

**Inspection of
LaRue, Corrigan & McCormick, LLP**

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

March 9, 2006

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

INSPECTION OF LARUE, CORRIGAN & MCCORMICK, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm LaRue, Corrigan & McCormick, 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 June 22, 2005 to June 29, 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 (Woodland Hills, California)
Ownership structure	Limited liability partnership
Number of partners	4
Number of professional staff ^{3/}	6
Number of issuer audit clients ^{4/}	1

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

^{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.

fairly the financial position, results of operations, or cash flows of the issuer in 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 Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. 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 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 Firm's failure to evaluate real estate investments for impairment.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies and

^{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.

procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

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

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

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December 12, 2005

George Diacont
Director
Division of Registration and Inspections
PCAOB
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VIA FACSIMILE - (202) 862-8433

Dear Mr. Diacont:

We are in receipt of your Draft Report of Inspection dated November 10, 2005 and wish to respond to the comments it contains.

First and foremost, we appreciate the Board's insight and comments, and have found the inspection process to be smooth and professional. We realize that the goal in this process is to make our Firm, and in turn our clients, better because of the relationship. We take pride in serving our clients while adhering to the standards of the profession. We have taken, or will be taking steps to address the matters in Board's report and believe that future inspections will only serve to further strengthen the quality of our audit practice.

In response to Part I, point A in the draft report, while we generally agree with the summary description of the finding, we would characterize it as a workpaper documentation issue rather than an audit deficiency. We also feel that the "deficiency" the Board describes should be taken into proper context as it relates to the status of the Issuer (delisted since December 1992) and its related financial plight. We have issued a going concern opinion on the Issuer's financial statements each and every year since we became their auditor for the December 31, 1996 year end. With the exception of a small gain in 2002, the Issuer has reported substantial losses each year since becoming a client, and as of December 31, 2004, the Issuer reported an accumulated deficit of approximately \$22,473,000. In addition, excluding transfers for unclaimed property or accounts escheated to the state of California, only 561 shares of the Issuer's stock has changed hands in the last twelve months. The estimated value of these shares at the closing price in December 1992 of \$0.125 would be \$70 in total. Considering these factors, in conjunction with the conservative nature of the footnote disclosures, we feel that while the real estate holdings are the bulk of the Issuer's assets (\$812,000), it secures over \$3,000,000 in debt to family members of the Issuer's president. Effectively, there are no assets. In no way would any prudent reader of

the financial statements be misled as to the financial condition of the Issuer, regardless of the valuation of the Issuer's real estate holdings.

With that being said, we have reviewed our documentation on the issue raised by the Board regarding the real estate valuation, and agree that the working papers lacked clarity and could have much better explained our position and reasons for concluding that there was no additional impairment beyond the valuation allowance. As a result, we have undertaken steps to incorporate additional documentation into our workpapers in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*. Specifically, we have now added documentation to the working papers for the following:

1) A parcel by parcel basis analysis was not deemed necessary by the Firm due to the close proximity of each parcel to each other and an overall approach to analyzing the parcels was appropriate under the circumstances. Due to the prohibitive costs involved in a full analysis and appraisal for a clearly conservatively stated real estate value on the books, we felt it unnecessary to perform such a detailed analysis. Even though the Issuer has disclosed in their financial statements that new Los Angeles County regulations may have an impact on the value of the real estate, due to the rapid growth of real estate prices in Southern California since the Issuer has purchased the real estate, we felt that an expensive analysis to our struggling client would only produce a real estate value greater than what was on the books but still less than the secured debt. Due to the Issuer's financial distress, as clearly disclosed both in the going concern opinion and in the footnotes, the Issuer's need to cut costs was a prudent business decision under the circumstances.

2) This conclusion is supported by the fact that the Issuer has periodically sold parcels of land for gains. Specific to 2004, the Issuer sold one parcel of land for a gain of approximately \$143,000. As discussed above, the parcels are close to each other and therefore it is reasonable to conclude that this trend can extend to the other parcels. As of today's date, the Issuer is in escrow with an unrelated third party to sell another parcel of land for approximately \$780,000. As the Company's entire real estate portfolio as of December 31, 2004, net of a valuation allowance, was stated at \$812,000, it is readily apparent that the valuation of the Issuer's real estate is extremely conservative. Considering the growth in the Southern California real estate market during the last 11 months has ranged from 15%-25%, this further supports the conclusion that the real estate is conservatively stated at December 31, 2004.

Redacted

Comments on Non-public Aspects of Report

Redacted

Comments on Non-public Aspects of Report

It is our sincere desire to comply with the Board's comments and in turn, strengthen what we feel is already a strong audit practice. We hope that the steps we are taking as a Firm addressed in this letter satisfy the Board's concerns outlined in the Draft Report of Inspection. Should the Board require further clarification or need additional documentation, please feel free to contact us directly.

Very truly yours,

LaRue, Corrigan + McCormick LLP

LaRue, Corrigan & McCormick LLP