR, Hardy provided his concurring approval of issuance without ever obtaining those workpapers and without ever evaluating whether the engagement team had obtained sufficient competent evidential matter and whether appropriate conclusions were reached and documented for those audit areas. Further, Hardy failed to obtain and evaluate any audit engagement documentation with respect to COPsync's deferred revenue.

45. For the 2010 ForeverGreen audit, Hardy failed to evaluate the significant judgments made, and the related conclusions reached, by the engagement team with respect to revenue and goodwill impairment. Hardy failed to obtain and evaluate any audit engagement documentation with respect to ForeverGreen's revenue. In addition, although Hardy received and reviewed audit documentation of ForeverGreen's goodwill impairment assessment during the 2010 audit, Hardy failed to properly evaluate whether the engagement documentation that he reviewed supported the conclusions reached by the engagement team. The audit documentation reviewed by Hardy showed that the engagement team did not perform any audit procedures to test whether management's assertion for the valuation of goodwill was reasonable and that its goodwill impairment testing was in conformity with GAAP.

⁴⁰ AS 7 ¶9.

⁴¹ AS 7 ¶10.

⁴² AS 7 ¶11.

ORDER

46. Further, Hardy failed to evaluate the significant judgments made, and the related conclusions reached, by the engagement team during the June 30, 2011 AEG audit with respect to AEG's investment in an oil and gas working interest. While Hardy obtained a workpaper from Morrill reflecting a memorandum prepared by AEG, Hardy failed to properly evaluate whether the engagement documentation that he reviewed supported the conclusions reached by the engagement team. The audit documentation reviewed by Hardy showed that there was no evidence of any supporting audit procedures performed by the audit engagement team regarding the valuation of AEG's investment in the oil and gas working interest.

47. As noted above, Morrill and the Firm failed to obtain sufficient competent evidential matter for a number of audit areas during the Firm's audits of COPsync and ForeverGreen's December 31, 2010 financial statements and AEG's June 30, 2011 financial statements. In failing to perform an EQR sufficient to discover these significant engagement deficiencies, Hardy provided his concurring approvals of issuance for these audits without performing his EQRs with due professional care, and his EQRs violated AS 7.

D. Morrill and the Firm Violated PCAOB Rules and Standards Related to Quality Control

48. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.⁴³ PCAOB quality control standards require that a registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."⁴⁴ PCAOB quality control standards state that policies and procedures should be established to provide the firm with reasonable assurance that "personnel maintain independence . . . in all required circumstances" and "that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."⁴⁵ PCAOB quality control standards make clear that the latter requirement also applies to engagement quality reviews.⁴⁶ Additionally, PCAOB quality control standards provide that policies and

⁴³ PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁴⁴ QC § 20.02.

⁴⁵ QC §§ 20.07, 20.09-.10, and 20.17.

⁴⁶ QC § 20.18 ("These policies and procedures also should address engagement quality reviews pursuant to PCAOB Auditing Standard No. 7, *Engagement Quality Review*.").

ORDER

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."⁴⁷ Finally, under PCAOB standards, quality control policies and procedures should be communicated to a firm's personnel in a manner that provides reasonable assurance that they are understood and complied with.⁴⁸

49. 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.⁴⁹

50. The Firm failed to have procedures providing reasonable assurance that the work performed by the engagement personnel, including the engagement quality reviewer, met applicable professional standards, regulatory requirements, and the firm's standards of quality.⁵⁰ As described above, Firm personnel, including the engagement quality reviewer, failed to perform procedures necessary to comply with PCAOB standards and regulatory requirements on multiple instances during the course of the audits described herein. The Firm also failed to communicate its quality control policies and procedures applicable to an EQR to Hardy.⁵¹

51. The Firm failed to have procedures providing reasonable assurance that the Firm and its personnel were independent from their audit clients and did not follow the policies in place during the audits. For example, Morrill and the Firm accepted and performed the Fuelstream engagement in March 2011, despite the Firm's policy that "the engagement and concurring partners shall rotate off the audit engagement after serving for five years (previously or prospectively) and shall remain off the engagement for a period of five additional years."

⁴⁷ QC § 20.20; see also QC § 30.03.

⁴⁸ See QC § 20.23.

⁴⁹ PCAOB Rule 3502.

⁵⁰ QC §§ 20.07 and 20.17-.19.

⁵¹ QC § 20.23.

ORDER

52. 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 3. As noted above, as a result, the Firm's audits violated AS 3 in multiple respects.

53. 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.⁵² For example, the Firm did not take appropriate steps to monitor whether its associated persons were, in fact, complying with policies and procedures related to audit partner rotation requirements and engagement performance, neither of which were effective.

54. Morrill, as the Firm's owner and sole audit partner, had responsibility for the development, maintenance, communication, and monitoring of the Firm's quality control policies and procedures. In connection with the audits described herein, Morrill 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), Morrill & Associates, LLC, Douglas W. Morrill, and Grant L. Hardy are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Douglas W. Morrill 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),⁵³

⁵² See QC §§ 30.02-.03.

⁵³ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Morrill. Section 105(c)(7)(B) of the Act provides that "[i]t 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

ORDER

- C. After three (3) years from the date of this Order, Douglas W. Morrill may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Grant L. Hardy 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);⁵⁴
- E. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration Morrill & Associates, LLC, is revoked;
- F. After three (3) years from the date of the Order, Morrill & Associates, LLC may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$20,000 is imposed jointly and severally upon Morrill & Associates, LLC and Douglas W. Morrill. 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. Morrill & Associates, LLC or Douglas W. Morrill 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 Morrill & Associates, LLC as a Respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made

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."

⁵⁴ As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Hardy.

ORDER

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

January 12, 2015