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Report on

2005 Inspection of Crowe Chizek and Company LLC

Issued by the

Public Company Accounting Oversight Board

November 30, 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. 104-2006-201

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Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.

During 2005, the Board monitored the implementation of the provisions of Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("AS No. 2") by annually inspected U.S. firms. Among other things, that monitoring included Board staff meetings with these firms to discuss their methodology and to discuss opportunities to enhance the effectiveness and efficiency of audits of internal control. As the Board has previously stated, the Board believes that audits performed under the difficult circumstances of the first year of implementation of AS No. 2 were often not as efficient as the standard intends, and as the Board expects them to be in future years. The primary reasons for this failure to achieve expected efficiencies are described in the Board's Report on the Initial Implementation of Auditing Standard No. 2 ("the Report").[1/] In general, as described in the Report, in the 2005 inspections of certain firms, the Board's inspectors observed that, in a significant number of the engagements they selected for inspection of the application of AS No. 2, the auditors did not integrate their audits of internal control with their audits of the financial statements; did not use a top-down approach; and did not alter the nature, timing, and extent of their procedures to reflect the level of risk within a given area.

[1/] See PCAOB Release No. 2005-023, Report on the Initial Implementation of Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* (November 30, 2005).

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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 U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure 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 or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

PCAOB Release No. 104-2006-201

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Public Company Accounting Oversight Board

2005 INSPECTION OF CROWE CHIZEK AND COMPANY LLC

In 2005, the Board conducted an inspection of Crowe Chizek and Company LLC ("Crowe Chizek" or "the Firm"). The Board is today 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, Appendix A, and portions of Appendix B. Appendix A provides an overview of the inspection process. Appendix B includes the Firm's comments, if any, on a draft of the report.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] 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.

2/ 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 routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report .

3/ 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") performed an inspection of the Firm from September 2005 to November 2005. The inspection team performed field work at the Firm's National Office and at seven of its 19 other physical locations.

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. Appendix A to this report provides a description of the steps the inspection team took with respect to the review of audits of financial statements and of internal control over financial reporting and the review of seven functional areas related to quality control.

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.[4/] 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 or reporting on internal control, 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 selected audits of financial statements and of internal control over financial reporting performed by the Firm. Those audits and aspects were selected according to the

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[4/] When the Board becomes aware 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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies. Those deficiencies included a failure by the Firm to identify or appropriately address an error in an issuer's application of GAAP that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, in effect for most of the audits reviewed in the inspection,[5/] provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence.[6/] For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed opinions,[7/] and failure to take such actions could be a basis for Board disciplinary sanctions. In

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5/ Auditing Standard No. 3, *Audit Documentation*, applies to audits with respect to fiscal years ending on or after November 15, 2004.

6/ See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

7/ 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).

response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers.[8/]

In some cases, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. In some of those audits, that conclusion followed from the omission, or insufficient performance, of a single procedure, while other audits included more than one such failure. The deficiencies that reached this degree of significance are described below (without identifying the issuers).[9/] The deficiencies are discussed here on an audit-by-audit basis.

Issuer A

The Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The issuer identified two significant frauds, each of which occurred at least in part in 2004. According to the engagement team, the first fraud had no effect on the 2004 financial statements as full restitution was made. The audit documentation contained information that indicated that the second fraud had the effect of reducing pre-tax income by six percent.

  These frauds were not prevented or detected in a timely manner in part due to deficiencies in internal control over journal entries that the Firm knew existed during the prior year and the current year. The Firm failed to tailor the scope of its journal entry testing to address the fraud risk and the identified deficiencies in controls. For example, the Firm did not (1) target journal entries subject to the controls that were considered deficient, (2) cover the

8/ The Board inspection process generally did not include review of such additional procedures or documentation, although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

9/ The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

entire period under audit, and (3) obtain corroboration for the journal entries it had examined.

The issuer failed to disclose the losses attributed to the second fraud, which it discovered after releasing its earnings press release but prior to filing its financial statements on Form 10-K. Such disclosure is required, if the effect of the fraud is material, by Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* The Firm concluded in its work papers that the magnitude of the fraud was material to the annual financial statements; however, it failed to appropriately address the issuer's lack of disclosure of the fraud in its financial statements.

