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## **Inspection of Jaspers + Hall, PC**

**Issued by the  
Public Company Accounting Oversight Board  
January 25, 2007**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED  
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH  
SECTIONS 104(g)(2) AND 105(b)(5)(A)  
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2007-007A  
(Includes portions of Part II of the full report that  
were not included in PCAOB Release No. 104-2007-007)



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.



## INSPECTION OF JASPERS + HALL, PC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Jaspers + Hall, PC ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from October 24, 2005 to October 28, 2005 and November 17, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	2 (Colorado Springs and Denver, Colorado)
Ownership structure	Professional corporation
Number of partners	2
Number of professional staff <sup>3/</sup>	3
Number of issuer audit clients <sup>4/</sup>	28

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm. This number excludes one non-employee contract staff who performs significant work on the audits of some of the Firm's issuer audit clients.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.<sup>5/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of five of the Firm's audits of the financial statements of issuers. Those audits and aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.<sup>6/</sup> The deficiencies identified in five of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

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<sup>5/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>6/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

- (1) the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the classification of a goodwill impairment charge and the classification of a due-on-demand line of credit;
- (2) the failure to perform and document adequate procedures related to revenue, deferred revenue, or related reserves for three issuers;
- (3) the failure to perform and document adequate procedures related to business combinations for two issuers;
- (4) the failure to perform and document adequate procedures related to inventory for two issuers;
- (5) the failure to perform and document adequate procedures related to equity transactions for two issuers; and
- (6) the failure to perform and document adequate procedures related to fixed assets for one issuer.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED  
FROM THIS PUBLIC DOCUMENT

## PART II

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### B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.<sup>7/</sup> On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

#### 1. Personnel Management

The Firm's system of quality control appears not to provide reasonable assurance that the staff and partners of the Firm possess the necessary competencies and proficiency to perform audits of public companies. Professional standards require that a practitioner in-charge of an audit engagement possess the necessary competencies to perform that engagement and that work is assigned to personnel having the degree of technical training and proficiency to perform the work competently. A practitioner in-charge of, and those assigned to an audit of, the financial statements of a public company are expected to have certain technical proficiency in SEC reporting requirements and SEC rules and regulations. Such knowledge and skills should generally be obtained through recent experience and supplemented by continuing professional education ("CPE"), but may be obtained through appropriate CPE and consultation with practitioners who possess relevant knowledge of SEC rules and regulations.

The inspection team obtained documentation of CPE from the Firm for 2004 and 2005. Although the Firm began issuing audit reports on issuers in March 2005, the

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<sup>7/</sup> A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

Firm's staff who were assigned to the audits of issuers, and one of the partners who served as the partner-in-charge of some issuer audits, had no CPE related to independence, auditing, accounting or SEC subject matters until September 2005. Based upon discussions with the Firm's partners, before 2005, one of the Firm's partners had no experience auditing public companies and the other had not worked on an audit of a public company since he was a staff accountant in the 1970's.

## 2. Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects—

### a. Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism. In addition to the deficiencies noted in Part II.A, the inspection team reported mathematical and other errors in the financial statements of three of the engagements reviewed, [Issuers B, D and E] and that, in four of the engagements, the Firm's audit procedures related to certain assertions consisted primarily or exclusively of inquiries of management, with little or no corroborating evidence. [Issuers A, B, C and E]

### b. Documentation

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will adequately document its audit work. The Firm responded to many inspection team comments by indicating that the primary, and in some cases the only, evidence of the performance of the tests was signed audit program steps. The Firm's audit work papers should be sufficient to enable supervisory members of the Firm to understand the nature, timing, extent, and results of the audit procedures performed and the evidence obtained. Although there may be circumstances when a sufficiently detailed audit step on an audit program will adequately document the evidence obtained from the procedure, such instances generally are rare. In the circumstances observed

by the inspection team, the sign-offs were not an adequate indication of the procedures performed and evidence obtained. [Issuers A through E]

c. Auditor Communications

The Firm's system of quality control does not provide sufficient assurance that the Firm will make or document all required auditor communications with audit committees, including making independence confirmations required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and formally documenting communications with audit committees. [Issuers A through E]

d. Appropriate Procedures

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will conduct all testing appropriate to a particular audit. The information reported by the inspection team suggests an apparent pattern of failures to perform the appropriate procedures related to the testing of revenue [Issuers B, D and E], inventory [Issuers B and D], equity transactions [Issuers D and E], and business combinations [Issuers A and C].

