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Report on

2010 Inspection of McGladrey & Pullen, LLP
(Headquartered in Bloomington, Minnesota)

Issued by the

Public Company Accounting Oversight Board

February 28, 2012

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. 104-2012-095

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 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 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 financial statement misstatements, including failures to comply with 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 apparent misstatements 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 whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with 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.

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2010 INSPECTION OF McGLADREY & PULLEN, LLP

Preface

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm McGladrey & Pullen, LLP ("McGladrey" or "the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act"). During the time of the primary inspection procedures, McGladrey was part of an alternative practice structure with H&R Block, Inc. ("H&R Block"). H&R Block, through its wholly owned subsidiary, RSM McGladrey Business Services, Inc. ("RSMBI"), owns the non-attest business and assets of RSM McGladrey, Inc. ("RSMM"). The partners of McGladrey are employed as managing directors of RSMM, which is owned by RSMBI. RSMM 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, the partners of McGladrey are employed as managing directors of RSMM. In addition, through an administrative services agreement, RSMM provides accounting, payroll, human resources, and other services to McGladrey and receives a management fee for these services. Subsequent to the inspection, the Firm acquired RSMM from H&R Block.

The Board is issuing this report in accordance with the requirements of the Act.[1/] The Board is releasing to the public Part I of the report, Appendix C, and portions of Appendix D. Appendix C provides an overview of the inspection process for annually inspected firms.[2/] Appendix D includes the Firm's comments, if any, on a draft of the report.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of

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[1/] In its Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.

[2/] The Act requires the Board to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers.

[3/] 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 the firm's quality control system) is nonpublic, unless the firm fails to make sufficient progress in addressing those criticisms.

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 certain aspects of the firm's quality control system. 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 audit work, or the relevant issuers' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

If the Board inspection team identifies deficiencies that exceed a certain significance threshold in the audit work it reviews, those deficiencies are summarized in the public portion of the Board's inspection report.[5/] The Board cautions, however, against extrapolating from the results presented in the public portion of the report to broader conclusions about the frequency of deficiencies throughout the Firm's practice. Audit work is selected for inspection largely on the basis of factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

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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.

[4/] This focus on weaknesses and deficiencies 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/] Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. 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. 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. The inspection team may review, either in the same inspection or in subsequent inspections, the adequacy of the firm's compliance with these requirements. Failure by a firm to take appropriate actions, or a firm's misrepresentations, in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

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PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from August 2010 through February 2011. The inspection team performed field work at the Firm's National Office and at 13 of its approximately 72 U.S. assurance practice offices.[6/]

A. Review of Audit Engagements

The 2010 inspection of the Firm included reviews of aspects of 19 audits. The inspection team selected the audits and aspects to review, and the Firm was not allowed an opportunity to limit or influence the selections.

The inspection team identified matters that it considered to be deficiencies in the performance of the audit work it reviewed. Those deficiencies included failures by the Firm to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[7/] as well as 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 was based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claimed to have performed the procedure.[8/] In some cases, follow-up between the Firm and the issuer led to representations related to prospective changes.

[6/] This represents McGladrey's total number of practice offices; however, approximately 30 of the Firm's practice offices have primary responsibility for issuer audit clients.

[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 applicable accounting principles, 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 Auditing Standard No. 3, *Audit Documentation* 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.

One of the deficiencies described below relates to auditing an aspect of an issuer's financial statements to which the issuer made substantial adjustments after the primary inspection procedures.

The inspection team considered certain of the deficiencies that it observed to be audit failures. Specifically, certain of the identified deficiencies were of such significance that it appeared that the Firm, at the time it issued its audit report, had failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements and/or the effectiveness of internal control over financial reporting ("ICFR"). The audit deficiencies that reached these levels of significance are described below.[9/]

1. Issuer A

The issuer concluded that its ICFR was not effective due to several material weaknesses. The Firm chose not to rely on controls, and it identified significant risks, including a risk of fraud, in the areas of revenue, the valuation of equity instruments, and the valuation of intangible assets. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to sufficiently evaluate the issuer's accounting treatment for certain issuances of mandatorily convertible preferred stock, a share-based award, and common stock warrants. Specifically –

    - For mandatorily convertible preferred stock, the Firm failed to consider the accounting effect of certain clauses included within each preferred stock certificate of designation, including an embedded conversion option, and failed to consider the fact that the issuer had not authorized a sufficient number of unissued common shares required to convert the preferred stock.

