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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Steven Sarrel, CPA,

Respondent.

PCAOB Release No. 105-2024-051

December 3, 2024

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring Steven Sarrel, CPA (“Sarrel” or “Respondent”);
- (2) barring Sarrel from being associated with a registered public accounting firm;¹ and
- (3) imposing a \$65,000 civil money penalty on Sarrel.

The Board is imposing these sanctions on the basis of its findings that Sarrel failed to cooperate with the PCAOB’s 2020 inspection of a broker-dealer audit and review, including by directing the improper alteration of audit documentation and providing the altered documentation to PCAOB inspectors.

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 (“Act”), and PCAOB Rule 5200(a)(1) against Respondent.

¹ Sarrel may file a petition for Board consent to associate with a registered public accounting firm after three years from the date of this Order.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) 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 Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.²

III.

On the basis of Respondent’s Offer, the Board finds that:³

A. Respondent

1. **Steven Sarrel** is, and at all relevant times was, a partner at Raines & Fischer LLP (“Raines & Fischer” or “Firm”) and a certified public accountant licensed by the state of New York (license no. 110521). At all relevant times, Sarrel 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). Sarrel served as the engagement partner for Raines & Fischer’s audit of the financial statements and accompanying supplemental information, and review of the exemption report, for Third Seven Capital, LLC (“Third Seven”) for the fiscal year ended December 31, 2019 (“2019 Third Seven Engagement”).

B. Relevant Entities

2. **Raines & Fischer LLP** is a public accounting firm located in New York, New York, and licensed to practice public accounting under the laws of New York (license no. 024631). At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.⁴

² The findings herein are made pursuant to Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

³ The Board finds that Respondent’s conduct described in this Order meets the condition set out in Section 105(c)(5)(A) of the Act, 15 U.S.C. § 7215(c)(5)(A), which provides that certain sanctions may be imposed in the event of “intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard.”

⁴ See *Raines & Fischer LLP*, PCAOB Rel. No. 105-2024-049 (Dec. 3, 2024).

3. **Third Seven Capital, LLC** is a Delaware limited liability company headquartered in New York, New York, and registered with the U.S. Securities and Exchange Commission (“Commission”) as a broker-dealer in securities. At all relevant times, Third Seven was a “broker” and “dealer,” as those terms are defined in Sections 110(3) and (4) of the Act, and PCAOB Rules 1001(b)(iii) and (d)(iii). At all relevant times, Third Seven was a “non-carrying” broker-dealer (i.e., a broker-dealer that does not maintain custody of customer funds or securities).⁵

C. Summary

4. This matter concerns Sarrel’s failure to cooperate with the PCAOB’s 2020 inspection of the 2019 Third Seven Engagement and related violations of PCAOB audit documentation standards.⁶

5. Specifically, approximately four months after the documentation completion date⁷ for the 2019 Third Seven Engagement, Sarrel learned that the PCAOB’s Division of Registration and Inspections (“DRI”) would be reviewing the 2019 Third Seven Engagement as part of an inspection of Raines & Fischer. In advance of the inspection, Sarrel, and Firm personnel acting under his direction, improperly created or modified multiple work papers for the 2019 Third Seven Engagement. As Sarrel was aware, those improperly altered work papers were then provided to DRI, after which Sarrel participated in discussions with PCAOB inspectors about the documentation for the 2019 Third Seven Engagement without disclosing the improper alterations.

6. Accordingly, and as described below, Respondent violated PCAOB Rule 4006, *Duty to Cooperate With Inspectors*, AS 1215, and ET § 102, *Integrity and Objectivity*.

⁵ For 2019, Third Seven claimed an exemption pursuant to paragraph (k)(1) of Rule 15c3-3 under the Securities Exchange Act of 1934 (“Exchange Act”), 17 C.F.R. § 240.15c3-3(k)(1).

⁶ All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the conduct discussed herein.

⁷ See AS 1215.15, *Audit Documentation* (defining “documentation completion date” as a date not more than 45 days after an auditor releases an audit report).

