

Report on

2012 Inspection of GHP Horwath, P.C.
(Headquartered in Denver, Colorado)

Issued by the

Public Company Accounting Oversight Board

October 1, 2013

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. 104-2013-207

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 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 financial statement misstatements, including failures to comply with 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 apparent misstatements 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 whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with 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.

2012 INSPECTION OF GHP HORWATH, P.C.

In 2012, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm GHP Horwath, P.C. ("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 November 12, 2012 to November 16, 2012 and from December 10, 2012 to December 12, 2012. 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 (Denver, Colorado)
Ownership structure	Corporation
Number of partners	9
Number of professional staff ^{3/}	73
Number of issuer audit clients ^{4/}	25

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") 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 Generally Accepted Accounting Principles ("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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.^{7/} Depending upon the circumstances, compliance with these standards may

^{5/} This focus on weaknesses and deficiencies 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/} 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), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over*

require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of five 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. Those deficiencies included a failure by the Firm to identify or appropriately address an error in the issuer's application of GAAP that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

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 and 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.

The deficiencies identified in one of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements or ICFR. Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the audited financial statements concerning the issuer's disclosures related to multiple-element revenue arrangements;
- (2) the failure to perform sufficient procedures to test revenue recognition related to multiple-element arrangements and the percentage-of-completion method of accounting; and
- (3) the failure to perform sufficient procedures to evaluate whether goodwill was impaired.

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. 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 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.^{8/}

^{8/} 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.



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August 2, 2013

Ms. Helen A. Munter
Director, Division of Registrations and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006

RE: Draft Report of Inspection of GHP Horwath, P.C.

Dear Ms. Munter:

Thank you for the opportunity to submit our response to the draft report of the Public Company Accounting Oversight Board (PCAOB or the Board) on the 2012 inspection of GHP Horwath, P.C., which was conducted from November 12 to November 16, and from December 10 to December 12, 2012.

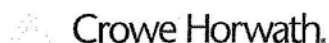
General comments:

We have given the inspection comments contained in the Board's draft inspection report careful and thoughtful consideration and re-evaluated our work. Based on our re-evaluation, we firmly believe that the facts and circumstances do not support the inspection team's conclusions. We believe that all of the findings of the inspection team are matters of professional judgment. In addition, we also believe that knowledgeable professionals can (and often do) disagree, particularly as to audit scope determination, materiality and other subjective matters that are not prescribed in the authoritative standards, and that there is not likely to be a clear, matter-of-fact, right and wrong.

In its Release No. 2005-009, issued on May 16, 2005, the PCAOB issued a policy statement that states, among other things, that the Board specifically does not intend for its inspectors to discourage "the use of judgment and tailored audit planning" and that "by focusing on appropriate use of judgment and risk assessment [*i.e.*, by auditors], we are deliberately planning our inspections in a manner that promotes an audit ... that is both thoughtful and risk-focused. In other words, we do not intend to second-guess good faith audit judgments." This is consistent with a view (that we consider clearly appropriate) that informed auditor judgment is the very foundation of modern risk-based auditing.

In this context, we have outlined hereunder our views on the specific matters included in the Board's draft report. We believe that there is considerable support and room for judgment when it comes to these matters, and we continue to be satisfied that our audit decisions were sound, good faith judgments made by competent professionals based on thoughtful analysis of the issuer's business and industry and the environment in which it operates, and we remain fully confident in those judgments.

GHP Horwath, P.C. is a member firm of Crowe Horwath International (Crowe Horwath), a Swiss entity. Each member firm of Crowe Horwath is a separate and independent legal entity. GHP Horwath, P.C. and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath or any other member of Crowe Horwath and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath or any other Crowe Horwath member.



Ms. Helen A. Munter
Director, Division of Registrations and Inspections
Public Company Accounting Oversight Board
August 2, 2013
Page 2

Comments about specific engagement findings (all Issuer A):

Disclosure of Revenue Recognition Policy Related to Multiple-Element Arrangements:

We have again reviewed Issuer A's disclosures for compliance with the specific requirements of GAAP set forth in ASC 605-25-50-2, relating to multiple-element arrangements, and reaffirm our position that, in our professional judgment, the substance of all required disclosures relative to the issuer's multiple-element arrangements were adequately disclosed. We determined that the substance of both the nature of the issuer's multiple-deliverable arrangements and the significant deliverables within those arrangements were adequately disclosed in Issuer A's financial statements.

