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Report on

2011 Inspection of StarkSchenkein, LLP
(Headquartered in Denver, Colorado)

Issued by the

Public Company Accounting Oversight Board

November 30, 2012

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. 104-2013-030A
(Includes portions of Parts II and IV of the full report that were not included in PCAOB Release No. 104-2013-030)

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.

2011 INSPECTION OF STARKSCHENKEIN, LLP

In 2011, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm StarkSchenkein, LLP[1/] ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Firm has issued audit reports under the name of Stark Winter Schenkein & Co., LLP.

2/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

3/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 22, 2011 to September 2, 2011. 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	Limited liability partnership
Number of partners	5
Number of professional staff[4/]	8
Number of issuer audit clients[5/]	21

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

[5/] The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements 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.[6/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[7/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements 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.[8/] Depending upon the circumstances, compliance with these standards may

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[6/] 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.

[7/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8/] 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. 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.

Financial Reporting That Is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.

The deficiencies identified in all five 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 competent evidential matter to support its opinion on the issuer's financial statements or ICFR. Those deficiencies were –

(1) the failure, in two audits, to perform sufficient procedures to obtain an understanding of the issuer's design of internal controls;

(2) the failure, in two audits, to perform sufficient procedures to test revenue;

(3) the failure, in two audits, to perform sufficient procedures to test property;

(4) the failure, in two audits, to perform sufficient procedures to test receivables;

(5) the failure to perform sufficient procedures to test prepaid and refundable taxes;

(6) the failure to perform sufficient procedures related to a business combination;

(7) the failure to perform procedures to test foreign currency translation gains; and

(8) the failure to perform sufficient procedures to test the existence and valuation of inventory.

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

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.

* * * *

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 summarized in Part I.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 –

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:

[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.

(i) ICFR

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's failure to perform sufficient procedures to obtain an understanding of an issuer's likely sources of potential misstatements within certain processes in testing the issuer's ICFR. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of ICFR. The inspection team reported that the deficiencies may have resulted from the Firm's failure to ensure the engagement partner and staff had the level of knowledge and the degree of technical training and proficiency required to perform controls testing for an integrated audit, including understanding the auditor's responsibility with regard to obtaining an understand of an issuer's flow of transactions and identifying points within an issuer's process at which material misstatements could arise. [Issuers A and B]

(ii) Revenue

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the testing of revenue. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of revenue. [Issuers A and C]

(iii) Property

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of property. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of property. [Issuers B and D]

(iv) Receivables

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of the existence of receivables. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of receivables. [Issuers C and D]

(v) Prepaid and Refundable Taxes

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of prepaid and refundable taxes. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of prepaid and refundable taxes. [Issuer A]

(vi) Business Combinations

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of the issuer's accounting for a business combination. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of business combinations. [Issuers C and D]

(vii) Foreign Currency Translation Gains

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of foreign currency translation gains. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of foreign currency translation gains. [Issuer D]

(viii) Inventory

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

b. Auditor Communications

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented. Specifically, the Firm failed to document the details of oral communications made to issuers' audit committees to enable an experienced auditor, having no previous connection with the engagement to understand the nature and extent of the communications [Issuers A, B, and D], and failed to communicate to an audit committee misstatements identified during the audit that were not recorded by the issuer. [Issuer C]

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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.[10/]

[10/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

StarkSchenkein, LLP
BUSINESS ADVISORS & CPAs

October 18, 2012

Ms. Helen Munter, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, DC 20006

RE: Draft Report of PCAOB Inspection (the "Draft Report")

Dear Ms. Munter:

This letter represents the public portion of the response of StarkSchenkein, LLP ("the Firm") in response to your letter and draft report dated September 17, 2012 ("Draft Report"), regarding the inspection performed in August-September 2011 ("2011 Inspection"). [1]

We appreciate the efforts of the Division's inspection team, and view the Draft Report as presenting a valuable opportunity to improve our audit processes and QC system. For the most part, we believe these comments implicate the quality of our audit documentation rather than of the audits themselves. However, the Firm takes the Division's concerns seriously, and has implemented the following responsive enhancements:

- **Staffing:** In May 2011 and June 2012, we hired a new audit manager and a new audit partner, respectively. Both have significant technical knowledge and skills, and substantial experience auditing SEC reporting companies with national CPA firms.
- **Audit Methodology and Software:** In the Fall of 2011, the Firm adopted a risk-based auditing approach, and as a result of switching from PPC to CCH, has access to more comprehensive and in-depth auditing tools (Knowledge Coach and Knowledge Tools).
- **Training and Education:** In the Fall of 2011, audit department personnel met to discuss the inspection team's comments. Subsequently, the Firm sought to address these comments through formal and informal in-house training, and through external continuing professional education courses, including a PCAOB conference in November 2011. In addition, following extensive internal discussions, we took steps to enhance our audit workpaper documentation so as to provide better support for our audit procedures on a prospective basis.

[1] Seven of the eight deficiencies identified in the 2011 Inspection represented new issues not identified in the 2009 Inspection.

- **Review of QC System by Outside Expert:** During the Summer of 2012, we engaged a top-50 CPA firm to review our Quality Control Document and systems and make appropriate recommendations. The Firm intends to inform the Division of any resulting enhancements to its QC system.

We also wish to note that the Division did not send us the report for its 2009 inspection until January 28, 2011. By that date, we already had completed our 2010 year end interim audit work; initiated or completed our 2010 audit planning; and in some cases, commenced fieldwork. Accordingly, the timing of the 2009 report made it difficult to fully respond to the Division's criticisms in time to impact our 2010 audit work, which was the subject of the 2011 Inspection.

We look forward to working with the Division staff in further addressing the issues raised in the 2011 Draft Report.

Sincerely,

W. Edward Schenkein, CPA
Partner

StarkSchenkein, LLP
BUSINESS ADVISORS & CPAs

October 18, 2012

Ms. Helen Munter, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, DC 20006

RE: Draft Report of PCAOB Inspection – Nonpublic Portion of Response

Dear Ms. Munter:

This letter represents the nonpublic portion of the response of StarkSchenkein, LLP ("the Firm" in response to your letter and draft report dated September 17, 2012 ("Draft Report"), regarding the inspection performed in August-September 2011 ("2011 Inspection").

REDACTED. Comments on Non-public Aspects of Report

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REDACTED. Comments on Non-public Aspects of Report

Issues Related to Quality Controls

As follows are the Firm's responses to the Division's quality control concerns.

REDACTED. Comments on Non-public Aspects of Report

REDACTED. Comments on Non-public Aspects of Report

2. *Audit Performance*

a. *Testing appropriate to the audit*

Finding:

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.

Response:

As suggested by our detailed responses, we believe most of the findings represent inadequate documentation rather than inadequate testing. Nonetheless, we take all of these findings very seriously, and have addressed them by obtaining additional technical resources and training, which are described in detail in the public portion of our response.

b. *Auditor communications*

Finding:

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented. Specifically, the Firm failed to document the details of oral communications made to issuers' audit committees to enable an experienced auditor, having no previous connection with the engagement to understand the nature and extent of the communications [Issuers A, B, and D], and failed to communicate to an audit committee misstatements identified during the audit that were not recorded by the issuer. [Issuer C]

Response:

The required communications have always taken place. However, in certain instances the required communications were not properly documented. We have now made all audit staff members aware of this requirement. Further, as part of our completion procedures we have added a step to ensure that the proper documentation is included in the file.

REDACTED. Comments on Non-public Aspects of Report

REDACTED. Comments on Non-public Aspects of Report

Sincerely,

W. Edward Schenkein, CPA
Partner