



Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-0757
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS

*In the Matter of Turner, Jones and Company
PLLC; Stephen M. Turner, CPA; and Mark E.
Turbyfill, CPA,*

Respondents.

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) PCAOB Release No. 105-2015-038
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) October 15, 2015
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By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Turner, Jones and Company PLLC ("Turner Jones" or the "Firm"), revoking the Firm's registration and imposing a civil money penalty in the amount of \$10,000 upon the Firm;¹ censuring Stephen M. Turner ("Turner") and barring him from being an associated person of a registered public accounting firm;² and censuring Mark E. Turbyfill ("Turbyfill") and barring him from being an associated person of a registered public accounting firm.³ The Board is imposing these sanctions on the basis of its findings that the Firm, Turner, and Turbyfill (collectively, "Respondents") violated PCAOB rules and auditing standards in connection with two audits of one issuer client.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted

¹ The Firm may reapply for registration after two (2) years from the date of this Order.

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

³ Turbyfill may file a petition for Board consent to associate with a registered public accounting firm after one (1) year from the date of this Order.

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pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of 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 entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.⁴

III.

On the basis of Respondents' Offers, the Board finds that:⁵

A. Respondents

1. Turner, Jones and Company PLLC is, and at all relevant times was, a professional limited liability company organized under the laws of the State of Virginia, and headquartered in Vienna, Virginia.⁶ Turner Jones is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. Turner Jones is licensed to practice public accountancy by the Virginia Board of Accountancy (License No. 132825). At all relevant times the Firm was the external auditor for the issuer identified below.

⁴ The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

⁵ The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

⁶ During 2014, the Firm changed its name to Turner, Leins & Gold, LLC.



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2. Stephen M. Turner, 57, of Herndon, Virginia is a certified public accountant licensed by the Virginia Board of Accountancy (License No. 9850) since 1986. At all relevant times, Turner was the managing partner of Turner Jones and served as a staff member on one audit and engagement partner on the other audit discussed below. Turner is 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. Mark E. Turbyfill, 44, of Broadlands, Virginia is a certified public accountant licensed by the Virginia Board of Accountancy (License No. 25136) since 2000. At all relevant times, Turbyfill was an employee of Turner Jones who acted as the engagement partner on certain Firm issuer audits. Turbyfill is 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 Respondents' violations of PCAOB rules and auditing standards in connection with the issuance of audit reports on the financial statements of Next Generation Energy Corp. ("NextGen") over a two year period.⁷ As detailed below, Respondents failed to obtain sufficient appropriate audit evidence and exercise due care and professional skepticism in connection with the audit of the December 31, 2011 financial statements of NextGen (the "2011 audit"). And, as detailed below, Turner and the Firm failed to obtain sufficient appropriate audit evidence and exercise due care and professional skepticism in connection with the audit of the December 31, 2012 financial statements of NextGen (the "2012 audit").

C. Respondents Violated PCAOB Rules and Auditing Standards

5. 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

⁷ During 2013, NextGen redirected its resources to focus on the medical marijuana industry. On June 19, 2014, NextGen changed its name to Next Generation Management Corp. to reflect its involvement in providing dispensary management services to the medical marijuana industry.

⁸ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.



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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 Those standards require among other things, that an auditor plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report.¹⁰ PCAOB standards further require that an auditor exercise due professional care and professional skepticism in performing the audit.¹¹ In addition, PCAOB standards require the auditor's evaluation of audit results to include an evaluation of conditions identified during the audit that relate to the assessment of the risk of material misstatement due to fraud.¹²

6. As described below, Respondents failed to comply with PCAOB rules and auditing standards in connection with Turner Jones's audit of the 2011 NextGen financial statements, and Turner and the Firm failed to comply with PCAOB rules and auditing standards in connection with the Firm's audit of the 2012 NextGen financial statements.

Violations in Connection with Turner Jones's Audit of NextGen's 2011 Financial Statements

7. NextGen is a Nevada corporation headquartered in Annandale, Virginia. NextGen's public filings disclose that, at all relevant times, it was in the business of acquiring and holding interests in the energy business, including natural gas and oil properties. At all relevant times, NextGen's common stock was quoted on the OTC Bulletin Board. At all relevant times, NextGen was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

8. Turbyfill, as engagement partner, authorized the Firm's issuance of an audit report expressing an unqualified audit opinion on NextGen's financial statements for the year ended December 31, 2011 and supervised the work of the engagement team. The report was included in NextGen's Form 10-K filed with the Commission on

⁹ See AU § 508.07, *Reports on Audited Financial Statements*.

¹⁰ See Auditing Standard No. 15, *Audit Evidence* at ¶ 3.

¹¹ See AU § 150, *Generally Accepted Auditing Standards* and AU § 230, *Due Professional Care in the Performance of Work*.

¹² See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14") at ¶ 4.d.



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April 18, 2012. Turner served as an engagement team member on the 2011 audit and was involved in the audit areas discussed below.

9. In March 2011, NextGen purchased a privately held company named Knox Gas, LLC ("Knox") from two related parties for \$500,000.¹³ The purchase price was financed via two promissory notes of \$250,000 each payable to the related parties with no principal payments due until February 21, 2016 (hereinafter the "Knox transaction").

