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$60,000 for failures in the 2017 audit of AAC Holdings.

Jason Bramwell • Sep. 26, 2023

BDO USA was fined $2 million and two of the firm's partners were fined a total of $60,000 by the Public Company Accounting Oversight Board (PCAOB) for failures in connection with the 2017 audit of AAC Holdings, which through its subsidiaries provides inpatient substance abuse treatment services, the audit regulator said on Tuesday.

The PCAOB found that BDO and Dallas-based assurance partner Kevin Olvera failed to properly evaluate three significant estimates that AAC used to value substantially all of its client-related revenue and accounts receivable. The PCAOB also said that

Michael Musick, another BDO assurance partner who is based in Nashville, failed to

during BDO's 2017 audit of AAC failed to adequately address those deficiencies.

During the third quarter of 2018, AAC found that it had collected far less on accounts receivable than expected and determined that it needed to restate its 2016 and 2017 financial statements. In the restatement, which was audited by BDO with Olvera serving as the focused consulting reviewer, AAC corrected errors related to its estimate of accounts receivable, net of the allowance for doubtful accounts, according to the PCAOB.

The restatement reduced AAC's reported accounts receivable by $41.3 million, or 47%, and $30.3 million, or 32%, as of year-end 2016 and 2017, respectively. These adjustments in accounts receivable reduced reported assets by 11% and 7% as of the same dates. The restatement also resulted in an increase to net loss of $20.6 million for 2016 and a reduction to net loss of $7.7 million for 2017, due mostly to a reduction in the provision for doubtful accounts.

Following the restatement, the New York Stock Exchange delisted AAC's stock in October 2019, when the company failed to maintain adequate market capitalization over a consecutive 30-day trading period. In June 2020, AAC filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code, according to the PCAOB.

"PCAOB standards call for auditors to evaluate and respond appropriately to the significant risks they encounter during an audit," Robert Rice, director of the PCAOB's Division of Enforcement and Investigations, said in a press release. "The respondents here repeatedly failed to meet these and other obligations, to the detriment of the investing public."

Without admitting or denying the PCAOB's findings, BDO, Olvera, and Musick agreed to a settlement. Along with the $2 million fine, BDO agreed to be censured. The PCAOB also censured Olvera, fined him $35,000, limited his ability to act in certain roles on audits for a one-year period, and required that he complete

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