UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **v.** **LUTHER C. SPEIGHT, III AND LUTHER SPEIGHT & COMPANY, LLC** **Defendants.**	**Civil Action File No.** **JURY DEMAND**

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows:

SUMMARY

1. This matter involves misconduct by Luther Speight & Company, LLC ("LSC") a New Orleans, Louisiana–based auditing firm and its principal, Luther C. Speight ("Speight"), in connection with their audit of a State of Louisiana–based school board's ("School Board") fiscal year 2019 financial statements and the School Board's sale of $120 million in municipal bonds to an investor in March 2020.

2. In June 2019, the School Board hired the defendants, Speight and LSC, to perform an audit of the School Board's fiscal 2019 financial statements.

3. Speight and LSC failed to perform their audit in accordance with Generally Accepted Auditing Standards ("GAAS").

4. On January 2, 2020, LSC, through Speight, issued an auditor's report stating that it had conducted the audit of the School Board's fiscal year 2019 financial statements in accordance with GAAS.

5. That statement was false.

6. Speight and LSC did not comply with GAAS in many important and material respects.

7. Speight and LSC knew, or should have known, both that their statement that they had performed their audit in accordance with GAAS was false and that the School Board would use the auditor's report to sell bonds to investors.

8. Due to LSC and Speight's misconduct, the School Board unknowingly used LSC's auditor's report, with the false statement, to sell $120 million of bonds (called a "Revenue Anticipation Note," or "RAN") to an investor.

9. The investor bought the bonds while under the misimpression that the financial statements had been audited in accordance with GAAS.

VIOLATIONS

10. By the conduct described herein, Speight and LSC have engaged and, unless restrained and enjoined by this Court, will continue to engage in acts and practices that constitute and will constitute violations of Section 17(a)(2) and (a)(3) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77q(a)(2) and q(a)(3)].

JURISDICTION AND VENUE

11. The Commission brings this action pursuant to the authority conferred upon it by Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and t(d)].

12. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)].

13. In connection with the transactions, acts, practices, and courses of business described in this Complaint, Defendants, directly and indirectly, have made use of the means or instrumentalities of interstate commerce, of the mails, and/or of the means and instruments of transportation or communication in interstate commerce.

14. Venue is proper in this district as all Defendants have consented to venue in this district.

FACTS

A. Defendants

15. **Luther Caesar Speight, III**, age 67, is a resident of New Orleans, Louisiana. Speight is a certified public accountant licensed in Louisiana, Tennessee. and Georgia. He is the founder, 95% owner, and partner-in-charge of LSC, and managing partner on its audit engagements.

16. **Luther Speight & Company, LLC** is a Louisiana limited liability company based in New Orleans, Louisiana. LSC, originally founded in 1987, is a certified public accounting and consulting firm that provides consulting, auditing, and accounting services.

B. Other Relevant Entity

17. **The School Board** governs a public school system that serves a Louisiana parish.

18. As of June 2019, the School Board reported total revenues of $1.35 billion; total expenses of $547.1 million; and long-term liabilities of $198.2 million, including bonds totaling $99 million.

The Municipal Bond Market, the Auditor's Report, and Audited Financial Statements

19. The U.S. municipal bond market is an important segment of the U.S. capital markets.

20. States, cities, local governments, and other entities, like the School Board, sell municipal bonds to investors and use the proceeds of those sales to finance public infrastructure projects such as transportation systems, schools, and utilities.

21. These entities, also called "issuers," typically produce annual financial statements, which provide information about their financial conditions.

22. The financial statements are used by investors in making economic decisions about whether to buy bonds offered for sale by the issuers.

23. Issuers like the School Board often hire independent auditors, such as LSC, to conduct an audit of their financial statements.

24. The role of the auditor is to examine the financial statements, applying a set of industry standards of review called GAAS to determine if the financial statements fairly present the financial condition of the issuer.

25. When the auditor completes its audit of the financial statements in accordance with GAAS, it issues what is known as an "auditor's report."

26. In the auditor's report, the auditor states that it has conducted the audit in accordance with GAAS and opines whether the financial statements fairly present, in all material respects, the issuer's financial condition in accordance with Generally Accepted Accounting Principles ("GAAP").

