



## ORDER

### II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents each have submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.

### III.

On the basis of Respondents' Offers, the Board finds<sup>1/</sup> that:

#### A. Respondents

1. Traci Jo Anderson is a public accounting firm located in Huntersville, North Carolina. At all relevant times, the Firm was licensed by the North Carolina State Board of Certified Public Accountant Examiners. The Firm, formed in 2003, is registered with the Board pursuant to Section 102 of the Act and Board Rules.

2. Anderson, 42, is and was at all relevant times a certified public accountant licensed by the North Carolina State Board of Certified Public Accountant Examiners (Certificate No. 30009) and the Florida Board of Accountancy (License No.

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<sup>1/</sup> The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding. The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondents' conduct described in this Order meets the condition set out in Section 105(c)(5), which provides that such sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.



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AC0029543), as well as the Firm's sole proprietor and an associated person of the Firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Prior to forming the Firm, Anderson had no experience with the audits of issuers. The Firm's professional staff during the relevant period consisted of Anderson and a certified public accountant who worked with the Firm as an independent contractor.

### B. Summary

3. This matter concerns Respondents' numerous and repeated violations of PCAOB rules and auditing standards in auditing the financial statements of HouseRaising, Inc. ("HouseRaising"), UpSNAP, Inc. ("UpSNAP"), and Envirosafe Corporation ("Envirosafe"). As detailed below, Respondents failed to comply with PCAOB auditing standards during the audit of the financial statements of these issuer clients.<sup>2/</sup>

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<sup>2/</sup> The Firm has been the subject of two PCAOB inspections – the first between November 2006 and January 2007 ("2006 Board Inspection"), and the second in October 2008 ("2008 Board Inspection"). Following the first inspection, staff of the PCAOB's Division of Registration and Inspections ("Inspections staff") notified Respondents in writing of various audit deficiencies relating to the Firm's audits of HouseRaising and three other issuers, including the failure to perform sufficient procedures regarding the appropriate capitalization of software costs; the existence, completeness, and valuation of warrants; and the valuation of stock issued for services. Respondents' subsequent audit work for HouseRaising, UpSNAP, and Envirosafe reflected several deficiencies in these same audit areas. Also, the Board's April 24, 2008 report of its first inspection of the Firm specified certain defects in and criticisms of the Firm's quality control system, including the extent to which it provided reasonable assurance of technical competence, the exercise of due care or professional skepticism, the performance of audit procedures to test for evidence of possible material misstatements due to fraud, the identification of missing or incomplete financial statement disclosures, the conduct of all testing appropriate to a particular audit, and an effective arrangement for competent concurring partner reviews. Pursuant to Section 104(g) of the Act and PCAOB Rule 4009, Part II of that report was made public on July 7, 2009, following the Firm's failure to address those quality control defects and criticisms. Also, Part II of the report of the 2008 Board Inspection, issued June 29, 2009, was made public on August 2, 2010, following the Firm's failure to address the quality control defects and criticisms set out therein.

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4. Respondents violated PCAOB rules and auditing standards in auditing the fiscal year ("FY") 2006 financial statements of HouseRaising. These violations included failing to perform sufficient procedures related to (a) the capitalization of software costs, (b) the value of capitalized software, (c) outstanding and future warrants, (d) the value of stock issued for services, and (e) contract revenues. In addition, Respondents failed to prepare audit documentation as required by PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS3").

5. Respondents violated PCAOB rules and auditing standards in auditing the FY 2007 and FY 2009 financial statements of UpSNAP. These violations included failing to perform sufficient procedures related to (a) certain assets and liabilities, (b) the value of goodwill, and (c) the value of stock issued for services. In addition, Respondents failed to prepare audit documentation as required by AS3.

6. Respondents violated PCAOB rules and auditing standards in auditing the FY 2006 and FY 2007 financial statements of Envirosafe. Respondents failed to adequately test the valuation of stock issued for services. In addition, Respondents failed to prepare audit documentation as required by AS3.

