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Inspection of Mayer Hoffman McCann P.C.

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

August 29, 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**

PCAOB RELEASE NO. 104-2005-056

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 MAYER HOFFMAN McCANN P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Mayer Hoffman McCann 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 May 17, 2004 to May 28, 2004. 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 ^{3/}	25
Ownership structure	Professional corporation; Alternative practice structure affiliation with Century Business Services, Inc. (CBIZ)
Number of partners	170
Number of professional staff ^{4/}	610
Number of issuer audit clients ^{5/}	15

^{3/} The Firm's offices are located in San Jose, CA; Bakersfield, CA; Oxnard, CA; Los Angeles, CA; Tucson, AZ; Phoenix, AZ; Park City, UT; Salt Lake City, UT; Boulder, CO; Denver, CO; Wichita, KS; Topeka, KS; Leawood, KS; St. Louis, MO; Minneapolis, MN; Elm Grove, WI; Chicago, IL; Cleveland, OH; Akron, OH; Atlanta, GA; Boca Raton, FL; Bethesda, MD; Plymouth Meeting, PA; New Castle, DE; and New York, NY.

^{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 by 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.

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 conformity with GAAP.^{6/} 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 eight of the Firm's audits of the financial statements of issuers. Those audits and 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.^{7/} The deficiencies identified in three of the audits reviewed included

^{6/} 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.

^{7/} 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.

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 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 issuer's failure to properly calculate diluted earnings per share;
- (2) reliance on controls over disbursements without obtaining evidence about the operational effectiveness of those controls for the entire period under audit;
- (3) the failure to properly test the impairment of long lived assets;
- (4) the failure to perform sufficient testing of revenues, costs and expenses;
and
- (5) the failure to test the existence of an investment security.

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 the Firm's alternative practice structure, 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.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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May 19, 2005

Mr. George H. Diacont
Director
Division of Registration and Inspection
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

**Re: Response to Part I of the Draft Report of 2004 Inspection of
Mayer Hoffman McCann P.C.**

Dear Mr. Diacont:

Mayer Hoffman McCann P.C. (MHM) is pleased to provide our response to the Public Company Accounting Oversight Board (PCAOB) on its 2004 inspection of our firm.

MHM fully supports the efforts of the PCAOB in improving the quality of audits, and thereby improving investor confidence and restoring public trust in our profession.

MHM is committed to performing the highest quality audits and we appreciate the professionalism, thoroughness, dedication and attention to detail of the PCAOB staff in conducting our inspection. Their findings provide an opportunity for our firm to emphasize and enforce the improvements we have already made and will continue to make to our quality control procedures.

Our response to the specific findings noted in Part I of the Draft Report follow.

The Draft Report indicates that we have 26 offices. As of the date of the inspection we had 25 offices and we currently have 27. Assuming the report is intended to indicate the number of offices as of the date of the inspection report, we would request that Orange County, CA, opened in February 2005, be added as an office location.

The Draft Report, under Ownership structure, accurately describes that the Firm is organized as a Missouri professional corporation with an alternative practice structure affiliation with Century Business Services, Inc. (CBIZ). However, we would like to clarify in our response that MHM is owned solely by its CPA shareholders and that there is no ownership interest of CBIZ in MHM.

Review of Audit Engagements

The inspection staff thoroughly reviewed eight audit engagements selected for inspection and was appropriately very rigorous in the application of high standards during their inspection. Those procedures resulted in three engagements where the PCAOB staff concluded that there were six deficiencies in the audit procedures performed by our firm.

We acknowledge the six findings reported by the inspection staff and with the exception of one, we agree that they are accurately described in the draft report. With respect to the fifth finding, (failure to evaluate whether to include a going concern paragraph in an audit opinion), we would acknowledge that our evaluation of whether to include a going concern paragraph in our audit opinion was not adequately documented. However, we believe we did make an appropriate evaluation and reached an appropriate conclusion in light of additional funds raised by the client and disclosed in the financial statements as a subsequent event.

It is important to point out that all of the findings related to only one of MHM's current 27 offices. We found problems with this office through our previous internal inspection procedures and were in the process of making improvements at the time of the PCAOB inspection. The improvements we have currently made include replacing that office's Attest Practice Leader with a CPA that has over 19 years of audit experience, including audits of substantial SEC registrants, in a major international CPA firm. We also required that concurring reviews of that office's SEC engagements be performed by individuals from other offices with extensive SEC experience.

In addition, eight individuals from this office attended the firm's three day National SEC Reporting program in October 2004. The instructor for this training program was the firm's National Director of Professional Standards, a newly created position in the firm's Quality Control System. The individual in this role brought 30 years of experience with a regional CPA firm and extensive experience with the profession's standards setters. We have also issued firm guidance during 2004 clarifying concurring reviewer responsibilities.

We will communicate the findings of the PCAOB inspection report to our professional staff. In addition, we will cover the matters noted as audit deficiencies in our future training programs to improve our performance on future engagements.

We appreciate the opportunity to provide our response and would be pleased to discuss any matters that may require further clarification before you finalize your report. MHM understands the importance of improving our audit performance and is committed to working with the PCAOB to enhance our audit quality.

Respectfully submitted,

Mayer Hoffman McCann P.C.