

**Inspection of
Sutton Robinson Freeman & Co., P.C.**

**Issued by the
Public Company Accounting Oversight Board**

July 13, 2006

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 Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP 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, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

INSPECTION OF SUTTON ROBINSON FREEMAN & CO., P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Sutton Robinson Freeman & Co., 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. 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 notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements 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 fieldwork for the inspection from July 11, 2005 to July 14, 2005. The fieldwork included procedures 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 (Tulsa, Oklahoma)
Ownership structure	Professional corporation
Number of partners	3
Number of professional staff ^{3/}	3
Number of issuer audit clients ^{4/}	5

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. 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

^{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.

conformity with GAAP.^{5/} 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 scope of the inspection procedures performed included reviews of aspects of the performance of all five of the Firm's audits of the financial statements of issuers. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.^{6/} The deficiencies identified in four of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

- (1) on three audits, the failure to perform and document sufficient audit procedures related to transactions in which common stock was issued to employees and non-employees for services;

^{5/} 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 reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{6/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. *See* AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

(2) the failure to perform and document audit procedures related to the re-pricing of non-employee stock options; and

(3) the failure to perform and document audit procedures related to the completeness and valuation of a significant accrued liability.

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



PCAOB Release No. 104-2006-153
Inspection of Sutton Robinson
Freeman & Co., P.C.
July 13, 2006
Page 5

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 Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act 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. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final 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. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.



April 4, 2006

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

*Re: Response to Public Company Accounting Oversight Board Report
of 2005 Inspection of Sutton Robinson Freeman & Co., P.C.*

Dr. Mr. Diacont:

Thank you for the opportunity to review the PCAOB's Draft Report on the 2005 Inspection of Sutton Robinson Freeman & Co., P.C. We recognize the importance of the process, and are committed to improving our firm's quality control policies and procedures based on the findings of the PCAOB inspection.

The comments that follow respond to Parts I and II of the report. Although we have contrasting views on the severity of the specific issues noted, and the audit risk and scope of the procedures required, we do recognize that judgment is involved whenever audit procedures are performed. We understand and appreciate that on the particular issues noted, the PCAOB staff believes that our work product should be better documented to support the audit conclusions reached. We are committed to improving and enhancing our system of quality controls and procedures by addressing these findings.

Response to Part I:

Part IA - Review of Audit Engagements

- (1) The Firm acknowledges that it failed to document sufficient audit procedures and consult an Emerging Issues Task Force ("EITF") Bulletin related to common stock transactions on three audits. The Firm has since reviewed the Emerging Issues Task Force Bulletin which was the basis for the deficiency in all cases. The EITF Bulletin has been reproduced and distributed to all audit partners and staff for study. The Firm has added "common stock issued for services" to its list of areas requiring consultation.
- (2) The Firm did perform procedures and evaluate the treatment accorded the repricing of certain stock options, but failed to document them. The repricing of stock options was determined to be appropriate in the circumstances.

- (3) The Firm performed procedures related to the completeness and valuation of the significant accrued liability, but failed to document them. The client involved was a "shell corporation" with very few transactions. A detailed audit program was not considered necessary for this type of client. The recorded amount was verified by reference to signed employment agreements and by inquiry concerning any changes to the agreements. The Firm has now prepared an audit program to document procedures to be employed to test accrued compensation expense for this client.

In summary, we believe that in each case, with the exception of consulting an EITF Bulletin, sufficient audit procedures were performed by this firm to support our opinion on the issuer's financial statements; however, we also agree that our audit workpaper documentation should be improved for each item noted. As a firm, we believe that our audit documentation, in general, is well in excess of that required by Professional Standards, including AS No. 3. We expend considerable effort in maintaining audit files that both support the audit report and are understandable to any interested third party reviewer. We, however, acknowledge that on the deficiencies noted by the Inspection, our audit documentation should, and will be improved on all future engagements.

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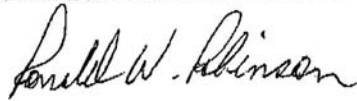
Comments on Non-public Aspects of Report

REDACTED

Comments on Non-public Aspects of Report

Sincerely,

Sutton Robinson Freeman & Co., P.C.

A handwritten signature in black ink, appearing to read "Ronald W. Robinson". The signature is written in a cursive, flowing style.

Ronald W. Robinson, CPA
For the Firm