

Johnson, Thomas & Cunningham

Certified Public Accountants

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Governmental Quality Center

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SYSTEM REVIEW REPORT

January 24, 2013

To the Partners of Garrett & Garrett, CPAs
and the Peer Review Committee of the Society of Louisiana CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Garrett & Garrett, CPAs (the firm) in effect for the year ended July 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*.

We noted the following significant deficiencies during our review:

1. Deficiency – The firm's quality control policies and procedures do not provide its staff with a means of ensuring that professional standards applicable to obtaining engagement letters are followed on engagements. As a result we noted instances in which the standards were departed from as follows-
 - On a compilation engagement intended for management's use only in which an accountants' report is not presented, the firm did not obtain an engagement letter containing the appropriate language for such an engagement.
 - On a compilation engagement for the preparation of personal financial statements the engagement letter was addressed to the proper individuals, however, within the body of the engagement letter a similarly named but different client name is addressed as the person for whom financial statements are to be presented.
 - On a compilation engagement for the preparation of personal financial statements the engagement letter is signed by the client but is not dated.

The firm intends to institute policies and procedures to address these issues.

Recommendation – The firm should consult professional standards resources to correct its engagements letters for future engagements, and should carefully proof read the documents to ensure that they are appropriate for the type of engagement, that they are properly addressed, signed and dated.

2. Deficiency – The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that its audit reports are prepared in accordance with professional standards. As a result we noted instances in which the reports departed from these standards as follows-

- On a governmental audit in accordance with GAS and the Single Audit Act:
 - A. The report indicates that the financial statements are presented for a two year period, and opinions are issued for both years. However, only comparative totals are being presented for the previous year and the presentations for that year do not contain sufficient detail to constitute a fair presentation in conformity with generally accepted accounting principles for which an opinion should be issued.
 - B. The report references and issues an opinion on the aggregate remaining fund information, or supplementary information, in the opinion paragraph of the report, but states in the final paragraph that no opinion is being expressed on this same information, thereby causing a confusing report.
 - C. The report is confusing when describing supplementary information, particularly when describing what is required supplementary information and what is other supplementary information and whether or not the Schedule of Expenditures of Federal Awards is a required part of the basic financial statements.
 - D. The report does not include the statements required by standards that (a) the supplementary information is the responsibility of management and that it was derived and relates to the accounting records used to prepare the financial statements and (b) the certain additional procedures applied to the information in accordance with GAAS.
- On an audit engagement of another entity the accountants’ report is dated April 27, 2012, while substantial workpaper documentation including the legal representation letter is dated after this date.

The firm intends to recall and reissue the report for the governmental entity and to institute policies and procedures to address the other issues.

Recommendation – The firm should establish and monitor policies and procedures to ensure that its reports comply with professional standards. Such means might include the use and careful completion of reporting checklists on engagements.

3. Deficiency – The firms’ quality control policies and procedures do not provide its staff with a means of ensuring that professional standards are followed in the presentation of financial statements and the related note disclosures. As a result we noted instances in which financial statements and note disclosures departed from these standards as follows-

- On an audit of a consolidated entity one of the entity’s companies ceased operations during the year and sold all assets. The financial statements and note disclosures did not properly report or disclose this business discontinuance in accordance with standards. In addition, the material amount gained from the sale of the entity’s assets was reported as a current item and a part of normal operations on the Statement of Cash Flows which is not in accordance with standards.

- We noted an instance in which the financial statements presented material amounts for accounts payable in the current and prior year, however, the note disclosure is not complete and states only that accounts payable include amounts due to subcontractors of \$-0- for each year. The amounts due to subcontractors are material. In addition, the note refers the reader to "Schedule C" for details, however, this schedule lists accounts receivable as opposed to accounts payable.
- We noted instances in which the note disclosures did not include the required disclosures for subsequent events.
- We noted an instance in which the note disclosures did not contain a description of tax years that remain subject to examination.
- We noted an instance in which the note disclosure for investments did not agree to the amount presented on the face of the financial statements.

The firm intends to correct future reports for these issues.

Recommendation - The firm should establish and monitor policies and procedures to ensure that its financial statement presentations and the related note disclosures comply with professional standards. Such means might include the use and careful completion of disclosures checklists on engagements.

