

**BEFORE THE IOWA ACCOUNTANCY EXAMINING BOARD
OF THE STATE OF IOWA**

IN THE MATTER OF:)	Case No. 05-06, 07-07
)	
Kay Chapman, CPA)	CONSENT ORDER
Certificate # 006269)	
Letts, IA)	
)	
and,)	
)	
Kay L. Chapman, CPA, PC)	
Permit # 2006-0014)	
Muscatine, IA)	
)	
Respondents.)	

The Iowa Accountancy Examining Board (Board), and Kay Chapman, CPA and Kay L. Chapman, CPA, PC (Respondents) enter into this Consent Order (Order), pursuant to Iowa Code section 17A.10 (2007) and 193 Iowa Administrative Code 7.42:

1. The Board has jurisdiction of this matter pursuant to Iowa Code chapters 17A, 272C, and 542 (2007).
2. Respondent Kay Chapman was issued Iowa CPA certificate number 006269 on the 3rd day of August, 1987. Respondent's CPA certificate is currently active and will next expire on the 30th day of June 30, 2008. Respondent Kay L. Chapman, CPA, PC was issued firm permit number 2006-0014 on May 16, 2006. The firm permit will expire June 30, 2007. Kay Chapman and Kay L. Chapman, CPA, PC will hereafter be collectively termed "Respondents."
3. The Board charged Respondents with repeatedly failing to comply with applicable auditing standards when developing, issuing, and documenting multiple governmental and single audits, primarily involving Iowa school districts, in violation of Iowa Code sections 272C.3(2)(b), 272C.10(2) and (3), 542.10(1)(b), (d), and (j) (2005, 2007), and 193A Iowa Administrative Code 13.2(1), 13.4(1)-(5), and 14.2(1), (5), and (8).
4. Respondents do not admit the above-referenced allegations as set forth in the Statement of Charges, but do agree to the entry of this Consent Order as the resolution of a disputed matter. Respondents have a right to a hearing on the charges, but waive their right to hearing and all attendant rights by freely and voluntarily entering into this Order. This Consent Order is the final agency order in a disciplinary contested case.
5. This Order shall be part of the permanent record of Respondents and shall be considered by the Board in determining the nature and severity of any disciplinary action to be imposed in the event of any future violations.

6. This Order, the Notice of Hearing and Statement of Charges, and the previously confidential Statement of Matters Asserted are public records available for inspection and copying in accordance with the requirements of Iowa Code chapter 22 (2007).

7. Failure to comply with the provisions of this Order shall be grounds for disciplinary action pursuant to Iowa Code section 272C.3(2)(a) (2007). However, no action may be taken against Respondents for violations of these provisions without a hearing, or waiver of hearing.

8. This Order is subject to approval of the Board:

(a) If the Board fails to approve this Order, it shall be of no force or effect on any party, and it shall not be admissible for any purpose in further proceedings in this matter.

(b) If the Board approves this Order, it shall fully dispose of all issues in this case.

IT IS THEREFORE ORDERED:

A. Reprimand

Respondents are reprimanded for failing to adhere to applicable standards in their audit practice.

B. Probation and Desk Review

1. Respondent Kay Chapman's CPA certificate and Respondent Kay L. Chapman, CPA, PC's firm permit to practice shall be placed on indefinite probationary status (subject to para. B(3) below) effective the day this Order is executed by all parties.

2. Respondents agree to retain, at their own expense, Neil Schraeder of Hacker, Nelson & Co, P.C. in Decorah, Iowa, who has been preapproved by the Board, for the purpose of reviewing the first six (6) school audits completed by Respondents following the date this Order is executed. The following terms shall apply to Mr. Schraeder's review:

a. Mr. Schraeder shall review the first six school audits performed by Respondents and the six audits reviewed by Mr. Schraeder shall include all Single Audits performed by Respondents in the year following entry of this Order.

b. Effective immediately, Respondents agree not to bid on any audits where there is an ongoing and/or continuing Single Audit requirement. It is understood, however, that if Respondents commence performance of an audit and then learn of a Single Audit requirement after having commenced performance of such audit, Respondents will proceed with such audit, but in such circumstance, Respondents will have the report and associated audit documentation for such an audit reviewed by an independent auditing firm prior to release of the report.

