

**Inspection of
Clancy and Co., P.L.L.C.**

**Issued by the
Public Company Accounting Oversight Board
March 9, 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 CLANCY AND CO., P.L.L.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Clancy and Co., P.L.L.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 July 19, 2004 to July 23, 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	1 (Phoenix, Arizona)
Ownership structure	Professional limited liability company
Number of partners	3
Number of professional staff ^{3/}	None
Number of issuer audit clients ^{4/}	16

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

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel.

^{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.

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 Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of six 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.^{6/} The deficiencies identified in all six 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 Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for a business combination;

^{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.

- (2) the failure to perform and document audit procedures to determine whether it was appropriate to consolidate a subsidiary that was not majority owned by the issuer;
- (3) the failure to adequately test the inventory balance and related inventory reserve;
- (4) the failure to adequately test the allowance for loan losses;
- (5) the failure to adequately test interest income;
- (6) the failure to perform appropriate audit procedures relating to a subsequent event disclosed in the financial statements;
- (7) the failure to adequately evaluate a potential contingency;
- (8) the failure to perform procedures to test the existence and valuation of marketable securities;
- (9) the inappropriate determination to serve as principal auditor when substantially all portions of the financial statements were audited by another auditor;
- (10) the failure to perform appropriate tests of receivables from a related party;
- (11) the failure to perform and document an evaluation of the accounting for a joint venture arrangement;
- (12) the failure to perform appropriate procedures to assess the valuation and amortization of, and contingencies related to, a software license agreement; and
- (13) the failure to properly perform procedures related to consideration of the possibility of material misstatement due to fraud.

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.



CLANCY AND CO., P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
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December 15, 2005

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

RE: Response to the Public Company Accounting Oversight Board ("PCAOB" or the "Board") Draft Report of Inspection of Clancy and Co., P.L.L.C.

Dear Mr. Diacont:

We are pleased to have the opportunity to respond to the comments of the draft report on the inspection (the "Report") of our firm, which the Board conducted in July 2004. We believe the inspection process can be an effective means of monitoring and improving audit quality and that ultimately the inspections will restore the public's confidence in the audit of the financial statements by independent auditors.

Response to Part I of Draft Report

A. Review of Audit Engagements

The Board's inspection resulted in audit issues and related findings that concerned lack of sufficient competent evidential matter to render opinions on the financial statements of certain issuers. Although we generally agree with the specific findings reported, we do not agree with the overall conclusion that the firm did not obtain sufficient competent evidential matter to render opinions on the issuers' financial statements. We believe the audit evidence accumulated during our audits of the issuers was in the aggregate sufficient and competent to provide us with a reasonable basis for forming an opinion on the financial statements taken as a whole.

We further believe we performed appropriate audits on each of the issuers' financial statements and that those financial statements gave adequate and fair notice to the public of the risks associated with an investment in the audited companies. While some of the Board's findings involved the application of professional judgment, other issues involved performance and/or documentation deficiencies where additional documentation of auditing procedures or results could have been improved. We have taken appropriate actions, where necessary, to address deficiencies identified by the inspection team including adding currently dated documentation to our work papers to more completely and accurately describe the procedures performed, evidence obtained, and conclusions reached.

B. Review of Quality Control System

We are committed to conducting audit work of the highest quality and believe that the results of the inspection will assist in that process. We intend to use the results from the Board's inspection to improve our audit quality to ensure the highest standards of excellence in our audits, including changes in policies and procedures, enhancing training programs and practice aids, and providing additional communication to firm personnel.

Redacted

Comments on Non-public Aspects of Report

Redacted

Comments on Non-public Aspects of Report

Respectfully submitted,

Clancy and Co.
Clancy and Co., P.L.L.C.

Note: Please update your administrative files to include our correct street address as "2935" not 295.