

**Special Inspection of
Seale and Beers, CPAs, LLC
(Headquartered in Las Vegas, Nevada)**

Issued by the
Public Company Accounting Oversight Board
July 2, 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**



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.



SPECIAL INSPECTION OF SEALE AND BEERS, CPAS, LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted a special inspection of the registered public accounting firm Seale and Beers, CPAs, LLC ^{1/} ("Seale and Beers" or "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 name of Seale & Beers, CPAs and Seale and Beers, CPAs.

^{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 BACKGROUND, INSPECTION PROCEDURES, AND CERTAIN
OBSERVATIONS**

The Board authorized members of the Board's inspection staff ("the inspection team") to conduct a special inspection of the Firm. The inspection team conducted primary procedures for the inspection from September 8, 2009 to September 11, 2009. 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 (Las Vegas, Nevada)
Ownership structure	Limited liability company
Number of partners	2
Number of non-administrative staff ^{4/}	10
Number of issuer audit clients ^{5/}	27

^{4/} "Non-administrative staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and non-administrative staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's staff 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.

A. Reasons for the Special Inspection

The Board determined to conduct the special inspection in light of the following circumstances. On August 27, 2009, following a formal investigation that began on October 21, 2008, the Board issued a settled order instituting disciplinary proceedings, making findings, and imposing sanctions on the registered public accounting firm Moore & Associates ("M&A") and its principal, Michael J. Moore ("Moore").^{6/} By that order, the Board revoked the registration of M&A and barred Moore from being an associated person of a registered public accounting firm.^{7/} Among the findings on which the Board based those sanctions were findings that M&A failed to comply with PCAOB quality control standards relating to hiring personnel with the appropriate characteristics to enable them to perform competently, and quality control standards relating to assigning work to personnel who have the degree of technical training and proficiency required in the circumstances.^{8/} More specifically, the Board found that -

None of [M&A's 12] audit staff had any prior auditing or accounting experience or education. Newly hired staff received informal on the job training from other audit assistants, who were not qualified to provide the training because they also lacked relevant education, experience or training on how to perform audits in compliance with PCAOB standards. New hires' informal training, among other things, included instructions to complete audit programs and audit reports without actually performing

^{6/} See *In the Matter of Moore & Associates, Chartered, and Michael J. Moore, CPA*, PCAOB Release No. 105-2009-006 (August 27, 2009), available at <http://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

^{7/} The Board found, in addition to violations of PCAOB auditing standards and PCAOB quality control standards, that M&A and Moore violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by issuing audit reports falsely stating that the audits were conducted in accordance with PCAOB standards. On the same day as the Board's order, the Commission announced a settled civil injunctive action enjoining M&A and Moore from future violations of Section 10(b) and Rule 10b-5 (among other provisions), ordering them to disgorge \$179,750 plus prejudgment interest, and ordering Moore to pay a \$130,000 penalty.

^{8/} *Id.* at ¶ 7.

audit procedures. In fact, at least one audit assistant was trained to simply "fill in the blanks on the audit report with the names of the clients and the dates, but to not do any work."

. . . Each staff member was responsible for approximately 50 audit clients at any one time. Work was assigned to personnel without the degree of technical training and proficiency required under the circumstances. As a result, audit assistants were assigned to audit clients that they were not qualified to audit.^{9/}

Approximately six months into the formal investigation in the M&A and Moore matter, in April 2009, Seale and Beers filed an application for registration with the Board. The application provided as the Firm's main address and phone number the same address and phone number that M&A had most recently used. The application also indicated that Seale and Beers had not previously conducted, or played a substantial role in, any audits, and that the Firm's name partners constituted all of the Firm's personnel. The Board approved the application in May 2009. In August 2009, the Board's Inspections staff reported to the Board that publicly available information indicated that numerous issuers that had formerly been audit clients of M&A had engaged Seale and Beers to audit their financial statements, and that several staff formerly associated with M&A had become employed by Seale and Beers.^{10/} The Inspections staff also reported that the Firm's website bore significant similarities to the M&A website and that each page of the Firm's website included in small type a footer reading "Looking for Michael J. Moore, CPA? Click Here."

The Board's quality control standard QC § 20.15, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that a registered firm should have policies and procedures that provide reasonable assurance that the firm

^{9/} Id. at ¶¶ 8, 12 (footnote omitted).

^{10/} By the time the inspection commenced, 171 former issuer audit clients of M&A had filed a Form 8-K with the SEC stating that they had engaged Seale and Beers to audit their financial statements. The Firm represented to the inspection team, however, that it was unaware of those filings, had accepted as issuer audit clients only 27 former M&A issuer audit clients, and that many former M&A audit clients would not be accepted as audit clients of the firm.

