

## **Novogradac & Company LLP Firm Philosophy**

### **I. THE FIRM AND ITS OBJECTIVES**

Novogradac & Company LLP is a partnership engaged in the practice of public accounting in San Francisco, California with offices in Atlanta, Georgia; Dover Austin, Texas; Long Beach, California; Boston, Massachusetts; Overland Park, Kansas; and Rockville, Maryland.

We have as an overriding objective the provision of high quality audit, accounting tax, and advisory services to clients in the best professional manner. Our partners and staff are expected to comply with this statement of philosophy in order to achieve that objective.

"Professionalism" in the accounting profession means integrity, objectivity, independence where required, adherence to professional standards and applicable laws and regulations, and a demonstrated will to maintain and improve the quality of professional services and to withstand all pressures, competitive and otherwise, to compromise on principles, standards, and quality. In the field of auditing, particularly, professionalism requires an understanding of and dedication to the public interest.

The public interest in audited financial statements has placed the public accounting profession in a unique position of public trust. Moreover, there is also a significant public interest in the way in which the firm carries out accounting, tax, and advisory services. Therefore, no client or firm consideration is allowed to interfere with our ability to carry out our commitment to professionalism.

### **II. PROFESSIONAL PERFORMANCE**

Novogradac & Company LLP demands integrity, objectivity, competence, and due care from all of its personnel in the conduct of all of its engagements, whatever their nature. We demand independence in fact and appearance in all audit and other engagements where independence is required by applicable laws and regulations and the requirements of professional societies. We take steps to insure that personnel assigned to engagements, whatever their nature, have the professional and specialized knowledge required to carry out their responsibilities; at the same time, we recognize that supervisors and other reviewers and consultants can complement that knowledge.

Our firm is structured to provide leadership in achieving high quality professional performance while maintaining the concept of individual responsibility so necessary to clients and to individuals within the firm. Novogradac & Company LLP has established policies and procedures that we believe provide assurance that professional engagements are properly planned and executed and that decisions are

based on the substance of issues, not on form. Accounting standards cannot deal with all possible situations, and we at all times urge our clients to adopt accounting and reporting policies that we believe are the most appropriate in the circumstances.

Our policies and procedures provide, among other things, for consultation on significant matters, and Novogradac & Company LLP has designated partners of the firm whose opinions are to be sought on significant ethical, technical, and industry questions. The policies and procedures we have established are designed to assure that our clients receive the best professional services we can provide and that in providing those services we continually keep in mind the public interest in our work. We expect our partners and staff to identify and resolve all important issues relevant to an engagement.

More specifically, to achieve high quality professional performance, and to comply with the registration requirements of the PCAOB, and the rules of the AICPA's Center for Public Company Audit Firms, Novogradac & Company LLP has adopted policies and procedures that implement the quality control standards for the conduct of accounting and auditing engagements established by the PCAOB, the AICPA, the GAO and state licensing boards. Those policies and procedures relate to the following elements of quality control, among other matters:

- a. Independence, Integrity, and Objectivity – To be free from financial, business, family, and other relationships involving a client when required. To be honest and candid within the constraints of client confidentiality. To have a state of mind and a quality that lends value to the firms services and imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.
- b. Personnel Management – To hire individuals that possess the appropriate characteristics to enable them to perform competently. To assign work to personnel who possess the technical training and competence required in the circumstances. To provide personnel with the training necessary to fulfill responsibilities assigned and satisfy applicable continuing professional education requirements. To select for advancement those individuals that have the qualifications necessary to fulfill responsibilities involved.
- c. Acceptance and Continuance of Clients and Engagements – To appropriately consider the risks associated with providing professional services so as to decrease the likelihood of association by the firm with clients and engagements in which client management lacks integrity. To associate with clients and engagements in which the firm can reasonably expect to complete with professional competence.
- d. Engagement Performance – To determine that the design and execution of work performed is efficient and in accordance with applicable professional standards. To have personnel refer to authoritative literature or other sources and consult

with individuals with the knowledge, technical competency, judgment, and authority, when appropriate.

- e. Monitoring – To develop a system to evaluate on an ongoing basis whether the other elements of quality control established by the firm are suitably designed and are being effectively applied.

We have also adopted appropriate policies and procedures in the above areas to guide the conduct of tax and advisory services engagements.

The adequacy of the firm's quality control system for our accounting and auditing practice and our compliance with that system are independently evaluated every three years through a peer review conducted under the auspices of the AICPA Center for Public Company Audit Firms. The peer review report is available to our clients and other interested parties.

### **III. RELATIONSHIPS WITH CLIENTS**

The value of our services is, to a large degree, dependent on the public perception of our integrity and objectivity. If the public were to doubt our integrity or objectivity—or our competence or professional care—as a result of our work for a given client, the value of our services to that client, to all other clients, and to the public at large could drop significantly. Accordingly, just as our clients are selective in their choice of CPA firms, Novogradac & Company LLP is selective in accepting clients. Our responsibilities to existing clients and to the public demand that we consider the appropriateness of client relationships and that we carefully consider the nature of services we are asked to provide and our ability to provide those services in a quality manner in conformity with all relevant professional standards.

When potential clients who disagree with their present auditors on significant auditing, accounting, or reporting questions, request our opinion on the matter, we consult within our firm and with a potential client's present or predecessor CPA firm before giving our final conclusion on the matter.

We value our reputation for quality services and believe that reputation is the basis on which we attract new clients and build our practice for the future. We are committed to rendering value for our fees and believe our clients should have a reasonable basis for making that judgment for themselves. Accordingly, we carefully evaluate the services we are asked to provide and the factors, such as the nature of control systems and procedures, that will affect the costs we expect to incur in providing such services before we inform present and potential clients of the fees we estimate those services will entail. Once Novogradac & Company LLP undertakes a client engagement, we bring all the resources to that engagement necessary in the circumstances.

We do not disclose to anyone outside of our firm any confidential client information obtained in the course of any engagement unless the disclosure is authorized by the client or is required to discharge properly our responsibilities under law or authoritative regulatory or professional standards. (Our peer reviewers have access to client information, but they are bound by the same standards of confidentiality.)

#### **IV. SERVICES PROVIDED**

Novogradac & Company LLP provides a full range of audit, accounting, tax, and advisory services, consistent with ethical and professional standards and regulatory requirements in the United States.

