

ETHICS CONTINUING PROFESSIONAL EDUCATION AND THE POTENTIAL EFFECT  
ON CPAs' ETHICAL BEHAVIOR AND ACCOUNTABILITY

by

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## ABSTRACT

### **DOREEN CARTER: Ethics Continuing Professional Education and the Potential Effect on CPAs' Ethical Behavior and Accountability**

(Under the direction of DR. JACK CATHEY, Committee Chair)

Based on Aristotle's philosophy that ethics can be taught, this study examines whether the behavior of licensed accounting professionals is influenced by increased ethics Continuing Professional Education (CPE) required by state licensing boards. Since states are the licensing and oversight bodies of Certified Public Accountants (CPAs), it is important to know what actions state boards have taken to help increase the public trust of the accounting profession, and the efficacy of those actions.

States were selected based on whether they required ethics CPE hours and whether this changed during the study period 2008-2019. Fourteen states were selected (46% of U.S. CPAs). Data was obtained from publicly available resources on the individual state boards' websites. 7,969 sanctions were hand coded, scored and analyzed for 3 variables: the sanctions rate, severity of acts conducted by CPAs and the severity of sanctions assessed on CPAs.

The results of this study identified inconsistencies in the monitoring and oversight activities of state licensing boards and the variability of publicly available information. Findings suggest that the number of sanctions may be more affected by the level of oversight of state boards of accountancy, driven by resources available to them, than the behavior of regulated accounting professionals.

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I'd like to extend my deepest gratitude to my dissertation chair, Dr. Jack Cathey, for his continued encouragement during this trying endeavor – made more trying by the Covid-19 pandemic. His leadership and guidance made the completion of this dissertation possible.

## DEDICATION

I would like to dedicate this work to my grandparents and ancestors who, during the 1910s, left their homes in Italy to make the dangerous journey to America. They were greeted by the Statue of Liberty in New York harbor and did not know the trials or adventures that awaited them. Through their sacrifices and bravery, I was fortunate to be born in the United States and provided opportunities that exceeded even their imaginations. I am the first person in our family to not only graduate college but to achieve this level of education. I carry their legacy on my shoulders and my gratitude is to them.

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## CHAPTER 1: INTRODUCTION

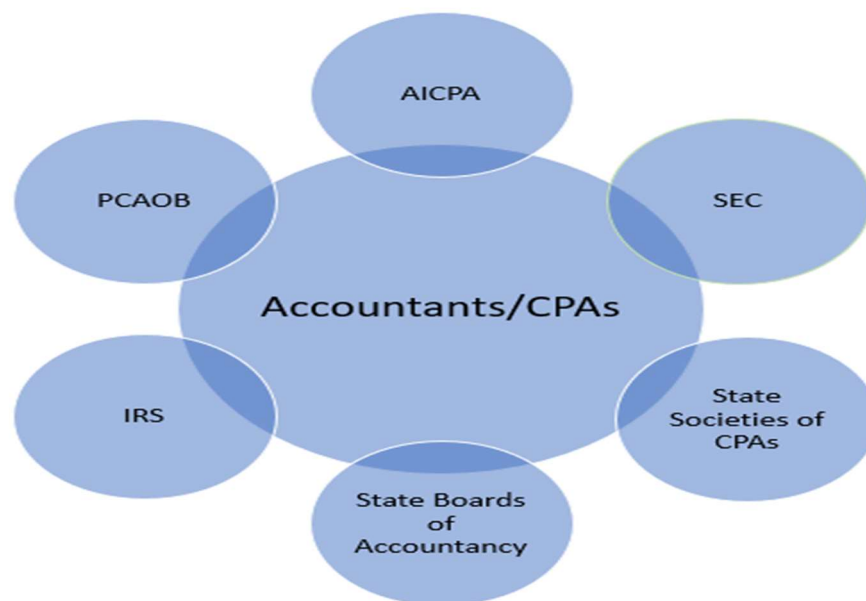
This study examines whether the professional behavior of licensed accounting professionals is influenced by increased ethics Continuing Professional Education (CPE) required by state regulatory bodies. The study finds its impetus in the events leading to the downfall of companies such as Enron, WorldCom, Sunbeam, and Arthur Andersen during the late 1990s/early 2000s, and the role of Certified Public Accountants (CPAs) in these events. In response to these significant audit failures, many regulatory changes were implemented to help prevent these events from recurring and to re-establish the public trust in the audits of the financial statements of publicly traded companies and the accounting profession in general.

One major change was the United States Congress passing the “Sarbanes-Oxley Act of 2002” (SOX) which established the Public Company Accounting Oversight Board (PCAOB) to provide regulatory oversight to the accounting profession. The PCAOB is one of multiple regulatory bodies overseeing CPAs (see *Figure 1*) and is the nonprofit corporation charged with overseeing “the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports” ([www.pcaob.org/about](http://www.pcaob.org/about)). The Securities and Exchange Commission (SEC) appoints the five members of the PCAOB board and oversees the rule-making and budget of the PCAOB. In addition, the SEC established additional reporting and audit requirements for publicly traded companies to help prevent these occurrences.

However, since it is the responsibility of the state licensing boards to establish the standards by which individuals obtain and maintain CPA licensure in their states, it is important to know, first, what actions they have taken to help increase the public trust of the accounting profession, and second, the efficacy of those actions. One of the actions that many

states implemented around this time was to increase the ethics CPE requirements of licensed CPAs. This study will review whether states, since the implementation of SOX, increased ethics CPE requirements of the CPAs they license, and will examine whether those actions have resulted in reducing the number and severity of disciplinary actions and sanctions of CPAs within the U.S.

**Figure 1 – Regulatory and Other Bodies Affecting Accountants/CPAs:**



The focus of prior research is on the trends related to disciplinary sanctions of the AICPA, PCAOB and SEC since the enactment of SOX (Mescall et al., 2017; Jenkins et al., 2018; and Armitage and Moriarity, 2016). Limited research exists on the trends of disciplinary actions taken at the state level (Cardona et al., 2019; Krom 2019; Jenkins et al., 2020). Some of the work at the state level reviews the differences in oversight of different licensed professionals such as medical vs. legal vs. accounting professionals (Krom 2019). Research has identified the need for more progress in the central collection of sanctions against CPAs and the need for one body to have access to such violations/sanctions in order to provide a

complete picture of behavioral patterns of accounting professionals across the U.S. (Jenkins et al., 2020). Therefore, this study fills the gap in this research by reviewing the disciplinary actions and sanctions taken by state regulatory bodies against CPAs.

The importance of this research is to assist state licensing boards and other groups to understand the impact of mandatory ethics CPE with the eventual goal of restoring and maintaining the public trust in the accounting profession. Previous research has emphasized the importance of public confidence in CPAs: Reynolds (2000) states that the necessary condition for professionalism is the service of the public good; Dobson and Armstrong (1995) contend that the auditor's main duty is to protect the public interest and exercise professional judgment in fulfilling this duty (Peytcheva & Warren, 2010). The AICPA Code of Professional Conduct states that CPAs should "accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism" (AICPA 2007, ET 53, Article 2). A deviation from the CPA's public interest role, whether it is real or perceived, may be interpreted as uncaring, irresponsible, self-promoting and possibly untrustworthy (Davenport & Dellaportas, 2009).

The importance of focusing on ethics CPE requirements can be traced back to Aristotle and the question: 'Can ethics or ethical behavior be taught?' Aristotle believed that the teaching of ethics provides a person with the tools necessary to discover the one right action in a particular situation (Klugman and Stump, 2006). Aristotle links the ability to identify the appropriate emotional response in a given situation to the excellence of character (West, 2017). This character development helps the professional navigate the myriad of situations and possible reactions to them since there is not necessarily only one right action for each situation (Klugman and Stump, 2006). This Aristotelian argument helps emphasize the importance of

ethics training to licensed professionals who are charged with creating, analyzing, or opining to the financial data a business or government may present to the public.

This study will contribute to the existing literature as follows. First, it will provide an updated overview of the ethics continuing education requirements at the state level since the implementation of SOX. Second, it will identify whether there have been related changes in the number and severity of disciplinary actions and sanctions of CPAs by states that have increased such requirements. Finally, this study builds on existing research related to the effect of increased oversight – by the states that license such individuals - on the behavior of accounting professionals.

This study will analyze the disciplinary actions sanctioned on CPAs by state regulatory bodies of select states and the nature of the related acts that led to such sanctions. The selected states will be grouped into different categories based on the ethics CPE required by each state. This study will determine whether there is a difference in the number and severity of sanctions between states based on the ethics CPE requirements and will determine whether there is a positive change in the behavior of CPEs after the implementation of additional ethics CPE.

The results of this study can be used by state legislatures, professional oversight bodies, and even educators, to help highlight the importance of oversight of licensed professionals by state regulatory bodies responsible for such licensing and will expose the continued need for education and oversight to help promote ethical conduct in the accounting profession. In addition, this information may be extrapolated to other professions to encourage increased resources to ethics training and professional oversight.

This study proceeds as follows. The remainder of this proposal consists of two additional chapters. Chapter 2 provides a selective literature review that includes the following:

a discussion of ethics theories; a brief overview of the development of professionalization; an explanation of ethics theory as it relates to business, then specifically to the accounting industry; the reasoning for ethics training of CPAs, and a review of studies already performed to analyze the effects of the AICPA Code of Conduct, SOX and PCAOB. The chapter concludes with a description of this study's propositions. Chapter 3 presents the plan for data collection and the methods that will be used to analyze the data.

## CHAPTER 2 – REVIEW OF LITERATURE AND DEVELOPMENT OF RESEARCH QUESTIONS

- 2.1: Overview
- 2.2: Brief Background on Ethics
- 2.3: Professionalization
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### **2.1: Overview**

This chapter begins with a general discussion of ethics and the evolution of business ethics. Next, I consider the development of professions and professional ethics. This is followed by the development of the accounting profession, the professional ethics for accountants, and the importance of the public trust. The literature review discusses the studies that have examined disciplinary sanctions against Certified Public Accountants (CPAs) by various regulatory bodies and the related reporting. The chapter concludes with development of the hypotheses.



## **2.2: Brief Background on Ethics**

What is ethics? The Oxford Dictionary classifies ethics as a noun and defines it as (a) the moral principles that govern a person's behavior or the conducting of an activity and (b) a system of moral principles or rules of behavior (<https://www.oxfordlearnersdictionaries.com/us/definition/English/ethic?q=ethics>). Velasquez (2006) defines ethics as “the discipline that examines one’s moral standards or the moral standards of society” (p. 11); it is the study of “morality – the standards an individual or group holds about what is right and wrong, or good and evil” (p. 11). Some scholars distinguish between ethics and morals. For example, Klugman and Stump (2006) believe that the goal of ethics is to think and to reason. Morality, however, is the set of beliefs a person has about what is right and wrong in the world (Klugman & Stump, 2006).

A common theme is that ethics is related to behavior. The moral principles or rules of behavior of a society that contribute to ethical behavior are governed by several factors such as a society’s predominant religion, its government (laws), and its culture (accepted behavior). Influences on those behaviors have been noted by philosophers through the ages including Confucius, Socrates, Plato, and Aristotle, among others, and have shaped accepted societal norms, laws, and the conduct of business. A brief discussion of the philosophical history shaping today’s theories of ethics follows.

Confucius (trad. 551–479 B.C.E.) has been portrayed as a teacher, advisor, editor, philosopher, reformer, and prophet (<https://plato.stanford.edu/entries/confucius/>). The teachings of Confucius (“Confucianism”) is the behavioral or moral doctrine that is based on human relationships, social structures, virtuous behavior, and work ethics (Kirby & Fan, 1995). Confucius discussed the ideal behavior that demonstrated values as the “way of the

gentleman”; that is, “The gentleman works at the roots. Once the roots are established, the way comes to life” (<https://plato.stanford.edu/entries/confucius/>). Therefore, the ideal man, or perfect gentleman, as envisioned by Confucius, was not a successful entrepreneur, but a scholar bureaucrat who focused on governing and strongly rejected making any personal gains or profit (Kirby & Fan, 1995). His teachings set the tone for commercialism and entrepreneurship in China.

Socrates (470/469–399 B.C.E.) is remembered for his teaching methods and for asking thought-provoking questions. Instead of lecturing his students, he asked them difficult questions in order to challenge their underlying assumptions (<https://www.nationalgeographic.org/encyclopedia/greek-philosophers/>), a method that was used by Jesus and is used in today’s business schools and law schools. Socrates suggested that the most fundamental question of ethics is, “What ought one to do?” (Longstaff, 2009, p.6 as cited in Rockness & Rockness, 2010).

Since the time of the Greek philosophers, there has been the debate of whether ethical behavior is innate or can be taught. Plato (428/423 - 348B.C.E.), who was a student of Socrates, studied ethics, virtue, justice, and other ideas relating to human behavior (<https://www.nationalgeographic.org/encyclopedia/greek-philosophers/>). Plato believed that ethics could not be taught; a person could merely be assisted in recollecting what he or she knew before this current life began. He suggested that ethics are fixed in a person regardless of outside influence. “Plato’s position suggests that teaching ethics in a classroom does not influence a person’s positions or beliefs because such things cannot be taught” (Klugman & Stump, 2006, p.181).

Aristotle (384-322 B.C.E.) disagreed with Plato on this point. He was a student of Plato and was also interested in ethics, although he studied various sciences, such as physics, biology, and astronomy (<https://www.nationalgeographic.org/encyclopedia/greek-philosophers/>). For Aristotle, the teaching of ethics provides a person with the tools necessary to discover the one right action in a particular situation. “The distinction then is: (1) Does the teaching of ethics change students’ beliefs and values given that the instructor helps them to remember what they knew before; or (2) Does such a course teach methods of reasoning so that students can make up their own minds” (Klugman & Stump, 2006, p. 181). Aristotle links *phronesis* (the ability to identify, in a given situation, the appropriate emotional response) to the excellence of character (West, 2017).

The question before philosophers and educators continues to be: Can ethics or ethical behavior be taught? “Ethical values provide the foundation on which a civilized society exists; without that foundation, civilization would collapse” (Smith, 2003, p. 48). Theodore Roosevelt, the 26th president of the United States, put it this way: “To educate a person in mind and not in morals is to educate a menace to society” (Smith, 2003, p. 48).

Based on the analogy between the “Way of Confucius” and the ethics systems derived from Aristotle, these patterns of behavior are today often described using the Latin term “*virtus*” (Csikszentmihalyi, 2020). Although an Aristotelian framework has been applied to business ethics, applications of virtue ethics to accounting have often focused on the development of character and virtues in prospective accountants (West, 2017). Professional ethics, in particular the accounting professional’s ethics, will be discussed in Sections 2.4 and 2.6.

### **2.3: Professionalization**

Professionalization is the action or process of giving an occupation, activity, or group professional qualities, typically by increasing training or raising required qualifications (Oxford Dictionary). This redefining of occupations as professions has been a significant characteristic of the past century and includes fields such as medicine, law, and accounting. Professions are based on mastery of specialized knowledge and skills. The educational and organizational structures associated with professions include advanced university programs and professional associations, both of which are critical to the development of beginners and career professionals and to the creation of standards of practice and criteria of ethical behavior.

Professions can be defined in a variety of ways. The difficulty is identifying basic traits of established professions without being too specific to any one occupation within that profession. Some definitions include only one or two criteria, while others have a more robust list. These definitions are made so that occupational practitioners may be able to raise their status, increase their worth to society, and maintain autonomy and influence (Klegon, 1978). Historically (at least since the 1950s), the attributes of a profession included the following according to Greenwood (1957), Barber (1963), and Carey (1969): (1) specialized and systemic knowledge (2) a code of ethics (3) authority recognized by the clientele (4) an orientation to a broader, community interest. A fifth attribute listed by both Greenwood (1957) and Carey (1969) is professional culture sustained by professional associations. Carey (1969) also added (6) a formal education process and (7) a specialized designation.

Klegon (1978) explored an alternative perspective for analyzing professions. After much review of differing opinions during the 1970s, he concluded that there are cultural elements affecting professionalization, such as greater client demands, potential derationalization and debureaucratization, and an external attack on the power of expertise. He

suggests that the ability to obtain and maintain professional status is to stay abreast of both internal factors (training, expertise, professional organizations) and external factors (wider social forces and arrangements of power).

### **2.3.1: Accounting as a Profession**

CPAs have met the seven criteria identified in the previous section. A brief history of the evolution of accounting as a profession follows.

In the mid-nineteenth century, English law created the independent auditor as a protection to stockholders against the incompetence or malfeasance of the managements to whom investors had entrusted their money. With the acceptance of responsibility to investors as well as to the employer, the accountant-auditor assumed the mantle of professionalism. He became a “public accountant,” accepting a responsibility to the public as well as to the client who paid his fee. (Carey, 1969, p. 5)

In the late nineteenth century, as chartered accountants came to the United States from England, the American Association of Public Accountants was formed in 1887 (Carey, 1969, p. 6). This association is the direct predecessor of the American Institute of Certified Public Accountants (AICPA).

The first federal economic regulatory agency was created in 1887—the Interstate Commerce Commission—followed by the Federal Reserve Board in 1913, and the Federal Trade Commission in 1914. These agencies increased the demand for reliable financial information and, thus, the demand for the services of CPAs. “Later, the intervention of the Federal government in every phase of the economy—as regulator, lender, insurer, entrepreneur, and dispenser of welfare—added additional requirements” for the types of assurances CPAs provided (Carey, 1969, p. 7). For example, securities legislation in the 1930s required

“publicly traded companies to purchase independent audits of their financial statements and defined public accountants as the sole providers of such audits” (Reiter & Williams, p. 9). These requirements enhanced the social obligations of CPAs through activities such as income tax reporting, internal controls reviews, and audits.

To regulate the practice of public accountancy in the United States, each state has its own board of accountancy. These state boards are responsible for administering the CPA exam, identifying criteria for licensing (in accordance with national professional standards as well as individual state professional regulatory requirements), and enforcing professional behavior, including issuing appropriate sanctions. The jurisdiction of state boards is limited to those CPAs licensed or performing certain services within its own state. State boards may refer licensees to other states, or regulatory or law enforcement bodies as appropriate.

To enhance the effectiveness of the states’ oversight efforts, the National Association of State Boards of Accountancy (NASBA) was formed in 1908, which created “innovative avenues for accounting regulators, educators and practitioners alike to address emerging issues relevant to the viability of the accounting profession” (<https://nasba.org/about>). NASBA provides a forum for states to collaborate and provides a central location to disseminate information such as: links to each state’s board of accountancy, CPA exam and licensing requirements, an accountancy Licensee Database and a lookup tool to verify licenses of CPAs.

In addition to state boards of accountancy, the accounting profession is also self-governed through its own professional organization. This began in 1887 when the American Association of Public Accountants (AAPA) was formed. This was followed in 1916 by the formation of the Institute of Public Accountants; in 1917, the name was changed to the American Institute of Accountants. In 1957, it became the American Institute of Certified

Public Accountants (AICPA) and remains so today (<https://www.aicpa.org/about/missionandhistory/history-of-the-aicpa.html>).

The AICPA represents the CPA profession regarding rule-making and standard-setting, and serves as an advocate before legislative bodies, public interest groups and other professional organizations. The AICPA develops standards for audits of private companies and other services by CPAs; provides educational guidance materials to its members; develops and grades the Uniform CPA Examination; and monitors and enforces compliance with the profession's technical and ethical standards. (<https://www.aicpa.org/about/missionandhistory>)

While the AICPA represents the CPA profession nationally, its oversight jurisdiction lies solely within its membership. In the United States, the AICPA is widely regarded as the preeminent professional accounting association and, while membership is not mandatory, many CPAs choose to belong to the AICPA because of its leading role in the profession (Jenkins et al., 2018). States also have their own professional societies; in 1921, these societies formed the American Society of Certified Public Accountants as a federation. In 1936, the Society was merged into the AICPA, at which time the AICPA agreed to restrict its future members to CPAs (<https://www.aicpa.org/about/missionandhistory>).

The accounting profession maintained 100% self-regulation until, after several scandals and failures of the profession in the late 1990s, the U.S. Congress passed the Sarbanes-Oxley Act of 2002 (SOX) (*this is further discussed in section 2.6.1*). This Act created the Public Company Accounting Oversight Board (PCAOB), which reports to the Securities and Exchange Commission (SEC). The PCAOB oversees the audits of public companies and SEC-

registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports (<https://pcaobus.org/about/mission-vision-values>). The PCAOB has the authority to investigate and discipline registered public accounting firms and persons associated with those firms for noncompliance with SOX, the rules of the PCAOB and the SEC, and other laws, rules, and professional standards governing the audits of public companies, brokers, and dealers (<https://pcaobus.org/about>). It has the power to impose sanctions, assess monetary penalties, and bar an individual or firm from practice when violations are found.