Absent identification by the Board of the specific disclosures that the Board judged to be omitted, we are unable to understand how the Board has concluded that disclosures regarding Issuer A's revenue recognition policy were materially incomplete, potentially misleading to financial statement users, or could result in materially misstated financial statements. We concluded that the disclosures met the requirements of ASC 605-25-50-2 in all material respects, albeit without excessive use of "boiler-plate" language or recitation of every detail of that subtopic (such as including the term "multiple-element") that we believe is neither relevant nor useful to investors. We judged the disclosures made in the context of Issuer A's overall business operations and found them to be fairly presented in all material respects in conformity with GAAP.

Since the Board has characterized what it has determined to be disclosure omissions alternatively in its draft inspection report as either "likely to be material" or "potentially material," it is pertinent in this matter to emphasize that materiality, as defined in FASB Concepts Statement 2 and discussed in PCAOB Auditing Standard (AS) No. 11, *Consideration of Materiality in Planning and Performing an Audit*, is determined in terms of how an omission or misstatement might influence the judgment of financial statement users.

Paragraph 2 of AS No. 11 states, "In interpreting the federal securities laws, the Supreme Court of the United States has held that a fact is material if there is a substantial likelihood that the ...fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." In the draft report, the Board offers no support for its vague assessment of materiality, but we point out that unless an omission is, in fact, judged to be material, there is neither a GAAP departure nor an audit deficiency, since all provisions of GAAP universally need not be applied to immaterial items. An audit opinion affords reasonable assurance as to the absence of misstatements (including omissions) that are material in relation to the financial statements, taken as a whole, based on auditors' professional judgment. This concept is further discussed at paragraph 17 of AS No. 14, *Evaluating Audit Results*, which states "In making this evaluation (of the effect of uncorrected misstatements), the auditor should evaluate the misstatements in relation to the specific accounts and disclosures involved and to the financial statements as a whole, taking into account relevant quantitative and qualitative factors."

The SEC staff has provided issuers with materiality guidance that discusses aspects of qualitative materiality that must be considered. Its guidance, however, focuses primarily on evaluating quantitative misstatements albeit in both quantitative and qualitative ways. There is no authoritative or regulatory guidance available for a materiality assessment of purely qualitative disclosure omissions; this is left solely up to the judgmental discretion of the issuer, subject to evaluation and concurrence by its auditors and, in many cases, ultimately by the SEC staff.



Ms. Helen A. Munter
Director, Division of Registrations and Inspections
Public Company Accounting Oversight Board
August 2, 2013
Page 3

As recommended by the Center for Audit Quality and consistent with the objectives of the Board's August 1, 2012, Release No. 2012-003, *Information for Audit Committees about the PCAOB Inspection Process*, we discussed this matter with Issuer A's management and audit committee. Both management and the audit committee of Issuer A told us that they made assessments and concluded that Issuer A's revenue recognition disclosures were fairly presented in all material respects in conformity with GAAP. We concurred with this conclusion. It is our judgment that had we concluded that any FASB-required element of disclosure in this regard was omitted, we would not have concluded that such omission was material enough to influence any user's view of Issuer A's operations or results such that an opinion qualification would have been warranted or justifiable in the circumstances.

Revenue recognition:

Multiple-element arrangements:

Issuer A generates, and separately reports on the face of its income statement, revenues from three different revenue streams or elements, which for purposes of this letter are designated, "product", "services" and "combined." Amounts reported as combined revenues include those projects that have both product and services elements, and, simply put, if product is X, services is Y and combined is Z, then $X+Y=Z$, and *vice-versa*. If the selling prices for X and Y are known from their individual revenue streams, it clearly constitutes evidence of the selling price for the individual elements of Z.

The Board's draft report acknowledges in Part II.A that *"Revenues from 'product' elements that were part of the issuer's 'combined projects' were recognized upon delivery based on an outside party invoice plus margin."* We view this as clearly reflecting the Board's understanding and acknowledgement that the outside party invoice referenced is, in fact, evidence sufficient to support the portion of the overall selling price that was attributed to the product element.

In addition, gross margin from the services element of the combined revenues was determined to be within approximately 2% of the gross margin on stand-alone services revenues. We believe that this corroborates the portion of the overall selling price attributed to the services element of combined revenues.

Extensive procedures were performed on revenue streams from the product and services elements, individually, as well as on combined revenues, including examination of several hundred individual transactions. In our professional judgment, we appropriately considered suitable and adequate the evidence we obtained from all revenue streams, individually and collectively, and that such procedures also provided sufficient evidence of the selling price for the individual elements and the related allocations among the various elements, as well as sufficient evidence of the issuer's established selling price of the individual elements.



