

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 63030 / October 4, 2010**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 3096 / October 4, 2010**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3194 / October 4, 2010**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14084**

**In the Matter of**

**Altschuler, Melvoin and Glasser LLP, and  
G. Victor Johnson, II, CPA,**

**Respondents.**

**ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 4C OF THE SECURITIES  
EXCHANGE ACT OF 1934, SECTION  
203(k) OF THE INVESTMENT  
ADVISERS ACT OF 1940 AND RULE  
102(e) OF THE COMMISSION'S RULES  
OF PRACTICE, MAKING FINDINGS,  
AND IMPOSING REMEDIAL  
SANCTIONS AND A CEASE-AND-  
DESIST ORDER**

**I.**

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Altschuler, Melvoin and Glasser LLP and G. Victor Johnson, II, CPA (the "Respondents") pursuant to Section 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), Section 4C<sup>1</sup> of the

---

<sup>1</sup> Section 4C provides that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . "(1) not to possess the requisite qualifications to represent others (2) to be lacking in character or integrity, or to have engaged in unethical

Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.<sup>2</sup>

## II.

In anticipation of the institution of these proceedings, the Respondents have each submitted an Offer of Settlement (the “Offers”), 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 the Respondents and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934, Section 203(k) of the Investment Advisers Act of 1940 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 the Respondents’ Offers, the Commission finds<sup>3</sup> that:

### A. SUMMARY

This matter concerns the roles of audit firm Altschuler, Melvoin and Glasser LLP (“Altschuler”) and engagement partner George Victor Johnson, II (“Johnson”) in violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 (the “Custody Rule”) under the Advisers Act by Sentinel Management Group, Inc. (“Sentinel”), a registered investment adviser. At the relevant time, 2002 through 2006, Sentinel was required by the Custody Rule to have an independent public accountant verify all client funds and securities by surprise examination at least once each calendar year. Altschuler was the independent public accounting firm that Sentinel retained to perform its surprise examinations from 2002 through 2006, and Johnson was the engagement partner at Altschuler overseeing the Sentinel surprise examinations for every year except 2004.<sup>4</sup> The Respondents negligently failed to conduct the examinations in accordance with the professional standards applicable to examinations under Advisers Act Rule 206(4)-2, thereby causing Sentinel’s violations of the Custody Rule and Section 206(4) of the

---

or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.”

<sup>2</sup> Rule 102(e)(1)(ii) provides, in relevant part, that:

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

<sup>3</sup> The findings herein are made pursuant to the Respondents’ Offers of Settlement and are not binding on any other person or entity in this or in any other proceeding.

<sup>4</sup> Johnson did not act as the engagement partner for 2004 because Johnson and Altschuler, without admitting or denying its findings, consented in June 2005, to the entry of an order, which required Johnson to refrain from serving as an engagement partner in any audit of any CFTC registrant for six months. *See In the Matter of G. Victor Johnson and Altschuler, Melvoin and Glasser, LLP*, CFTC Docket No. 04-29 (June 13, 2005).

Advisers Act. The conduct related to the exams also constituted improper professional conduct pursuant to Section 4C(b)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

## **B. RESPONDENTS**

**Altschuler, Melvojn and Glasser LLP** is an Illinois limited liability partnership that maintained its principal place of business in Chicago, Illinois. Altschuler performed annual Advisers Act surprise examinations for Sentinel, a registered investment adviser, for the years 2002 through 2006 and also served as Sentinel's independent auditor from 2002 through 2005. On November 1, 2006, Altschuler sold most of its assets to another public accounting firm and is now in liquidation. Altschuler is, however, contractually required to complete any pending engagements, sign-off on report reissuance and consents, and defend malpractice claims.

**George Victor Johnson, II, CPA** age 69, of Arlington Heights, Illinois is a certified public accountant licensed in Illinois and currently a director of a public accounting firm. Johnson served as the engagement partner for the 2002, 2003, 2005 and 2006 Advisers Act surprise examinations of Sentinel and the 2002 through 2005 financial statement audits of Sentinel on behalf of Altschuler.

## **C. OTHER RELEVANT ENTITY**

**Sentinel Management Group, Inc.** (SEC File No. 801-15642) is an Illinois corporation based in Northbrook, Illinois, that has been registered with the Commission as an investment adviser since 1980. Sentinel is registered with the Commodity Futures Trading Commission as a futures commission merchant. On August 17, 2007, Sentinel filed for Chapter 11 bankruptcy. At the time of Sentinel's bankruptcy, Sentinel managed approximately 180 accounts for around 70 clients and had approximately \$1.4 billion in assets under management.

