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Public Company Accounting Oversight Board

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Report on

2007 Inspection of McGladrey & Pullen, LLP

Issued by the

Public Company Accounting Oversight Board

April 29, 2008

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. 104-2008-068

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Public Company Accounting Oversight Board

Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.

During 2007, the Board's inspection process for annually inspected firms addressed the third year of implementation of Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("AS No. 2"). As described in Appendix B to this report, this process occurred at three levels: (1) meetings with senior firm leadership, (2) a review of the Firm's methodology and tools, and (3) inspections of certain audits of accelerated filers. The reviews of audits included reviews conducted before the regular practice office field work to follow up on certain matters identified in the previous year's inspection, and reviews conducted during the regular practice office field work of certain audits selected by the inspection team. In general, the Board's inspection teams observed that the firms continued to make improvements in their audits of internal control over financial reporting, and that firms were preparing to implement Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.*

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 U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure 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 or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

PCAOB Release No. 104-2008-068

2007 INSPECTION OF McGLADREY & PULLEN, LLP

In 2007, the Board conducted an inspection of McGladrey & Pullen, LLP ("McGladrey" or "the Firm"). The Board is today 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, Appendix B, and portions of Appendix C. Appendix B provides an overview of the inspection process. Appendix C includes 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 routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement 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") performed an inspection of the Firm from July 2007 to October 2007. The inspection team performed field work at the Firm's National Office and at seven of its approximately 73 U.S. practice offices.[3/]

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[4/] 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. Appendix B to this report provides a description of the steps the inspection team took with respect to the review of audits of financial statements and of internal control over financial reporting and the review of seven functional areas related to quality control, along with a brief description of the Alternative Practice Structure ("APS") in which McGladrey is a participant.

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 conformity with GAAP.[5/] It is not the purpose of an inspection, however, to review all of

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[3/] This represents McGladrey's total number of practice offices; however, only approximately 39 of the Firm's practice offices have primary responsibility for issuer audit clients.

[4/] This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

[5/] When the Board becomes aware 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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

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 or reporting on internal control, 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 selected audits of financial statements and of internal control over financial reporting performed by the Firm. 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 review of the audit of an accelerated filer included a review of aspects of both the Firm's audit of financial statements and its audit of internal control over financial reporting ("ICFR").

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies.[6/] Those deficiencies included failures by the Firm to identify or appropriately address an error in an issuer's application of GAAP that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3") provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence.[7/] For purposes of the

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6/ The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

7/ See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed opinions,[8/] and failure to take such actions could be a basis for Board disciplinary sanctions. In response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers. In some instances in which the inspection team identified GAAP departures, follow-up between the Firm and the issuer led to a change in the issuer's accounting or disclosure practices or led to representations related to prospective changes.[9/]

In some cases, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. The deficiencies that reached this degree of significance are described below, on an audit-by-audit basis.

Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion -

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[8/] See AU 390, *Consideration of Omitted Procedures After the Report Date,* 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), and PCAOB Auditing Standard No. 2, An *Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements* ("AS No. 2"), ¶197.

[9/] The Board inspection process generally did not include review of such additional procedures or documentation, or of such revised accounting, although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

- The Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. Specifically, subsequent to the issuer's fiscal year end, a customer of the issuer went into bankruptcy, which had a significant effect on the issuer's estimate of loss on a loan to that customer that the issuer had already determined to be impaired. The issuer, however, recorded the increase in the estimated loss in the quarter in which the bankruptcy occurred, rather than including it in the financial statements for the year under audit, which had not yet been released.[10/]

- In auditing the issuer's allowance for loan losses ("ALL"), the Firm used the work of the issuer's personnel who perform credit reviews ("credit review function") to test the issuer's loan review process. The Firm failed, however, to perform procedures to determine the extent to which it would be appropriate to use the work of the issuer's credit review function. First, the Firm failed to evaluate the objectivity and competence of the credit review function even though evidence contained in the audit documentation identified specific matters that raised concerns regarding the objectivity of this function. Second, the Firm failed to determine whether the credit review function's procedures provided adequate coverage of the issuer's loan portfolio to support the Firm's reduction in testing of loan grades. Third, the Firm failed to perform procedures to identify and evaluate reported findings by the credit review function that may have warranted modification to the nature, timing and extent of its planned audit procedures.