In addition, except for documentation of the Firm's review of the internal auditor's work papers and report on the results of the internal auditor's investigation of the second fraud, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed tests of the accuracy of the issuer's computation of the dollar effect of the second fraud on the financial statements.

- During the fourth quarter, the issuer entered into an agreement to sell one of its subsidiaries, which represented approximately 22 percent of the issuer's total assets. In March 2005, prior to the filing of its annual report on Form 10-K, the issuer consummated the sale. The sale was disclosed as a subsequent event in the notes to the audited financial statements, but the subsidiary was not accounted for as held for sale. The Firm failed to evaluate the appropriateness of the accounting for the sale of the subsidiary to determine whether the subsidiary should have been accounted for as held for sale and carried at the lower of cost or fair value less cost to sell and presented as discontinued operations.

- There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed sufficient audit procedures with respect to the issuer's interests in two non-consolidated entities. The issuer accounted for the entities under the equity method; combined, the entities represented approximately 13 percent of the issuer's total shareholders' equity and contributed approximately 29 percent of its 2004 income before income taxes. The Firm obtained from the issuer, and relied upon, the general ledgers of the two non-consolidated entities without applying any audit procedures to confirm the accuracy of the general ledgers. The Firm recalculated the investment balances using these general ledgers, but the engagement team performed no other procedures over the amounts recorded or disclosed in the issuer's financial statements for these non-consolidated entities, nor did it obtain audited financial statements for the two entities.

- The Firm reviewed the issuer's calculation of the allowance for loan losses and made certain modifications to key assumptions underlying the issuer's calculation to develop its own expectation of the issuer's allowance. In doing so, the Firm used the actual historical loss experience for each subsidiary and excluded the portion of the issuer's allowance related to environmental factors from its expectation. There was no evidence in the audit documentation, and no persuasive other evidence, however, that the Firm had considered the factors identified in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*, regarding how the issuer's historical loss rates should be adjusted to address the effects of current environmental factors. The Firm's estimate of the allowance exceeded the issuer's recorded allowance by approximately eight percent of income before income taxes. The Firm did not perform additional procedures or propose an audit adjustment for this difference, which exceeded the Firm's established level of materiality.

- The Firm proposed an audit adjustment during its audit of the issuer's 2003 financial statements to record a mortgage servicing right asset at the end of 2003; however, the issuer did not record the asset. In the Firm's audit of the issuer's 2004 financial statements, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated the effect the amortization of the mortgage servicing right asset would have had on the 2004 financial statements if the asset had been recorded in 2003.

- The Firm proposed an audit adjustment to correct an error related to the issuer's income recognition on certain sales of loans, which represented approximately two percent of the year's income before income taxes. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had determined whether similar errors existed at the end of the quarterly financial periods and, if they existed, whether they were material.

Issuer B

The Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- One day before the release of its audit report on the issuer's 2004 financial statements, the Firm learned that the issuer had decided to increase the specific impairment reserve component of its allowance for loan losses related to two significant commercial loans that were downgraded to "doubtful" from "substandard." The effect of this increase, absent intervening events before the end of the quarter, would be to increase the issuer's allowance by approximately ten percent in the first quarter of 2005. Although the Firm reviewed its prior analysis of the two loans, the Firm failed to specifically evaluate the reasons for the loans' downgrade in order to determine whether the factors that led to the downgrade were in place before the end of the year, and thus to evaluate the reasonableness of the issuer's allowance at year end.

- The Firm did not obtain sufficient competent evidential matter to support its conclusion that a property that the issuer had owned for over a decade and that contained potential environmental contingencies (which were disclosed in the financial statements) was fairly stated at the lower of cost or fair value less cost to sell, as required by GAAP. The Firm obtained an appraisal letter (the "Letter") issued during the third quarter of 2004, which updated a prior appraisal report issued in 2001. The Firm, however, failed to address the exclusion of environmental matters from the scope of the Letter and the fact that it specifically excluded anyone other than the issuer from relying on it. The Letter also made reference to a final appraisal report that the appraiser was preparing to support the fair value in the Letter. The Firm, however, failed either to obtain a final appraisal report in order to verify the consistency of the methodology used, the appropriateness of using the appraisal, and whether the issuer provided any data or assumptions to the appraiser that required testing; or to evaluate the effect of not obtaining an appraisal report on the scope of its audit.

