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Inspection of BKHM, P.A.

Issued by the
Public Company Accounting Oversight Board
July 16, 2007

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. 104-2007-089



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 BKHM, P.A.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm BKHM, P.A.^{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 its former legal name of Beemer, Pricher, Kuehnhackl & Heidbrink, P.A.

^{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 fieldwork for the inspection from January 16, 2007 to January 23, 2007. 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 (Winter Park, Florida)
Ownership structure	Professional corporation
Number of partners	4
Number of professional staff ^{4/}	20
Number of issuer audit clients ^{5/}	1

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board

^{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 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.

^{6/} 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.

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, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. 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.^{8/} The deficiencies identified included a deficiency of such significance that it appeared to the

^{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/} 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.

inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{9/} That deficiency was the failure to perform sufficient audit procedures to evaluate the reasonableness of the allowance for doubtful accounts.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, 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

^{9/} 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.

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.^{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.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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June 11, 2007

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

**Re: Response to Part I of the
Draft Report on the 2007 Inspection of BKHM, P.A.**

Dear Mr. Diacont:

We welcome this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2007 inspection of BKHM, P.A. ("the Firm") and request that this letter be made part of the final Report.

We share the PCAOB's goal of using the inspection process as a means to improve audit quality and the reliability of financial reporting. In that regard, we appreciate the considerable value derived from the inspection process because an inherent part of our audit practice involves continuous improvement. With those goals in mind, we assessed the comment we received from the inspection team in 2007, communicated that finding to our audit professionals and provided specific guidance to them on the matter of audit documentation raised during the inspection. Certain enhancements to our documentation policies were implemented after the completion of the audit engagement that was inspected and, accordingly, were not reflected in the results of the inspection.

Appropriately, the inspection team applied rigorous standards in the engagement review. We believe that such an approach is an effective means of encouraging audit firms to elevate their performance levels. Recognizing the importance and value of the inspection process, we cooperated fully with the inspection team. We understand and appreciate that there is what we consider to be a differing view between the inspection team and the Firm as to the sufficiency of our documentation regarding our evaluation of the reasonableness of the issuer's allowance for doubtful accounts. This would be expected based on the judgmental nature of such a matter and we believe consideration of different views is a useful means of promoting best practices.

The draft Report appropriately recognizes that the inspection process is designed to identify deficiencies and that, based on the fact that only one audit of an SEC issuer was performed and inspected, the finding is not necessarily representative of our Firm's

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practice in general. As such, the format of the draft Report does not lend itself to a portrayal of the overall high quality of our audit practice. Further, the design of the draft Report provides condensed information regarding the finding, so there is no description of our risk assessment or the procedures that were performed in this area at the time of the audit or other information that may provide additional context for understanding the nature or magnitude of the finding. Moreover, the engagement reviewed by the inspection team was extremely complex and included many audit and reporting issues that we considered to be much more significant than the issuer's allowance for doubtful accounts. We are pleased that the inspection team found our procedures and documentation of all complex and high risk issues in the engagement to be sufficient.

It should be recognized that the sufficiency of evidential matter required to support an audit opinion is determined through the exercise of the auditor's professional judgment after a careful study of the particular circumstances. While documentation is an important element of the audit process and review thereof, it is also one of the more difficult areas in which to reach a common understanding of what is sufficient because of the variety of judgments involved in that analysis by professionals having different levels of knowledge of the issuers' business. We continue to focus on this area and receive training to ensure that all of our audit engagements include thorough and accurate documentation.

We have taken appropriate action on the matter described in Part I of the draft Report. In that regard, we have considered whether it was necessary to perform additional procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Due Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. As a result, we either enhanced our documentation in the workpapers or performed some additional procedures where necessary. However, no new facts came to our attention that caused us to believe that our previously issued report should be withdrawn.

We want to reiterate the seriousness with which we view the inspection comment and that we are committed to improving our performance wherever possible.

We appreciate this opportunity to provide our response to the Board and we look forward to further constructive dialogue on the most effective means of enhancing audit quality. If you have any questions regarding this letter, please contact Paul Heidbrink at (407) 998-9000.

Respectfully submitted,

BKHM, P.A.