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**Inspection of
Dannible & McKee, LLP**

Issued by the

Public Company Accounting Oversight Board

May 11, 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. 104-2006-107



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 DANNIBLE & MCKEE, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Dannible & McKee, 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.^{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 September 6, 2005 to September 8, 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 (Syracuse, New York)
Ownership structure	Limited liability partnership
Number of partners	12
Number of professional staff ^{3/}	37
Number of issuer audit clients ^{4/}	3

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. 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.

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 all three 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.^{6/} The deficiencies identified in two 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 the failure to perform and document adequate procedures related to the existence of plan investments in two of the audits reviewed.

^{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 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



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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.



Certified Public Accountants and Consultants

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(315) 472-9127 Fax (315) 472-0026

March 24, 2006

Private & Confidential

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

Dear Mr. Diacont:

Please find enclosed the response of Dannible & McKee, LLP to Part I of the 2005 PCAOB inspection report. We will respond separately to Part IIB of the report in the near future.

Very truly yours,

A handwritten signature in black ink, appearing to read "Anthony F. Dannible", written over a circular stamp or seal.

Anthony F. Dannible, CPA/ABV, CVA, CDA
Managing Partner

AFD:cag
Enclosure[s]

March 24, 2006

Private & Confidential

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

Dear Mr. Diacont:

We are providing our response to the Public Company Accounting Oversight Board (PCAOB) regarding its draft report (the "Report") dated February 22, 2006 on the 2005 inspection of Dannible & McKee, LLP (D&M).

As one of the only registered non Big Four firms in Central New York State, with approximately seventy-five people, our ultimate objective is to insure our audits are of the highest quality. We believe the 2005 inspection by the PCAOB assisted us in identifying areas where we can improve our performance and have taken action to address the matters discussed in the Report.

With respect to the Board's comments in Part I of the Report, we have the following response:

The Report discloses one auditing issue identified by the Inspection Team relating to our performance and documentation of procedures related to the existence of plan investments in two benefit plan audits reviewed. We strongly disagree with this preliminary finding for the reasons set out below.

FACTS AND CIRCUMSTANCES

The Plan Sponsor, a financial institution, was the same for both of the benefit plans that were audited. The Trust Department of the Plan Sponsor which is regulated by Federal and state agencies and is subject to periodic audits by the Federal Deposit Insurance Corporation, is the Trustee of the plan. The trust department provides trust services to numerous trust accounts that hold the Plan Sponsor's securities including the two benefit plans. The Trust Department maintains the accounting records related to the benefit plan investments, which consisted principally of investments in the Plan Sponsor's stock.

March 24, 2006

Our audit procedures consisted of obtaining accounting reports directly from the trust department, as confirmation of the existence of the plan investments and reconciling these reports of the Trust Department to the shares of Plan Sponsor stock held for each benefit plan as of December 31, 2004.

AUDIT REQUIREMENTS

The AICPA Audit and Accounting Guide for Employee Benefit Plans, specifically paragraph 7.16C, discusses the audit procedures to be applied to plan investments, which consist of the following:

Obtaining evidence regarding the existence and ownership of investments and information about any liens, pledges, or other security interests, either by direct confirmation from the trustee or custodian or by physical count. With respect to the confirmation procedure, the trustee, such as a bank, is legally responsible for assets held in its trust department. Thus, if a plan's investments are held by a bank's trust department, the auditor ordinarily accepts a confirmation from the bank as evidence of the existence and ownership of the investments.

CONCLUSION

The AICPA requirements above indicate that obtaining the trust reports directly from the trust department serves as confirmation of plan assets with the trustee. We do not believe the AICPA Audit and Accounting Guide for Employee Benefit Plans requires any additional procedures, in addition to confirming assets with the Trustee. We believe our procedures related to the existence of plan assets were adequate and were in accordance with the audit guide. Furthermore, these particular audits have been selected as part of our AICPA peer review in prior years and we have received no comments related to our audit procedures performed for the audits of these benefit plans.

SUBSEQUENT PROCEDURES

In response to the inspection process, we have performed the following additional procedures:

1. Physical custody of the Plan Sponsor stock, although accounted for by the trust department, is held by a third party custodian. We have obtained investment statements from the custodian as of December 31, 2004, including the total number of plan sponsor shares that it holds.
2. We have obtained and reviewed certain internal audit workpapers of the plan sponsor as of December 31, 2004. These workpapers document the reconciliation of shares held by the custodian to those held for the benefit of trusts managed by the trustee, including the shares of Plan Sponsor stock held by the two benefit plans.

March 24, 2006

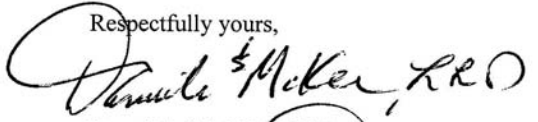
3. Through the use of a third party service organization, the custodian provides accounting entries to the trust department. We have obtained a Type II SAS 70 service auditors report indicating that the third party service organizations internal controls are adequate and effective and have used this report to document our understanding of internal controls over certain investments and investment transactions.

The above procedures will be part of the audit procedures utilized in future audits of the benefit plans.

Other than the one issue noted above, of which we are aware as discussed, no significant accounting or disclosure issues were identified by the PCAOB. With that said during the inspection process, we fully cooperated with the inspection team including performing additional procedures as discussed above. The performance of the additional work did not change any of our previous conclusions.

We appreciate the opportunity to provide our respond to Part I of the Report and would welcome discussion of any matters that require further explanation.

Respectfully yours,



Dannible & McKee, LLP

