1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Inspection of De Meo, Young, McGrath & Company, P.A., Certified Public Accountants and Consultants

(Headquartered in Fort Lauderdale, Florida)

Issued by the

Public Company Accounting Oversight Board

September 30, 2010

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. 104-2010-137

PCAOB
Public Company Accounting Oversight Board

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.

PCAOB
Public Company Accounting Oversight Board

INSPECTION OF DE MEO, YOUNG, MCGRATH & COMPANY, P.A., CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm De Meo, Young, McGrath & Company, P.A., Certified Public Accountants and Consultants[1/] ("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.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] 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 Firm has issued audit reports under the names of De Meo, Young, McGrath, CPA; De Meo Young McGrath; and De Meo, Young McGrath.

2/ 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.

3/ 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 July 28, 2008 to August 4, 2008. 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	2 (Boca Raton and Fort Lauderdale, Florida)
Ownership structure	Corporation
Number of partners	4
Number of professional staff[4/]	9
Number of issuer audit clients[5/]	3

[4/] "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.

[5/] 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.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] 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.

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.[7/] 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 three 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.[8/] The deficiencies identified in one of the audits reviewed included a deficiency of such

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[6/] 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.

[7/] 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.

[8/] 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* 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.[9/] That deficiency was the failure to perform sufficient audit procedures related to stock-based compensation.

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

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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.

[9/] 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.[10/]

[10/] 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.

DE MEO, YOUNG, MCGRATH
A PROFESSIONAL SERVICES COMPANY

SUITE 517
2400 EAST COMMERCIAL BOULEVARD
FORT LAUDERDALE, FLORIDA 33308
(954) 351-9800
FAX (954) 938-8683
dym@dymco.net

ROBERT E. MCGRATH, CPA
ROBERTA N. YOUNG, CPA

SUITE 459
2424 NORTH FEDERAL HIGHWAY
BOCA RATON, FLORIDA 33431
(561) 447-9800
FAX (561) 391-8856
boca@dymco.net

ANTHONY DE MEO, CPA*, ABV,PFS, CFF
MICHAEL I. BLOOM, CPA

*regulated by the State of Florida

August 16, 2010

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

Re: Response to Part I of the Draft Report on the 2009 Inspection of De Meo, Young, McGrath, P.A. Certified Public Accountants and Consultants

Dear Mr. Diacont:

We welcome this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2008 inspection of De Meo, Young, McGrath, P.A. Certified Public Accountants and Consultants ("the Firm"). We support the PCAOB's goal to improve audit quality, reduce the risks of auditing failures and promote public trust in both the financial reporting process and auditing profession.

We acknowledge the importance of the inspection process. We are committed to an ongoing effort to meet and exceed standards in all aspects of our audit practice. A critical part of that effort is the PCAOB inspections and related findings.

We have evaluated each of the matters described in Part I of the draft Report regarding issuer A. For each matter identified, we have considered whether it was necessary to perform additional procedures in accordance with 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* and, where appropriate, performed such procedures. None of the matters identified by the PCAOB or the results of procedures subsequently performed impacted our previously issued reports on the financial statements.

Issuer A

In one of the matters, the appropriateness of the issuer's use of valuations determined as of dates other than the dates shares were issued for services was questioned. The issuer obtained valuation reports from a well qualified valuation specialist at the beginning and end of the year to value restricted unregistered shares issued for compensation on 6 different dates throughout the year. Use of the valuations to establish the shares fair value was appropriate because no active market for the issuer's stock existed. During the audit period there were 23 days on which there were trades with the largest daily activity accounting for 4,500 shares and in total 30,800 shares traded for the year. There were no trades on 4 of the 6 dates where shares were issued for compensation. The Firm, in our judgment correctly relied on the valuations as sufficient appropriate evidence of the fair value of the shares.

Mr. George H. Diacont, Director
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Issuer A (continued)

In another comment related to the preceding matter, the PCAOB questioned whether the Firm had evaluated the appropriateness of the stock prices used by the issuer in valuing the shares issued for services citing the variances between those prices and (1) the trading prices of the issuer's shares at the dates the shares were issued, and (2) the share prices in cash transactions for similar restricted shares. The Firm had determined that no active market for orderly transactions existed, and appropriately relied on the valuation which applied deep discounts to the quoted prices. The discounts were based on widely used studies and additional discounts for issuer specific risks factors including the issuer's ability to continue as a going concern, the lack of liquidity and marketability of the shares, the declining quoted prices, the issuer's dependence on additional capital to sustain operations, the lack of market participants, and the restrictions on the shares issued. The issuer's share prices in cash transactions for similar restricted shares were considered but were not deemed appropriate equivalents by the Firm. The share prices in cash transactions were not representative of an active market with orderly transactions. These transactions resulted from subscriptions for shares offered through private placement memoranda. Although similarly restricted these shares were purchased generally by existing shareholders looking to "average down" and were much smaller transaction sizes than the transactions for shares issued for services. The valuation report explains the effect the larger transactions would have on the market's pricing of those shares issued for services would have had the grantees attempted to sell them: "...if a current common stock shareholder attempted to sell a large block (in excess of historical averages), it would, in essence, significantly increase the number of shares that historically traded resulting in a flood in the market which would drive the price per share downward."

Finally, the PCAOB questioned if the Firm had evaluated whether the fair value of the services received was a more reliable measure of compensation expense. The value of the compensation used by the issuer was reasonable based on the nature of the services and the cost of similar services. Had the shares been valued at the quoted market prices or at the prices paid in cash transactions, the compensation cost would have been 3.5 to 6 times recorded by the issuer, far exceeding any reasonable range for services of this nature.

We acknowledge the significance of the inspection comments and restate our commitment to improving our performance wherever possible. We appreciate this opportunity to provide our response to the Board and we look forward to continuing to work with the PCAOB on improving the quality of our audits.

Respectfully submitted,

Roberta Young

Roberta N. Young
Managing Partner
De Meo, Young, McGrath, P.A., Certified Public Accountants and Consultants