### **C. Respondents Violated PCAOB Rules and Auditing Standards**

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards and related professional practice standards.<sup>3/</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>4/</sup> Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.<sup>5/</sup> An auditor must also prepare audit documentation in sufficient

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<sup>3/</sup> See PCAOB Rules 3100, 3200T.

<sup>4/</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>5/</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; and AU § 326, *Evidential Matter*.

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detail to provide a clear understanding of its purpose, source, and the conclusions reached.<sup>6/</sup> In addition, the auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions, and clearly demonstrate that the work was in fact performed.<sup>7/</sup>

### **Audit of HouseRaising, Inc.'s FY 2006 Financial Statements**

8. At all relevant times, HouseRaising was a Delaware corporation headquartered in Charlotte, North Carolina. Its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") and was quoted on the OTC Bulletin Board and the Pink Sheets. HouseRaising's public filings disclose that it was in the business of selling, designing, and managing design/build and renovation projects and homebuilding solutions in the residential homebuilding market for homebuyers and homebuilders. At all relevant times, HouseRaising was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).<sup>8/</sup>

9. In September 2004, HouseRaising engaged Respondents to perform a review of its financial statements for the quarter ended June 30, 2004, and later to audit its financial statements for FY 2004 and for subsequent years. Respondents issued an audit report dated April 2, 2007 (included in HouseRaising's Form 10-KSB filed with the Commission on April 3, 2007). The report stated that the audit was conducted in accordance with PCAOB standards, expressed an unqualified audit opinion, and stated that, in the Firm's opinion, the company's financial statements were fairly presented in

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<sup>6/</sup> See AS3, paragraph 4.

<sup>7/</sup> See AS3, paragraph 6.

<sup>8/</sup> On February 21, 2008, HouseRaising disclosed in a Form 8-K filed with the Commission that its Board of Directors had authorized the filing of a voluntary petition for relief under Chapter 7 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of North Carolina and that it would "continue operating until the filing has been made." This was HouseRaising's last filing with the U.S. Securities and Exchange Commission ("Commission").

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all material respects in conformity with U.S. Generally Accepted Accounting Principles ("GAAP").<sup>9/</sup>

### Capitalized Software

10. HouseRaising disclosed capitalized software in the amount of \$13,722,956 as of December 31, 2006, representing approximately 92% of total assets. HouseRaising disclosed that its capitalized software assets included "certain external direct costs of materials and services consumed in developing internal-use software (System C) for home plans and designs, and operating systems and policies for homebuilders."<sup>10/</sup>

11. Respondents identified capitalized software as an audit area that presented significant risk, and identified "overstating the valuation of capitalized software" as a fraud risk. Respondents nevertheless failed to perform sufficient procedures to determine (a) whether software costs were appropriately capitalized, and (b) whether capitalized software was fairly valued.

12. Respondents understood that HouseRaising was capitalizing its software development costs pursuant to AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). SOP 98-1 applies to software developed to meet the entity's internal needs, not to software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process.<sup>11/</sup> Respondents failed to adequately evaluate evidence regarding

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<sup>9/</sup> The Firm's April 2, 2007 report was also included in HouseRaising's Form 10-KSB/A for the year ended December 31, 2006, filed with the Commission on February 6, 2008.

<sup>10/</sup> HouseRaising FY 2006 Form 10-KSB, filed April 3, 2007, at 18.

<sup>11/</sup> SOP 98-1, paragraphs 6-8, 12-13. The accounting of costs in developing software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process is set out in Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* ("SFAS No. 86."). See SOP 98-1, paragraphs 6, 15; SFAS No. 86, paragraph 2.

