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**Inspection of
Lawrence Scharfman & Company P.C.**

**Issued by the
Public Company Accounting Oversight Board
September 24, 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. 104-2007-121A
(Includes portions of Parts II and IV of the full report that
were not included in PCAOB Release No. 104-2007-121)



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 LAWRENCE SCHARFMAN & COMPANY P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Lawrence Scharfman & Company P.C.^{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 Lawrence Scharfman CPA PC, Lawrence Scharfman & Co., CPA P.C., Lawrence Scharfman CPA PA Certified Public Accountants, Lawrence Scharfman CPA, Lawrence Scharfman CPA PA, Lawrence Scharfman, CPA and Lawrence Scharfman & Company, CPA PC.

^{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 February 20, 2007 to March 7, 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	2 (Boynton Beach, Florida; and Freeport, New York)
Ownership structure	Professional corporation
Number of partners	1
Number of professional staff ^{4/}	1
Number of issuer audit clients ^{5/}	18

^{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 two 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 both 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 failure to perform audit procedures related to revenue;
- (2) the failure, in two audits, to perform audit procedures related to certain significant equity transactions;
- (3) the failure to include an explanatory paragraph in the auditor's report regarding an issuer's ability to continue as a going concern, despite having concluded that such a paragraph was required;
- (4) the failure to perform audit procedures related to certain significant real estate transactions; and
- (5) the failure to take sufficient action to prevent future reliance on an audit report that the Firm had withdrawn.

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.

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



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Inspection of Lawrence Scharfman &
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September 24, 2007
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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

* * * *

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.

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^{11/}

^{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.

^{11/} In addition to the points described in the text, the Board notes that the Firm did not obtain concurring partner reviews in the engagements reviewed by the inspection team. Because the Firm was not a member of the SEC Practice Section of the American Institute of Certified Public Accountants and therefore is not subject to the concurring partner review requirement in the Board's interim standards, the Board is not here addressing the lack of concurring partner review in terms of a criticism of, or a potential defect in, the Firm's quality control systems for purposes of PCAOB Rule 4009 (discussed in Part III below). Nevertheless, the Board notes the important role that a concurring partner review can play in ensuring that an audit is performed in compliance with PCAOB standards, and encourages the Firm to obtain a concurring partner review

a. Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

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 and B]

c. Engagement Completion Document

The Firm's system of quality control appears not to provide sufficient assurance that the firm will prepare an engagement completion document in accordance with AS No. 3, which is necessary to demonstrate that the work performed by engagement personnel addresses the significant findings and issues of the engagement. [Issuers A and B]

d. Documentation

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will adequately document its audit work. For the audit engagements reviewed, the Firm's primary source of evidence of the performance of the audit procedures was signed audit program steps. The Firm's audit work papers should be sufficiently detailed to enable supervisory members of the Firm to understand the nature, timing, extent, and results of the audit procedures performed and the evidence obtained. Although there may be circumstances when a sufficiently detailed audit step on an audit program will adequately document the evidence obtained from the procedure, such instances generally are rare. In the circumstances observed by the

in connection with audits of issuers. A meaningful concurring partner review procedure would likely have identified the deficiencies described in this report before the Firm issued the reports.

inspection team, the sign-offs were not an adequate indication of the procedures performed and evidence obtained. [Issuers A and B]

e. Partner Workload

The Firm's system of quality control may not provide sufficient assurance that the audit partner's workload requirements realistically allow for sufficient time to supervise staff and review work papers with due care. The Firm's only audit engagement partner is responsible for servicing all of the Firm's issuer audit clients. In addition, the Firm acquired over 70 percent of its issuer audit clients from March 2005 to November 2006 and approximately half of the Firm's issuer audit clients report their financial results on a calendar year-end basis.

f. Auditor Communications

The Firm's system of quality control appears not to provide sufficient assurance that all required auditor communications between the Firm and the audit committee, or those who have responsibility for oversight over the financial reporting process, occur and are appropriately documented, including the independence confirmations required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. [Issuers A and B]

g. Appropriate Procedures

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. The information reported by the inspection team suggests an apparent pattern of failures to perform the appropriate procedures related to the testing of equity transactions. [Issuers A and B]

* * * *

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.^{12/}

^{12/} 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.

