

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 53766 / May 8, 2006**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2427 / May 8, 2006**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12289**

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<b>In the Matter of</b>	:	<b>ORDER INSTITUTING PUBLIC</b>
	:	<b>ADMINISTRATIVE AND CEASE-</b>
	:	<b>AND-DESIST PROCEEDINGS PURSUANT</b>
	:	<b>TO SECTION 21C OF THE SECURITIES</b>
<b>JAMES R. AHRNS, JR., CPA,</b>	:	<b>EXCHANGE ACT OF 1934 AND RULE 102(e) OF</b>
	:	<b>THE COMMISSION’S RULES OF PRACTICE,</b>
<b>Respondent</b>	:	<b>MAKING FINDINGS, AND IMPOSING</b>
	:	<b>REMEDIAL SANCTIONS AND A CEASE-AND-</b>
	:	<b>DESIST ORDER</b>
	:	

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against James R. Ahrns, Jr., CPA (“Respondent” or “Ahrns”) pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice.<sup>1</sup>

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “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 him and the subject matter of these

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<sup>1</sup> Rule 102(e)(1)(iii) 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 willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

proceedings, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

### **III.**

On the basis of this Order and Respondent's Offer, the Commission finds<sup>2</sup> that:

#### **A. RESPONDENT**

Ahrns has been a certified public accountant licensed in the state of Ohio since 1985. From 1999 through early 2004, Ahrns was the controller of MCSi, Inc. ("MCSi"), a Maryland corporation headquartered in Dayton, Ohio. In his capacity as controller, Ahrns made accounting entries on the books and records of MCSi, and also provided documents and information to its auditor in connection with its annual audits of the financial statements of MCSi. Ahrns reported to the company's chief financial officer.

#### **B. FACTS**

##### **1. Background**

MCSi is a publicly-traded company whose stock is currently quoted in the "pink sheets" centralized quotation service for over-the-counter securities. However, at all times relevant to the matters described herein the stock of MCSi was quoted on the NASDAQ National Market System. MCSi sold and installed audio-visual presentation and broadcast integrated systems, as well as computer products. For the year ended December 31, 2001, MCSi reported net sales of over \$800 million. In June 2003, the company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code.

##### **2. MCSi's accounting system.**

a. MCSi used a system called JD Edwards as its accounting software. When a sales transaction was input into JD Edwards, the system automatically generated documents such as invoices and packing lists, and recorded the appropriate accounting transactions on the books and records of the company. Non-recurring, less routine transactions, however, had to be entered into JD Edwards manually.

b. At MCSi, journal entries for these non-recurring transactions were first handwritten on sheets headed "journal voucher." These manual journal voucher sheets were placed in three-ring binders, together with any relevant backup documentation, and were maintained in Ahrns' office. The transactions shown on the journal vouchers were then entered into JD Edwards. Some of these transactions were entered into the system by Ahrns.

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<sup>2</sup> 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.

c. MCSi's CFO was not familiar enough with JD Edwards to enter accounting transactions into the system himself. Therefore, he gave Ahrns handwritten journal entry sheets reflecting transactions he wished Ahrns to enter into the books and records of the company. On other occasions the CFO simply instructed Ahrns orally which journal entries to record.

d. During the first quarter of 2002, the CFO gave Ahrns several journal vouchers which the CFO had completed himself, and instructed Ahrns to enter those transactions into the JD Edwards accounting system. These journal vouchers had no backup documentation attached, and did not reference any customer. The entries they contained were headed "major projects" and "major projects 2." The CFO did not explain to Ahrns what transactions were referenced by these journal vouchers.

### **3. Concealment of company records from the auditors.**

a. MCSi's CFO had instructed Ahrns not to provide the manual journal vouchers to the company's auditors, even if the auditors requested them specifically, without his prior approval. During the audit of MCSi's financial statements for the 2000 year, however, the auditors asked to see the binder of journal vouchers. When Ahrns informed the CFO of this request, the CFO directed Ahrns to hand him the binder. The CFO removed some of the journal vouchers from the binder and placed them in his desk drawer. He then told Ahrns to give the binder to the auditors.

b. The CFO removed journal vouchers from the books and records of MCSi on more than one occasion during the audits of MCSi's financial statements for the years ended 2000 through 2002. Among the vouchers that were removed, and concealed from the auditors, were those relating to "major projects" and "major projects 2." These two entries added \$30,203,901 to the revenue MCSi reported for the quarter ended March 31, 2002, with \$16,432,341 being charged to cost of goods sold, for an increase in net income of \$13,771,560 for the quarter. The effect of these entries was to change what would have been a net loss of \$7,293,112 to net income of \$6,478,448.

c. The inflated revenue caused the financial statements of MCSi, for the quarter ended March 31, 2002, to fail to comport with generally accepted accounting principles.

