

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

**IN THE MATTER OF:** ) **Case No. 14-08**  
)  
Rex Knapp, CPA )  
Certificate # 004294 )  
)  
and )  
) **COMBINED STATEMENT OF**  
) **CHARGES AND CONSENT ORDER**  
Kroese & Kroese, PC ) **IN DISCIPLINARY CASE**  
Permit # 2014-331 )  
)  
Respondents )  
)

**A. Statement of Charges**

1. The Iowa Accountancy Examining Board ("Board") has jurisdiction of this disciplinary matter pursuant to Iowa Code chapters 17A, 272C, and 542.
2. Respondent Rex Knapp was issued Iowa CPA certificate O04294 in 1982. Respondent's CPA certificate is currently active and will next expire June 30, 2015. Respondent Kroese & Kroese, PC is a CPA firm holding permit number 2014-331, which is active and will next expire June 30, 2015. Rex Knapp and Kroese & Kroese, PC shall jointly be referred to as "Respondents."
3. In October 2013, the Board was notified by the Auditor of State of concerns with Respondents' performance of the June 30, 2012 audit of the City of Hull. Four Auditor findings were particularly significant involving lack of documentation of consideration of audit risk, lack of work paper documentation of the audit plan, lack of proper disclosure of the proceeds and payment of specific debt, and lack of proper disclosure of the annual debt service requirements. These and additional concerns were raised in the peer review report independently secured by the Board.
4. In December 2014, the Board was notified by the Auditor of State of concerns with Respondents' performance of the June 30, 2013 audit of the City of Sioux Center. Five Auditor findings were particularly significant involving lack of documentation of an assessment of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures; lack of work paper documentation of an understanding of internal control over compliance for federal programs resulting in insufficient documentation to support a low level of control risk; improper disclosures related to Other Post Employment Benefits; lack of proper presentation and disclosure of major funds for governmental activities; and, multiple additional reporting and disclosure issues demonstrating performance well below applicable

Government Auditing Standards. Respondents only complete two governmental audits a year and have completed audits for the same cities over a lengthy period of time.

5. The Board charges Respondents with failing to comply with applicable auditing standards when developing, issuing, and documenting governmental audits, in violation of Iowa Code sections 272C.10(2), 542.10(1)(d), and (j) (2013) and 193A Iowa Administrative Code 13.1(4), (5), 13.4(2)(a), (d), 13.4(5), 13.6(8), and 14.3(2)(d), (5), (7)(a).

6. 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. Respondents acknowledge they had an opportunity to consult with legal counsel before signing this Consent Order.

7. 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.

8. This Order is a public record available for inspection and copying in accordance with the requirements of Iowa Code chapter 22 (2015).

9. Failure to comply with the provisions of this Order shall be grounds for disciplinary action pursuant to Iowa Code section 272C.3(2)(a)(2015). However, no action may be taken against Respondents for violations of these provisions without a hearing, or waiver of hearing.

10. This Order is subject to approval of the Board. 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 proceeding in this matter. If the Board approves this Order, it shall fully dispose of all issues in this case.

11. 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 or otherwise 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.

**IT IS THEREFORE ORDERED:**

- A. **Reprimand** Respondents are reprimanded for failing to adhere to applicable standards in their audit practice.
- B. **Practice Restriction** Respondents are restricted from performing governmental audits for a period of at least two years. Respondents may apply to remove this restriction two or more years after this Consent Order is signed by all parties. If the application to remove the practice restriction is granted pursuant to 193A IAC

16.5, in addition to any other condition the Board may impose, Respondent's governmental audit practice shall be on probation until at least four governmental audits have been reviewed by an Iowa CPA pre-approved by the Board. While on probation, Respondent shall not perform any governmental audit services or issue any governmental audit reports, except under desk review, until released by Board order. Terms and conditions of desk review shall be further detailed in any future reinstatement order as circumstances shall warrant at that time.

