

**Inspection of  
Hoberman, Miller, Goldstein & Lesser,  
CPAs, P.C.**

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

November 30, 2005

**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 HOBERMAN, MILLER, GOLDSTEIN & LESSER, CPAs, P.C.**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Hoberman, Miller, Goldstein & Lesser, CPAs, 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.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> 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.

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<sup>1/</sup> 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.

<sup>2/</sup> 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 June 20, 2005 to June 22, 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 (New York, New York)
Ownership structure	Professional corporation
Number of partners	3
Number of professional staff <sup>3/</sup>	18
Number of issuer audit clients <sup>4/</sup>	3

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

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<sup>3/</sup> "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.

<sup>4/</sup> 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.<sup>5/</sup> 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 three 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.<sup>6/</sup> The deficiencies identified in two 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. the failure to perform and document adequate audit procedures related to revenue;
2. the failure to perform and document adequate audit procedures related to the existence and valuation of marketable securities; and

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<sup>5/</sup> 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.

<sup>6/</sup> 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.

3. the failure to perform and document adequate audit procedures related to accrued expenses.

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

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.

**HOBBERMAN, MILLER,  
GOLDSTEIN & LESSER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

226 WEST 26<sup>TH</sup> STREET  
NEW YORK, NY 10001-5785  
(212) 463-0900 FAX (212) 691-6452

September 28, 2005

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

RE: Draft Report of Inspection

Dear Mr. Diacont:

Thank you for the opportunity to respond to the comments of the draft report of our inspection. We were surprised at the content of your draft report considering how complimentary the inspection team was of our work at the exit conference. In fact, the inspection team indicated that they were unsure whether any of the matters indicated on the Inspection Comment Forms would appear in your report. In addition, it appears that the observations indicated in your draft report totally disregarded our responses to the Inspection Comment Forms and, in certain instances are factually incorrect.

Although we support the PCAOB's mission, we strongly disagree with the conclusions reached in Part 1 of the draft report of our firm.

Our response to the conclusions in Part 1 of the draft report are indicated below.

Part 1A(1) *"failure to perform and document adequate audit procedures related to revenue"*

Issuer A is engaged in offering foreign currency market trading to professionals and retail clients over its web-based trading system. It derives its revenues, which consist of the net gain (loss) from foreign currency futures operations, primarily from two sources - 1) gains (losses) from its foreign currency market trading with third parties ("Customers") over its web-based trading system; and 2) gains (losses) from trading on its own account ("Banks").

During the year ended January 31, 2004, Issuer A's first year of any significant revenue, Issuer recorded gains of approximately \$1,630,000 from its foreign currency market trading with Customers and losses of approximately \$647,000 from trading on its own account with Banks. This compared to losses of approximately \$38,000 from Customers and gains of approximately \$10,000 from Banks for the year ended January 31, 2003. Accordingly, although we performed analytical review procedures during the planning stages of our audit and overall analytical review during the completion of our audit, the audit of the revenue cycle was not conducive to substantive analytical procedures.

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In order to test the Issuer's gains from foreign currency market trading with Customers, due to the high number of transactions, we determined to randomly select 30 transactions from two months, which we traced through to the specific Customer's accounts without exception. In addition, contrary to what the draft report indicates, and as indicated in our response to the Inspection Comment Form, we did, in fact, perform other substantive audit procedures to test revenue transactions of the Issuer's Customers. As indicated in our response to the Inspection Comment Form, we substantively tested revenue from Customers in connection with our testing of Customers' deposits payable. The amount due to Customers consists of Customers' balances at the beginning of the year, plus Customers' deposits during the year, less Customers' withdrawals during the year (both tested by tracing to bank statements), less Customers' losses during the year or plus Customers' gains during the year. By testing Customers' deposits we verified that the revenue from Customers was correctly stated.

Based on our professional judgment, coupled with the low level of inherent risk with regard to revenue from Customers (Customers constantly check their accounts) and considering the work performed on Customers' deposits, we concluded that our audit procedures were sufficient to conclude that revenue from Customers is not materially misstated.

With regard to revenue from Banks, the revenue resulted from approximately 300 foreign currency transactions. We tested all transactions resulting in a gain or loss in excess of \$40,000. This selection resulted in a sample size of 16 transactions, which although only represented approximately 5% of the total transactions; it represented approximately 61% of the total dollar value of net loss from Banks. Based on our professional judgment, we believe that this sample size was sufficient to conclude that the loss from Banks is not materially misstated.