Issuer B

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- In performing procedures related to the ALL –

    - The issuer reduced certain qualitative loss factors used in its ALL calculation in the fourth quarter, notwithstanding indicators of credit

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[10/] The issuer has restated its financial statements for the matter discussed here.

deterioration including increasing levels of nonaccrual and impaired loans; high levels of loan policy exceptions; and the ALL at most of its bank subsidiaries that were below peer group averages. . Despite these factors, the Firm failed to evaluate the reasonableness of the qualitative loss factors.

- o The Firm selected the five largest impaired loans from the total impaired loan population to evaluate whether the recorded amounts exceeded their fair values and whether the issuer properly recognized specific impairment reserves. For certain impaired loans, the issuer used outside specialists to perform appraisals on the underlying collateral, and the Firm used the work of the specialists in its evaluation. However, the Firm failed to gain an understanding of the methods and assumptions used in the appraisal reports. In addition, the Firm failed to test the valuation of the remaining population of impaired loans.

- The issuer's calculation of income taxes exceeded recorded income tax expense by a significant amount. Despite this significant difference, other than language in the tax summary memorandum stating that the Firm had traced amounts to supporting detail and had made judgments about the appropriateness of formulas used in the calculation, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed audit procedures related to the income tax provision, deferred tax assets and liabilities, or related footnote disclosures.

Issuer C

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion. In performing procedures related to the ALL –

- The Firm performed substantive procedures to audit the allowance by testing the issuer's process to develop the ALL estimate. However, the Firm failed to adequately test loan loss factors, in particular the significant qualitative adjustments, used by the issuer in determining its ALL amount. Specifically, the Firm's testing was limited to comparison of such qualitative adjustments to prior year adjustments and comparing the loan loss factors to supporting schedules, even though the Firm knew of deficiencies in the issuer's ALL methodology, was aware of indicators of credit deterioration, and knew that the issuer's ALL coverage ratios for both total loans and noncurrent loans fell below the low end of its peer group.

- The Firm performed loan review procedures as a substantive test of credit risk grades and specific impairment reserves for all non-homogenous loans with principal amounts that exceeded a specified threshold. However, the Firm failed to test the valuation of the remaining non-homogenous loans.

Issuer D

The issuer maintained inventory at its retail locations and at a distribution center. The Firm assessed inherent risk and control risk as high for inventory existence.

For inventory at retail locations, the issuer did not perform a full count of inventory at year end and, instead, used a service provider to perform store counts throughout the year. The Firm failed to evaluate the results of the service provider's inventory counts performed during the fiscal year. In addition, the Firm did not perform independent test counts at a representative sample of locations where the service provider performed inventory counts at fiscal year-end.

For its distribution center, the issuer used its perpetual inventory records and cycle counts throughout the year to record inventory. In performing audit procedures at the distribution center, the Firm failed to evaluate the results of the issuer's cycle counts performed during the fiscal year.

Issuer E

The issuer acquired a significant level of deposits through a business combination. The Firm assessed inherent risk as low and control risk as high for all relevant assertions of those deposits. The Firm's substantive procedures regarding the deposits consisted of (1) testing the reconciliation of the deposits subsidiary ledger to the general ledger at the date of acquisition and at year end, and (2) confirming a sample of deposits with customers. However, the Firm's procedures to test the completeness of deposits were inadequate in that the confirmation selection process did not subject all customer deposit accounts to the possibility of selection.

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 and the following seven functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; and (7) policies and procedures for staffing audits. 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

PART II, PART III, AND APPENDIX A OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX B

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance of the Firm with applicable requirements related to auditing issuers. This process included reviews of components of selected issuer audits completed by the Firm. These reviews were intended both to identify deficiencies, if any, in those components of the audits and to determine whether the results of those reviews indicated deficiencies in the design or operation of the Firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain functional areas of the Firm that could be expected to influence audit quality.

1. Review of Selected Audits

The inspection team reviewed aspects of selected audits, which it chose according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those areas. The areas subject to review included, but were not limited to, revenues, fair value, financial instruments, derivatives, income taxes, reserves or estimated liabilities, inventories, consideration of fraud, supervision of work performed by foreign affiliates, and assessment of risk by the engagement team. The inspection team also analyzed potential adjustments to the issuer's financial statements that had been identified during the audit but not recorded in the financial statements. For certain selected engagements, the inspection team reviewed written communications between the Firm and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form.