## **D. FACTS**

### **1. The Commission's Action Against Sentinel**

a. Prior to its bankruptcy on August 17, 2007, Sentinel primarily managed investments of short-term cash for advisory clients, including futures commission merchants, hedge funds, financial institutions, pension funds, and individuals. Sentinel purported to invest all of its clients' assets in pooled investment vehicles (the "Securities Pools")<sup>5</sup> and to hold the underlying securities in three segregated accounts at a qualified custodian bank (the "Custodian").

b. Sentinel obtained a loan, for its own benefit, from the Custodian and established a collateral account at the Custodian to maintain securities pledged as collateral for this loan. During the relevant period, the loan from the Custodian to Sentinel was similar to a line of credit in that it fluctuated on a daily basis. The outstanding balance of the loan grew significantly from when Altschuler first began performing Advisers Act surprise examinations for Sentinel to the days leading up to Sentinel's bankruptcy. For example, the loan balance was approximately

---

<sup>5</sup> Advisory clients owned *pro-rata*, undivided interests in the Securities Pools.

\$20 million at December 31, 2002, approximately \$120 million at December 31, 2004, and approximately \$230 million at December 31, 2006. On August 20, 2007, the Commission filed an emergency enforcement action against Sentinel in the United States District Court in Illinois alleging multiple violations of the antifraud provisions of the Advisers Act. According to the Commission's complaint against Sentinel, Sentinel misused Securities Pools' securities to collateralize the loan. When Sentinel collapsed in August 2007, the Custodian claimed ownership of several hundred million dollars in Securities Pool securities that had been improperly held in Sentinel's account to collateralize the loan made by the Custodian to Sentinel for the benefit of Sentinel. On December 17, 2008, the court entered a judgment by consent against Sentinel permanently enjoining it from violating the antifraud provisions of the federal securities laws.

2. Altschuler's and Johnson's Unreasonable Advisers Act Surprise Examinations Caused Sentinel's Violations of the Custody Rule

a. Section 206(4) of the Advisers Act prohibits investment advisers from engaging in "any act, practice, or course of business which is fraudulent, deceptive, or manipulative," as defined by the Commission by rule. During the relevant period, Rule 206(4)-2 stated in pertinent part that it constitutes a fraudulent, deceptive, or manipulative act, practice or course of business within the meaning of Section 206(4) of the Advisers Act for any registered investment adviser to have custody of client funds or securities unless a qualified custodian or the adviser sends a quarterly account statement to each of the clients for which it maintains funds or securities, or to each beneficial owner of a pooled investment vehicle, identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during the period.<sup>6</sup> If the adviser sends the quarterly account statements itself, which Sentinel did, an independent public accountant generally must verify all of the funds and securities by actual examination at least once during each calendar year on a date chosen by the accountant without prior notice to the investment adviser (a "surprise examination").<sup>7</sup>

b. The Commission provided guidance for accountants conducting surprise examinations in Accounting Series Release No. 103<sup>8</sup> which indicates, among other things, that the accountant should express an opinion as to whether the investment adviser was in compliance with Rule 206(4)-2(a)(1) as of the examination date. Rule 206(4)-2(a)(1) requires, among other things, client assets of which the adviser has custody to be maintained by a qualified custodian (i) in a separate account for each client under that client's name or (ii) in accounts that contain only [the adviser's] clients' funds and securities, under [the adviser's] name as agent or trustee for the clients.

---

<sup>6</sup> Prior to the effectiveness of the 2003 amendments to Rule 206(4)-2, Rule 206(4)-2 was not materially different with regard to those parts of the rule relevant to the violations at issue in this matter.

<sup>7</sup> Rule 206(4)-2(b)(3) provided an exception from the surprise examination requirement for a pooled investment vehicle if certain criteria were met, including, among other things, a financial-statement audit of the pool. This provision, however, is not relevant here because the Securities Pools were not audited.

<sup>8</sup> *Statement of the Commission describing nature of examination required to be made of all funds and securities held by an investment adviser and the content of related accountant's certificate*, Accounting Series Release No. 103, Investment Advisers Act Release No. 201 (May 26, 1966) ("ASR No. 103").

c. During the relevant period, Sentinel was required to undergo surprise examinations by an independent public accountant.<sup>9</sup> To conduct an appropriate examination under Rule 206(4)-2, an accountant should have, among other things:<sup>10</sup>

- Confirmed all Securities Pool securities held by the Custodian.
- Reconciled *all* securities between the Custodian's records and the adviser's records of the client accounts.
- Conducted the examination by "*surprise*."
- Completed the surprise examination in accordance with U.S. Generally Accepted Auditing or Attestation Standards as established by the American Institute of Certified Public Accountants ("AICPA Attest Standards")(emphasis added).

d. Rule 206(4)-2 also states that the accountant is to transmit to the Commission, within 30 days after the completion of the examination, a certificate, attached to a Form ADV-E, stating that an examination of such funds and securities has been made, and describing the nature and extent of the examination.