**C. Remedial Action: Prior Governmental Audits**

1. Respondents shall notify the Board in writing within 30 days of the date this Order is signed by all parties whether any governmental audit reports were issued between July 1, 2014 and the date of this Consent Order.
2. If Respondent issued any governmental audit reports between July 1, 2014 and the date of this Consent Order, Respondent shall within 60 days of the date of this Consent Order, subject all such reports and associated work papers to desk review by an Iowa CPA pre-approved by the Board. All costs of desk review shall be Respondents' responsibility.
3. The review shall be for facial compliance with minimum accounting and auditing standards. To aid the desk reviewer Respondents shall supply the reviewer 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, including but not limited to the Auditor's correspondence regarding the audits for the City of Hull and City of Sioux Center. Desk Reviewer shall not perform field work or warrant the accuracy of Respondents' work product, but will review work-papers, reports, internal control systems, and such additional documents as are reasonably needed.
4. The desk reviewer's comments shall be provided to the Board within 120 days of the date of this Consent Order.
5. Respondents shall perform additional field work, add work paper documentation, and reissue audit reports if required by applicable audit standards.

**D. Remedial Action: Future Audit Practice**

1. If Respondents wish to continue with a nongovernmental audit practice, they shall notify the Board upon entry of this Consent Order.
2. If Respondents' nongovernmental audit practice will continue, six months following the verified completion of the education described in Section E, Respondents shall give the Board a log of all audits performed after the date of this Consent Order. The Board shall select one audit for review by an Iowa CPA selected by the Board which was issued after the completion of the education.

Upon request, Respondents shall provide the Board the audit report and associated work papers. Respondents shall be responsible for the cost of the review at \$200 an hour, for a maximum review charge of \$1,000.

3. If the reviewer's report concludes that the reviewed audit report and work papers substantially comply with applicable standards, and Respondent has otherwise complied with the terms of this Consent Order, the Board shall enter an order confirming satisfactory completion of the Consent Order. If the reviewer's report concludes that the reviewed audit report and work papers do not substantially comply with applicable standards, the Board may order additional remedial measures. Respondents shall be entitled to a contested case if they dispute the terms of the Board's order.

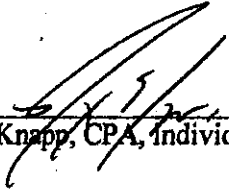
**E. Education**

1. Respondent Rex Knapp shall complete 4 hours of continuing education in ethics no later than October 1, 2015, and shall provide verification to the Board office no later than October 15, 2015. These hours may not be included in the continuing education required to renew his CPA certificate.
2. If Respondents will continue a non-governmental audit practice, Rex Knapp and all professional staff of Kroese & Kroese, PC who play any role in the audit services performed by the firm, shall complete 24 hours of education from the list of list of approved CPE events attached as Exhibit A or such CPE as preapproved by the Board, in the areas of auditing standards, risk assessment, audit planning, and work paper documentation. These hours shall be verified to the Board within 120 days of the date of this Consent Order and may be included in the continuing education required to renew the CPA certificates of the affected CPAs. The Board has been provided with documentation that the Respondents have completed 16 hours of education in 2015 that meets the requirements of this section and will be counted towards the 24 hour requirement.

**{SIGNATURE PAGE TO FOLLOW}**


**AGREED AND ACCEPTED:**

**The Respondents**

  
\_\_\_\_\_  
Rex Knapp, CPA, individually

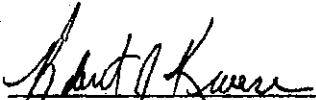
6-15-15  
Date

**The Iowa Accountancy Examining Board**

  
\_\_\_\_\_  
By: Laura Walker, CPA, Chair  
of Laura Walker.

6/29/15  
Date

**Kroese & Kroese, PC**

  
\_\_\_\_\_  
By Rob Kroese, managing officer

6-15-15  
Date

DATE OF ISSUANCE 6/29/15

Exhibit A is on file in the Board office.