The services provided by CPA firms must be responsive to changes in the environment, which is affected by developments in information technology, the increasing complexity of tax laws and regulations, greater demands by the public for new types of information and CPA assurances on such information, the increasing need of many clients for advisory services, and a host of other factors.

If the public accounting profession as a whole, and Novogradac & Company LLP in particular, are to meet the legitimate and changing needs of clients and the public, arbitrary restrictions on the services provided are not appropriate. However, Novogradac & Company LLP, as a matter of policy, will undertake only engagements that we believe we can perform with competence, that will be useful to our clients or to appropriate third parties, that will not impair our independence in fact or appearance when we also provide audit services to the client involved, and that will help attract and retain the personnel we need to provide the knowledge base essential to maintain our ability to serve our clients and the public in a professional manner. In evaluating proposed engagements as well as the way we inform clients and others of our capabilities, we consider whether such engagements will lessen public confidence in our independence, integrity, and objectivity in the performance of the audit function or in our commitment to that function.

### **Overall Quality Control Document**

The firm's quality control policies and procedures for the five elements of quality control are presented on the following pages. All employees and members of the firm are responsible for understanding, implementing, and adhering to these policies and procedures.

Any questions, concerns, or recommendations about our quality control system should be communicated to **Diane M. Rubin**.

#### **I. INDEPENDENCE, INTEGRITY, AND OBJECTIVITY**

It is the policy of our firm that all professional personnel be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the Government Accountability Office, AICPA, the State Boards of Accountancy, the state CPA Societies, state statutes, and other regulatory agencies, where applicable. Furthermore, it is the policy of our firm that, for engagements that are subject to the rules of the *Securities and Exchange Commission (SEC) and Government Auditing Standards (GAS)*, all professional personnel be familiar with and adhere to the independence rules of the GAO, SEC and the Public Company Accounting Oversight Board (PCAOB), and that personnel will always act in the public interest. In this regard, any transaction, event, circumstance, or action that would impair independence or violates the firm's integrity and objectivity policy, on a compilation, review, audit, attestation (including forecast and projections), or consulting engagement is prohibited. Any financial transaction (including loans, brokerage accounts, and other investments), business relationship, proscribed services, fee arrangements, and any employment restriction between (a) the firm, its benefit plans, and its professionals and their immediate families and close relatives, and (b) restricted entities, which include audit clients that are SEC registrants and all entities related to such clients, such as parent companies, that would impair the firm's independence is prohibited. Although not necessarily all-inclusive, the following are considered to be prohibited transactions:

- a. Investments by any partner or professional employee in a client's business during the period of professional attestation engagement.
- b. An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors, or any partner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property:
  - (1) An individual on an attest engagement team (including an audit; SSARS review; or examination, review, or agreed-upon procedure under the AICPA attestation standards).
  - (2) An individual in a position to influence the attest engagement by doing any of the following:
    - (a) evaluating the performance or recommending the compensation of the attest engagement partner,
    - (b) directly supervising or managing the attest engagement partner and all of that partner's superiors,
    - (c) consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or

- (d) participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
- (3) A partner or manager who provides nonattest services to the attest client beginning once he provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
  - (a) the firm signs the report on the financials statements for the fiscal year during which those services were provided or
  - (b) he no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis, or
- (4) A partner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
- c. Borrowing from or loans to a client, or client's personnel during the period of a professional engagement by any of the individuals listed in items b(1)-(4) above.
- d. Accepting cash or gifts from a client (with the exception of noncash token gifts of nominal value).
- e. Certain family relationships between professional personnel and client personnel. (Consult **Diane M. Rubin** for a ruling on these.)

Notwithstanding the preceding policy and list of prohibited transactions, at the firm's discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by professional standards.

The procedures listed below are followed to ensure compliance with this policy:

1. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's independence, integrity, and objectivity policy and procedures.
2. All professional personnel are required to notify **Diane M. Rubin** of any potential prohibited transaction or violation of an independence, integrity, or objectivity rule as soon as they become aware of such a situation. To acknowledge that responsibility, all professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list situations they know of that could impair independence or that violate the firm's integrity and objectivity policy. (The firm library contains the authoritative rules on independence, integrity, and objectivity that govern our firm. That literature and the advice of

**Diane M. Rubin** should be consulted when an employee is not sure if a transaction, event, circumstance, or action should be reported.)

3. All professional personnel are required to review the firm's client list at least annually for possible violations. All professional personnel are also required to review the client list before they and their spouses or dependents obtain any security or other financial interest in an entity to determine whether the entity is on the list. **David DeMello** maintains the list of clients. Additions to and deletions from the list are communicated on a timely basis by a memorandum from **the Executive Committee (Michael Novogradac, Richard Hutchins and Jon Krabbenschmidt)**. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility. All professional personnel are required to report on a timely basis, apparent violations of the independence policies involving himself or herself and his or her spouse and dependents, when identified, and the corrective action taken or proposed.
4. **Diane M. Rubin** maintains the Restricted Entity list as required by SEC/AICPA rules. When the firm is engaged to audit a new SEC registrant, the engagement partner must immediately notify **Diane M. Rubin**, so that the Restricted Entity list can be updated. Communication of additions and deletions to the list are made at least monthly.
5. If our firm is engaged as principal auditor and another firm is engaged to audit a subsidiary, branch, division, governmental component unit, or to perform procedures on an element or account grouping within a client's financial statement, the engagement team is required to obtain a written representation regarding the other firm's independence with respect to our client. The auditing manuals used by the firm contain examples of representation letters used in such situations. Furthermore, in a review, forecast, projection, or attestation engagement if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by our firm contain steps to ensure compliance with this procedure.
6. The engagement partner (or the in-charge accountant) has the primary responsibility for determining if there are unpaid fees on any of his clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement partner's knowledge of any unbilled fees should be considered in making this determination. In addition, **Diane M. Rubin** and those in the partner group have the secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.

