

# **PROLI FOOTWEAR, INC.**

## **A Team-Based Audit Simulation**

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## **Prolif Footwear, Inc.**

### **A Team-Based Audit Simulation**

The Bedford Committee (AAA 1986), the Accounting Education Change Commission (AECC 1990) along with the Big 8 in its “White Paper” (1989) all agree on several points, the most important is that accounting educators need to change the way that classroom time is used. All three reports urge faculty to involve students in the learning process, to provide opportunities for students to learn by doing and to assist students in attaining communication and interpersonal skills. The Bedford Committee’s (1986) report urges faculty to “design educational experiences for students that require them to be active, independent learners and problem solvers rather than passive recipients of information” (187). The AECC’s 1990 position paper states that “learning by doing should be emphasized. Working in groups should be encouraged” (309). The AECC’s report further asserts that in order to be successful professionals, “accounting graduates must possess communications skills, intellectual skills, and interpersonal skills”(307). In addition the Big 8 in its white paper (1989) argues that the “classroom experience is diminished by the distance between pedagogical content and practice reality.”

In order to address these criticisms and calls for action, we have created a team-based audit simulation for use in the introductory audit course. This simulation meets Heyman’s (1975) definition of an “activity whose rules tend to generate in the total behavior of the participants a model of some real world process” (11), in this case the audit. By structuring the simulation for teams, it allows the students to practice and fine-tune their communication skills first in the team meetings and then in the presentation of their audit findings to the class.

The simulation is designed for use throughout the semester as a capstone learning experience for the student. It should be started at approximately week 4 of the typical semester after covering the introductory topics of audit evidence, audit planning, design of audit programs, workpaper techniques and internal control. The different assignments are used to enhance the information in the textbook because the students actually practice what they have read in the text. They perform the specific audit procedures and learn what the specific audit evidence tells them. In addition the students must use and apply knowledge from previous accounting courses (intermediate, advanced, tax) when auditing the sections assigned. The simulation allows the instructor to cover more audit content areas than the typical audit course because the students learn from themselves, their teammates and the instructor. The final assignment, "Completing the audit," should coincide with the end of the semester.

### **Administration of the Simulation**

Students are divided into teams of three to five members. Each week a different team presents the solution to the current assignment. It is then critiqued by the class and instructor. One of the techniques used to increase constructive competitiveness is to exempt from the final the one group with the highest final score on the simulation. This also prevents the students from divulging confidential client information to other teams (i.e., sharing solutions).

This simulation is divided into nine assignments, which are completed over the course of the semester with student audit teams handing in assignments weekly for grading. The first assignment concentrates on permanent file material and company history in order to give an overview of the economics of Proli Footwear. The second assignment focuses on audit planning and internal control. The students are given selected ratios for two prior years; they calculate the

current year ratios and obtain industry ratios to complete a brief analytic review. The students are also given detailed descriptions of each accounting system so that they can identify material control weaknesses. This information is then used to evaluate the risk of material errors and irregularities. They then evaluate audit risk and determine the planning materiality thresholds. Assignments 3 through 8 relate to the application of audit procedures to specific cycles and areas of the balance sheet and income statement. The audit programs contained in each of the assignments contain selected procedures that apply to the particular assignment. Assignment 9 completes the audit and requires the organization of the working papers for partner review. This simulation should normally be started during the third or fourth week of the semester and completed approximately a week before the semester ends. Appendix A contains excerpts from each assignment of the audit simulation.

All students in the team receive the same grade based on the group submission each week. At the completion of project, each student prepares a report card on the other members of the group. Based on a review of these, the instructor may choose to modify a student's grade downward if participation is inadequate.

### **Student Presentations**

The student presentations consist of two parts: a meeting with the client and the actual presentation of the solution to the specific assignment. The grade for both presentations does not count in the final grade assigned to the practice set because the teams presenting later in the semester are able to learn from the first teams' mistakes. The grades for the presentations are included in the other homework portion of the course grade.

The meeting with the client provides the audit team with the opportunity to obtain additional information and to clarify information contained in the client prepared schedules. The instructor may elect to skip this presentation and instead provide the student with the additional information. The benefit of this meeting is that it gives the students a chance to practice one of the professional activities that is common in the audit. The audit team must tell the instructor with whom they are meeting in the client organization. The instructor will then determine which questions and to what extent the specific client person can answer the questions asked by the audit team. The audit team may schedule meetings with more than one person in the Company. The audit team should be able to obtain the additional information needed in less than one-half hour.

The audit team's findings are then given in a half hour professional presentation using appropriate audio and visual aids. The audit team is instructed to be prepared to answer any questions from the class and the instructor regarding their presentation. The teams discuss the following items:

1. Adjusting entries and an explanation of the need for the entries;
1. Internal control issues encountered during the audit; and
2. Comments to be included in the management letter, including a discussion addressing the benefit(s) to be obtained by the client's acceptance of the recommendations.

### **Brief Company History**

Proli ("Proli") Footwear, Inc. was incorporated in Connecticut in 1941 and is primarily a family-owned business. The Company is planning to go public within the next five years and has hired an independent accounting firm, West & Fair, LLC to assist in preparing the company

and its financial employees for this undertaking. In preparation for the 1998 audit, West & Fair auditors participated in the 1997 physical inventory count.

The Company processes daily transactions at all the locations, but all major accounting functions are handled centrally at the Proli, CT headquarters. Therefore, all cash disbursement, cash receipts, billing, etc functions are processed in Proli, CT.

Proli designs, develops, engineers, manufactures, markets, and distributes branded premium quality protective footwear and clothing for the sporting, outdoor, and occupational markets. The company markets its products primarily through an employee sales force and also through selected distributors. It also manufactures private label footwear, footwear components and weather-protective clothing. The Company's primary SIC code is 3140. In order to continue growing, the Company has acquired companies selling competitive and complementary products. The Company owns U.S. federal registrations for the following marks: Proli®, Dapper®, Leatherworker®, Litetech®, Mudhoppers®, Sportech®, and Woodland®.

The Company manufactures its footwear in the United States because the Company believes it is able to maintain better control over quality, inventory production scheduling and inventory levels. "Made in the USA" is prominently displayed in the Company's advertising, promotion and marketing materials. The Company's manufacturing facilities are located in Proli, CT, Waterbury, CT and Walton, FL. The Company leases 54% of its manufacturing, warehousing and office spaces and owns the rest.

The Company does not have any foreign operations. International sales accounted for less than 5% of the Company's net sales in 1998.

