

September 28, 2018



Report on the Firm's System of Quality Control

Gibson & Company, Inc.
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Gibson & Company, Inc. (the firm) in effect for the year ended March 31, 2018. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included an engagement performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act and audits of employee benefit plans.



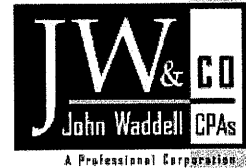
As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

1. The firm's quality control policies and procedures require the firm to document its independence considerations on engagements, and the firm has appropriate practice aides to assist the firm in doing so. However, our review noted that the firm had an insufficient understanding of the independence requirements under *Government Auditing Standards*. As a result, the firm did not apply the conceptual framework to identify threats to independence on engagements subject to *Government Auditing Standards*, and the familiarity threat was not considered on long-term engagements. In addition, the firm performed multiple non-attest services, including preparation of the financial statements, and the auditor relied on safeguards applied solely by the audited entity. In our opinion, this resulted in an audit subject to *Government Auditing Standards* and the Single Audit Act that did not conform to professional standards in all material respects.
2. The firm's quality control policies and procedures addressing engagement documentation were not sufficiently designed and complied with to provide reasonable assurance that audit engagements are performed and documented in accordance with professional standards. As a result, we noted that the documentation of compliance tests and tests of controls over compliance, the impact to risk assessment and consideration of corrective actions of previously identified control deficiencies and disallowed costs, and the impact of exceptions in the internal control tests on compliance and controls over compliance were not sufficient to enable an experienced auditor to understand the specific items tested and disposition of matters noted. In our opinion, this contributed to a single audit of a nonprofit entity subject to *Government Auditing Standards* not conforming to professional standards in all material respects. In addition, other documentation matters were noted on employee benefit plan audit engagements that were not considered material departures from professional standards.
3. While the firm has a written quality control document, it has not been updated for several years and thus does not contain all required elements, including required policies regarding communication of independence breaches, policies designed to maintain confidentiality and safe custody of engagement documentation, and retention policies. The document confuses peer review with engagement quality control review, thus the firm's policies regarding the criteria for EQCR are not in the written document though they were followed.

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4. The firm's quality control procedures require monitoring in accordance with the quality control standards. The firm generally has its monitoring performed by an outside party. Our review revealed that the monitoring for the year previous to the peer review year was not performed in a timely manner. A similar matter was noted in the firm's prior review. In addition, there was no documentation that the firm followed up on the items noted during the monitoring or made changes to its policies and procedures as a result of the monitoring. The monitoring in the year prior to the peer review noted items similar to the issues described above in deficiencies 1 and 2 that might have been prevented with timely changes to the quality control system in response to the monitoring findings.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of Gibson & Company, Inc. in effect for the year ended March 31, 2018, 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 deficiencies*, or *fail*. Gibson & Company, Inc. has received a peer review rating of *pass with deficiencies*.

John Waddell & Co., CPAs