

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 61305 / January 7, 2010

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3097 / January 7, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13738

In the Matter of

CHARLES A. GRAY, CPA,

Respondent.

**ORDER INSTITUTING PUBLIC
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 4C OF THE
SECURITIES EXCHANGE ACT OF 1934
AND RULE 102(e) OF THE COMMISSION'S
RULES OF PRACTICE, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative proceedings be, and hereby are, instituted against Charles A. Gray, CPA (“Respondent”) pursuant to Section 4C¹ of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

¹ Section 4C provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others . . . (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

² Rule 102(e)(1)(ii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds³ that:

RESPONDENT

Charles A. Gray is a certified public accountant licensed by the state of Oklahoma. During the period at issue here, he was a partner in Murrell, Hall, McIntosh & Co. PLLP, an accounting firm registered with the Public Company Accounting Oversight Board (the “PCAOB”).⁴

FACTS

1. Jerry D. Cash, the former Chief Executive Officer and chairman of Quest Resource Corporation (“Quest Resource”) and the general partner of Quest Energy Partners, L.P. (“Quest Energy” and, together with Quest Resource, “Quest”), with the aid of David E. Grose, Quest’s former Chief Financial Officer, misappropriated millions from Quest through insider loans that were also undisclosed related party transactions. Between 2005 and August, 2008, Cash embezzled \$10 million from Quest by transferring funds between Quest-related entities and companies he owned and controlled. As a result of Cash’s and Grose’s activities, Quest failed to disclose, or inadequately disclosed, the related party transactions in periodic filings, registration statements, and proxy statements.⁵

2. Respondent acted as the engagement partner on Murrell Hall’s (a) audits of Quest Resource’s annual financial statements for years ended December 31, 2005, 2006 and 2007; (b) reviews of Quest Resource’s quarterly financial statements during 2005, 2006, and 2007; (c) audit of Quest Energy’s annual financial statements for the year ended December 31, 2007; and (d)

³ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

⁴ Effective August 1, 2008, Eide Bailly LLP, a PCAOB-registered accounting firm, acquired Murrell Hall’s assets. Following the acquisition, Respondent became a partner in Eide Bailly.

⁵ See *SEC v. Jerry D. Cash, et al.*, Lit. Rel. No. 21087 (June 17, 2009)

review of Quest Energy's quarterly financial statements for the quarter ended September 30, 2007. These financial statements were included in the companies' Forms 10-K and Forms 10-Q filed with the Commission.

3. During Murrell Hall's audit of Quest Resource's financial statements for the year ended December 31, 2005, Respondent became aware of transfers totaling \$2 million between Quest Resource and Rockport Energy LLC, a company Cash controlled.

4. At or near the time of the conclusion of Murrell Hall's audits of Quest's financial statements for the year ended December 31, 2007, Respondent learned that Quest had engaged in a circular series of funds transfers to and from Rockport totaling \$10 million. When Respondent learned of these transfers, \$10 million was outstanding.

5. In the course of providing these professional services, Respondent failed to undertake adequate procedures to determine whether the transfers to Rockport were properly recorded and disclosed in Quest's annual and quarterly financial statements during 2005, 2006 and 2007. Among other things, Respondent failed to undertake adequate procedures to ascertain the terms and other details of the transactions; to determine whether the transactions were authorized by Quest's board of directors; or whether Quest had properly accounted for the transactions, including whether it had established appropriate reserves against Rockport's inability to repay the amounts.

6. Respondent also failed to adequately consider whether the transfers to Rockport may constitute fraud or an illegal act. *See PCAOB Standards and Related Rules*, AU §§ 316 and 722.32. Furthermore, Respondent failed to adequately consider whether the transfers to Rockport violated Section 13(k) of the Securities Exchange Act of 1934, which prohibits any issuer to make, directly or indirectly, "personal loans" to any executive officer.

Violations

Section 4C of the Exchange Act and Rule 102(e)(1)(ii) provide that the Commission may temporarily or permanently deny an accountant the privilege of appearing or practicing before it if it finds, after notice and opportunity for hearing, that the accountant engaged in "improper professional conduct." In relevant part, Section 4C(b) and Rule 102(e)(1)(iv) define 'improper professional conduct' to include either of the following two types of negligent conduct:

- (1) A single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant, or a person associated with a registered public accounting firm, knows, or should know, that heightened scrutiny is warranted, or
- (2) Repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

Findings

Based on the foregoing, the Commission finds that Respondent engaged in improper professional conduct pursuant to Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Respondent is denied the privilege of appearing or practicing before the Commission as an accountant.

B. After five years from the date of this Order, Respondent may request that the Commission consider his reinstatement by submitting an application (Attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of a public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Respondent's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

(a) Respondent, or the public accounting firm with which he is associated, is registered with the PCAOB in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

(b) Respondent, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in Respondent's or the firm's quality control system that would indicate that Respondent will not receive appropriate supervision;

(c) Respondent has resolved all disciplinary issues with the PCAOB, and has complied with all terms and conditions of any sanctions imposed by the PCAOB (other than reinstatement by the Commission); and

(d) Respondent acknowledges his responsibility, as long as Respondent appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the PCAOB, including, but not limited to,

all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

C. The Commission will consider an application by Respondent to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Elizabeth M. Murphy
Secretary