

Report on

2012 Inspection of Michael F. Albanese, CPA
(Headquartered in Parsippany, New Jersey)

Issued by the

Public Company Accounting Oversight Board

October 1, 2013

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

2012 INSPECTION OF MICHAEL F. ALBANESE, CPA

In 2012, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Michael F. Albanese, CPA ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from September 17, 2012 to September 25, 2012. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Parsippany, New Jersey)
Ownership structure	Sole practitioner
Number of partners	1
Number of professional staff ^{3/}	None
Number of issuer audit clients ^{4/}	3

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{5/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with Generally Accepted Accounting Principles ("GAAP").^{6/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.^{7/} Depending upon the circumstances, compliance with these standards may

^{5/} This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

^{6/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{7/} See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over*

require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of three issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. The deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

The deficiencies identified in all three of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. Those deficiencies were –

- (1) the failure, in three audits, to perform sufficient procedures to test revenue, including, in all three audits, inadequate performance of substantive analytical procedures and, in one audit, the failure to perform the necessary risk assessment procedures;
- (2) the failure, in two audits, to perform sufficient procedures to test inventory, including, in one audit, inadequate performance of substantive analytical procedures;
- (3) the failure to perform procedures to identify and test related party transactions and related disclosures;
- (4) the failure to perform procedures to evaluate the carrying amount and financial statement presentation of notes receivable; and
- (5) the failure to perform procedures to evaluate the materiality of items that were identified by the Firm as misstatements and not corrected by the issuer.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

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B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.^{8/} On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

* * * *

Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

^{8/} A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

Substantive Analytical Procedures

As discussed above, in all three of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's use of substantive analytical procedures. This information provides cause for concern regarding the Firm's quality control policies and procedures related to using substantive analytical procedures. [Issuers A, B, and C]

* * * *

Technical Competence

The audit performance deficiencies discussed in Part II.A and the inspection team's discussion of audit issues with the engagement teams suggest that the Firm's system of quality control may not provide sufficient assurance that the Firm's audit partner and contract staff have the level of knowledge and the degree of technical training and proficiency required for the performance of their assigned audit responsibilities.

* * * *

Engagement Quality Review

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with applicable engagement quality review requirements as prescribed by PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"). In one of the audits reviewed, the Firm did not obtain an engagement quality review of its audit prior to the issuance of its audit report. [Issuer C] Also, in two of the audits reviewed, the audit work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed and the documents reviewed by the engagement quality reviewer. [Issuers A and B] Further, in all three of the audits reviewed, the engagement quality reviewer did not have the formal training and/or experience in the field of auditing necessary to possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement quality reviewer [Issuers A, B, and C].

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PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.^{9/}

^{9/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

Michael F. Albanese, CPA
18 Lisa Court Parsippany, NJ 07054
Phone: 973-887-8124 - Fax 973-887-9103
E-mail: mike@costreductionsolutions.com

August 14, 2013

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

Re: Response to the Draft Report of Inspection on the 2012 Inspection of Michael F. Albanese, CPA

I have received the Draft Report of Inspection dated July 12, 2013 of Michael F. Albanese, CPA and am pleased to submit my updated response. I welcome the inspection process that the Public Company Accounting Oversight Board (the PCAOB) has instituted as it provides a mutual respect for the integrity of the services I provide to my clients and the protection of the general public as it relates to my independent auditing responsibilities.

Thanks to the diligent PCAOB inspection process, we are able to improve, streamline and focus on our audit clients with a high degree of skepticism, quality control and auditing steps deemed applicable to each audit.

I am committed to any necessary improvements in any aspect of my audit process. The inspection processes of both the CPCA chapter of the AICPA Peer Review program and the PCAOB addresses this directly and is a positive means for feedback that will assist in the continuous improvement of the process.

I understand the inspection may only take into account some of the work of the auditor and might not take into account the complete auditor quality processes that the practitioner provides.

