

GILLIAM, WHARRAM & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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December 19, 2008

Malnory, McNeal & Company, P.C.
Dallas, Texas

We have reviewed the system of quality control for the accounting and auditing practice of Malnory, McNeal & Company, P.C. (the firm) in effect for the year ended May 31, 2007. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with 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 with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, engagements performed under *Government Auditing Standards*, engagements subject to ERISA.) Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of lack of compliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality



control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Malnory, McNeal & Company, P.C. in effect for the year ended May 31, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

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Malnory, McNeal & Company, PC

We have reviewed the system of quality control for the accounting and auditing practice of Malnory, McNeal & Company, P.C. (the firm) for the year ended May 31, 2007, and have issued our report thereon dated December 19, 2008. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report

Comment—The firm's quality control policies and procedures require maintenance and updated reference materials, which are available in the firm library. However, the firm issued a review report without the required footnotes (prescribed form engagement), making the engagement substandard. The firm should have consulted technical literature for guidance in the firm's library.

Recommendation—We recommend consultation, at least technical literature, regarding issuance of reports submitted with prescribed forms.

Comment—On an isolated engagement, the firm did not request an attorney's letter on the engagement and failed to modify the client representation letter to obtain management's representation regarding litigation. The firm failed to consult with technical resources, as required by firm quality control policies and procedures.

Recommendation—We recommend the firm review and implement procedures to modify the representations from management in cases where no letter is sent to an attorney.

Comment—The firm's quality control policies and procedures require use of standard audit programs. However, our review disclosed several instances where the firm failed to use audit programs for several significant accounts, did not indicate steps completed for other accounts, and failed to properly document verbal conversations, related to those steps. Through discussions with engagement personnel, we were able to satisfy ourselves that the necessary steps were taken except these matters were not properly documented in the manner required by professional standards. The "cold review" prior to release of reports, required by the firm's control policies and procedures, does not appear to be working properly.

Recommendation—The firm should expand the scope of the "cold review" to require a second partner review of the report and workpapers prior to issuance of the report.

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