The Company has six officers: Samuel Sole, Jr. (Chairman of the Board), Goodwin Buye (Vice President – Purchasing), Josephine Chopines (President and CEO), Harold F. Heele (Vice

President - Finance and Administration and CFO), Samuel Sole, III (Vice President - Product Development), and Verna F. Vamp (Vice President – Information Technology , a newcomer to the Company).

## **The Experiment**

This simulation is being tested at the two author's institutions. Both institutions currently offer only one audit course. The same syllabus, textbook and assignments are used in all classes. Only results for the first institution are presented because the simulation has not been completed at the second institution.

As part of this project, we measure student attitudes and learning with regard to the simulation experience and whether this simulation increases their audit knowledge. Before starting the simulation, students answer a short survey. The questions include demographic information, questions about prior experiences with practice sets and team assignments, expectations about the learning experience related to the use of this simulation and whether they think the simulation will typify a real audit. Students' perceptions are elicited in the form of a 5 point Likert-type scale (5 = outstanding experience and 1 = poor experience). At the end of the semester the students again answer a short survey. This final survey and the survey at the start of the simulation are compared to determine whether there have been any changes in attitudes. See Appendices B and C for these surveys. Table 2 contains the average response to each of the questions asked before they start the simulation and Table 3 contains the average response to each of the questions asked after they complete the simulation.

### *Alpha-One Analysis*

This phase of testing included the preliminary development and classroom testing stage. The simulation was used in the senior and graduate level introductory audit course at one author's institution this past fall. The senior introductory audit course consisted of 36 students while the graduate level course had 13 students. Table 1 provides demographic information. The majority of the students have used practice sets before in other accounting and business classes. All but one student in each class had participated in team projects in other classes.

Both classes rated their prior experiences using practice sets and doing team work as better than average (greater than 3.0). Both classes had rather high expectations that the practice set would simulate a real-world audit experience (greater than 3.5), however their final evaluation reveals that the simulation did not live up to their expectations (undergraduate ratings fell from 4.1 to 3.6 and graduate ratings decreased from 3.6 to 3.3). This needs to be interpreted carefully because only 2 graduate students and no undergraduate students worked in public accounting firms and their survey answers indicate that the 2 graduate students worked in the tax department. It is also our opinion that this can be attributed to the simulation being a work in process during the semester. Students identified several data problems that were eventually resolved but they did require extra work for the students and probably contributed to these low rating.

In examining the perceptions of the team experience, both groups rated this team experience better than their prior experiences. The undergraduates rated their prior experience at 3.3 while the graduates rated it 3.1. There were two questions in the final survey relating to the team experience: the personal learning aspect and the successful team aspect. The undergraduates assigned an average of 3.6 to both questions while the graduates rated the personal learning experience as 3.4 and the team experience as 3.8.

All students take a comprehensive 25 question multiple choice test of basic audit knowledge before they start the simulation. The topics include the introductory materials already covered in classroom lectures along with topics to be covered as the audit work progresses. At the end of the semester, they take the same quiz to ascertain whether the use of the simulation has increased their audit knowledge. Both these quizzes are specifically excluded from the final grade. See Table 4 for the average grade at the beginning and the end of the simulation. At both the graduate and undergraduate level, the grades increased more than 40%. Statistical analyses have not been performed yet. More detailed analyses will be performed when the current test of the simulation is completed.

Student comments regarding this phase of the simulation included the following:

1. Non-traditional students had trouble meeting in teams for the hours necessary to successfully complete the simulation
2. Errors required to address clerical activities hindered progress on simulation
3. Have correct results available upon submission of each assignment for more immediate feedback
4. The auditors are currently at my company doing an audit and this year I really understand what they are asking for and why
5. Have some client documentation on file in library (e.g., sample sales invoices, payable vouchers, etc)

#### *Alpha-Two Analysis*

The simulation is presently being alpha-tested in the senior audit section at the second author's institution. The class consists of 34 traditional undergraduate senior accounting majors. More than 30 of these students had internships at Big 5 firms over the summer. This phase requires the teams to prepare time sheets for each assignment. This will be used to determine if any assignments need to have the work decreased (or increased).

During the third week of the simulation, the students were asked to provide written comments on the simulation. Their comments included the following:

1. The simulation is very time consuming
2. The simulation is extremely comprehensive; we should all be exempted from the final since the simulation covers all the audit course topics
3. Give us some guidance at the start of each section; perhaps the type of information that an audit senior would give

### *Beta Analysis*

Beta-testing will occur in the fall 2000 semester in four classes at the two institutions (three day and one evening audit classes). Only the results from this pool of students will be used in the final analyses. We are excluding the current year classes because we don't want the clerical problems with the simulation to inappropriately bias the results of our tests.

### **Conclusion**

Use of the simulation was a learning experience for both the students and authors. Based on preliminary evidence, the simulation has value to students and has helped to increase their audit knowledge.

### **Appendices**

Appendix A contains excerpts of the practice set. Key working papers from each assignment are included so that the reader will see the types of exercises in which the students engage. Appendices B and C, respectively contain the surveys administered before the simulation starts and after the simulation is completed.

Table 1  
Demographic Information for University I

	<b>Undergraduate Students</b>	<b>Graduate Students</b>
N =	35	13
<b>GENDER</b>		
Male	8	8
Female	27	5
<b>AGE</b>		
<b>CLASS</b>		
Senior	31	
Junior	4	
Have you ever used a practice set before?		
Yes	23	7
No	12	6
Have you ever worked on a team homework assignment?		
Yes	34	12
No	1	1

Note: See Appendix B for the survey.

TABLE 2  
STUDENT RESPONSES\* TO SURVEY AT THE START OF THE SIMULATION

	Undergraduate Students At Start of Simulation	Graduate Students At Start Of Simulation
N =	35	13
<b>Question 7b:</b> How would you rate your [prior] experience using a practice set	3.4	4.1
<b>Question 8:</b> What do you think the use of a practice set will do for your knowledge of auditing	4.3	4.1
<b>Question 9e:</b> Do you think that a practice set will simulate an audit experience	4.1	3.6
<b>Question 10a:</b> How would you rate your [prior] experience [working on a team assignment]	3.3	3.1

Responses are based on a 5 point Likert-type scale (1=poor experience and 5=outstanding experience).

Note: See Appendix B for the survey.

