

**Inspection of
Timpson Garcia LLP**

Issued by the

Public Company Accounting Oversight Board

May 11, 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 TIMPSON GARCIA LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Timpson Garcia LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection at various times during the period from October 13, 2005 to November 9, 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 (Oakland, California)
Ownership structure	Limited liability partnership
Number of partners	3
Number of professional staff ^{3/}	7
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 –

- (1) the failure to perform and document adequate audit procedures relating to the valuation of certain properties held for sale; and

^{5/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{6/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

(2) the failure to perform and document adequate audit procedures relating to sales of properties.

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

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

PART II

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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.

b. Concurring Partner Review

Questions exist about the effectiveness of the Firm's existing arrangement for concurring partner reviews. Having procedures for concurring partner review by a competent reviewer is an important element of quality control. Such reviews should

^{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.

involve the performance of appropriate procedures using due care and professional skepticism, with the Firm appropriately addressing the reviewer's findings and documenting the process. The information reported by the inspection team suggests that there is no evidence that the concurring partner review procedure used by the Firm resulted in the identification of any of the deficiencies noted by the inspection team. This may result from a lack of competency, due care or professional skepticism on the part of the concurring partner; deficiencies in the scope of the concurring partner's procedures; and/or the Firm's failure to properly address the concurring partner findings. Apparent deficiencies in documentation of the scope and results of the concurring partner's reviews preclude the Board from determining the relative contribution of each of these potential causes to the failure of the concurring partner process to prevent the deficiencies reported by the inspection team.

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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.

TIMPSON GARCIA, LLP
CPAS AND CONSULTANTS

March 2, 2006

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

Dear Mr. Diacont:

This letter represents our firm's response to Part I of the draft report of inspection issued by the Public Company Accounting Oversight Board (PCAOB) on Timpson Garcia, LLP.

The inspection team identified two matters it considered to be audit deficiencies as follows:

1. The failure to perform and document adequate audit procedures relating to the valuation of certain properties held for sale.
2. The failure to perform and document adequate audit procedures relating to the sale of properties.

In addition to the above, the inspection team also raised questions regarding the firm's quality control system based upon the above.

Response to deficiency 1

The assessment of the facts by the inspection team was not correct. At the issuer's fiscal year end, pursuant to their plan of liquidation, the issuer classified all six of its remaining properties as held for sale. Please note that the inspection team did not properly identify how many properties the issuer still owned or how many were actually sold subsequent to year end. These facts were clearly represented in the workpapers and appropriately disclosed in the issuer's financial statements.

The remaining six properties referred to above that were not sold prior to year end, were valued on the balance sheet for \$7,194,000 and represented 89% of the issuer's assets. The workpapers clearly indicated that three of these properties were sold subsequent to the balance sheet date of September 30, 2003. For the two properties that were sold in October 2003, the closing papers for the sales are in the workpapers. The third property was sold on December 31, 2003 to an independent party. The issuer provided notations to us indicating the negotiated sales price and took an impairment loss to the amount they expected to realize from the sale. A copy of the closing statement was not available at the time the audit fieldwork was completed. A fourth property was under a contract of sale that dated back to the previous fiscal year. Please note that this contract of sale is in our workpapers for the previous fiscal year and that the inspection team did not request to see this contract of sale. Further, this property was sold in accordance with this contract subsequent to the issuing of the financial statements. For the two remaining properties, the issuer recognized an impairment loss and valued the properties at the sales listing price (issuer did have listing agreements).

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Division of Registration and Inspections
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As far as performing adequate audit procedures is concerned, the four properties referred to above as sold or under contract of sale represent approximately \$5,782,000 (over 80%) of the balance sheet value of \$7,194,000. Since this was an audit and not a detailed examination of every transaction, as stated in the auditor's report, in our professional judgment, the procedures performed were adequate. Also, professional standards do not require an elaborate evaluation nor does it require the documentation to be complex. We believe an experienced auditor with average intelligence would have found the documentation understandable and adequate.

Response to deficiency 2

The analysis of the situation made by the inspection team was, at best, extremely shallow. It appears to us that the inspection team was more interested in form rather than substance.

Please note that this inspection was not performed in our office but was performed, at the request of the PCAOB, completely offsite in the offices of the PCAOB. In accordance with PCAOB instructions, a complete copy of the workpaper file for the current fiscal year was mailed to the PCAOB. Due to the large size of the permanent file, the PCAOB inspection team agreed that it would not be necessary to copy and send the permanent file since very little of it pertained to the year being inspected. Many of the documents in the permanent file are court documents and double-sided. It was further agreed that if they requested any documents in the permanent file, we would copy and send it to them.

The inspection team had questions regarding the two sales reported on the financial statements. Please note that we responded to the inspection team by sending additional information on the sales. These documents were not considered relevant enough to be in the current workpapers but were in the permanent file for the properties in question.

For Sale #1, there is very little information on the actual closing statement. All of the relevant information, including sales information, is on the escrow trust disbursement statement. The most important part of this sale was that a substantial amount of the proceeds from the sale were disbursed directly to an independent Liquidating Trustee that held the secured notes. This was a requirement of the Liquidating Trustee to forgive the debt on a substantial amount of the notes. It appears the inspection team failed to recognize this condition. The actual closing statement was copied from the permanent file and electronically mailed to the inspection team.

For Sale #2, as disclosed in the financial statements, this was a sale to related parties. This transaction involved the issuer transferring title of the property to an LLC and the related parties purchasing the LLC from the issuer. Again, the substance of the transaction is the loan disbursement that was executed by the purchasers. The loan proceeds from this transaction were also sent directly to the Liquidating Trustee to satisfy the payments on the secured notes. The actual transfer and sale documents were copied from the permanent file and electronically mailed to the inspection team.

Based upon the above, we do not believe there is any doubt these transactions qualified for sales accounting.

Mr. George H. Diacont, Director
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Response to questions regarding the firm's quality control system

The questions raised regarding the firm's quality control system are based solely upon the deficiencies noted above. Since the deficiencies noted above are inaccurate and completely baseless, the issues regarding the quality control are not applicable.

Please advise if you need any additional information regarding our responses to the draft report of inspection.

Sincerely,



Dennis S. Kaneshiro
Managing Partner