    - For the share-based award, the Firm failed to consider the effect of multiple grant dates, service- and performance-based vesting periods, forfeiture rates, and a stock split in its evaluation of the accounting for this award.

[9/] 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.

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  - For the common stock warrants, the Firm failed to consider in its evaluation of the classification of the warrants the facts that the issuer had not authorized a sufficient number of unissued common shares required to convert the warrants and that a majority shareholder controlled the issuer.

- The Firm failed to sufficiently test the existence, completeness, and valuation assertions for certain liability and equity accounts. Specifically –

  - The Firm failed to test the existence and completeness of liability and equity warrants, mandatorily convertible preferred stock, and certain common stock at year end.

  - The Firm failed to sufficiently test the fair values of certain liability and equity warrants and the common share award. In some instances, the Firm failed to evaluate the reasonableness of key assumptions that the issuer's external specialist used in determining the fair values. In other instances, the Firm failed to perform any procedures to test the recorded fair values.

  - The Firm failed to sufficiently test the equity activity for a consolidated variable interest entity, in that the Firm's testing failed to consider differences in reporting periods between the issuer and the consolidated entity.

- The Firm failed to sufficiently test the issuer's revenue and deferred revenue. The Firm tested a majority of the revenue and deferred revenue using substantive procedures that relied on system-generated reports, which it failed to test for completeness and accuracy. As the Firm chose not to rely on controls, the other substantive procedures were not sufficient to address the completeness and accuracy of revenue and deferred revenue, in that the Firm omitted certain revenue categories from refund or charge-back testing and traced only approximately one-quarter of the billings to cash receipts.

- The Firm failed to sufficiently evaluate the fair value, useful life, and potential impairment of an indefinite-lived intangible asset related to a marketing agreement that the issuer entered into during the current year. The Firm failed to test, beyond inquiries of management, the fair value that the issuer assigned to the intangible asset. Also, in evaluating the issuer's assertion that the intangible asset had an indefinite life, the Firm failed to consider the fact that the marketing agreement allowed both the issuer and the counterparty to terminate the agreement. Further, the Firm's testing of the issuer's assertion that there were no economic or competitive factors that could affect the useful life of the marketing agreement was limited to inquiries of management. The Firm also failed to sufficiently evaluate the issuer's conclusion that the intangible asset was not impaired, as the Firm failed to consider potential indicators of impairment, such as the issuer's recurring losses and recurring impairments of goodwill and other intangible assets during the year.

- The Firm identified a number of significant risks, including fraud risks and risks related to the possible recording of fraudulent journal entries and insufficient level of review over manual journal entries. As noted above, there were several material weaknesses in the issuer's ICFR, including weaknesses in controls over the recording and reporting of transactions. The Firm's procedures failed to address the risks of material misstatement that it had identified. This deficiency included the Firm's failure to sufficiently identify and test journal entries with characteristics that could be indicative of fraud, as the Firm did not identify specific classes of journal entries that were relevant to the identified fraud risks.

2. Issuer B

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to evaluate the issuer's accounting for, and associated disclosures of, the issuer's guarantee that resulted from certain repurchase obligations included in an agreement between the issuer and a lender. As a result, the Firm failed to identify departures from generally accepted accounting principles ("GAAP") that it should have identified and addressed before issuing its audit report, specifically, that the issuer had failed to disclose the fair value of the guarantee and that the fair value had not been recorded as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 460, *Guarantees*.

- The Firm failed to evaluate the appropriateness of the issuer's accounting for its exposure to potential losses associated with the refurbishing and reselling of repurchased inventory under ASC Topic 450, *Contingencies*.

