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N.Y. Audit Firm Settles SEC Charges Of Issuing Fraudulent Reports.

A New York audit firm agreed to settle SEC charges that it had issued fraudulent audit reports in connection with municipal bond offerings by the town of Ramapo, N.Y. and its local development corporation.

The SEC found that the firm and its senior partner:

- allowed Ramapo to record a \$3.08 million receivable in its general fund for a property sale that the senior partner knew had not occurred;
- ignored red flags and relied upon what turned out to be false representations by Ramapo officials about certain other receivables, interfund transfers and liabilities; and
- failed to take appropriate steps to mitigate the risk of material misstatements even after senior management became aware that Ramapo's financial statements were the subject of multiple law enforcement investigations and the senior partner received complaints about possible fraud.

The firm agreed to: (i) forfeit approximately \$380,000 in audit fees and interest and pay a \$100,000 penalty; and (ii) engage an independent consultant. In addition, the senior partner agreed to pay a \$75,000 penalty and be suspended from practicing public company accounting. Further, he is prohibited from acting as the engagement partner or engagement quality control reviewer on any municipal audit for five years.

Commentary

While one cannot say that there has been a flood of enforcement actions in which the activities of municipal officials have been scrutinized, there is enough to make it clear that the SEC is paying attention.

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.