TABLE 3  
STUDENT RESPONSES\* TO SURVEY AT THE END OF THE SIMULATION

	Undergraduate Students At End of Simulation	Graduate Students At End Of Simulation
N =	35	13
<b>Question 3:</b> How would you rate your personal learning experience using this audit simulation	3.5	3.4
<b>Question 4:</b> Do you think that the practice set simulated an audit experience	3.6	3.3
<b>Question 5:</b> How would you rate the group experience in terms of your individual learning	3.6	3.4
<b>Question 6:</b> How would you rate your group experience in terms of a successful team working experience	3.6	3.8

\*Responses are based on a 5 point Likert-type scale (1=poor experience and 5=excellent experience).

Note: See Appendix C for the survey.

Table 4  
Student Quiz Grades\*

	<b>Undergraduate Students</b>	<b>Graduate Students</b>
Quiz grade before starting simulation	36.7% N = 33	24.4% N = 10
Quiz grade after finishing simulation	52.0% N = 33	57.6% N = 10

\*Grades are reported only for the students who took both the first and second quiz.

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**APPENDIX A: EXCERPTS FROM THE AUDIT SIMULATION**  
**PROLI FOOTWEAR, INC.: A TEAM-BASED AUDIT SIMULATION**

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## INTRODUCTION

### Overview

Proli Footwear is an audit practice case designed to involve the student in a simulated audit engagement that combines audit theory and practice as well as integrating the application of generally accepted accounting principles. It should be considered part of the accounting major's capstone experience.

This simulation is divided into nine assignments, which are best done over the course of the semester with student audit teams handing in assignments weekly for grading. This case should normally be started during the third or fourth week of the semester and completed approximately a week before the semester ends.

### The Auditors: West & Fair, CPAs, LLC

West & Fair was founded in 1975 when sole practitioner Richard West merged with sole practitioner Patricia Fair and founded the firm of West & Fair, CPAs. The firm has grown from two partners and three staff employees to its current size of 7 partners and 52 staff employees. The firm is based at 7555 Working Street in Stamford, Connecticut. The firm enjoys a diverse client base primarily located in New York, New Jersey, Connecticut and the other New England States.

This is the first year that West & Fair will audit Proli Footwear. Proli is anticipating going public within five years and has hired West & Fair to assist in this process. Proli chose West & Fair to be proactive in making recommendations for improvements to Proli's operations and controls. West & Fair was hired by Proli in November 1997 to perform the 1998 audit. West & Fair observed the counting of the physical inventory in 1997 but did not perform any other audit procedures.

### Organizing and Starting the Audit

The class can be divided into audit teams of 3-5 students depending on the size of the class or the case can be done on an individual basis. However, our experience has shown that the team process provides the greatest learning benefits to the student.

The sequence of the assignments generally follows a cycle approach with a balance sheet format for some sections. However, these assignments will not necessarily follow the sequence of the textbook you are using. Therefore, you may be performing audit procedures before reading about them in the textbook. The steps in the audit program will assist you in moving through the assignment. You may choose to read the appropriate chapter in the textbook prior to doing the assignment and thereby use the text as a reference manual.

The first assignment concentrates on permanent file material and company history in order to give you an overview of the economics of Proli Footwear. The second assignment focuses on audit planning and internal control. Assignments 3 through 8 relate to the application of audit procedures to specific areas of the balance sheet and income statement. Assignment 9 completes the audit and requires the organization of the working papers for partner review.

### Working Papers

The auditor, through the use of working papers, documents the collection of audit evidence. These working papers have two primary functions:

1. to provide a record that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and supports the auditor's opinion and
2. to assist the auditors in planning and supervising the audit.

There are normally two categories of working papers: permanent and current. The permanent working papers contain information that is of continuing relevance to the auditors in conducting recurring engagements for the client. Current working papers contain information relevant to the particular year being audited.

The format of the working papers normally includes the following components:

1. **Headings:** include the client name, financial statement date, and purpose of the schedule.

2. **Indices:** include the assignment of a code to each working paper group to permit control over the working papers during the audit and to provide a consistent basis for arranging the papers. West & Fair uses the following codes:
  - I = Administrative File
  - II = Planning File
  - PF = Permanent File
  - A = Cash
  - B = Accounts Receivable
  - C = Inventory
  - D = Property Plant & Equipment
  - E = Current Liabilities
  - F = Non Current Liabilities
  - G = Equity
3. **Tickmarks:** are symbols that further explain the work done by the auditors.
4. **Sign-offs:** indicate who prepared and who reviewed the working papers.

### Tickmark Conventions

Tickmarks are symbols which indicate the specific auditing procedures that have been performed. Most CPA firms use standardized tickmarks that are understood by all members of the audit team. The systematic use of tickmarks leaves a trail of the auditor's work, which enables a supervisor to review staff performance on each aspect of the audit. West & Fair, CPAs has adopted the following common tickmarks for use in each of its audits:

- F = Footed schedule
- CF = Crossfooted totals
- TB = Amount agrees to Trial Balance
- E = Examined supporting document
- T = Traced the amount from document to a specified journal or schedule
- V = Vouched payment from records/schedules to documents
- R = Verify calculations by recomputation
- C = Confirmed per third party confirmation
- √ = To be assigned
- ^ = To be assigned

Other tickmarks can be created and added to the list as needed.

### Student Analyses and Presentations:

The student presentations consist of two parts: a meeting with the client and the actual presentation of the solution to the specific assignment.

The meeting with the client provides the audit with the opportunity to obtain additional information and to clarify information contained in the client prepared schedules. This meeting is one of the professional activities that is common in the audit and should be treated as the professional meeting that it represents. The audit team must tell the instructor with whom they are meeting in the client organization. The instructor will then determine which questions and to what extent the specific client person can answer the questions asked by the audit team. The audit team may schedule meetings with more than one person in the Company. The audit team should be able to obtain the addition information needed in one-half hour.

The audit team's findings should given in a half hour professional presentation using appropriate audio and visual aids. The audit team should be prepared to answer any questions from the class and the instructor regarding the items discussed. The following should be discussed by the team:

3. Adjusting entries: the actual entries and a discussion explaining the need for the entries;
4. Any additional internal control issues encountered during the audit; and
5. Comments to be included in the management letter: the team should specifically address the benefit(s) to be obtained by the client's acceptance of the recommendations.

