

**Inspection of  
Akin, Doherty, Klein & Feuge, P.C.**

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

**April 6, 2006**

**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 AKIN, DOHERTY, KLEIN & FEUGE, P.C.**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Akin, Doherty, Klein & Feuge, 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 May 17, 2005 to May 20, 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 (San Antonio, Texas)
Ownership structure	Professional corporation
Number of partners	5
Number of professional staff <sup>3/</sup>	9
Number of issuer audit clients <sup>4/</sup>	2

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 both 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 both 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 procedures to test the fair value of common stock issued in exchange for services and to determine if the transactions were recorded in the proper period;

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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.

- (2) the failure to perform and document sufficient procedures to test an issuer's accounting for net deferred tax assets; and
- (3) when relying on the work of a specialist, the failure to perform and document procedures necessary to support that reliance.

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.



## AKIN DOHERTY KLEIN & FEUGE P.C.

Thomas A. Akin  
David J. Doherty  
Howard H. Klein, Jr.  
Joseph V. Feuge, II  
Scott C. Kopeccky

Certified Public Accountants  
Registered with AICPA and  
Public Company Accounting  
Oversight Board

December 15, 2005

Mr. 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 Public Company Accounting Oversight Board (PCAOB)  
Report of 2005 Inspection of Akin, Doherty, Klein & Feuge, P.C.

Mr. Diacont:

Thank you for the opportunity to review the PCAOB's Draft Report on the 2005 Inspection of Akin, Doherty, Klein & Feuge, P.C. dated November 17, 2005. Our firm is heavily involved in the American Institute of Certified Public Accountants (AICPA) peer review program (by way of our lead audit partner performing and assisting in a number of peer reviews each year) so we recognize and appreciate the importance of the process, and commit to enhancing our firm's quality control policies and procedures based on the findings of the PCAOB inspection.

The comments that follow respond to *Part I – Inspection Procedures and Certain Observations* of the report. Although we have contrasting views on the severity of the specific issues noted, and the audit risk and scope of the procedures required, we do recognize that judgment is involved whenever audit procedures are performed. We understand and appreciate that on these particular issues noted the PCAOB staff believes our work product should be better documented to support the audit conclusions reached. We commit to improving and enhancing our system of quality controls and procedures to address these findings.

The Inspection identified three deficiencies during its review of the selected engagements, which were commented on in *Part I*. We believe in each case, sufficient audit procedures *were performed* by this firm to support our opinion on the issuer's financial statements; however, we also agree that our audit *workpaper documentation* should be improved for each item noted and as required by AS No. 3, *Audit Documentation*. As a firm, we believe our audit documentation is generally well in excess of that required by Professional Standards, including AS No. 3. We go to great effort to maintain audit files that both support the audit report and are understandable to any interested third party reviewer. We acknowledge that on the deficiencies noted by the Inspection, our audit documentation should, and will be, improved on future engagements.

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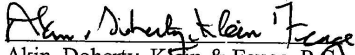
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We have addressed each specific issue noted by this Report with our professional staff and our concurring review partner, as well as those other comments generated as a result of the Inspection. We have expanded our documentation on the issues noted and made them a part of the respective audit files for the year under Inspection. No items were noted as a result of this procedure, which caused us to believe that our previously issued auditors' report should be withdrawn, or that restatement of any related financial statements is required.

As a result of the PCOAB Inspection, we have increased our continuing professional education (CPE) for our professional staff, discussed the findings of the Inspection with our staff and concurring review partner, and have made certain other modifications to our internal controls and policies. These matters have been discussed at greater length in a separate letter addressed to the PCAOB staff.

We understand the importance of strengthening our system of quality control to address the issues noted during the Inspection process, and commit to fulfilling our professional responsibilities in this regard. Questions regarding this letter should be directed to Tom Akin, 210-829-1300, [tom@adkf.com](mailto:tom@adkf.com).

Sincerely,

  
Akin, Doherty, Klein & Feuge, P.C.