27. Financial statements that are audited in accordance with GAAS provide more comfort to investors than unaudited financial statements because an audit provides independent assurance that the financial statements are fairly presented.

Speight and LSC Issued the Auditor's Report and Audited Financial Statements Before Completing the Audit

28. In April 2019, the School Board issued a Request for Proposal for Professional Auditing Services ("RFP").

29. LSC responded to the RFP.

30. LSC's proposal to the School Board stated that each member of the audit team had governmental accounting and audit experience and indicated the number of years of that experience.

31. As to Speight, the proposal stated that he had 35 years of governmental audit experience.

32. At that time, neither Speight nor LSC had any experience auditing an issuer of municipal bonds, and the School Board audit was the largest audit engagement in LSC's history.

33. Speight admitted that LSC originally intended to partner with a larger audit firm to help conduct the audit but was unable to find such a partner.

34. On July 3, 2019, LSC was engaged by the School Board to audit its fiscal year 2019 financial statements and future financial statements.

35. In August 2019, LSC began audit work which was supervised and directed by Speight.

36. Louisiana state law required the School Board to submit its audited 2019 financial statements to the Louisiana Legislative Auditor ("LLA") by January 2, 2020.

37. Specifically, Louisiana state law requires local governmental entities, including the School Board, to submit audited financial statements to the LLA within six months of the entity's fiscal year-end. La. Rev. Stat. § 24:513. The School Board's fiscal year concludes on June 30, and, in this instance, due to holidays, the LLA extended its December 30, 2019 deadline to January 2, 2020.

38. LSC's July 3, 2019 engagement letter indicated it expected to issue its auditor's report by December 15, 2019, approximately two weeks in advance of the LLA deadline.

39. On January 2, 2020, Speight signed LSC's auditor's report that stated, "[w]e conducted our audit in accordance with auditing standards generally accepted in the United States of America …" and submitted it, with the audited financial statements, to the LLA.

40. Although he signed the auditor's report on January 2, 2020, Speight backdated it to December 18, 2019.

41. During the Commission's investigation of this matter, Speight admitted that he chose that date for the auditor's report because that was when, in his opinion, LSC had substantially completed its fieldwork and audit work.

42. However, Speight and LSC continued to obtain audit evidence related to numerous audit issues after December 18, 2019.

43. Speight's decision to backdate the audit report was completely contrary to GAAS, which requires an auditor to obtain sufficient appropriate audit evidence prior to dating the auditor's report.

44. On January 3, 2020, Speight issued the fiscal year 2019 audited financial statements and the auditor's report to the School Board.

45. On January 6, 2020, the School Board made the fiscal year 2019 audited financial statements, with LSC auditor's report, publicly available by posting them on the Municipal Securities' Rulemaking Board's Electronic Municipal Market Access ("EMMA") website.

46. The EMMA website is used by investors in municipal bonds to review financial information, including audited financial statements, of issuers that sell bonds to the public.

47. Between December 18, 2019 and at least January 14, 2020, after the stated date of LSC's auditor's report and after the report was submitted with the

purportedly audited financial statements to the LLA and EMMA, Speight and LSC were still actively working on material aspects of the audit.

48. They requested and received audit documentation related to major accounts such as lease and payroll accounts.

49. They received what is known as the "management representation letter" from the School Board.

50. The management representation letter is a document which auditors must receive from issuers as part of conducting an audit in accordance with GAAS.

51. They prepared the final financial statements and related notes.

52. They performed quality control review procedures.

53. The audit work identified in paragraphs 48-49 and 51-52 should have been completed before the date of the auditor's report.

54. On January 9, 2020, employees of charter schools within the School Board district reviewed the publicly available and purportedly audited financial statements and identified errors in them.

55. These errors included an overstatement of revenues with an offsetting overstatement of expenses in a Pass-Through Fund (the "Pass-Thru error"), which receives city tax revenues to finance operations of the charter schools.

56. During a meeting with a School Board official, Speight admitted that LSC ran out of time to do the additional procedures that would have allowed them

to identify and correct the error and still submit the auditor's report before the LLA deadline.

57. After being notified of the error, Speight and LSC revised the financial statements to correct the Pass-Thru error.

58. Speight and LSC also identified and corrected other errors after the financial statements were submitted to EMMA for publication, including the addition of certain missing tables and pages to the financial statements, and the removal of certain duplicate pages.