## Grading Guidelines

There are nine assignments in this audit simulation. Assignment one has only true-false questions to complete and therefore grading of that assignment is based on the number of answers that are correct. Assignments 2-9 require a more detailed grading model and the instructor will grade the group assignments using the following general guidelines:

1. Working papers are properly organized and referenced and reflect a quality effort 10
2. All steps in the audit program have been initialed and dated 10
3. The audit team has performed the following work procedures: 20
  - Compared the balance per trial balance to the balances per lead schedule and supporting schedules;
  - Footed and crossfooted all data columns;
  - Checked all PBC schedules for clerical accuracy;
  - Reconciled the balance per trial balance to the final audited balance on all schedules.
4. Tickmarks are appropriately placed and described in the working papers 10
5. Recommendations for improvements to the internal control system and operations have been made. 10
6. Adjusting Journal Entries (AJEs) 40
  - AJEs have been correctly determined and contain complete explanations;
  - AJEs are displayed on the appropriate working paper schedule and lead schedule;
  - AJEs are sequentially numbered.

## Company History and Operational Information

Proli (“Proli”) Footwear, Inc. was incorporated in Connecticut in 1941 and is primarily a family-owned business. The Company is planning to go public within the next five years and has hired an independent accounting firm, West & Fair, LLC to assist in preparing the company and its financial employees for this undertaking.

Proli designs, develops, engineers, manufactures, markets, and distributes branded premium quality protective footwear and clothing for the sporting, outdoor, and occupational markets. Proli products feature innovative yet classic design, functional performance and durability, and are relatively unaffected by changing fashion designs. The company believes that this combination distinguishes its brands and makes them an outstanding value. The company markets its products primarily through an employee sales force and also through selected distributors. It also manufactures private label footwear, footwear components and weather-protective clothing. The Company’s primary SIC code is 3140.

Historically, Proli has produced premium sporting and recreational leather boots. In May 1994, the Company acquired the business of Dapper Manufacturing Co., a producer of premium quality leather footwear for the sporting market, which is sold primarily under the Dapper® brand. In April 1996, the Company purchased the assets of Mudhoppers Inc. to broaden the base of business in the weather-protective clothing area. Mudhoppers designs and markets rainwear and other protective clothing which are sold primarily under the Mudhoppers® brand. Operations of Mudhoppers has been included in the Company's financial statements since the date of acquisition. In July 1996, the Company acquired the operating assets and trademarks of Softshoe Inc. Softshoe historically sold footwear primarily of rubber or vinyl, some of which includes leather or fabric uppers. In July 1997, the Company acquired all of the outstanding shares of Woodland Corporation, the company that operated under the Woodland® trade name. Woodland is a designer, manufacturer and marketer of branded leather footwear for the outdoor market.

## Products

The Company's brand product offering includes these major categories:

### *Leather Footwear*

The Company’s main product line is leather footwear. This is the original product line of the company and has provided the largest revenue stream over the years. The Company markets leather footwear under four brand names, Leatherworker®, Proli®, Woodland®, and Dapper®. The Proli® products consist of premium quality sporting, occupational and recreational boots available in numerous styles. The Leatherworker® brand markets a broad line of utility, steel toe and sporting boots and recreational hikers. The Woodland® and Dapper® consist of a focused line of indoor and outdoor work boots appealing to consumers who desire durability and comfort.

### *Rubber/Vinyl Footwear*

The Company's rubber/vinyl footwear line is an extensive categories with product offerings covering the sporting, recreational and occupational markets. The Company markets rubber/vinyl footwear mainly under the Sportech® and Litetech® brands. The product line ranges from low cost vinyl-molded products to high performance, hand-crafted rubber products directed to specific occupational market niches.

### *Rainwear and Protective Clothing*

Rainwear and footwear are complementary products in many occupational and outdoor environments. Mudhoppers® offers a broad line of quality rainwear and protective clothing appealing to those workers in utility, construction, law enforcement and other groups traditionally purchasing through industrial distributors. The Mudhoppers® brand is recognized in the industry for its durability, quality and heritage. In recent years, the brand name has been extended to include other protective garments such as aprons and extreme cold weather clothing.

### **Manufacturing**

The Company manufactures its footwear in the United States because the Company believes it is able to maintain better control over quality, inventory production scheduling and inventory levels. "Made in the USA" is prominently displayed in the Company's advertising, promotion and marketing materials. The Company's manufacturing facilities are located in Proli, CT, Waterbury, CT and Walton, FL. A majority of its rubber, leather and vinyl products are produced in these three facilities. The Company's Proli, CT facility manufactures a line of waders using a heat-sealing process. Leather tops and liners for the Sportech® and Litetech® brands and some leather boots are produced at the Company's Walton, FL facility.

### **Executive Officers**

The following table sets forth information, as of December 31, 1998, regarding the executive officers of the Company.

Name	Age	Position
Samuel Sole, Jr.	75	Chairman of the Board and Director
Goodwin Buye	47	Vice President - Purchasing
Josephine Chopines	52	President, Chief Executive Officer and Director
Harold F. Heele 49		Vice President - Finance and Administration and Chief Financial Officer
Samuel Sole, III	53	Vice President - Product Development
Verna F. Vamp	44	Vice President – Information Technology

### **Legal Proceedings**

The Company is involved in two lawsuits.

1. In a federal lawsuit, the Company has been cited as a potentially responsible party in the dumping of toxic waste into the Housatonic River. The government is asserting fines and clean-up costs of \$1.3 million.
2. On June 25, 1998, a worker at a construction site in Podunk, IL was injured when he tripped and fell at the site. The worker is asserting that the heel of his Leatherman® shoe was defective and broke. This worker has sustained disabling injuries and is unable to return to work. Economic damages in the amount of \$1.8 million are being sought.

From time to time, the Company, in the normal course of business, is also involved in various other claims and legal actions arising out of its operations. The Company does not believe that the ultimate disposition of an currently pending claims or actions would have a material adverse effect on the Company or its financial condition.

