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Inspection of
Chisholm, Bierwolf, Nilson & Morrill, CPA
(Headquartered in Bountiful, Utah)

Issued by the

Public Company Accounting Oversight Board

June 29, 2009

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. 104-2009-103A
(Includes portions of Part II of the full report that
were not included in PCAOB Release No. 104-2009-103)

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.

Public Company Accounting Oversight Board

INSPECTION OF CHISHOLM, BIERWOLF, NILSON & MORRILL, CPA

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Chisholm, Bierwolf, Nilson & Morrill, CPA[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 Chisholm, Bierwolf & Nilson, LLC.

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 October 29, 2007 to November 2, 2007 and from November 12, 2007 to November 15, 2007. 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 (Bountiful, Utah)
Ownership structure	Limited liability company
Number of partners	3
Number of professional staff[4/]	9
Number of issuer audit clients[5/]	67

[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.

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, 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 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.[8/] The deficiencies identified in four of the audits reviewed included deficiencies of such

[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.

[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* 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.[9/] Those deficiencies were –

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the valuation of a beneficial conversion feature related to the issuance of convertible debt;

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

(3) the failure to perform sufficient audit procedures to test the issuer's accounting for sales of working interests in oil and gas leases;

(4) the failure to perform sufficient procedures related to the use of the work of specialists;

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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.

[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.

(5) the failure to perform sufficient audit procedures to test goodwill for impairment;

(6) the failure to perform sufficient audit procedures to evaluate the impact of the opening balances on the financial statements and the consistency of accounting principles for the period covered by the Firm's audit report; and

(7) the failure to perform sufficient procedures to test compensation expense.

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

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART II

DETAILED DISCUSSION OF INSPECTION RESULTS

* * * *

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.[10/] 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.

* * * *

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 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:

[10/] 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.

* * * *

(ii) Revenue Recognition

As discussed above, in two of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of revenue recognition for contracts using percentage-of-completion accounting [Issuer A] and for revenue recorded related to distribution agreements [Issuer C]. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the testing of revenue recognition.

(iii) Sale of Working Interests in Oil and Gas Leases

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of the sale of working interests in oil and gas leases. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the testing of the issuer's accounting for the sale of working interests in oil and gas leases. [Issuer B]

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(v) Compensation Expense

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of compensation expense related to a consulting agreement entered into the prior year under which services were to be provided during the year under audit. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the testing of compensation expense. [Issuer A]

(vi) Goodwill Impairment

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

(vii) Use of the Work of Specialists

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of issuer data used by a specialist; the Firm's evaluation of the results of the work of a specialist that the Firm used for audit evidence and also as the basis for the issuer's required supplementary oil and gas reserve disclosures; and the Firm's evaluation of the relationship of the specialist to the issuer [Issuer B]. In addition, in one of the audits reviewed, the inspection team identified a deficiency related to the Firm's testing of issuer data used by a specialist; the Firm's evaluation of the results of the work of a specialist that the Firm used to evaluate the valuation and recoverability of certain recorded assets; and the Firm's evaluation of the relationship of the specialist to the issuer [Issuer D]. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's use of the work of specialists.

b. Fraud Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all required procedures in accordance with the provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit.* Specifically, the Firm did not perform audit procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud. [Issuers A, B, C, and E]

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3. Monitoring and Addressing Identified Weaknesses

A firm should monitor the adequacy of its policies and procedures and meaningfully address weaknesses in its audit practice. The Firm's policies and procedures appear to be deficient in this regard. The nature and frequency of the problems discovered by the inspection team indicate that the Firm has not responded meaningfully to similar weaknesses that have been identified to the Firm in the past, including in the Firm's 2006 internal inspection and the Firm's 2005 peer review reports. Comments in those reports included the Firm's failure to document its audit procedures, including procedures related to testing of journal entries.

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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.

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May 29, 2009

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

RE: Response to Draft Report of Inspection
of Chisholm, Bierwolf, Nilson & Morrill, LLC

Dear Mr. Diacont:

We appreciate the opportunity to respond to the Draft Report of the PCAOB inspection of Chisholm, Bierwolf, Nilson & Morrill, LLC.

Our Firm is committed to supporting the PCAOB's inspection process and we believe that an inspection process will help 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. Current and future training programs will further assist us in achieving those objectives. We have also undergone a merger of firms which has added additional top level support to our firm and has assisted us with the quality of our product for our SEC issuers and the investor public.

While we recognize the constructive intent of this inspection process, we wish to point out that an audit engagement performed in accordance with PCAOB standards requires the exercise of significant professional judgment, and because of the degree of judgment involved, views may differ on matters such as the nature, timing and extent of audit procedures performed and the sufficiency of evidence gathered. This was especially evident with the comments regarding our testing of revenues for two issuers, and goodwill for another. Industry standard methods were used to test such accounts and in our professional judgment, a better method did not exist and the reviewers suggestions of what procedures they believed the firm should have performed, were unreasonable under the circumstances or vague. 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.

While we support the stated goals of the PCAOB and the inspection process, it appears that in practice the inspection process is not tailored to fit the differences and methodologies that are found in smaller firms relative to audit procedures and practices of the smaller public companies. We don't believe one size fits all. Smaller firms and smaller Issuers represent a significant and important market with equally important investors. A systemic reduction or elimination of this segment would be anti-productive within the economy.

We appreciate the service of your organization and will be pleased to discuss our comments or answer any questions the Board may have.

Sincerely,

Chisholm, Bierwolf, Nilson & Morrill

CHISHOLM, BIERWOLF, NILSON & MORRILL, LLC