e. The AICPA also provided guidance concerning the examination and reporting requirements of Rule 206(4)-2 in the AICPA Audit and Accounting Guide: *Audits of Investment Companies* ("AICPA Guide"). The AICPA Guide contained an illustrative attestation report for independent public accountants for surprise examinations performed pursuant to Rule 206(4)-2.<sup>11</sup> According to the AICPA Guide, the attestation report should, if applicable, include specific references to the following procedures performed by the independent accountant in connection with the surprise examination: (1) confirmation of all cash and securities held by a third party, such as a custodian bank or broker, in the name of the investment adviser as agent or trustee for clients; and (2) reconciliation of all such cash and securities to books and records of client accounts maintained by the investment adviser. These procedures were applicable to the Sentinel surprise examinations. Additionally, the illustrative attestation report contained an opinion on management's assertion regarding compliance with, among other things, Rule 206(4)-2(a)(1) based on the aforementioned procedures.

---

<sup>9</sup> Prior to Nov. 5, 2003, the Custody Rule required all registered advisers to have surprise examinations. *See* Advisers Act Release No. 2176 (Sept. 25, 2003) (amending the rule). Thus, Sentinel was required to have the Securities Pools' assets verified by surprise examination under the Custody Rule, as it existed prior to Nov. 5, 2003. It also was required to have surprise examinations after the rule's amendment in 2003 because it, not its custodian, sent account statements to the investors in the Securities Pools. *See* Rule 206(4)-2(a)(3)(iii) (the account statements required to be sent under Paragraph (a)(3)(ii) of the Rule must be sent to each beneficial owner of a pooled investment vehicle). The Commission amended Rule 206(4)-2 in December 2009 to require registered investment advisers with custody of client assets to have surprise examinations annually, subject to certain exceptions, as well as require that qualified custodians holding those assets send out account statements. *See* Advisers Act Release No. 2968 (Dec. 30, 2009). Unless otherwise noted, references to the Rule refer to its provisions as it existed prior to its most recent amendment.

<sup>10</sup> *See* Rule 206(4)-2; ASR No. 103 and Advisers Act Release No. 2176 (Sept. 25, 2003).

<sup>11</sup> *See, e.g.*, paragraph 11.12 of the AICPA Audit and Accounting Guide, *Audits of Investment Companies*, with conforming changes as of May 1, 2002.

f. While conducting these examinations, Altschuler and Johnson negligently failed to meet the AICPA attestation standard requiring “due professional care.” *See AT 101A.39 (AICPA 2002)*. For example, Johnson knew in 2002 of Sentinel’s loan from the Custodian. He also was informed that Sentinel regularly transferred securities, originally purchased for the Securities Pools, from segregated accounts held at the Custodian to Sentinel’s collateral account at the Custodian. In addition, Altschuler and Johnson obtained documents from the Custodian during each of the surprise examinations (e.g., collateral account statement confirmations from the Custodian) that reflected securities purportedly owned by the Securities Pools were held in Sentinel’s collateral account at the Custodian, which Johnson knew or should have known also contained Sentinel owned securities. Although the collateral account statements they received from the Custodian were in Sentinel’s name and the securities in the account were not marked for the benefit of the Securities Pools, Altschuler and Johnson included the securities in this account in their reconciliations of the Custodian’s records to the Adviser’s records. Altschuler and Johnson should have recognized that Sentinel was holding some securities purportedly owned by the Securities Pools in a Sentinel account at the Custodian and that such practice did not comply with Rule 206(4)-2(a)(1). Moreover, certain securities were shown in Sentinel’s records as being held in the Securities Pools’ segregated accounts, whereas such securities were shown in the Custodian’s records as being held only in Sentinel’s collateral account. The examination work papers further reveal that Altschuler and Johnson obtained certain schedules (including account statements of investors in the Securities Pools) that showed Sentinel was using as collateral for its loan certain Securities Pools’ securities which were maintained in Sentinel’s collateral account, commingled with Sentinel’s own assets.

g. Nonetheless, based primarily on oral statements from Sentinel’s management, Altschuler and Johnson had reached the conclusion that Sentinel owned the securities used to collateralize the loan, contrary to certain documentary evidence in the examination work papers and elsewhere, and therefore they failed to follow up adequately on the inconsistencies or to design procedures to discover whether the Securities Pools’ securities were being commingled.

h. In addition, from 2002-2006, Johnson (for every year other than 2004) and Altschuler issued unqualified attestation opinions that stated that Sentinel’s assertions regarding its compliance with Rule 206(4)-2(a)(1) for the examination periods were fairly stated in all material respects. However, as a result of procedures performed and evidence obtained, Altschuler and Johnson should have known that Sentinel was not complying with Rule 206(4)-2(a)(1) because Sentinel was commingling the Securities Pools’ securities in its collateral account. Therefore, Altschuler and/or Johnson should not have issued unqualified attestation opinions.

