

**Inspection of
Drakeford & Drakeford, LLC**

**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 DRAKEFORD & DRAKEFORD, LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Drakeford & Drakeford, LLC ("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 November 29, 2004 to December 3, 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 (Atlanta, Georgia)
Ownership structure	Limited liability corporation
Number of partners	1
Number of professional staff ^{3/}	None
Number of issuer audit clients ^{4/}	2

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.

^{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 both 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 both 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 Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for a business combination;

^{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.

- (2) the failure to perform and document audit procedures related to an issuer's valuation of inventory;
- (3) the failure to perform and document audit procedures related to an issuer's valuation of goodwill;
- (4) the failure to perform and document audit procedures related to an issuer's cancellation of escrowed shares and the potential existence of a resulting contingent liability;
- (5) the failure to perform and document sufficient audit procedures related to an issuer's accounting for a business combination;
- (6) the failure to perform and document appropriate consideration of an issuer's change in accounting policy for the reporting of revenue;
- (7) the failure to perform and document an evaluation of whether substantial doubt exists about an issuer's ability to continue as a going concern; and
- (8) the unwarranted reliance on revenue data provided by a third-party service organization.

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

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

* * * *

B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on a review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.^{7/} On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

a. Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism. In addition to the deficiencies noted in Part II.A, the inspection team reported that, in both of the audits reviewed, the Firm used an outdated program for evaluating the financial statement disclosures. [Issuers A and B] In one of these audits, the inspection team identified financial statement disclosure deficiencies that the firm had apparently not appropriately identified and addressed. [Issuer B] In addition, the Firm's audit work programs had not been updated for several years, and the inspection team observed

^{7/} A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

that the work papers contained programs that included no sign-offs, dates or references, and others that were only partially completed. Further, the work papers provided to the inspection team for both audits reviewed did not contain programs for several significant audit areas, and the work papers did not otherwise address these areas. [Issuers A and B]

b. Auditor Communications

The Firm's system of quality control does not provide sufficient assurance that the Firm will make or formally document all required auditor communications with audit committees. [Issuers A and B]

* * * *

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.

DRAKEFORD & DRAKEFORD, LLC

P.O. Box 1972
Mableton, Georgia 30126

770-575-0915/540-361-7091

December 15, 2005

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

Re: Response to Public Company Accounting Oversight Board (PCAOB) Draft Report of 2004
Inspection of Drakeford & Drakeford, LLC

Dear Mr. Diacont:

Drakeford & Drakeford, LLC ("D & D") is pleased to respond to the Public Company Accounting Oversight Board's ("PCAOB") November 14, 2005 draft report on its inspection of the firm.

The PCAOB's inspection during 2004 assisted the firm in identifying areas where we can and will continue to make improvements in all aspects of our auditing and quality control processes. We are now in the process of adding additional professional staff with concentrated training as to audit methodologies, policies and procedures. We have taken and will be taking steps to address all of the matters described in the inspection draft report.

We have summarized below our response to Part 1 of the Report, and also have provided more detailed comments in response to Part 1 in an attachment to this letter.

We appreciate the opportunity to provide and express our views and comments to the Board and welcome discussion of the responses we have provided. We look forward to working with your staff on this and other matters related to public company auditing practice.

Respectfully submitted,


Drakeford & Drakeford, LLC

Attachment to D & D Response-Detailed Comments on Part 1

Part 1-Section A. 1: The business combinations referred to in the report were transacted in the year 2002. These transactions were fully documented in the work papers for that year and were not presented to the inspection team since the year under review was 2003. In the case of Issuer B, the earn-in factors of the 2002 combination increased the acquisition cost and was properly stated. We also tested the valuation allowance recorded against the issuer's deferred income tax assets and documented this calculation in the work papers.

Part 1-Section A. 2: Although your findings in regards to the failure to perform and document the issuer's valuation of inventory, the following audit procedures were noted and initialed in the audit workpapers: observation of the physical inventory, discussion of the valuation procedures used by the issuer to determine any changes in specific products, changes in production methods, accounting policies used, methods used to accumulate cost of inventory items, testing the clerical accuracy of the issuer's physical inventory summary and discussion of obsolete items in the inventory. Since a material write-down occurred during that year, we believe that it was justified and that documentation was conclusive in support of the adjustment.

Part 1-Section A. 3: The documentation regarding the failure to perform and document audit procedures related to an issuer's valuation of goodwill was not in the working papers presented at the inspection date; however, the procedures were discussed by and analyzed by associates of the audit team and D & D failed to get the proper documentation assembled into the audit work paper file that was submitted to the PCAOB team.

Part 1-Section A. 4: The report makes reference to potential contingent liability of up to eighteen times total assets would be required as a charge to operations if and when the company should have to re-issue the shares. The re-issuance was not going to occur due to agreements of both parties; however, the firm failed to document in the work papers of any great detail of the agreement. These notes were not included in the final work papers presented to the PCAOB team.

Part 1-Section A. 5: We repeat the same comment in Part 1-Section A.5. (Business Combination)

Part 1-Section A. 6: D & D documented the appropriate consideration of an issuer's change in accounting policy for the reporting of revenue by submitting additional information requested from the inspection team. The following documented information was taken from discussions with the audit committee, management, and legal counsel; EITF 99-19-Reporting Revenue Gross as a Principal versus Net as an Agent-were factors considered in determining whether sales are properly reported "gross" or "net" and were documented as to their opinion and was also based on industry standards. Based on this documentation, we disagree with the failure to perform and document appropriate consideration of an issuer's change in accounting policy for the reporting of revenue. However, there could be a failure to document and disclose a change in accounting procedure and the retroactive effect if any.

Part 1-Section A. 7: Based on our interaction with the issuer, we believe the firm documented enough extensive performance on the going concern issue regarding Issuer B. Each quarter analyzed during the year 2003 was showing indications and trends of the issuer eliminating substantial doubt. In our review, we

FROM : C

FAX NO. :

Dec. 15 2005 11:00AM P4

**Attachment to D & D Response-Detailed Comments on Part 1
(continued)**

documented the following: negative trends, internal matters, external events that have occurred, and other indications of possible financial difficulties. Since these issues were discussed and documented, we believe the firm met the requirements of the "going concern issue". D & D concluded that substantial doubt did not exist about the entity's ability to continue as a going concern for a reasonable period of time.

Part 1-Section A. 8: Although the supporting documents were not available during the inspection process, the reliance on revenue data by a third-party service organization were satisfactorily addressed during the audit process. The client maintains and has on hand a detailed analysis of whether the service auditor's report was satisfactory for their purpose of reliance on revenue from the service organization. Guidance in section 543.12 was given consideration in this matter. We agree with the report that the documentation was not available at the time of the inspection.