4. Deficiency – The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that professional standards are followed when specific industry engagements are performed. As a result we noted instances in which the following departures from standards were noted:
 - Standards related to governmental engagements:
 - A. An instance in which the firm did not apply the standards applicable to the determination and presentation of funds in the categories of Major and Non-Major. The firm combined the entity’s different fund types and reported the total fund types as all major funds with no non-major funds, as opposed to determining major fund types in accordance with their individual transaction totals compared to total transaction totals.
 - B. An instance in which the total net assets on the Government Wide Statement of Net Assets did properly foot.
 - C. An instance in which interfund transfers on the Statement of Activities do not reconcile to the Statement of Revenues, Expenditures & Changes in Fund Balance, nor to the note disclosure for transfers.
 - D. An instance in which interfund transfers were reported as revenues, and instances in which revenues were reported as transfers on the financial statements.
 - E. An instance in which federal grant revenues were reported as “other financing sources” instead of revenues on the financial statements.
 - F. An instance in which the required note disclosure for fund balance classification policies was not presented.
 - Standards related to A-133 Single Audits:
 - A. An instance in which the auditors’ report did not properly address the Schedule of Expenditure of Federal Awards and did not express an opinion on this schedule.
 - B. An instance in which the firm did not properly identify and cluster federal awards resulting in an inappropriate determination of major programs.
 - C. An instance in which the audit workpapers do not document that the applicable compliance supplement requirements for the federal awards have been identified and the controls over these requirements tested.

The firm intends to recall and reissue the financial statements for this engagement.

Recommendation - The firm should establish and monitor policies and procedures to ensure that professional standards are followed when specific industry engagements are performed.

5. Deficiency – The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that professional standards are followed in the preparation and inclusion of audit workpapers. As a result we noted instances in which the audit workpapers did not clearly document the firm’s consideration of the following-
- Instances in a governmental engagement in which the audit work papers were not referenced to other related work papers making it difficult to determine what procedures had been performed and the conclusions reached. The firm had a similar comment in its previous peer review.
 - An instance in which the firm did not document its communication of internal control matters with those charged with governance as required by standards. The firm had a similar comment in its previous peer review.
 - An instance in which the firm did not document performance of specific procedures to determine if there were significant subsequent events.
 - An instance in which the firms’ audit workpapers included a client representation letter, but it was not signed.

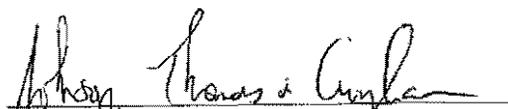
The firm intends to institute policies and procedures to address these issues.

Recommendation – The firm should institute policies and procedures to ensure that its audit workpapers contain the necessary information to comply with professional standards.

6. Deficiency - The firm’s system of quality control including the quality control document, monitoring procedures, human resource systems and engagement performance systems are not effective in ensuring that the firms’ reports and workpapers comply with professional standards. The firm had a similar comment in its previous peer review.

Recommendation – The firm should reference the professional standards applicable to quality control systems and should establish a system to ensure that professional standards are complied with. The firm should review its quality control document and tailor it to fit the firm’s practice. The firm should also institute more effective monitoring procedures to include, at a minimum, an annual inspection of the firm’s system of quality control. The firm should review the types and subject matter of the continuing education courses being obtained to ensure that they satisfy the firm’s efforts to establish a working quality control system. The firm should also evaluate the practice aids being used on accounting and auditing engagements to ensure that engagements are performed in compliance with professional standards.

In our opinion, as a result of the significant deficiencies described above, the system of quality control for the accounting and auditing practice of Garrett & Garrett, CPAs, in effect for the year ended July 31, 2012, was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Garrett & Garrett, CPAs, has received a peer review rating of *fail*.


Johnson, Thomas & Cunningham CPA's

Garrett and Garrett, CPAs
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Carolyn V, Garrett*

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January 27, 2013

*To the Peer Review Committee
New Orleans, LA.*

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended July 31, 2012. All issues have been brought to our attention of personnel at a meeting held on January 24, 2013. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again. The recap of the deficiencies is as follows:

1. Engagement letters

The firm will double check the engagement letters against the PPC guides for engagement letters, plus other examples provided from other sources each year. Also, all engagement letters will go through a final proof reading by the partner not responsible for that audit engagement.

2. Governmental Audit

The firm will review all reports prior to issue with examples of reports provided in the PPC Guides to make sure that any changes to the reporting requirements has been included. All engagement reports will go through a final proof reading by the partner not responsible for the engagement.

3. Sale of business and required disclosures

The firm will make a final review of the financial statements by the partner in charge to make sure that all required disclosures are included. Prior to issue of the report a final review by the partner not in charge will be made.