FIRM RESPONSE TO DRAFT INSPECTION REPORTS

**FROM LAWRENCE SCHARFMAN & CO. P. C.
9608 Honey Bell Circle, Boynton Beach, Florida 33437**

THIS RESPONSE ADDRESSES THE PUBLIC PORTION OF THE REPORT

THIS IS IN RESPONSE TO PART II

CLIENT ISSUER A

Comment A 1a)

Work papers lacked Documentation as to The Auditors Testing of Revenues

RESPONSE:

The Work Papers contain a Disussion of the Revenue Producing Procedure. It also contains a Detailed Analysis of one of the items recognized as Revenues which the audit considered as significant.

I Reviewed the work papers under section 390 and I find they support the Financial Statements, consistent with section 390, I have reviewed the Audit Procedures Employed at the time and I find them to be Adequate to support the balances.

Comment A 1b)

Work papers lacked documentation as to the auditors procedures for testing Equity transactions.

RESPONSE:

Stock issued during the period was tested by Referencing those issues to Agreements and minutes. The values for the issuance to the value of the Companys' Stock for applicable periods was also tested by comparing amounts Issued for stock to those recorded for services. The beginning outstanding Shares was tested by referencing the beginning of the period to the 2004 Audit File and verifying ending shares by reconciling the shares recorded to the stockholders listing.

I reviewed the work papers under section 390 and I find they support the financial statements, consistent with section 390. I have reviewed the audit procedures employed at the time and I find them to be adequate to support the balances.

FIRM RESPONSE TO DRAFT INSPECTION REPORTS

***FROM LAWRENCE SCHARFMAN & CO. P. C.
9608 Honey Bell Circle, Boynton Beach, Fl. 33437***

THIS RESPONSE ADDRESSES THE PUBLIC PORTION OF THE REPORT

THIS IS IN RESPONSE TO PART II

CLIENT ISSUER A

Comment A 1c)

The audit report was not modified in response to possible going concern indicators.

RESPONSE:

The audit report should have included an Explanatory Paragraph Referencing the going concern contingency which client was to have included in restatement.

Enclosed my letter sent to client which includes going concern Paragraph dated May 3,2006

FIRM RESPONSE TO DRAFT INSPECTION REPORTS

**FROM LAWRENCE SCHARFMAN & CO. P. C.
9608 Honey Bell Circle, Boynton Beach, Florida 33437**

THIS RESPONSE ADDRESSES THE PUBLIC PORTION OF THE REPORT

THIS IS IN RESPONSE TO PART II

CLIENT ISSUER B

Comment B 2a)

Work papers lacked Documentation as to the Auditors Procedures for Testing Equity Transactions.

RESPONSE:

Stock issued during the period was tested by referencing those issues to Agreements and minutes. The values for the issuance to the value of the Company's stock for applicable periods was also tested by comparing amounts issued for stock to those recorded for services. The beginning outstanding shares was tested by referencing the beginning of the period to the 2004 Audit file and verifying ending shares by reconciling the shares recorded to the Stock Holders listing.

I reviewed the work papers under section 390 and I find they support the financial statements. Consistent with section 390. I have reviewed the audit procedures employed at the time and I find them to be Adequate to support the balances.

*** Redacted** was majority stockholder, only officer and did not feel need for recording of minutes.
Records from stock transfer agent are enclosed.

Comment B 2b)

Work papers lacked Documentation as to the Auditors Procedures for Testing Real Estate Acquisitions.

RESPONSE:

The acquisitions of real estate was tested by inspecting the titles recorded at the appropriate county offices. The value of real estate was tested by inspecting the appropriate agreements supporting the acquisition.

(See response to B2c for further clarification.)

* As a matter of policy, the PCAOB makes reasonable efforts to redact from firms' responses to draft inspection reports personal identifying information about individuals not associated with the firm.