2. Implementation of AS No. 2

The inspection team reviewed aspects of the Firm's approach to the implementation of AS No. 2 in light of the provisions of that standard and related Board statements.[11/] The inspection procedures included meeting with members of the Firm's leadership to hear the Firm's perspective on its implementation of the standard and performance of integrated audits of accelerated filers; reviewing changes to the Firm's methodology, tools, and training; and reviewing aspects of specific internal control audits. The reviews of specific audits included inspection procedures that were performed before the regular practice office field work to follow up on certain matters identified in the prior year's inspection in one or more of the following areas: (1) integrating the audit of internal control with the audit of the financial statements; (2) using a top-down approach to the audit; (3) using a risk-based approach; and (4) using the work of others. The reviews of audits also included, for certain audits selected for inspection during the regular practice office field work, an evaluation of aspects of the Firm's audit of internal control.

3. Review of Seven Functional Areas

The inspection team reviewed the seven functional areas both to identify possible defects in the Firm's system of quality control and, where applicable, to update the Board's knowledge of the Firm's policies and procedures in the functional areas.

As reflected in the descriptions that follow, the inspection team's procedures took account of the fact that McGladrey is part of an APS with H&R Block, Inc. ("H&R Block"). H&R Block, through its wholly-owned subsidiary, RSM McGladrey Business Services, Inc., owns the non-attest businesses and assets of many certified public accounting firms, including RSM McGladrey, Inc. ("RSMI"). RSMI performs accounting, tax, and consulting services for corporate clients. McGladrey performs audits and other attest services. H&R Block does not have an ownership interest in McGladrey; however, RSMI provides working capital financing to McGladrey under a loan agreement, and the partners of McGladrey are employed as managing directors of RSMI. In addition, through an administrative services agreement, RSMI provides

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[11/] See PCAOB Release No. 2005-009, *Policy Statement Regarding Implementation of [AS No. 2]* (May 16, 2005); PCAOB Release No. 2005-023, *Report on the Initial Implementation of [AS No. 2]* (Nov. 30, 2005); see also Staff Questions and Answers, *Auditing Internal Control Over Financial Reporting* (May 16, 2005).

accounting, payroll, human resources, and other services to McGladrey and receives a management fee for these services. As a consequence, the inspection procedures included interviews with certain personnel of RSMI.

a. Review of Partner Evaluation, Compensation, Admission, Assignment of Responsibilities, and Disciplinary Actions

The objective of the inspection procedures was to assess whether the design and application of the Firm's processes related to partner evaluation, compensation, admission, assignment, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the Firm. The inspection team interviewed members of the Firm's and RSMI's leaderships, as well as audit partners in practice offices, regarding these topics. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement, partners who had significant negative inspection results from recent internal, PCAOB, and peer-review inspections, and partners who received bonus compensation. Also, the inspection team interviewed audit partners regarding their time and responsibilities and interviewed practice office leadership regarding the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where client management requested a change in the lead audit partner.

b. Review of Independence Policies and the Alternative Practice Structure

The objective of the inspection procedures in this area was to evaluate the Firm's policies and procedures for compliance with the independence requirements applicable to its audits of issuers. To accomplish this objective, the inspection team reviewed the Firm's policies, procedures, and guidance; reviewed the Firm's monitoring of compliance with its policies and procedures; reviewed information concerning the Firm's existing business ventures, alliances, and arrangements, as well as the Firm's process for establishing such enterprises; interviewed numerous National Office and practice office personnel regarding the Firm's independence policies, practices, and procedures; and, for a sample of the audits reviewed, tested compliance with the Firm's policies and applicable independence requirements.