D. Respondent Violated PCAOB Rules and Standards in Connection with the 2019 Third Seven Engagement and the Board’s 2020 Inspection

i. Relevant Rules and Standards

7. Rule 17a-5 of the Exchange Act (“Rule 17a-5”)⁸ generally requires a broker-dealer that claims it was exempt from Exchange Act Rule 15c3-3⁹ throughout the most recent fiscal year to file annually with the Commission: (a) a financial report containing certain financial statements and supporting schedules (i.e., supplemental information);¹⁰ (b) an exemption report;¹¹ (c) a report prepared by an independent public accountant based on an examination of the financial report;¹² and (d) a report prepared by an independent public accountant based on a review of the statements made by the broker-dealer in the exemption report.¹³ Rule 17a-5 also requires that audits and reviews of broker-dealers be performed in accordance with PCAOB standards.¹⁴

8. PCAOB rules require that registered public accounting firms and their associated persons comply with the Board’s auditing and related professional practice standards.¹⁵ PCAOB rules also require that associated persons of registered public accounting firms comply with the ethics standards adopted by the Board.¹⁶

9. The PCAOB’s audit documentation standard states, in part: “A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*). . . . Audit documentation must not be deleted or discarded after the documentation completion date, however, information may be added. Any documentation added must indicate the date the information

⁸ 17 C.F.R. § 240.17a-5.

⁹ 17 C.F.R. § 240.15c3-3.

¹⁰ See Rule 17a-5(d)(1)(i)(A), (d)(2); see also SEC Form X-17A-5; 17 C.F.R. § 249.617.

¹¹ See Rule 17a-5(d)(1)(i)(B)(2), (d)(4).

¹² See Rule 17a-5(d)(1)(i)(C), (g)(1).

¹³ See Rule 17a-5(d)(1)(i)(C), (g)(2)(ii).

¹⁴ See Rule 17a-5(g).

¹⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; see also PCAOB Rule 3200, *Auditing Standards*.

¹⁶ See PCAOB Rule 3500T, *Interim Ethics and Independence Standards*.

was added, the name of the person who prepared the additional documentation, and the reason for adding it.”¹⁷

10. PCAOB standards require that audit documentation “contain sufficient information to enable an experienced auditor, having no previous connection with the engagement,” to understand, among other things, the timing of the procedures performed, evidence obtained, and conclusions reached, and to determine not just who performed and reviewed the work but also “the date such work was completed” and “the date of such review.”¹⁸

11. PCAOB Rule 4006 requires registered public accounting firms and their associated persons to “cooperate with the Board in the performance of any Board inspection.” Implicit in that cooperation obligation is a requirement not to provide misleading documents or information in connection with, or otherwise to interfere with, the Board’s inspection processes.¹⁹ An auditor provides misleading information if he or she participates in discussions with inspectors about documentation that the auditor knows has been improperly altered and does not disclose the alterations.²⁰

¹⁷ See AS 1215.15-.16.

¹⁸ See AS 1215.06.

¹⁹ See, e.g., *Kabani & Co., Inc.*, Rel. No. 34-80201, 2017 WL 947229, at *12 (SEC Mar. 10, 2017), *petition for review denied, Kabani & Co., Inc. v. SEC*, 733 F. App’x 918 (9th Cir. 2018) (sustaining Board finding that respondents failed to cooperate with an inspection where improper work paper alterations “interfered with the PCAOB’s ability to fulfill its regulatory function of ensuring that auditors comply with their professional responsibilities”); *Hay & Watson*, PCAOB Rel. No. 105-2022-017, at 5 (Sept. 13, 2022) (PCAOB Rule 4006 “includes an obligation not to provide misleading documents or information in connection with, or otherwise to interfere with, the Board’s inspection processes”); *Dale Arnold Hotz, CPA*, PCAOB Rel. No. 105-2012-008, at 4 (Nov. 13, 2012) (same).

²⁰ See, e.g., *Edward Turner, CPA*, PCAOB Rel. No. 105-2023-009 (July 18, 2023) (respondent failed to cooperate with an inspection both by providing improperly altered documents to inspectors and participating in a discussion with inspectors about those documents without disclosing the alterations); *Elliot D. Kim, CPA*, PCAOB Rel. No. 105-2018-010 (May 23, 2018) (respondent failed to cooperate with an inspection when he remained silent during a discussion with inspectors of a document that he had improperly altered); *José Fernandez Alves*, PCAOB Rel. No. 105-2016-039 (Dec. 5, 2016) (respondent failed to cooperate when he participated in a discussion with PCAOB inspectors without informing them that the discussion was based on documents he knew had been improperly altered); *Renata Coelho de Sousa Castelli*, PCAOB Rel. No. 105-2016-040 (Dec. 5, 2016) (same).