- The Firm failed to review loan files to determine whether the issuer was identifying on a timely basis credit weaknesses in loans classified by the issuer as "noncriticized." Such reviews were necessary in light of the issuer's high levels of adversely classified loans (criticized loans) and specific indicators that weaknesses existed in the issuer's loan monitoring system.

- During the Firm's quarterly reviews of the issuer's interim financial information filed on Form 10-Q, the Firm did not perform review procedures at a sufficiently disaggregated level to analyze the issuer's unallocated component of its allowance for loan losses, which was approximately 19 percent and 35 percent at year-end 2004 and 2003, respectively, of the issuer's allowance. The Firm failed to identify and evaluate changes in the unallocated allowance component, which changes exceeded the Firm's established level of materiality for the annual financial statements, to determine whether the issuer's quarterly financial information was materiality misstated.

Issuer C

Approximately 60 percent of the issuer's assets consist of goodwill, and almost all of that goodwill relates to one reporting unit. The issuer performed its annual goodwill impairment test as of the end of the third quarter. As a result of this test, the issuer concluded that a goodwill impairment charge of approximately 35 percent of goodwill was necessary, and it recorded the impairment charge in the third quarter. This conclusion was based on a valuation performed by a third-party valuation specialist. The valuation was based on management's assumptions that sales would increase by approximately 12 percent in the next year, even though they had declined in the preceding three years, and that the issuer would be profitable in the next year, even though it had incurred net losses in the preceding three years. As a result of the issuer's operating history and lack of a historical ability to project reasonable future operating results, the valuation included an additional risk premium.

The issuer's fourth quarter results and the results for the first two months subsequent to year end were lower than expected, and, in addition, the issuer was in violation of its debt covenants at year end. The issuer prepared revised cash flow projections in the first quarter of 2005, with the assistance of an outside consultant, for its lender, which used assumptions that were more conservative than those used during the annual goodwill impairment test. As a result of the violation of the debt covenants and the revised cash flow projections, the Firm's audit report contained a going concern explanatory paragraph. Nonetheless, the Firm failed to evaluate adequately the appropriateness of the assumptions in the issuer's impairment calculation. In evaluating the appropriateness of those assumptions, the Firm failed to analyze significant relevant information, including the revised cash flow projections that were prepared in response to the debt covenant violations (which arose after the issuer's impairment calculation), as well as information bearing on the original assumptions regarding revenue growth and profitability.

Issuer D

In this audit, the Firm failed in two respects to obtain sufficient competent evidential matter to support its audit opinion –

- The issuer generates revenue principally through two lines of business. With respect to revenue for both lines of business, the Firm performed, as its primary substantive procedures, analytical review procedures using the aggregated amounts reported in the financial statements. The Firm established expectations for changes in revenue compared to prior periods and performed certain procedures to obtain corroboration of the amounts that differed from its expectations. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had designed and performed these analytical procedures at a sufficiently disaggregated level to identify potentially material misstatements.

- There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the completeness of the issuer's deferred revenue amount at year end, which was approximately seven times the Firm's established level of materiality. The Firm's audit procedures were limited to a sample of contracts with a deferred revenue balance at year end.

Issuer E

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The Firm identified a fraud risk associated with the issuer's rapid growth and identified a significant deficiency in internal control over journal entries. When testing journal entries to comply with AU 316, the Firm covered only the last month of the issuer's fiscal year and failed to examine supporting documentation or obtain other corroboration for the journal entries it examined in order to determine the appropriateness of the journal entries.

- Three confirmation requests, or 25 percent of the total, that the Firm sent to borrowers whose loans were in the issuer's indirect auto loan portfolio, which was identified by the Firm as a specific fraud risk, were returned to the Firm as undeliverable. The Firm failed to identify this as a potential indicator of fraud and to send second confirmation requests or seek other external evidence as alternative procedures to test the existence of those loans.

- The Firm failed to substantively test net deferred loan costs associated with the indirect auto loan portfolio, which the Firm had identified as a specific fraud risk. The balance of the loans within this portfolio increased by over 50 percent during 2004.