Proli Footwear				
Assessment of Risk of Material Errors and Irregularities Worksheet				
December 31, 1998				
FACTOR	LOWER RISK	HIGHER RISK	AUDITOR COMMENT	AUDITOR RISK ASSESSMENT (low, moderate, high)
<b>Management Characteristics:</b>				
1. Management turnover	Low	High	3 key middle managers hired by competition in 1998	
2. Emphasis on meeting earnings projections	Little	Very high	In process of preparing budget and profit planning systems	
3. Reputation in business community	Honest	Improper conduct	Active and well respected In CT	
4. Management attitude on financial reporting	Complies with GAAP	Looks for loopholes	Just hired new VP-finance Prior VP was not a CPA	
5. Management operating style	Effective oversight group	Domination by single person	Strong family influence	
<b>Operating Characteristics:</b>				
6. Status of industry	Healthy, OR Mixed	OR Distressed		
7. Profitability relative to the industry	Adequate	Inadequate		
8. Sensitivity of operating results to economy	Low	Very sensitive	Moderate	
9. Organizational structure	Centralized	Decentralized with inadequate monitoring	Centralized	
10. Rate of change in industry	Slow	Rapid	Customer & marketing driven	
11. Indications of going concern problems	None	Substantial doubt		
<b>Engagement Characteristics:</b>				
12. Misstatements in prior audits	Few	Many	No prior audits	
13. Difficult to audit transactions	Few	Many	Leases, inventory	
14. Relationship with client	Repeat engagement	First audit	First audit	
15. Related party transactions	None	Any	Unknown-first audit	
16. Difficult accounting issues	Few	Many	Unknown-first audit	
<b>OVERALL RISK ASSESSMENT:</b>				

Proli Footwear					
Analysis of Audit Risk Worksheet					
December 31, 1998					
Audit Section	Audit Risk	Inherent Risk	Control Risk*	Targeted Detection Risk	Indicate the Level of Audit Evidence Required (Low, Moderate, High)
Cash	10%	20%	20%		
Acc Receivable & Sales	1%	50%	20%		
Inventory & Purchases	1%	50%	50%		
Property, Plant & Equipment	5%	20%	20%		
Current Liabilities	1%	50%	80%		
Non Current Liabilities and Equity	1%	35%	50%		
In which audit section does the <b>greatest</b> amount of audit resources need to be allocated?					
In which audit section does the <b>least</b> amount of audit resources need to be allocated?					
* Control risk is based on the preliminary assessment of internal control					
NOTE: DR = AR/(IR * CR)					

**AUDIT PROGRAM – CASH**

Procedures

Initials Date W/P Ref

**General**

1. Foot and crossfoot lead schedule and all other PBC schedules, e.g., bank reconciliation.
2. Compare balances on other PBC schedules with balances on lead schedules.
3. Compare balances on lead schedules with account balances in the trial balance.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Analytical Review Procedures**

1. Review entries to general ledger cash accounts and investigate unusual (including General Journal) entries to Petty Cash, Cash in Bank-Operating, and Cash in Bank-Payroll accounts.
2. Review monthly bank reconciliations of Cash in Bank-Operating and Cash in Bank-Payroll accounts.

RP \_\_\_\_\_  
RP \_\_\_\_\_

**Other Substantive Procedures (Year End)**

Petty Cash

1. Count petty cash and have petty cash custodian sign workpapers at conclusion of count.
2. Complete petty cash workpaper and prepare adjusting entry, if necessary.

RP \_\_\_\_\_

Cash in Bank-Operating and Payroll

3. Obtain bank confirmations at year-end and cutoff bank statements as of January 8, 1999.
4. Compare items on bank cutoff statements to cash receipts and the check register, noting differences.
5. Complete schedule of interbank transfers for December. Verify proper recording of interbank transfers.

RP \_\_\_\_\_

Cash in Bank-Operating

6. Verify correctness of bank reconciliation by:
  - a. Tracing the deposit(s) to the cash receipts journal and the bank cutoff statement.
  - b. Comparing outstanding checks with entries in the check register and with those returned by the bank with the cutoff statement.
  - c. Preparing adjusting entry, if necessary.
7. Verify clerical accuracy of selected payrolls:
  - a. Several during the year
  - b. December 31, 1998

RP \_\_\_\_\_  
RP \_\_\_\_\_

8. Verify accuracy of payroll deductions with personnel records.
9. Trace net payroll to check register:
  - a. Several during the year
  - b. December 31, 1998

RP \_\_\_\_\_  
RP \_\_\_\_\_

10. Verify correctness of bank reconciliation by:
  - a. Tracing deposits in transit, if any, to the check register and to the bank cutoff statement
  - b. Comparing December 31 net payroll to charges on the payroll bank account cut off statement to determine that all payroll checks cleared the bank. (Canceled payroll checks not included with bank cutoff statement.)
  - c. Preparing adjusting entry, if necessary.

RP \_\_\_\_\_

Cash-All accounts

11. Review for proper financial statement disclosure and classification, noting restrictions on cash, if any.

RP \_\_\_\_\_

Proli Footwear				
Bank Reconciliation - Operating Account				
December 31, 1998				
Bank balance – December 31, 1998				\$487,624
Deposits in transit: 12/31/98				<u>85,000</u>
Subtotal				572,624
Outstanding checks:	Check #	Date	Amount	
ABC Leather	2225	2/20/97	15,074	
GGG Corp.	2742	12/23/97	975	
CT Telephone Co.	3706	12/15/98	2,750	
Scuff Leather	3713	12/23/98	132,575	
Plum Computer	3714	12/23/98	23,500	
Bug Computers	3715	12/23/98	128,750	
Red Cross/Shield	3717	12/28/98	12,700	
City of Proli	3718	12/28/98	<u>12,500</u>	(328,824)
Other adjustment:				
Allen Shoe Store receipt of 12/31/98 recorded incorrectly in cash receipts journal. Actual deposit to bank account was \$5,926.				<u>3,600</u>
Balance per trial balance				247,400
Audit adjustments:				
Balance per audit				

Proli Footwear			
Exerpts from Cash Receipts Journal			
Date	Customer	Amount	Total
12/28/98	AAA Shoes	64,325	
	Barb's Boots	51,866	
	Cash Sales	1,895	118,086
12/29/98	Sam's Sabot Sellers	345,000	
	Mary's Mocs	125,789	470,789
12/31/98	Allen Shoe Store	9,526	
	Happy Feet	13,566	
	Conn Shoe Seller	17,134	
	Walking Feet	15,874	
	Leather Scrap Inc-cash sale *	28,900	85,000
1/4/99	Harmony Shoe Co	301,575	
	Shoe Mart	61,600	
	Proli Shoe Outlet	45,000	408,175
1/5/99	Alpha Best Shoes	128,900	
	Well Heeled Footwear	186,863	315,763
1/6/99	Ollie's Oxfords	51,500	
	Boots by Bob	59,095	110,595
1/7/99	Easy Comfort Shoes	28,900	
	Sal's Soles	166,750	
	Footcare Inc.	11,500	
	Sizes for All	10,505	217,655
1/8/99	Fashion Hound	104,411	
	Conn Shoe Seller	2,584	
	Betty's Booties	11,874	118,869
* Sale occurred and check received on 1/4/99 RP			

Proli Footwear			
Management Letter Comments – Cash			
December 31, 1998			
Comment Number	Workpaper Reference	Auditor Observation/Recommendation	Benefit to Client