7. The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client [including services performed by entities closely aligned through common employment] and for determining if such nonattest services impair independence with respect to that client. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in Ethics Rule 101-3, *Government Auditing Standards* and PCAOB for ongoing, planned, and future audits. Firm engagement work programs for all attest, as well as compilation, engagement, include steps to ensure compliance with this procedure. The engagement partner may also consult the SEC as a source for independence questions.
8. **Diane M. Rubin** is responsible for obtaining the representation letters and for resolving questions relating to independence, integrity, and objectivity matters, including those matters referred to in Procedure No. 3, and is available to provide guidance. In so doing, **Ms. Rubin** should, when necessary, consult with the AICPA or the California Society of CPAs for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of an independence, integrity, and objectivity matter should be filed in the client's permanent work-paper files. Michael J. Novogradac is also responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, additional training, reprimand letter, or termination.
9. To ensure that independence is properly considered at the engagement level, the work programs and standard forms in the accounting and auditing manuals used by the firm contain steps that require a determination of independence on each new and recurring client. Furthermore, these manuals contain reporting guidance for those types of engagements where a lack of independence is allowed.
10. At least annually, **Diane M. Rubin** reviews our independence, integrity, and objectivity policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.
11. All professional personnel are required to complete independence training that covers the firm's independence policies and procedures.
12. The engagement partner is responsible for ensuring that services prohibited by the SEC (PCAOB) or AICPA membership requirements are not performed for SEC audit clients. Additionally, all new services performed for SEC audit clients must be approved by the engagement partner.

13. The engagement partner is responsible for ensuring that services prohibited by the GAO are not performed for clients subject to government auditing standards.

## II. PERSONNEL MANAGEMENT

### A. Hiring

It is the policy of our firm that hiring decisions for our professional staff be based on an objective evaluation of our personnel needs, that hirees possess the appropriate characteristics to perform competently, and that new employees be adequately informed of the firm's policies and procedures. The procedures listed below are followed to ensure compliance with this policy:

1. Annually, **Richard B. Hutchins** assesses the personnel needs of our professional staff by considering, among other things, criteria such as our current clientele, anticipated growth, personnel turnover, individual advancement, current staff workload, quality of life, and retirement.
2. In fulfilling our hiring plans, we seek to employ individuals with high levels of intelligence, integrity, motivation, and aptitude. In this regard, we hire college graduates whose academic training will enable them to take the CPA exam. However, we will hire paraprofessionals who do not possess a college degree, but whose accounting experience and personal qualifications indicate a likelihood of adequate abilities.
3. Determination of the techniques to be used to recruit potential hirees and actual employment decisions will be made by **Richard B. Hutchins**. Other personnel who are involved in the hiring process will be informed of the techniques to be used.
4. When evaluating a prospective employee, we consider, among other things, an individual's grade point average, college course concentration in accounting and related courses, communication skills, personal achievements, work experience, and personal interests. The degree to which college transcripts, work references, and other qualifications are investigated is left to the discretion of **Richard B. Hutchins**. The best test of a recruit is the individual's performance under the supervision of a competent employee.
5. The firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.
6. At least annually, **Richard B. Hutchins** reviews our hiring policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

## B. Assigning of Personnel

It is the policy of our firm that personnel (including partners) be assigned to engagements in an objective manner to achieve a proper blend of technical expertise, competencies, supervision, staff utilization, staff on-the-job training, independence, and client satisfaction. The procedures listed below are followed to ensure compliance with this policy:

1. Periodically, the partners assess the competencies that partners who are responsible for supervising attest engagements and signing (or authorizing other individuals to sign) attest engagement reports should possess. This assessment includes:
  - a. An understanding of the firm's system of quality control and the *Code of Professional Conduct*.
  - b. An understanding of the performance, supervision, and reporting standard at the level of service to be provided (i.e., audit, review, and compilation).
  - c. An understanding of the applicable accounting, auditing, and attestation professional standards, including those directly related to any special industries.
  - d. An understanding of applicable industries and each industry's organization and operating characteristics, sufficient to identify high or unusual risk areas and to evaluate the reasonableness of industry-specific estimates.
  - e. Proficiency and seasoned judgment in discharging assigned responsibilities. When applicable, an understanding of how an organization is dependent on or enabled by information technologies and how the information technology systems are used to record and maintain financial information.
  - f. Annually, the managing partner reviews the partner assignments to ensure that a partner is in charge of each SEC engagement and that no partner serves as the engagement partner on any SEC audit engagement for more than seven years.
2. Annually, the partners assess the staffing (including partner assignments) requirements of each client and develop a partner and staff assignment plan. Any considerations that emerge from this assessment that affect the hiring plans of the firm are communicated to those responsible for hiring. In making assignments, consideration is given to factors such as:
  - a. The engagement type, size, and complexity.

- b. Special expertise and experience required by the engagement, such as training in SEC rules and regulations.
- c. New or emerging professional literature or regulations that may affect the engagement.
- d. Recent continuing education relevant to the service to be provided and, if applicable, the industry.
- e. The timing, and length of the engagement.
- f. The continuity and periodic rotation of the staff.
- g. Opportunities for on-the-job training.
- h. Previously demonstrated competencies (including consideration of the results of monitoring, inspections, peer reviews, and recent evaluations).
- i. Personnel availability and the involvement of supervisory personnel.
- j. Situations where possible conflicts of interest, objectivity, or independence problems may exist, including, where applicable, circumstances where the assigned staff is not independent under *Government Auditing Standards*. (*Government Auditing Standards-2003 Revision* precludes personnel who provided the nonaudit services from planning, conducting, or reviewing audit work of subject matter involving the nonaudit service under the overarching principle that auditors cannot audit their own work.)
- k. The degree of supervision required by each member.
- l. Non-CPA partners cannot be ultimately responsible for any financial statement attest or compilation engagement.
- m. With respect to any partner who was involved in an SEC audit that the AICPA Professional Ethics Division has decided warrants an investigation for an audit deficiency, either: (1) the individual's availability for an SEC audit engagement, if the firm has decided to remove the individual from performing or supervising SEC audits during the investigation, or (2) the additional oversight that will be required, if the firm has decided to subject the individual to additional oversight on all public company audits.

The staffing plan is circulated to all partners and managers and periodic staffing meetings are held during the year to update the plan. In addition, staffing is discussed at each weekly partner meeting.