Issuer F

The issuer's loans and deposits exceeded 80 percent of its total assets and total liabilities, respectively. The Firm performed interim substantive audit procedures as of six months prior to year end. During the interim to year-end period, both loan and deposit balances grew by approximately 11 percent. The Firm's procedures to test the interim to year-end period in order to determine whether the year-end balances for loans and deposits were fairly stated were limited to comparing the interim balances to the year-end balances, comparing certain loan and deposit subsidiary ledgers to the general ledger, and reviewing internal audit's ongoing testing of new deposit account setup and new loans. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed other substantive audit procedures for loans (to test normal principal amortization and loan payoff amounts) and deposits (to test both customer deposits and withdrawals) during the interim to year-end period.

Issuer G

In this audit, the Firm failed to appropriately respond to two indicators of fraud risk. First, the Firm became aware of a financial relationship between a senior executive of the issuer, who is involved with granting credit, and a significant borrower of the issuer. The senior executive also managed the issuer's relationship with the significant borrower. Except for an undocumented inquiry of this senior executive, the Firm failed to perform audit procedures in response to this indicator of fraud risk. Second, the Firm identified significant exception rates with respect to proper approvals and supporting vouchers for the sample of journal entries it tested when considering the risk of management override of controls. For those journal entries with control exceptions, the Firm verified the appropriateness of the journal entries by examining supporting documentation. Except for undocumented inquiries of the issuer, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed additional audit procedures, such as testing an expanded sample of journal entries, in response to this indicator of fraud risk.

Issuer H

The Firm sent an account receivable confirmation request to a significant customer whose outstanding balance at year end represented approximately 24 percent of the issuer's total gross accounts receivable. After not receiving a confirmation response, the Firm performed alternative procedures; however, these procedures failed to test approximately 13 percent of the customer's balance, which represented over three times the Firm's established level of materiality.

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 and the following seven functional areas (1) tone at the top; (2) practices for partner[10/] evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; and (7) practices for establishment and communication of audit policies, procedures, and methodologies, including training. 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

10/ The Firm is organized as a limited liability corporation. References in this report to "partners" correspond to what the Firm refers to as the Firm's "signing executives."

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX A

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance of the Firm with applicable requirements and standards related to auditing issuers. This process included reviews of components of selected issuer audit engagements completed by the Firm. These reviews were intended both to identify deficiencies, if any, in the conduct of those audits and to determine whether the results of those audits indicated deficiencies in the design or operation of the Firm's system of quality control over audits. In addition, the inspection included reviews of the design of, and in some cases the application of, policies and procedures related to certain functional areas of the Firm that could be expected to influence audit quality.

1. Review of Selected Audit Engagements

The inspection team reviewed aspects of selected audits performed by the Firm. The inspection team chose the engagements according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and, at the Firm, inspected the engagement team's work papers and interviewed engagement personnel regarding those areas. The areas subject to review included, but were not limited to, allowances for loan losses, other reserves or estimated liabilities, revenues, income taxes, assessment of risk by the audit team, and testing and documentation of internal controls by the audit team. The inspection team also analyzed potential adjustments to the issuer's financial statements that had been identified during the audit but not recorded in the financial statements. For each selected engagement, the inspection team reviewed written communications between the Firm and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee.

The inspection team also reviewed aspects of certain of the Firm's audits of internal control over financial reporting. For each audit engagement selected for this purpose, the inspection team reviewed the Firm's work papers and interviewed engagement personnel regarding the audit approach, including the use of a top-down approach, the assessment of risk, the evaluation of management's assessment of internal control, and the integration of the audit of internal control over financial reporting with the audit of the financial statements. The inspection team also selected certain significant processes and, for those processes, reviewed the Firm's evaluation of the design effectiveness of controls, including the performance of walkthroughs, and the performance of tests of operating effectiveness of controls. For the selected engagements, the inspection team also reviewed the Firm's evaluation of any control deficiencies that the Firm identified during the Firm's audit of the issuer's financial statements.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form. In certain instances, if the inspection team was unable to resolve the issue through these processes, the inspection team requested that the engagement team consult with the Firm's Technical Standards Function. In many cases, this process resulted in resolution of the matter, either because the Firm agreed with the position the inspection team had taken and the Firm or the issuer took steps in light of the significance of the error to remedy the exception, or because the Firm was able to provide additional information that effectively addressed the inspection team's concerns.