Based on the aforementioned, we disagree with the conclusions indicated in the draft report that we failed to perform and document adequate audit procedures related to revenue.

Part 1A(2) *"failure to perform and document adequate audit procedures related to the existence and valuation of marketable securities"*

The inspection team's comment is the result of the fact that responses to confirmations to ascertain the existence of Issuer's marketable securities were faxed to the Issuer, who then forwarded the confirmation responses to us. In addition, we did not verify the market values of the securities appearing on the confirmations by verifying the market values with published sources.

While we agree to a certain extent with the aforementioned comment, we certainly do not agree that this deficiency was of such significance for the inspection team to conclude that we did not obtain sufficient competent evidential matter to support our opinion.

We also believe there are certain matters that should be considered. First of all, we called the custodians on numerous occasions requesting that the confirmations be sent directly to us. The custodians specifically indicated that the confirmations were mailed directly to the Issuer. Furthermore, we were informed by the custodians (both of which are located in Israel) that this was their policy, since the date of the confirmation request was other than a calendar year-end. Secondly, it should be noted that all of the Issuer's books and records are maintained, and their financial statements are prepared, by an independent accounting firm in Israel. All balances held by the custodian are reconciled by the accounting firm on a monthly basis and no employees or management personnel of the Issuer are involved in this process. Accordingly, any discrepancies between the Issuer's books and records and the balances per the custodian would be noted and reconciled. During our audit engagement we were in constant contact with the accounting firm, and we were not made aware of any unusual items or discrepancies. Thirdly, our firm follows a stringent client acceptance and continuation policy. If we believed there was even a remote possibility that any document received from a client was being altered, or any question regarding management's integrity, they would cease being a client of our firm.

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In the future, should this policy of the custodians of sending the confirmations directly to the issuer continue, we will contact the custodians in order to ascertain the content of the confirmations.

With regard to the market value of the securities in question, they are traded on the Israeli Stock Exchange and we were unable to obtain a quoted market price over the Internet since they had to be requested in Hebrew. It should be noted that the custodians are a major bank and major insurance company in Israel, analogous to Merrill Lynch and MetLife in the United States. In the future, we will obtain quoted market prices either from broker-dealers or we will contact an Israeli CPA firm that we have a relationship with and have them verify the market values for us.

*Part 1A(3) "failure to perform and document audit procedures related to accrued expenses".*

The inspection team's comment indicates that we did not perform any audit procedures to determine if a closed jobs accrual and two risk reserves were appropriate.

Issuer B designs and manufactures sophisticated, automated, microwave test and measurement systems for various industries, often pursuant to long-term contracts. Certain of these systems are very complex, and to use the words of one of the project managers "test the laws of physics". From time-to-time, and through the course of Issuer's history, there have been instances when after a contract is complete, the system having been delivered and installed, the customer contends that the system does not meet the required specifications to the fullest extent. In these instances, after the contract has been closed out for accounting purposes, Issuer is required to expend additional manpower to perform design modifications in order to meet the requirements of, and maintain satisfactory relationships with, its customers. Often times these modifications require a team of Issuer's engineers working at the customer's location on several occasions to guarantee the satisfaction of the customer. There are also instances wherein Issuer is required to provide either hardware or software to correct the perceived problem. Accordingly, Issuer has established a closed job accrual based on its best estimate of the potential exposure of contracts that have recently been completed.

The two risk reserves aggregating \$65,000, represent additional estimated costs on two specific contracts which were determined by Issuer's CEO and CFO after they had discussions with the various project managers regarding each of the issuer's contracts in progress. Based on information learned during these discussions and their own knowledge of these contracts, the CEO and CFO determined that these additional estimates were required. They determined not to charge the amounts directly to the "estimates to complete" ("ETC") of each of the respective contracts as it is their belief that if the amounts were charged directly to ETC's, the project managers would be more apt to spend the amounts provided by the additional estimates. Since the amounts provided for are estimated additional costs, it was not possible to trace the amounts to specific documentation.

The aforementioned was discussed with Issuer's management, we concur with Issuer's treatment of the matters described above, and in the future our work papers will contain additional documentation in support of management's estimates.

However, once again we do not agree that this deficiency was of such significance for the inspection team to conclude that we did not obtain sufficient competent evidential matter to support our opinion.

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While we appreciate the efforts and input of the inspection team and we recognize that our audit process can always be improved, we believe that the findings of the inspection team do not support the conclusions reached in our draft report.

We trust that you will consider this letter in preparing your final report.

Very truly yours,

*Hoberman, Miller, Goldstein & Lesser, CPAs, P.C.*