12. PCAOB ethics standards provide, in part, that an associated person “shall maintain objectivity and integrity” and “shall not knowingly misrepresent facts” in the performance of professional services.²¹ An associated person knowingly misrepresents facts in violation of ET § 102 when, for example, he or she knowingly: (a) makes, or permits or directs another to make, materially false and misleading entries in an entity’s records; or (b) signs, or permits or directs another to sign, a document containing materially false and misleading information.²²

ii. Sarrel Violated PCAOB Audit Documentation and Ethics Standards and Failed to Cooperate with the PCAOB’s Inspection of the 2019 Third Seven Engagement

13. As the engagement partner for the 2019 Third Seven Engagement, Sarrel authorized the issuance of Raines & Fischer’s audit and review reports dated February 27, 2020. The documentation completion date for the 2019 Third Seven Engagement was, therefore, April 12, 2020 (45 days after the release date of the Firm’s reports). However, Sarrel failed to assemble a complete and final set of audit documentation for retention by that date.

14. On August 10, 2020, DRI informed the Firm that the 2019 Third Seven Engagement had been selected for review during DRI’s impending inspection, for which fieldwork was expected to start on October 26, 2020. Raines & Fischer personnel prepared and assembled work papers for the 2019 Third Seven Engagement in electronic form as part of an audit software database. After learning that DRI would be reviewing the 2019 Third Seven Engagement, Sarrel, and those working at his direction, improperly created or modified multiple work papers for that engagement and added the newly created and modified work papers to the audit software.

15. Sarrel and junior staff changed the clocks on their computers to the time of the 2019 Third Seven Engagement to make it appear that the work papers they were creating had been prepared prior to the audit report date in February 2020. However, during their efforts, Sarrel realized that, despite having changed the computers’ clocks, certain work papers still indicated that changes had been made in August 2020, in anticipation of DRI’s inspection.

16. When Sarrel raised that issue with the junior staff who were assisting him with the creation and modification of the work papers, they informed him that they were denied access to Microsoft Word and Excel if they changed their clocks, but suggested as a “work around” printing Word documents to PDFs with the dates changed. Sarrel then instructed the

²¹ See ET § 102.01.

²² See *id.* at .02(a), (c).

junior staff to adopt that plan and print the Word documents to PDF to avoid the work papers reflecting their actual creation and modification in advance of the inspection.

17. Additionally, Sarrel and those acting under his supervision backdated signoffs and applied signoffs of other individuals who worked on the 2019 Third Seven Engagement to the newly created or modified work papers, both within certain work papers themselves as well as in the signoff fields in the Firm's audit documentation software, to make it appear that the work papers had been prepared and reviewed at the time of the 2019 Third Seven Engagement.

18. Notwithstanding the numerous modifications to the work papers after the documentation completion date for the 2019 Third Seven Engagement, Sarrel failed to properly document who added the information to the work papers, as well as when and why the information was added.

19. Ultimately, Sarrel and those acting under his supervision created or modified approximately 40 work papers after the documentation completion date. Those improperly altered work papers were included in the set of work papers provided to DRI, along with a work paper index printed from the Firm's audit software that contained the backdated signoffs.

20. Sarrel participated in multiple meetings with DRI staff about the 2019 Third Seven Engagement during the 2020 inspection of Raines & Fischer. However, he failed to disclose to inspectors that numerous work papers for the 2019 Third Seven Engagement had been improperly created or modified after the documentation completion date and that signoffs had been backdated.

21. Accordingly, Sarrel violated AS 1215, PCAOB Rule 4006, and ET § 102.

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 Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Steven Sarrel is hereby censured.
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Steven Sarrel 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).²³

- C. Pursuant to PCAOB Rule 5302(b), Steven Sarrel may file a petition for Board consent to associate with a registered public accounting firm after three years from the date of this Order.
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$65,000 is imposed upon Steven Sarrel.
 - 1. 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.
 - 2. Respondent 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 Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies Steven Sarrel as the 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.
 - 3. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.

²³ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, 15 U.S.C. § 7215(c)(7)(B), will apply with respect to Sarrel. 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.”

4. Respondent understands that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.
5. With respect to any civil money penalty amounts that Respondent shall pay pursuant to this Order, Respondent shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against Respondent based on substantially the same facts as set out in the findings in this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 3, 2024