#### **2.4: Development of Professional Ethics – Ethical Decision Making**

A person's decisions and actions demonstrate his/her ethics at the time the decision is made. Therefore, it is important to review how decision making occurs, particularly, ethical decision making. The first challenge is to obtain a clear definition of ethical behavior or conduct. Randall and Gibson (1990) believed that most studies on ethical decision making offered no clear definition of ethics, and Lewis (1985) compared defining ethics to "nailing Jello to a wall" (p. 381). One way to solve this dilemma is to understand the factors associated with ethical decision making (and those that are not). Modeling can be developed or modified to better explain and predict the process by which individuals and managers make ethical decisions (Ford & Richardson, 1994). This section reviews the empirical research related to ethical decision making as well as theories that contribute to trends in ethical decision making, such as the moral collapse theory and the Fraud Triangle Theory.

##### **2.4.1: Trends in Ethical Decision Making Research**

Empirical research in ethical development and decision making in the business community considers three groups--students, academics, and professionals--either separately or



across sectors (Borkowski & Ugras, 1998, p. 1117). Research interest in this topic substantially increased from 1965 to 1994. Borkowski and Ugras' (1998) meta-analysis identified the number of ethics dissertations and, specifically, the number of dissertations focusing on business ethics. The number of dissertations focusing on business ethics increased from 3 in the ten-year period of 1965-1974 to 208 in the ten-year period of 1985-1994 (see *Table 1*).

***Table 1: Dissertations by time period***

<b>Time Period</b>	<b>Number of ethics dissertations</b>	<b>Number of dissertations focusing on business ethics</b>	<b>Percentage of ethics dissertations focusing on business ethics</b>
1965-1974	261	3	(1%)
1975-1984	835	51	(6%)
1985-1994	2,067	208	(11%)

This meta-analysis focused on the empirical studies from 1985 through 1994 because of the dramatic increase in the number of studies conducted which was a result of the concern about unethical business practices, including insider trading, savings and loan failures, and government contract fraud during this decade (Borkowski & Ugras, 1998). For this analysis, Borkowski & Ugras (1998) did not eliminate any studies based on any pre-determined criteria such as type of journal, however, “empirical studies of non-US students were eliminated because of possible cross-cultural differences in ethical standards” (p. 1120).

Borkowski & Ugras (1998) identified that:

- Gender: Of the 47 studies, 64% of the studies concluded that, generally, women seem to demonstrate more ethical attitudes/behavior than men – not concluding that women are more ethical, but they react more ethically to fictional dilemmas (p. 1124). 34% found no significant differences.

- Age: Of the 35 studies evaluating age as a factor, 54% found no significant relationship, however 35% identified that older students responded more ethically than younger students supporting Kohlberg's theory that individuals exhibit increasingly moral behavior as they mature (p. 1124).
- Area of study: While the results of the 30 studies analyzing the student's undergraduate major (business vs. non-business majors) were mixed, they primarily identified that the major did not affect ethical decision making or differ significantly when compared to each other (p.1124).

Overall, their "findings suggest that additional exposure to ethics theory and ethical dilemmas would benefit the business community – whether in practice or in academia" (Borkowski & Ugras, 1998, p. 1124).

#### **2.4.2: A Review of Empirical Research on Ethical Decision Making**

Since 1994, four studies have reviewed the body of work related to ethical decision making. This section will review these studies to provide an understanding of the basis of ethical decision making in the business field.

***Table 2: Ethical Decision Making Research by Time Period***

<b>Time Period</b>	<b>Author</b>	<b>Year Published</b>
1978 - 1992	Ford and Richardson	1994
1992 – 1996	Loe, et al.	2000
1996 – 2003	O'Fallon and Butterfield	2005
2004 – 2011	Craft	2013

##### **Time Period: 1978-1992**

The first literature review was performed by Ford and Richardson (1994). They reviewed articles from the period 1978-1992 and concluded that, in general, influences on an

individual's ethical decision-making behavior can be classified into two broad categories: (a) those associated with the individual decision maker (Individual Factors) and (b) those that form and define the situation in which the individual makes decisions (Situational Factors) (Ford & Richardson, 1994). "Individual factors received the most research attention in the empirical literature" (Ford & Richardson, 1994, p. 206); factors such as religion, age, sex, and nationality were related to an individual's ethical beliefs and decision-making behavior in some studies but not in others. Other individual factors, such as education and employment background, employment status, and years of employment, showed some significant relationships but tended to contradict one another (Ford & Richardson, 1994). The last group focused on personality factors, including Machiavellianism, values, locus of control, and role conflict. Ford and Richardson (1994) observed that some personality traits are related to a person's ethical beliefs and behavior, with Machiavellianism as the strongest relationship.

The second category of factors, those which form and define the situation that impact a person's decision-making behavior (Situational Factors), include referent groups (e.g., peer groups), top management influences, and the use of rewards and sanctions. For example, Ford & Richardson (1994) identified that:

- The direct influence of the person's peers increases as the intensity and frequency of contact with that person's peers increases (p. 212).
- People see themselves as more ethical than their peers, co-workers, and supervisors in their ethical beliefs and decision-making behavior (p. 212).
- The influence of top management provided mixed results. However, as rewards are increased, an individual will become increasingly congruent with top management's beliefs. (p. 216).

Other situational factors are organizational, such as codes of conduct, organizational size, climate and culture, and the employee's level within the organization. While codes of conduct alone were consistently and significantly related to ethical behavior, there was an increased effect when coupled with top management's use of rewards and sanctions for code adherence. A finding of note is that the individual's ethical beliefs and decision-making behavior decreased as the size of the organization increased and as well as the higher ranking of the employee within the organization. Of the industry factors researched, such as industry type and business competitiveness, only overall business competitiveness may have had some influence. Finally, how the types of scenarios or activities are viewed (e.g., whether one activity is more unethical than another) impacted an individual's ethical decisions.

#### Time Period: 1992-1996

The second literature review (1992-1996), published by Loe et al. (2000), built on the studies of Ford and Richardson (1994) and was similar in format and findings. Loe et al. (2000) categorized studies addressing the ethical decision-making process in business as follows: (a) those that directly examine the hypotheses set forth by ethical decision-making models and (b) those that identify the moderators of ethical decision making within the organization (p. 182). In addition to summarizing the influences of the individual and situational/organizational factors found by Ford and Richardson, Loe et al. (2000) included studies addressing awareness of ethical issues and the Jones model (1991), which added the concept of moral intensity.

Studies involving awareness of ethical issues included "codes of conduct as well as individuals' awareness of their own ethical behavior relative to others" (Loe et al., 2000). The findings were widely diverse based upon the goals of the studies. Several evaluated the role of

codes of conduct in generating awareness of ethical issues (Kohut & Corriher, 1994; Simpson, Banerjee & Simpson, 1994; White & Dooley, 1993), while others considered individuals' awareness of their own ethical behavior relative to others' behavior. Overall, the findings were similar to Kohut and Corriher (1994), in that "... few managers were aware of their company's written ethics codes and, therefore, such codes had no impact on their decision making" (p. 37).

Jones's model of moral intensity measures the "extent of issue-related moral imperative in a situation" (Jones, 1991, p. 372 as cited by Loe et al., 2000). "Jones (1991) uses Rest's (1986) four stages to link positive ethical decision-making models and assumes that ethical choices are not just individual decisions but are determined by social learning in the organization. Rest's model consists of: (a) recognizing moral issues, (b) making moral judgments, (c) establishing moral intent, and (c) engaging in moral behavior" (Loe et al., 2000, p. 186).

Rest's model was incorporated into his Defining Issues Test (DIT) (Rest 1979, 1986) which objectively "measures moral reasoning development and became a predominant variable in accounting research" (p. 141) as identified in Christensen, et al.'s (2016) meta-analysis of ethics research. "Similar to Kohlberg's moral judgment interview, the DIT uses stories to focus the participant on a moral dilemma" (Thoma & Dong, 2014, p. 55). The DIT is based on the six stages of cognitive moral development (CMD) founded by Kohlberg (1969) (as cited by Christensen et al., 2016). The six stages of CMD are described as follows: "the first two stages are pre-conventional reasoning in which individuals largely focus on themselves and make decisions based on the likelihood of punishment or rewards; the next two stages are considered conventional reasoning where individuals are concerned with society's norms and

rules for appropriate behavior; and the final two stages are regarded as post-conventional reasoning where decisions are determined by an individual's beliefs about what is just or fair" (Christensen et al., 2016, p. 142). "Ethics literature has generally supported a positive relationship between levels of moral reasoning and ethical judgment but less clear evidence regarding the relationship between moral reasoning and ethical action" (Christensen et al., 2016, p. 142). This model and the meta-analysis are further discussed in Section 2.6.3.

For 1992-1996 period, Loe et al. (2000) observed that "generally, these studies reveal that moral philosophy is related to ethical decision making and individuals may decide upon using different philosophies based upon experience (early career versus later) or based upon industry and that moral philosophy had not been systematically related to the level of ethical behavior in ethical decision making" (p. 187). While gender was the most researched area, the findings were mixed and inconclusive. While education and work experience were found to have negligible or no influence in half of the studies, there was a positive correlation between age and ethical decision making. (Loe et al., 2000)

#### Time Period: 1996-2003

The next review of empirical ethical decision-making literature was conducted by O'Fallon and Butterfield (2005) for the period 1996-2003 and included the independent and dependent variables that they believed had (a) "received the greatest amount of attention, (b) been overlooked, and (c) provided the most consistent findings" (p. 376). "Overall, researchers produced more empirical articles in the area of ethical decision making in this seven-year period than in the previous four decades combined" (p. 405). "The studies included in this review reported 270 findings with respect to individual-level factors compared to the roughly 120 findings" reported by Loe et al. (2000). The most consistent findings appeared in the

studies that tested “the direct effects of gender, ethical philosophies (i.e., idealism and relativism), cognitive moral development, locus of control, Machiavellianism, and religion. On the other hand, mixed findings were commonly found regarding education level, work experience, nationality, and age” (O’Fallon & Butterfield, 2005).

The five predominant organizational variables examined in the ethical decision-making literature of this period are: (a) codes of ethics, (b) ethical climate and culture, (c) industry type, (d) organizational size, and (e) rewards and sanctions. Moral intensity factors received a good deal of research attention (32 studies) in this period compared to the two identified by Loe et al. (2000) in 1996. O’Fallon and Butterfield (2005) concluded that “although moral intensity is a relatively new construct in the business ethics literature, there seems to be strong support for its influence on the ethical decision-making process. The factors of magnitude of consequences and social consensus represent the most consistent findings” (p. 398).

Other significant findings identified by O’Fallon and Butterfield (2005) during this period include:

- Gender: While there were few or no significant gender differences found, when they did occur, females behaved more ethically than males (p. 377).
- Philosophy/value orientation: Generally, idealism and deontology were positively related to ethical decision making (p. 379).
- Relativism, teleology, and other factors, such as economic orientation: Generally, these were negatively related to ethical decision making (p. 379).
- Education, employment, or work experience: Generally, increases in these areas were positively related to ethical decision making (p. 378).

- Nationality: While this appeared to influence ethical decision making, it is difficult to make comparisons across studies (p. 391).
- Age: The authors noted that research on age is inconsistent in the 37 findings included in this and past reviews: 14 studies produced no significant age differences, 10 found a positive relationship, and 6 found a negative relationship. These mixed results may suggest a more complex relationship between age and ethical decision making than is captured by these studies (p. 392).
- Machiavellianism (“Machs”): Machiavellianism is “the use of clever but often dishonest methods that deceive people in order to win power or control” (<https://dictionary.cambridge.org/dictionary/english>). “The results consistently suggest that Machs is negatively related to the ethical decision-making process. In other words, high Machs tend to be less ethical in their decision making than low Machs” (p. 392).
- Religion: The results generally suggest that religion has a positive relationship with ethical decision making (p.392).

#### Time Period: 2004-2011

According to Craft’s (2013) review of empirical ethical decision-making literature for the period 2004-2011, “the most prevalent models of ethical decision-making research are Rest’s (1986) four-component model and Jones’s (1991) issue-contingent model” (p. 221). According to Craft (2013), Jones (1991) built on Rest’s model to develop a six-component concept of moral intensity:



- 1) Magnitude of consequences: the sum of the harm/benefits of the moral act to those involved;
- 2) Social consensus: the degree of social agreement that a proposed act is good or bad;
- 3) Probability of effect: the probability the act will actually take place and will harm/benefit those involved;
- 4) Temporal immediacy: length of time between the present and the act;
- 5) Proximity: the feeling of immediacy to those involved, and;
- 6) Concentration of effect: strength of consequences for those involved. (pp. 221-222)

This review demonstrated that there is “continued support for the impact of moral intensity factors on ethical decision-making and that Jones’ (1991) six moral intensity factors continue to impact ethical decision-making” (p. 253).

For this time period, Craft identified that individual factors were the most often studied elements of ethical decision making (77% of overall findings), higher than those of O’Fallon and Butterfield (2005), Loe et al. (2000), and Ford and Richardson (1994), with 70%, 58%, and 58%, respectively. Of the 84 empirical studies reviewed, the following individual factors were the most often studied with the following results per Loe et al. (2000):

- Personality: Personality received the most attention by being reviewed in 43 studies (52%).
- Gender: As with prior studies, gender-specific variables were frequently reviewed (38 of 84 or 45% of these studies) and reported with mixed results; on average, females were more ethical than males (10 of the 38 studies including gender). Males were stricter and more consistent with their decision making. (p. 230)

- Cultural Values/Nationality: included in 35 studies (42%) identified mixed results as well as differences between collective vs. individualistic cultures as were found in the three prior literature reviews. (p. 231)
- Employment Experience: continued to impact ethical decision making (27 studies or 32%); however, in a few studies there was no significant relationship. The type of employment and level of employment had a consistent impact in the findings, particularly in the auditing profession. Generally, committed professionals were more likely to make ethical decisions. (p. 238)
- Education: had both positive and neutral impacts in 27 of the 84 studies (32%). While the type of education had no bearing on the ethical decision-making process, the type of respondent did have an impact; that is, students were less ethical than practitioners. Also, the more education is positively related to ethical decision-making. (p. 238)
- Age: continued to produce mixed results in 14 studies (17% of the 84 studies). (p. 239)
- Religion/Spirituality: was not consistent throughout this period, which differs from prior research periods. In this period, 10 studies included this factor (12%). While there were mixed results of no significant influence, there were four studies that identified commitment to moral self-improvement, spiritual well-being and intrinsic religiosity were better predictors for ethical behavior. (p. 246)

- Emotions and Mood debuted as a variable during this period. Overall, there appeared to be a link between Emotions and Mood and ethical decision making but it was usually linked with other factors such as personal values. (p. 247)
- Personal Values – also debuted as a variable during this period. These are individual values a person possesses that would impact ethical decision-making such as: political origination, seriousness, responsibility, altruism, and empathy. These values are connected to Rest’s (1986) variables of awareness, judgment, and intent. The most significant values affecting ethical appear to be altruistic values (positive effect) and self-enhancement and egoistic values have a negative impact. (pp. 246-247)
- Other variables: Decision Style, Behavior and Awareness, and Cognitive Moral Development were also studied during this period but in a limited context. They did not find a connection between accounting students’ ethical sensitivity (awareness) and ethical reasoning. (p. 247)

For organizational factors studied during this timeframe, findings similar to past studies were identified for ethical culture. There was a noticeable decline in the number of studies related to the effect of organization culture and codes of ethics on decision making; however, the results were the same in that they positively affected ethical decision making. “It is important to note that the mere existence of the codes was not sufficient to influence ethical behavior or ethical awareness” (Craft, 2013). This leads us to the new category of organizational factors: Policies and Procedures.

Studies during this period found that, in addition to a code of ethics, policies were important to ensure that “ethical considerations were part of the decision-making process used

by employees” (Craft, 2013), thus adding to the ethical infrastructure within organizations, including rewards and sanctions. Multiple studies identified that “if the consequences of unethical decision making are known and conform to established societal guidelines, it follows that the impact of rewards and sanctions on ethical decision making is significant” (Craft, 2013, p. 248).

#### **2.4.3: Multi-Level Theory of Moral Collapse**

While the multi-level theory of moral collapse draws on institutional theory as its central orienting lens (Shadnam & Lawrence, 2011), it is the individuals within organizations who commit the actual offenses. They make the decision to disregard morale, organizational policies, and professional codes/boundaries. According to Greve et al. (2010), “Although research indeed finds individual effects, the main theoretical and empirical thrust of the work reviewed ... focuses on the individual’s responsiveness to the environment rather than individual consistency” (p. 92). The moral collapse framework theory of Shadnam and Lawrence (2011) maintains that the “upward” flow of ideas and influences from individuals and the building blocks of morality – the concepts and arguments about what is right and wrong – emerge from the beliefs of individuals. Therefore, while it is important for firms to maintain an overall ethical tone within the organization, it is the individual who bears the weight of compliance.

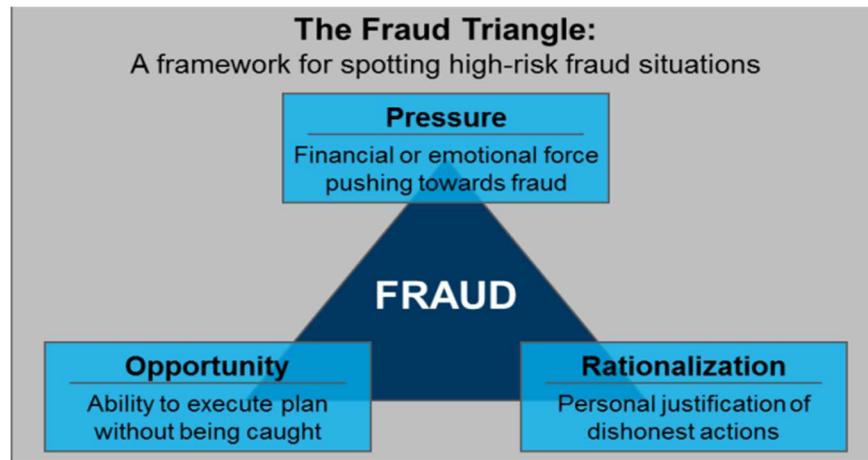
#### **2.4.4: The Fraud Triangle Theory**

In order to understand the importance of ethical decision making by CPAs, one must understand the temptations that may be presented to them. The Fraud Triangle Theory (FTT) (*Figure 2*) helps explain those temptations. The components of the FTT were developed by Dr. Donald R. Cressey (1953), an American sociologist/criminologist, from his interviews with

more than 120 incarcerated white-collar embezzlers (Schuchter & Levi, 2013). The theory proposes that individuals commit fraud when three conditions are present: (1) Pressure: an incentive or pressure or motive to commit fraud (i.e., from a client or personal gain); (2) Opportunity: circumstances provide an opportunity for fraud to be perpetrated (e.g., weak controls or ability to override controls); and (3) Rationalization: there is an attitude or justification for committing fraud. (Hogan et al., 2008; Trompeter et al., 2012). These three conditions later became known as the FTT.

Other researchers have proposed to expand the FTT. Wolfe and Hermanson (2004) proposed including capability and referred to this theory as the Fraud Diamond (Dellaportas, 2013; Schuchter & Levi, 2013; Sorunke, 2016). Sorunke (2016) proposed including personal ethics- referred to this theory as the Fraud Pentagon. However, these proposed theories “relied on self-developed assertions that lacked significant empirical support” (Dellaportas, 2013, p. 37). The core elements of the FTT, however, have been substantially supported in research and used to shape guidance for auditors to help identify instances of fraud or fraudulent financial statements. In 2014, the AICPA used examples of fraud risk factors based on the FTT (AICPA, AU-C Section 240, Appendix A) to redraft a clarified Statement of Auditing Standards AU-C 240, “Consideration of Fraud in a Financial Statement Audit” (Roden, et al., 2016, p. 80).

**Figure 2: The Fraud Triangle Theory** (www.brumellgroup.com):



(www.brumellgroup.com)

Dellaportas (2013) used the FTT components to analyze the motivations of accountants who were incarcerated for crimes committed within the context of their profession. While this study was small (10) and limited to male accountants in Australia, the findings suggest that opportunity, rather than motivation, is a better predictor of deviant behavior by accounting professionals as well as being the key to controlling fraud. Specifically identified was that the trusted relationships the accountants had with the clients and that their special knowledge of processes and internal controls created the opportunities to commit fraud. Dellaportas (2013) suggested “further research to focus on limiting opportunity through avenues that include education, legal regulation and the ethics of fiduciary relationships” (p. 37).

There is also the Triangle of Fraud Action described by Albrecht et al. (2012) and Kranacher et al. (2011) (as cited in Trompeter et al., 2012, p. 300) which identifies the actions an individual(s) must perform to perpetrate the fraud. The elements of this triangle include the act, concealment, and conversion (Trompeter et al., 2012).