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whether System C was developed solely to meet HouseRaising's internal needs. For example, Respondents obtained documentation from HouseRaising's management indicating that HouseRaising intended to market System C to homeowners and homebuilders for a fee. Respondents were aware of the company's disclosure that it had signed agreements to give homebuilders access to System C. Respondents also obtained from HouseRaising's management a marketing plan related to System C. Respondents failed to evaluate this audit evidence or otherwise obtain sufficient competent evidence that HouseRaising had capitalized its software costs in conformity with GAAP.

13. Respondents also failed to perform sufficient procedures concerning the stage of System C's development. Other than rely on management's representations, Respondents failed to gather sufficient competent evidence that System C was in the application development stage.<sup>12/</sup>

14. HouseRaising capitalized approximately \$3 million in software development costs in FY 2006. These capitalized costs included cash payments and stock issuances for services provided. Respondents identified the recipients of such payments and issuances, but failed to obtain sufficient competent audit evidence concerning whether these individuals performed work related to System C or, if so, what proportion of their work related to System C.

15. Respondents failed to perform procedures to test the value of HouseRaising's capitalized software. Respondents communicated to management the possibility of impairment and recommended that System C be appraised, but failed to do anything to determine whether an impairment analysis or appraisal was performed,

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<sup>12/</sup> See AU § 333, *Management Representations*. SOP 98-1 identifies three stages of computer software development: preliminary project stage, application development stage, and post-implementation/operation stage. See SOP 98-1, paragraphs 17-23. Internal and external costs incurred to develop internal-use software during the application development stage should be capitalized pursuant to SOP 98-1. See SOP 98-1, paragraph 21. Internal and external costs incurred during the preliminary project and post-implementation/operation stages should be expensed as they are incurred. Id. at paragraphs 20, 23.

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to perform an impairment analysis, or to otherwise test the valuation of HouseRaising's capitalized software.

### Warrants

16. HouseRaising's FY 2006 financial statements disclosed the issuance or future issuance of 23,077,393 warrants. Those warrants represented the rights to acquire shares of common stock totaling approximately 45 percent of the number of common stock shares outstanding. Respondents identified warrants and their proper presentation as a significant issue in their audit of HouseRaising's FY 2006 financial statements. Respondents nevertheless failed to obtain sufficient competent audit evidence concerning the issuance, existence, completeness, or valuation of the warrants disclosed by HouseRaising. Respondents reviewed a shareholder list compiled by HouseRaising's stock transfer agent, but that list reflected holdings of outstanding shares, not issuances or holdings of outstanding warrants. Respondents also failed to gather sufficient competent evidence to determine the adequacy of HouseRaising's disclosures concerning warrants.<sup>13/</sup>

### Stock for Services

17. HouseRaising disclosed the issuance in FY 2006 of \$2,172,653 in common stock and warrants for services, an amount equaling approximately 21% of total stockholders' equity as of December 31, 2006.

18. Respondents identified stock for services as a significant issue for the audit, and expense accounts tied to stock compensation as an audit area that presented significant risk and for which "[b]asic procedures plus selected extended procedures" were appropriate. Respondents nevertheless failed to determine whether HouseRaising's disclosure concerning stock issued for services in its Form 10-KSB for FY 2006 complied with GAAP. SFAS 123(R), paragraph 64, states: "An entity with one or more share-based payment arrangements shall disclose information that enables users of the financial statements to understand: a. The nature and terms of such arrangements that existed during the period and the potential effects of those arrangements on shareholders b. The effect of compensation cost arising from share-

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<sup>13/</sup> See AU § 431, *Adequacy of Disclosure in Financial Statements*.