- The Firm failed to sufficiently test the issuer's impairment analyses for two investments that were accounted for under the equity method. Specifically, the Firm failed to evaluate the reasonableness of significant assumptions, and test certain data underlying these assumptions, that were used in the issuer's discounted cash flow analyses. The assumptions used were not consistent with historical investee financial results or reflective of the current negative industry outlook, both of which were documented in the Firm's work papers. Further, through other procedures, the Firm identified liquidity concerns indicating that there could be substantial doubt about each investee's ability to continue as a going concern. To address the liquidity concerns, the Firm relied on the ability of the investees' general partner to perform under a debt guarantee in reaching a conclusion that the liquidity concerns were mitigated. However, the Firm failed to perform procedures to determine whether the general partner would likely perform under the guarantee.

- The Firm failed to perform procedures to evaluate the appropriateness of the valuation methodology the issuer used to determine the lower of cost or market value for certain inventory and whether such inventory was accounted for in accordance with the valuation method disclosed in the financial statements.

3. Issuer C

The issuer engaged a pricing service to validate the recorded fair values of its investment securities as provided by its service organization. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- With respect to the opinion on the effectiveness of ICFR, the Firm failed to sufficiently test the operating effectiveness of the issuer's controls over the valuation assertion for investment securities in the following respects:

    - The Firm failed to obtain an understanding of, and to test the effectiveness of controls over the establishment of thresholds for investigation of variances between the fair values of the investment securities provided by the issuer's service organization and those provided by the pricing service. The Firm also failed to test whether the identified variances in excess of the thresholds had been appropriately investigated and resolved.

    - The Firm failed to obtain an understanding and sufficiently test the effectiveness of the issuer's review control[10/] over the identification and measurement of other-than-temporary impairment ("OTTI"), as the Firm's test was limited to inspecting evidence of sign-off without evaluating the underlying review process or the basis for

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[10/] A review control is a detective control that involves a review of information by issuer personnel.

management's approval. Further, the Firm failed to identify and test any controls over the completeness and accuracy of the information used in performing this control.

- With respect to the financial statement audit opinion –

    - o The Firm failed to obtain an understanding of the specific methods and assumptions underlying certain fair value measurements that were obtained from a service organization or a pricing service and used in the Firm's testing of the fair value measurements of financial instruments without readily determinable fair values. The Firm also failed to evaluate the implications of significant differences between the recorded fair values of these financial instruments and prices obtained from a pricing service. Further, the Firm failed to sufficiently test the issuer's disclosures related to these financial instruments because it failed to determine whether the significant inputs used to value these investment securities were observable or unobservable.

    - o The issuer used a valuation model provided by an external service provider in its OTTI determinations for mortgaged-backed securities ("MBS"). The Firm failed to perform sufficient procedures with respect to OTTI determinations for MBS. Specifically, the Firm limited its testing to cash flow information for only one MBS included in the valuation model, which was not sufficient to conclude on the completeness and accuracy of all the cash flow information of the MBS included in the model, given the deficiencies in the Firm's tests of controls as described above. Further, the Firm failed to sufficiently test the significant assumptions underlying the net present value of the expected cash flow calculation used in the issuer's OTTI determination, in that the Firm's internal specialist evaluated the key assumptions for only two of the 58 MBS being modeled.

4. <u>Issuer D</u>

In this audit, the Firm chose not to rely on controls. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to sufficiently test revenue and cost of goods sold, as the Firm failed to test the completeness and accuracy of system-generated reports that it used in its substantive procedures. Further, the Firm failed to test whether certain types of revenue were recorded in the appropriate period and also failed to obtain and review customer contracts to determine whether the issuer's recognition of revenue was consistent with its policies.

- The Firm failed to sufficiently test inventory. Specifically, the Firm failed to test the existence of a significant portion of inventory and failed to test the completeness and accuracy of the system-generated reports that it used in its substantive procedures related to the valuation of inventory. Further, the Firm failed to test the completeness of inventory.

5. <u>Issuer E</u>

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm chose not to rely on controls. The Firm failed to test approximately half of the issuer's revenue, as the Firm failed to test the completeness and accuracy of the system-generated reports that it used in its substantive procedures to test this portion of revenue.

