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Inspection of
Summers, Spencer & Callison, CPAs, Chartered
(Headquartered in Topeka, Kansas)

Issued by the

Public Company Accounting Oversight Board

March 31, 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. 104-2010-044A
(Includes portions of Parts II and IV of the full report that were not included in PCAOB Release No. 104-2010-044)

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.

INSPECTION OF SUMMERS, SPENCER & CALLISON, CPAS, CHARTERED

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Summers, Spencer & Callison, CPAs, Chartered ("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 May 15, 2008 to May 23, 2008, and January 15, 2009 to January 29, 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	4 (Lawrence, Meriden, Overland Park, and Topeka, Kansas)
Ownership structure	Corporation; Alternative practice structure affiliation with SS&C Business & Tax Services, Inc.
Number of partners	6
Number of professional staff[3/]	28
Number of issuer audit clients[4/]	3

[3/] The number of "professional staff" shown here excludes partners and represents the number of staff, other than administrative staff, leased by the firm through the alternative practice structure. The information on partners and professional staff described here is provided as an indication of the size of the Firm, and does not necessarily represent the number of those 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.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[5/] 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.[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 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.[7/] The deficiencies identified in all of the audits reviewed included deficiencies of such

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[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.

[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* 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.[8/] Those deficiencies were –

(1) the failure to perform sufficient audit procedures to test that in certain business combinations the purchase price was properly allocated to the identifiable assets acquired and liabilities assumed and that the assets acquired and liabilities assumed were properly valued;

(2) the failure to perform audit procedures to test the appropriateness of the valuation of loans held for sale;

(3) the failure to perform audit procedures to determine whether interest income was properly recognized;

(4) the failure to perform audit procedures to evaluate whether revenue was appropriately presented in the financial statements on a gross basis;

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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.

[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.

(5) the failure to perform audit procedures to test the completeness of the underlying data provided to a specialist in the valuation of certain liabilities;

(6) the failure to perform audit procedures to evaluate whether certain entities were variable interest entities and, if so, whether such entities should have been consolidated; and

(7) the failure to perform audit procedures to identify and evaluate the significance to the financial statements of offsetting certain payables against certain receivables.

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 alternative practice structure, 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.[9/] 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. Design of Quality Control System

Independence Procedures

The Firm's independence procedures appear not to meet the requirements of PCAOB Rule 3400T(b),[10/] in that the Firm does not have procedures to verify the completeness and accuracy of independence representations made by the Firm's partners and managers.

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

9/ 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.

10/ PCAOB Rule 3400T(b) requires registered firms to comply with the quality control standards described in section 1000.08(o) of the American Institute of Certified Public Accountants SEC Practice Section Reference Manual, which in turn requires that a firm have policies and procedures in place to comply with Appendix L, section 1000.46 of that manual.

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:

(i) Business Combinations

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's auditing of the appropriateness of the allocation of the purchase price to the assets acquired and liabilities assumed and the appropriateness of the valuation of assets acquired and liabilities assumed in business combinations. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its auditing of business combinations. [Issuer A]

(ii) Loans Held for Sale

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's auditing of the valuation of loans held for sale. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its auditing of loans held for sale. [Issuer B]

(iii) Interest Only Strip Receivables

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's auditing of interest income attributable to interest only strip receivables. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its auditing of these financial instruments. [Issuer B]

(iv) Revenue Presentation

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's auditing of the presentation of revenue on a gross basis in the financial statements. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its auditing of revenue transactions. [Issuer C]

(v) Use of the Work of a Specialist

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's auditing the completeness of underlying data provided to a specialist. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its use of the work of a specialist. [Issuer C]

(vi) Variable Interest Entities

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's audit procedures with respect to evaluating whether certain entities were variable interest entities and, if so, whether such entities should have been consolidated. This information provides cause for concern regarding the Firm's quality control policies and procedures related to identifying and accounting for variable interest entities. [Issuer C]

(vii) Classification of Amounts Payable

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's audit procedures with respect to amounts payable to franchisees being offset by receivables from other franchisees. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its testing of the appropriateness of the classification of payables and receivables. [Issuer C]

b. Fraud Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform sufficient procedures to address identified fraud risks in accordance with the provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, the Firm received information related to claims of fraudulent activity by the issuer in its transactions with franchisees. The Firm identified certain transactions with franchisees as specific fraud risks, and performed selected procedures to address these risks. However, the Firm failed to confirm any balances or transactions with any of the franchisees, or to have any correspondence with the franchisees related to the allegations or to determine if documents provided by the issuer to the Firm for purposes of its fraud testing were complete and accurate. [Issuer C]

c. Competency of Engagement Team

The audit performance deficiencies discussed in Part II.A suggest that the Firm's system of quality control may not provide sufficient assurance that the audit and concurring partner and audit staff have the level of knowledge and the degree of technical training and proficiency required in the circumstances and that they refer to authoritative literature or other sources and consult with knowledgeable individuals (within or outside the Firm) when appropriate.

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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.[11/]

[11/] 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.

SS Summers, Spencer &
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CERTIFIED PUBLIC ACCOUNTANTS
Topeka ■ Overland Park ■ Lawrence ■ Meriden

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December 10, 2009

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

Dear Mr. Diacont:

We appreciate the opportunity to respond to the Draft Report of the PCAOB inspection of Summers, Spencer & Callison, CPAs, Chartered.

Our Firm is committed to supporting the PCAOB's inspection process and we believe that an inspection process will help to improve the quality and reliability of audit engagements. Consistent with those objectives, we have evaluated the draft report and have initiated additional procedures to improve the documentation and procedures performed to support our audit conclusions.