Taken together, studies on ethical decision making, the theory of moral collapse, the FTT, and the Triangle of Fraud Action all point to the importance of awareness and the need

for a comprehensive approach to help individuals make ethical decisions. As research has demonstrated, simply having a professional or organizational code of ethics is not sufficient, but must be enhanced with policies, education and awareness, sanctions, and a solid infrastructure at the organizational level. Schuchter & Levi (2013) concluded that “an improvement of the working climate and a strong tone at the top may not only reduce perceived pressure, but also strengthen the identified ‘fraud-inhibiting inner voice’ and, thus, contribute to a low fraud risk corporate culture” (p. 117).

## **2.5: Public Trust**

Sociology literature broadly suggests that “professions are created because of a genuine human need which, in turn, creates a social obligation to serve the public” (Carey, 1965, as cited in Davenport & Dellaportas, 2009, p. 11) and that professionals are generally expected to rise above their own interests and serve the public good (Fogarty & Kalbers, 2000; Reynolds, 2000; as cited in Peytcheva & Warren, 2011, p.36). According to the functionalist view of professionalization in sociology literature, an individual, as a member of a professional body, assumes the responsibility to serve the public and is expected to apply skills, knowledge, and judgment to complex tasks in the pursuit of the public trust (Davenport & Dellaportas, 2009). Therefore, at the heart of a profession is a commitment to serve and protect the public interest (Briloff, 1986; Bivins, 1993; Canning & O’Dwyer, 2001; Mitchell et al., 1994; as cited in Davenport & Dellaportas, 2009, p.11, Spencer, et al. 2015). Hence, members of a profession must also understand what it means to serve the public interest.

The public interest can be defined as “the manifest and latent motivation of ethical codes to protect the economic interests of professional members’ clients and of third parties who place reliance on the pronouncements and advice delivered by both the professional body

and its members” (Parker, 1987, as cited in Fisher et al., 2001, p.192). This is different from private interest which is defined as “the latent motivation of ethical codes to protect the interests of the professional accounting body corporate and its individual members” (Parker, 1987, as cited in Fisher et al., 2001, p.193).

Specific to the accounting profession in the United States, the concept of “the public interest” was first defined in the AICPA’s Code of Conduct in 1988:

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. The public interest is defined as the “collective well-being of the community and institutions the profession serves,” including “clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of CPAs to maintain the orderly functioning of commerce.” In discharging their professional responsibilities, members may encounter conflicting pressures from among each of these groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients’ and employers’ interests are best served.” (AICPA Code of Conduct, Article II, 1988)

Regulatory oversight bodies in other countries have developed similar definitions of the profession’s responsibility to the public interest. Examples include:

- The International Federation of Accountants (IFAC) issued a policy position statement in 2012 defining the public interest as the “net benefits derived for, and procedure rigor employed on behalf of, all society in relation to any action, decision or policy” (IFAC, 2012).



- The Code of Ethics of the International Ethics Standards Board for Accountants (IESBA) states that “a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest” ([www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)).
- The Code of Ethics for Professional Accountants issued by Australian Professional Ethics Standards Board (APESB) in 2006 emphasizes “the collective well-being of the community of people and institutions the professional accountant serves” (Davenport & Dellaportes, 2009).
- The Institute of Chartered Accountants in England and Wales (ICAEW), in 2012, addressed the profession’s public interest responsibility in a report detailing a framework for acting in the public interest ([www.icaew.com](http://www.icaew.com)).

In addition to the general definition of the public trust, the AICPA Code of Professional Conduct (hereafter, the Code) stipulates that CPAs should "accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism" (AICPA 2007, ET 53, Article 2). However, “many argue that the financial incentives and pressures of audit firms can induce auditors to choose firm interests over the Code, thereby threatening auditor professionalism” (Peytcheva & Warren, 2011, p. 34). Recognizing this, the Panel on Audit Effectiveness, created in 2000 by the SEC Public Oversight Board, stated that:

The most important determinants of audit effectiveness are the personal attributes and skills of the individual auditor. It is, therefore, the personal attributes of individuals that provide the foundation for what constitutes a true professional and the adherence to strong ethical standards is priority to protecting the public trust. (Copeland, 2005, p.38)

Codes of conduct and codes of ethics can be important in building the public trust of a profession and conveying guidance to members of that profession. Davenport & Dellaportas (2009) identified studies (Canning & O'Dwyer, 2003; Parker, 1994) that have suggested that codes of ethics serve a dual purpose: (1) serve the public interest and (2) pursue the profession's self-interest (p. 19). Such codes reinforce the profession's commitment to serve the public interest and seek to reassure the public that the members of that profession will act in the public's best interest (Davenport & Dellaportas, 2009; Neu, 1991; Velayutham, 2003).

Brown et al. (2007) measured U.S. auditor and public perceptions of exemplary behaviors identified in the AICPA Code of Professional Conduct. They surveyed auditors and members of the public who would be users of auditor services. Brown et al (2007) split the individuals being surveyed into four groups:

The auditors were divided into two groups, one of which reported self-perceptions (A-S) while the other group reported their perceptions of a typical auditor (A-O). There were two separate public groups, which gave their perceptions of a typical auditor and were divided based on their levels of accounting sophistication. The more sophisticated public group was comprised of bank loan officers (LO) while the less sophisticated public group consisted of investment club members (IC) (p.39).

The survey instrument is based on the AICPA's *Principles of the Code of Professional Conduct* (1992) which "serve as the philosophical basis for defining exemplary behavior for auditors" (Brown, et al., 2007, p. 44). "These principles provide insight into the ideal image of the accounting professional" (Brown, et al., 2007, p. 44).

Article One – Responsibilities In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

Article Two – The Public Interest Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to the profession.

Article Three – Integrity To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

Article Four – Objectivity and Independence A member should maintain objectivity and be free from the conflict of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

Article Five – Due Care A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.

Article Six – Scope and Nature of Services A member in public practice should observe the principles of the Code of Professional Conduct in determining the scope and nature of services to be performed.

(<https://www.aicpa.org/research/standards/codeofconduct.html>)

Through analysis of the 319 survey responses received, “auditor self-perceptions (A-S) of their exemplary conduct were found to be significantly higher than their perceptions of other auditors (A-O); while less sophisticated auditor public (IC) perceive auditors to be more exemplary than a more sophisticated auditor public (LO)” (Brown, et al. 2007, p. 57). The

results indicate that the sophisticated user of financial statements (Group LO) is more skeptical of the exemplary behavior demonstrated by the typical auditor (Group A-O) when compared to the expectations of the audit profession. Also, sophisticated financial public (Group LO) rates the exemplary behavior of auditors lower than does the audit profession itself (Group A-S). This gap in confidence of the most likely users of audited financial statements is identified by Brown et. al. (2007) as a finding of concern. Strong support was found for self-perceptions being higher than perceptions of a sophisticated public user group supporting prior research (Neu, 1992) that an auditor's public is comprised of two groups, primarily differentiated based on accounting sophistication.

Throughout various parts of the world, research has been conducted focusing on the accounting profession's obligation to the public interest, the conflict between self-interest over public interest, as well as "the expectations gap between what the public wants auditors to do and the current role of auditors" (Brown, et. al., 2007, p. 59; Cohen et al., 1978, p. xi). In one study conducted in Australia, Davenport and Dellaportas (2009) focused on how members of the accounting profession interpreted both the public interest and their professional obligations to the wider community. Their study concluded that the primary interest of accountants was to protect their client or employer even though they indicated understanding their obligation of public interest. "This finding is consistent with critics who argue that the accounting profession has moved away from its public interest focus to serving the fee-paying client" (Davenport & Dellaportas, 2009, p. 20). Given the timing of these studies, there is indication that there is still work to be done in narrowing this expectations gap and enhancing the public trust of accounting professionals.

## **2.6: Ethics in the Accounting Profession**

West (2017) proposed that, given the degree to which Aristotelian ethics emphasize such lifelong development of character to achieve eudaimonia (human flourishing, prosperity), an Aristotelian approach to professional accounting has implications for how ethics is taught and how ethical behavior is developed among accountants. He points out that the “application of virtue ethics to accounting have often focused on the importance and development of character and virtues in prospective accountants and, accordingly, have been of particular relevance to accounting education” (West, 2017, p. 329). This gives support to the practical application of the Code, what it means for an accountant to be ethical, and the immediate implications for the profession. In this section we will discuss the evolution of ethics within the accounting profession.

#### **2.6.1: Evolution of Ethics in the Accounting Profession**

Although the AICPA has provided guidance to the accounting profession in setting standards and providing by-laws and rules of professional conduct since 1917, various events and scandals have caused additional enhancements to that guidance as well as intervention by government and other regulatory bodies. This section identifies key events that have led to enhanced ethical expectations in the accounting profession.

**1973:** In the 1960s and early 1970s, there were a number of audit failures that led to the appointment of the AICPA's Commission on Auditors' Responsibilities, also referred to as the Cohen Commission. The Cohen Commission was established to study whether there was a gap between reasonable public expectations and the performance of auditors and, if so, to suggest ways of closing the gap. “Since the early 1970s, the principles section of the AICPA code has stated that members should accept an obligation to act in a way that will serve the public

interest, honor the public trust, and demonstrate a commitment to professionalism” (Carmichael, 2003).

After litigation threats to the AICPA by the U.S. Department of Justice alleging that the current ethics rule prohibited competitive bidding as a restraint of trade, the AICPA entered a consent decree. As a result, in 1973, AICPA adopted a new code of conduct without the former rule that prohibited competitive bidding.

**1973-1978:** Initial release of the Cohen Commission’s report occurred in 1973, with a final report being released in 1978. James Needham, head of the New York Stock Exchange and prior SEC Commissioner, observed that “public accounting was once a profession with business overtones but had become a business with professional overtones. He believed that unless that process could be reversed, there was no hope of closing the gap between the expectations of users and the performance of auditors. These comments were made at the same time that constraints on competition were being removed” (Carmichael, 2003).

The Cohen Commission recognized that there was “a clear gap between public expectations and auditor performance but rejected the notion that the answer was to properly educate the public on why their expectations were unreasonable. It concluded that the public’s expectations were reasonable in view of the auditor's role in society and that the gap must be closed by improvement in auditor performance” (Carmichael, 2003).

**1978:** In response to the Cohen Commission’ report, in October 1978, the AICPA formed the Auditing Standards Board to issue auditing, attestation, and quality control standards and practice guidance to CPAs for nonpublic company audit and attestation engagements. These new standards are “to be observed by members of the AICPA in accordance with the Institute’s Bylaws and Code of Professional Conduct” (<https://www.aicpa.org/Research/Standards/>

AuditAttest/ASB/DownloadableDocuments/asb-operating-policies.pdf) with the goal to “improve financial reporting and close “the gap between the performance of auditors and the expectations of the users of financial statements” (Cohen et al., 1978, p. xi).

**1985-1987:** The Commission of Sponsoring Organizations (COSO) was organized to “help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and fraud deterrence” (<https://www.coso.org/pages/aboutus.aspx>). COSO was organized in response to congressional review of several concerns regarding financial reporting by publicly traded companies and to demonstrate that the accounting profession could effectively regulate itself. This initiative was sponsored jointly by five U.S. professional organizations: American Accounting Association (AAA), AICPA, Financial Executives International, The Institute of Internal Auditors (IIA) and the National Association of Accountants (now called the Institute of Management Accountants) (<https://www.coso.org/Pages/aboutus.aspx>). The primary objective of COSO was an independent private-sector initiative to study the causal factors that can lead to fraudulent financial reporting. In 1987 the commission issued its report on Fraudulent Financial Reporting, also referred to as the Treadway Commission Report (named after the first chairman of the commission, James C. Treadway, Jr.). This report was significant in its three objectives: (1) considered the extent to which acts of fraudulent financial reporting undermines the integrity of financial reporting and what factors may contribute to such acts; (2) examined the role of independent accountings in detecting fraud (both internally and externally), and (3) identified the attributes of corporate structure that may contribute to acts of fraudulent financial report or failure to detect such acts promptly (Grundfest &

Berueffy, 1989). The report demonstrated to the U.S. Congress that the profession could continue to regulate itself and further congressional action was halted at that time.

**1988:** In the 1970s and 1980s the question of to whom the CPA owes allegiance was still being debated. In 1984, the US Supreme Court offered the opinion that “an accountant assumes a public responsibility transcending any employment relationship with the client and ...owes ultimate allegiance to the corporation’s creditors and stockholders as well as to the investing public” (Collins & Schultz, 1995, p. 32). In addition to the work of the Treadway Commission, the AICPA commissioned a special committee in 1985 to examine the standards of professional conduct of CPAs. “The resulting report was known as the Anderson Report (AICPA, 1986). A major assertion in the report was that the CPA is responsible to society because society has granted a special franchise to the CPA. The report offered a number of recommendations for changes in the existing AICPA Code of Ethics” (Collins & Schultz, 1995, p. 32). It also recommended the “establishment of a qualify review program” (Anderson & Ellyson, 1986, p. 92). The AICPA revised the code accordingly and changed the name to the Code of Professional Conduct (“the Code”) which consists of two sections: (1) the Principles and (2) the Rules.

(1) The Principles provide the framework for the Rules.

(2) The Rules govern the performance of professional services by members in the form of The Code of Professional Conduct (the Code). The Code was adopted by the membership to provide guidance and rules to all members—those in public practice, in industry, in government, and in education—in the performance of their professional responsibilities. Compliance with the Code depends primarily on members' understanding and voluntary actions, secondarily on reinforcement by



peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the Rules. (AICPA, 1988, p. 1685)

**1999:** As a followup to its initial report from 1987, COSO sponsored the research study, “Fraudulent Financial Reporting: 1987-1997” to provide a comprehensive analysis of fraudulent financial reporting occurrences investigated by the SEC since the issuance of the report. The study had three objectives: “(1) identify instances of alleged fraudulent financial reporting by public companies registered with the SEC; (2) examine key company and management characteristics of those companies involved in financial statement fraud; and (3) provide a basis for recommendations to improve the corporate financial reporting environment in the U.S.” (Beasley, et al. 1999, p.1). One of the major contributions of the study was identifying characteristics of the companies’ and their management. For example: “(a) The frauds went to the very top of the organizations wherein 72% of the cases, the CEO appeared to be associated with the fraud. (b) Audit committees and boards appeared to be weak. (c) A significant portion of the companies were owned by board members. (d) The risk of fraud was higher in smaller companies” (Beasley et al., 1999, pp. 2-5). Overall, the study identified that there was a need for an effective control environment or “tone at the top” to help reduce risk of fraud.

**2002:** The Sarbanes-Oxley Act of 2002 (SOX) was enacted by the U.S. Congress in response to the failure of the accounting profession in the United States to appropriately self-govern and prevent the unethical actions that caused scandals such as Enron, WorldCom, and Tyco. The fraud and fraudulent financial reporting committed by these and other major corporations resulted in bankruptcies, loss of jobs, damaged pension funds and widespread collapse of

investor confidence and plummeting stock prices between 2000-2001. The purpose of SOX was to help reestablish public trust in publicly traded companies, the accounting profession, and the stock market. Its primary objective was to “curb fraud and encourage ethical behavior in private enterprises by company employees, and most notably by executives and auditors of the corporation” (Gunz & Thorne 2019, p. 293). At the East Room signing ceremony of SOX, President George W. Bush promised, "to use the full authority of the Government to expose corruption, punish wrongdoers, and defend the rights and interests of American workers and investors." (Donaldson, 2003, p. 5)

In addition to the fraudulent acts committed by the companies themselves, the complicity of those companies' public accounting firms (such as Arthur Andersen, LLP) was called into question and the accounting profession's ability to self-govern. Questionable actions by the auditors included: the auditors' failure to identify fraudulent financial reporting, allowing aggressive interpretations of GAAP and off-balance sheet recordkeeping to make the companies' published financials more favorable for investors. Conflicts of interest occurred when firms provided consulting and audit services to the same company and for many years. Then, during the “investigation of Enron, Arthur Anderson, LLP was charged with destroying documents in advance of an SEC investigation” (Benston, 2003, p. 1347). Benston (2003) provided two major reasons for the failure of the audit firms of those companies who committed fraud: (1) rules-based application of GAAP fostered by the FASB and the SEC and (2) absence of punishment by the SEC of the auditors who were guilty of gross negligence, incompetence, or malfeasance. “Both factors were compounded by the U.S. tort system, where those public accounting firms may fear being sued when their clients' fortunes substantially decline” (Benston, 2003, p. 1343). Enter SOX as arguably the single most important mandate

to the accounting profession related to ethical conduct. It is the first time the federal government mandated oversight of the accounting profession in profound ways.

SOX consists of 11 sections: (I) Establishment of the PCAOB; (II) definition of auditor independence including conflicts of interest and mandatory rotation of a public company's auditors; (III) corporate responsibility related to company boards, executive bonuses and profits, officer and director penalties and insider trading; (IV) enhanced financial disclosures, particularly related to transactions involving management, principal stockholders and conflicts of interest, also codes of ethics for senior financial officers and management assessment of internal controls; (V) conflicts of interest guidelines for securities analysts; (VI) establishes resources and authority of the PCAOB; (VII) allows for studies and reports by the Government Accountability Office, studies of violations and enforcement actions; (VIII) corporate and criminal fraud accountability and criminal penalties for altering documents and defrauding shareholders; (IX) white-collar crime penalty enhancements; (X) requires corporate tax returns to be signed by chief executive officers; (XI) amends Federal Sentencing Guidelines and provides additional guidelines related to corporate fraud and accountability as well as protections of informants.

([https://pcaobus.org/About/History/Documents/PDFs/Sarbanes\\_Oxley\\_Act\\_of\\_2002.pdf](https://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf))

**2002:** As Congress enacted SOX, the Auditing Standards Board of the AICPA issued Statements on Auditing Standards (SAS), No. 99 and 113 to help re-establish public trust in the accounting profession and directly address the issues that led to the public company scandals of 1999-2001. These standards charge accountants with the responsibility of "Consideration of Fraud in a Financial Statement Audit" and provides specific requirements and guidelines on how this should be accomplished. For example, brainstorming among the audit team members

on how the entity's financial statements might be susceptible to material misstatement due to fraud and how management could perpetrate and conceal fraudulent financial reporting and how assets could be misappropriated. Also, mandated discussions with management and internal auditors regarding internal controls and potential instances of fraud. (<https://www.aicpa.org/research/standards/auditattest/downloadabledocuments/au-00316.pdf>)

**2007:** As part of the continuing efforts to improve self-governance of the accounting profession, NASBA and the AICPA revised the Uniform Accountancy Act (UAA) to provide additional guidance to state accountancy boards. Revisions included: “guidelines for ascertaining the lack of ‘good moral character,’ uniform ethics continuing professional education requirements, guidelines for compliance assurance and peer review, and a model code of conduct” (<https://nasba.org/blog/2007/08/02/uaa-model-rule-changes-approved/>).

**2014:** To provide further compliance with SOX and clarify expectations of CPAs, the AICPA Code was recodified on June 1, 2014, and became fully effective on December 15, 2015 (Mintz, 2008). A significant change in the revised code is the creation of a new section, “Ethical Conflicts” which are described as “(a) Obstacles to following an appropriate course of action due to internal or external pressures (b) Conflicts in applying relevant professional standards or legal standards. For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member’s responsibility to maintain client confidentiality” (AICPA, 2014, p. 31). It also provided guidance on actions to take once an ethical conflict is encountered and consequences for failure to follow such guidance.

### **2.6.2: Accounting Ethics Research**

In 1969, the first accounting ethics research article appeared in the *Business & Society Journal* (Bernardi & Bean 2007). Bernardi and Bean (2005, 2007, respectively) examined the

level of accounting ethics research published in ethics journals by accounting doctorates during the 30- and 45-year periods (1968-2002 and 1960-2004, respectively) and identified a dramatic increase in the level of research published during this period (Bernardi & Bean, 2007). Bampton and Cowton (2013) observed that, until the middle to late 1980s, accounting ethics generally did not receive much attention from researchers until the American Accounting Association (AAA) initiated the annual AAA Ethics Research Symposium (p. 549). The Symposium encouraged research on the ethical applications of teaching, practice, and business and provided outlets in which this research could be published (Bampton & Cowton, 2013). In the mid-1990s, the launch of the journal *Research on Professional Responsibility and Ethics in Accounting Journal* (RPREA) helped to increase this research (Bampton & Cowton, 2013, Bernardi & Bean, 2007).

Bampton and Cowton (2013) completed an analysis and review of 520 articles from accounting and business ethics academic journals published between 1987 and 2008. The structure of the findings is different than the research on ethical decision making. For example, they categorized the findings by general fields of accounting ethics:

- Accounting History
- Accounting Profession
- Accounting Theory
- Auditing
- Computing
- Critical, Social & Environmental
- Education
- Financial Accounting & Reporting
- Financial Institutions, Instruments & Regulation
- Financial Markets & Market Behavior
- Gov't, Public Sector & Other Not-For-Profit Organizations
- Industries & Specific Organizations
- International Aspects
- Management Accounting
- Managerial Finance/Financial Management

- Market-Based Accounting Research
- Methodology & Methods
- Other Aspects of Accounting & Finance Practice, Theory & Research
- Other Business Finance
- Taxation & Law

The top four subject areas account for 81.5% of the studies: Accounting Profession (30%), Education (25%), Auditing (17.5%), and Financial Accounting & Reporting (9%). Fifty-one percent (51%) were empirical studies that focused more on stated attitudes than on actual behavior. The majority of articles were published in RPREA (31.3%) and *Journal of Business Ethics* (22.8%).