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based payment arrangements on the income statement c. The method of estimating the fair value of the goods or services received, or the fair value of the equity instruments granted (or offered to grant), during the period d. The cash flow effects resulting from share-based payment arrangements."<sup>14/</sup> HouseRaising failed to disclose such information in its FY 2006 Form 10-KSB. Respondents failed to identify or address the deficiency with the disclosure.<sup>15/</sup> HouseRaising subsequently received comment letters from the Commission concerning, in part, the adequacy of its disclosures concerning stock issued for services. HouseRaising thereafter filed a Form 10-KSB/A containing, among other things, restated disclosures relating to stock issued for services in FY 2006. Respondents failed to perform any procedures concerning the additional disclosures in the amended filing.<sup>16/</sup>

### Revenue Recognition

19. HouseRaising's FY 2006 financial statements disclosed \$1,249,221 in sales and \$270,520 in gross profit from sales. HouseRaising also reported a net loss of \$2,999,358 in FY 2006. Respondents identified revenue recognition as a significant issue and as an area of HouseRaising's financial statements that might be susceptible to material misstatement due to fraud. Respondents nevertheless failed to obtain sufficient competent evidence concerning amounts recognized as revenue by HouseRaising in FY 2006.

20. Approximately 88% of HouseRaising's sales in FY 2006 consisted of revenue from construction contracts. HouseRaising's FY 2006 financial statements disclosed that revenues and profits from the general management of construction contracts were recognized using the completed-contract method of accounting.<sup>17/</sup>

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<sup>14/</sup> Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, paragraph 64.

<sup>15/</sup> See AU § 431.

<sup>16/</sup> See id.

<sup>17/</sup> See AICPA Statement of Position 81-1 ("SOP 81-1"), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.

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Respondents simply accepted management's representation that the use of the completed-contract method was appropriate without doing further work or analysis of the appropriateness of the accounting treatment.<sup>18/</sup> Respondents did not consider whether the alternative accounting method, specifically the percentage-of-completion method, was more appropriate in the circumstances. The percentage-of-completion method is preferable as an accounting policy under certain conditions<sup>19/</sup> and in circumstances in which reasonably dependable estimates can be made, and there is a presumption that entities in the contracting business have the ability to make estimates that are sufficiently dependable to justify the use of percentage-of-completion.<sup>20/</sup> Persuasive evidence to the contrary is necessary to overcome that presumption.<sup>21/</sup> Respondents did nothing to determine whether management's representation complied with the accounting guidance or whether the presumption in favor of percentage-of-completion was overcome. The completed-contract method may be used "as an entity's basic accounting policy in circumstances in which financial position and results of operations would not vary materially from those resulting from use of the percentage-of-completion method."<sup>22/</sup> Respondents did nothing to quantify or compare the results of the two methods.

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<sup>18/</sup> See AU § 333.

<sup>19/</sup> SOP 81-1, paragraph 23.

<sup>20/</sup> Id., paragraph 24.

<sup>21/</sup> Id.

<sup>22/</sup> Id., paragraph 31.



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### Audit Documentation

21. Respondents failed to comply with the requirement of AS3 that audit documentation contain sufficient information to provide an understanding of the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached and to clearly demonstrate that the work was in fact performed. Respondents failed to document audit procedures performed and evidence obtained in virtually every area of the audit, including those areas Respondents identified as involving significant audit risk.<sup>23/</sup>

### **Audit of UpSNAP Inc.'s FY 2007 and FY 2009 Financial Statements**

22. UpSNAP was a Nevada corporation headquartered in Davidson, North Carolina until September 2008, when it moved its headquarters to Alberta, Canada. At all relevant times, UpSNAP's common stock was registered under Section 12(g) of the Exchange Act and was quoted on the OTC Bulletin Board and the Pink Sheets. UpSNAP's public filings disclosed that the company was in the business of developing and distributing mobile search and entertainment platforms and content until September 2008, and thereafter, in the business of building and manufacturing homes, modular sites, ready-to-move homes, and modular camp sites in Canada. At all relevant times, UpSNAP was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

23. In January 2007, UpSNAP engaged Respondents to audit UpSNAP's FY 2007 financial statements. UpSNAP renewed its engagement of Respondents in April 2009 to audit its FY 2009 financial statements.<sup>24/</sup> Respondents issued audit reports on UpSNAP's financial statements dated December 17, 2007 (included in UpSNAP's Form 10-KSB filed with the Commission on January 15, 2008) and May 14, 2009 (included in UpSNAP's Form 10-K filed with the Commission on May 18, 2009). Each report stated that the audit was conducted in accordance with PCAOB standards, expressed an

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<sup>23/</sup> AS3, paragraphs 4, 6.

