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**Inspection of
Marden, Harrison & Kreuter,
Certified Public Accountants, P.C.**

Issued by the
Public Company Accounting Oversight Board
August 15, 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. 104-2006-159



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 MARDEN, HARRISON & KREUTER,
CERTIFIED PUBLIC ACCOUNTANTS, P.C.**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Marden, Harrison & Kreuter, Certified Public Accountants, P.C. ("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 May 4, 2005 to May 6, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	2 (White Plains and Melville, New York)
Ownership structure	Professional corporation
Number of partners	8
Number of professional staff ^{3/}	32
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

^{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.

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.^{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 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 –

^{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.

- (1) the failure to perform and document adequate procedures to test the realizability of a deferred income tax asset; and
- (2) the failure to perform and document adequate procedures to evaluate the collectibility of a long-term account receivable.

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 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.



June 9, 2006

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

Re: Response to Draft Inspection Report
Marden, Harrison & Kreuter
Certified Public Accountants, P.C.

Dear Mr. Diacont:

Marden, Harrison & Kreuter, CPAs, P.C. ("MHK") recognizes the importance of the independent inspection process, and the value it brings to the Accounting profession. We welcome the opportunity to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report of Inspection ("Draft Report") dated May 11, 2006, relating to our inspection, which was conducted in May 2005. MHK strives to perform at the highest level of the profession, and will utilize the knowledge obtained in this process to further enhance our policies and procedures.

Audit Findings and Response

At the conclusion of the inspection process, an exit meeting was convened with the PCAOB Inspection Team and representatives of MHK. The PCAOB Inspection Team discussed its findings that the adequacy of a deferred income tax asset and the collectibility of a long-term account receivable, reported by Issuer A in its 2004 Annual 10K filing, were not supported by documentation. These findings are contained in the PCAOB's Draft Report.

MARDEN HARRISON & KREUTER, CPAS, P.C.

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The following is our response to the Draft Report's findings:

1-Failure to perform and document adequate procedures to test a deferred income tax asset.

We respectfully disagree with this finding, as follows:

Issuer A is a construction contractor. In accordance with the AICPA Audit and Accounting Guide for Construction Contractors ("the Guide"), Issuer A recognizes revenue on the percentage of completion basis related to signed construction contracts. These contracts can span more than one accounting period. Any portion of an uncompleted contract at the end of an accounting period is referred to as "Backlog". The Guide states "Backlog is the amount of revenue that a contractor expects to be realized from work to be performed on uncompleted contracts, including new contractual agreements on which work has not yet begun."

To properly audit revenue for a construction contractor, the auditor must audit an entire contract, not just the portion that is to be recognized as revenue in a specific period. Not only is the contract revenue audited, but the related direct costs and resulting gross profit are subjected to the same audit procedures. In addition, contracts that have been awarded, but not started, are included in Backlog, as disclosed, and subject to the same auditing procedures which verifies the existence of future revenue. As such, extensive testing was performed, and documentary evidence was obtained, supporting the disclosure of Backlog in the 2004 Form 10K filing of Issuer A. This audit evidence is and was documented in the work papers.

A critical component to documenting and testing the valuation of the Deferred Income Tax Asset relates to auditing the projected revenue, along with expected results for Issuer A for the succeeding twelve (12) month period. The Backlog disclosed in Issuer A's 2004 Form 10K amounted to approximately \$36 million, representing the known revenue expected to be recognized. Again, it is evident that Backlog was audited and documented as contained in the work papers. It should be understood that this is only a portion of the total revenue that would ultimately be recognized in the subsequent year.

MHK

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1-Failure to perform and document adequate procedures to test a deferred income tax asset - cont'd:

The 2005 revenue projection of Issuer A, which supported the Deferred Income Tax Asset reported at December 31, 2004, included approximately 69% of revenue and 67% of expected gross profit, which was subjected to and verified through the auditing procedures performed during the 2004 year end audit. This revenue was already under signed and enforceable construction contracts. These procedures were documented on the construction in progress work paper.

In addition to the stated Backlog, approximately \$8.9 million, or 17% of the projected revenue, represented contracts negotiated verbally, a portion for which Issuer A had been historically the main provider of services. Of this projected \$8.9 million of revenue, \$9.7 million was actually recognized in 2005. Ultimately for the year ended December 31, 2005, Issuer A reported revenue of approximately \$53.4 million, as compared to projected revenue of \$52.3 million.

