

**Inspection of  
Child, Van Wagoner, & Bradshaw, PLLC  
(Headquartered in Salt Lake City, Utah)**

**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.

## **INSPECTION OF CHILD, VAN WAGONER, & BRADSHAW, PLLC**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Child, Van Wagoner, & Bradshaw, PLLC<sup>1/</sup> ("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>2/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>3/</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 Firm has issued audit reports under the name of Child, Van Wagoner & Bradshaw, PLLC.

<sup>2/</sup> 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.

<sup>3/</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 primary procedures for the inspection from June 1, 2009 to June 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	3 (Kaysville and Salt Lake City, Utah; and Hong Kong Special Administrative Region, People's Republic of China)
Ownership structure	Professional limited liability company
Number of partners	5
Number of professional staff <sup>4/</sup>	20
Number of issuer audit clients <sup>5/</sup>	66

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<sup>4/</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.

<sup>5/</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 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.<sup>6/</sup> 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.<sup>7/</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 inspection procedures included a review of aspects of the Firm's auditing of financial statements of nine 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.<sup>8/</sup> The deficiencies identified in eight of the audits reviewed included deficiencies of such

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<sup>6/</sup> 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.

<sup>7/</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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>8/</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*

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.<sup>9/</sup> Those deficiencies were –

- (1) the failure to perform sufficient procedures regarding related party transactions;
- (2) the failure, on four audits, to perform sufficient procedures related to the valuation of warrants;
- (3) the failure, on five audits, to perform sufficient procedures related to reverse mergers and other business combinations;
- (4) the failure, on two audits, to perform procedures related to the valuation and recognition of stock-based compensation;
- (5) the failure to perform sufficient procedures related to revenue;

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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.

<sup>9/</sup> 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.

(6) the failure to perform procedures related to the evaluation of long-lived assets for impairment; and

(7) the failure to perform sufficient procedures related to the extinguishment of liabilities.

Two of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.<sup>10/</sup>

**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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<sup>10/</sup> The Board inspection process did not include review of any additional audit work related to the restatement.



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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>11/</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.

\* \* \* \*

#### 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. Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

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<sup>11/</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.

### Extinguishment of Liabilities

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of the extinguishment of liabilities. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its testing of the accounting for the extinguishment of liabilities. [Issuer G]

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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 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.<sup>12/</sup>

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<sup>12/</sup> 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.

**Child,  
Van Wagoner  
& Bradshaw,  
PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS



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May 19, 2010

Mr. George Diacont  
Director Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Response to Part I of the April 19, 2010 Draft Report on the 2009  
Inspection of Child, Van Wagoner & Bradshaw, PLLC

Dear Mr. Diacont:

We are pleased to provide our response to the Public Company Accounting Oversight Board regarding the Draft Report on the 2009 Inspection of Child, Van Wagoner & Bradshaw, PLLC (the "Report"). We are supportive of the inspection process, a fundamental component of the PCAOB's mission, and believe the Board's comments and observations enhance the ability to achieve our shared objective of improving audit quality. This letter represents our response to the public portion of the draft report of the Inspection. We request that this letter be made part of the final Report.

We respect the PCAOB's inspection process and understand that judgments are involved both in performing an audit and in subsequently inspecting it. Recognizing the constructive intent of the inspection process, we made every effort to cooperate with the inspection staff. In evaluating the matters identified, we have considered whether it was necessary to perform additional auditing procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*. Accordingly, we thoroughly evaluated the matters described in Part I *Inspection Procedures and Certain Observations* of the Report and have taken actions where appropriate in accordance with Child, Van Wagoner & Bradshaw, PLLC policies and PCAOB standards.

Of the eight issuers on which the Board has commented, we have performed certain additional procedures on them or improved aspects of our audit documentation in response to the Inspection on all of the engagements. Specifically, we have the following comments and/or responses to the comments outlined in Part I to the Inspection Report:

*1) The failure to perform sufficient procedures regarding related party transactions.*

At December 31, 2009, the Issuer disclosed receivables due from related parties totaling 6% of its total assets, an amount that is quantitatively and qualitatively material to the financial statements. In addition to completing the canned audit programs we performed additional inquiries of the CFO. Related party transactions are addressed and tested in each audit program, even if there is no single canned program that covers all related party transactions. To answer the criticism that "other than an audit program that was signed off as completed and inquiries of the Issuer's Chief Financial Officer, there was no evidence in the audit documentation and no persuasive other evidence, that the Firm had performed audit procedures to determine the existence of related parties and related party transactions, examine the disclosed related party transactions, and assess the adequacy of the Issuer's related party account disclosures", we have subsequently developed our own audit program that is being used in our audit engagements. That program serves to bring references to all of the related party testing into a single location to make it easier for a reviewer to determine the extent of the work performed.

Accordingly, it is our belief that the Board's characterization that the quantity and quality of audit documentation of related party transactions pertaining to this Issuer was insufficient is a matter of opinion. However, in keeping with the spirit of compliance with the Inspection Report, we added the documentation outlined above, and made the use of such workpapers and audit programs created by our firm, a required part of our audit procedures. The addition of workpapers documenting, in more detail, the work performed did not result in a change to the previously issued financial statements.