<sup>24/</sup> UpSNAP's 2007 fiscal year ended September 30, 2007. UpSNAP then changed its fiscal year, such that the next one ended January 31, 2009.

## ORDER

unqualified audit opinion, and stated that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP.<sup>25/</sup>

### FY 2007 Audit

24. As reflected in their audit report, Respondents audited UpSNAP's balance sheet as of September 30, 2007 and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income, and cash flows for the years ended September 30, 2007 and 2006. Those financial statements reflected certain assets acquired and liabilities assumed by UpSNAP in an acquisition on January 6, 2006 of a company known as XSVoice, Inc. for an aggregate purchase price of \$6,393,223. Respondents failed to obtain sufficient competent evidence to determine existence, valuation, or completeness of the assets acquired and liabilities assumed by UpSNAP.<sup>26/</sup> Respondents also failed to perform procedures to test the allocation of UpSNAP's purchase price to those assets and liabilities.

25. UpSNAP's FY 2007 financial statements disclosed goodwill in the amount of \$4,677,862 as of September 30, 2007. Goodwill constituted approximately 77% of UpSNAP's total assets.<sup>27/</sup> Respondents identified valuation and impairment of goodwill as business and fraud risks. UpSNAP's management performed an impairment analysis of the goodwill by calculating the present value of UpSNAP's expected future cash flows over thirty years based on certain assumptions including an undiscounted cash flow in Year 1 of \$900,000. Management concluded goodwill was not impaired after determining that the present value exceeded the carrying amount of goodwill. Respondents failed to perform any procedures to determine the source or

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<sup>25/</sup> Each audit report included an explanatory paragraph noting circumstances that raised substantial doubt about UpSNAP's ability to continue as a going concern.

<sup>26/</sup> Respondents failed to do so even after deciding not to inspect the predecessor auditor's work papers for cost reasons and determining instead to perform "additional procedures" in order to obtain "comfort" with UpSNAP's financial position, results of operations, and cash flows in previous years.

<sup>27/</sup> UpSNAP wrote off goodwill to zero in its interim financial statements for the quarter ended March 31, 2008.



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reliability of the assumptions underlying management's cash flow projection or whether those assumptions were reasonable.<sup>28/</sup> Respondents also failed to obtain an understanding of how management developed its cash flow projection.<sup>29/</sup> Respondents failed to evaluate whether the underlying assumptions were realistic and consistent with relevant factors including UpSNAP's economic circumstances and the risk associated with cash flows.<sup>30/</sup> For example, UpSNAP reported net losses in FY 2007 of \$1,102,365 and in FY 2006 of \$1,788,068, yet Respondents failed to evaluate the reasonableness of UpSNAP's assumption that the undiscounted cash flow in Year 1 of its impairment analysis would equal \$900,000. As a result, Respondents failed to obtain sufficient competent evidential matter to provide them with a reasonable basis for forming an opinion concerning goodwill.<sup>31/</sup>

26. In addition, Respondents failed to evaluate whether UpSNAP's critical accounting policy concerning valuation and impairment of goodwill complied with GAAP. UpSNAP disclosed among the "Critical Accounting Estimates and Policies" in its Form 10-KSB for FY 2007 that it reviewed the carrying value of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.<sup>32/</sup> Respondents understood that one of UpSNAP's critical accounting policies was the valuation of goodwill in accordance with SFAS No. 144. However,

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<sup>28/</sup> See AU § 342.04, *Auditing Accounting Estimates*; § 342.11.

<sup>29/</sup> See AU § 342.10.

