

**Inspection of
Lightfoot Guest Moore & Company
A Professional Corporation
(Headquartered in Dallas, Texas)**

Issued by the
Public Company Accounting Oversight Board

April 29, 2010

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 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.



INSPECTION OF LIGHTFOOT GUEST MOORE & COMPANY A PROFESSIONAL CORPORATION

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Lightfoot Guest Moore & Company A Professional Corporation^{1/} ("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.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} 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 Firm has issued audit reports under the name of Lightfoot Guest Moore & Co., PC.

^{2/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. 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.

^{3/} 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 primary procedures for the inspection from April 28, 2009 to May 1, 2009. These procedures were 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	2
Number of professional staff ^{4/}	5
Number of issuer audit clients ^{5/}	2

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board

^{4/} "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.

^{5/} 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. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

^{6/} 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.

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 conformity with GAAP.^{7/} 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 inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in the audit reviewed included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent

^{7/} 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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{8/} 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.

evidential matter to support its opinion on the issuer's financial statements.^{9/} That deficiency was the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the recognition of revenue related to the sales of financial assets.

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

^{9/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a 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. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the 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.

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 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.^{10/}

^{10/} 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.

LIGHTFOOT GUEST MOORE & CO, P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

December 30, 2009

George H. Diacont
Public Company Oversight Board
1666 K Street, N.W.
Washington, DC 20006

RE: Draft Inspection Report

In response to the November 25, 2009, Draft Report of Inspection on Lightfoot Guest Moore & Co., P.C. issued by the inspection team of the Public Company Accounting Oversight Board ("PCAOB") pursuant to its inspection conducted April 28 through May 1, 2009, we have several concerns as outlined below.

Part I.A.

We are concerned about the ability of the PCAOB's inspection team to properly identify the correct generally accepted accounting principle applicable to transactions. In this instance, the team believed that revenues should be reported on a net basis. The team first indicated that they wanted to treat the registrant as a broker, clearly it is not. The team then settled on SFAS 140 to base a net revenue presentation. For four separate reasons, we believe the inspection team to be incorrect in their assessment.

- (1) The definition of a financial asset as defined in the standard is a "contract that conveys to one entity a right to receive cash from a second entity." The registrant deals in transactions between an entity and an individual, thereby not falling under the definition of a financial asset under SFAS 140.
- (2) The scope of SFAS 140 states that it deals with transactions with continuing involvement with the transferee. The registrant does not retain any continuing involvement.
- (3) The illustrative paragraph in SFAS 140 the team relied on contains options, swaps and recourse obligations, none of which apply to the transactions in question. FAS Concepts No. 6 states that what can be recorded for one entity as a net gain, can be recorded as sales and cost of sales to another entity. We believe the level of activity and nature of the transactions warrant gross revenue presentation under Concepts No. 6.
- (4) The registrant applies AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, for recognizing revenue. The certain loans referred to involve loans with evidence of deterioration of credit quality. This description perfectly describes the transactions of the registrant. The SOP states that different accounting should be used when the loans are acquired for the rewards of ownership such

as improving the collateral for resale. The SOP goes on to say in paragraph B-35, that there are instances in which the ultimate disposition should be treated as a nonmonetary asset type transaction. We believe this is the appropriate standard to use.


Accordingly, we strongly disagree with the assessment that sufficient evidential matter was not present. The inspection team noted that a draft of the audit report was part of our workpapers which includes the revenue recognition policy of the registrant and identifies the SOP as the basis for that policy. Additionally, our workpapers include written audit programs dealing with the recognition of income. Those steps were followed and notated.

In response to the inspection team's comment regarding the presentation, the firm provided a written response and reasons that, in our judgment, even if the presentation should be on the net basis, the presentation was not material to the overall financial statements in accordance with Staff Accounting Bulletin No. 99 and FASB's Statement of Financial Accounting Concepts No. 2. We believe the current presentation of gross revenues enhances the readers' ability to make an informed decision based on more qualitative information. Accordingly, it is still our opinion that the financial statements present fairly, in all material respects, the financial position of the issuer as of the balance sheet date.

We also note that part of the charge of the PCAOB under Section 101 of the Sarbanes Oxley Act of 2002 is to "further the public interest in the preparation of informative, accurate, and independent audit reports...." During our normal peer review process, both during the review and in the exit interview, constructive comments/suggestions about procedures and policies are made to help the firm perform more efficient audits. Our PCAOB inspection process lacked this form of feedback which leads us to believe either (a) the PCAOB is not fulfilling its charge to "further the public interest in the preparation...of audit reports" through its lack of feedback to firms, or (b) the inspection team believed the procedures themselves were sufficient and were unable to suggest any additional or alternative procedures to be performed.

We welcome any further communication in regards to the inspection process or our comments that require additional discussion.

Sincerely



Lightfoot Guest Moore & Co., PC