Proli Footwear						
Lead Schedule - Accounts Receivable and Sales						
December 31, 1998						
Account #	Account Title	Balance per T/B	----- Adjustments -----			Balance per Audit
			Debit		Credit	
1200	Accounts Receivable	\$ 26,566,100				
1250	Allowance for Doubtful Accounts	<u>-1,100,000</u>				
	Net Accounts Receivable	<u>\$ 25,466,100</u>				
8160	Bad Debt Expense	<u>\$ 880,000</u>				
5000	Sales	\$ 148,235,225				
5100	Sales Discounts	-372,191				
5200	Sales Returns & Allowances	<u>-1,117,535</u>				
	Net Sales	<u>\$ 146,475,499</u>				

Prolif Footwear												
Sales Cut-off Analysis												
December 31, 1998												
Transaction	Customer	Acct #	Invoice #	Cash	Accts Rec	Delivery Exp	Sales	Sales R&A	Product	Auditor Comments	Auditor Action	
Date				#1010	#1200	#7150	#5000	#5200	Cost			
12/29/98	Hot Harvey Puppies	27137	√ 8518		12,278	504	11,774		8,850	shipped FOB shipper 12/29/98		
	Athlete's Shoes	27100	√ 8519		85,190	877	84,313		63,299	shipped FOB shipper 12/29/98		
12/30/98	Pat's Poulaines	27158	√ 8520		25,106	148	24,958		17,177	shipped FOB shipper 12/30/98		
	Dickie's Dogs	27121	√ 8521		-8,076	-101		-7,975	5,781			
12/31/98	Boots by Bob	27119	√ 8522		17,856	389	17,467		12,576	shipped FOB customer's San Diego warehouse 12/31/98		
	Miracle Heel	27153	√ 8523		38,901	419	38,482		28,861	shipped FOB shipper 12/31/98		
	Leather Scrap Inc		√ 8524	28,900			28,900			See A-6		
<b>Summary</b>												
1/4/99	Terra Shoes	27178	8525		43,910	800	43,110		33,625	shipped FOB shipper 1/4/99		
	Biker's Best	27117	√ 8526		54,901	866	54,035		42,650	Shipped FOB shipper on 12/30/98		
1/5/99	Ollie's Oxfords	27156	√ 8527		71,370	1,400	69,970		51,070	shipped FOB shipper 1/5/99		
	Easy Comfort Shoes	27129	√ 8528		55,555	1,035	54,520		40,350	Shipped FOB shipper 1/5/99		
1/6/99	Footwear Warehouse	27135	√ 8529		-22,581			-22,581	17,380	Customer returned overstock-received here on 12/29/98		
	Running Shoes, Inc.	27160	√ 8530		118,455	1,508	116,947		88,880	Shipped FOB shipper 1/6/99		
√ = vouched to invoice copy and shipping records RP												

Proli Footwear			
Count Sheet Summary – Inventory			
December 31, 1998			
Shoes Summary – All Locations			
Item	Units	Unit Cost	Total
Proli A	88,729	\$91	\$8,074,339
Proli B	68,128	72	4,905,216
Dapper	36,209	141	5,105,469
Icetemp	57,833	72	4,163,976
Leatherworker	57,991	66	3,827,406
Litetech	75,615	52	3,931,980
Mudhoppers	54,425	36	1,959,300
Sportech	37,205	64	2,381,120
Woodland	37,930	73	2,768,890
Totals			\$37,117,696
Raw Materials Summary – All Locations			
Vinyl			\$1,035,802
Rubber			1,036,200
Leather			
Cowhide		1,511,800	
Ostrich		131,750	
Pigskin		1,168,303	2,811,853
Chemicals			942,810
Thread			236,801
Adhesives			486,638
Totals			\$6,550,104
Total Inventory before audit adjustments			\$43,667,800
Audit adjustments:			
Balance per audit			\$

Proli Footwear									
Inventory Purchase Cut-Off Analysis									
December 31, 1998									
Receiving	Receiving		Raw Mats	Frt-In	AccPay	Other	Purchase		
Report #	Report Date	Received from	#1310	#6400	#3200		Jnl Date	Comments	Auditor Action
1158	12/28/98	Scuff Leather	36,665	270	36,935		12/29/98	Shipped FOB shipper on 12/20/98; Counted in physical inventory; included in AccPay (C-7)	
1159	12/28/98	Brazilian Leather Works	94,624	697	95,321		01/06/99		
1160	12/29/98	Footwear Warehouse				22,581	N/A	Customer overstock; returned to storeroom 12/30/98 (acct 1310)	
1161	12/29/98	Formal Fabrics	27,860	58	27,918		12/30/98		
1162	12/29/98	Kyoto Leather	80,431	990	81,421		12/30/98	Shipped FOB customer on 12/5/98	
1163	1/4/99	Vinyl Magic	59,399	137	59,536		01/05/99		
1164	1/4/99	Rubber Wholesalers	63,594	98	63,692		01/05/99	Shipped FOB shipper on 12/30/98	
1165	1/4/99	Adhesives Inc.	89,894	360	90,254		01/06/99		
1166	1/6/99	Kalispell Leather	59,419	180	59,599		01/06/99		
1167	1/6/99	Vinyl Magic	57,177	84	57,261		01/07/99		
1168	1/6/99	Indio's Rubber Supply	36,083	72	36,155		01/07/99		
1169	1/8/99	Thelma's Threads	48,028	264	48,292		01/09/99		
1170	1/8/99	Veritech Adhesives	56,350	76	56,426		01/09/99		
1171	1/8/99	Conn Chemical Co.	79,599	961	80,560		01/09/99		