<sup>30/</sup> See AU § 328.36, *Auditing Fair Value Measurements and Disclosures* ("To be reasonable, the assumptions on which the fair value measurements are based (for example, the discount rate used in calculating the present value of future cash flows), individually and taken as a whole, need to be realistic and consistent with" several listed factors including "the entity's economic circumstances" and "[t]he risk associated with cash flows, if applicable, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate.").

<sup>31/</sup> See AU § 326.22.

<sup>32/</sup> UpSNAP FY 2007 Form 10-KSB, filed January 15, 2008, at 21.

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Respondents failed to assess whether SFAS No. 144, which does not apply to goodwill, applied to the company's valuation of goodwill.<sup>33/</sup>

27. Respondents failed to comply with the requirement of AS3 that audit documentation demonstrate that the underlying accounting records agreed or reconciled with UpSNAP's FY 2007 financial statements.<sup>34/</sup> Respondents' audit documentation did not demonstrate that UpSNAP's underlying accounting records agreed or reconciled with the amounts disclosed in the cash flow statement or in the footnotes to the financial statements.

### **FY 2009 Audit**

28. UpSNAP disclosed \$431,653 in shares issued for equipment and \$592,435 in conversion of shareholder loans to equity in FY 2009. UpSNAP also disclosed a total balance of stockholder's deficit of \$121,429 as of January 31, 2009. Respondents did not obtain sufficient evidence to determine whether these stock issuances were appropriately valued or disclosed. Respondents' work papers concerning those items included only an audit program with various descriptions of procedures initialed, certain general ledger entries, a management schedule, and excerpts from the financial statements and footnotes being audited.

29. Respondents failed to comply with the requirement of AS3 that audit documentation demonstrate that the underlying accounting records agreed or reconciled with UpSNAP's FY 2009 financial statements.<sup>35/</sup> Respondents' audit documentation did not demonstrate that UpSNAP's underlying accounting records agreed or reconciled with the amounts disclosed in the cash flow statement or in the footnotes to the financial statements.

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<sup>33/</sup> Respondents failed to consider the applicability or content of SFAS No. 142, *Goodwill and Other Intangible Assets*, or its requirement that "Goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit." See SFAS No. 142, paragraph 18.

<sup>34/</sup> See AS3, paragraph 5(c).

<sup>35/</sup> Id.

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### **Audits of Envirosafe Corporation's FY 2006 and FY 2007 Financial Statements**

30. Envirosafe was a Delaware corporation headquartered in Germantown, Maryland until early 2008, when it moved its headquarters to Guangzhou, People's Republic of China, and changed its name to China Education Technology Inc. At all relevant times, Envirosafe's common stock was registered under Section 12(g) of the Exchange Act and was quoted on the OTC Bulletin Board and the Pink Sheets. Envirosafe's public filings disclosed that before March 2008, it was in the business of manufacturing and selling healthcare/germicidal cleaning and bioremediation products, then ceased its existing business activities and began seeking a business combination, and that following March 2008, it was in the business of developing and selling educational and technology applications. At all relevant times, Envirosafe was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

31. In February 2006, Envirosafe engaged Respondents to audit its FY 2005 financial statements, and later its FY 2006 and FY 2007 financial statements as well. Respondents issued audit reports dated March 20, 2007 (included in Envirosafe's Form 10-KSB filed with the Commission on March 23, 2007) and April 10, 2008 (included in Envirosafe's Form 10-KSB filed with the Commission on April 11, 2008). Each report stated that the audit was conducted in accordance with PCAOB standards, expressed an unqualified audit opinion, and stated that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP.<sup>36/</sup>

### **FY 2006 Audit**

32. Envirosafe's FY 2006 financial statements disclosed the issuance of 106,200,000 shares of common stock for services in FY 2006, over one-third of the 299,375,000 shares of Envirosafe common stock outstanding as of December 31, 2006. Those shares were reflected in Envirosafe's FY 2006 financial statements in the amount of \$1,156,376. Envirosafe disclosed in its Form 10-KSB for FY 2006 that trading in its

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<sup>36/</sup> Each audit report included an explanatory paragraph noting circumstances that raised substantial doubt about Envirosafe's ability to continue as a going concern. The Firm's April 10, 2008 audit report was also included with Envirosafe's Forms 10-K/A filed with the Commission on August 13, 2008 and August 29, 2008.

