



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

Inspection of Philip Vogel & Co., P.C.

**Issued by the
Public Company Accounting Oversight Board
July 13, 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. 104-2006-151



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 PHILIP VOGEL & CO., P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Philip Vogel & Co., 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 June 13, 2005 to June 17, 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 (Dallas, Texas)
Ownership structure	Professional corporation
Number of partners	5
Number of professional staff ^{3/}	23
Number of issuer audit clients ^{4/}	4

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 Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of three 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.^{6/} The deficiencies identified in one of the audits reviewed 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 failure to perform and document sufficient procedures in order to support its use of the work of a specialist.

^{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.



12400 COIT ROAD
SUITE 1000
DALLAS, TEXAS 75251-2005
214/346-5800 Fax: 214/346-5899
E-mail: firm@philipvogel.com

May 12, 2006

Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Sir or Madam:

We wish to respond to the April 11, 2006, Draft Inspection Report on Philip Vogel & Co. PC ("firm") issued by the inspection team of the Public Company Oversight Board ("PCAOB") pursuant to its inspection conducted June 13, 2005 through June 17, 2005. Pursuant to section 104(f) of the Sarbanes-Oxley Act of 2002 ("Act") and PCAOB Rule 4007(b), the firm hereby requests confidential treatment for the firm's comments on the draft report.

Part A

The draft inspection report disclosed that the inspection team identified matters that it considered to be audit deficiencies in that the firm did not obtain sufficient evidential matter to support its opinion on one issuer's financial statements. That deficiency was the alleged failure to perform and document sufficient procedures in order to support the work of a specialist.

We would like to draw attention to the distinction between the wording in the PCAOB Inspection Comment Form ("Comment Form") issued and agreed to by the firm and the inspectors at the time of the inspection, and the comment in the draft inspection report. The Comment Form indicates that the firm's workpapers do not provide adequate evidence of the firm's performance and documentation concerning the use of a specialist. The draft inspection report expands that to include a lack of performance as well as a lack of evidential matter. The following is a recitation of our response to the Comment Form:

"We agree with the comment that the work papers did not adequately address all the required matters with respect to our considerations of the use of a specialist in that it would be difficult for an experienced auditor that is not familiar with the client to understand our procedures and the extent of the related work.

We believe that there was evidence in the work papers that did demonstrate compliance with AU 336 in all material respects, even though we failed to include the appropriate audit program which would have directly addressed each point that was covered. The work papers did contain analyses of the reserve report and written comments that indicated the consideration of the various assumptions used in the report, as well as the conclusions reached. The written comments should have been more descriptive and complete to allow reviewers who would not be familiar with the engagement to understand our work.

We fully recognize the significance of the reserve report in this engagement and this was discussed in the planning stage of the engagement. We spent considerable time reviewing and analyzing the report and its effect on the financial statements and our audit. We believe this is evidenced in our work papers, albeit not in as clear and direct a fashion as professional and firm standards require."

In response to potential remedial actions, we submitted the following:

"We believe the procedures required under AU 336 were performed but the documentation of those procedures in itself may be subject to the provisions of AU 390, *Consideration of Omitted Procedures After the Report Date*, as a procedure required under AU 339, *Audit Documentation*, that was omitted. In that regard, we are adding the omitted audit program and additional documentation of the procedures already performed to further support our opinion.

We believe no action is required pursuant to AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*."

We take exception to the allegation that the adequate procedures were not performed as indicated in the draft inspection report. The matters noted in our initial response were discussed with the inspectors at the time of the inspection and we were led to the understanding that they agreed with the fact that adequate procedures were performed to support the audit opinion, but documentation was deficient. The Comment Form was specifically worded the way it was to indicate that the matter was a lack of documentation and not a lack of performance, other than related to documentation. Discussions were held among the firm and inspection team members to ensure a clear understanding and agreement on this issue.

We did agree that documentation was inadequate, or poorly organized. As noted above, we took steps necessary to rectify this situation such that the workpapers now support the opinion issued. In addition, because the subsequent audit for the period ended June 30, 2005, was to begin shortly after the inspection, additional discussions were held with engagement team members, including the concurring reviewer, to address these concerns.

We continue to believe that the procedures cited above regarding the use of a specialist were performed, but that documentation thereof was not in accordance with firm or professional standards. The evidence of those procedures was scattered throughout the workpapers rather than being located in a specific place, the audit program on this matter was not completed, and other evidence existed in permanent and prior year files (as it relates to the relationship and qualifications of the specialist).

We believe the inspectors were in agreement with this as their Comment Form intentionally refers to a lack of evidence of performance and not a lack of performance itself.

We request that the draft inspection report be revised to clearly indicate this fact and not imply that the procedures were not performed. Because of this, we do not believe that the issue of documentation should be one that indicates the firm did not obtain sufficient evidential matter to support its opinion.

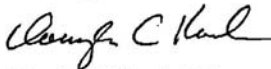
REDACTED

Comments on Non-public Aspects of Report

REDACTED

Comments on Non-public Aspects of Report

Sincerely,



Douglas C. Koval, CPA
Shareholder
Director of Quality Control