Proli Footwear								
Depreciation and Amortization Schedule								
December 31, 1998								
				Accumulated		Accumulated		Accumulated
Description	Method Used	Year Acquired	Cost	Deprec/Amort 1996	Expense 1997	Deprec/Amort 1997	Expense 1998	Deprec/Amort 1998
<b>Land and Buildings</b>								
Buildings:								
Proli, CT building	SL 35 years	1980	\$1,087,650	\$512,749	\$31,076	\$543,825	\$31,076	\$574,901
Walton, FL building	SL 35 years	1985	631,900	207,624	18,054	225,679	18,054	243,733
Walton, FL building	SL 35 years	1995	460,290	19,727	13,151	32,878	13,151	46,029
Proli, CT building	SL 35 years	1998	<u>1,285,000</u>	<u>0</u>	<u>1,256,052</u>	<u>1,256,052</u>	<u>1,413,932</u>	<u>2,669,984</u>
Totals			<u>\$3,464,840</u>	<u>\$740,100</u>	<u>\$1,318,333</u>	<u>\$2,058,433</u>	<u>\$1,476,213</u>	<u>\$3,534,647</u>
Leased Buildings: (1)								
Lease L1	SL 20 years	1985	\$1,154,890	\$664,062	\$57,745	\$721,806	\$57,745	\$779,551
Lease L2	SL 10 years	1990	874,533	568,446	87,453	655,900	87,453	743,353
Lease L4	SL 14 years	1985	988,459	811,948	70,604	882,553	70,604	953,157
Lease L5	SL 5 years	1996	<u>434,978</u>	<u>43,498</u>	<u>43,498</u>	<u>86,996</u>	<u>86,996</u>	<u>173,991</u>
Totals			<u>\$3,452,860</u>	<u>\$2,087,954</u>	<u>\$259,300</u>	<u>\$2,347,254</u>	<u>\$302,798</u>	<u>\$2,650,052</u>
<b>Machinery and Equipment</b>								
Manufacturing Equipment:								
Various	DDB 15 years	1980	\$6,254,980	\$6,096,524	\$31,691	\$6,128,215	\$25,353	\$6,153,568
Various	DDB 15 years	1985	5,703,420	2,147,380	\$711,208	2,858,588	\$568,966	3,427,554
Various	DDB 15 years	1997	2,792,000	2,510,237	0	2,510,237	0	2,510,237
Various	DDB 15 years	1998	<u>242,300</u>	<u>602,600</u>	<u>0</u>	<u>602,600</u>	<u>0</u>	<u>602,600</u>
Totals			<u>\$14,992,700</u>	<u>\$11,356,741</u>	<u>\$742,899</u>	<u>\$12,099,640</u>	<u>\$594,319</u>	<u>\$12,693,960</u>

Proli Footwear								
Depreciation and Amortization Schedule								
December 31, 1998								
				Accumulated		Accumulated		Accumulated
	Method	Year		Deprec/Amort	Expense	Deprec/Amort	Expense	Deprec/Amort
Description	Used	Acquired	Cost	1996	1997	1997	1998	1998
<b>Warehouse Equipment:</b>								
Various	SL 15 years	1985	\$1,983,450	\$1,520,645	\$132,230	\$1,652,875	\$132,230	\$1,785,105
Various	SL 15 years	1989	1,545,000	763,958	103,000	866,958	103,000	969,958
Various	SL 15 years	1994	7,181,600	1,196,933	478,773	1,675,707	478,773	2,154,480
Various	SL 15 years	1997	585,350	0	0	0	0	0
Various	SL 15 years	1998	2,500,000	0	0	0	0	0
Totals			<u>\$13,795,400</u>	<u>\$3,481,536</u>	<u>\$714,003</u>	<u>\$4,195,540</u>	<u>\$714,003</u>	<u>\$4,909,543</u>
<b>Office Equipment:</b>								
Various	SL 10 years	1990	\$450,000	\$292,500	\$45,000	\$337,500	\$45,000	382,500
Various	SL 10 years	1991	329,850	181,418	32,985	214,403	32,985	247,388
Various	SL 10 years	1992	1,387,500	624,375	138,750	763,125	138,750	901,875
Various	SL 10 years	1994	894,300	223,575	89,430	313,005	89,430	402,435
Totals	SL 10 years	1997	<u>478,150</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
			<u>\$3,539,800</u>	<u>\$1,321,868</u>	<u>\$306,165</u>	<u>\$1,628,033</u>	<u>\$306,165</u>	<u>\$1,934,198</u>
<b>Goodwill:</b>								
Purchase of Sportech Co.	SL 40 years	1985	\$4,348,000	\$1,250,050	\$108,700	\$1,358,750	\$108,700	\$1,467,450
Purchase of Dapper Mfg. Co.	SL 40 years	1994	1,728,000	108,000	43,200	151,200	43,200	194,400
Purchase of Mudhoppers Inc.	SL 40 years	1996	3,699,500	46,244	92,488	138,731	92,488	231,219
Purchase of Softshoe, Inc.	SL 5 years	1996	5,728,800	572,880	143,220	716,100	143,220	859,320
Purchase of Woodland Corporation	SL 40 years	1997	2,893,200	0	36,165	36,165	72,330	108,495
			<u>\$18,397,500</u>	<u>\$1,977,174</u>	<u>\$423,773</u>	<u>\$2,400,946</u>	<u>\$459,938</u>	<u>\$2,860,884</u>

(1) Classification of leased property and verification of lease terms has not been performed. This work will be done in conjunction with the non-current liabilities. RP

Proli Footwear			
Repairs and Maintenance Analysis			
December 31, 1998			
Date		Ref.	Amount
01/31/98		CD	\$31,250
02/28/98		CD	31,250
03/31/98		CD	89,950
04/30/98		CD	39,250
05/31/98		CD	257,960
06/30/98		CD	158,700
07/31/98		CD	109,880
08/31/98		CD	65,400
09/30/98		CD	31,250
10/31/98		CD	48,970
11/30/98		CD	31,604
12/31/98		CD	<u>35,000</u>
Balance per trial balance			\$930,464
Audit adjustments:			
Balance per audit			
Analysis of entries:			
Janitorial service: (\$8,250/month)			\$90,750
Trash removal service: (23,000/month)			253,000
Paint president's office			8,000
Install new XX machine on production line			453,000
Repairs to roof			8,000
Repair rain damaged offices			35,800
Plumbing repairs			11,200
Computer repairs			17,014
Misc: none over \$500			<u>53,700</u>
Total			<u>\$930,464</u>

Proli Footwear	
Accrued Expenses	
December 31, 1998	
Interest on Note Payable	\$ 354,302
Interest on Term Loan	50,485
Proli Electric	23,500
Big City Office Supply	124,380
Blue Star Restaurant	1,175
Thumpem, Lumpem & Howe	130,000
Proli Accounting Temps	35,800
P&P Mobile Phone	25,600
Lucky Advertising	657,000
Proli Propane	27,600
Salaries payable	855,978
Waterbury Electric	19,850
Proli Florist	7,890
Payroll taxes-federal	87,254
Payroll taxes-state	19,720
Bonuses	500,000
Conn Telephone	29,850
Commissions payable	87,000
Income taxes payable	51,000
Workers' compensation insurance	731,500
Dividends	735,000
Other	<u>3,214,416</u>
	<u>\$ 7,769,300</u>