i. In addition, contrary to the Custody Rule, Altschuler and Johnson failed to conduct all of their examinations of Sentinel by surprise either by providing prior notice of the examination or in one instance allowing Sentinel to choose the date of the exam.

j. Finally, Johnson also failed to provide sufficient supervision to the Altschuler staff members that were tasked to complete the surprise examinations. Johnson billed only 1.5 hours a year on the examinations and during that time provided little apparent guidance to the staff members carrying out the examinations. Such inadequate guidance and poor supervision fall short of the requirement of the AICPA Attestation Standards’ first standard of field work that “assistants, if any, shall be properly supervised.” *See AT 101A.42 (AICPA 2002)*.

### 3. Altschuler and Johnson Engaged in Improper Professional Conduct

a. During the examinations of Sentinel from 2002 through 2006, the Respondents engaged in improper professional conduct.

b. During each examination conducted, the Respondents (1) failed to recognize that certain custodial-client securities (i.e., some of those of the Securities Pools) were held in accounts that did not comply with subparagraph (a)(1) of Rule 206(4)-2 because such securities were in Sentinel's collateral account which was not marked as for the benefit of the custodial clients (i.e., the Securities Pools); (2) failed to properly reconcile Sentinel's Securities Pool accounts to the account statements received directly from the Custodian; (3) inaccurately stated in their opinions that Sentinel complied with subparagraph (a)(1) of Rule 206(4)-2; (4) failed to conduct all of their examinations on a surprise basis; and (5) failed to file the examination report within 30 days of completing the examinations. The Respondents also failed to appreciate that heightened scrutiny was warranted in connection with their examinations of Sentinel because of the growing size of Sentinel's loan from the Custodian, which resulted in Sentinel transferring securities from the Securities Pools' segregated accounts to its collateral account to collateralize its loan.

c. The Respondents failed to conduct the examinations in accordance with the AICPA Attestation Standards, which are the professional standards applicable to the examinations performed under Advisers Act Rule 206(4)-2.

d. Section 4C of the Exchange Act and Rule 102(e)(1)(ii) provide that the Commission may censure or 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, Section 4C(b) and Rule 102(e)(1)(iv) define 'improper professional conduct' to include either of the following two types of negligent conduct:

(1) A single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant, or a person associated with a registered public accounting firm, knows, or should know, that heightened scrutiny is warranted, or

(2) Repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

### 4. **FINDINGS**

a. Based on the foregoing, the Commission finds that Altschuler and Johnson caused Sentinel's violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 thereunder.

b. Based on the foregoing, the Commission finds that Altschuler and Johnson engaged in improper professional conduct pursuant to Section 4C(b)(2) of the Exchange Act and 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 sanctions agreed to in the Respondents' Offers.

Accordingly, Pursuant to Sections 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and 4C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 102(e)(1)(ii) of the Commission's Rules of Practice, it is hereby ORDERED, effective immediately, that:

- A. Altschuler and Johnson shall cease and desist from causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 thereunder.
- B. Altschuler is censured.
- C. Johnson is denied the privilege of appearing or practicing before the Commission as an accountant.
- D. Altschuler shall within 7 days of the entry of this Order, pay disgorgement of \$18,700.00 in fees collected during the 2002 through 2006 Advisers Act examinations and prejudgment interest of \$5,476.00 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Altschuler as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to John Dugan, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, Boston, MA, 02110.

By the Commission.

Elizabeth M. Murphy  
Secretary



## Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934, Section 203(k) of the Investment Advisers Act of 1940 and Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), on the Respondents.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray  
Chief Administrative Law Judge  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-2557

Kevin B. Currid, Esq.  
Boston Regional Office  
Securities and Exchange Commission  
33 Arch Street, 23<sup>rd</sup> Floor  
Boston, MA 02110

Altschuler, Melvoin and Glasser LLP  
c/o R. Daniel O'Connor, Esq.  
Ropes & Gray LLP  
One International Place  
Boston, MA 02110-2624

R. Daniel O'Connor, Esq.  
Ropes & Gray LLP  
One International Place  
Boston, MA 02110-2624  
(Counsel for Altschuler, Melvoin and Glasser LLP)

G. Victor Johnson, II, CPA  
c/o Philip S. Khinda, Esq.  
Steptoe & Johnson LLP  
1330 Connecticut Avenue, NW  
Washington, DC 20036

Philip S. Khinda, Esq.  
Steptoe & Johnson LLP  
1330 Connecticut Avenue, NW  
Washington, DC 20036

(Counsel for G. Victor Johnson, II, CPA)