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Inspection of George Johnson & Company, P.C.

(Headquartered in Detroit, Michigan)

Issued by the

Public Company Accounting Oversight Board

September 23, 2011

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. 104-2011-268

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PCAOB

Public Company Accounting Oversight Board

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
Public Company Accounting Oversight Board

INSPECTION OF GEORGE JOHNSON & COMPANY, P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm George Johnson & Company, P.C.[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 George Johnson & Company.

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 January 25, 2010 through February 2, 2010. 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	3 (Chicago, Illinois and Ann Arbor and Detroit, Michigan)
Ownership structure	Professional corporation
Number of partners	2
Number of professional staff[4/]	12
Number of issuer audit clients[5/]	6

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.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] 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 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 Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. 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 both of the audits reviewed included a deficiency of such

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[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.

[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* 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.[9/] That deficiency was –

> the failure to sufficiently test dividend income and net depreciation in fair value of investments.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

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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.

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.

George Johnson
& Company

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July 25, 2011

Ms. Helen A. Munter
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Ms. Munter:

We have received a draft copy of the inspection report issued by the Public Company Accounting Oversight Board ("PCAOB") with respect to the inspection conducted by the PCAOB of George Johnson & Company (the "Firm") between January 25, 2010 and February 2, 2010.

We are committed to maintaining and continuously improving our quality control system. This system is vital in meeting our goal to provide high-quality services that meet or exceed professional standards, our clients' expectations, and the expectations of the general public. We consider the PCAOB inspection process, as well as the feedback provided by the PCAOB, to be an important contributor to the maintenance and continuous improvement of our quality control system. As part of that process, we welcome the opportunity to provide our comments on the inspection report.

This letter provides our comments to the matters identified in Part I, or the public portion, of the inspection report.

<u>Issue</u>

The draft inspection report indicates that, for each of two audits inspected by the PCAOB, the PCAOB inspection team concluded that sufficient audit procedures did not appear to be performed with respect to dividend income and net depreciation in the fair value of investments.

<u>Response</u>

For each of the two audits inspected, the issuer was a defined contribution pension plan. In each case, all of the issuer's investments were held and administered by a third-party administrator ("TPA"). The investments of each of the two Plans consisted entirely of participant loans receivable and an investment in the sponsor's master trust.

Response (continued)

The master trust's investments consisted entirely of the sponsor's common stock, interests in common and collective trusts whose underlying investments are readily marketable securities, and interests in registered investment companies, all of which are readily marketable securities.

Investment income for each Plan consisted of interest and dividend income, along with realized and unrealized gains and losses. Interest and dividends earned on the investments were reinvested in those investments. The components of investment income and loss were part of a "closed" system that is administered by the TPA. In addition, the investments were valued on a daily basis.

In each of the two cases, the Firm obtained a service auditors' ("SAS 70") report from the TPA describing the TPA's controls relating to recordkeeping of investments and related income, including dividend income and net appreciation or depreciation in the fair value of investments (along with other matters). These SAS 70 reports were evaluated, and SAS 70 review checklists, based on a model developed by the American Institute of Certified Public Accountants ("AICPA"), documenting that evaluation were completed by the Firm's personnel and included in the working papers for each audit. In those SAS 70 review checklists, we documented our consideration of the impact on our audit procedures related to the recordkeeping and determination of investment income (including dividend income and net appreciation or depreciation in the fair value of investments) by each TPA. We considered each TPA's controls over investment allocation and income. These were satisfactorily tested in each SAS 70 report, and there were no connected user control considerations necessary to be maintained by the issuers.

Because of the nature of these investments, the controls present at the TPA, the "closed" system previously described, and the nature of the Plans' investment income, we assessed the inherent risk of the investments' valuation being materially misstated to be low in each of these two audits. We also assessed the inherent risk of misstatement of investment income, and of the components of investment income, to be low in each of these two audits.

Since the TPA was the custodian of the Plans' assets as well as the Plans' recordkeeper, the Plans' controls related to investment valuation, as well as the Plans' controls related to investment income, were those controls that were present at the TPA. The relevant controls that were present at the TPA were documented in the TPA's SAS 70 report, and the associated user controls were tested by us in our audits of the Plans. These TPA controls reduced control risk with regard to investment valuation and investment income to at least a moderate control risk, if not a low control risk. Therefore, with a low inherent risk and a moderate (or low) control risk, the overall risk of material misstatement for investment income was considered to be low.

Response (continued)

Our approach to auditing the components of investment income was to use the results obtained from auditing the investment balances, primarily those audit procedures related to the valuation of investments, and to supplement those results with reasonableness tests of selected investment income balances. Our testing of investment valuation in the audits involved selecting the 10 largest investments within the master trust, representing approximately 80 percent of the master trust's asset balance. Similar testing was performed in the previous year's audits on the valuation of the investments held as of the end of the previous year.

The extent of valuation testing performed in each of the two years' audits was more than we considered to be necessary to achieve our audit objectives strictly with regard to investment valuation. The purpose of performing this additional extent of valuation testing was so that the results could be applied to the "closed" system of investments and investment income as a whole. With more than adequate audit evidence that investments were fairly stated at the beginning of the year and that investments were fairly stated at the end of the year, the nature of the system and the controls present at the TPA regarding investment income would minimize the amount of additional audit evidence necessary to substantiate investment income.

As such, analytical procedures designed with a reduced level of precision could be, and were, employed to complete the audit procedures applied to investment income. Because the results that were obtained did not differ from our general expectations and did not produce any significant inconsistencies within the Plans' accounts, additional audit procedures related to dividend income, net depreciation in the fair value of investments, and other aspects of investment income were not considered to be necessary.

In summary, we believe that our procedures were substantially in accordance both with the auditing standards of the PCAOB and with auditing standards generally accepted in the United States and supported the opinions we issued on those issuers' financial statements, taken as a whole.

Nonetheless, we do take the PCAOB's position on this matter seriously. As a result, we have re-evaluated our processes on the following in all audits of employee benefit plans that the Firm has performed since the conclusion of the PCAOB inspection:

- The consideration of the appropriate level of precision needed in designing analytical tests of the components of investment income
- The level of documentation to be included in the working papers related to the determination of the level of precision needed in such analytical tests
- The level of documentation to be included in the working papers related to the analysis and resolution of unusual results that may be obtained from such analytical procedures

Again, we appreciate the feedback received from the PCAOB during this process. We look forward to receiving the final copy of the inspection report, and we anticipate that our responses will be considered in the preparation of that report.

Sincerely,

George Johnson & Company

CERTIFIED PUBLIC ACCOUNTANTS