Prolife Footwear													
Lease Information													
December 31, 1998													
	Lease		Square	Lease	Number	Guaranteed	Monthly	Economic	Appraised		Cost per	Type of	Auditor
Location	#	Principal Uses	Feet	Term	of Years	Residual Value	Rent Payment	Life (1)	Value		Books	Lease per books	Classification
Prolife, Ct LM	L1	Principal sales, marketing and executive offices	178,000	1985-2005	20	\$150,000	\$13,378	35 years	\$1,215,000	A	\$1,154,890	Capital	
Prolife, Ct LM	L2A	Main warehouse and distribution facility	150,000	1990-2000	10	100,000	11,047	35 years	971,000	A	874,533	Capital	
Prolife, Ct LM	L2B	Main warehouse and distribution facility	200,000	year-to-year	1	N/A	14,000	35 years	N/A	A	N/A	Operating	
Walton, FL LM	L3	Warehouse and distribution facility	89,000	1985-2000	15	100,000	4,542	35 years	400,000	A	N/A	Operating	
Waterbury, CT LM	L4	Warehouse and distribution facility	125,000	1985-1999	14	150,000	12,451	35 years	1,074,000	A	988,459	Capital	
Waterbury, CT LM	L5	Manufacturing, warehousing, offices for Mudhoppers, Inc	94,700	1996-2001	5	75,000	8,017	35 years	450,000	A	434,978	Capital	
L = Examined lease agreement and agreed all significant information to the lease. None of the leases contains a bargain purchase option or penalties for not renewing the leases.													
M = Traced the authorization to enter into the lease agreement to the Board of Directors' minutes. Per the minutes, when the lease was signed, the Company had no intention of retaining ownership at the end of the lease.													
A = Traced value to appraisal													
(1) Based on economic lives of other buildings the company owns. See D-2.													

Proli Footwear					
Lease Classification Tests					
December 31, 1998					
<b>Lease L1</b>					
Test 1: Does ownership transfer to the lessee at end of lease term?					
					Yes/No
Test 2: Is there a bargain purchase option?					
					Yes/No
Test 3: Does the lease term exceed 75% of the life of the asset?					
					Yes/No
	Lease Term:				
	Asset life:				
Test 4: Does the present value of the minimum lease payments					
exceed 90% of the fair value of the asset?					Yes/No
	Fair value of asset:				
	PV:				
<b>Lease L2A</b>					
Test 1: Does ownership transfer to the lessee at end of lease term?					
					Yes/No
Test 2: Is there a bargain purchase option?					
					Yes/No
Test 3: Does the lease term exceed 75% of the life of the asset?					
					Yes/No
	Lease Term:				
	Asset life:				
Test 4: Does the present value of the minimum lease payments					
exceed 90% of the fair value of the asset?					Yes/No
	Fair value of asset:				
	PV:				
<b>Lease L2B</b>					
Test 1: Does ownership transfer to the lessee at end of lease term?					
					Yes/No
Test 2: Is there a bargain purchase option?					
					Yes/No
Test 3: Does the lease term exceed 75% of the life of the asset?					
					Yes/No
	Lease Term:				
	Asset life:				
Test 4: Does the present value of the minimum lease payments					
exceed 90% of the fair value of the asset?					Yes/No
	Fair value of asset:				
	PV:				

**Thumpem, Lumpem & Howe**  
ATTORNEYS AT LAW  
Stamford, CT 06906

February 26, 1999

West & Fair, CPAs, LLP  
Stamford, CT

Gentlemen:

We have been requested by Proli Footwear, Inc. ("the Company"), to furnish you with certain information with reference to your examination of the Company's financial statements as of December 31, 1998.

1. The term "material" is defined as "greater than \$50,000.
2. We are only aware of the following matters involving material pending or threatened litigation, claims, or assessments.

a. Proli vs. U.S. Government

The U.S. Government and Proli are involved in a lawsuit concerning the dumping of toxic waste into the Housatonic River. The Government is assessing fines and clean up costs of approximately \$1,300,000. It is probable that the Government's claim in the amount of \$500,000-\$600,000 will prevail.

b. Proli vs. Michael Estaboot

Mr. Estaboot is asserting that he suffered severe injuries from a fall which resulted from a defective heel in the Company's product. He is unable to work and is asserting economic damages in the amount of \$1,800,000. It is reasonably possible that this claim will prevail.

3. We are not aware of any material unasserted claims and/or assessments.
4. We understand that the Company represented or will be representing to you that there are no unasserted claims that we have advised it are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5. We agree with this representation.
5. We are informed that the Company understands that whenever, in the course of performing legal services for it with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, we have formed a professional conclusion that the Company should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to the Company, we will so advise the Company and will consult with the Company concerning the question of such disclosure and the applicable requirements of

Statement of Financial Accounting Standards No. 5. We hereby confirm that such understanding is correct.

6. Please be advised that our response is directed only to matters that have been given substantive attention by us in the form of legal consultation and, where appropriate, legal representations since March 1, 1994. In this connection, we have endeavored to determine from lawyers in our firm who have performed services for the Company whether such services involved advice concerning any litigation, controversies or claims of the type described above, but beyond that, we have made no independent review of any of the Company's transaction or contractual arrangement for purposes of this response.
7. The Company owed our firm \$130,000 as of December 31, 1998.

This response includes matters that existed as of December 31, 1998, and during the period from that date to the date of this response.

Yours very truly,  
Thumpem, Lumpem & Howe  
**Phillip Thumpem**  
By: Phillip Thumpem



**APPENDIX C: SURVEY GIVEN TO STUDENTS  
AFTER FINISHING THE SIMULATION**

Completion Survey

Proli Footwear Audit Simulation

1. Your name .....

2. Gender (circle one).....Female.....Male .....

3. How would you rate your personal learning experience using this audit simulation?

1..... 2..... 3..... 4.....5  
Poor learning experience Excellent learning tool

4. Do you think that the audit simulation simulated an audit experience?

1..... 2..... 3..... 4.....5  
It wasn't like an audit It was like working on an audit

5. How would you rate the group experience in terms of your individual learning?

1..... 2..... 3..... 4.....5  
Poor experience Excellent experience

6. How would you rate the group experience in terms of a successful team working experience

1..... 2..... 3..... 4.....5  
Poor experience Excellent experience

7. Please list any comments or suggestions regarding possible improvements to this simulation.....  
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8. Please list any comments or suggestions regarding possible improvements to the group process .....

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