The objectives of the inspection procedures in this area also included gaining an understanding of McGladrey's APS relationship with H&R Block and certain of its subsidiaries. The inspection team focused on independence issues related to the provision of non-audit services to issuer clients; whether the personnel of H&R Block and its subsidiaries were familiar with the applicable policies and procedures regarding independence, integrity, and objectivity; and whether H&R Block has implemented an appropriate system of quality controls to ensure compliance with such policies and procedures. The inspection team reviewed, analyzed, and evaluated McGladrey's and RSMI's policies, procedures, and guidance materials related to independence (including independence consultations) for non-audit services to audit clients; their training programs on independence; and their procedures for independence consultations, which included reviewing the results of a sample of independence inquiries.

c. Review of Client Acceptance and Retention Policies

The objectives of the inspection procedures in this area were to evaluate whether the Firm appropriately considers and addresses the risks involved in accepting and retaining clients in the particular circumstances. Toward those objectives, the inspection team reviewed the Firm's policies, procedures, and forms related to client acceptance and continuance; interviewed members of the Firm's leadership; and for a sample of the engagements reviewed, assessed whether the audit procedures included the specific actions, if any, contemplated in response to any risks identified in the client acceptance or retention process.

d. Review of Practices for Consultations

The objective of the inspection procedures in this area was to assess the effectiveness of the Firm's consultation process. Toward this objective, the inspection team gained an understanding of and evaluated the Firm's policies and procedures relating to its consultation process, and reviewed a sample of consultations that occurred during the inspection period to evaluate the Firm's compliance with its policies and procedures, whether the conclusions were in accordance with professional standards, and whether the engagement teams acted in accordance with the conclusions.

e. Review of Internal Inspection Program

The objective of the inspection procedures in this area was to evaluate the effectiveness of the Firm's internal inspection program in enhancing audit quality. To meet this objective, the inspection team reviewed policies, procedures, guidance, and forms; documentation of the results of the current year's internal inspection program;

and steps the Firm took in response to those results. The inspection team also interviewed the Firm's leadership concerning the process and effectiveness of its internal inspection program. In addition, the inspection team reviewed certain audits that the Firm had inspected and compared its results to those from the internal inspection.

f. Review of Policies and Procedures for Staffing Audits

The objectives of the inspection procedures in this area were to understand and evaluate the Firm's policies and procedures for allocating, monitoring, and managing its personnel resources. Toward those objectives, the inspection team reviewed documentation relating to the Firm's processes for allocating its personnel resources and interviewed the responsible persons at the National Office and practice offices regarding such policies and procedures and their implementation.

g. Review of Tone at the Top

The objective of the review of the Firm's "tone at the top" was to assess whether actions and communications by the Firm's and RSMI's leaderships demonstrate a commitment to audit quality. Toward that end, the inspection team interviewed members of the Firm's national, regional, and local, and RSMI's leaderships to understand their perspectives on the Firm's culture and the messages being conveyed by leadership. The inspection team also interviewed certain audit partners and managers to obtain their perspectives on communications from the Firm's and RSMI's leaderships. In addition, the inspection team reviewed the Firm's code of conduct; documents relating to measuring and monitoring audit quality; descriptions of the duties of, and relationships between and among, staff and leadership; results of surveys of staff; public company audit proposals; internal and external communications from management; descriptions of the Firm's financial structure and business plan; and agendas and minutes of the Firm's board of directors.

APPENDIX C

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 Firm provided a written response to a draft of this 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.[12/]

[12/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

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April 23, 2008

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

Re: Response to the Public Company Accounting Oversight Board (PCAOB) Report of 2007 Inspection of McGladrey & Pullen, LLP

Dear Mr. Diacont:

Thank you for the opportunity to submit our response to the PCAOB's April 3, 2008 draft of its Report of Inspection of McGladrey & Pullen, LLP. We support the PCAOB's inspection process and believe that inspection comments and observations will help us enhance the quality of audit engagements.

We have taken appropriate actions to address the deficiencies identified by the PCAOB's inspection team, including, in certain instances, performing additional procedures in accordance with AU 390, *Consideration of Omitted Procedures after the Report Date,* and in other instances, adding currently dated documentation to our workpapers to more completely and accurately describe the procedures performed, evidence obtained and conclusions reached.

McGladrey & Pullen is committed to working with the PCAOB staff to improve our system of quality controls. We have a long history of audit quality founded on our commitment to integrity, objectivity and excellence.

Please contact Bruce Webb at (515) 281-9240 with any questions regarding this letter.

Sincerely,

McGladrey & Pullen, LLP