We recognize the constructive intent of this inspection process. The execution of an audit engagement performed in accordance with PCAOB standards requires the exercise of significant professional judgment and discretion. Because the degree of judgment involved, we hope you recognize that professionals can reasonably differ or disagree concerning the nature, timing, and extent of audit procedures performed, the extent and use of the work of others, as well as the sufficiency of evidence gathered and documented. We respectfully disagree with the PCAOB's conclusion that in the audits reviewed by the inspection team, our firm did not obtain sufficient competent evidential matter to support our opinions on the issuer's financial statements.

We appreciate the service of your organization.

Sincerely,

Summers, Spencer & Callison, CPAs, Chartered

Summers, Spencer & Callison, CPAs, Chartered

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NON-PUBLIC

December 10, 2009

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

Dear Mr. Diacont:

As instructed in the "Staff Guidelines for Preparing Responses to Draft Inspection Reports" This is a separate letter, clearly labeled as **NON PUBLIC**.

We appreciate the opportunity to respond to the Draft Report of the PCAOB inspection of Summers, Spencer & Callison, CPAs, Chartered.

REDACTED. Comments on Non-public Aspects of Report

REDACTED. Comments on Non-public Aspects of Report

Issue Related to Quality Control:

In addition to the potential audit deficiencies noted above, SS&C would like to address one of the noted "quality control deficiencies" noted in **Part II B. Specifically: 2. Audit Performance, item a. Fraud Procedures**

"The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform sufficient procedures to address identified fraud risks in accordance with provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, the Firm received information related to claims of

fraudulent activity by the issuer in its transactions with franchisees. The Firm identified certain transactions with franchisees as specific fraud risks, and performed selected procedures to address these risks. However, the Firm failed to confirm any balances or transactions with any of the franchisees, or to have any correspondence with the franchisees related to the allegations or to determine if documents provided by the issuer to the Firm for purposes of its fraud testing were complete and accurate."

SS&C agrees with the issue in the comment form that we did not confirm any balances or transactions with any of the franchisees related to normal operating activities between the issuer and the franchisee and that we did not have any correspondence with the franchisees to determine if the documents provided by the issuer were complete and accurate. It is important to note that all documents provided to agents are accessed by the agents through the issuer's BMS (on-line) system. SS&C was provided access to the BMS system and to the same information that is available to the agents.

SS&C documented as reasons for not confirming agent statement balances with franchisees that the agent statement process creates a mid-month statement and, thus, agents would likely not be able to confirm a year-end amount and that the response rate from agents was expected to be low.

Franchisees place reliance on the issuer's monthly processing system in determining their balances. Specifically, commissions earned on direct bill policies are sent directly to the issuer and subsequently reconciled to the franchise agent's statement. Therefore, the agent does not know the exact dollar amount of commissions earned or the date of payment by the insurance carrier. SS&C concluded that the franchise agent would not have the ability to independently verify the amounts owed to or from the issuer.

SS&C performed alternative procedures on franchise receivables by testing the agent statement processing system. As a result of testing the agent statement processing system, SS&C identified weaknesses in the system which were communicated verbally and in writing to the issuer's management and audit committee.

Although SS&C did not correspond with the issuer's franchisees during our audit of the issuer, SS&C did confirm a selection of notes receivable from franchisees held by an affiliated entity, Issuer B, during our audit of the affiliated entity. It is important to note that there is related ongoing activity between the affiliated party and the issuer. The issuer charges the franchise agent's monthly statement for their payments on the notes receivable. Franchise agents consent in their agreements that the issuer will charge the agent statements for their loan payments utilizing the commissions earned on policies. Based on the related activity described previously and based on the relationship between the Issuer C and the Issuer B, SS&C believes that franchise agents had an opportunity to communicate any concerns to SS&C through the confirmation of notes receivable. This was evidenced by actual correspondence in response to those confirmations.

SS&C received materials from other third party sources that had already performed procedures during the audit year relative to the fraud risk for certain transactions with agents. As stated in the facts to the comment form, SS&C obtained a report from the Louisiana Department of Insurance stating that no adverse or improper practices related to transactions with franchisees were identified during their examination of accounting for franchise agents. SS&C also obtained a report from CBIZ noting that no exceptions were found in their testing of the monthly processing of agent statements.

Also as stated in the facts to the comment letter, SS&C, prior to the audit of the issuer's financial statements, received unsolicited communications from unknown persons regarding improper handling of the agent network by the issuer, thus leading SS&C to believe the unknown persons were franchise agents. SS&C did not ignore these communications, but addressed the unsolicited communications by discussing them with executive management and with the issuer's audit committee as well as holding discussions with the audit team in order to design audit procedures to provide an opportunity to detect fraud and to target the risks identified. It is important to note that out of over 800 franchise agents, SS&C received unsolicited communications from only a few unknown persons.

The specific transactions identified by SS&C as fraud risks were the initial valuation of a franchisees book of business, the allocation of expenses charged to franchise agent statements, the calculation and allocation of franchise fees charged to agents on an annual and per statement basis, and that insurance policies are linked to the proper franchise agents as well as the commissions applied to agent statements were in agreement with commissions on the insurance statements. SS&C designed and performed procedures to address each of these risks and, as documented in the workpapers none of the tests performed resulted in identification of unusual transactions which warranted further investigation.

In addition to the above procedures, SS&C performed fraud interviews with eighteen employees as well as with the audit committee members for the issuer client. SS&C also performed additional fraud interviews with fifteen employees and audit committee members of affiliated entities. None of the fraud interviews revealed suspicions of fraudulent activity.

SS&C believes its response complied with the applicable professional standards and, therefore does not indicate a deficiency in internal control.

REDACTED. Comments on Non-public Aspects of Report

We appreciate the service of your organization.

Sincerely,

Summers, Spencer & Callison, CPAs, Chartered

Summers, Spencer & Callison, CPAs, Chartered