- The Firm failed to sufficiently test the valuation of definite-lived intangible assets. Specifically –

    - The Firm failed to evaluate whether events or circumstances, such as the issuer's recurring operating losses and negative operating cash flows, indicated that the carrying amount of the issuer's definite-lived intangible assets may not be recoverable. In reaching a conclusion that those assets were recoverable, the Firm inappropriately relied upon an analysis of discounted cash flows for the enterprise as a whole without consideration of the undiscounted cash flows expected to result from the use and eventual disposition of the individual assets.

    - The Firm failed to evaluate the remaining useful lives of definite-lived intangible assets to determine whether a revision to the remaining amortization period was warranted.

6. <u>Issuer F</u>

In this audit, the Firm failed to sufficiently test the measurement of OTTI for the debt securities in the issuer's investment portfolio. The issuer engaged an external specialist to assist with its OTTI determinations for the debt securities. The Firm failed to test the completeness of the list of debt securities provided to the specialist, understand and evaluate the appropriateness of the valuation model and the reasonableness of significant assumptions used by the specialist, and evaluate the competence and objectivity of the specialist. The Firm also failed to evaluate the issuer's basis for, and measurement of, the impairment recognized in earnings for adjustable-rate preferred stock. Further, the Firm failed to sufficiently test the issuer's quarterly review control related to impairment of investment securities, on which the Firm relied, in that the Firm's testing was limited to inspecting evidence of approval without evaluating the underlying review process or the basis for management's approval.

7. Issuer G

In this audit, the Firm chose not to rely on controls. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to perform sufficient procedures related to revenue. Specifically –
    - For one revenue category, the Firm failed to test the completeness and accuracy of the system-generated reports that it used in its substantive procedures.
    - For revenue recognized under the percentage-of-completion method –
        - The Firm failed to sufficiently test costs incurred to date, including direct and indirect contract costs, as the sample size was too small to conclude on the completeness and accuracy of these costs.
        - There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures to evaluate the appropriateness of the issuer's accounting for change orders or revisions to initial budgets, the segmentation of contract phases, and the estimates of costs to complete.
        - The Firm failed to test for potential loss contracts.

8. Issuer H

The issuer completed two business combinations during the year, and engaged valuation specialists to determine the fair values of the assets acquired in each transaction. The Firm failed to test, beyond inquiring of management and reading the specialists' reports, certain key data and significant assumptions that the issuer provided to the specialists that were used in the purchase price allocations. The Firm also failed to evaluate the issuer's basis for determining the useful lives assigned to certain intangible assets and classifying a trade name as an indefinite-lived intangible asset.

The issuer also finalized a purchase price allocation for a significant prior-year acquisition. The Firm failed to evaluate whether the significant adjustments between the preliminary and final purchase price allocations represented a change in estimate or a correction of an error in the application of the facts as they existed at the time of the acquisition, given that there was no new information related to the valuation in the current year.

9. Issuer I

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinion on the effectiveness of ICFR. Specifically, the Firm failed to identify and test any controls over the valuation of investment securities.

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 five areas (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of the Firm's risk-rating system; (4) processes related to the Firm's use of audit work that the Firm's foreign affiliates perform on the foreign operations of the Firm's U.S. issuer audit clients; and (5) the Firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, including alternative practice structures, and processes for responding to weaknesses in quality control. 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, APPENDIX A, AND APPENDIX B OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX C

THE INSPECTION PROCESS FOR ANNUALLY INSPECTED FIRMS

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. This appendix describes the inspection process for those annually inspected firms that have multiple practice offices and a national office structure. While this appendix describes the general inspection process applied in the 2010 inspections of these firms, the process was customized to each firm's inspection, bearing in mind the firm's structure, past inspection observations, observations during the course of the 2010 inspection, and other factors. Accordingly, procedures described in this appendix, while generally applicable to annual inspections, may not have been applied, or may not have been applied fully, in the inspection of any individual firm, and additional procedures, not described in this appendix, may have been applied in the inspection of an individual firm.