Additionally, during the time that Respondents are on probation, Respondents may bid on audits of school districts that have a one-time Single Audit requirement so long as any report by Respondents for such an audit is reviewed prior to its release.

c. Respondents shall supply the Board with the engagement letter with Mr. Schraeder in advance of implementing their agreement with him. If not submitted to the Board by July 1, 2007, Respondents shall file a written verification with the Board that they are not performing audit services.

d. In addition to pre-release review of the six audits referenced above, Mr. Schraeder shall prepare a more general report for the Board and shall submit it to the Board no later than September 1, 2007. The report shall follow an on-site review (in the nature of a peer review) of Respondents' audit procedures, and shall include a review of the firm's policies and procedures, library and other resources, checklist procedures, work paper documentation and verification practices, and internal quality control systems, as such resources, procedures and systems relate to the firm's audit practice, with particular emphasis on governmental and non-profit audits, and Respondents' compliance with single audit standards and OMB Circular A-133.

e. Respondents shall submit to Mr. Schraeder for pre-release review all workpapers, reports, and related documents for the six audits referenced in subparagraph B(2)(a) above that are completed on or after this Order is signed by all parties.

f. Mr. Schraeder shall perform desk review of the workpapers, reports, and related documents for the six audits referenced in subparagraph B(2)(a) above. The review shall be for facial compliance with minimum accounting and auditing standards. To aid Mr. Schraeder, Respondents shall supply to him all correspondence Respondents have received from the Iowa State Auditor's office in the past five years that in any way comment upon or critique Respondents' audit practices. Mr. Schraeder shall not perform field work or warrant the accuracy of Respondents' work product, but will review workpapers, reports, internal control systems, and such additional documents as are reasonably needed.

g. Mr. Schraeder shall prepare written comments on each of the six audits he reviews and shall provide his comments, workpapers, and notes simultaneously to Respondents and to the Board. Respondents shall attempt to address, and to the extent deemed appropriate by Respondents, incorporate Mr. Schraeder's comments in any audit report Respondents issue subsequent to Respondents' receipt of Mr. Schraeder's written comments. Respondents shall have no such obligation as to any reports that have been issued prior to Respondents' receipt of Mr. Schraeder's comments.

h. Mr. Schraeder's recommended revisions or corrections, if any, shall be incorporated into each final audit prior to the releasing of the report to the client or any third party. Respondents shall, as needed, submit a revised version of each report to Mr. Schraeder for final approval prior to such release. Respondents shall then share Mr. Schraeder's final comments with the Board. If Respondents disagree with a

recommended revision by Mr. Schraeder, they shall notify the Board in writing of the recommendation, their response, and the nature of the dispute.

i. Within ten days of the issuance of each audit report, Respondents shall provide the Board a copy of the audit report. Respondents are not required to routinely provide the Board workpapers or other supporting documents, but will do so within ten days of the Board's written request, via mail, e-mail, or fax. The preliminary and final reviewer's comments, report, and workpapers do not need to be received by the Board prior to issuance of an audit report.

3. Upon completion of the review of the six audits by Mr. Schraeder, Respondents may file an application for release from probation. Respondents shall provide the Board with such access to firm records as is reasonably necessary to verify compliance with this Order.

4. Respondents' application for release from probation shall comply with 193A Iowa Administrative Code 16.5 and 193 Iowa Administrative Code 7.38. The Board recognizes that 193 Iowa Administrative Code § 7.30(3) is not applicable to this situation.

5. The Board shall release Respondents from probation if they demonstrate full compliance with this Order; the general review report verifies that appropriate policies and procedures are in place to address the allegations contained within the Statement of Charges and the correspondence sent to the Respondents by the Iowa State Auditor's office; and the audits released by Respondents demonstrate compliance with applicable accounting and auditing standards. The Board may rely upon the report from and/or written comments prepared by Mr. Schraeder or the Board may conduct its own inspection of records as may be reasonably required to assure future practices compliant with professional standards.

6. The Board retains full discretion on whether and when to release Respondents from probation. With notice to and an opportunity for Respondents to object, the Board may modify the terms of probation upon a demonstrated basis for such action.

7. This settlement and final Order shall not preclude the Board from filing additional charges if one or more of the audits subject to desk review demonstrate probable cause to take such action. The Order shall also not preclude the Board from taking appropriate action in the event the Board receives any further complaints against either Respondent.

AGREED AND ACCEPTED:

The Respondents

[Redacted Signature]

**By: Kay Chapman, CPA, individually
and on behalf of Kay L. Chapman,
CPA, PC**

6-26-07
Date

The Iowa Accountancy Examining Board

[Redacted Signature]

By: Telford A. Lodden, CPA, Chair

7/11/07
Date

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