2. Review of Seven Functional Areas

The inspection team conducted the procedures related to the review of the seven functional areas primarily at the Firm's National Office. With respect to six of the seven functional areas, the inspection team also conducted procedures at certain of the Firm's other physical locations. The inspection team performed these procedures both to identify possible defects in the Firm's system of quality control and, where applicable, to update the Board's knowledge of the Firm's policies and procedures in the functional areas. A more detailed description of the scope with respect to each of the seven functional areas follows.

a. Review of Partner Evaluation, Compensation, Admission, Assignment of Responsibilities, and Disciplinary Actions

The inspection team reviewed the Firm's policies and procedures related to partner evaluation, partner compensation, nomination and admission of new partners, assignment of responsibilities, disciplinary actions, and termination of partners. The objective of the inspection procedures was to assess whether the design of these processes, as documented and communicated, could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the Firm.

The inspection team interviewed nine members of the Firm's leadership at its National Office, as well as members of leadership and audit partners in other physical locations, regarding these topics. In addition, the inspection team analyzed schedules provided by the Firm that detailed information on each partner, including the current year's income allocation and the rationale for any adjustments to such allocation.

b. Review of Independence Policies

The objectives of the inspection procedures in this area included evaluating the Firm's policies and procedures relating to its compliance with independence requirements with respect to the provision of non-audit services to issuer audit clients; Firm participation in business ventures, alliances, and arrangements; commissions and contingent fee arrangements; personal financial interests and the relationships of Firm professionals with issuer audit clients; and the provision of non-audit services related to issuer audit clients' compliance with Section 404 of the Act. To accomplish these objectives, the inspection team reviewed the Firm's policies, procedures, guidance, and training materials pertaining to these independence matters. The inspection team also reviewed the Firm's internal inspection program as it relates to monitoring compliance with the Firm's independence policies and procedures; tested the Firm's independence consultation process; and reviewed information concerning the Firm's existing business ventures, alliances, and arrangements, as well as the Firm's process for establishing such enterprises. The inspection team also interviewed numerous National Office and other personnel regarding the Firm's independence policies, practices, and procedures.

For certain of the engagements selected for review, the inspection team reviewed relevant information to identify any non-audit services performed for the issuer, including whether any of the services involved commissions or contingent fee arrangements; to determine whether the fees for the services provided were classified appropriately in the issuer's proxy statement; and to determine whether the Firm was involved in any business ventures, alliances, or arrangements with the issuer. In addition, for the selected engagements, the inspection team read and evaluated the most recent letter pursuant to Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

c. Review of Client Acceptance and Retention Policies

The objectives of the inspection procedures in this area were to evaluate whether the Firm's client acceptance and retention policies and procedures reasonably assure that it is not associated with issuers whose management lacks integrity, that it undertakes only engagements within its professional competence, and that it appropriately considers the risks involved in accepting and retaining clients in the particular circumstances. Toward those objectives, the inspection team reviewed the Firm's policies, procedures, and forms related to client acceptance and continuance; evaluated documentation related to new clients and to clients that had recently changed auditors from the Firm; and interviewed members of the Firm's leadership.

At the physical locations, the inspection team selected a sample from the engagements it reviewed and, for that sample, evaluated whether the client continuance documentation was completed and approved in accordance with Firm policies; interviewed the audit partners and managers on these engagements concerning the reasons for continuing to serve the issuer, the approval process, and whether specific risk mitigation steps were performed and documented in response to any identified risks; and assessed whether the audit planning documentation incorporated the specific actions, if any, contemplated in response to any identified risks.

d. Review of Practices for Consultations

The objective of the inspection procedures in this area was to assess the Firm's compliance with professional requirements regarding consultations on accounting, auditing, and SEC matters. Toward this objective, the inspection team gained an understanding of and evaluated the Firm's policies and procedures relating to its consultation process. The inspection team also reviewed a sample of consultations that occurred during the inspection period to evaluate the effectiveness of the Firm's consultation process, the Firm's compliance with its policies and procedures, whether the conclusions were in accordance with professional standards, and whether the engagement teams acted in accordance with the conclusions.

e. Review of Internal Inspection Program

The objectives of the inspection procedures in this area were to evaluate the effectiveness of the Firm's annual internal inspection program in enhancing audit quality, as well as to assess the Firm's compliance with the quality control standards adopted by the Board. To meet those objectives, the inspection team reviewed policies, procedures, guidance, and forms related to the Firm's internal inspection program, documentation of the results of the current year's inspection program, and steps the Firm took in response to those results. The inspection team also interviewed the Firm's leadership concerning the process and effectiveness of its internal inspection program.

