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## **Inspection of Cornick Garber & Sandler, LLP**

**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. 104-2006-128A



### **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 CORNICK GARBER & SANDLER, LLP**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Cornick Garber & Sandler, LLP ("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 10, 2005 to May 13, 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	2 (New York and Uniondale, New York)
Ownership structure	Limited liability partnership
Number of partners	10
Number of professional staff <sup>3/</sup>	30
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

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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.

fairly the financial position, results of operations, or cash flows of the issuer in 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 one of the audits reviewed 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 completeness of royalty receipts.

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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.

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



PCAOB Release No. 104-2006-128A  
Inspection of  
Cornick Garber & Sandler, LLP  
June 08, 2006  
Page 5

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.

**CORNICK, GARBER & SANDLER, LLP**

Certified Public Accountants

May 4, 2006

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

Dear Mr. Diacont:

The following is in response to the comments contained in Part II of the draft report dated April 7, 2006 relating to your inspection conducted from May 10, 2005 to May 13, 2005.

Inasmuch as your finding contains a material incorrect statement of fact, upon which it may have been predicated, we called your office ( ) to inquire whether we should respond by indicating the incorrect fact and then wait to further respond if you continued to believe your finding should stand. We were advised that since this would be our only opportunity to respond to the draft report we should submit our response as if the findings would remain the same. While we would have appreciated the opportunity to discuss your position once you had the correct facts known to you, we have nevertheless responded based on the instructions of your staff.

You have reached a finding that with respect to Issuer A, the Firm did not perform and document sufficient audit procedures to verify the completeness assertion with respect to royalty income of Issuer A. We believe your finding is incorrect for the following reasons:

1. Your draft report incorrectly states that an "affiliated entity" (the "Owner") owns the copyright material and calculates the periodic royalty payments. The Owner is unaffiliated with Issuer A. The Owner has no relationship with Issuer A, other than by contract with Issuer A. Therefore, based on this fact alone, we are not sure whether the balance of your comments would remain the same.

The following remarks relate to your comments if, however, you still believe that the audit was deficient.

2. Issuer A is a unit trust which receives quarterly royalty reports and payment checks from the Owner each year, which it promptly deposits into its cash account and then distributes to its unit holders, net of expenses paid. With the consent of the SEC, Issuer A only prepares and files a statement of cash receipts and cash disbursements as its basic financial statements and our audit report expresses our opinion on the cash basis of accounting. We believe that our workpapers clearly and adequately reflect our procedures to substantiate that the amounts recorded as revenue received were the amounts reported and paid by the Owner.
3. The audit procedures performed by us have, in fact, revealed computational errors by the Owner in the past, which have resulted in recoveries to Issuer A; recoveries reported in the period received.

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\* As a matter of policy, the PCAOB redacts from firms' responses to draft inspection reports the names of PCAOB staff, other than senior staff to whom a response letter is addressed.

Mr. George H. Diacont  
Director

May 4, 2006

Page Two

4. While you have not explicitly stated so in your report, you imply by reference to the absence of a royalty audit, that you believe our procedures should have been extended to include an audit of the Owner's records. If this is your position, we disagree for the following reasons:
  - A. As indicated above, the basic financial statement is prepared on a cash basis and the completeness assertion was properly assessed and addressed on that basis of accounting.
  - B. While Issuer A possess the right to conduct a royalty audit, this is a right which must be exercised by Issuer A's management. If management, at its discretion, chooses to forego this right, as was the case for this year, then by its own choice it has accepted the amount tendered by the Owner.
  - C. As previously disclosed to you, the question of whether we as independent registered accountants could perform a royalty audit for management was informally discussed with both the AICPA's Ethics Division and the SEC's office of Chief Accountant, prior to the issuance of our audit report. Each responded that we would probably not be considered independent. While the foregoing was raised in connection with Rule 404 Internal Control considerations, how can it not also apply to the audit of Issuer A's financial statements?

We have discussed our views on this matter with the AICPA's Technical Information Service and with other practitioners, including a former member of the Auditing Standards Board and a former Vice President-Auditing Standards of the AICPA, all of whom have agreed with our position that an extension of audit procedures to the Owner's records was not required under the above stated circumstances.

Based on the foregoing factors and assuming that there could be reasonable differences of opinion about the scope of royalty income audit procedures between you, on the one hand and us and those with whom we have consulted, on the other, we do not believe that in these circumstances your conclusion with respect to our technical competence and the exercise of due care or professional skepticism is appropriate.

Redacted

Comments on Non-public Aspects of Report

CORNICK, GARBER & SANDLER, LLP

Certified Public Accountants

Redacted

Comments on Non-public Aspects of Report

Very truly yours,

*Cornick, Garber + Sandler, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

LW:sp