Ms. Helen A. Munter
Director, Division of Registrations and Inspections
Public Company Accounting Oversight Board
August 2, 2013
Page 4

Percentage-of-completion:

As noted above, the Board's draft inspection report in Part II.A acknowledges that "*Revenues from 'product' elements that were part of the issuer's 'combined projects' were recognized upon delivery based on an outside party invoice plus margin.*" However, Part II.A of the draft inspection report goes on to assert that controls related to the consideration of invoiced amounts are part of the issuer's accounting policy, which we believe to be incorrect. Issuer A's disclosed accounting policy for revenue recognition states that services and combined revenues are recognized based on the percentage-of-completion method. The disclosure makes no reference to invoiced amounts, because invoiced amounts are not part of Issuer A's accounting policy, but rather, as explained in the following paragraph, are part of its control procedures.

As previously explained in a prior communication to the Board, Issuer A has in place preventive control procedures related to the product element of combined revenues, relative to its established control objective, *i.e.*, to address the risk of improperly recognizing revenues prior to its customers' acceptance. We emphasize that, as noted in our audit documentation, these control procedures are not an accounting policy, and accordingly did not require disclosure in the notes to Issuer A's financial statements.

This control objective and related procedures specifically address the risk of improperly recognizing revenue from the product element (a separate unit of account) prior to the acceptance of product sales by customers, which acceptance is evidenced, in accordance with Issuer A's operating policies and procedures, by the issuance of an invoice. We maintain that the reference to invoiced amounts in our audit documentation is not an evaluation of an accounting policy. It is simply a mechanism under which the recognition criterion related to customer acceptance is addressed in supporting Issuer A's accounting policy disclosed in its financial statements as "Revenues from products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred and upon receipt of customers' acceptance, the price to the customer is fixed or determinable in accordance with the contract, and collectability is reasonably assured." We believe that the documented results of our audit procedures adequately support Issuer A's recognition of the product element of combined sales and corroborate management's assertion that revenues from product sales were only recognized upon customer acceptance. Moreover, we believe that our audit documentation clearly supports the fact that revenue from services, both stand-alone and as a separate unit of account for combined revenues, were recognized appropriately based on the percentage-of-completion method of accounting. No significant exceptions were noted from our testing, the scope of which should be viewed as adequate to reduce the risk of material misstatement to a low level.

As also explained in a prior communication to the Board, year-on-year consistent gross margins from Issuer A's services revenue, both stand-alone and as an element of combined revenues, and other information obtained from inquiry of project managers, sales managers, and purchase managers, who are independent of the accounting function, together with our recalculation of the percentage-of-completion listed on the issuer's tracking reports, provide appropriate corroborative evidence of our primary tests of management's estimates. In addition, in our professional judgment, audit evidence accumulated from our testing of several hundred transactions during the year, corroborated with sales cut-off, subsequent events and journal entry testing adequately substantiated management's assertion that there were no significant loss contracts.

Crowe Horwath.

Ms. Helen A. Munter
Director, Division of Registrations and Inspections
Public Company Accounting Oversight Board
August 2, 2013
Page 5

Valuation of goodwill:

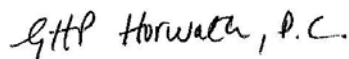
Paragraph 29 of AS No. 15, *Audit Evidence*, states "If audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit."

Accordingly and as previously explained in a prior communication to the Board, in our evaluation of management's goodwill impairment assessment, we prepared a discounted cash-flow (DCF) analysis utilizing our own alternative assumptions that resulted in prospective revenues and net income that were significantly lower than those in management's forecast. The overarching focus in our alternative DCF analysis was based, appropriately in our professional judgment, on the probable long-term recovery of the asset over time, rather than a short-term, operational performance financial outlook for any specific period. Notwithstanding, we determined that the prospective net income (the ultimate metric used in our goodwill impairment test) included in our alternative DCF analysis for the first year varied by only approximately 1.5% from Issuer A's most recently reported historical net income, as adjusted for a significant charge to operations in that year. Our alternative DCF analysis also reflected lower overall growth rates than management's forecast did, and ours was determined by us to be more conservative in that it did not reflect management's lower expected operating costs. Therefore, pursuant to paragraph 29 of AS No. 15, we concluded that we appropriately considered the difference between Issuer A's current and prior year results. As no single accounting estimate can be considered accurate with certainty, based on the entirety of available evidence (including management's public announcements that the coming year would be a transitional year, and considering that our alternative DCF did not include adjustment for lower expected operational costs) we also concluded that any otherwise apparent inconsistency between the estimates in our DCF analysis and Issuer A's public announcements was not significant to our conclusion about impairment.

We have also considered the requirements of AU390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditors' Report*. In no circumstance did we find it necessary to revise our conclusions on the issuer's financial statements and no restatements of previously issued financial statements have been determined to be required.

We appreciate the opportunity to provide our response to the draft report. We believe that dialogue surrounding these matters, including dialogue through the inspection process, is important and relevant to our respective responsibilities to the public interest.

Sincerely,



GHP Horwath, P.C.