The firm understands that according to PCAOB Release 104-2006-077 because of the Firms size, the Board's quality control assessments may represent less of a review of formal policies and procedures and result more from inferences drawn from deficiencies in the performance of audits.

This letter provides my response & actions to matters identified in your draft report of inspection. It is important to note that (2) of the three (3) issuers (issuers B & C) are no longer audit clients of this firm.

I intend for my response to be made entirely public, since the purpose of the SEC and PCAOB is to protect the interests of the shareholders and I am committed to this process.

Finally, permit me to ensure the PCAOB that I have a sincere and dedicated commitment to conduct any and all audits with sufficient competence (and I will take all steps where needed to ensure competence) in order to protect the interests of investors and to further the public interest in the preparation of informative, fair and independent audit reports.

On behalf of Michael F. Albanese, CPA and our operations here at my practice, we extend a thank you with warm wishes.

Respectfully submitted,

Michael F. Albanese, CPA

Michael F. Albanese, CPA
18 Lisa Court Parsippany, NJ 07054
Phone: 973-887-8124 - Fax 973-887-9103
E-mail: mike@costreductionsolutions.com

Part II Responses

A. Insufficiently Supported Audit Opinions

The firm understands your report regarding the results of the inspection and will apply accordingly to any and all future audit engagements. Please note that the firm now only has one Public Issuer and one Broker Dealer with PCAOB Auditing requirements at the time of this response letter.

B. Issues Related to Quality Controls

The firm understands that according to PCAOB Release 104-2006-077 because of the Firms size, the Board's quality control assessments may represent less of a review of formal policies and procedures and result more from inferences drawn from deficiencies in the performance of audits.

The Firm assures the Board and the public that it has already taken action and will continue to improve on its system of quality controls so that it meets the standards of the Public Company Accounting Oversight Board as well as the high standards the Firm strives to hold itself.

During and subsequent to the Board's inspection, the Firm underwent and passed its peer review as required by the "CPCAF" (public audit section of the private accounting industry) Chapter of the American Institute of Certified Public Accountants. Pursuant to the Board's findings and those of the peer review, the Firm has updated and improved its system of quality controls appropriately and in accordance with the requirements of "SQAS 7" as well as overall. These policies and procedures also address engagement quality reviews pursuant to PCAOB Auditing Standard No. 7, Engagement Quality Review - QC Section 20, 30 and 40.

The Firm has made the necessary improvements to fully satisfy any follow-up inspection by the Board or any other regulatory agency. The Firm has completed the following to ensure that the Boards detailed Quality Control Procedures deficiencies were accounted for and corrected.

1. Design of Quality Control System

a. Audit Policies, Procedures, and Methodologies

The Firm has a maintenance process which includes updating its auditing library with up-to-date research, audit materials and procedures, for all required PCAOB standards and SEC reporting requirements, rules and regulations.

2. Audit Performance

- a. Testing Appropriate to the Audit
 - (i). Substantive Analytical Procedures [Issuers A, B, and C]
 - (ii). Revenue [Issuers A, B, and C]
 - (iii). Inventory [Issuers A and B]
 - (iv). Related Party Transactions [Issuer A]
 - (v). Notes Receivable [Issuer C]
 - (vi). Evaluation of Uncorrected Misstatements [Issuer C]

The firm understands your report regarding the results of the inspection and will apply accordingly to any and all future audit engagements. Please note that the firm now only has one Public Issuer and one Broker Dealer with PCAOB Auditing requirements at the time of this response letter.

b. Technical Competence

The Firm maintains that its system of quality control ensure that the Audit partner and staff is adequately knowledgeable and maintains the appropriate degree of technical training necessary to perform its engagements. In addition, the Audit partner and staff regularly attend CPE courses particularly for audit work papers, procedures and FASB updates as well as PCAOB CPE seminars in Washington DC, New York City and Jersey City and consistently works towards meeting all the new and existing PCAOB and AICPA, Quality Control Procedures and Requirements.

