

**Inspection of  
Jonathon P. Reuben, CPA,  
An Accountancy Corporation**

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

**April 6, 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 JONATHON P. REUBEN, CPA,  
AN ACCOUNTANCY CORPORATION**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Jonathon P. Reuben, CPA, An Accountancy Corporation ("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.

---

<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 November 1, 2004 to November 4, 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 (Torrance, California)
Ownership structure	Corporation
Number of partners	1
Number of professional staff <sup>3/</sup>	2
Number of issuer audit clients <sup>4/</sup>	6

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

---

<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.

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 four 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.<sup>6/</sup> The deficiencies identified in all four 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 failure to perform and document, for three issuers, sufficient audit procedures to test the valuation and recording of equity transactions;

---

<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.

- (2) the failure to perform and document, for three issuers, sufficient audit procedures to test the valuation of long-lived assets and goodwill and other intangible assets;
- (3) the failure to perform and document, for three issuers, sufficient audit procedures to test revenues and expenses; and
- (4) the pervasive failure to plan, perform, and document performance.

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. 104-2006-089  
Inspection of Jonathon P. Reuben, CPA,  
An Accountancy Corporation  
April 6, 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.



JONATHON P. REUBEN, CPA  
An Accountancy Corporation

23440 Hawthorne Blvd., Suite 200 • Torrance, CA 90505  
(310) 378-3609 • Fax (310) 378-3709

January 18, 2006

Mr. George H. Diacont  
1666 K. Street N.W,  
Washington, D.C. 20006

Re: Response to draft copy of inspection report

Dear Mr. Diacont,

I have reviewed the draft copy of my inspection report. My response to the comments reflected in the draft is as follows:

Part I.

- A. (1) Failure to perform and document sufficient audit procedures to test the valuation and recording of equity transactions.

As explained to the reviewers, in a comment letter issued by the Securities and Exchange Commission on an SB-2 Registration Statement filed on another public client, the staff indicated that "Traded prices or prices based on proximate private placements are a better estimate of fair market value and should be used". In the same comment, the staff indicated that absent specific verifiable evidence to the contrary, there is no basis for significant discounts (e.g. above 10%)." The Client responded and indicated that although there was a trading price for the shares, little to no trades were made at the indicated trading price and when a block of shares were offered, the trading price immediately dropped. Further evidence was provided relating to a legal fee agreement, whereby services rendered were to be paid in the Company's common stock at a conversion price of \$.10 per share for \$1,000 of billing. This agreement was provided to the staff and in a teleconference, we were informed that all shares issued to the attorney should be valued at the trading price in the day the shares were issued. I have attached a copy of the comment letter. We were the auditors for the indicated client through December 31, 2003 and due to the five year rule, the client was required to change auditors. We now act as outside accountants for the client. The successor auditor continues to follow the staff's directive and values the shares issued in exchange for non-cash consideration at the trading price on the date of issuance.

Mr. George H. Diacont  
January 18, 2006  
Page 2.

Because of this directive, we review stock issuance in exchange for non-cash consideration to verify that, when no verifiable evidence exists to the contrary, that the value assigned to the respective shares is based upon the trading price of the respective shares or in lieu thereof, the share price of a private offering (if applicable) on the date of issuance. For three of the Companies reviewed, trading prices were available and a copy of the daily prices was included in the respective files. For one of the three companies, the Company issued convertible debentures with fixed conversion prices. We verified that the shares issued under each conversion were in agreement with the terms of the respective conversion feature. Copies of the convertible debentures were part of our audit workpapers and made available to the reviewers.

The audit procedures for the equity transactions are included in the respective Company's audit program. The fourth Company's common stock was not publicly trading, but it sold shares through private placements at a price per share of \$5.00. The schedule of equity for the client is included in the client's workpapers and reflects the price per share of each issuance to determine if any share issuance were valued at a different price. No exceptions were noted.

The reviewers continually refer to the fact that the audit procedures were not properly documented. It appears that the reviewer's utilized the audit documentation standards of PCAOB Statement #2, which was not in effect for the audits under review. However, I do concur that the documentation could have been better and internal changes including the preparation of memos documenting our audit procedures are now being utilized.