The authors provided a comparative assessment of the empirical research by evaluating the data collection methods, validity of research instruments, sampling method, response rates and Nonresponse Bias, and recommendations for future research. They noted that limitations of the articles reviewed during this period included: English-language journals only, academic journals, predominant use of surveys, and concerns of nonresponse and social desirability response biases. The following is a summary of the content analysis conducted by Bampton and Cowton (2013):

- Moral Reasoning: Many of the articles on the accounting and auditing profession examined the moral reasoning and ethical judgments of practicing accountants, the development of the ethical dimension of accounting, the factors that affect decisions made by accountants, and why these factors are influential. There were conflicting results as to whether moral reasoning is higher at staff and senior levels in auditing firms and lower at the management and partnership levels as well as for older individuals. (pp. 545-555)

- Gender: “Similar to business ethics literature findings, several studies suggest that female accountants as well as female accounting students respond with more ethical sensitivity to moral dilemmas” (p. 545).
- Cognitive Moral Development (CMD): The influence of CMD on auditors’ ability to resist client demands and demonstrate independence has been examined in several studies. The results suggest that auditors with a higher level of moral reasoning are more likely to resist the demands of audit clients, are more sensitive to ethical issues, and are less likely to compromise their independence. (p. 555)
- Self-Regulation of the Profession: Studies in the 1990s concluded that self-regulation was an ineffective defense against abuses of power and that the profession should be subject to independent regulation (p. 555). However, Moriarity (2000) found increased instances of the AICPA imposing sanctions on firms that provided substandard service along with a trend toward more suspensions and a more consistent approach to imposing sanctions.
- Ethics Education: This is considered to be a key factor in influencing the future of the accounting profession, even being referred to as a “sub-discipline” (Uysal, 2010, p. 137 as cited in Bampton & Cowton, 2013). Two main areas of research were identified: (a) comparing the moral standard of accounting students with other students and (b) whether the teaching of ethics should be an integral part of accounting courses and any potential long-term effect of such teaching on moral reasoning (pp. 555-556).
  - The reasons for these different results could include factors such as the moral atmosphere and type of educational institution (e.g., moral

atmosphere may be related to an institution's size—students enrolled at smaller universities may be less likely to indulge in unethical behavior because they do not have the same degree of anonymity as they would at a larger institution), gender differences, regional variations, and students' inability to relate to the research methods used (e.g., DIT) (p. 556).

Other research studies using Rest's DIT are included in Christensen's 2016 meta-analysis which aggregated 47 studies that "investigate the relationship between the DIT measures of moral reasoning with variables commonly explored in accounting research" (p. 143). The analysis analyzes six research questions which include ethical choice and the effectiveness of ethics instruction. "The term, ethical choice, is used to encompass ethical behavior, ethical intentions and ethical decisions in response to vignettes, hypothetical dilemmas or observed behavior" (Christensen et al., 2016, p. 143). Their analysis identified that there was a significant correlation between the DIT *P* scores and ethical choice in 9 studies involving 602 accounting students, but they do recommend that future research includes a larger sample to confirm these results. For ethics instruction, they categorized the studies into two types: those with ethics instruction embedded in an accounting course and those with a stand-alone ethics course. The findings imply that the former generally had a small but significant positive effect on the DIT *P* scores, the latter did not. Since accounting ethics education is such an important subcategory and, given its relevance to the core subject matter of this research, the next section extends this discussion of accounting ethics education.

### **2.6.3: Accounting Ethics Education**

Since the mid-1980s, several groups associated with accounting associations have encouraged ethical education in accounting, starting with the American Accounting



Association Committee's report in 1986, "Future Structure, Content, and Scope of Accounting Education," and continuing, in 1987, with the Treadway Commission Report (Mele, 2005). While codes of conduct for accountants give guidelines for proper behavior in the profession, experts and researchers in accounting ethics (i.e., Loeb & Rockness, 1972) suggest that ethics education for college students and practicing accounting professionals move beyond the codes with the goal being to apply moral principles to various situations (Mele, 2005). Mele (2005) discusses various approaches to teaching ethics to accounting students and professionals as well as some shortcomings of ethical education in accounting. He states that "although teaching these theories develops students' skills in solving ethical dilemmas, applying theories and determining what is right according to a set of duties or systematically analyzing the consequences, this does not motivate students to act well. Ethics cannot become so mechanical as merely applying a rule, a 'technology' for solving moral dilemmas" (p. 100).

Ward et al. (1993) noted negative views from their survey of CPAs in the United States, which included: "35.3% disagreed with the view that accounting educators have helped the profession to confront and solve moral and ethical dilemmas and 20% disagreed with the view that individuals could learn ethical behavior and professionalism in a classroom setting" (p. 608). They also noted a wide breadth of views regarding ethics teaching, from simply not being relevant to being redundant.

Bampton and MacLagan (2005) noted that "in the real world" organizations are becoming more ethically aware and demonstrate this through implementing codes of ethics, increasing disclosures in financial accounts, and paying more recognition to environmental and other ethical issues. They concluded that, apart from instances of malpractice, the view that businesses are solely concerned about bottom-line profits is becoming less common.

Another encouraging sign that accounting ethics education continues to be taken more seriously is Bampton and Cowton's (2013) literature review (*see Section 2.6.2*). The focus of moral and ethics training in the academic journals has increased "to the extent that Uysal (2010, p 137) refers to it as a 'sub-discipline'" (Bampton & Cowton, 2013 p. 555). According to Bampton and Cowton (2013), the education debate covers "two main areas of research: (a) whether accounting students have a higher or lower moral standard than other students and (b) whether the teaching of ethics should be an integral part of accounting courses and whether there is any long-term effect" (p. 556).

For the practicing professional, one of the actions taken by many states is the requirement of Continuing Professional Education (CPE) in ethics. Why is this important, and can it change behavior? Ethics education is one way in which accountants maintain the perspective and judgment to see beyond the rules. Mele (2005) goes further to suggest that the goal of ethics education is to achieve good behavior; it should "insist on awakening moral sensibility, help make sound moral judgments, induce moral motivation and encourage moral virtues" (Mele, 2005, p. 105). In 2005, NASBA issued Proposed Revisions to the Uniform Accountancy Act and stated that they "believe the ethics CPE issue needs immediate attention from NASBA, CPA state licensing boards, state CPA professional associations, and potentially Congress" (NASBA, 2005) to help address CPA behavior and to restore public trust. To understand the effect of ethics education, the following section reviews research into the unethical actions of CPAs and the impact of enforcement and disciplinary sanctions on such behavior.

## **2.7: The Impact of Enforcement on Disciplinary Sanctions**

Spencer et al. (2015), suggests there are two purposes of CPA licensure: the first being to protect the public interest by implying a certain level of education, expertise, and experience; the second to reward members in good standing (p. 60). Therefore, in order to safeguard the trust in licensing, it is important to discipline behavior that fails to comply with licensing standards. This section identifies studies that examined violations by CPAs, enforcement and disciplinary actions taken in response to violations, and the reporting of sanctions of CPAs. As a self-regulated profession, the accounting profession in the United States receives its oversight from professional societies, such as the AICPA, from state boards of accountancy, and from government agencies such as the PCAOB and SEC. Professional discipline or sanctions of CPAs can be imposed by all these entities, with some limitations. The AICPA can discipline only its members; state boards can discipline only licensees in their respective state; and the SEC can investigate and discipline CPAs who attest to statements filed with the SEC (but can also recommend criminal or civil prosecution by the Department of Justice) (Benston, 2003). Even with all these avenues, disciplinary actions are still a relatively uncommon occurrence.

This section provides a summary of articles, beginning with *Table 3*. This is followed by subsections describing the research related to the actions of each professional oversight body (the AICPA, PCAOB, and state boards of accountancy). It concludes with a discussion of other, relevant studies.

*Table 3* summarizes these studies as Pre-SOX (prior to enactment of SOX in 2002) and Post-SOX and cites the regulatory body whose actions are reviewed. Most of these studies were performed after the 1988 enactment of the AICPA's Code to identify the Code's potential effectiveness. After the 2002 implementation of SOX, additional studies were performed to

identify changes in behavior or oversight. The table is sorted by the period covered by the study.

***Table 3: Summary of Studies by Time Period***

<b>Author(s) / Year of Publication</b>	<b>Pre-SOX</b>	<b>Post-SOX</b>	<b>Regulatory Body</b>
Loeb (1972)	1905-1969		One US state
Badawi (2002)	1994-1995 & 1980-1990		AICPA
Moriarity (2000)	1988-1999		AICPA
Armitage & Moriarity (2016)	1980 – 2014	1980-2014	AICPA
Baïada-Hirèche & Garmilis (2016)		1994-2006	NY state board of accountancy
Cardona et al. (2019)		2002-2010	Puerto Rico state board of accountancy
Abernathy et al. (2013)		2002-2012	PCAOB
Gilbertson & Herron (2009)		2005-2008	PCAOB
Jenkins et al. (2018)		2008-2013	AICPA
Krom (2019)		2008-2014	States' licensing boards of accountancy
Jenkins et al. (2020)		2008-2016	State boards reporting to AICPA

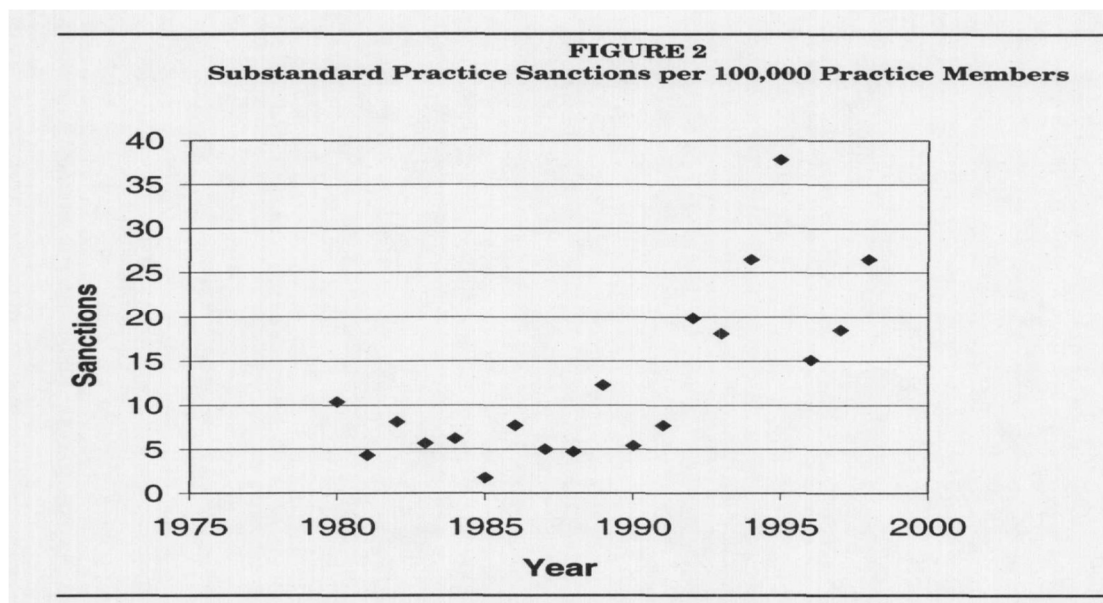
Since public scrutiny has impacted both the actions of the regulatory bodies and the individual professionals, these studies lead to the question, “Would accounting professionals' ethical judgment be influenced by the disciplinary system established by the accounting profession?” (Baïada-Hirèche & Garmilis, 2016, p. 639). For example, Baïada-Hirèche and Garmilis (2016) found that the judgment of American accounting professionals is correlated with the disciplinary decision of the accountancy board. They conducted their study in France and the United States, using data for the period 1994-2006 obtained from the New York State's Office of the Professions. After comparing and contrasting both countries, they concluded that effective and enhanced oversight and disciplinary sanctions could decrease unethical behavior of accountants (Baïada-Hirèche & Garmilis, 2016). This sentiment is echoed by others, such as Peytcheva and Warren (2011), who based their research on social learning theory as

predictors of auditor professionalism. They identified reinforcements (specifically, sanctions of professional violations) and retention (specifically, internalization of professional standards). In addition, some studies reviewed by Bampton and Cowton (2013) concluded that self-regulation was an ineffective defense against abuses of power and that the profession should be subject to independent regulation (which was also the conclusion leading to the enactment of SOX).

### **2.7.1: AICPA Actions**

Moriarity (2000), in his review of sanction trends against AICPA members, found an increased incidence of sanctions being imposed on firms that provided substandard service and a trend toward more suspensions and more consistency in the approach to imposing sanctions (see *Figure 3*).

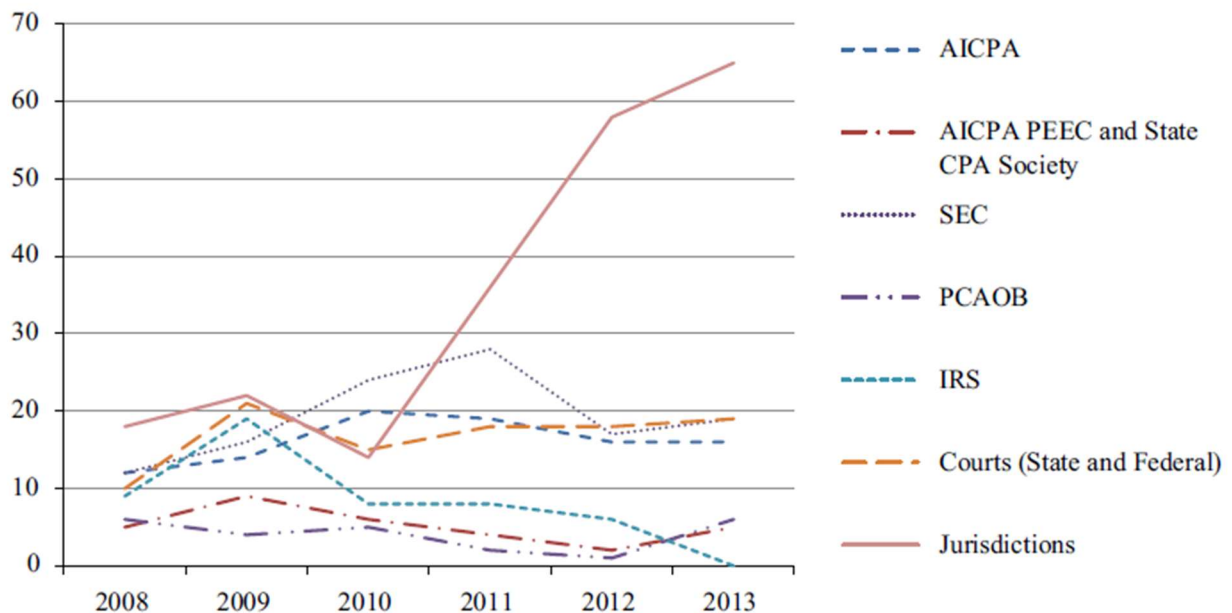
***Figure 3: Substandard Practice Sanctions*** (Moriarity, 2000):



Jenkins et al. (2018) analyzed violations of the AICPA's Code and the resulting sanctions and disciplinary actions using specific AICPA Code rule and bylaw levels. They

used Moriarty's (2000) data (1980-1998) to analyze whether sanctions imposed between 2008 and 2013 appeared at the same annual frequency and created a relative measure of disciplinary sanctions per 10,000 AICPA members. Noteworthy is that the annual per-member sanction rate was generally higher in the period following the implementation of the Code in 1992, which was consistent with the overall trend in annual sanctions across these same periods. They also compared recessionary versus post-recessionary periods (see *Figure 4*) and concluded that the “recent high-sanction rates were due to either an increasing number of violations or an increasing number of sanctions imposed in the post-SOX era due to increased enforcement efforts, or both” (Jenkins et al., 2018).

**Figure 4:** Sanctions by regulatory body 2008-2013 (Jenkins et al., 2018):



### **2.7.2: PCAOB Actions**

The first report on the results of the PCAOB enforcement program was that of Gilbertson & Herron (2009), who examined the characteristics of firms disciplined by the PCAOB between 2005 and 2008. Their primary focus was on how these disciplined firms and

related clients differed from the general population of inspected deficiency firms and their clients. In particular:

- Are disciplined firms similar to deficiency firms, or are they different in some ways?
- Are issuer clients of disciplined firms different from those of deficiency firms?
- What else can be learned by examining the disciplined firms and their issuer clients?

They observed that 94% of the enforcements against firms in the first three years of the program involved small firms, a higher rate than that noted in prior research involving SEC enforcements (Gilbertson & Herron, 2009). Next, they identified that the triennially inspected firms that were disciplined differed from those that had deficiencies not resulting in sanctions. Disciplined firms generally had more deficiencies noted in their inspection reports than did nondisciplined deficiency firms. Overall, only 5 of the 20 (25%) actions received the harshest penalty available to the PCAOB (Gilbertson & Herron, 2009).

A review of PCAOB research over a 10-year period (2003-2013) was published by Abernathy et al. (2013), which did not find any additional studies similar to those of Gilbertson and Herron since 2009. They did, however, identify research that found that perceptions of the credibility of future audit opinions by nonprofessional investors were impacted by factors such as the severity of deficiencies identified by PCAOB, the firm's responses, and the firm's size. They also noted that the literature contends that PCAOB-identified deficiencies resulted in market penalties for audit firms (Abbott et al., 2013; Daugherty et al., 2011; as cited in Abernathy et al. 2013).

### **2.7.3: State Boards of Accountancy Actions**

To identify disciplinary actions against an individual CPA, the website [www.cpaverify.org](http://www.cpaverify.org) can be used and most individual state websites provide a search engine to

look up an individual licensee. To identify disciplinary actions against *all* CPAs in an individual state, however, is another matter. While all states have licensee databases, the information provided by the databases varies. Spencer et al. (2015) compiled a list of the disclosure methods used by all U.S. states to report CPA disciplinary actions. Some states provide board minutes disclosed on the state's website, some issue newsletters, and others maintain a centralized listing or database of investigations. Some states provide the actual document or resolution of the CPA's disciplinary action, some provide a detailed summary or listing, while others do not provide any detail, or the information could not be found on the website. Although NASBA maintains a national database of CPAs, the information they collect related to sanctions or disciplinary actions by individual states is not publicly available. Such inquiries are directed to the individual states. One of the earliest studies that reviewed disciplinary actions issued by state boards of accountancy is that of Loeb (1972), which reviewed cases that were considered by the state society between 1905 and 1969 and cases known to have been considered by the state boards of accountancy between 1913 and 1969. He compared ethical violations of the accounting profession and the legal profession of a large midwestern state and noted that not all cases prosecuted by the society were also handled by the state board, and conversely (Loeb, 1972). An important finding is that between 1905 and 1932 (when the society adopted a code of ethics) there were no reported ethics violations. Most violations occurred between 1947 and 1969. Loeb (1972) observed that "offenses against colleagues appeared to be the predominant violation punished while client violations seldom appear to be disciplined" (p. 4). This research revealed a pattern which indicated that notoriety of a violation appeared to influence the severity of punishment. "Notoriety was defined as the presence of one or more of the following factors: (a) some record of public inquiry, (b)



coverage in the mass media, (c) an advertisement seen by a large number of persons, and (d) a solicitation letter seen by a large number of persons” (Loeb, 1972, p. 8). He noted that more severe sanctions were imposed for Code violations against public interests than against private interests (Jenkins et al., 2018).

Bédard (2001) reviewed sanctions by the Quebec Chartered Accountant’s professional association (OCAQ) and found that the violation of public interest rules resulted in stiffer sanctions, with a higher frequency of suspensions and higher fines.

Krom (2019) analyzed disciplinary actions by state professional licensing boards for CPAs, physicians, and lawyers in four U.S. states (California, New York, Texas, Illinois) for the period 2008-2014. These states accounted for 40% of the licensed professionals (combined) at the time. Of the “769 sanctions of CPAs within these four states, 25.6% of CPA licenses were restricted, 19.7% were suspended, and 20.3% were revoked; 16.5% of CPAs surrendered their licenses, 16.1% were censured/reprimanded, and 1.8% received other sanctions” (Krom, 2019). She observed that states differed in how they issued disciplinary actions and that CPAs were significantly more likely to lose their licenses permanently for a Federal or state conviction (66.7%) than were attorneys or physicians. This study also raised “important questions about the rationale and justness of professional disciplinary actions for social crimes and moral turpitude” (Krom, 2019). Reasons for sanctions were categorized as professional practice misconduct (48.6%), actions in other jurisdictions (14.1%), Federal or state convictions (excluding social crimes) (28.1%), and social crimes (9.2%).

