

System Review Report

December 13, 2016

To the Shareholders of
Collier Johnson & Woods, PC
and the Peer Review Committee of the Texas Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of **Collier Johnson & Woods, PC** (the firm) in effect for the year ended June 30, 2016. 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 *Government Auditing Standards* and audits of employee benefit plans.

We noted the following deficiencies during our review:

Deficiency—the firm's quality control policies and procedures require a careful review of all audit documentation. In several audit engagements, we noted instances where audit procedures were not performed or documented, thus the review was ineffective. As a result, 1) in three audits, including an audit subject to *Government Auditing Standards* and a health and welfare employee benefit plan audit, there was no evidence found of consideration of subsequent events, 2) in two audits, including an audit subject to *Government Auditing Standards*, there was no evidence of the testing of journal entries to determine that management override of controls was not a fraud issue, 3) in a health and welfare employee benefit plan audit, the audit procedures to evaluate the specialist's professional qualifications was not documented, 4) in a health and welfare employee benefit plan audit, there was no documentation regarding the testing of payroll data used to calculate contributions for one or more pay periods and for a sample of participants.

Recommendation—we recommend the firm comply with its quality control policies and procedures and perform a careful review of all audit documentation.

Deficiency—the firm's quality control policies and procedures require that the firm's monitoring procedures be sufficiently comprehensive and executed properly to enable the firm to assess conformity with all applicable professional standards and the firm's compliance with its quality control policies and procedures. However, our review indicated that the nature and extent of the deficiencies noted in the peer review demonstrate that the inspection procedures were not performed in accordance with the firm's policies and procedures or were not performed by qualified personnel. The ineffective monitoring procedures prevented the firm from achieving the objectives of monitoring procedures.

Recommendation—we recommend the firm hire an outside party to perform its next inspection to include a review of all monitoring procedures, and assist the firm in identifying systemic reasons for engagement deficiencies. Once the inspection is completed, the firm should communicate any deficiencies noted in the inspection on a timely to appropriate personnel.

In our opinion, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of **Collier Johnson & Woods, PC** in effect for the year ended June 30, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **Collier Johnson & Woods, PC** has received a peer review rating of pass with deficiencies.

Davis Kinard & Co, PC

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Peer Review Committee of the
Texas Society of CPAs

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 2016. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1. In all cases subsequent events procedures were performed including obtaining an attorney's letter, search for unrecorded liabilities, reading governing board minutes, etc. However, these were not summarized in a memo which would facilitate review of the performance of this requirement. In addition, the firm did not reduce its sample size for any audit testwork performed in reliance on the specialist's qualification. The firm opened each audit file and added the required documentation. Specifically, 1) we added an addendum to the documentation in each file describing the subsequent events review procedures performed. 2) in each file, the firm documented its review of specific journal entries, 3) the firm opened the audit file and summarized the qualifications of the specialist used, and 4) since the health and welfare benefit plan reviewed did not require employees to contribute a portion of their premium - employees were merely responsible for any dependent coverage provided. In place of specific payroll testing, the firm performed and added analytical procedures to the file regarding the monthly premium cost per average number of employees where the trend analysis indicated that the annualized cost remained stable for comparative years. Finally, the firm will conduct a training session for all professional staff and review with them the documentation requirements in the firm's quality control policies and procedures. In this training session, we will specifically discuss the documentation matters noted in the peer review and emphasize what we should have done differently in each documentation matter. Brigid Cook, quality control partner, will be responsible for the implementation of these procedures and the training session.

2. The firm will engage a third party to perform its next annual inspection to include a review of all monitoring procedures and assist the firm in identifying systemic reasons for engagement deficiencies. The firm engaged will then report to the peer review committee. Once the inspection is completed, we will communicate any deficiencies noted in the inspection in a timely manner to all appropriate personnel.

We believe these actions are responsive to the findings of the review.

Collier, Johnson & Woods