3. The firm recognizes that many modifications to the staff assignments plan will be required because of changes in client circumstances that affect the competencies appropriate for the client engagement, ongoing consideration of competencies possessed by firm partners and personnel assigned to particular engagements, addition or loss of clients, staff turnover, delays in the timing of work, or other unforeseen events. Modifications are made based on an informal meeting of the partners and managers alluded by the changes and after a reconsideration of the planning factors discussed in Steps 1 and 2. Any disputes regarding assignment of personnel are resolved by **Richard B. Hutchins**. Members of the staff are informed verbally of staffing changes and new assignments.
4. At least annually, **Richard B. Hutchins** reviews our assigning of personnel policy and procedures, including the competencies and considerations listed in Steps 1 and 2, to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.
5. Concurring Partner Review:
  - a. Qualifications – The concurring partner reviewer should have sufficient technical expertise and experience to allow him or her to conclude that no matters that have come to his or her attention would cause the concurring partner reviewer to believe that the financial statements are not in conformity with generally accepted accounting principles in all material respects, or that the firm's audit was not performed in accordance with generally accepted auditing standards. The determination of what constitutes sufficient technical expertise and experience requires consideration and is tailored to the circumstances of the engagement, including the personnel assigned to the engagement. An effective concurring partner review contemplates knowledge of relevant specialized industry practices. It also contemplates that the concurring partner reviewer possesses knowledge of SEC rules and regulations in areas where such rules and regulations are pertinent. There are various ways to obtain such knowledge in addition to personal audit experience, such as attendance at relevant training courses and through self-study. The concurring partner reviewer should seek assistance from other individuals to supplement this knowledge when necessary in the circumstances.

It is firm policy that the concurring partner reviewer is expected to carry out his or her responsibilities with objectivity and due professional care without regard to the relative positions of the audit engagement partner and the concurring partner reviewer. Further, the concurring partner reviewer should not assume any of the responsibilities of the audit partner-in-charge of the engagement or have responsibility for the audit of any significant subsidiaries, divisions, benefit plans, or affiliated or related entities. In addition, a prior audit engagement partner in an SEC engagement should not serve as the

concurring partner reviewer for at least two annual audits following his or her last year as the audit engagement partner.

- b. Nature, Extent, and Timing – The concurring partner reviewer's responsibility is to perform an objective review of significant auditing, accounting, and financial reporting matters and to conclude, based on all the relevant facts and circumstances of which the concurring partner reviewer has knowledge, that no matters that have come to his or her attention would cause the concurring partner reviewer to believe that the client's financial statements covered by the firm's audit report are not in conformity with generally accepted accounting principles in all material respects or that the audit was not performed in accordance with generally accepted auditing standards, or standards established by the PCAOB.

The concurring partner reviewer's responsibility is not the equivalent of the audit engagement partner's responsibilities. Without first-hand knowledge of the client's business environment, the benefit of discussions with management and other client personnel, the opportunity to review client documents or controls, or the ability to observe the client's actions or attitudes, a concurring partner generally is not in a position to make the informed judgments on significant issues expected of an audit engagement partner. However, the concurring partner reviewer is expected to objectively perform the procedures specified below and reach conclusions based on all relevant facts and circumstances of which he or she has knowledge.

The concurring partner reviewer's responsibility is fulfilled by performing the following procedures:

- (1) discussing significant accounting, auditing and financial reporting matters with the audit engagement partner;
- (2) discussing the audit engagement team's identification and audit of high-risk transactions and account balances;
- (3) reviewing documentation of the resolution of significant accounting, auditing and financial reporting matters, including documentation of consultation with firm personnel or resources external to the firm's organization (such as standard-setters, regulators, other accounting firms, the AICPA, and state societies);
- (4) reviewing a summary of unadjusted audit differences;
- (5) reading the financial statements and auditors' report; and
- (6) confirming with the audit engagement partner that there are no significant unresolved matters.

These procedures provide the basis for the concurring partner reviewer to perform an objective review of accounting, auditing and financial reporting matters that were considered significant by the engagement team in conducting the audit. The concurring partner reviewer is not responsible for searching for additional matters to be considered by the engagement team. However, significant matters not previously identified by the engagement team that come to the concurring partner reviewer's attention should be referred to and resolved by the engagement team with the concurrence of the concurring partner reviewer.

In addition to performing the procedures described in the bullets above, the concurring partner reviewer's consideration and conclusions about whether significant matters were appropriately considered and resolved may require discussions with other firm personnel involved in any significant consultations. When consultation occurs with the concurring partner reviewer on an accounting, auditing, or financial reporting matter during the engagement, the audit engagement partner ordinarily should develop an initial resolution to the matter before consulting the concurring partner reviewer.

The firm requires concurring partner review on all SEC engagements and the high-risk engagements as defined by the engagement partner. Such a definition might be influenced by the complexity of the entity, the engagement personnel's experience with the entity, and their knowledge of the entity's business. Factors to consider in this regard may include the entity's type of business; types of products and services; capital structure; related parties; locations; production, distribution, and compensation methods; any material changes in the entity's business; and whether the entity has plans for a public offering. (See AICPA Professional Standards, Vol. 1, AU section 311, "*Planning and Supervision*" and AU section 312, "*Audit Risk and Materiality in Conducting an Audit*").

If the concurring partner reviewer and the audit partner-in-charge of the engagement have conflicting views regarding important matters, the disagreement should be resolved by discussion and conclusion with **Michael J. Novogradac**.

In all cases, the concurring partner review should be completed before the release of the audit report and before the reissuance of the audit report where performance of subsequent event procedures is required by professional standards.

### **C. Professional Development Policy and Procedures**

It is the policy of our firm that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the

AICPA, the SEC Practice Section of the AICPA Division for CPA firms, the applicable State Boards of Accountancy, and the U.S. General Accounting Office; and other regulatory agencies if applicable; that all professional staff maintain an adequate awareness and understanding of current developments in technical accounting literature; and that all professional staff assist in the training and development of staff members under their supervision. The procedures listed below are followed to ensure compliance with this policy:

1. On a continuing basis, **Robert S. Thesman** assesses the firm's continuing professional education (CPE) needs and plans our professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours, including accounting and auditing hours, needed by each professional to comply with the CPE rules governing our firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging technical literature; and the firm's needs for specialists or experts in a particular industry or service area. Normally, the firm requires that each member of its professional staff obtain an average of 40 hours of CPE each year. (80 hours over a two year period). For both CPA's and CPA candidates, the Firm requires that this 80 hours standard be met. Firm encourages 10 hours of outside professional reading weekly for all professional staff.
2. **Diane M. Rubin** monitors employee progress toward meeting the CPE plan.
3. Only CPE alternatives that qualify for credit under the CPE rules that govern our firm will be considered when planning our PD program. Such alternatives normally include seminars and conferences sponsored by the AICPA, state society, or other professional organizations; self-study courses; in-house seminars and programs; firm conferences and workshops; acting as an instructor or speaker; university or college courses; and published books, articles, and CPE courses. Specifically, when CPE hours are to be fulfilled by in-house seminars, workshops, or discussion groups, each in-house program should comply with the following standards:
  - a. The program should maintain and/or increase the professional competence of participants.
  - b. The stated program learning objectives should specify the level of knowledge the participant should have attained or the level of competence he or she should be able to demonstrate upon completing the program.
  - c. The education and/or experience prerequisites for the program should be stated.
  - d. Participants should be informed in advance of pertinent course information.