Jenkins et al. (2020) studied states’ boards of accountancy participation in monitoring the conduct of accounting professionals under the AICPA Code for the period 2008-2016 to determine the extent to which a state board’s reporting of violations to the AICPA is associated

with its adoption of the AICPA Code. This study identified 358 disciplinary actions across the entire United States. The difference in the totals was because the population studied in Jenkins et al. (2020) represented the number of sanctions imposed by the AICPA under its Code, whereas Krom (2019) reported the disciplinary actions actually publicized by the four state boards. According to Jenkins et al. (2020),

Further contributing to the difference: (1) the AICPA might not act on a state board's reported disciplinary action because it does not map to the AICPA's CPC (2) Krom's (2019) reports "ricochet" sanctions that appear multiple times in the dataset as a single CPA being disciplined by multiple state boards for the same office and (3) the burdensome data collection process as documented in these studies makes it possible that the AICPA might not have located all the state board disciplinary actions during this time period. (p. 6)

The study concluded that states that fully adopted the AICPA's Code were not associated with higher levels of violation reporting; in fact, state boards that more fully adopted the AICPA's Code appeared to be less engaged in monitoring, particularly when compared to states with partial adoption. Also, since state boards report these violations to NASBA's Accountancy Licensee Database (ALD), they may feel a level of reporting redundancy when notifying the AICPA of the same issues (Jenkins et al., 2020).

#### **2.7.4: Other Studies**

Other studies have reviewed the impact of enforcement and oversight in various contexts, such as firms' reactions to disciplinary actions, the effect on shareholders (Pacini & Hillison, 2003), the effect on auditor quality (Moehrl et al., 2013), and the impact on the tone of the firm/organization (Gerstein, 2014). Pacini and Hillison (2003) studied the impact of a

state board's actions in 1990 against a Big 4 accounting firm, which resulted in not only adversely affecting the reputation of the firm and raising concerns of their publicly traded clients, but also causing investors to react negatively. They noted that "it appears shareholders do consider certain elements of audit quality and the insurance value of the audit as a component of share price for clients of Big 4 firms" (Pacini & Hillison, 2003, p. 294).

Consequently, what is the effect of enhanced disciplinary actions as well as disclosure of these actions on the public trust, on CPAs, and on shareholders? Jenkins et al. (2018) discussed the effect of disciplinary actions (post-SOX) on public trust and proposed possible solutions to improve public transparency; for example, that the AICPA consider public reporting of trend information regarding accountants' conduct and related sanctions, along with a summary of the steps being taken to address areas of concern. Krom (2019) examined the effect of professional licensing boards (for attorneys, CPAs, and physicians) on public trust. Mescall et al. (2017) found that disciplinary committees were more likely to demand rehabilitation outcomes and greater future monitoring for offenders.

#### **2.7.5: Summary of Relevant Studies**

This section provides a summary of studies whose research methodology and subject focus are similar to this proposed research. Four U.S. studies (Krom, 2019; Jenkins et al., 2018; Jenkins et al., 2020; Moriarity, 2000) were included in Table 3 and discussed in sections 2.7 through 2.7.5. Two additional studies are relevant but focused their research on Canadian Chartered Accountants (Bédard, 2001; Mescall et al., 2017). These six studies are listed in Table 4 summarizing the categories used to code the types of unethical acts committed by those CPAs. Examples of Criminal Acts include felony or misdemeanor convictions such as: Fraud, Theft, Bribery, Money Laundering, Securities Violations, Income-Tax Related. Examples of Substandard Professional Service Issues include Standards or Principles,

Independence, Competence or objectivity, Failure to return client records. Types of Social Crimes include convictions related to substance use, driving or sex, nonpayment of education loans or child support, drug possession, driving- related, personal tax return misconduct.

**Table 4: Summary of categories used for coding cases**

Study	Variables Coded					
	Criminal Acts	Substandard Professional Services	Failure to meet CPE	Type of Rule Violated	Public vs. Private Violations	Other
Moriarity 2000	X	X	X			Failure to cooperate in investigation or to comply w/a directive
Bédard 2001				X	X	
Mescall et al. 2017				X	X	Coded for multiple violations
Jenkins et al. 2018				X		
Cardona et al. 2018	X	X				Noncompliance w/Puerto Rico Society of CPAs regs
Krom 2019	X	X				Social crimes and other jurisdictions

These six studies also provided information on the types of sanctions or disciplinary action taken against CPAs who committed acts in violation of state board or other regulatory body codes of conduct. The coding categories for types of sanctions is provided in **Table 5**.

**Table 5: Types of Sanctions**

Study	Variables Coded				
	Admonished/ Reprimanded	Suspended	Revocation/ Expelled	Other	Fine
Moriarity 2000	X	X (included length of suspension)	X		
Bédard 2001	X	X (noted whether Temporary or Indefinite)			X
Mescall et al. 2017	X	X (included length of suspension)	X	X (included further actions such as: reinvestigation, supervision, disallowed services)	X

<b>Jenkins et al. 2018</b>	X	X	X		
<b>Cardona et al. 2018</b>	X			X (noted warnings – verbal or written, mandated CPE, referral to PR Society of CPAs)	
<b>Krom 2019</b>	X	X	X (also identified whether voluntary surrender)	X (noted any license Restrictions and “other” types of sanctions)	

These studies provide the basis for analysis of cases identified in this research. Section 2.8 outlines development of the research questions. Chapter 3 discusses the methodology that will be used to analyze this data.

## **2.8: Summary and Development of Research Questions**

### **2.8.1: Chapter Summary**

Since the time of Confucius, there has been an expectation of morality in our human society. How a person becomes ethical is debated – whether they are born with such tendencies (Plato) or whether they can be taught this behavior (Aristotle) – and that debate continues today. As professions developed, characteristics were identified such as specialized knowledge, a formal education process, professional culture/associations, and a special designation. Another common characteristic that defines a profession is public trust. Therefore, members of a profession, such as accounting, are held to a higher moral (or ethical) standard since the public trusts them to perform at a certain level or trusts their assurances to make decisions (such as investment decisions).

A code of ethics is another attribute of a profession and, as the accounting profession developed, its professional associations developed codes of conduct (or codes of professional ethics) worldwide. While this paper focuses on the U.S. Accounting profession, the

expectation of a higher ethical conduct of accountants is demonstrated throughout accounting regulatory bodies and professional associations around the world.

The theoretical framework supporting the importance of ethics and ethical decision making within the accounting profession includes the multi-level theory of moral collapse – identifying that the ethics at the individual level are necessary to reduce occurrences of unprofessional or fraudulent activity. The Fraud Triangle Theory identifies the three main conditions that are present when fraud is committed. By understanding this theoretical framework, CPAs can not only better identify when others commit fraud or fraudulent reporting, but they can recognize conditions that may provide the temptation for them to commit fraud or unprofessional acts.

The accounting profession, for many years, maintained self-regulation. There were times when fraudulent or questionable financial reporting of public companies rose to the level of congressional inquiry each decade from the 1960s-1990s. Each time the accounting profession and its professional associations came together to investigate the causes of failures of the profession and identify new and enhanced guidance to help maintain the profession's credibility and the public trust. However, in 2002, after the failure of major companies such as Enron, WorldCom and the accounting firm Arthur Andersen, the U.S. Congress enacted the Sarbanes-Oxley Act of 2002. This Act created a federal oversight agency of the accounting profession – the PCAOB, along with additional guidelines and rules for accounting firms and stricter reporting requirements to the SEC for publicly traded companies. This was an effort to restore public trust in the accounting profession, provide more accountability by accounting firms to identify and report fraudulent acts and protect investors from fraudulent acts by companies. Soon afterward implementation of SOX, other U.S. accounting professional

associations and related associations, such as NASBA, AICPA, COSO, revised codes of professional ethics, provided additional auditing and regulatory guidelines and ethics educational requirements.

Research into accounting ethics and ethics education began in 1972 with Loeb (1972), then in the 1990s research accelerated – partly due to the AAA Ethics Research Symposium. Also, after the implementation of codes of conduct or the publication of behavior expectations of professionals, studies have examined whether changes to behavior occurred. For example, Loeb (1972) reviewed AICPA Code violations, Moriarity (2000) studied the impact of the 1988 implementation of the AICPA Code of Professional Conduct, and various scholars reviewed the effectiveness of the PCAOB after the 2002 enactment of SOX (Jenkins et al., 2018; Krom, 2019; Hogan et al., 2008; Armitage, 2016; Gilbertson et al., 2008; Abernathy, 2013; Wegman, 2008). This research has helped to shape codes of conducts and identify characteristics of companies, key individuals and accountants who commit fraudulent acts in an effort to help improve the profession's quality of services and maintain its reputable standing as a profession.

Studies also examined the trends of enforcement actions by professional accounting regulatory oversight bodies – primarily the AICPA, the SEC, and the PCAOB (Moriarity, 2000; Badawi, 2002; Bédard, 2001; Mescall et al., 2017; Cardona et al., 2018; Jenkins, 2018; Jenkins, 2020). Two studies compared oversight actions by the accounting profession with other professions (Loeb, 1972; Krom, 2019). Very little research has been conducted analyzing the actions sanctioned by the states' accountancy boards (Bañada-Hirèche & Garmilis, 2016; Cardona et al., 2019; Jenkins, 2020; Krom, 2019; Loeb 1972). This is

primarily because the information is not always publicly available and there is no consistency of format or enforcement from state to state. This research attempts to fill that gap.

### **2.8.2: Development of Research Questions**

The purpose of this research is to determine whether increasing ethics CPE requirements affects the number and severity of unethical acts committed by CPAs. I propose to answer the overall question: Has increased oversight by state boards of accountancy contributed to better accountability and less unethical behavior by CPAs?

Why is it important to analyze professional oversight and the resulting disciplinary actions and sanctions against accountants? There are two reasons: (1) reducing instances of unethical behavior of individual accountants and (2) potentially restoring the public trust. Therefore, a review of the actions taken by state boards of accountancy is important since these regulatory bodies are charged with licensing accounting professionals and enforcing laws that regulate the practice of public accounting. The state boards have the power to issue, suspend, and revoke the certificate of CPAs which allows them to practice in their respective states. Additionally, the AICPA Code section, “Ethical Conflicts” (AICPA, 2014, p. 31), which now links independence to the conflicts of interest provision (Mintz, 2008), enhances the responsibility of the profession to monitor ethical conduct and take appropriate actions. Jenkins et al. (2020) pointed out that it is unclear whether any single authoritative body has a complete picture of trending CPA behavior.

Disclosure transparency of the actions sanctioned against CPAs appear appropriate, considering that state boards receive (at least partial) funding from public dollars, and the impact that public disclosures could have on CPA behavior (Jenkins et al., 2020; Mescall et al., 2017). Even though the NASBA’s ALD is intended to serve as a clearinghouse, the



information is not publicly available, and access is limited to state boards of accountancy and their staff. Therefore, the questions proposed by this study seek to address most of these issues by identifying the actions taken by selected state boards of accountancy within the United States.

Research Question 1 (RQ1) and Research Question 2 (RQ2) propose evaluating, on a state-by-state basis, whether there were changes - after ethics CPE requirements were mandated in each of those states - to CPAs' ethical behavior and/or the number and type of disciplinary actions sanctioned by those states. This approach is similar to that of Mescall et al. (2017) and Bédard (2001).

**Research Question 1:** In states where ethics CPE requirements increased between 2008 to 2019, was there a change in the number of disciplinary actions by those state boards of accountancy after the CPE requirements increased?

**Research Question 2:** In states where ethics CPE requirements increased between 2008 to 2019, was there a change in the (a) severity of violations committed by licensed CPA and (b) severity of disciplinary actions taken by those state boards of accountancy after the CPE requirements increased?

Research Question 3 (RQ3) and Research Question 4 (RQ4) propose evaluating the number and severity of violations committed by CPAs and disciplinary actions sanctioned on CPAs in states where there was an increase in ethics CPE requirements compared to those states where there were no such requirements. The methodology used is similar to that of Krom (2019) and Mescall et al. (2017).

**Research Question 3:** From 2008 to 2019, did the number of disciplinary actions by states where there were changes to ethics CPE requirements differ from states where the ethics CPE requirements remained zero?

**Research Question 4:** From 2008 to 2019, did the (a) severity of violations committed by licensed CPA and (b) severity of disciplinary actions by states where there were changes to ethics CPE requirements differ from states where the ethics CPE requirements remained zero?

Research Question 5 (RQ5) and Research Question 6 (RQ6) propose evaluating the number and types of disciplinary actions sanctioned on CPAs in states where there were the same ethics CPE requirements from 2008 to 2019 compared to those states where there were zero ethics requirements for that same period. The methodology used is similar to that of Krom (2019) and Mescall et al. (2017).

**Research Question 5:** From 2008 to 2019, did the number of disciplinary actions by states where there were zero ethics CPE requirements differ from states where the ethics CPE requirements remained the same?

**Research Question 6:** From 2008 to 2019, did the (a) severity of violations committed by licensed CPA and (b) severity of disciplinary actions by states where there were zero ethics CPE requirements differ from states where the ethics CPE requirements remained the same?

The lack of specific research related to the disciplinary oversight of CPAs by states' boards of accountancy have been noted and reveals the gap in research that this work addresses, in part. The focus of this research is to examine if there are differences in the number and severity of sanctions taken by state boards in states where there were:

(a) changes to ethics CPE requirements (comparing the states' actions before and after the change in their respective state);

(b) changes to ethics CPE requirements compared to those states with zero ethics CPE requirements, and,

(c) consistent ethics CPE requirements between 2008 and 2019 compared to those states with zero ethics CPE requirements.

It is expected that states requiring ethics CPEs would have a lower severity score of acts committed by CPAs as well as a lower severity of disciplinary actions than states with zero requirements based on Aristotelian belief that the teaching of ethics provides a person

with the tools necessary to discover the one right action in a particular situation (West, 2017).

The following chapter will discuss this research's design and methodology.

## CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

### Chapter 3 – Research Design and Methodology

- 3.1 Overview
- 3.2 Sample Selection Methodology
- 3.3 Data Collection Process
- 3.4 Data Coding Process
- 3.5 Measures/Variables
- 3.6 Data Analytics

#### 3.1 Overview

This chapter discusses the sample selection methodology and the processes used to collect, code and analyze the data in order to test the proposed research questions.

#### 3.2 Sample Selection Methodology

The population used for this study are the 50 states within the U.S. – no U.S. territories were included. The first step in the sample selection process was to identify the ethics CPE requirements for each of the 50 states. Therefore, as a baseline, the 2008 NASBA chart of the Ethics Requirements by State as of September 17, 2008, was used to identify each state's number of ethics CPE hours required in 2008. The second step was to review the websites of each of the 50 states to identify the number of ethics CPE hours required as of October 2019. The third step was to compare the differences between each state's 2008 and 2019 ethics CPE hours and identify whether the number of hours changed or stayed the same. The fourth step was to divide the 50 states into the following four groups.

1. **Group 1 (CPE\_Zero):** States that did not require any ethics CPE hours in 2008 and remained zero as of October 2019. The name for this group is CPE\_Zero. A total of 4 states are in this group (AL, GA, SD, WI).

2. **Group 2 (CPE\_Increase\_0):** States that did not require any ethics CPE hours in 2008 but since implemented ethics CPE requirements as of October 2019. The category name for this group is CPE\_Increase\_0. A total of 8 states are in this group (HI, KY, NM, ND, PA, SC, UT, WV). To identify the year that the ethics CPE requirements were implemented for the states within this group, the websites will be reviewed for this information or the respective state board will be contacted directly for this information.
3. **Group 3 (CPE\_Increase):** States that required ethics CPE hours in 2008 then increased those requirements at some point after September 2008 but before October 2019. The name for this group is CPE\_Increase. A total of 2 states are in this group (CO, OK). To identify the year that the ethics CPE requirements were changed for this group, the websites will be reviewed for this information or the respective state board will be contacted directly.
4. **Group 4 (CPE\_Same):** States that required the same number of ethics CPE hours in 2008 and remained the same in 2019. The name for this group is CPE\_Same. A total of 36 states are in this group. Of this group, only 4 states were included in previous, similar research (Krom, 2019). Since that research spans a portion of the time period covered by this study (2008-2014), those 4 states are included in this sample (CA, IL, NY, TX). The remaining 32 states are excluded from this study.

Overall, a total of 18 states are included in the sample (AL, CA, CO, GA, HI, IL, KY, NM, ND, NY, OK, PA, SC, SD, TX, UT, WV, WI). The remaining 32 states are not included in this study since there was no change in their ethics CPE requirement nor were they previously studied during this covered period.

To validate the size of this sample, the following were obtained: population of the selected states, the number of active licensed CPAs, and the number of persons regulated by state CPA licensing boards:

- The population of the states included in the sample were obtained using the U.S. Census data from 2020, consistent with prior research (Jenkins, 2020). The sample includes 50% of the overall U.S. resident population of 331,449,281 (U.S. Census Bureau, 2020). *(See Appendix A)*
- The number of active licensed CPAs was obtained from NASBA's State Board Profile report dated May 27, 2020 (NASBA State Board Profile, 2020). The sample includes 51% of the 669,595 licensed CPAs in the continental United States. *(See Appendix A)*
- The number of regulated persons "represents CPAs that currently have a license and/or are currently paying some type of renewal fee; they may be active or non-active, however" (NASBA State Board Profile, 2020). This number is reported to NASBA by state CPA licensing boards and is used in this study consistent with prior research (Krom, 2019). Where regulated persons were not reported, the number of active licensees (CPAs) for the state was used. The number of regulated persons was obtained from the 2020 NASBA State Board Profile report dated May 17, 2020. The sample includes 52% of the number of regulated persons in the continental United States. *(See Appendix A)* Consistent with prior research (Jenkins, 2020), the number of licensed professionals used in the data analysis is the most recent available and does not reflect the number in each respective year.

### **3.3 Data Collection Process**

The following steps describe the process of data collection for this research.

- **Step 1:** The websites of the selected states were reviewed for the availability of information related to the disciplinary and enforcement sanctions taken against CPAs licensed in those states and to determine the actions by those CPAs that led to the sanctions (*see Appendix B*).
- **Step 2:** Consistent with prior research (Krom, 2019) data will be hand-collected from the public information available on each state's website.
- **Step 3:** Summary data for Group 4 the period 2008-2014 was obtained from published research (Krom, 2019). Information for these states for the remaining years of 2015-2019 will be hand-collected from the public information available on each state's website.

### 3.4 Data Coding Process

This section describes the process of coding the data collected for this research. Consistent with prior research (Moriarty, 2000; Krom, 2019), violations, sanctions and disciplinary actions gathered from steps taken in section 3.3 will be coded by hand for the following data elements:

- State
- Name of CPA (where available)
- Gender (where identifiable)
- Brief description of violation
- Year of infraction
- Year of sanction
- Type of act (violation) (described below)
- Type of license sanction (i.e.: Censure, Suspension, Revocation)
- Nature of sanction (Temporary; Permanent)
- Whether sanction includes CPE requirement
- Length of time of sanction (where available)
- Whether there is a Fine
- Other identifiable elements (where available):
  - Case number
  - Date of board minutes

## **Coding of Violations (Acts)**

The violations (“Acts”) committed by CPAs during 2008-2019 in each state within the sample described in Section 3.2 will be coded similar to previously published categories per Moriarity (2000) and Krom (2019). Because there is no publicly available central repository of this information nor is there any consistency from state to state, every effort will be made to achieve consistency in recording and analyzing data for this study (Krom, 2019). The type of Acts committed by CPAs will be coded using three different categories based on the description given in the publicly posted discipline disclosure: substandard professional services, criminal, or both. Each disciplinary action will be categorized based on the primary reason for the action. In instances where a CPA is charged with multiple acts, the case will be categorized based on the primary or most severe charge. For instances where a CPA is charged with both criminal and substandard professional service, both will be coded.

1. Type of Act: Variable name is Type\_Act and will be coded as: 1=Professional; 2=Criminal; 3=Both.
2. Type of Substandard Professional Services: Variable name is Type\_Prof. “The cases in this category involve the quality of professional service provided to a client or employer. Failures in this area directly affect the public’s image of the profession” (Moriarity, 2000). These acts are directly related to the practice of accountancy, including:
  - a. Failure to meet CPE requirements or the failure to provide documentation supporting the number of CPEs reported by the licensee.
  - b. Failure to cooperate in an investigation being conducted by the state’s board of accountancy or other regulatory body.