e. Concurring Partner Review

The Firm was not subject to the concurring partner review requirement in the Board's interim standards; however, the Firm's system of quality control requires a concurring partner review on audits of the financial statements of issuers. Questions exist about the effectiveness of the Firm's existing arrangement for concurring partner reviews. Having procedures for concurring partner review by a competent reviewer is an important element of quality control. Such reviews should involve the performance of appropriate procedures using due care and professional skepticism, with the Firm appropriately addressing the reviewer's findings and documenting the process. The information reported by the inspection team suggests that there is no evidence that the concurring partner review procedure used by the Firm resulted in the identification of any of the deficiencies noted by the inspection team. This may result from a lack of competency, due care or professional skepticism on the part of the concurring partners; deficiencies in the scope of the concurring partners' procedures; and/or the Firm's failure to properly address the concurring partner findings. Apparent deficiencies in documentation of the scope and results of the concurring partners' reviews preclude the

Board from determining the relative contribution of each of these potential causes to the failure of the concurring partner process to prevent the deficiencies reported by the inspection team.

3. Independence

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will comply with independence requirements. As described in Part II.C below, the inspection team reported information indicating that the Firm may not have been independent of one of its issuer clients within the meaning of the Commission's independence requirements. [Issuer C]

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## **PART IV**

### **RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

**JASPERS + HALL, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  

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**9175 E. Kenyon Avenue, Suite 100**  
**Denver, CO 80237**  
**303-796-0099**

October 16, 2006

George H. Diacont  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006

Re: Draft Report of Inspection

Dear Mr. Diacont:

This letter is in response to your draft report dated September 19, 2006 which we received September 20, 2006. We have taken the comments as shown on the draft report seriously, as we took seriously the inspection comment forms. We are committed to taking the steps necessary to continuously improve the quality of our audit documentation and the entire audit process such that we can demonstrate that we have met the required professional standards. We are thoroughly evaluating all aspects of the draft report and are taking appropriate steps to ensure that our audit practice meets the highest professional standards.

With respect to the inspection teams comment that our work papers do not sufficiently support our audit conclusions, we would like to mention that we have audited subsequent years for most of the entities inspected and nothing came to our attention that would indicate that the audit reports issued were not appropriate or which resulted in any changes to the previously issued financial statements (for the entity not subsequently audited, the following steps were also taken to support our opinion). In response to the inspection team's comments and in accordance with AU 390, *Consideration of Omitted Procedures After the Report*, we have prepared additional currently dated work papers to address the documentation issues raised by the inspection team. Accordingly, we believe that we have the present ability to support our previously issued opinions.

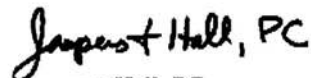
As part of our ongoing effort to improve our audit procedures and in response to the comments from the PCAOB inspection team we are evaluating our documentation policies to ensure we are meeting professional standards. In addition, we are undertaking the appropriate continuing professional education training to ensure that our audit processes and documentation is consistent with current professional standards.

Audit procedures and documentation are a matter of professional judgment. Repeatedly during the course of the inspection, the inspection team stated clearly to us that the major flaw they had found in their experience in inspecting small firms like ours auditing small entities was that the auditors performed adequate audit procedures but did not document all the work performed. While we have added to the documentation for the inspected engagements, we have also changed or audit documentation procedures to reflect the comments from the inspection team for our ongoing engagements.

We appreciate the opportunity to respond the report and are available to provide any further clarification the PCAOB may require.

Jaspers + Hall, PC is committed to meeting the audit quality expected by the PCAOB and we are evaluating the comments identified in Part II of the report. As such, we will respond to Part II of the report under separate cover,

Yours truly,

  
Jaspers + Hall, PC