

**Inspection of  
Dohan and Company, CPA's P.A.**

**Issued by the  
Public Company Accounting Oversight Board  
April 2, 2009**

**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 DOHAN AND COMPANY, CPA's P.A.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Dohan and Company, CPA's P.A.<sup>1/</sup> ("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.<sup>2/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>3/</sup> 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.

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<sup>1/</sup> The Firm has issued audit reports under the names of Dohan and Company, P.A., C.P.A.'s, Dohan and Company, CPA's, and Dohan and Company, P.A. Certified Public Accountants.

<sup>2/</sup> 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.

<sup>3/</sup> 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 November 27, 2006 to December 1, 2006. 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 (Miami, Florida)
Ownership structure	Corporation
Number of partners	3
Number of professional staff <sup>4/</sup>	7
Number of issuer audit clients <sup>5/</sup>	19

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

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<sup>4/</sup> "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.

<sup>5/</sup> 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.

<sup>6/</sup> 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.<sup>7/</sup> 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 four 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.<sup>8/</sup> The deficiencies identified in two of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient

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<sup>7/</sup> 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.

<sup>8/</sup> 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.

competent evidential matter to support its opinion on the issuer's financial statements.<sup>9/</sup>  
Those deficiencies were –

- (1) the failure to test the completion, existence, and valuation of a significant component of the issuer's revenue;
- (2) the failure, in two audits, to perform sufficient audit procedures related to the valuation of intangible assets; and
- (3) the failure to perform sufficient audit procedures to evaluate the issuer's ability to continue as going concern.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.<sup>10/</sup>

#### 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

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<sup>9/</sup> 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.

<sup>10/</sup> The restatement followed the issuer's discussions with the staff of the SEC who raised the issue. The Board inspection process did not include any review of any additional audit work or the restated financial statements.

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



PCAOB Release No. 104-2009-042A  
Inspection of Dohan and Company, CPA's P.A.  
April 2, 2009  
Page 6

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 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.<sup>11/</sup> 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.

#### 1. Design of Quality Control System

##### Independence Procedures

The Firm's independence procedures appear not to meet the requirements of PCAOB Rule 3400T(b),<sup>12/</sup> in that the Firm does not have (1) procedures to verify the completeness and accuracy of independence representations made by the Firm's partners; or (2) procedures to obtain and verify the completeness and accuracy of independence representations made by other auditors used by the Firm in its audits of its issuer audit clients.

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<sup>11/</sup> 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.

<sup>12/</sup> PCAOB Rule 3400T(b) requires registered firms to comply with the quality control standards described in section 1000.08(o) of the American Institute of Certified Public Accountants SEC Practice Section Reference Manual, which in turn requires that a firm have policies and procedures in place to comply with Appendix L, section 1000.46 of that manual.

2. 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. Appropriate Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit. The information reported by the inspection team suggests an apparent pattern of failures to perform the appropriate procedures related to the testing of intangible assets. [Issuers A and B]

c. 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 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 Firm used the services of an accountant not affiliated with the Firm to perform the concurring partner review of two of the four issuer audits included in the inspection. 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. Apparent deficiencies in documentation of the scope and results of the concurring partners' reviews make it difficult to identify the principal cause of the problem, but potential causes include a lack of competency, due care or professional skepticism on the part of the concurring partners; deficiencies in the scope of the concurring partners'

procedures; and/or the Firm's failure to properly address the concurring partners' findings.

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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 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.<sup>13/</sup>

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<sup>13/</sup> 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 unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.



**Dohan and Company**  
**Certified Public Accountants**  
A Professional Association

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August 21, 2007

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

**RE: Response to Part I of the Draft Report of Inspection of Dohan and Company, CPA's P.A.**

Dear Mr. Diacont:

Thank you for the opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board (PCAOB) on the inspection of Dohan and Company, CPA's P.A. (the Firm). We request that this letter be made part of the final Report.

We share the PCAOB's goal of using the inspection process as a strong vehicle for improving audit quality, and the reliability of financial reporting. And, we appreciate the significant value we derived from the inspection process because an inherent part of our audit practice involves continuous improvement. We reviewed the detailed comments we received from the Inspection team, communicated those findings to our audit professionals in training sessions, and provided specific guidance to them on topics related to matters raised during your inspection.

We believe that the inspection process is an effective means of encouraging audit firms to elevate their performance levels. Recognizing the importance and value of the inspection process, we cooperated with the inspection team to our fullest extent. Although we sometimes had reasonable differing views between the inspection team and our Firm as to audit approaches, accounting decisions, or materiality, these might be expected based on the judgmental nature of such matters, consideration of different views and each others ideas of best practices.

Member:  
Florida Institute of Certified Public Accountants  
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The draft Report does appropriately recognize that the inspection process is designed to identify deficiencies and that, based on the limited selection of audits inspected, findings are not necessarily reflective of our Firm's practice in general. As such, the format of the draft Report produced by this process does not lend itself to a portrayal of what we believe is the overall high quality of our audit practice. Further, the design of the draft Report provides condensed information regarding the findings, so there is no description of the procedures that were performed in the applicable areas at the time of the audits or other information that may provide additional context for understanding the nature or magnitude of the findings. Moreover, the engagements reviewed by the Inspection team typically involved hundreds of decisions, many of which may be subject to different reasonable interpretations. Notwithstanding the above, their approach to these issues was very professional.

We trust you recognize that the sufficiency of evidential matter required to support an audit opinion is determined through the exercise of the auditor's professional judgment after a careful study of the particular circumstances. While documentation is an important element of the audit process, it is also one of the more difficult areas in which to reach a common understanding of what is sufficient because of the variety of judgments involved in that analysis by professional having different levels of knowledge of the issuers' business. Professional literature continues to define and redefine what is appropriate. We continue to focus on this area and receive training to ensure that all of our audit engagements include thorough and accurate documentation.

As to Issuer A, although the Issuer outsourced the processing of a component of revenue, due to the nature of the Company's business, their revenue is posted real time, since players deposit their money before playing on the issuer's website. As to Issuer A's intangible assets, the majority of the indirect costs were overhead and not directly related to the intangible asset of the issuer. The analysis represented positive cash flows at such a greater amount that discounting the projected net income still represented positive cash flows that did not materially affect or result in misstatement to the financial statements.

As to Issuer B, the issuer has since filed a Form 8-K, non-reliance on their financial statements. The total net intangible assets of the issuer may be written-off. As to going concern, while it is true that a going concern checklist was not completed, the Firm was well aware that the issuer has had recurring operating losses, negative cash flows and accumulated losses. Under the circumstances, by raising money in equity markets or through financing, the issuer had been able to meet working capital needs in the past. Our going concern analysis centered on the financing and cash flows. As of the date of

your inspection, the issuer had been able to meet its working capital needs for the calendar year 2006, the year after our report.

We appreciate this opportunity to provide our response to the Board and we look forward to working with the professionals at the PCAOB in future inspections.

Sincerely,

*Dohan and Company, CPA's*

Dohan and Company, CPA's