As part of the exit meeting with the PCAOB Inspection Team, it was agreed that the procedures MHK performed and documented regarding contracts in progress supported the projected 2005 results for Issuer A, which therefore supported the accounting for the Deferred Income Tax Asset. It was stated that our work papers should have been cross-referenced (linked), which would have documented the audit procedures performed supporting the Deferred Income Tax Asset. We agree that these work papers were not linked to the work papers documenting the audit of Issuer A's estimates and assumptions used in its 2005 projections. Our work papers for Issuer A have since been cross-referenced (linked) to the relevant projection work papers. We respectfully disagree that the auditing of the Deferred Income Tax Asset was deficient by not cross-referencing work papers contained in other sections of our work papers, combined with the facts that 69% of revenue and 67% of anticipated gross profit was supported by audit evidence contained in our work papers.

2-Failure to perform and document adequate procedures to evaluate the collectibility of a long-term account receivable.

We respectfully disagree with this finding, as follows:

Issuer A entered into a construction contract with a general contractor in 1995. During the course of the performance of the contract, Issuer A commenced litigation against the general contractor and its surety to collect the contractual monetary obligation due Issuer A under the original contract, plus damages sustained by Issuer A due to the negligence of the general contractor.

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2-Failure to perform and document adequate procedures to evaluate the collectibility of a long-term account receivable -- cont'd:

The litigation commenced in February 1999, with various and substantial offers of settlement presented to Issuer A in the subsequent years.

The general contractor's surety is a highly regarded and reputable institution. Issuer A sued the general contractor and its surety under a payment and performance bond issued on behalf of the general contractor specifically related to this contract.

For professional guidance, the Bonding and Surety Underwriting Process is described in detail in the AICPA Audit and Accounting Guide for Construction Contractors ("the Guide") in Paragraphs 1.12 - 1.17. Specifically, Paragraph 1.14 states, "... If the contractor should fail to perform in accordance with the contract, the surety is obligated to the owner for losses...." In our case, Issuer A was covered under the payment and performance bond, referenced to in the original contract, which was audited in previous years, which was issued by the surety on behalf of its customer, the general contractor, to insure that Issuer A would not seek payment from the owner, but rather the general contractor or its surety. It was never an issue in the litigation that Issuer A was not entitled to its unpaid account receivable. At issue was the additional claim that Issuer A was seeking for damages. In the event that the general contractor was unable to pay its contractual obligations, the surety would be obligated to pay Issuer A. The surety then would have recourse against the general contractor (its own client).

As the long-term account receivable was related to a construction contract covered under a payment and performance bond, if Issuer A was unsuccessful in its claim against the general contractor for additional revenue over and above the original contract, Issuer A would at least be entitled to collect its contractual funds directly from the surety. Under Paragraph 10.21 of the Guide, "... the auditor should consider the extent to which bonding arrangements and lien rights will limit possible losses by the contractor." The collectibility of the receivable was assured in the terms and conditions of the payment portion of the bond, under which the surety was indirectly obligated to Issuer A. Our response on May 25, 2005, in relation to the Inspection Program Comment Form's, contained additional information that supported our documentation and procedures. This information was added timely to the audit work papers under the 45 day rule, which ended after our inspection.

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2-Failure to perform and document adequate procedures to evaluate the collectibility of a long-term account receivable – cont'd.

It should be noted that in the third quarter of 2005 (disclosed as a subsequent event), the aforementioned litigation was concluded in Issuer A's favor; not by a court decision, but rather by the general contractor agreeing to pay Issuer A. Not only did the general contractor agree to pay Issuer A its long-term account receivable of approximately \$1.9 million, but the general contractor also agreed to pay Issuer A approximately \$1.0 million additionally in satisfaction of Issuer A's claim, which was in excess of the recorded receivable, lending further credence to the quality of Issuer A's accounting treatments.

This favorable settlement not only supports the collectibility of the long-term accounts receivable, but also enhances the support of the valuation accounting used for the Deferred Income Tax Asset.

3- Consideration of AICPA Professional Standards Sections AU390 and AU560.

Contained in Part I of the Draft Report, it is implied that a firm should consider its support of previously expressed opinions. Specifically under Footnote 6, of the Draft Report, which this is in response to, it is stated that "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 opinion". This footnote continues to reference AICPA Professional Standards Sections AU390, *Consideration of Omitted Procedures After the Report Date*, and AU560, *Subsequent Discovery of Facts Existing at the Date of the Financial Statements*, pursuant to PCAOB Rule 3200T. Given the aforementioned positive subsequent event, which is disclosed in Issuer A's Third Quarter 10Q, along with Issuer A's overall results for the year ending December 31, 2005, as reported in their 2005 Annual 10K filing, no changes to our opinion, as originally rendered, would be required.

M H K

REDACTED

Comments on Non-public Aspects of Report

Respectfully submitted,



Madden, Harrison & Kreuter CPA's, P.C.

MHK