59. Despite identifying and correcting errors in the financial statements, Speight and LSC did not revise the auditor's report, change the date on the report, or provide an additional (dual) date that was limited to the revision.

60. Speight and LSC were also aware that the School Board's had issued a $40 million RAN in November 2019, but failed to verify that the financial statements disclosed the issuance.

61. Governmental Accounting Standards Board Statement No. 56 ("GASB 56"), requires the disclosure of bonds issued after the close of the financial statements and before the issuance of the auditor's report.

62. On January 14, 2020, the LLA accepted LSC's submission of the revised version of the audited financial statements with the original December 18, 2019 auditor's report (without any date or other changes).

63. The revised version replaced the original version that LSC had submitted to the LLA on January 2, 2020. Although the revised version corrected errors in the financial statements, the financial statements were still not audited in accordance with GAAS.

64. The LLA approved the revised audited financial statements on January 28, 2020, and then, on February 3, 2020, published them with the auditor's report on its website.

65. On March 6, 2020, the School Board submitted the revised financial statements, with the auditor's report to be posted on EMMA.

66. The School Board paid LSC a fee of $135,860 to conduct the audit.

67. The School Board used the revised audited financial statements and auditor's report to offer and sell a $120 million RAN to a single bank investor in March 2020.

Speight and LSC Did Not Conduct the Audit in Accordance with GAAS

68. LSC's auditor's report falsely stated that LSC conducted its audit of the School Board's 2019 financial statements in accordance with GAAS.

69. GAAS for governmental entities, like the School Board, are promulgated by the American Institute of Certified Public Accountants ("AICPA").

70. During their audit of the financial statements, Speight and LSC failed to comply with GAAS, specifically violating AICPA Auditing Standards Codification ("AU-C") §§220, 230, 560, 580, and 700.

A. Speight and LSC's Audit Evidence and Documentation Failures

71. AU-C §700 requires the auditor to form an opinion on the financial statements based on an evaluation of the audit evidence obtained and to state its opinion and the basis for its opinion in a written auditor's report *(AU-C §700.10)*.

72. The auditor's report cannot be dated earlier than the date when the auditor has obtained sufficient appropriate audit evidence.

73. Sufficient appropriate audit evidence includes evidence that: (a) the audit documentation has been reviewed; (b) all statements comprising the financial statements, including the related notes, have been prepared; and (c) management has asserted that they have taken responsibility for those financial statements *(AU-C §700.41)*.

74. AU-C §230 requires the auditor to prepare audit documentation on a timely basis (*AU-C §230.07*).

75. An auditor is required to prepare audit documentation that is sufficient to enable an experienced auditor, with no previous connection to the audit, to understand the nature, timing, and extent of the audit procedures performed; the

results of the procedures performed; and the audit evidence obtained and conclusions reached (*AU-C §230.08*).

76. Audit documentation should record who performed and reviewed the work and the date such work was completed (*AU-C §230.09*).

77. AU-C §580 requires the auditor to obtain written representations from management that they believe that they have fulfilled their responsibility for the preparation and fair presentation of the financial statements and for the completeness of the information provided to the auditor (*AU-C §580.06*).

78. Speight and LSC's audit violated each of these standards.

79. First, Speight and LSC failed to adequately document LSC's audit work papers, in violation of both AU-C §§700 and 230.

80. Approximately 63% of the audit work papers failed to document who reviewed the audit work and the date of such review.

81. The lack of adequate review is further evidenced by the fact that 25% of audit work papers failed to document who performed the audit work and the date such work was performed.

82. Second, Speight and LSC failed to verify that the financial statements and related notes were prepared prior to the date of the auditor's report, in violation of both AU-C §§700 and 230.

83. Defendants requested and received audit documentation related to major accounts of the School Board, such as lease and payroll accounts, and made corresponding edits to the financial statements after the date of the auditor's report.

84. Moreover, after the date of the auditor's report, Speight also made a "major adjustment" (a "report entry") to the government-wide financial statements.

85. There were also several other adjustments made to the financial statements and notes, which related to fund balance commitments, pensions, contributions, donations, leases, and payroll. These adjustments were made up to, and including, January 2, 2020.