The inspection team reviewed and tested the conduct of the internal inspection program by performing field work in three physical locations where the Firm had conducted internal inspections. These procedures included evaluating the qualifications of the Firm's inspectors, reading the inspectors' comments, reviewing the results of the inspectors' review of certain Firm-wide functional areas, and interviewing both business unit leadership and selected audit personnel concerning the internal inspection program. In addition, for a sample of the engagements that the internal inspectors had reviewed at these physical locations, the inspection team reviewed documentation of the internal inspectors' review of the engagements, reviewed certain aspects of the audit work papers, and discussed with the Firm any significant differences in the results of the inspection team's review and that of the Firm's internal inspectors.

f. Review of Practices for Establishment and Communication of Audit Policies, Procedures, and Methodologies, Including Training

The objectives of the inspection procedures in this area were to update the inspection team's understanding of the Firm's processes for establishing and communicating audit policies, procedures, and methodologies, including training; to evaluate whether the design of these processes could be expected to promote audit quality and enhance compliance; and to evaluate changes in audit policies that the Firm had made since the Board's most recent inspection of the Firm.

Toward those objectives, the inspection team reviewed documentation relating to the Firm's method for developing policies and procedures, as well as internal guidance and/or training materials distributed to audit personnel with respect to recent changes in requirements and with respect to selected specific areas. The inspection team also evaluated the effectiveness of the design of the Firm's processes for monitoring developments that could affect the Firm's audit policies, procedures, and methodologies.

g. Review of Tone at the Top

The objective of the review of the Firm's "tone at the top" was to assess whether actions and communications by the Firm's leadership demonstrate a commitment to audit quality and compliance with the Act, the rules of the Board, the rules of the SEC, and PCAOB standards in connection with the Firm's performance of audits, issuance of audit reports, and related matters involving issuers. Toward that end, the inspection team reviewed and analyzed information at the Firm's National Office. Such information included the Firm's code of conduct; documents relating to measuring and monitoring audit quality; descriptions of the duties of, and relationships between and among, the Firm's staff and leadership; results of surveys of staff and clients; public company audit proposals; internal and external communications from management; and agendas and minutes of the Firm's Executive Committee and Management Committee. In addition, the inspection team interviewed numerous members of the Firm's leadership team.

The inspection team conducted interviews at four of the Firm's physical locations to obtain perspectives on communications from the Firm's leadership relating to audit quality and tone at the top. The inspection team interviewed members of the leadership at each of these locations, as well as certain audit partners and senior managers assigned to engagements that were reviewed.

PCAOB
Public Company Accounting Oversight Board

APPENDIX B

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 Firm provided a written response to a draft of this 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.[11/]

[11/] 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. In some cases, the result may be that none of the Firm's response is made publicly available.

Crowe

Crowe Chizek and Company LLC
Member Horwath International

October 30, 2006

Mr. George Diacont
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Dear Mr. Diacont:

We are pleased to provide our response to the Public Company Accounting Oversight Board's (the "PCAOB") draft report on the 2005 Inspection of Crowe Chizek and Company LLC (the "Firm") that covered audits primarily for the year ended December 31, 2004.

The PCAOB has now performed two annual inspections of our Firm's audits of issuers and of our Firm's quality control policies. The PCAOB issued its first inspection report dated January 19, 2006 on its inspection of our December 31, 2003 audits, and has now provided us with the draft of its second inspection report. During each inspection, the PCAOB provided us with preliminary inspection comments on the specific engagements it inspected, and we provided our response about each matter. We took appropriate action to address the preliminary inspection comments provided us to develop additional audit documentation where needed on the audits that were inspected and to adjust our audit procedures for future audits.

Some comments in the inspection report reflect differences between professional judgments we made during the course of the audits and those made by Board inspectors during the subsequent inspection. The inspection report also provides a useful understanding of how the Board interprets the auditing standards it provisionally adopted shortly after the Board was first formed. For example, the materiality standard to be applied is not more than 5% of net income, even when an issuer's net income is very low. Our philosophy is that we will take (or have already taken) appropriate action on matters commented on by the PCAOB and that we will comply with PCAOB directives.

We look forward to a continuing dialogue with the PCAOB and its staff to achieve our mutual goal of compliance with PCAOB guidance.

Cordially,

Crowe Chizek and Company LLC