- c. Professional practice infractions such as misrepresentation as a licensed CPA, performance of services not authorized by state's licensing board, lack of professional care, failure to maintain an active license or participate in peer review program.
  - d. Substandard professional service includes all other acts related to performance of professional responsibilities similar to Moriarity (2000) such as: failure to return client documents, violation of professional standards or principles, lack of required independence, competence or objectivity.
  - e. Fraud includes fraudulent acts committed by licensee within the performance of CPA responsibilities.
  - f. Type of Substandard Professional Services will be coded as: 0=none; 1=failure to meet CPE requirement; 2=failure to cooperate in investigation; 3=professional practice infractions; 4=substandard professional service; 5=fraud; 99=nature of act not reported).
3. Type of Criminal Act: Variable name is Type\_Crime. The categories are similar to those used in prior research (Moriarity, 2000; Krom, 2019) such as:
- a. Personal: For the purposes of this research, personal crimes are similar to social crimes listed in Krom (2019) and include "convictions for offenses such as nonpayment of child support, failure to pay education loans, DUI, sodomy, reckless driving, false or missing income taxes, and drug possession for personal use" (p. 570).
  - b. Property includes acts such as the taking of property such as burglary, larceny-theft, motor vehicle theft, and arson but there is no force

or threat of force against the victims. (<https://ucr.fbi.gov/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/offenses-known-to-law-enforcement>).

- c. Inchoate is a “type of crime completed by taking a punishable step towards the commission of another crime. The basic inchoate offenses are attempt, solicitation, and conspiracy” ([https://www.law.cornell.edu/wex/inchoate\\_offense](https://www.law.cornell.edu/wex/inchoate_offense)).
- d. Statutory is a crime created by federal or state statute (<https://www.merriam-webster.com/dictionary/statutory%20offense>) such a criminal sexual offense.
- e. Income tax related includes “the filing of false tax returns as well as the failure to file returns at all” (Moriarity, 2000).
- f. Financial-related crimes (for purposes of this study) include acts such as fraud, embezzlement, securities violations, and money laundering.
- g. Violent Crime includes acts such as “murder and nonnegligent manslaughter, forcible rape, robbery, aggravated assault, and arson” (<https://ucr.fbi.gov/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/violent-crime>).
- h. Type of Criminal Act will be coded by the most severe criminal act listed in the discipline disclosure: 0=none; 1=personal; 2=property; 3=inchoate; 4=statutory; 5=income tax related; 6=financial-related; 7=violent crime; 8=other; 99= nature of act not reported.

- i. A subcategory of criminal act is the type of criminal charge which also helps to identify the severity of the crime. These categories will be coded as:  
0=none; 1=misdemeanor; 2=felony; 3=both; 99=undisclosed.

## **Sanctions**

Sanctions will be coded consistent with, but not identical to, the punishment lists used in prior studies (Krom 2019; Bédard 2001; Mescall et al., 2017; Moriarity 2000). Where an individual received more than one sanction, the most severe will be coded consistent with Krom (2019).

- Type of license sanction will be coded using a six-level ordinal variable categorizing the disciplinary sanctions (Bédard 2001, Krom 2019): 1=Censure/Reprimand, 2=Restriction, 3=Surrender, 4=Suspension, 5=Revocation, 6=Other. Variable name is San\_Type\_Lic.
- Nature of sanction considers whether the sanction is temporary or permanent. Variable name is San\_Time and will be coded as: 0=N/A; 1=Temporary or 2=Permanent.
- Length of time of the sanction as the number of months where the information is available.
- Whether there was a fine. Variable name is San\_Fine and will be coded as: 0=No, 1=Yes. The amount of fine will not be noted as this will not be a factor or variable in calculating the severity of the sanction.
- Whether sanction includes CPE requirement. Variable name is San\_CPE and will be coded as: 0=No, 1=Yes.

- Whether the sanction occurred after the year ethics CPE requirements were increased. Variable name is Post\_Change and will be coded as: 0=prior to CPE change; 1= after CPE change.

### **3.5 Measures/Variables**

The list of variables to use in analyzing the data collected in this study is presented in **Table 6**.

**Table 6: Definitions for Variables**

<i>Variable Name</i>	<i>Variable Definition</i>	<i>Variable Measure</i>
Post_Change	Identifies if the sanction was assigned after change in ethics CPE requirement.	0=prior to CPE change; 1= after CPE change
San_CPE	Whether sanction includes CPE requirement (Yes, No)	0=No; 1=Yes
San_Fine	Whether there was a fine (Yes, No)	0=No; 1=Yes
San_Time	Nature of the sanction (Permanent, Temporary, N/A)	0=N/A; 1=Temporary; 2=Permanent
San_Type_Lic	Type of license sanction (Restriction, Censure/Reprimand, Surrender, Suspension, Revocation, Other)	0=None; 1=Restriction; 3=Censure/Reprimand; 4=Suspension; 5=Surrender; 6=Revocation; 7=Other
Type_Act	Type of action violated (Professional, Criminal; or Both)	1=Professional; 2=Criminal; or 3=Both
Type_Crim	Type of Criminal Act listed by the most common criminal acts (income tax related; theft, fraud; securities violations; other; none; nature of act not reported)	0=None; 1=Personal; 2=Property; 3=Inchoate; 4= Statutory; 5=Income Tax Related; 6=Financial-related; 7=Violent crime; 8=Other; 99= Nature of Act Not Reported
Type_Crim_Chrg	Type of Criminal Charge (none; misdemeanor; felony; both; or undisclosed)	0=None; 1=Misdemeanor; 2=Felony; 3=Both; 99=Undisclosed
Type_Prof	Type of Substandard Professional Services (failure to meet CPE requirement; failure to cooperate in investigation; professional practice infractions; substandard professional service; fraud)	0= None; 1=Failure to Meet CPE Requirement; 2=Failure to Cooperate in Investigation; 3=Professional Practice Infractions; 4=Substandard Professional Service; 5=Fraud; 99=Nature of Act Not Reported

### 3.6 Data Analysis

To analyze the impact of ethics CPE requirements on CPA behavior, I analyze the number and severity of the acts as well as the number and severity of the sanctions for each research question proposed in section 2.8.2.

Severity is calculated using similar method as previous research (Bédard 2001, Mescall 2017) resulting in two scores: (1) Sever\_Sanctions reflects the severity of the sanction and (2) Sever\_Acts reflects the severity of the act. Then, the number of violations, Sever\_Sanctions scores and Sever\_Acts scores are converted to the average rate of violations per active CPA license per 10,000 active licensees consistent with similar research by Jenkins et al. (2018, 2020). This enables a clearer comparison between states. These measures and their formulas are presented in Table 7.

**Table 7: Definitions for Measures**

Measure Name	Measure Description	Measure Formula
Act_Sever	Severity score calculating the severity of the act committed by CPA	$\text{Act\_Sever} = \text{Type\_Act} + \text{Type\_Crim} + \text{Type\_Crim\_Chrg} + \text{Type\_Prof}$
Sanction_Sever	Severity score calculating the severity of the sanctions administered to CPA	$\text{Sanction\_Sever} = \text{San\_Fine} + \text{San\_Type\_Lic} + \text{San\_Time} + \text{San\_CPE}$
Sanctions_Rate	The number of sanctions against CPAs per state (denoted as $\text{State}_x$ ) for each year of study converted to average rate per 10,000 CPAs	$\text{Avg\_Sanctions\_Rate}(\text{State}_x) = (\text{Total number of Sanctions}(\text{State}_x) / \text{Total number of active CPA licensees}(\text{State}_x)) * 10,000$

#### RESEARCH QUESTION 1 (RQ1):

**RQ1:** How does Sanctions\_Rate\_Pre compare to Sanctions\_Rate\_Post?

In order to analyze Research Question 1 (RQ1) the following steps I perform the following steps for each state in Group *CPE\_Change*:

1. Calculate the total number of sanctions using variables San\_Type\_Lic, San\_Time, San\_Fine, San\_CPE for each year of study (2008-2019).
2. Calculate the rate of sanctions per active licensed CPAs (or regulated persons where available) in each respective state.
  - In order to identify the number of CPAs or regulated persons in each year of the study, the 2020 number was first obtained (*refer to Appendix A*). Then the 2020 number was adjusted for each year of the study starting with 2019 back to 2008, using the percentage change of that state's population for that respective year.
  - To calculate the rate of sanctions per year for each state, the total number of sanctions for the year was divided by the number of licensed CPAs or regulated persons (where available) for that year.
3. Consistent with prior research (Jenkins, 2018), calculate the rate of sanctions per 10,000 CPAs for each category of sanction for each year of study (2008-2019).
  - The rate of sanctions calculated in step 2 was then multiplied by a factor of 10,000.
4. Identify the year of change. Identify the number of sanctions pre- and post- year of change using variable Post\_Change (*refer to Appendix C*).
5. Consistent with prior research (Bédard, 2001; Jenkins et al., 2018; Mescall et al., 2017), group the cases prior to and after the year of change. For cases occurring prior to effective year of change, the measure will be named Sanctions\_Rate\_Pre. For cases occurring after the effective year of change, the measure is named Sanctions\_Rate\_Post.
6. Perform the analysis comparing these two groups for each state.

## RESEARCH QUESTION 2:

**RQ2a:** How does Avg\_Act\_Sever\_Pre compare to Avg\_Act\_Sever\_Post?

**RQ2b:** How does Avg\_Sanction\_Sever\_Pre compare to Avg\_Sanction\_Sever\_Post?

In order to analyze Research Question 2 (RQ2) I performed the following steps for each state in Group *CPE\_Change*:

1. Similar to Mescall et al.'s (2017) measurement of "Discipline", compute the severity score for each state per year for both the type of license sanction and the type of act. The formulas are listed in Table 7.
  - a. The Sanction\_Sever scoring range per case is expected to be from 1 to 10.
  - b. The Act\_Sever scoring range per case is expected to be from 2 to 19.
2. For each state: Calculate the average severity score per year.
  - a.  $\text{Avg\_Severity\_Act}(\text{State}_x) = \text{Severity\_Act} / \# \text{ of cases}(\text{State}_x)$
  - b.  $\text{Avg\_Severity\_Sanction}(\text{State}_x) = \text{Severity\_Sanction}(\text{State}_x) / \# \text{ of cases}(\text{State}_x)$
3. Consistent with prior research (Bédard, 2001; Jenkins, et al., 2018; Mescall et al., 2017) group the years prior to change and group the years after the change using variable Post\_Change. Perform the analysis comparing these two groups. For cases occurring prior to effective year of change, the measure will be named Avg\_Act\_Sever\_Pre and Avg\_Sanction\_Sever\_Pre. For cases occurring after the effective year of change, the measure is named Avg\_Act\_Sever\_Post and Avg\_Sanction\_Sever\_Post.

## RESEARCH QUESTION 3:

**RQ3:** How does Sanctions\_Rate(*CPE\_Increase\_0* and *CPE\_Increase*) compare to Sanctions\_Rate(*CPE\_Zero*)?

In order to analyze Research Question 3 (RQ3) I performed the following steps for each state in Groups *CPE\_Zero*, *CPE\_Increase\_0* and *CPE\_Change*:



- Perform same calculations as steps 1-3 in RQ1.
- For each year, compare the sanctions rate from the combined groups of *CPE\_Increase\_0* and *CPE\_Change* to group *CPE\_Zero*. Perform analysis to identify whether there is a difference in the number of sanctions in states that increased the ethics CPE requirement vs. those states that do not require any ethics CPEs.

#### **RESEARCH QUESTION 4:**

**RQ4a:** How does Avg\_Severity\_Act (*CPE\_Increase\_0* and *CPE\_Increase*) compare to Avg\_Severity\_Act (*CPE\_Zero*)?

**RQ4b:** How does Avg\_Severity\_Sanction (*CPE\_Increase\_0* and *CPE\_Increase*) compare to Avg\_Severity\_Sanction (*CPE\_Zero*)?

In order to analyze Research Question 4 (RQ4a and RQ4b) the following steps are performed for each state in Groups *CPE\_Increase\_0*, *CPE\_Change*, and *CPE\_Zero*:

- Calculate the Severity\_Sanction and Severity\_Act scores for each case within each state using steps 1 and 2 in RQ2. The scoring range for each case is expected to be the same as for RQ2.
- For each year, compare scores from the combined groups of *CPE\_Increase\_0* and *CPE\_Change* to group *CPE\_Zero*. Perform analysis to identify whether there is a difference in the severity of (a) acts committed by CPAs and (b) sanction by states between states that increased the ethics CPE requirement vs. those states that do not require any ethics CPEs

#### **RESEARCH QUESTION 5:**

**RQ5:** How does Sanctions\_Rate(*CPE\_Same*) compare to Sanctions\_Rate(*CPE\_Zero*)?

- Perform same calculations as steps 1-3 in RQ1.

- For each year, compare sanctions rates from the group *CPE\_Same* to group *CPE\_Zero*.  
Perform analysis to identify whether there is a difference in the number of sanctions between states that required the same number of ethics CPE requirement during the study period vs. those states that do not require any ethics CPEs.

#### **RESEARCH QUESTION 6:**

**RQ6a:** How does Avg\_Severity\_Act(*CPE\_Same*) compare to Avg\_Severity\_Act(*CPE\_Zero*)?

**RQ6b:** How does Avg\_Severity\_Sanction(*CPE\_Same*) compare to Avg\_Severity\_Sanction(*CPE\_Zero*)?

- Calculate the Severity\_Sanction and Severity\_Act scores for each case within each state using steps 1 and 2 in RQ2. The scoring range for each case is expected to be the same as for RQ2.
- For each year, compare scores from the groups *CPE\_Same* to group *CPE\_Zero*.  
Perform analysis to identify whether there is a difference between the severity of (a) acts committed by CPAs and (b) sanction by states that required the same number of ethics CPE requirement during the study period vs. those states that do not require any ethics CPEs.

## CHAPTER 4: SUMMARY OF RESULTS

### Chapter 4 – Summary of Results

- 4.1 Overview
- 4.2 Research Question One
- 4.3 Research Question Two
- 4.4 Research Question Three
- 4.5 Research Question Four
- 4.5 Research Question Five
- 4.5 Research Question Six

#### 4.1 Overview

This chapter discusses the results of the data analyses employed to answer the research questions. First, this section discusses the modifications made to the proposed data collection and clarification of the data analysis initially proposed in Chapter 3.

#### Change to sample size

Since this study relied on data that is publicly available on the websites of the selected states, a few states were removed from the sample because the information required for this study was either limited or unavailable for all years 2008-2019. For Group 1 (*CPE\_Zero*), Georgia was removed, resulting in three states for this group (AL, SD, WI). For Group 2 (*CPE\_Increase\_0*), Kentucky, North Dakota and New Mexico were removed, resulting in five states for this group (HI, PA, SC, UT, WV). This resulted in the total number of persons regulated by state CPA licensing boards included in this sample being adjusted to 431,853 which is 48% of the total number of persons regulated by state boards of accountancy in the U.S. The number of active licensed CPAs is adjusted to 305,045 which is 46% of the U.S. total. The adjusted sample represents 147,876,944 (45%) of the total U.S. population in 2020 (*refer to Appendix A*). These adjustments resulted in decreased coverage of 5% of the licensed CPAs and persons regulated by the US state boards of accountancy. This decrease does not materially change the scope or methodology of this research.

**Table 8: Population, Active CPAs, and Regulated Persons per Sample Group (REVISED)**

<b>Group #</b>	<b>Population 2020</b>	<b>Active Licensees 2020</b>	<b>Regulated Persons 2020</b>
1	11,804,664	21,245	23,995
2	24,641,728	38,786	39,334
3	9,733,067	26,490	28,928
4	101,697,485	218,424	321,210
<b>Sample Total</b>	<b>147,876,944</b>	<b>305,045</b>	<b>413,467</b>
<b>U.S. Total</b>	<b>331,449,281</b>	<b>669,595</b>	<b>867,777</b>
<b>% of Total:</b>	<b>45%</b>	<b>46%</b>	<b>48%</b>

### **Clarification of data analysis**

This study examines the disciplinary sanctions by state licensing boards for CPAs. While regulatory bodies such as the AICPA, IRS, SEC, and PCAOB set professional standards, state licensing boards have the autonomy to enact their own processes and requirements for obtaining and maintaining professional accounting licenses and overseeing those licensees. NASBA provides a forum for states to meet and coordinate efforts as well as provide uniform guidance to the 50 states within the United States; however, as this study observed, there are still many variances between state licensing bodies, such as with the disciplinary process.

The disciplinary process may begin by the state licensing board being notified by another regulatory body of an issue regarding one of its licensed professionals (such as the AICPA, SEC, PCAOB, IRS), or by a complaint submitted by a concerned person, or by the state board's direct monitoring activities. Throughout this study, cases or board minutes reflected instances where the state licensing board was notified by a regulatory body of a sanction against its licensed professional. The board would then review that issue and determine the type of licensing sanction to impose on that individual.

Some states reflected in their minutes that they monitor publicly available AICPA and PCAOB sanctions or they may monitor criminal activity of licensees within their respective states. Once conviction and sentencing of the licensed individual occurred, the licensing board would then issue their determined sanction. Sometimes, given the nature of the charges, the board would perform its own investigation and determine whether a professional licensing infraction occurred – before the criminal legal process concluded.

The complaint process is quite consistent between the states included in the study. The states provide for either an online reporting process directly on their website or provide forms and instructions on their websites. However, filing a complaint could be “perceived as intimidating and complicated, thereby potentially thwarting efforts to police the profession” (Krom 2019, p. 579). “As with violent crimes, people may be reluctant to report unprofessional conduct due to fear of reprisal and/or a belief that the issue is not important enough to report” (Langton et al. 2012 as cited by Krom 2019, p. 579). Once filed, the complaints need to be investigated and adjudicated by the board. Then, once disciplinary sanctions have been determined, they must be administered and monitored (if there is a monitoring or probationary component). All these activities require resources.

The state licensing board’s oversight activities may be limited by their respective budgets, personnel, and other resources available to create effective processes. Jenkins et al. (2020) suggests “that violation reporting by state boards (*to the AICPA*) is likely impacted by factors beyond the state’s population and size of its accounting profession” (p 7). It is likely that these same factors impact the ability of state boards to perform the monitoring and oversight activities identified in this study.

One of the observations within this study is the inconsistency between state boards in auditing licensee CPE requirements. Therefore, the disciplinary sanctions related to noncompliance with those requirements were excluded from the data analysis. For example, although NASBA implemented a central database to provide electronic reporting of CPEs (NASBA's CPE Audit Service <https://nasba.org/cpeaudit/>), this service is voluntary and currently only nine states are participating. The database is intended for state boards across the country to use this online tool for their licensed CPAs to track their CPE compliance. Then, state licensing boards can use this online tool to perform automated audits of compliance with their state's CPE requirements. It can replace the very time consuming, manual process of performing audits that can include steps such as: notifying licensed professional (by mail or email) of selection in the audit process, manually reviewing the documentation provided by the licensed professional, following up with those who do not respond by deadline, reviewing requests for additional time or for consideration of submission to meet their compliance requirement. While some steps may be the same after implementing the online tool (i.e., reviewing requests by auditees for additional time or consideration), the audit would be 100% review rather than random sampling and can avoid unnecessary time and resources. Some states have dedicated personnel just for this function and some states do not perform this function on a regular basis given the resources required. Some states may be performing this function but not reporting the results in a publicly available format. Therefore, there may be states within this sample which perform this function, but the results were not provided publicly or in a manner that detailed the results (i.e., using percentages rather than raw numbers), or they referred noncompliance instances to another regulatory agency for further

review and potential disciplinary action but did not provide the final information in a publicly available manner.

Another observation within this study is that state boards appear to periodically seek to improve their processes. Within the board minutes reviewed, it was regularly noted that information was shared from NASBA or that NASBA representatives met with the boards to assist them in the development of procedures or improvement of processes. Clearly NASBA's outreach helps state boards better perform using their limited resources or to achieve more consistency amongst the states.

After all publicly available data was collected and coded for the states selected in this study's sample, inconsistencies were identified regarding the auditing of CPE compliance conducted by the states' oversight bodies or regarding the publishing of such results. There were multiple states (GA, IL, NY, SC, UT, WI, WV) where such audits either were not performed, or the results were not publicly published. One state (CA) published results on a percentage basis and therefore, the data could not be coded and included in the study. One state (TX) began publishing CPE audit results in 2017. One state (HI) referred CPAs who failed to comply with CPE requirements to another state agency for disciplinary action and the results of those actions were not consistently available. These inconsistencies resulted in 4,899 sanctions to be excluded from the final data analysis.

Overall, 7,969 disciplinary sanctions assessed on CPAs by the selected state boards of accountancy were coded for this study. Of those, 4,899 were related to 'failure to meet CPE requirements' and were excluded based on inconsistency between the states in either conducting such audits or publishing the results during the study period. Another 1,068 were

removed from one state (OK) which were automatic revocation of CPAs' licenses due to failure to pay renewal fees. Since this was an issue that was primarily reported by this state and not others, it was removed to provide a more consistent comparison between states. Finally, there were 5 cases that were removed due to insufficient information needed to properly code the sanction or the CPA's action. Therefore, a total of 1,997 cases were used for this study.