86. Third, in violation of both AU-C §§580 and 700, as of the date of the auditor's report, Speight and LSC had not obtained a signed management representation letter from the School Board management, or its oral confirmation that it, without exception, had taken responsibility for all the statements comprising the financial statements, including related notes.

87. Speight did not send an initial draft of the management representation letter to the School Board until December 23, 2019.

88. Speight received a signed copy of the management representation letter on December 28, 2019.

89. Speight's typical practice was to ask management to sign a representation letter after the date of the auditor's report in violation of both

AU-C §§580 and 700.

B. ***Speight and LSC Failed to Undertake Procedures Required in Light of Subsequent Events and Subsequently Discovered Facts***

90. AU-C §560 requires an auditor to take certain steps upon the discovery of (a) events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements to be appropriately reflected in those financial statements in accordance with the applicable financial reporting framework (subsequent events); and (b) facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report (subsequently discovered facts) (*AU-C §560.05).*

91. Subsequent events may require disclosure in the financial statements (*AU-C §560.11)*.

92. Subsequently discovered facts that become known to the auditor after the auditor's report release date may require revision to the financial statements (*AU-C §560.15).*

93. If a revision is required, the auditor is required to provide an auditor's report with a new date or dual date the previously issued auditor's report (*AU-C §560.13).*

94. Additionally, if the audited financial statements (before revision) have been made available to third parties, the auditor should assess whether

management has taken timely and appropriate steps to ensure the erroneous audited financial statements are not relied upon.

95. Speight and LSC violated AU-C §560.

96. Both the original and revised financial statements failed to disclose, as a subsequent event, the November 2019 issuance of a $40 million RAN in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 56.

97. Speight and LSC failed to identify the disclosure requirement of the RAN issuance pursuant to GASB 56 during the audit.

98. The School Board's fiscal year 2019 financial statements also required revision after the discovery of subsequently discovered facts, specifically certain accounting errors, including the overstatement of revenues and expenses recorded in the originally issued audited financial statements.

99. Despite the revision, Speight and LSC failed to modify LSC's original auditor's report with a new date or by including an additional date that was limited to the revision.

100. Speight and LSC also failed to assess whether the School Board took steps to ensure that third parties who received the pre-revision financial statements were informed of the errors and that the pre-revision financial statements should not be relied upon.

101. The auditor's report and the pre-revision financial statements were submitted by the School Board, via legal counsel, to EMMA on January 6, 2020, and were available on that website even after the revised and corrected audited financial statements were posted on EMMA on March 6, 2020.

C. *Speight and LSC Failed to Implement Sufficient Quality Control Procedures*

102. AU-C §220 requires the auditor to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that: (a) the audit complies with professional standards and applicable legal and regulatory requirements, and (b) the auditor's report is appropriate in the circumstances (*AU-C §220.08*).

103. During the review of the audit engagement, the engagement partner should take responsibility for the reviews and verify they are being performed in accordance with the auditor's review policies and procedures (*AU-C §220.18*).

104. Additionally, the engagement partner should review the audit documentation and communicate with the engagement team to obtain satisfaction that sufficient audit evidence has been obtained to support the audit conclusions and for the auditor's report to be issued (*AU-C §220.19*).

105. Speight and LSC's quality control procedures were deficient.

106. The original audited financial statements contained several errors, including the overstatement of certain revenues and expenses accounts.

107. Both the original and revised financial statements also failed to disclose, as a subsequent event, the November 2019 issuance of a $40 million RAN by the School Board.

108. Speight and LSC also failed to verify, prior to, and after, the date of the auditor's report, that sufficient appropriate audit evidence was obtained.

109. Speight and LSC failed to verify that appropriate representations were obtained from management prior to the date of the auditor's report.

110. Speight and LSC failed to verify the preparation of adequate audit documentation.

111. Speight and LSC failed to verify revision of the auditor's report, subsequent to discovery and correction of the errors.

112. In late February 2020, a School Board official met with Speight to terminate LSC because of the problems with the audit and the financial statements.

113. Speight admitted in that meeting that he decided to submit the auditor's report and the School Board's audited financial statements on time, rather than prioritize audit quality.

Speight and LSC Knew or Should Have Known
That the Auditor's Report Would Be Provided to Investors

114. Speight and LSC knew or should have known that the auditor's report and the School Board's fiscal year 2019 audited financial statements would likely be provided to investors in a future School Board bond offering.

