

[Securities Regulation Daily Wrap Up, ACCOUNTING AND AUDITING— Audit partner failed to exercise due professional care, \(Aug. 29, 2016\)](#)

Securities Regulation Daily Wrap Up

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By [Rodney F. Tonkovic, J.D.](#)

An accountant has been suspended from practice for three years as a result of improper professional conduct during audits. As the engagement partner in a company's audits, the CPA signed off on audit reports stating that the company's financial statements were presented in accordance with GAAP and PCAOB standards. The financial statements, however, contained numerous departures from these standards and significantly overstated the company's revenues and gross profits. The Commission found that the accountant violated a number of auditing standards, including the requirements that auditors exercise due professional care in conducting audits and that engagement partners properly supervise their audit teams (*In the Matter of Thomas Dulek, CPA*, [Release No. 34-78711](#), August 29, 2016).

OCZ's violations. Thomas Dulek was the engagement partner responsible for the FY 2011 and 2012 audits of OCZ Technology Group, Inc., a manufacturer and seller of computer memory storage and power supply devices. The order notes that OCZ engaged in fraudulent financial reporting from 2011 through 2012 that resulted in the company significantly overstating its revenues and gross profits. In 2013, OCZ restated its financial statements to show a nearly 20 percent reduction in previously-reported revenues and gross margins; the company filed for bankruptcy soon after and is no longer operating. In 2015, the Commission [charged](#) OCZ's CEO with fraud and its CFO with violations arising from certain accounting, disclosure, and internal accounting controls failures.

Improper conduct. As engagement partner, Dulek signed off on the 2011 and 2012 audits of OCZ's financial statements. The audit reports indicated that the financial statements were presented in accordance with GAAP and PCAOB standards. The financial statements, however, contained numerous departures from GAAP and significantly overstated the company's revenues and gross profits.

According to the Commission, Dulek failed to adequately audit OCZ's: accounting treatment of credits that it provided to customers that were mischaracterized as marketing expenses; failure to include labor and overhead costs relating to inventory manufacturing in valuing its inventory; end-of-the-year sales cutoff causing the recognition of revenue before it was earned; and GAAP departure in accounting for sales returns. Dulek, the Commission found, violated a number of auditing standards, including the requirements that auditors exercise due professional care in conducting audits and that engagement partners properly supervise their teams.

The release is [No. 34-78711](#).

Companies: OCZ Technology Group, Inc.

LitigationEnforcement: AccountingAuditing Enforcement