***Table 9: Breakdown of Sanctions***

<b>Breakdown of Sanctions</b>	<b>Number of sanctions</b>
Total Disciplinary Sanctions from all 14 states in sample	7,969
Removed sanctions related to "failure to meet CPE requirements"	-4,899
Removed automatic revocations from OK	-1,068
Removed cases due to insufficient information	-5
Total sanctions analyzed:	1,997

The following table provides a breakdown of sanctions analyzed in this study by group, state and year of sanction.



**Table 10: Breakdown of Sanctions by group/state/year**

Group # /State	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Group 1													
AL	6	2	5	4	4	42	22	19	35	30	22	39	230
SD	12	2	1	2	2	0	1	0	0	0	1	1	22
WI	3	4	4	2	8	4	4	3	8	7	4	6	57
Group 1 Totals:	21	8	10	8	14	46	27	22	43	37	27	46	309
Group 2													
HI	1	1	1	0	0	1	0	2	5	3	2	0	16
PA	18	39	25	32	29	11	13	5	7	6	20	7	312
SC	8	15	1	2	4	5	4	7	2	16	8	11	83
UT	1	0	1	9	4	2	7	8	2	4	2	6	46
WV	3	2	0	2	0	2	0	0	1	0	5	2	17
Group 2 Totals:	31	57	28	45	37	21	24	22	17	29	37	26	374
Group 3													
CO	8	22	33	74	63	36	53	33	35	46	42	39	484
OK	15	29	34	20	14	31	13	6	12	3	2	0	179
Group 3 Totals:	23	51	67	94	77	67	66	39	47	49	44	39	663
Group 4													
CA	**	**	**	**	**	**	**	59	84	57	55	49	304
IL	**	**	**	**	**	**	**	17	17	19	32	17	102
NY	**	**	**	**	**	**	**	25	20	23	27	12	107
TX	**	**	**	**	**	**	**	26	35	34	11	32	138
Group 4 Totals:	**	**	**	**	**	**	**	127	156	133	125	110	651
Overall Totals:	75	116	105	147	128	134	117	210	263	248	233	221	1,997

\*\* Group 4 data for 2008-2014 obtained from prior research (Krom, 2019) this data is presented in Question 5.

## 4.2 RESEARCH QUESTION ONE (RQ1)

RQ1 asks the question: “for each state where there was an increase in the number of required ethics CPE hours, how does the sanction rate prior to the change compare to the sanction rate after the change?” For the states in Groups 2 (*CPE\_Increase\_0*) and 3 (*CPE\_Increase*), sanctions rates were calculated for each state for the period prior to the change (*Sanctions\_Rate\_Pre*) and after the change (*Sanctions\_Rate\_Post*). To calculate the *Sanctions\_Rate\_Pre* for each state, the number of sanctions was counted for all years prior to the date of CPE change, then divided by the number of regulated persons or licensed CPAs for that state for all years prior to the change, then multiplied by a factor of 10,000. To calculate the *Sanctions\_Rate\_Post* for each state, the number of sanctions was counted for all years after

the date of CPE change, then divided by the number of regulated persons or licensed CPAs for that state all years after the change, then multiplied by a factor of 10,000 (*See Appendix C*). These rates were then compared to identify whether there was an increase (+) or decrease (-) in the number of sanctions.

**RQ1:** How does Sanctions\_Rate\_Pre compare to Sanctions\_Rate\_Post?

**Table 11: RQ1 results**

Group / State	Sanctions_Rate_Pre	Sanctions_Rate_Post	Increase (+)/ Decrease (-)
<b>Group 2 (CPE Increase 0)</b>			
HI	3.999	5.465	+
PA	12.760	6.683	-
SC	10.175	11.892	+
UT	7.572	7.234	-
WV	4.575	8.337	+
<b>Group 3 (CPE Increase)</b>			
CO	24.641	22.830	-
OK	15.663	15.001	-

For states in which the number of ethics CPE hours were required prior to the study period but then increased at some point during the study period, the sanctions rate decreased. These results were mixed for the states that went from zero requirement to requiring some number of ethics CPE hours during the study period. These results will be reviewed in conjunction with RQ2 and analysis presented in section 4.3.

#### **4.3 RESEARCH QUESTION TWO (RQ2)**

RQ2a asks the question: “for states where there was an increase in the number of required ethics CPE hours, how does the average severity score of the acts committed by CPAs prior to the change compare to the score after the change?” For the states in Groups 2 and (*CPE\_Increase\_0* and *CPE\_Increase*, respectively), a severity score was calculated for each act committed by CPAs during the study period (*source data in Appendix F*). These scores

were summarized by year and divided by the number of sanctions for that year, calculating the average score for the year for that state. The annual scores were combined for the period prior to the change and the average was calculated (Avg\_Act\_Sever\_Pre). For the period after the change, the annual scores were combined and the average was calculated (Avg\_Act\_Sever\_Rate\_Post). These averages were then compared to determine whether there was an increase (+) or decrease (-) in the severity of the acts committed by CPAs.

**RQ2a:** How does Avg\_Act\_Sever\_Pre compare to Avg\_Act\_Sever\_Post?

**Table 12: RQ2a results**

<b>Group / State</b>	<b>Avg Act Sever Pre</b>	<b>Avg Act Sever Post</b>	<b>Increase (+)/ Decrease (-)</b>
<b>Group 2 (CPE Increase 0)</b>			
HI	12.000	8.154	-
PA	4.354	6.715	+
SC	5.100	5.453	+
UT	6.206	7.583	+
WV	4.444	8.250	+
<b>Group 3 (CPE Increase)</b>			
CO	4.500	4.528	+
OK	5.533	4.970	-

RQ2b asks the question: “for states where there was an increase in the number of required ethics CPE hours, how does the average severity score of the disciplinary sanctions assessed to CPAs prior to the change compare to the average score after the change?” For the states in Groups 2 and 3, a severity score was calculated for each disciplinary sanction assessed to CPAs during the study period. These scores were summarized by year and divided by the number of sanctions for the year, calculating the average score for the year for that state (*source data in Appendix E*). The annual scores were combined for the period prior to the change and the average was calculated (Avg\_Sanction\_Sever\_Pre). For the period after the

change, the annual scores were combined and the average was calculated (Avg\_Sanction\_Sever\_Post). These averages were then compared to identify whether there was an increase (+) or decrease (-) in the severity of the disciplinary sanctions.

**RQ2b:** How does Avg\_Sanction\_Sever\_Pre compare to Avg\_Sanction\_Sever\_Post?

**Table 13: RQ2b results**

<b>Group / State</b>	<b>Avg Sanction Sever Pre</b>	<b>Avg Sanction Sever Post</b>	<b>Increase (+)/ Decrease (-)</b>
<b>Group 2 (CPE Increase 0)</b>			
HI	7.333	3.769	-
PA	3.671	3.200	-
SC	4.400	3.925	-
UT	5.618	4.750	-
WV	4.333	5.625	+
<b>Group 3 (CPE Increase)</b>			
CO	3.355	3.359	+
OK	6.200	4.823	-

Research Questions 1, 2a and 2b analyze the changes of sanctions assessed to and acts committed by CPAs within a selected state where there was an increase in the number of required ethics CPE hours during the study period. By comparing a state to itself before and after the change, there should be fewer variables affecting the change than when a state is compared to a different state. Variables such as the state's regulatory structure or reporting mechanisms (online newsletters, board minutes, etc.) tend to differ between states and could affect comparability. Three categories were analyzed before and after the change: the sanctions rate (RQ1), the severity of the acts committed by CPAs (RQ2a), and the severity of the sanctions assessed to CPAs (RQ2b). A summary of RQ1 and RQ2 results is presented in Table 14 below.

**Table 14: Summary RQ1 and RQ2**

<b>Group / State</b>	<b>Year of Change</b>	<b>RQ1 Avg_Sanctions_Rate</b>	<b>RQ2a Act_Sever</b>	<b>RQ2b Sanction_Sever</b>
<b>Group 2 (CPE_Increase_0)</b>				
HI	2011	+	-	-
PA	2011	-	+	-
SC	2013	+	+	-
UT	2017	-	+	-
WV	2016	+	+	+
<b>Group 3 (CPE_Increase)</b>				
CO	2013	-	+	+
OK	2009	-	-	-

For states that had ethics CPE requirements prior to the study period but then increased those CPE hours during the study period (Group 3-CPE\_Increase), the average sanctions rate decreased after the hours were increased. In Colorado, the severity of the actions committed by CPAs increased as well as the severity of the sanctions assessed to those CPAs. In Oklahoma, however, both the severity of actions and the severity of sanctions decreased.

For states that increased ethics CPE hours from zero (Group 2-CPE\_Increase\_0), there were mixed results in the average sanctions rate before and after the change within each state. Three states experienced an increase in sanctions rate (HI, SC, WV) while two states experienced a decrease (PA, UT). The states that experienced an increase (HI, SC, WV) had mixed results in the severity of actions and sanctions: Hawaii experienced a decrease in both, while South Carolina and West Virginia both experienced an increase in severity in acts but then mixed results in severity of sanctions (SC decreased while WV increased). Even though HI and WV had years where zero sanctions were reported (4 and 5, respectively), the years in which there were sanctions, there still was an increase in the average rate after the change

Pennsylvania and Utah experienced similar results in all three categories: a decrease in the sanctions rate, an increase in the severity of acts committed by CPAs but a decrease in their sanctions severity score.

While these results do not identify or explain causality for potential differences in enforcement efforts by the state boards or for the actions of the licensees, these results are similar to prior research (Krom, 2019) in that the severity of sanctions significantly differed from state to state.

#### **4.4 RESEARCH QUESTION THREE (RQ3)**

RQ3 asks the question: “how does the average number of sanctions in states where there was an increase in the number of required ethics CPE hours from zero (CPE\_Increase\_0) compare to states where there are zero ethics CPE hours required (CPE\_Zero)?” This question was clarified from the original proposal to only include Group 2 states which would provide a better comparison to those states which maintained zero requirement (Group 1 – CPE\_Zero). RQ3 excludes Group 3 (CPE\_Increase) states since those states had required some number of ethics hours at the beginning of the study period, then increased their requirements by the end of the study period. Even though Group 1 (CPE\_Zero) represents 3 states and Group 2 (CPE\_Increase\_0) represents 5 states, each group represents a similar average number of regulated persons per state, per year of this study (92,805 and 90,888, respectively).

In order to answer research question 3 (RQ3), for each state in Groups 1 and 2 (CPE\_Zero and CPE\_Increase\_0, respectively), for each year, a sanctions rates were calculated similar to RQ1, for each state for the period prior to the change (Sanctions\_Rate\_Pre) and after the change (Sanctions\_Rate\_Post). To calculate the Sanctions\_Rate\_Pre for each state, the number of sanctions was counted for all years prior to the date of CPE change, then divided by

the number of regulated persons or licensed CPAs for that state for all years prior to the change, then multiplied by a factor of 10,000. To calculate the Sanctions\_Rate\_Post for each state, the number of sanctions was counted for all years after the date of CPE change, then divided by the number of regulated persons or licensed CPAs for that state all years after the change, then multiplied by a factor of 10,000. (See Appendix C)

For example, for states in Group 2 (CPE\_Increase\_0), the rates were calculated for the periods when there were zero CPE ethics hours required. These rates were compared to states in Group 1 (CPE\_Zero) for the same years. The second step was to calculate the rates for periods after the states in Group 2 (CPE\_Increase\_0) began requiring ethics CPE hours. These rates were compared to states in Group 1 (CPE\_Zero) for the same years to identify if Group 1 (CPE\_Zero) sanction rates were higher (+) or lower (-). The details for these comparisons are provided in Appendix C – the summary is presented in Table 15 below.

**RQ3:** How does Sanctions\_Rate\_Pre(CPE\_Increase\_0) compare to Sanctions\_Rate\_Post(CPE\_Zero)?

**Table 15: RQ3 results**

<b>PRE-CHANGE COMPARISON</b>				
<b>Group 2 States (CPE_Increase_0)</b>	<b>Period prior to change</b>	<b>Group 2 (CPE_Increase_0) Sanctions_Rate_Pre</b>	<b>Group 1 (CPE_Zero) Sanctions_Rate_Pre</b>	<b>Group 2 Higher (+) or Lower (-)</b>
HI	2008-2010	3.999	13.020	-
PA	2008-2010	12.760	13.020	-
SC	2008-2012	10.175	10.550	-
UT	2008-2016	7.757	10.339	-
WV	2008-2015	4.575	11.047	-

**Table 15: RQ3 results (continued)**

<b>POST-CHANGE COMPARISON</b>				
<b>Group 2 States (CPE_Increase_0)</b>	<b>Period after change</b>	<b>Group 2 (CPE_Increase_0) Sanctions_Rate_Pre</b>	<b>Group 1 (CPE_Zero) Sanctions_Rate_Post</b>	<b>Group 2 Higher (+) or Lower (-)</b>
HI	2011-2019	5.509	11.770	-
PA	2011-2019	6.679	11.770	-
SC	2013-2019	11.987	13.176	-
UT	2017-2019	7.253	13.866	-
WV	2016-2019	8.307	14.152	-

This analysis indicates that the states which had zero ethics hours required (Group 1 – CPE\_Zero) had a higher sanctions rate than the states in Group 2 (CPE\_Increase\_0) during both the period prior to states in Group 2 adding the ethics CPE requirement and the period after the change was effective. Additional analysis is discussed in Section 4.5 summary.

#### **4.5 RESEARCH QUESTION FOUR (RQ4)**

Similar to RQ3, Research Questions 4a and 4b were clarified from the original proposal to only include Group 2 (CPE\_Increase\_0) states which would provide a better comparison to those states which maintained zero requirement (Group 1 - CPE\_Zero). RQ4 excludes Group 3 (CPE\_Increase) states since those states had required some number of ethics hours at the beginning of the study period, then increased their requirements by the end of the study period. While Group 1 (CPE\_Zero) represents 3 states and Group 2 (CPE\_Increase\_0) represents 5 states, each group represents a similar average number of regulated persons per state, per year of this study (92,805 and 90,888, respectively).

RQ4a asks the question: “how does the average severity score of the acts committed by CPAs in states where there was an increase in the number of required ethics CPE hours from zero (Group 2 – CPE\_Increase\_0) compare to states that maintained zero ethics CPE



requirements (Group 1 – *CPE\_Zero*)?” For each state in Groups 1 and 2, a severity score was calculated for each act committed by CPAs during the study period (*source data in Appendix F*). Averages were computed as in RQ2a. These averages were then compared using a similar method as RQ2a to identify whether there was a difference in the severity of acts committed during the period where there were zero ethics required by both groups as well as the period after the increased requirements were in effect.

**RQ4a:** How does Avg\_Act\_Sever (*CPE\_Increase\_0*) compare to Avg\_Act\_Sever (*CPE\_Zero*)?

**Table 16: RQ4a results**

**PRE-CHANGE COMPARISON**

Group 2 States ( <i>CPE_Increase_0</i> )	Period prior to change	Group 2 ( <i>CPE_Increase_0</i> ) Avg_Act_Sever	Group 1 ( <i>CPE_Zero</i> ) Avg_Act_Sever	Group 2 Higher (+) or Lower (-)
HI	2008-2010	12.000	6.828	+
PA	2008-2010	4.354	6.828	-
SC	2008-2012	5.100	8.590	-
UT	2008-2016	6.206	6.080	+
WV	2008-2015	4.444	6.169	-

**POST-CHANGE COMPARISON**

Group 2 States ( <i>CPE_Increase_0</i> )	Period after change	Group 2 ( <i>CPE_Increase_0</i> ) Avg_Act_Sever	Group 1 ( <i>CPE_Zero</i> ) Avg_Act_Sever	Group 2 Higher (+) or Lower (-)
HI	2011-2019	8.154	5.819	+
PA	2011-2019	6.715	5.819	+
SC	2013-2019	5.453	5.499	-
UT	2017-2019	7.583	6.045	+
WV	2016-2019	8.250	5.874	+

For the pre-change comparison, when both groups had no ethics CPE requirements, the average severity of the acts committed by CPAs for the majority of states (3 of 5) in Group 2 (*CPE\_Increase\_0*) was lower than the average for the Group 1 (*CPE\_Zero*) states. For post-change comparison, after Group 2 (*CPE\_Increase\_0*) states increased their ethics CPE requirements, the severity of the acts for 4 of the 5 states in Group 2 (*CPE\_Increase\_0*) were

higher than those committed in Group 1 (CPE\_Zero) states. These results are contrary to the expectation that the severity of acts committed by CPAs would be lower after CPE ethics were required. Further analysis identifies that, for three of the Group 2 (CPE\_Increase\_0) states (HI, SC, UT), the severity was the same compared to Group 1 (CPE\_Zero) states both pre-change and post-change. For one state (PA), severity changed from lower pre-change to higher post-change. For one state (WV), severity changed from higher post-change to lower pre-change. Additional discussion is provided in the summary of this section.

RQ4b asks the question: “how does the average severity score of the disciplinary sanctions assessed to CPAs in states where there was an increase in the number of required ethics CPE hours from zero (Groups 2 – *CPE\_Increase\_0*) compare to the average severity score of the disciplinary sanctions assessed to CPAs in states where they maintained zero requirements (Group 1 – *CPE\_Zero*)?” For each state in Groups 1 and 2, a severity score was calculated for each disciplinary sanction assessed to CPAs during the study period. The averages were computed as in RQ2b (*source data in Appendix E*). These averages were then compared using a similar method as RQ2b to identify whether there was a difference in the severity of the disciplinary sanctions during the period where there were zero ethics required by both groups as well as the period after the requirements increased.

**RQ4b:** How does Avg\_Sanction\_Sever (*CPE\_Increase\_0*) compare to Avg\_Sanction\_Sever (*CPE\_Zero*)?

**Table 17: RQ4b results**

**PRE-CHANGE COMPARISON**

<b>Group 2 States (CPE_Increase_0)</b>	<b>Period pre- change</b>	<b>Group 2 (CPE_Increase_0) Avg_Sanction_Sever</b>	<b>Group 1 (CPE_Zero) Avg_Sanction_Sever</b>	<b>Group 2 Higher (+) or Lower (-)</b>
HI	2008-2010	7.333	5.807	+
PA	2008-2010	3.671	5.807	-
SC	2008-2012	4.400	6.001	-
UT	2008-2016	5.618	5.443	+
WV	2008-2015	4.333	5.563	-

**POST-CHANGE COMPARISON**

<b>Group 2 States (CPE_Increase_0)</b>	<b>Period post- change</b>	<b>Group 2 (CPE_Increase_0) Avg_Sanction_Sever</b>	<b>Group 1 (CPE_Zero) Avg_Sanction_Sever</b>	<b>Group 2 Higher (+) or Lower (-)</b>
HI	2011-2019	3.769	5.360	-
PA	2011-2019	3.200	5.360	-
SC	2013-2019	3.925	5.093	-
UT	2017-2019	4.750	5.557	-
WV	2016-2019	5.625	5.288	+

During the periods when both Group 1 and Group 2 states had no ethics CPE requirements, for most states (3 of 5) in Group 2 (CPE\_Increase\_0), the average severity of the sanctions assessed to CPAs was lower than the average for the Group 1 (CPE\_Zero) states. After implementation of ethics CPE hours, the sanctions assessed by Group 2 (CPE\_Increase\_0) states continued to be less severe than Group 1 states, except for one (WV). For this state (WV), scores changed in that they were higher post-change. For two states (PA, SC) the scores stayed the same and were lower both pre-change vs. post-change. For two states (HI, UT), scores changed in that they were lower post-change. Additional discussion is provided in the summary of this section.

**SUMMARY: RQ3/RQ4**

In analyzing the average sanctions rate, severity of acts committed by CPAs, and the severity of sanctions assessed to CPAs by states which increased their CPE ethics requirements

from zero (Group 2 – CPE\_Increase\_0) to states which maintained a zero ethics requirement during the study period (Group 1 – CPE\_Zero), it was expected that the average sanctions rate would be lower for Group 2 after CPE requirements were implemented as well as a decrease in the severity of acts and sanctions. The following summary of results is presented:

- The sanctions rate was lower in all states (CPE\_Increase\_0) in both the periods prior to and after the change in their CPE ethics requirements.
- The average severity score of the acts committed by CPAs in 3 of 5 states Group 2 (CPE\_Increase\_0) was lower than Group 1 (CPE\_Zero). However, the average severity score of acts committed after implementation of change was higher in 4 of 5 of Group 2 (CPE\_Increase\_0) states than in Group 1 (CPE\_Zero) states.
- The average severity score of the sanctions assessed to CPAs in 3 of 5 states (CPE\_Increase\_0) prior to change in ethics CPE requirement was lower than in Group 1 (CPE\_Zero) which are the same results as the average severity score of the acts. However, after implementation of the change, for 4 of 5 states in Group 2 (CPE\_Increase\_0) were lower than Group 1 (CPE\_Zero).