### **4. Ahrns signed the management representation letters to the auditors.**

a. For each audit of MCSi's financial statements from the 2000 year through the 2001 year, both the CFO and Ahrns signed the management representation letter to the auditor. In this letter, MCSi's management was asked to confirm to the auditor that:

- i. all financial records and related data had been made available to them;
- ii. there were no material transactions, agreements or accounts that had not been properly recorded in the company's books and records; and

iii. there had been no fraud involving management or employees having significant roles in the company's internal control.

b. Ahrns had concerns regarding certain manual journal entries on the books of the company because the CFO had never provided him with any backup documentation. He also knew that manual journal vouchers had been concealed from the auditors, denying them access to certain financial records and related data of MCSi. Nevertheless, both the CFO and Ahrns signed the management representation letters for the audits of the company's financial statements for the years ended 2000 through 2001.

## **C. VIOLATIONS**

1. Aiding and abetting liability arises when there is: (a) a violation of the securities laws by some other party; (b) a general awareness by the aider and abetter that his role is part of an overall activity that was improper; and (c) substantial assistance by the aider and abetter in the achievement of the primary violation. Either willfulness or "reckless indifference (to a known obligation or set of facts)" will satisfy the scienter requirement.

2. Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder require issuers with securities registered under Section 12 of the Exchange Act to file quarterly and annual reports with the Commission and to keep this information current. The obligation to file such reports embodies the requirement that they be true and correct.

3. Rule 12b-20 provides that, in addition to information specifically required to be included in reports, registrants are obligated to include any material information necessary to make the statements made in the reports not misleading.

4. Section 13(b)(2)(A) of the Exchange Act requires every issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act to "make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer. . . ." Rule 13b2-1 generally prohibits the falsification of books and records.

5. Ahrns rendered substantial assistance to MCSi in its primary violations of Sections 13(a) and 13(b)(2)(A) and Rules 12b-20, 13a-1 and 13a-13 thereunder, and to MCSi's CFO in his primary violations of Rule 13b2-2. Not informing the auditors that the CFO had removed manual journal vouchers from the company's books, and signing the management representation letter made it more difficult to discover the fraudulent revenue the CFO had recorded. This fraudulent revenue rendered the books and records of MCSi, and its public filings with the Commission, materially false. Ahrns, as a CPA and the company controller, knew that he was involved in an activity that was improper.

6. By making journal entries at the direction of the CFO, when he knew or should have known that those entries did not properly reflect company transactions, Ahrns violated Rule 13b2-1.

7. Rule 13b2-2, as in effect at the time of the conduct described herein, states that "no officer or director of an issuer shall, directly or indirectly . . . omit to state, or cause another person to omit to state, any material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with any audit, review or examination of the financial statements of the issuer. . . ." <sup>3</sup>

8. By providing the manual journal vouchers to the auditors without disclosing that certain of them had been removed, and by signing the management representation letter, the CFO omitted to state a material fact to an accountant in connection with an audit. Ahrns aided and abetted these violations of Rule 13b2-2.

#### **D. COOPERATION**

Ahrns has rendered substantial assistance to the staff in its investigation of MCSi and its officers.

#### **E. FINDINGS**

Based on the foregoing, the Commission finds that Ahrns (a) willfully violated Rule 13b2-1 promulgated under the Exchange Act; and (b) willfully aided and abetted and caused MCSi's violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13, and the CFO's violations of Rule 13b2-2 thereunder. As a consequence of these willful violations, and by aiding and abetting others in their violations of the federal securities laws, Ahrns should be sanctioned under Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanction and cease-and-desist order agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Ahrns shall cease and desist from committing or causing any violations and any future violations of Rules 13b2-1 and 13b2-2 promulgated under the Exchange Act, and from causing any violations and any future violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder.

B. Ahrns is denied the privilege of appearing or practicing before the Commission as an accountant.

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<sup>3</sup> Rule 13b2-2 has since been amended by the Sarbanes-Oxley Act of 2002.

C. After two years from the date of this order, Ahrns may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Ahrns' work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

(a) Ahrns, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

(b) Ahrns, or the registered public accounting firm with which he is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in his or the firm's quality control system that would indicate that he will not receive appropriate supervision;

(c) Ahrns has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

(d) Ahrns acknowledges his responsibility, as long as he appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

D. The Commission will consider an application by Ahrns to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependant on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to his character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Nancy M. Morris  
Secretary