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SEC: Firm And Partner Charged With Issuing Fraudulent Audit Reports.

The Securities and Exchange Commission today announced that a New York-based audit firm and a senior partner agreed to settle charges that they issued fraudulent audit reports in connection with municipal bond offerings by the town of Ramapo, N.Y., and its local development corporation.

The SEC's order finds that PKF O'Connor Davies and Domenick F. Consolo allowed Ramapo to record a \$3.08 million receivable in its general fund for a property sale that Consolo knew had not occurred. Consolo also ignored red flags and relied upon what turned out to be false representations by Ramapo officials about certain other receivables, interfund transfers, and liabilities. PKF O'Connor Davies 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 Consolo received complaints about possible fraud.

Ramapo, its local development corporation, and four town officials were charged with fraud earlier this year and accused of hiding a deteriorating financial situation from municipal bond investors.

"When audit reports are used to sell municipal bonds, investors expect those reports to be accurate," said Andrew M. Calamari, Director of the SEC's New York Regional Office. "Consolo failed to exercise professional skepticism and PKF O'Connor Davies issued false unmodified audit reports, and they left investors without an accurate picture of the town's finances and its ability to repay bondholders."

Consolo and PKF O'Connor Davies consented to the SEC's order without admitting or denying the findings. The firm agreed to forfeit approximately \$380,000 in audit fees and interest and pay a \$100,000 penalty. O'Connor Davies also must engage an independent consultant. Consolo agreed to pay a \$75,000 penalty and be suspended from practicing public company accounting. He's also prohibited from acting as the engagement partner or engagement quality control reviewer on any municipal audit for five years.

The SEC's order finds that Consolo violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 as well as Section 17(a) of the Securities Act of 1933, and PKF O'Connor Davies violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.

The SEC's continuing investigation is being conducted by Daniel M. Loss, Pamela Sawhney, and Celeste A. Chase of the New York office and Creighton L. Papier of the Public Finance Abuse Unit. Assisting the investigation are Alexander Vasilescu of the New York office and Jonathan Wilcox, Joseph Chimienti, Louis Randazzo and Mark R. Zehner from the Public Finance Abuse Unit. The case is being supervised by Sanjay Wadhwa of the New York office and LeeAnn Ghazil Gaunt of the Public Finance Abuse Unit. The SEC appreciates the assistance of the U.S. Attorney's Office for the Southern District of New York and the Federal Bureau of Investigation.

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