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Inspection of Carson & Co, LLC

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

June 08, 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**

PCAOB RELEASE NO. 104-2006-127



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 CARSON & CO, LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Carson & Co, LLC ("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 August 29, 2005 to September 2, 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 (Sewickley, Pennsylvania)
Ownership structure	Limited liability company
Number of partners	2
Number of professional staff ^{3/}	1
Number of issuer audit clients ^{4/}	1

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

^{3/} "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.

^{4/} 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.

fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{5/} 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 Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. 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.^{6/} The deficiencies identified included a deficiency 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. That deficiency was the failure to perform and document adequate procedures to test the existence and completeness of the issuer's outstanding capital shares.

^{5/} 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.

^{6/} 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.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, 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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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.

Carson & Co, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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Registered - Public Company
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Member - American Institute of
Certified Public Accountants
Pennsylvania Institute of
Certified Public Accountants

May 5, 2006

Via FedEx Express

Mr. George H. Diacont
Director
Division of Registration and Inspections

Re: Response to Part I of the Draft Report of Inspection of Carson & Co, LLC

Dear Mr. Diacont:

We are writing to you in response to your draft report of inspection dated April 6, 2006. We are supportive of the inspection process and believe the Board's comments and observations enhance the ability to achieve our shared objective of improving audit quality.

The sufficiency of evidential matter required to support an audit opinion is a matter of professional judgment, which considers cumulative audit knowledge, as well as, the results of evaluation and testing of the client's system of internal control, to include fraud risk evaluation and procedures, and substantive testing of year end balances.

We believe that the matter the inspection team considered a deficiency in audit procedures (which related to shareholder confirmations) represents a difference in professional judgment between this Firm's audit team and the inspection team.

The audit team's professional judgment based upon the Firm's evaluation of the control environment and the specific relevant internal accounting controls, as well as its testing of internal accounting control surrounding the Issuer's capital accounts, resulted in the conclusion the controls were adequate and were operating adequately to provide a basis for audit reliance in conducting year-end audit tests for fair statement of shares outstanding and shareholder balances. A summary of the Firm's testing included:

- Review of Advisor (as provider of transfer agency and accounting services) control activities.

- Review for issuance of shareholder numbers in sequence.
- Agreeing the year end totals of shareholder shares and balances recorded in the transfer agent's subsidiary shareholder data base to the Issuer's general ledger capital account balances.
- Agreement of underlying transfer agent shareholder data base activity to the Issuer general ledger activity report through mid-December and subsequent review for significant transactions through year end.
- Capital share and cost basis roll forward from prior year ending balances, incorporating activity tested above to arrive at current year ending balances and agreeing (with only minor differences) these to the Issuer financial statements.
- Selections of various types of capital account transactions and agreeing to Shareholder source document files maintained by the transfer agent.

Accordingly, the Firm concluded that, absent fraud, it was unnecessary to confirm shareholder accounts in order to test the issuer's financial statement assertions of completeness (all valid accounts included) and accuracy (valuation and presentation).

In addition, as required in Paragraph 4.44 of the AICPA Audit and Accounting Guide for Investment Companies (Guide), the Firm did confirm the shares outstanding directly with the transfer agent. The satisfactory results of this test, supported by the satisfactory results of the Firm's evaluation of the control environment and the specific relevant internal accounting controls, as well as its testing of internal accounting control surrounding the Issuer's capital accounts provided sufficient competent evidence as to the existence and completeness of the issuer's outstanding shares.

However, as a fraud risk response procedure in accordance with Statement on Auditing Standard 99, Consideration of Fraud in a Financial Statement Audit (SAS 99), the Firm elected to circulate selected year-end shareholder accounts. As a fraud risk response, the alternative procedure designed for follow up of non responses, was to verify circulated shareholder addresses with external internet data base. The purpose of this additional step was to provide reasonable assurance that the circularized shareholders did, in fact, live at the addresses shown on the Issuer's records and accordingly received the confirmation request by the US Postal Service and had an opportunity to independently verify their share balances.

The Firm also considered this fraud response follow up procedure to satisfy the alternative audit procedure requirement under Statement of Auditing Standard 67, The Confirmation Process. This is based upon the shareholder circulation procedure as a fraud audit step not as an audit procedure necessary to fulfill the audit objective of existence and completeness of shares outstanding, absent fraud. As a fraud step we planned non-reliance on the transfer agent control systems and source document records, therefore follow-up procedures were not directed to internal documents.

Additionally, the Firm believes this procedure is in accordance with SAS 99, which refers to a strategy of increasing the unpredictability of the audit approach.

Notwithstanding the Firm's position, as discussed above, we understand that the development of audit procedures and the sufficiency of evidential matter to support an audit opinion are matters of professional judgment, which can differ among professionals.

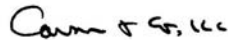
Recognizing that the inspection team represents the Board, we have subsequently performed additional follow up procedures of confirmation non responses to include verifying shareholder applications on file and examination of a judgment selection of redemption checks as to payee and endorsement. The results of these additional follow up procedures were satisfactory. This evidence is consistent with the conclusion reached in our previous testing and also supports our issued opinion dated February 2, 2005.

In addition, we added this audit procedure to the following year's audit program.

* * *

We want to reiterate our support of the inspection process and of the goal of the Board of improving Audit Processes and Financial Reporting. We are available to the Board and its staff to discuss our comments in further detail. Please contact Terrence J. Carson, Managing Partner at (412) 741-8588 with any questions.

Sincerely,

Handwritten signature of Terrence J. Carson in cursive script.

Carson & Co, LLC