FIRM RESPONSE TO DRAFT INSPECTION REPORTS

**FROM LAWRENCE SCHARFMAN & CO. P. C.
9608 Honey Bell Circle, Boynton Beach, Florida 33437**

THIS RESPONSE ADDRESSES THE PUBLIC PORTION OF THE REPORT

THIS IS IN RESPONSE TO PART II

CLIENT ISSUER B

Comment B 2c)

Failure to issue Qualified or Adverse opinion and to prevent reliance on incorrect opinion.

RESPONSE:

There was no need to issue qualified or adverse opinion because:

At the time of my signing my audit letter for Dec. 31, 2005, the mortgage receivable was properly stated @ \$ 7,800,000 since the mortgage was purchased for \$ 5, 500,000 and interest receivable had been accruing over many years at \$ 32,000 per month which equaled \$ 2,300,000.

The client purchased the mortgage because his understanding from his attorney was that interest was collectable for all prior years.

Aspen Cove was purchased for only \$ 2,600,000 subject to trust deed of \$800,000.00 The accountants for the firm inadvertently capitalized the property for \$3,400,000. At the time of the audit, they charged cost of sales and credited the property for \$800,000 and credited the property for \$800,000. They should have charged yhe \$800,000 to a liability.

When it was found out in a subsequent quarter that the interest was not collected, I told the client and wrote him that that the financials should be restated to reflect that the interest receivable should be restated and the cost of sales should be reduced. The client would do nothing and I resigned as I could not force him to restate the financials.

comment B

Issues related to Quality Controls

RESPONSE

I WAS PEER REVIEWED FOR THE AICPA BY A PCAOB AUDITOR
AND ENCLOSE RESULTS REGARDING MY SYSTEM OF QUALITY CONTROL
IN EFFECT, THIS RESPONDS TO:

AUDIT PERFORMANCE

TECHNICAL COMPETENCE,DUE CARE,PROFESSIONALSKEPTICISM

DOCUMENTATION

AUDITOR COMMUNICATION, APPROPRIATE PROCEDURES

Partner Work Load:

RESPONSE ADDITIONAL STAFF IS BEING BROUGHT IN AND WE WILL BE
USING A CONCURRING PARTNER

AUDIT PERFORMANCE

RESPONSE:

We applied the SEC STANDARDS FOR QUALITY CONTROL to our quality control program for non SEC issuers. That program has been reviewed and approved.

We audited the AICPA and performed audits for AIG and Continental Insurance for companies who borrowed in excess of \$10,000,000 in which we utilized proper auditing techniques under GAAP.

I HAVE TAKEN THE COMMENTS IN THE REPORT SERIOUSLY and will take appropriate steps to insure the quality control of the public company audit practice of Lawrence Scharfman & Company P.C. meets the highest level of professional standards.

I have reviewed the audit documentation of the two engagements which were inspected. I have made the appropriate correction to indicate that the procedures performed have been documented.

I have also engaged a concurring reviewer who will review all of the audit engagements of the firm.

In addition to those steps related to the engagements, I purchased "PPCs Guide to PCAOB Audits" to provide a resource dedicated to public company audits.

I have also made arrangements to take the following continuing professional education courses which are directly related to public company audits: Sarbanes Oxley, SEC Conference, PCAOB Audits in Small Business Environment, Public Company Update.

Larry O'Donnell, CPA, P.C.

Telephone (303)745-4545

2228 South Fraser Street
Unit 1
Aurora, Colorado 80014

November 21, 2006

To the shareholder

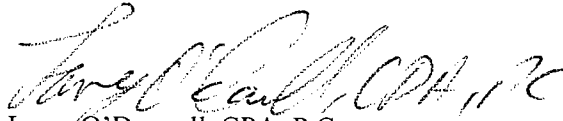
Lawrence Scharfman, CPA, PA And the Center for Public Company Audit Firms Peer Review Committee

I have reviewed the system of quality control for the accounting and auditing practice of Lawrence Scharfman, CPA, PA (the firm) applicable to non-SEC issuers in effect for the year ended November 30, 2005. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by me since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

My review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. My review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In my opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Lawrence Scharfman, CPA, PA in effect for the year ended November 30, 2005, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

As is customary in a peer review, I have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.



Larry O'Donnell, CPA, P.C.