- A. (2) The failure to perform and document sufficient audit procedures to test the valuation of long-lived assets and goodwill and other tangible assets.

We did in fact test the valuation of long-lived assets for the four clients under review. On one of the clients, a business plan was provided which reflected projected future cash flows. Based upon an analysis utilizing the information contained in the business plan, no impairment was determined. It was determined that for each company reviewed, the respective company only had one business unit. Through an analysis of projected future cash flows for each client, we determined that no impairment was determined. I concur that the documentation of our audit procedures is lacking. However we have changed our documentation procedures and through memos and supporting workpapers, we believe our impairment analysis is clearly documented.

- A (3) Failure to perform and document sufficient audit procedures to test revenue and expenses.

We test revenue and expense through a variety of procedures including analytical procedures, a review of general ledger activity, tracing invoices to

Mr. George H. Diacont  
January 18, 2006  
Page 3.

the general ledger accounts to determine completion of the related transactions and proper recording of said transaction. In our audit of cash and accounts receivable, we will reconcile the activity from third party records to the financial statements and related general ledger to determine completeness and proper classification and disclosure. For all our audits, we review subsequent event activity to determine the realizability of receivables and the determination of unrecorded liabilities. Test for proper cut offs are also performed. Due to the size of the companies we audited that were reviewed, test of revenue and expenses were performed for these companies through the same procedures used in testing balance sheet account activity. An example relates to determining the completeness of bank activity. Checks and deposits are selected. The selected item are then traced to related invoices and to the general ledger to determine that the transaction was in fact properly recorded in the correct period and to the correct account. Through this test, the asset accounts and income statements accounts are tested with the same procedure.

Through a review of subsequent events, it was determined that a customer payment received by the client at year end was returned by the bank for non-sufficient funds. The customer check was never made good and the client had not established a bad debt reserve sufficient for the possible loss of this income. Through our subsequent events review, we determined that the Company's reserve for bad debt were insufficient and suggested that it increase its reserve, accordingly.

- A (4) The pervasive failure to plan, perform and document performance of one audit.

I believe this to be an unfair comment. The issue pertains to the mislabeling of a workpaper file. A workpaper file containing workpapers documenting a review of the respective client's interim financial statements and disclosures filed in a 10-QSB was mislabeled as the audit file. This file was given to the reviewer. When the error of the mislabeling was discovered, we offered to retrieve the actual audit file, but our offer was declined.

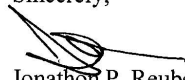
- B. Review of Quality Control System

Changes have been made to our quality control system and we welcome a review by the PCAOB.

Mr. George H. Diacont  
January 18, 2006  
Page 4.

I appreciate the opportunity to respond to the Board's comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Jonathon P. Reuben". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Jonathon P. Reuben,  
Certified Public Accountant

COPY OF SEC COMMENT  
LETTER

Note 10 – Stockholders' Equity

33. We note your expanded disclosure providing additional details surrounding the issuance of securities for services, fees, financing activities, etc., and the indication of the discount used for large blocks of stock issued. It is the staff's position, that absent specific verifiable evidence to the contrary, there is no basis for significant discounts (e.g. above 10%). If there is no verifiable evidence to support the average 30% used by management revise to record these issuances at traded prices at the time of issuance. "Blockage" is not

a basis for a 30% discount. Traded prices or prices based on proximate private placements are a better estimate of fair market value and should be used, if available, rather than the value of consideration received and indicated in Note 10.d. In addition, the valuation of any issuances at par would not be at fair market value as required by the accounting literature. Also, the staff questions some of the non-cash transactions as to the measurement methods used. For instance, concerning the June 9, 1999 issuance of 2,000,000 common shares to the President for canceling the \$100,000 indebtedness to him. Based on the closing price of your stock on that date, discounted by 30% approximately 310,500 shares should have issued for cancellation of the \$100,000 debt. Revise to correct the stock issuances for services or financing activities at estimated fair market. Refer to SFAS 123 and APB 25 or provide detailed support for these significant discounts from traded prices for services or financing activities. (A)