- e. Only those participants with the appropriate level of education and/or experience should attend the program.
  - f. The program should be developed by an individual qualified in the subject matter and knowledgeable in instructional design.
  - g. Program materials should be technically accurate, current, and sufficient to meet the program's learning objectives.
  - h. Before program materials are used, they should be reviewed to the extent necessary by a qualified person(s) other than the preparer(s) to ensure the program's technical accuracy, correctness, and sufficiency to achieve learning objectives.
  - i. The reviewer's technical competence and knowledge of instructional design should at least equal that of the developer.
  - j. Instructors should be qualified with respect to both program content and teaching methods used.
  - k. The number of participants and physical facilities should be appropriate for the teaching method(s) specified.
  - l. Each program should include an effective means for evaluating quality.
4. Individuals who work on audits subject to the *Government Auditing Standards* must obtain at least 80 hours of CPE every two years. Individuals responsible for conducting substantial portions of the fieldwork, planning, directing, or reporting on audits subject to the *Government Auditing Standards* must obtain 24 of those hours in subjects related to the government environment or government auditing. At least 20 of the 80 hours of the required CPE must be obtained annually.
5. To comply with the documentation requirements of the AICPA, State Boards of Accountancy, and the U.S. General Accounting Office for CPE credit, the firm maintains appropriate CPE records, among which are the following:
- a. For each professional, a worksheet is maintained that contains the following information for each credit hour claimed:
    - (1) Type of CPE activity (seminar, in-house program, self-study, etc.).
    - (2) Sponsor.
    - (3) Title of program and description of content.
    - (4) Dates attended or completed.

- (5) Location of program.
- (6) CPE hours claimed.
- b. For each in-house CPE program sponsored by the firm, the following records are maintained:
  - (1) A record of participation, indicating the number of CPE contact hours claimed for each participant.
  - (2) An agenda or outline of the program, indicating name(s) and qualifications of the instructor(s), the date(s) and length of the program, learning objectives, prerequisites, level of knowledge of the program, program content nature and extent of advance preparation, teaching methods, recommended CPE credit, and relevant administrative policies.
  - (3) The location(s) of the program.
  - (4) A copy of the program materials (reading materials, problems, case studies, visual aids, instructors' manuals, etc.).
  - (5) A summary of the participants' evaluations, the instructor's evaluation(s), and the instructors' manuals, etc.).
  - (6) If the course was developed in-house, a record of the name(s) and qualification(s) of the developer(s) and reviewer(s).
  - (7) If the course was acquired from another source, evidence that the course was developed and reviewed by qualified individuals.
- c. For all other CPE programs or activities, the following records are maintained:
  - (1) For a group and independent study programs, a certificate or other verification supplied by the sponsor.
  - (2) For a university or college course that is successfully completed for credit, a record of the grade the person received.
  - (3) For a self-study program, a certificate of satisfactory completion provided by the sponsor.
  - (4) For a published book, newsletter, article, or CPE program, evidence of publication (a copy of the book, journal, or course development

documentation) that names the CPA as author, editor, contributor, the writer's statement supporting the number of CPE hours claimed, and the name and contact information of the independent reviewer(s) or publisher.

6. Each professional in our firm must recognize his or her responsibility to comply with applicable continuing professional education requirements to maintain technical competency. Accordingly, all professionals are encouraged to engage in self-development activities. To assist in this endeavor, the firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities. All professionals are encouraged to bring to the attention of **Diane M. Rubin** any news item that they believe should be circulated within the office.
7. The firm recognizes the importance of on-the-job training and has adopted, as a part of the firm's engagement performance QC system, the use of work programs to assist professionals in performing their work. Also, as noted in the firm's QC system for assigning personnel, professionals are assigned to work on a variety of jobs and under different supervisors (to the extent practical) to maximize on-the-job training. Personnel with supervisory responsibility are reminded to be constantly aware of situations where they can provide on-the-job training.
8. At least annually, **Diane M. Rubin** reviews our PD policy and procedures (including CPE documentation) to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

#### **D. Advancement**

It is the policy of our firm that advancement decisions for professional personnel be based on a timely and objective evaluation of individual performance. The procedures listed below are followed to ensure compliance with this policy:

1. Staff classification levels are used to designate staff experience, to evaluate individual performance, and to establish criteria for promotion. The following staff levels and related performance criteria are used by the firm:
  - a. **Paraprofessionals and Interns-individuals** at this level normally have a basic understanding of accounting, bookkeeping, or tax preparation, but may not have obtained a college degree that includes a significant concentration of accounting or tax courses. Paraprofessionals are expected to:

- (1) Become familiar with the firm's policies and procedures.

- (2) Assist our professional staff in performing controllership and bookkeeping services for clients.
- (3) Assist our professional staff in preparing workpapers, trial balances, depreciation schedules, and entering data for computer applications.
- (4) Assist our professional staff in gathering data and in preparation of tax returns.

The job of paraprofessional is both challenging and rewarding, and with experience and supervision, individuals at this level can assume many of the responsibilities of staff accountants. However, advancements to higher levels of the professional staff normally will require the completion of a college degree with either a major in accounting or an equivalent number of accounting and business courses.

b. **Staff Accountant-** Individuals at this level normally have a college degree with a major in accounting or other related business field and have from zero to three years' experience. Staff accountants are expected to:

- (1) Become familiar with the firm's policies and procedures.
- (2) Understand the rules, regulations, and code of professional conduct of the AICPA.
- (3) Progress professionally by working toward passing the CPA exam as soon as possible.
- (4) If assigned primarily to financial statement engagements:
  - (a) Become familiar with pronouncements of the FASB, AICPA, and when assigned to governmental engagements the GAO and GASB.
  - (b) Become proficient at preparing financial statements.
  - (c) Obtain exposure to the types of financial statement engagements offered by the firm.
  - (d) Assume responsibility for unaudited financial statement engagements or segments of audits under the supervision of more experienced staff.
- (5) If assigned primarily to tax engagements:
  - (a) Become familiar with pertinent IRC sections and regulations.