4. Government financial statements

The firm will make a final review of the governmental engagements to make sure that all professional standards are followed by the industry engagements. The firm will also hire another CPA firm to review any governmental engagements prior to issue for the next year. The governmental audit that was reviewed was not issued until December 30, 2012, therefore changes were made and the statements were reissued on January 29, 2013.

5. Audit workpapers documentation.

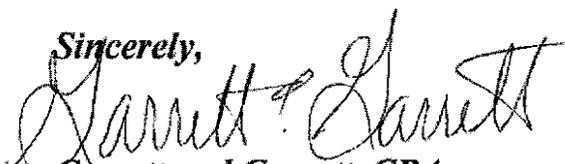
The firm will put in place policies and procedures to make sure that The audit workpapers are clearly documented . Both partners will review the audit workpapers to insure that the procedures are clearly documented.

6. Quality Control Document.

The firm will set up a quality control document to ensure that professional standards are complied with.

The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post issuance review of engagements. We use the PPC quality control materials to guide the firm, and both partners will review the procedures. Additionally, outside assistance has been sought, and the CPA will be available for consultation and guidance.

Sincerely,


Garrett and Garrett, CPAs



LCPA Peer Review Program
Administered in Louisiana by the
Society of Louisiana CPAs



AICPA Peer Review Program
Administered by the
Society of Louisiana CPAs

February 27, 2013

Carolyn V. Garrett, CPA
Garrett & Garrett
119 Professional Dr
West Monroe, LA 71291

Dear Ms. Garrett:

On February 27, 2013 the Society of Louisiana CPAs Peer Review Committee accepted the report on the most recent system peer review of your firm and your firm's response thereto.

The Committee accepted the aforementioned documents with the understanding that the firm will:

- ensure that all professional staff in your firm who work on accounting and auditing engagements participate in at least 16 hours of continuing professional education to include 8 hours specifically in single audits and 8 hours in general governmental auditing no later than July 31, 2013. Please send a letter to the Committee detailing the courses taken by each individual within thirty days of that date, along with proof of attendance at the courses. Self study, teleconferences or webcasts will not satisfy this requirement. If you have taken CPE in this or similar areas in the previous six months, please contact the peer review department to determine if the course qualifies.
- permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers on all engagements issued subsequent to the review PRIOR to release. The outside party should report to the Committee by July 31, 2013 on the results of the review. You must obtain the services of the outside party at your expense and ensure they are acceptable to the committee by contacting the Peer Review Department. Upon completion of the pre issuance review, the reviewer will be required to issue a letter of corrective action to the committee. The committee will review the letter along with any workpapers prepared during the preissuance review and determine if further action will be required. If you do not expect to have an engagement completed in time to meet the deadline, please contact the Peer Review Department with an expected date

This review is not considered accepted until we receive the signed document.

Letter ID: 772001

State Board Rule 46:XIX:1503.A.5 provides that timely completion of a peer review of firms that have performed attest services (e.g., compilations, reviews, audits, agreed upon procedures, etc.) is required in order to maintain and renew a CPA firm permit to practice.

As defined in Interpretation 25-2 of the Standards the review will not be considered complete until the committee accepts the report and letter of response (if applicable) or decides that the reviewed firm has performed the agreed-to corrective action(s) to the committee's satisfaction and the committee requires no additional corrective action(s) by the reviewed firm. This date is noted in a final letter from the administering entity to the reviewed firm and is posted on the State Board secure website.

Your firm's agreement to take this action voluntarily demonstrates its commitment to the objectives of the profession's practice-monitoring programs. Please acknowledge that agreement by returning a signed copy of this letter to us via email gsnyder@lcpa.org or fax 985-764-4345.

Sincerely,
SOCIETY OF LOUISIANA CPAs



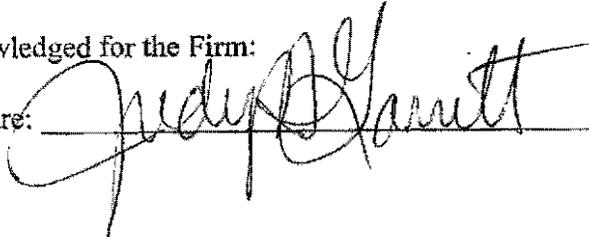
Stacey Lockwood
Director of Professional Oversight
stlockwood@lcpa.org 504 904-1136

cc: Mark D Thomas

Firm Number: 10081943 Review Number: 340942

Acknowledged for the Firm:

Signature: _____



Date: _____

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