"undertakes only those engagements that the firm can reasonably expect to be completed with professional competence." Those standards provide that a registered firm should establish policies and procedures to provide the firm with reasonable assurance that personnel hired possess the appropriate characteristics to enable them to perform competently; that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances; and that personnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned.^{11/} The Board's quality control standard QC § 40.06, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*, provides that a firm's policies and procedures should be adequate to provide reasonable assurance that engagement partners possess the competencies necessary to fulfill the engagement responsibilities. While competencies can be gained through a variety of means, including training, experience auditing, or other relevant experience, these should be, collectively, sufficient to enable the partner to fulfill his or her responsibilities competently.

In light of the circumstances described above, the Board determined to conduct a special inspection principally for the purpose of evaluating:

- the Firm's compliance with the above-described quality control procedures;
- whether the Firm and Moore have any relationship that is inconsistent with the terms of the Board's order barring Moore from association with a registered firm; and
- whether certain aspects of audits or reviews of financial statements that the Firm had performed since registering were conducted in accordance with the Board's standards.

B. Review of Audit Engagements

The special 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

^{11/} QC § 20.13

opportunity to limit or influence the scope. It was not the purpose of this special inspection, however, to review all of the Firm's audits or to identify every respect in which a reviewed audit may have been deficient. Accordingly, this 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 this report.

The inspection team identified what it considered to be deficiencies in the performance of these audits.^{12/} The deficiencies identified in all three 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.^{13/} Those deficiencies were the inappropriate reliance, in three audits, on the work of a predecessor auditor for substantially all of the audit evidence in a re-audit.

^{12/} 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.

^{13/} 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 special 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 special 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.

C. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the special 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

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

PART IV

RESPONSE OF THE FIRM TO DRAFT SPECIAL 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 special inspection report.^{14/}

^{14/} In any version of a special 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.

SEALE and BEERS, CPAs
PCAOB & CPAB REGISTERED AUDITORS
www.sealebeers.com

Monday, May 10, 2010

Public Company Accounting Oversight Board
Division of Registration and Inspections
1666 K St., NW
Washington, DC 20006

Dear Sirs:

Seale and Beers, CPAs is pleased to submit its response to the draft of the Public Company Accounting Oversight Board (the PCAOB or the Board) Report on the Special Inspection of Seale and Beers, CPAs, LLC. We are committed to the highest standards of audit quality and believe that the PCAOB's inspection process is an important factor in the achievement of our shared objectives of improving audit quality and serving investors and the public interest.

We are concerned that a reader of the "Reasons for the Special Inspection" section might infer a lack of candor on our part.

As the Board knows, the first thing we provided the inspection team on their arrival was a copy of the agreement under which Seale and Beers purchased Moore and Associates' practice (M&A) less than four weeks prior. We were prepared to provide it to the Board before then, had the Board asked.

As the Board also knows, section 2.7 of the purchase agreement stated:

Seller is neither a defendant... in any litigation pending... nor are there any proceedings or claims affecting seller or the business pending or... threatened before any federal, state or municipal body or governmental or regulatory agency.

The PCAOB action against M&A on August 27, 2009 breached this warranty clause and the agreement. We quickly notified M&A, and consider the purchase agreement void.

M&A has not responded to our requests for communication in compliance with AU 315.07-10.

The Board selected three nascent issuers for our examination. Their average number of general ledger transactions per month was less than two. None had revenue, or assets other than cash. One had no assets. All three included the issuer's inception, and our reports had all been released prior to the Board's announcement of M&A's registration revocation.

We disagree with the Board's judgment that we did not obtain sufficient competent evidential matter to support the three audits selected for examination.

AU 315.14-.20 allows us, when re-auditing the work of a predecessor auditor, to consider the information obtained from review of the predecessor auditor's report and working papers in planning the re-audit, but states that the information obtained from review of the predecessor's working papers is not, by itself, sufficient to afford a basis for expressing our opinion.

We did not rely solely on our review of the predecessor's working papers to afford a basis for expressing our opinion, and we believe we complied with AU 315.14-.20.

50 South Jones Blvd., Suite 202, Las Vegas, NV 89107 888-727-8251 Fax: 888-782-2351

Public Company Accounting Oversight Board
May 10, 2010
Page 2

We performed and documented our own planning and program in each of the three selected audits, and in fact found an unrecorded liability in one of them that restated financial statements that had been audited by M&A.

We confirmed with the issuers that the audit evidence they had provided to M&A, and all management assertions, had been made by them. We performed audit procedures, including gathering, organizing and evaluating the audit evidence, and communicated with management the results of our findings.

We have evaluated the matters identified by the Board's inspection team in accordance with our policies and PCAOB standards. In our opinion, we have fulfilled our professional responsibilities under 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*. None of our reports on the issuers' financial statements were affected.

We are supportive of, and committed to, working with the PCAOB to continue to strengthen trust in the integrity of the independent audit. We are available to the Board and its staff to discuss our response in further detail.

Sincerely,

A handwritten signature in cursive script that reads "Seale and Beers, CPAs". The signature is written in black ink and is positioned above the typed name.

SEALE AND BEERS, CPAs

Seale and Beers, CPAs

PCAOB & CPAB Registered Auditors

50 S. Jones Blvd., Ste. 202, Las Vegas, NV 89107 voice: 888-727-8251 fax: 888-782-2351