The auditor has a keen awareness of the PCAOB inspection process and also maintains a web based group of audit professionals who communicate a variety of topics including quality control specifics geared towards the respect and importance of independence, integrity and objectivity, engagement performance, personnel management, acceptance and continuance of clients and engagements and finally the monitoring of such. In addition, the auditor developed and maintains an audit library.

The auditor engages independent practitioners to perform and also assist in work paper preparation as well as engages an independent concurrent reviewer for a public audit engagement. In addition, the auditor engages other independent parties, where necessary, for various review work of all public audits.

c. Fraud Procedures

The Firm follows the provisions of AU 316, Consideration of Fraud in a Financial Statement Audit including but not limited to using 20+ years of individual professional experience to exercise professional skepticism (section AU 316.13) and holding multiple brainstorming discussions over different platforms of communication (teleconference, email correspondence, and in-person audit planning meeting) (section AU

316.14). The Firm also conducts a detailed Fraud Interview with a Fraud Questionnaire detailed in its workpapers.

The Firm successfully completed these steps, as detailed and mandated by its system of quality controls for all of its issuers specifically related to the sited deficiencies.

The auditor has also attended and completed a fraud review courses by Demetrius & Company, L.L.C. and investigated alternative in-house training support from the likes of Harbinger, PLC.

d. Audit Documentation

The firm mandates that all records, workpapers and audit documentation is secured within 45 days of the report release date.

e. Engagement Completion Document

The Firm's policy according to its Quality Control Procedures is to comply with AS No. 3 section 13 and always prepare an engagement completion document demonstrating that the work performed by the engagement personnel addressed the significant findings and issues. I perform this part on all of my audits via an electronic email to my permanent audit files with a summary conclusion.

f. Required Communications

The firm understands your report regarding the results of the inspection and will apply accordingly to any and all future audit engagements. Please note that the firm now only has one Public Issuer and one Broker Dealer with PCAOB Auditing requirements at the time of this response letter.

(ii). Independence Confirmations

The firm understands your report regarding the results of the inspection and will apply accordingly to any and all future audit engagements. Please note that the firm now only has one Public Issuer and one Broker Dealer with PCAOB Auditing requirements at the time of this response letter.

e. Engagement Quality Review

The firm understands your report regarding the results of the inspection and will apply accordingly to any and all future audit engagements. Please note that the firm now only has one Public Issuer and one Broker Dealer with PCAOB Auditing requirements at the time of this response letter.

Michael F. Albanese, CPA
18 Lisa Court Parsippany, NJ 07054
Phone: 973-887-8124 - Fax 973-887-9103
E-mail: mike@costreductionsolutions.com

3. Monitoring and Addressing Identified Weaknesses

The Firm as a result of both 2009 & during the 2012 inspection continues to make steps to correct the aforementioned issues by addressing them in its Quality Control Policy. These policies ensure the proper actions associated to these audits are performed.

In addition, the firm understands that according to PCAOB Release 104-2006-077 because of the Firms size, the Board's quality control assessments may choose represent less of a review of formal policies and procedures and result more from inferences drawn from deficiencies in the performance of audits.

Conclusion:

As a conclusion to my response I am committed to utilizing this review process to apply, enhance, upgrade and perform to a maximum the proper procedures, where applicable. I am also committed to working with the PCAOB staff to improve my system of quality control.

As per the cover page of this response letter, it is important to note that two (2) of the three (3) issuers (issuers B & C) are no longer my audit clients.

The auditor has embraced and welcomed the inspection process of both the PCAOB inspection team and most recently passed the AICPA Peer Review process.

I will continue to improve my policy and procedures in hopes that these improvements, combined with the fact that my audit issuer clients are now only limited to 2 (two) small cap issuers and a small "broker dealer" non-issuer that qualifies for PCAOB inspection and the outcome will satisfy the PCAOB and auditor standards that we are responsible for.

Thank you for your diligent inspection and consideration in this matter.

Respectfully submitted,



Michael F. Albanese, CPA