*2) The failure on four audits to perform sufficient procedures related to the valuation of warrants.*

For each of these engagements, we had performed the audit procedures in connection with the related transactions some time before the year-end audit actually took place. Those procedures were performed via email and telephone communications with the clients. Therefore, some of the documentation of such procedures was not properly completed, retained, nor included in the year-end binder. As this was identified as a pervasive documentation issue, we have remediated the issue by developing an audit program to be used in all engagements that possess the issuance of warrants. We completed the newly developed audit program for each of the four audits identified and re-performed the procedures we had previously performed in order to verify the adequacy of those procedures as directed by the new audit program. The procedures related to warrant valuation did not result in any changes to the previously issued financial statements. However, two of the issuer's financial statements were restated as a result of a change in the reclassification of warrants as derivative liabilities rather than equity. The PCAOB Inspection identified this as an issue, in addition to the documentation of valuation procedures issue, on one of the Issuers, but not on the other.

Because we believe this issue was a quality control issue related to proper documentation of procedures performed, and because this issue was remediated by the creation of an audit program and re-performance of procedures, as well as additional training related to these issues (as documented in the Part II response), we request the Board's consideration in removing this from the public portion of the report and including it only in the non-public portion as a Quality Control issue.

- 3) *The failure, on five audits, to perform sufficient procedures related to reverse mergers and other business combinations.*

As in our response to item 2, in each of these engagements, we had performed the audit procedures in connection with the related transaction some time before the audit actually took place. Those procedures were performed via email and telephone communications with the client. Therefore, the documentation of such procedures was not properly completed, retained, nor included in the year-end audit binder. As this was identified as a pervasive documentation issue, we have remediated the issue by developing an audit program to be used in all engagements in which a business combination takes place. We completed that audit program for each of the five audits identified, and re-performed the procedures we had previously performed in order to verify the adequacy of those procedures as directed by the new audit program. Those procedures did not result in any changes to our previously issued audit opinions.

Because we believe this issue was a Quality Control issue related to proper documentation of procedures performed, and because this issue was remediated by the creation of an audit program and re-performance of procedures in accordance with the program, we request the Board's consideration in removing this from the public portion of the report and including it only in the non-public portion as a quality control finding.

- 4) *The failure, on two audits, to perform procedures related to the valuation and recognition of stock-based compensation.*

The Issuers issued shares of common stock to consultants and to employees during the year and recognized stock-based compensation expense. We agree that documentation included in the workpapers may not have adequately reflected the audit work that had been done related to these transactions. We also performed additional post-issuance procedures. We have added workpapers documenting those procedures and better documenting the work that had originally been performed. Based on this added documentation and additional procedures performed, no resulting changes to the financial statements were required.

- 5) *The failure to perform sufficient procedures relating to revenue.*

We maintain that revenues were recognized in the proper period and that our audit work was sufficient. The contract in question was specifically written to relate to a specific time period, not for a certain amount of services to be performed. Any services performed in the subsequent period would have applied to the new contract covering the

new time period. However, in order to be more certain that all revenue was recognized in the period in which the related work was performed and to comply with the Inspection Team comments, we have performed additional work that was done to gain assurance that revenue recognition was appropriate and that revenues were recognized in the appropriate period. These workpapers include labor time and cost schedules as well as other related costs. We also added a workpaper detailing the nature of the amounts billed in accordance with the contract agreements. These procedures and added documentation did not result in a change to the previously issued financial statements.

6) *The failure to perform procedures related to the evaluation of long-lived assets for impairment.*

The Inspection Team identified certain “impairment indicators” some of which related to significant discontinued operations. These impairment indicators were unrelated to the intellectual property in question comprising 65% of total assets. The subsidiary that discontinued operations, due to a problem with its product, had terminated operations prior to 2008 and the Company’s current significant intellectual property is unrelated to that subsidiary.

The Firm performed additional post-issuance procedures, however, relating to the evaluation of impairment of intellectual property relating to significant continuing operations which resulted in no change to its previously issued opinion.

7) *The failure to perform sufficient procedures related to the extinguishment of liabilities.*

The Issuer had written off certain liabilities during the year and our testing of that extinguishment was largely reliant on an attorney representation which erroneously used SFAS No. 5, *Accounting for Contingencies* as the basis to support the extinguishment. We subsequently obtained representation from the attorney that all of the extinguished debt was past the applicable statute of limitations, legally releasing the Issuer from the obligation. This is in accordance with SFAS 140, paragraph 16b, which states that a liability has been extinguished if “the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor”. The attorney believes, as do we, that the expiration of the statute of limitations is the equivalent of a judicial release. Based on this representation, no resulting change is required to the financial statements.

We have performed all procedures in accordance with PCAOB standards that require the 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 (AU 390). In almost all cases, the procedures had been performed, but not adequately documented, prior to the issuance of the audit report. Our additional procedures, in these cases, involved including documentation as part of the working papers for the audit.

The Firm has also performed significant remediation procedures in response to defects identified by the Inspection Team pertaining to the Firm's system of Quality Control as mentioned in its response to Part II of the Draft Inspection Report.

We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our public company audit practice. We also wish to express our appreciation to the Inspection Team for the professional manner and demeanor in which it performed the Inspection. We believe that future inspections will continue to enhance our audit quality and strengthen the accounting profession.

Respectfully,

*Child, Van Wagoner & Bradshaw, PLLC*

Child, Van Wagoner & Bradshaw, PLLC  
Certified Public Accountants