- (b) Obtain a working knowledge of research techniques and the various research sources in the firm library.
  - (c) Become proficient in the preparation of corporate, individual, partnership, fiduciary, and other tax returns prepared by the firm.
  - (d) Assume responsibility for the completion of tax returns under the supervision of more experienced staff.
- c. **Senior (In-charge)-individuals** at this level generally have had a minimum of two years' experience as a staff accountant and normally have passed the CPA exam. Seniors are expected to:
- (1) Know and understand the reason behind the firm's policies and procedures.
  - (2) Possess technical knowledge sufficient to supervise staff accountants.
  - (3) Begin acquiring the skills necessary to develop quality client relationships and loyalty.
  - (4) If assigned primarily to financial statement engagements:
    - (a) Begin to develop a command of GAAP, other comprehensive bases of accounting, unique or specialized accounting principles, and financial statement presentations.
    - (b) Obtain a thorough understanding of generally accepted auditing standards and common audit procedures and techniques.
    - (c) Assume responsibility for efficiently supervising both audit and nonaudited engagements.
  - (5) If assigned primarily to tax engagements:
    - (a) Begin developing a command of pertinent IRC sections and regulations.
    - (b) Become proficient at tax research including a knowledge of the reference sources available to the firm.
    - (c) Assume responsibility for the supervision of tax return preparation engagements.
- d. **Manager**-Individuals at this level are normally CPAs and have had a minimum of two years' experience as a senior (in-charge) accountant [or equivalent experience as deemed appropriate by the partners] and have exhibited

technical proficiency and the ability to supervise complete engagements. Managers are expected to:

- (1) Plan, supervise, and complete routine engagements.
- (2) Supervise both staff accountants and seniors, provide feedback to them, and evaluate their progress.
- (3) Become experts in their assigned areas.
- (4) Develop new client contacts and relationships beneficial to the firm.
- (5) Assist in firm administrative functions as assigned by the partners.
- (6) Recognize opportunities to provide additional services to existing clients.

e. **Partner/Principal**-individuals at this level are normally CPAs and have had a minimum of three years' experience as manager [supervisor or equivalent experience as deemed appropriate by the partners] and have exhibited superior technical competence, managerial abilities, and the ability to attract and develop new clients. Partners are expected to:

- (1) Provide firm leadership through example. Be ultimately responsible for all engagements performed under them.
- (2) Attract and develop new clients.
- (3) Perform assigned administrative duties.
- (4) Be an asset to the firm through civic and community activities.

2. In addition to the evaluation criteria enumerated in the preceding staff classifications, each staff member will be evaluated on attributes such as, but not limited to, the following:

- a. Competency and technical knowledge.
- b. Analytical and judgmental skills.
- c. Communication skills.
- d. Leadership and training skills.
- e. Client relationships.
- f. Professional demeanor and appearance.

g. Integrity

h. Personal attitude.

3. Annually, professional staff are evaluated by their supervisors and partners review their progress using evaluation forms. These evaluation forms are prepared by the partner primarily responsible for that individual's supervision, who in turn conducts a counseling interview with that individual. Comments and feedback obtained during these interviews, if any, are documented on the evaluation form by the supervising partner, and the form is routed to the individual's personnel file.
4. Annually, each partner completes a partner self-evaluation form and reviews an evaluation form for all other partners. These partner evaluation forms are routed to the managing partner and the Compensation Committee, who, in turn, reviews them with each partner. A specified partner or committee reviews the managing partner's own performance.
5. At least annually, and on an ad hoc basis if necessary (including when a partner was involved in an engagement that the AICPA Professional Ethics Division has decided warrants an investigation when litigation alleges a deficiency in the audit of a current or former SEC client), the partners meet as a committee to discuss advancement and termination decisions. In considering advancement decisions, staff performance evaluations and progress within staff classifications are given great priority; however, economic conditions, such as profits and future growth potential, must also be considered in each decision. In considering termination of a partner involved in an alleged audit failure, other firm options are considered, including retirement, removal of the partner from SEC engagements during the AICPA investigation, or additional oversight of the owner on SEC engagements for at least a year.
6. At least annually, **Richard B. Hutchins** reviews our advancement policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

### III. ACCEPTANCE AND CONTINUANCE OF CLIENTS AND ENGAGEMENTS

It is the policy of our firm that, for all compilation, review, audit, forecast, projection, and attestation engagements, the acceptability of the client and the engagement be evaluated before the firm agrees to provide professional services and that the firm will accept only engagements that it believes can be completed with the professional competence after considering the risk associated with providing professional services in the particular circumstances. The procedures listed below are followed to ensure compliance with this policy:

1. For each prospective client (or existing tax or MAS client) that requests for the first time a compilation, review, audit, forecast, projection, or attestation service, the individual making initial contact with the client [partner] is required to complete a "new client acceptance form." (The "new client acceptance form" is located in the accounting and auditing manuals used by the firm.) That form documents, among other things, background information; an assessment of the apparent integrity of management; possible independence problems or conflicts of interest; an assessment of the availability of staff; adequacy of the firm's professional competence; known disagreements with the client's prior accountants; and consideration of risks associated with the engagement. The completed form is approved by the engagement partner who decides whether to accept or reject the prospective client and who documents that conclusion on the form. A new client code form is then prepared and a weekly summary is approved by the firm's executive committee.
  
2. For existing clients, the partners annually review the firm's client list and reevaluate the acceptability of each client and engagement. Furthermore, the engagement work programs used by the firm (as documented in the engagement performance QC element of the firm's QC document) contain steps requiring the engagement team to consider whether the firm should discontinue providing all or certain services to a client. Reasons that might surface in either the firm-wide or individual engagement review that would cause the firm to consider discontinuing services include:
  - a. Significant changes in the client, e.g., senior management, perceived integrity of management, ownership, financial stability, or the risk associated with the particular engagement.
  - b. Changes in the nature or scope of the engagement, including request for additional services.
  - c. Significant changes in the composition of the firm, e.g., a change in the firm's professional competence (expertise) or the decision to discontinue client services in a particular industry.
  - d. Significant unpaid fees that may cause an independence problem or create doubt about the collectibility of future fees.