The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. These reviews were intended both to identify deficiencies, if any, in those aspects of the audits and to determine whether those deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

1. Review of Selected Audits

Inspections include reviews of aspects of selected audits of financial statements and ICFR. For each audit selected, the inspection team reviewed certain of the issuer's SEC filings. The inspection team selected certain aspects of the audits for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those aspects. The inspection team also analyzed potential adjustments to the issuer's financial statements that were identified during the audit but not corrected. For certain selected engagements, the inspection team reviewed written communications between the firm and the issuer's audit committee and, for some engagements, the inspection team 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 was allowed the opportunity to provide a written response to the comment form.

2. Review of Firm Management and Monitoring Processes Related to Audit Quality Control

The inspection team's review of a firm's system of quality control was intended to provide a basis for assessing whether that system was appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards. This review included an evaluation of the firm's ability to respond effectively to indications of possible defects in its system of quality control.

a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area were designed to focus on (a) how the firm's management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance, and (b) whether actions and communications by the firm's leadership – the "tone at the top" – demonstrate a commitment to audit quality. The inspection team interviewed members of the firm's leadership to obtain an understanding of any significant changes in the firm's approach to, and processes for, its management, including the mechanisms, formal or informal, that assess, monitor, or affect audit performance. The inspection team also reviewed significant management reports and documents, as well as information regarding financial metrics and the budget and goal setting processes that the firm uses to plan for, and evaluate the success of, its business.

b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area were designed to focus on (a) whether the firm's processes related to partner evaluation, compensation, admission, 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; (b) the firm's processes for allocating its partner resources; and (c) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team interviewed members of the firm's management and also reviewed documentation related to certain of these topics. In addition, the inspection team's interviews of audit partners included questions regarding their responsibilities and allocation of time and the interviews of firm management included the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where a client requested a change in the lead audit partner. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement and partners who had significant negative inspection results from recent internal and PCAOB inspections.

c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Clients, Including the Application of the Firm's Risk-Rating System

The inspection team selected certain issuer audits to (a) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the client and (b) observe whether the procedures were responsive to the risks identified during the process.

d. Review of Processes Related to the Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audit Clients

The inspection team reviewed the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the operations of U.S. issuer clients, reviewed available information relating to the most recent foreign affiliated firms' internal inspections, and interviewed members of the firm's leadership.

e. Review of the Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Weaknesses in Quality Control

(i) Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area were designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team interviewed members of the firm's management and reviewed documents regarding how the firm identifies, evaluates, and responds to possible indicators of deficiencies in audit performance, including internal inspection findings, PCAOB inspection observations, restatements, and litigation. In addition, the inspection team reviewed documents related to the design, operation, and evaluation of findings of the firm's internal inspection program. The inspection team also reviewed certain audits that the firm had inspected and compared its results to those from the internal inspection.

(ii) Review of Response to Weaknesses in Quality Control

The inspection team reviewed steps the firm has taken in the past several years to address possible quality control deficiencies. The inspection team then assessed the design and evaluated the effectiveness of the processes identified. In addition, the inspection team conducted focused inspections of audits of certain issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the procedures in areas with previous deficiencies had been improved.

(iii) Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team assessed policies, procedures, and guidance related to aspects of the firm's independence requirements and its consultation processes and the firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and interviewed firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials. The inspection team's evaluation of the APS focused on issues related to provision of non-audit services to issuer clients, including an evaluation of RSMM and McGladrey policies and procedures related to independence. Further, the inspection team reviewed independence policies and procedures implemented by H&R Block and its system of quality controls to ensure compliance with such policies and procedures.

APPENDIX D

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.[11/]

[11/] 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.

McGladrey & Pullen, LLP

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February 7, 2012

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

Re: Response to the Public Company Accounting Oversight Board (PCAOB) Report of 2010 Inspection of McGladrey & Pullen, LLP

Dear Ms. Munter:

Thank you for the opportunity to submit our response to the PCAOB's January 6, 2012 draft of its Report of Inspection of McGladrey & Pullen, LLP. We support the PCAOB's inspection process and believe that it helps us enhance the quality of audit engagements. McGladrey & Pullen, LLP is committed to using the inspection comments and observations to help us improve our system of quality controls. We have a long history of audit quality founded on our commitment to integrity, objectivity and excellence.

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.

Very Truly Yours,

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP