UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 62372 / June 24, 2010

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3146 / June 24, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13948

In the Matter of **FEI-FEI CATHERINE FANG, CPA,** **Respondent.**	**ORDER INSTITUTING PUBLIC ADMINISTRATIVE PROCEEDINGS PURSUANT TO RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative proceedings be, and hereby are, instituted against Fei-Fei Catherine Fang, CPA ("Respondent") pursuant to Rule 102(e)(1)(ii) of the Commission's Rules of Practice. [1]

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement ("Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over her and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions ("Order"), as set forth below.

[1] Rule 102(e)(1)(ii) provides, in pertinent part, that:

> The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[2] that:

RESPONDENT

1. Respondent is a certified public accountant licensed by the state of Texas. During the periods at issue here, she was a sole proprietor in Fei-Fei Catherine Fang, CPA, an accounting firm located in Dallas, Texas and registered with the Public Company Accounting Oversight Board ("PCAOB").

2. From September 14, 2005 through July 2009, Respondent served as the independent auditor for Advanced Materials Group, Inc. ("AMG"), a manufacturing company headquartered in Garland, Texas whose common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act and quoted on the OTC Pink Sheets. AMG filed Chapter 11 bankruptcy proceedings on July 2, 2009.

3. Respondent audited AMG's financial statements for the fiscal years ended November 30, 2005 through November 30, 2008, which were included in annual reports on Form 10-KSB AMG filed with the Commission. For each of these years, Respondent provided AMG with an unqualified audit opinion.

4. She also reviewed AMG's quarterly financial statements for fiscal years 2006 through 2008 and for the fiscal quarter ended February 28, 2009, which were included in quarterly reports on Forms 10-QSB and 10-Q AMG filed with the Commission.

5. Before auditing AMG's November 30, 2005 financial statements, Respondent had no audit experience, and she had no other audit clients besides AMG before 2009.

FACTS

The Fraudulent Scheme

6. From at least the fiscal quarter ended May 31, 2008 through the fiscal quarter ended February 28, 2009, AMG's former chief financial officer orchestrated a fraudulent scheme to inflate AMG's earnings and accounts receivable. With the aid of a former AMG accounting manager, the former chief financial officer caused AMG to record sizable fictitious sales in AMG's sales journal, normally at or near quarter end. When these false sales were recorded, AMG's accounting system generated invoices to customers. These invoices merely described the sales as "miscellaneous charges" and were unsupported by purchase orders or shipping documents.

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

7. The fictitious sales were many times larger than AMG's usual sales, which typically ranged from a few hundred to a few thousand dollars in amount. In contrast, the false sales were in the range of $100,000 to $200,000 or more. The false sales were listed in receivables aging reports included in Respondent's audit work papers and were conspicuous in both their amount and grouping at quarter ends.

8. As part of the scheme, the former chief financial officer directed the former accounting manager to create credit memos to reverse the sales in the next quarter, before the invoices became delinquent. These credit memos were reflected in AMG's sales journal and were conspicuous in amount and grouping.

9. The net effect of these false accounting entries was to materially inflate AMG's sales and earnings in the periods they were recorded. Specifically, AMG's sales for the fiscal year ended November 30, 2008 were overstated by approximately $1.7 million, or 16.2%, which resulted in an earnings overstatement of 122.7%. The scheme had a similar impact on AMG's quarterly results, as reflected in the following table:

Quarter Ended	Net Sales as Originally Reported	Net Sales as Corrected	Percentage Overstated	Earnings Originally Reported	Earnings as Corrected	Percentage Overstated
May 31, 2008	$2,791,466	$2,246,966	24.2%	$30,502	($513,998)	106%
August 31, 2008	$3,216,863	$2,615,697	23%	$120,573	($480,593)	125%
February 28, 2009	$2,689,190	$2,522,590	6.6%	$27,738	($138,862)	120%

10. AMG's accounts receivable were also materially overstated in these periods. At each balance sheet date between May 31, 2008 and February 28, 2009, AMG's receivables were overstated by 29.1%, 26.3%, 22.1% and 7.4%, respectively.

11. The former chief financial officer used the inflated accounts receivable to obtain greater borrowings under AMG's bank line of credit. AMG's credit limit under this line was directly tied to the balance of its accounts receivable, which was a central component of the borrowing base calculation under this line. Between May 31, 2008 and February 28, 2009, AMG increased borrowing under its line of credit from $1,499,282 to $2,459,000.

12. The former chief financial officer used the additional borrowings in substantial part to pay large, unauthorized personal expenses he charged to an AMG credit card. Among other things, he used the AMG credit card to remodel his house; to vacation in Florida, New Mexico and France; to buy professional hockey season tickets; to join a country club; and to pay property taxes on his home. The former chief financial officer also used funds drawn from the line of credit to pay for an interest in an executive jet service, which he used for extensive personal travel. In total, the former chief financial officer spent $688,352 of AMG's funds for unauthorized personal expenses.

Respondent's Unreasonable Conduct

13. While auditing and reviewing AMG's financial statements for the fiscal year ended November 30, 2005 through the fiscal quarter ended February 28, 2009, Respondent repeatedly failed to perform in accordance with applicable professional standards. First, Respondent did not possess adequate technical training or proficiency as an auditor. *See PCAOB Standards and Related Rules*, AU § 210. Before Respondent audited AMG's November 30, 2005 financial statements, she had no auditing experience. On that and subsequent audits of AMG's financial statements, Respondent was the only auditor on the engagement but failed adequately to maintain and update her technical training and to acquire relevant audit experience.

14. Respondent failed to adequately plan the audits, obtain an understanding of internal controls, and develop audit procedures responsive to identified risks. *See PCAOB Standards and Related Rules*, AU §§ 311 and 319. Among other things, Respondent did not understand AMG's system of internal controls or competently identify audit risks. For instance, with respect to her audit of AMG's November 30, 2008 financial statements, Respondent did not consider accounts receivable to be an area of heightened audit risk even though receivables had increased 75% from 2007 to 2008, represented 44% of total assets, and were central to the company's borrowings under its line of credit, which had increased by 77% compared to the previous year. Respondent also followed a generic audit program, purchased off the internet, but failed to adjust audit procedures to account for risks or circumstances unique to AMG.

15. Respondent also failed to exercise professional skepticism or obtain sufficient competent evidential matter with respect to the company's large, unusual quarter end sales. *See PCAOB Standards and Related Rules*, AU §§ 230.07 and 326. She merely relied on the former accounting manager's verbal representations that he had been too busy to invoice customers before then. This explanation, however, was inconsistent with the receivables aging report in her audit work papers, which showed small invoices prepared daily for these customers throughout the quarter.

16. In addition, Respondent failed to perform confirmation procedures in accordance with *PCAOB Standards and Rules* AU § 330. Among other things, she improperly allowed AMG management to control her confirmation of accounts receivable. *See PCAOB Standards and Rules* AU § 330.28. Respondent gave the former chief financial officer and former accounting manager blank confirmations to send to AMG's largest customers, and relied on them to mail the confirmations to customers. Accordingly, Respondent did not know that confirmations were not mailed to AMG's two largest customers or that the confirmation responses she ostensibly received from these customers had been falsified by someone at AMG.

17. Respondent also failed to evaluate exceptions noted on confirmation responses in connection with her audit of the November 30, 2008 financial statements. For instance, Respondent accepted the former accounting manager's verbal explanation of a $323,000 exception noted on a returned confirmation without performing any other procedures. Respondent should have performed additional procedures with respect to this confirmation to obtain the evidence necessary to reduce audit risk to an acceptably low level. Obtaining representations from

management is not a substitute for obtaining competent evidence, and an auditor may not accept less than persuasive evidence merely because she believes management is honest. *See PCAOB Standards and Rules* AU §§ 333.02, 230.09.

18. Respondent did not otherwise competently test sales or receivables. For example, although Respondent examined certain invoices to determine if the year-end sales cutoff was accurate, she relied on the former accounting manager to select the invoices. She did not examine AMG's sales journal to select her own sample of invoices, although her audit program called for her to do so, and she only skimmed the receivables aging report in her work papers without noticing details. Had Respondent examined the sales journal and aging report to select her own sample, she would have noted the large quarter end sales and discovered the false invoices, with their vague descriptions and lack of supporting documentation.