115. First, Speight and LSC knew that the School Board previously issued municipal bonds.

116. Defendants had the School Board's audited financial statements for fiscal years 2017 and 2018, both of which reflected two outstanding municipal bond issuances.

117. Consistent with that, in their response to the School Board's RFP, Speight and LSC specifically identified procedures they would undertake to audit the municipal bond accounts.

118. Moreover, in connection with the audit of the School Board's 2019 financial statements, Speight also incorrectly advised the School Board that disclosing the issuance of a $40 million November 2019 RAN was not required.

119. Second, Speight and LSC knew that the School Board was seeking approval from the Louisiana State Bond Commission (the "Bond Commission") to issue new bonds in 2020.

120. Louisiana state law requires municipal issuers to obtain the Bond Commission's approval to issue bonds for debt financing.

121. The Bond Commission's application for its approval requires the issuer to provide various financial documents, including its audited financial statements.

122. As a result, the School Board had to provide the Bond Commission with its 2019 audited financial statements and auditor's report to obtain approval for the bonds.

123. On January 24, 2020, the School Board asked Speight for a draft of the corrected 2019 audited financial statements to provide to the Bond Commission, and Speight provided those documents with the auditor's report.

124. Although this was after the date that LSC had purportedly completed its audit and provided the auditor's report and the corrected financial statements to the LLA, it was before the LLA actually had issued the audited financial statements, before the auditor's report and audited financial statements were used in the School Board's Bond Commission application for approval to issue the RAN, and before the School Board provided the auditor's report and audited financial statements to the bank investor.

125. On information and belief, the Bond Commission would not have authorized the School Board to issue the RAN if it had known that School Board's financial statements had not been audited in accordance with GAAS.

126. The fact that the School Board's financial statements were not audited in accordance with GAAS would have been a "red flag" in the Bond Commission's evaluation.

127. The Bond Commission's approval was also required for the investor to make the investment.

128. The lack of a GAAS-compliant audit was important to the investor's investment decision.

COUNT I

Violations of Section 17(a)(2) and (a)(3) of the Securities Act
[15 U.S.C. §§ 77q(a)(2) and q(a)(3)]

129. Paragraphs 1 through 128 are hereby realleged and are incorporated by reference.

130. While employed as the auditor of the financial statements of the School Board between June 2019 and February 2020, Defendants Speight and LSC, in the offer and sale of securities described herein, by use of means and instruments of transportation and communication in interstate commerce and by use of the mails, directly and indirectly:

a. obtained money and property by means of untrue statements of material fact and omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

b. engaged in transactions, practices and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described above.

131. Defendants, directly and indirectly, have violated and, unless enjoined, will continue to violate Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully prays for:

I.

Permanent injunctions enjoining Defendants Speight and LSC and their officers, agents, servants, employees, and attorneys from violating, directly or indirectly, Sections 17(a)(2) and (a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

II.

A conduct-based injunction against Speight enjoining him from serving as the engagement manager, engagement partner, or engagement quality reviewer in connection with any audit of financial statements or auditor's report, which Speight should reasonably expect to be submitted to EMMA.

III.

A conduct-based injunction against LSC enjoining it from participating in the audit of financial statements which LSC should reasonably expect to be submitted to EMMA.

IV.

An order requiring the disgorgement by Defendants of all ill-gotten gains or unjust enrichment with prejudgment interest, to effect the remedial purposes of the federal securities laws.

V.

An order pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] imposing civil penalties against Defendants.

VI.

Such other and further relief as this Court may deem just, equitable, and appropriate in connection with the enforcement of the federal securities laws and for the protection of investors.

JURY TRIAL DEMAND

The Commission hereby demands a trial by jury as to all issues that may be so tried.

Respectfully submitted this 27th day of September, 2023,

/s/ Kristin W. Murnahan
M. Graham Loomis
Regional Trial Counsel
Georgia Bar No. 457868
loomism@sec.gov

Kristin W. Murnahan
Senior Trial Counsel
Ga. Bar No. 759054
murnahank@sec.gov

Counsel for Plaintiff
United States Securities & Exchange Commission
950 E. Paces Ferry Road NE
Suite 900
Atlanta, GA 30326
404-842-7600
404.842.7679 fax