

**Inspection of
Bouwhuis, Morrill & Company, LLC
(Headquartered in Layton, Utah)**

Issued by the
Public Company Accounting Oversight Board
July 30, 2009

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**



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 U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure 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 or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



INSPECTION OF BOUWHUIS, MORRILL & COMPANY, LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Bouwhuis, Morrill & Company, LLC ("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.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} 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.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. 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 routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

^{2/} 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 primary procedures for the inspection from February 15, 2007 to February 27, 2007. These procedures were 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	1 (Layton, Utah)
Ownership structure	Limited liability company
Number of partners	2
Number of professional staff ^{3/}	1
Number of issuer audit clients ^{4/}	9

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{5/} To achieve that goal, Board

^{3/} "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.

^{4/} 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 some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

^{5/} This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

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.

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.^{6/} 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 inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.^{7/} The deficiencies identified in one of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient

^{6/} 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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{7/} 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.

competent evidential matter to support its opinion on the issuer's financial statements.^{8/}
Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the accounting for a business combination; and
- (2) the failure to test the valuation of goodwill.

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

^{8/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

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 Firm provided a written response to a draft of this 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.^{9/}

^{9/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

**BOUWHUIS MORRILL & COMPANY** LLC

MEMBER: AICPA

Certified Public Accountants

Professional Advisors & Accountants

May 20, 2009

Mr. George H. Diacont, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

RE: Response to Part I of the Draft Report of Inspection of Bouwhuis, Morrill & Company

Dear Mr. Diacont

Bouwhuis, Morrill & Company, LLC ("BMC") is pleased to submit its response to the Public Company Accounting Oversight Board's (the "Board" or "PCAOB") draft of its report on the Inspection of Bouwhuis, Morrill & Company, LLC (the "Draft Report") dated April 20, 2009. We respect the efforts of the Board in this inspection process. We believe the Board's well-thought comments and observations enhance our ability to achieve our shared goal of improving audit quality. This letter represents our response to the public portion of the Draft Report. We request that this letter be made part of the final report.

Please note that Bouwhuis, Morrill & Company has, on February 5, 2009 and prior to the receipt of the Draft Report, filed Form 1-WD with the Board to request withdrawal of its registration with the PCAOB which request was granted effective March 31, 2009.

Notwithstanding, BMC is dedicated and committed to the highest standard of audit quality and we have continually monitored our systems and processes for our audit practice and made changes to our policies and procedures as appropriate. We also do this as a part of our annual internal inspections. We believe that we have thoroughly considered the Board's comments and concerns addressed in the Draft Report.

We are a small firm and, prior to our withdrawal from registration, serviced what we would call micro-cap companies. We have evaluated the matters identified by the Board's inspection team as described in Part I of the Draft Report and have the following comments regarding the inspection and the Draft Report:

- First we would like to express our disappointment with regards to the inspection team's scheduling of our inspection during the height of busy season. This made both inspection process and busy season unduly difficult for a small firm like BMC.
- In the cases of both companies selected for inspection, the year reported on and inspected constituted the final audit engagement we performed for these client's. We have been unable to make contact with either client since and both companies have ceased making any securities filings.
- With regards to the inspection team's noted Deficiency #1, we have reviewed the matter and agree with the inspection team's comment as it relates to the disclosure and financial statement presentation. As discussed above, we have not been able to make contact with the client since the commencement of the inspection. Therefore, as we have been unable to effectively communicate

this to them we will take the necessary steps to inform the SEC that the financial statement in question cannot be relied upon. We wish to point out that the issue identified related to the consolidation procedures applied by the client and that the error was in financial statement presentation and not to principle substantive audit procedures applied. This was essentially a "clerical" error on our part; however, this is not meant to minimize the error's occurrence. We acknowledge this error which has subsequently led us to significantly improve our policies and procedures regarding final report presentation and review.

- With regards to the inspection team's noted Deficiency #2, we respectfully and whole-heartedly disagree with the inspection team's findings. While it is apparent that the inspection team felt that the documentation of our testwork performed relating to the valuation of goodwill was insufficient, in our opinion it is grossly erroneous to identify this as a "failure to test" the valuation of goodwill. We performed audit procedures that in our professional judgment as auditors were sufficient to justify the valuation of goodwill as reported in the financial statements in question. We do not feel our documentation or procedures performed on this audit to be insufficient; however, the inspection team's comments have encouraged us to significantly improve the audit documentation of our goodwill testing subsequent to our inspection.

We considered whether it was necessary to perform additional auditing procedures in accordance with AU 390, *Consideration of Omitted Audit Procedures After the Report Date*, and we concluded that no additional audit procedures were necessary. These actions did not change our conclusions or affect our report on the Issuer's financial statements in the case of Deficiency #2.

Based on our evaluation of the Board's comments, we have taken steps to improve the quality and content of our audit file documentation and to address the comments made by the Inspection Team.

We wish to take this opportunity to state that while we support the stated goals of the PCAOB and the inspection process it appears to us that in practice the inspection process is designed and geared toward inspections of the "Big 4" audit process and the "Big 4" clientele rather than to the smaller audit firm and their substantially smaller clientele. As small firms we are our own "support group" and consequently discuss among each other our respective experiences with the profession in general as well as with the PCAOB and the inspection process. In doing so it seems that we are not alone in our feelings. In general, inspection team members largely appear to be former "Big 4/5" auditors and do not understand/acknowledge the significant differences in audit methodology and procedures necessitated by the Issuer market segment that small firms like ours service. There is no one-size-fits-all solution. Smaller firms and smaller Issuers represent a significant and important market and the systemic reduction or elimination of this segment would be anti-productive within the economy. We sincerely hope that the Board recognizes this in its role of protecting public interest.

Sincerely and respectfully,

Bouwhuis, Morrill & Company

Bouwhuis, Morrill & Company, LLC