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common stock had been "limited and sporadic" and that any market price for shares of its common stock "is likely to be very volatile." Respondents completed a "Fraud Risk Information Form" identifying valuation of stock compensation as an area of Envirosafe's financial statements that might be susceptible to material misstatement due to fraud, and "[v]alue of stock" as a means by which Envirosafe's "management could perpetrate and conceal fraudulent financial reporting." Respondents also completed a "Business Risk Identification and Planning Form" identifying stock based compensation as a risk related to the nature of the company's expenses. Respondents nevertheless failed to perform sufficient procedures to test the valuation of the stock issued for services.

### FY 2007 Audit

33. Envirosafe's FY 2007 financial statements disclosed the issuance of 1,143,458 shares of common stock for services in FY 2007, which constituted more than half of the 2,141,375 shares of Envirosafe common stock outstanding as of December 31, 2007.<sup>37/</sup> Those shares were recorded in Envirosafe's 2007 financial statements in the amount of \$357,774. Envirosafe disclosed in its Form 10-KSB for FY 2007 that trading in its common stock had been "limited and sporadic" and that any market price for shares of its common stock "is likely to be very volatile." Respondents completed a "Client Information Form" identifying "stock for compensation" as the subject of one of Envirosafe's significant accounting policies, and identified the same item as a "company agreement that has audit significance." Respondents also identified equity and stock compensation as a business risk related to Envirosafe's financing sources, valuation of stock compensation as an area of Envirosafe's financial statements that might be susceptible to material misstatement due to fraud, and "[v]alue of stock" as a means by which "management could perpetrate and conceal fraudulent financial reporting."

34. Respondents nevertheless failed to gather sufficient competent evidence to determine the valuation of that stock issued for services. Envirosafe issued stock for services in FY 2007 to at least one employee, Envirosafe's then CEO, and to multiple non-employees. With respect to stock issued to Envirosafe's CEO, Respondents failed

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<sup>37/</sup> Envirosafe authorized in FY 2007 a 300 for 1 reverse stock split of all its shares.

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to obtain competent evidence regarding the fair value of the stock or otherwise test management's valuation of that stock. With respect to stock issued to non-employees, Respondents failed to evaluate which of the fair value of the stock issued or of the services received was more reliably measurable. Respondents also failed to obtain evidence of either fair value of stock issued to or services received by non-employees, except to obtain a copy of a single contract between Envirosafe and one of the non-employee recipients without testing the price per share specified in that contract, or to otherwise test management's valuation of the stock issued to them.<sup>38/</sup>

35. Respondents failed to comply with the requirement of AS3 that audit documentation demonstrate that the underlying accounting records agreed or reconciled with Envirosafe's FY 2007 financial statements.<sup>39/</sup> Respondents' audit documentation did not demonstrate that Envirosafe's underlying accounting records agreed or reconciled with the amounts disclosed in the cash flow statement or in the footnotes to the financial statements.

## IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

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<sup>38/</sup> SFAS No. 123(R), *Share-Based Payment*, provides that a share-based payment transaction with employees shall be measured based on the fair value of the equity instruments issued. SFAS No. 123(R), paragraph 7. SFAS No. 123(R) also provides that a share-based payment transaction with non-employees shall be measured based on which is more reliably measurable: the fair value of the equity instruments issued, or the fair value of goods or services received. *Id.*

<sup>39/</sup> See AS3, paragraph 5(c).

**ORDER**

- A. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Traci Jo Anderson is revoked; and
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Traci Jo Anderson, CPA is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

ISSUED BY THE BOARD.

/s/ J. Gordon Seymour

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J. Gordon Seymour  
Secretary

August 12, 2010