**Michael J. Novogradac** is responsible for deciding whether to discontinue providing all or certain services to a client or whether steps can be taken to mitigate the risk of continued services, e.g., requiring a down payment on fees before work commences, pay-as-you-go billing arrangements, alternative engagement procedures, etc.

3. If situations occur after the commencement of an engagement and while work is in process that indicate the firm should consider withdrawing from the engagement, **Michael J. Novogradac** should be notified of the circumstances. Circumstances that may cause the firm to withdraw would include:
  - a. The client's unwillingness to make a material correction to the financial statements or accept a modified report, or when a modification of the standard report will not adequately indicate the deficiencies in the financial statements taken as a whole.
  - b. Failure by the client to take remedial action with regard to an illegal act that might be discovered during the engagement.
  - c. The discovery of facts after the engagement commences that may have caused the firm to reject the engagement had those facts been known prior to starting the work, e.g., a significant risk of fraud.
  - d. The client provides information that is incorrect, incomplete, or otherwise unsatisfactory and refuses to provide additional or revised information.
  - e. The inability to perform the inquiry and analytical procedures considered necessary for a SSARS or attest review, and for a SSARS review, it is appropriate to issue a compilation report.
  - f. The client's refusal to provide a representation letter in a SSARS or attest review, and for a SSARS review, it is not appropriate to issue a compilation report.
  - g. The client's refusal to allow the sending of a request for legal representation to legal counsel.
  - h. In a review attest engagement, the client is the responsible party and does not provide a written assertion.
  - i. Other information in a client-prepared document containing the firm's attest report is materially inconsistent with the information in the report, and the client does not revise the information to eliminate the inconsistency.

**Michael J. Novogradac** is responsible for deciding whether to withdraw from an engagement.

4. If, based on the facts and circumstances identified in performing Steps 2 and 3, **Michael J. Novogradac** concludes that the firm should discontinue providing all or certain services to a client or withdraw from a current engagement, **Michael J. Novogradac** and the engagement partner should determine how the client should be informed about that decision. Furthermore, **Michael J. Novogradac** should

consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by **Michael J. Novogradac** of the name of any client to which services are discontinued.

5. For each new or existing client that is, or expects to become, a publicly held company, the firm requires the following procedures in addition to those in procedure No. 1:
6. Review of filings with the SEC (or other government agencies), including Form 8-K, if any, during at least the prior year.
7. Consideration of the SEC and PCAOB independence rules (or the rules of other government agencies) in determining any existing or potential situations that impair or may impair in the future the firm's independence.
8. If the firm resigns, or is dismissed, as the auditor on an SEC engagement, the engagement partner is responsible for sending a written acknowledgment to the former client with a copy to the Office of the Chief Accountant of the SEC (or the appropriate government agency) within five business days. All such correspondence must be approved by the managing partner.
9. The engagement partner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter should document the firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed.
10. At least annually, Diane M. Rubin reviews our acceptance and continuance policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

#### **IV. ENGAGEMENT PERFORMANCE POLICY AND PROCEDURES**

##### **A. Performance**

It is the policy of our firm that all compilation, review, audit, forecast, projection, and attestation engagements are to be properly planned, performed, supervised, reviewed, documented, and that the results be properly communicated. In this regard, all personnel assigned to those engagements follow the procedures listed below:

1. The firm's system of engagement performance QC steps is documented in the attached engagement performance-bridging document (see A Index at Tab 2).

2. The responsibilities of partners and other members of our professional staff for implementing the firm's QC steps are indicated on the attached engagement performance bridging document (see A Index at Tab 2).
3. Certain steps in the firm's system of engagement performance QC steps are not applicable or are optional for some engagements. The attached engagement performance bridging document indicates the applicability of each step to each type of engagement (see A Index at Tab 2).
4. The firm uses numerous checklists, work programs, report examples, and other practice aids to implement its engagement performance QC steps. These practice aids are documented on the attached engagement performance bridging documents (see A Index at Tab 2).
5. The firm requires completion of a concurring partner review prior to the release of all audit reports on SEC engagements. The concurring review is documented by completion of a Concurring Owner Review Form. The nature, extent, and timing of the review and the qualification of the reviewer are stated in the review form. The Concurring Owner Review Form is located in the accounting and auditing manuals used by the firm.
6. The firm, after being served with a complaint alleging an audit failure, will conduct a review of the engagement to evaluate the performance of senior management personnel with respect to the specific issues contained in the complaint. If the firm is subsequently informed that the matter will be investigated by the AICPA Professional Ethics Division, and the individual is still with the firm, the firm will take action with respect to the individual as required in the circumstances.
7. At least annually, **Diane M. Rubin** reviews our engagement performance policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

The firm adopts and integrates within its quality control system the use of Practitioners Publishing Company's (PPC's) accounting and auditing manuals and practice aids as more fully described in the attached engagement performance bridging documents. This QC document, the PPC manuals, and any other practice aids used by the firm are intended solely to assist us in achieving compliance with professional standards as covered by the AICPA *Code of Professional Conduct*. Accordingly, nothing within this QC document should be construed as requiring a higher level of performance or documentation than the minimum specifically required by our firm's QC policies and procedures nor to override the exercise of professional judgment.

## **B. Consultation**

It is the policy of our firm that personnel refer to authoritative literature or other sources when appropriate. Our firm also recognizes the need for a constant exchange of ideas and opinions about technical issues on all professional engagements, and it is our policy that all professional personnel seek consultation within or outside the firm whenever they are uncertain about the answer to a technical question; the application of a professional procedure or standard; the application of a rule, regulation, or procedure of a tax or other regulatory agency; or the application of a firm policy. The procedures listed below are followed to ensure compliance with this policy:

1. The firm maintains or provides ready access to an adequate and up-to-date reference library that includes materials related to clients served and that should be consulted to assist professional staff in their research of technical issues. In addition to accounting and auditing publications, the library includes a current SEC service.
2. While the firm recognizes that it is impossible to list all situations that might require referral to authoritative literature or other sources or that might require a consultation, the following situations, due to their complexity, would normally require a consultation:
  - a. Any engagement in which a qualified or nonstandard report is likely to be issued.
  - b. Any engagement involving material litigation.
  - c. Application, for the first time, of new or complex technical pronouncements.
  - d. Industries with special accounting, auditing, or reporting requirements.
  - e. Emerging practice problems.
  - f. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made.
  - g. Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued.
3. When an issue arises that requires consultation, the issue should first be discussed by the members of the engagement team. If, in the engagement partner's opinion, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team disagrees with the resolution, the procedure in Step 7 should be followed.