19. Similarly, Respondent's audit program called for her to complete certain steps to test collectability of receivables, including the examination of credit memos. Respondent examined certain credit memos, but relied on the former accounting manager to select them. Had Respondent examined the sales journal to select a sample of credit memos, she would have discovered the large credit memos that reversed the false invoices.

20. Respondent also failed to properly consider the risk of misstatements due to fraud in AMG's November 30, 2008 financial statements, as required by *PCAOB Standards and Rules* AU § 316. Respondent's work papers from this engagement do not indicate that she did anything to assess the risks of fraud other than ask the former chief financial officer, former accounting manager and an accounting clerk whether they knew of any fraud. She did not otherwise consider or assess any fraud risk factors including, for example, the recurrence of unusually large quarter end sales; the rapid growth of AMG's accounts receivable during 2008, which outpaced sales growth; the company's liquidity position and increased borrowings under the line of credit, which were linked to its accounts receivable balance; and the potential for management override given the extremely small size of AMG's accounting staff. *See PCAOB Standards and Rules* AU §§ 316.08, 316.19 and 316.57.

21. Finally, Respondent failed to conduct her quarterly reviews in accordance with professional standards. *PCAOB Standards and Rules* AU § 722 establishes standards and provides guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of interim financial information. A review of interim financial information consists principally of performing analytical procedures and making inquires of persons responsible for accounting and financial matters. A review includes obtaining sufficient knowledge of an entity's business and its internal controls as it relates to the preparation of both annual and interim financial information to identify types of material misstatements and consider the likelihood of their occurrence. The specific inquiries made and analytical procedures performed in conducting a review should be influenced by the auditor's knowledge of the entity's business and internal control environment. *See PCAOB Standards and Rules* AU § 722.15.

22. Procedures that an accountant should perform when conducting a review of interim financial statements are enumerated in *PCAOB Standards and Rules* AU § 722.18.

Although Respondent performed some of the required analytical procedures and some of the required inquiries, she failed to inquire about many significant transactions recognized at the end of interim periods or about significant journal entries and other adjustments. Additionally, for the inquiries Respondent made, she failed to consider the reasonableness and consistency of management's responses to her inquiries in light of the results of other review procedures and her knowledge of AMG's business and its internal control. *See PCAOB Standards and Rules* AU § 722.17. For instance, AMG's receivables aging report for the fiscal quarters ended May 31, 2008, August 31, 2008 and February 28, 2009, which Respondent by her own account only "skimmed," reflected large and unusual quarter end sales. Respondent did not inquire about or perform other procedures with respect to most of these transactions. As for the few about which she did inquire, she simply accepted the former accounting manager's explanation that he had been too busy to invoice the customers before quarter end and had merely aggregated smaller invoices into one. This explanation was inconsistent with other information in Respondent's work papers, such as the receivables aging report, which reflected that the former accounting manager issued small invoices to customers on a daily basis throughout the quarter. Similarly, AMG's general ledgers for the fiscal quarters ended May 31, 2008, August 31, 2008 and February 28, 2009, reflected large quarter end sales that increased sales and accounts receivable, followed by corresponding credits recorded immediately after quarter end that reversed these sales and accounts receivable. These sales and credits were conspicuous in both amount and grouping. Respondent, however, did not review AMG's general ledger. Had she done so, she would have seen these suspicious transactions and extended her interim review procedures, in accordance with *PCAOB Standards and Rules* AU § 722.22.

Violations

Rule 102(e)(1)(ii) of the Commission's Rules of Practice provide that the Commission may temporarily or permanently deny an accountant the privilege of appearing or practicing before it if it finds, after notice and opportunity for hearing, that the accountant engaged in "improper professional conduct." In relevant part, Rule 102(e)(1)(iv) define "improper professional conduct" to include "[r]epeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, which indicate a lack of competence to practice before the Commission."

Findings

Based on the foregoing, the Commission finds that Respondent engaged in improper professional conduct pursuant to Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanction agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED, effective immediately, that Respondent is denied the privilege of appearing or practicing before the Commission as an accountant.

By the Commission.

Elizabeth M. Murphy
Secretary