10. In the Knox transaction, NextGen acquired all the membership interests of Knox.¹⁴ Respondents understood that Knox's only assets were four oil and gas leases purchased by Knox during 2010.¹⁵ Knox purchased one lease for \$1 in May 2010 and the remaining three leases for \$40,000 in August 2010. Notwithstanding the difference between Knox's purchase of the four leases for \$40,001 and NextGen's \$500,000 purchase price for all the membership interests in Knox less than a year later, NextGen recorded the transaction as an "evaluated oil and gas properties" asset of \$500,000 with a corresponding note payable of \$500,000. The Knox transaction, as recorded, represented 67% of NextGen's total reported 2011 assets and 48% of its total reported liabilities.

11. In connection with the 2011 audit, Respondents did not document any risk presented by the Knox transaction even though they knew the purchase was entirely financed via notes from related parties.¹⁶ Moreover, Respondents failed to identify the need to evaluate whether the oil and gas leases acquired in the Knox transaction needed

¹³ The related parties involved in the Knox transaction were the wife of NextGen's chairman and CEO and a NextGen Director.

¹⁴ Membership interests are a member's collective ownership rights in a limited liability company. In order to acquire all of Knox, NextGen had to acquire all of Knox's membership interests.

¹⁵ Respondents did not perform any procedures to determine if Knox had any other assets or liabilities. At the time of the audit, Respondents knew that Knox did not have any financial statements.

¹⁶ See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* at ¶¶ 4-5; Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatements*; and AS 14 ¶ 28.



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to be recorded by NextGen at Knox's carrying amount because Knox and NextGen were related parties under common control.¹⁷

12. Additionally, in auditing the Knox transaction, Respondents failed to perform sufficient procedures over NextGen's \$500,000 valuation assigned to the leases acquired in the Knox transaction. Respondents obtained a July 2010 Gas Reserve and Valuation Report ("2010 Valuation Report") prepared by a third-party appraiser as the only support for management's \$500,000 valuation. Respondents failed to perform sufficient procedures over NextGen's reliance on the work of the third-party specialist that prepared the 2010 Valuation Report.¹⁸ Specifically, Respondents failed to perform sufficient procedures: (a) to obtain an understanding of the methods and assumptions used by the specialist, (b) to make appropriate tests of the data provided to the specialist, and (c) to evaluate whether the specialist's relationship with NextGen might impair the specialist's objectivity.¹⁹ Nor did Respondents know that, less than two months after the report was prepared, three of the oil and gas leases had been purchased by Knox for only \$40,000.

Violations in Connection with Turner Jones's Audit of NextGen's 2012 Financial Statements

13. Turner, as engagement partner, authorized the Firm's issuance of an audit report expressing an unqualified audit opinion on NextGen's financial statements for the year ended December 31, 2012 and supervised the engagement team. The report was included in NextGen's Form 10-K filed with the Commission on April 22, 2013.

14. During the 2012 audit, NextGen concluded that the "evaluated oil and gas properties" acquired in the 2011 Knox transaction were impaired as of December 31, 2012. According to management, the impairment "was primarily due to the Company anticipating conversion of the leases into a royalty agreement with an operator."

¹⁷ See Financial Accounting Standard Board Accounting Standards Codification 805-50, *Business Combinations, Related Issues - Transactions Between Entities Under Common Control*; AS 14 ¶ 30; see also AU § 334, *Related Parties*; AU § 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*.

¹⁸ See AU § 336, *Using the Work of a Specialist*.

¹⁹ See id. at .10 and .12.



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Management recorded an impairment charge of \$286,119 for the "evaluated oil and gas properties" originally valued at \$500,000 (a 57% decrease).

15. Although the potential impairment was identified as a significant audit risk, Turner and the Firm failed to perform sufficient procedures related to the impairment charge. Initially, NextGen management proposed a new valuation of \$417,750 for the properties, but ultimately asserted a valuation of \$213,881 for the oil and gas wells. Turner evaluated the \$213,881 valuation by considering the 2010 Valuation Report previously relied on for the \$500,000 valuation in 2011 and NextGen's anticipated conversion of the leases into a royalty agreement with an operator. Turner and the Firm, however, failed to perform sufficient procedures concerning NextGen's continued reliance on the 2010 Valuation Report, including how the Report supported both the original \$500,000 and the new \$213,881 valuations.

16. In December 2012, less than two years after the Knox transaction, the \$500,000 note payable entered into in connection with the Knox transaction was forgiven by the related parties. As a result, NextGen wrote-off the \$500,000 note payable in its 2012 financial statements.

17. While the loan forgiveness was identified as a significant audit risk, Turner and the Firm failed to consider whether the forgiveness and related write-off contradicted the original valuations of the Knox leases. Despite this contradictory audit evidence, Turner and the Firm failed to perform any procedures to consider whether the 2011 Knox transaction presented a risk of material misstatement due to error or fraud and whether it was appropriately recorded in both 2011 and 2012.²⁰

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), Turner, Jones and Company PLLC, Stephen M. Turner, and Mark E. Turbyfill are hereby censured;

²⁰ See AS 14 ¶¶ 8, 28; see also AU § 316.66-.67, *Consideration of fraud in a Financial Statement Audit*.



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- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Stephen M. Turner 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);²¹
- C. After two (2) years from the date of this Order, Stephen M. Turner 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), Mark E. Turbyfill 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);²²
- E. After one (1) year from the date of this Order, Mark E. Turbyfill may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- F. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Turner, Jones and Company PLLC is revoked;

²¹ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Turner. 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."

²² As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Turbyfill. 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."

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- G. After two (2) years from the date of the Order, Turner, Jones and Company PLLC may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- H. 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 Turner, Jones and Company PLLC. 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. Turner, Jones and Company PLLC shall pay this civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter which identifies Turner, Jones and Company PLLC 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 W. 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

October 15, 2015