4. If the engagement partner believes additional consultation beyond that of the engagement team is necessary, the issue should be discussed with an individual in the firm who has specialized knowledge or training that is appropriate for the issue in question. When the engagement team is unaware of the name of an individual in the firm who possesses such knowledge, **Diane M. Rubin** should be consulted for the name of such an individual. If, in the engagement partner's opinion, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team or other individuals who consulted on the issue disagree with the resolution, the procedure in Step 7 should be followed.
5. If the engagement partner believes that additional consultation beyond that available within the firm is necessary, the issue should be discussed with an outside specialist. Outside specialists include, but are not limited to, the AICPA and the SEC technical information services, and CPAs or tax attorneys in other firms. In determining the professional qualifications and reputations of the outside specialists, the firm should consider, among other things, the following matters:
  - a. The professional certification, license, or other recognition of the competence of the specialist in his areas of expertise, as appropriate.
  - b. The reputation and standing of the specialist in the views of his peers and others familiar with his capability or performance.
  - c. The relationship, if any, of the specialist to the client.

If, in the engagement partner's opinion, the issue is resolved, additional consultation is not necessary. However, if any member of the engagement team or other individual in the firm who consulted on the engagement disagrees with the resolution, the procedure in Step 7 should be followed.

6. Certain accounting, audit, examination, attestation, tax, or consulting engagements may require the firm to consult with nonaccounting specialists such as actuaries, appraisers, attorneys, engineers, and geologists. The firm should follow the guidance in AICPA *Professional Standards* at AU Section 336 when such consultations are necessary. If any member of the firm or engagement team disagrees with the advice of a nonaccounting consultant, the procedure in Step 7 should be followed.
7. If differences of opinion exist within the firm as to the resolution of a consultation issue, the matter should be brought to the attention of **Diane M. Rubin**. She will resolve any disputes as to the proper course of action taken by the firm on the issue in question. Any party to the consultation who disagrees with the conclusion has the option of preparing a memorandum and filing it in the workpapers.

8. All technical research and consultations that are unusual, controversial, or complex and material in nature should be documented in a memorandum to the workpapers.
9. At least annually, the audit department reviews our consultation policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

## V. MONITORING

It is the policy of our firm that our quality control system be monitored on an ongoing basis to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements (including activities) of quality control are suitably designed and are being effectively applied. Monitoring procedures as they relate to the other elements (and activities) are included in the quality control procedures for each of the other elements. As an integral part of the monitoring process, our quality control system is inspected annually to determine whether the firm has complied with its stated quality control policies and procedures. The procedures listed below are followed to ensure compliance with this policy:

1. Annually, **Diane M. Rubin** selects a team (hereafter referred to as "the inspector") to review the firm's quality control system. The inspector should possess adequate technical knowledge and experience and, when practical, should not be directly involved in the administration, supervision, or performance of the QC procedures or engagements each will inspect. One inspector will be designated as the in-charge inspector.
2. The in-charge inspector is responsible for determining the scope of the inspection, developing the inspection procedures, and performing the inspection. **Diane M. Rubin** can require at her discretion that the inspection scope and procedures be approved by her before the inspection commences. The in-charge inspector should follow the guidelines listed below when determining the scope and designing the inspection procedures:
  - a. The inspection should be completed timely.
  - b. The scope of the inspection should encompass all of the firm's stated quality control procedures and, accordingly, should include a review of a representative sample of administrative files, personnel files, engagement workpapers, and other evidential matter. The engagement reviews will include, but are not limited to, the following:

- (1) Specialized, complex, and high-risk engagements (for example, employee benefit plans, *Government Auditing Standards* audits, financial institutions, security brokers and dealers, and SEC).
    - (b) First-year engagements.
    - (3) A cross-section of engagements based on the level of service performed (e.g., audit, review, compilation, and attest).
    - (4) A cross-section of engagements from various partners and management level personnel having accounting and auditing responsibilities.
  - c. The inspection procedures include inspection, observation, and inquiries to determine whether:
    - (1) Checklists, forms, programs, or other documentation required by the firm's QC system have been properly completed.
    - (2) Administrative and personnel policies have been complied with.
    - (3) Procedures performed on engagements are in accordance with both the requirements of authoritative literature and firm policies.
    - (4) The engagement workpapers provide adequate evidence to support conclusions, opinions, and presentations resulting from that engagement.
    - (5) The financial statements, reports, and other presentations resulting from the engagements conform to the measurement, presentation, and disclosure requirements of authoritative literature.
  - d. The inspection scope and procedures should be documented in a work program.
3. At the conclusion of the inspection, the inspector is responsible for (a) discussing the results of the inspection with the supervisory personnel responsible for the engagements selected for review and (b) summarizing the deficiencies noted for each engagement reviewed. Once identified, the deficiencies are summarized and evaluated to determine whether:
  - a. Existing quality control policies and procedures should be modified.
  - b. Additional emphasis should be placed on specific industries or areas for future engagements.

The scope of the inspection, the findings, and the recommendations are then reported to **Diane M. Rubin**.

4. In addition to the firm's annual inspection program, the firm is subject every three years to a peer review in accordance with the requirements of the PCAOB, the AICPA, and the State Boards of Accountancy. **Diane M. Rubin** is responsible for scheduling and coordinating that review.
5. Based on the inspection report and, if appropriate, the peer review report, letter of comments, letter of response, and exit conference with the reviewers, **Diane M. Rubin** and **Robert S. Thesman** determine any corrective actions that should be pursued to improve, amend, or rectify the QC system.
6. The partners meet annually (or when needed on an interim basis) and discuss the results of the inspection and the monitoring of all of the quality control elements (and activities) and the corrective actions determined to be needed by the partners. Based on the discussions at the meeting, the audit department determines any corrective actions that will be pursued to improve, amend, or rectify the QC system.
7. **Diane M. Rubin** is responsible for monitoring the implementation of, and compliance with, any corrective actions.