Since both these groups represent similar average number of regulated persons per year of this study (92,805 and 90,888), the expectation would be that the sanction rates and severity scores would be similar or that all three measures would move in the same direction both before and after Group 2's (CPE\_Increase\_0) change in CPE ethics requirement. However, there are mixed results. The average rate of sanctions stayed lower in Group 2 (CPE\_Increase\_0) than Group 1 (CPE\_Zero) for all periods both before and after changing CPE requirements. Concurrently, the severity of the acts committed by CPAs primarily were higher in Group 2 (CPE\_Increase\_0) after the CPE change but the severity of sanctions was lower.

These results follow similar findings in RQ2a and RQ2b in which 4 of 5 states (CPE\_Increase\_0) experienced an increase in the severity score of acts with a concurrent decrease in the severity score of sanctions. One explanation could be that, by implementing the CPE ethics requirements, the boards demonstrated more engagement in oversight activities that resulted in identifying more severe actions (i.e., criminal activity or sanctions by other jurisdictions) for the persons regulated in their states. Or, perhaps there was a change to the method of sanctioning individuals? Also, during this same time period there were increased efforts by NASBA for states to implement ethics CPE hours and increased engagement by state boards of accountancy. As demonstrated by at least one state in Group 1 (AL) additional sanctions began in 2013 while in South Dakota, there were fewer sanctions beginning in 2013 with zero sanctions reported for four years between 2013-2019. Wisconsin stayed consistent during the study period. Additional analysis and evaluation could be performed in future research to identify the reasons for the unexpected results.

#### **4.6 RESEARCH QUESTION FIVE (RQ5)**

RQ5 asks the question: “how does the sanctions rate in states where the same number of ethics CPE hours were required during the study period (Group 4 – CPE\_Same) compare to the sanctions rate in states where zero ethics CPE hours were required (Group 1 – CPE\_Zero)?” Since the states in Group 4 were identified because of their inclusion in prior research (Krom 2019), the data collected during this study was combined with previously published data to cover the study period 2008-2019. Given that the states in Group 1 (CPE\_Zero) are significantly smaller than the states in Group 4 (CPE\_Same), the sanctions rates (Sanctions\_Rate) – using the same method as calculated in RQ1 and RQ3 - provide comparable values. The Sanctions\_Rate for Group 1 (CPE\_Zero) were calculated by

summarizing the number of sanctions for the states within this group for the entire study period, divided by the total number of licensed CPAs (or regulated persons, where available) for this period, then multiplied by a factor of 10,000. This process was repeated to calculate the Sanctions\_Rate for Group 4 (CPE\_Same). The rates for each group were compared.

**RQ5:** How does Sanctions\_Rate(CPE\_Same) compare to Sanctions\_Rate(CPE\_Zero)?

**Table 18: RQ5 results**

<b>For the years 2008-2019</b>	<b>Group 4 (CPE_Same) Sanctions_Rate</b>	<b>Group 1 (CPE_Zero) Sanctions_Rate</b>	<b>Group 4 (CPE_Same) is Higher (+) or Lower (-)</b>
Sanctions_Rate	4.056	12.082	-

For the study period, the states in Group 4 (CPE\_Same) assessed a total of 1,420 sanctions against CPAs; whereas the states in Group 1 (CPE\_Zero) assessed a total of 309. The number of persons regulated by Group 4 (CPE\_Same) states averaged 308,502 per year; whereas the average regulated by Group 1 (CPE\_Zero) was 23,201. When comparing the sanctions rates for these two groups for the study period, the sanctions rate for Group 1 (CPE\_Zero) was much higher than the sanctions rate for Group 4 (CPE\_Same). These results are expected given the significant differences in the amount of resources available to the states selected from this group and type of oversight activities by each group's state boards of accountancy. The four states from Group 4 account for 31% of the U.S. population in 2020 compared to Group 1 which accounts for 3.6% (as identified in Table 8). These findings suggest that the number of sanctions may be more affected by the level of oversight of state boards of accountancy, driven by resources available to them, than the behavior of regulated accounting professionals. This will be further discussed in Chapter 5.

#### 4.7 RESEARCH QUESTION SIX (RQ6)

RQ6a asks the question: “how does the average severity score of the acts committed by CPAs in states where there was the same number of required ethics CPE hours (Group 4 – CPE\_Same) compare to the average severity score of those actions by CPAs in states that maintained zero ethics CPE requirement (Group 1 – CPE\_Zero)?” Since the states in Group 4 (CPE\_Same) were identified because of their inclusion in prior research (Krom 2019), the data collected during this study was first translated to the same categories as Krom (2019) then combined with previously published data to cover the study period 2008-2019. In addition, Group 1 (CPE\_Zero) data was translated to the same categories as Krom (2019) to enable comparison.

The process used to translate this study’s data to the categories used in previously published research (Krom, 2019) is provided in *Appendix D*.

**Table 19: Group 4 (CPE\_Same) Consolidation**

	<b>Krom (2019) 2008-2014</b>					<b>This study 2015-2019</b>					<b>Group 4 Consolidated- 2008 - 2019</b>				
<b>Primary reason for disciplinary actions:</b>	<b>CA</b>	<b>IL</b>	<b>NY</b>	<b>TX</b>	<b>Totals</b>	<b>CA</b>	<b>IL</b>	<b>NY</b>	<b>TX</b>	<b>Totals</b>	<b>CA</b>	<b>IL</b>	<b>NY</b>	<b>TX</b>	<b>Totals</b>
Professional Practice Misconduct	101	44	63	166	374	224	73	64	102	463	325	117	127	268	837
Actions in other jurisdictions	27	8	17	56	108	49	22	24	12	107	76	30	41	68	215
Social Crimes	14	8	11	38	71	2	0	0	2	4	16	8	11	40	75
Fed or St convictions (except Social Crimes)	78	28	62	48	216	29	7	19	22	77	107	35	81	70	293
<b>Totals:</b>	<b>220</b>	<b>88</b>	<b>153</b>	<b>308</b>	<b>769</b>	<b>304</b>	<b>97</b>	<b>104</b>	<b>147</b>	<b>651</b>	<b>524</b>	<b>185</b>	<b>260</b>	<b>446</b>	<b>1,420</b>

After the data was translated and consolidated for each state in Groups 1 and 4 (CPE\_Zero and CPE\_Same, respectively), it was determined that severity scores for acts committed by CPAs could not be calculated properly for the previously published data given the limited information provided. Therefore, this analysis was performed using the percentage

method as used by Krom (2019). The raw number of the acts was converted to percentage of the overall acts for the study period by state for each group. Results are presented below.

**RQ6a:** How does Avg\_Severity\_Act(CPE\_Same) compare to Avg\_Severity\_Act(CPE\_Zero)?

**Table 20: RQ6a**

Raw Total # of Acts	Group 4 (CPE_Same) Consolidated					Group 1 (CPE_Zero)			
Type of Act (Primary reason for disciplinary actions)	CA	IL	NY	TX	Totals	AL	SD	WI	Totals
Professional Practice Misconduct	325	117	127	268	837	198	30	33	261
Actions in other jurisdictions	76	30	41	68	215	11	0	6	17
Social Crimes	16	8	11	40	75	0	0	1	1
Fed or St convictions (except Social Crimes)	107	35	81	70	293	14	2	14	30
Totals:	524	190	260	446	1420	223	32	54	309

**Table 20: RQ6a (continued)**

Percentage Table	Group 4 (CPE_Same) Consolidated					Group 1 (CPE_Zero)			
Type of Act (Primary reason for disciplinary actions)	CA	IL	NY	TX	Totals	AL	SD	WI	Totals
Professional Practice Misconduct	62%	62%	49%	60%	59%	89%	94%	61%	84%
Actions in other jurisdictions	20%	18%	31%	16%	15%	5%	0%	11%	6%
Social Crimes	3%	4%	4%	9%	5%	0%	0%	2%	0%
Fed or St convictions (except Social Crimes)	15%	16%	16%	15%	21%	6%	6%	26%	10%
Totals:	100%	100%	100%	100%	100%	100%	100%	100%	100%

The majority of acts committed by CPAs in both groups were professional practice misconduct 84% and 59% (Group 1- CPE\_Zero and Group 4 - CPE\_Same, respectively). Given that the acts in Group 1 (CPE\_Zero) are so skewed toward this category, it could be an indicator that the other types of misconduct are either not monitored, not referred to the state boards or not acted upon or simply not reported – primarily by AL and SD. WI appeared to have a distribution more consistent with Group 4 (CPE\_Same).

RQ6b asks the question: “how does the average severity score of the disciplinary sanctions assessed to CPAs in states where there was the same number of required ethics CPE



hours (Group 4 - CPE\_Same) compare to the average severity score of the disciplinary sanctions assessed to CPAs in states where there are zero such requirements (Group 1 - CPE\_Same)?” Since the categories used for the type of sanction were the same as previously published research (Krom, 2019), a translation was not necessary, only a consolidation of the previously published data for years 2008-2014 with currently obtained data for years 2015-2019. However, since scores could not be calculated for all years for each act, it was decided to compare percentages which is a similar method used by Krom (2019).

**RQ6b:** How does Avg\_Severity\_Sanction(CPE\_Same) compare to Avg\_Severity\_Sanction(CPE\_Zero)?

**Table 21: RQ6b Results - Percentage Table**

Type of Sanction	Group 4 (CPE_Same)	Group 1 (CPE_Zero)	Group 4 is greater than (+) or less than (-) Group 1
Censure/ Reprimand	12%	11%	+
Restriction	15%	2%	+
Surrender	17%	4%	+
Suspension	23%	6%	+
Revocation	19%	76%	-
Other	13%	1%	+
Totals:	100%	100%	

The sanctions assessed by the states within Group 4 (CPE\_Same) are essentially spread evenly amongst all sanction categories. However, for Group 1 (CPE\_Zero), the majority of sanctions are either revocations or reprimands. The primary reason for this appears to be the published sanctions by Alabama. Of Alabama’s 230 sanctions during this study period, 91% were revocations. The reason for this level of sanction severity is not known since Alabama only publishes a spreadsheet of sanctions against CPAs without the reasoning behind such actions (such as minutes of states’ boards of accountancy). Also, for South Dakota, of the 22 sanctions in this period, 73% were revocations. It is unclear the reason for this distribution. One reason

could be that only the most severe sanctions are published. Conversely, Wisconsin was more evenly spread amongst the categories with only 18% of the total 57 sanctions were revocations. Another potential reasoning is that the states presented from Group 4 (CPE\_Same) are very large states and clearly have more dedicated resources to the oversight process – thereby enabling a more robust review and reporting process.

Further analysis for years 2015-2019: For this period, a severity score was calculated for each disciplinary sanction assessed to CPAs in both Groups 1 and 4 (CPE\_Zero and CPE\_Same, respectively).

These scores were summarized by year and divided by the number of sanctions for the year, calculating the average score for the year for that state (*source data in Appendix E*). The annual scores were combined and an average was calculated (Avg\_Sanction\_Sever) for each group for each year. These average rates were then compared to identify whether there was a difference between the groups in the severity of sanctions assessed against CPAs.

**Table 22: RQ6b results #2**

<b>RQ6b: Analyzing 2015-2019 only:</b>			
<b>Sanction Year</b>	<b>Group 4 (CPE_Same) Avg_Sanction_Sever</b>	<b>Group 1 (CPE_Zero) Avg_Sanction_Sever</b>	<b>Group 4 is higher (+) or lower (-)</b>
2015	6.57	7.32	-
2016	6.96	7.02	-
2017	6.53	7.41	-
2018	6.58	7.07	-
2019	6.25	7.30	-

This second analysis identifies that Group 4 (CPE\_Same) has a consistently lower average sanction severity score than Group 1 (CPE\_Zero). These findings are consistent with the analysis performed in Table 21-Percentage Table. As discussed previously, the majority of

sanctions for AL in Group 1 are revocations and thereby skew the average severity score higher than Group 4's more evenly distributed disciplinary sanctions.

## CHAPTER 5: DISCUSSION OF RESULTS, LIMITATIONS AND CONCLUSIONS

### Chapter 5 – Discussion of Results, Limitations, and Conclusions

- 5.1 Overview
- 5.2 Discussion of Results
- 5.3 Limitations and Implications for Future Study
- 5.4 Conclusions

#### **5.1 Overview**

This chapter consists of a summary of this study and its findings, limitations and implications for future research. The chapter concludes by expanding upon the concepts that were studied to better understand the relationship between state licensure board's requirements for CPAs and the legal and professional behaviors of these professionals.

#### **5.2 Discussion of Results**

The purpose of this study was to examine whether the professional behavior of licensed accounting professionals is influenced by increased ethics CPE hours as required by their state licensing boards. This study examines the disciplinary sanctions by state licensing boards for CPAs. In order to identify which states would be selected for this study, the criteria used was whether these state boards require ethics CPE hours and, if so, how many hours, and whether the number of hours changed during the study period 2008-2019. This resulted in the states being grouped into four categories: CPE\_Zero, CPE\_Increase\_0, CPE\_Increase, and CPE\_Same and a final selection of 14 of 50 U.S. states (45% of U.S. population). The final sample represents 46% of U.S. licensed CPAs and 48% of the persons regulated by U.S. state boards of accountancy.

This study conducted analyses on three variables: the sanctions rate, severity of acts conducted by CPAs and the severity of sanctions assessed on CPAs for the following groups: (1) whether there was a difference within states that increased their CPE ethics requirements

during the study period (Groups CPE\_Increase\_0 and CPE\_Increase); (2) whether there was a difference between states which increased their CPE ethics requirements from zero and those states that maintained zero ethics requirements during the study period (Groups CPE\_Increase\_0 and CPE\_Zero); and (3) whether there was a difference between states that maintained zero CPE ethics requirements and those that required the same number of CPE ethics hours during the study period (Groups CPE\_Zero and CPE\_Same). The processes used to code, score and analyze the hand collected data were similar to prior research (Bédard, 2001; Cardona et al., 2018, Jenkins et al. 2108; Krom 2019; Mescall et al. 2017; and Moriarity 2000).

Based on Aristotelian philosophy that the teaching of ethics provides a person with the tools necessary to discover the one right action in a particular situation (Klugman and Stump, 2006), in states where the ethics CPE hours were increased, it was expected that both the number of sanctions and the severity of acts committed by CPAs would decrease. Then, it would naturally follow that the severity of sanctions assessed to those CPAs would decrease. However, the results of this study were primarily mixed or did not follow these expectations, except for analysis in RQ6b. In RQ6b, for the period 2015-2019, states that maintained CPE ethics requirements (CPE\_Same) had a lower average sanction severity score each year compared to states that had zero such requirements (CPE\_Zero). These states (CPE\_Same) had much larger populations and dedicated resources to oversight activities which could contribute to these expected results.

One plausible explanation for the mixed results of this study could simply be increased oversight activities by the states' boards of accountancy, rather than a reflection of the actual behavior of CPAs themselves. This explanation was also identified in 2000 by Moriarity when, after the "1988 revisions in the AICPA's Code of Professional Conduct and enforcement

procedures, the number of sanctions for substandard professional service increased as well as the number and length of suspensions” (p. 438) because of the increased attention at that time.

As with prior research (Jenkins et al. 2020; Krom 2019), this study identifies inconsistencies in the monitoring and oversight activities of state licensing boards. While it is important that states have the flexibility to develop their processes and discharge their duties in accordance with their states’ population and resources, this study’s findings suggest there may be benefits of increased oversight in identifying instances of ethical misconduct and taking appropriate actions to address them. NASBA provides guidance and resources such as the CPE database, these are voluntary in nature. This study does not intend to identify a ‘one size fits all approach’ to monitoring the CPA profession, but it does provide evidence that, where additional resources are allocated to the state licensing board, monitoring activities may be enhanced and the instances of noncompliance can be reduced (i.e., research question 6b).

### **5.3 Limitations and Implications for Future Study**

This study focuses on the disciplinary sanctions assessed on licensed CPAs or persons regulated by state accounting licensing boards only. Each state’s ethics CPE requirements for licensure renewal – not for the initial certification of CPAs nor for reciprocity licensing – was used solely for identifying the states to include within this study. This work did not review the content of the ethics courses required by each state nor address the variability therein (which could be an intriguing area for future research). In addition, this study did not attempt to attain the CPE records of those individuals who were sanctioned by their state boards to determine if they had, in fact, completed the required ethics and other CPE requirements. The assumption is made that, if the individual was not sanctioned for not being able to produce evidence of

reported CPE, then the individual did, in fact, complete the CPEs required at the time of the misconduct.

Since the study is limited to the information publicly available on state websites, there is variability to the extent of information obtained for each case as well as for the reasoning behind the sanctions assessed by the boards. There were also limitations in which states could be included because of limited or unavailable information. For example, while KY, ND, NM, GA met the criteria to be included in this study, the information needed for analysis was nonexistent nor publicly unavailable (through direct public access on their websites).

There are other variabilities that were not included in this study and potentially strongly affect the oversight activities of state boards as well as actions by CPAs. For example, the effect of increased public scrutiny post SOX, other changing regulations, economic and political factors (ie: 2008 recession, elections, etc.), the fees assessed CPAs and whether a state budgets for this function and how that budget is funded. In Jenkins et al. (2020), 39 states had budgets for their boards of accountancy for the period 2008-2016 with “California, Texas, and Washington having the highest average annual operating budgets, while Wyoming, Arkansas, and Alaska having the highest average annual operating budget per active CPA license” (p. 9). State boards for the remaining 11 states had “no operating budgets for any years in that study: Delaware, Hawaii, Indiana, Maine, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Utah, and Wisconsin” (Jenkins et al. 2020, p. 5). The states included in this study represent the spectrum from the Jenkins et al. (2020) findings in that two states (CA, TX) were in the group of the highest average annual operating budgets, one state (WY) was in the group having the highest average per active CPA license, and six states (DE, HI, NY, PA, UT, WI) did not have any budget. This variable was not analyzed in this study and could be

reviewed in future research such as comparing findings in states with budgets vs. those without using Jenkins, et al. (2020).

While this study did capture gender, it does not attempt to distinguish between other demographic factors such as age, years in practice, or regional location. No analyses were performed related to gender or other factors as was performed in Cardona (2019). This may be an area for future research. Another suggestion includes comparing results with prior studies (Moriarity 2000; Krom 2019) to identify trends in acts committed by CPAs.

This study's findings are limited to CPAs holding active licenses in the states selected or persons regulated (where available) by the selected states' boards of accountancy– they are not generalizable to the entire U.S. nor to all U.S. territories regulated by the AICPA or all members of NASBA.

Lastly, for this study, not all ethics theories are explored or applied to this discussion. Theories were selected that were deemed most relevant to the narrow discussion of ethics theory as it relates to business, and particularly accounting, based on published research.

## **5.4 Conclusions**

One contribution of this study is its focus solely on disciplinary sanctions by state licensing boards for accountancy similar to Krom (2019) and Cardona (2019). Previous studies relied primarily on disciplinary sanctions reported in the AICPA's publication *The CPA Letter* (e.g., Tidrick 1992; Badawi and Rude 1995, 1997; Moriarity 2000), the Disciplinary Actions section of the AICPA website, information obtained from the AICPA's Professional Ethics Division (e.g., Jenkins et al., 2018) or from the PCAOB website (e.g., Gilbertson & Herron, 2009).



Another contribution of this study lies in the size of this sample and its cross-sectional characteristics. States are included from every region, every size, and regardless of their budgets. The basis for selection was the number of ethics CPE hours required in 2008 versus those required in 2019 by each state in the United States. The focus on the actions of the state licensing boards was meant to include 100% population of the licensed CPAs in each of those states (as well as all regulated accounting professionals, where available). This differs from prior research which focused on limited CPA populations i.e., AICPA (members only), SEC and PCAOB (CPAs and firms working in or auditing publicly traded companies), and the IRS (CPAs and other individuals who prepare tax returns) or other countries such as Canada (Bédard 2001; Mescall et al. 2017), France (Baiada-Hireche & Garmilis, 2016), etc.

The variability of publicly available information was noted by this study. Although some states indicated that missing information could be obtained by public records request (such as New Mexico for years prior to 2012), missing information could negatively impact the public trust of licensing boards. As Jenkins, et al. (2020) noted in their study, “disclosure transparency appears appropriate considering state boards receive (*at least partial*) funding from public dollars and, in light of the impact funding has on violation reporting” (p. 12). They also discussed the risk to users of accounting information “when regulatory bodies charged with overseeing the profession do not adequately monitor accountants’ conduct or routinely and openly report identified issues” (Jenkins, et al., 2020, p. 12). Therefore, transparency of monitoring activities demonstrates the board’s commitment and could positively impact the public trust.

Given the accounting profession’s continued efforts to enhance its ability to self-govern and increase the public trust, continued study of the relationship between accountability,

ethical behavior and oversight of state licensing boards is warranted. Although the results of this study did not provide clear support for the effectiveness of ethics CPE on the behavior of CPAs, nor review of the quality of ethics CPE or method of instruction, the results should not be discounted. In fact, given that 61.5% of the disciplinary sanctions coded in this study related to the CPA's failure to meet CPE requirements, the first step appears to be how to obtain better compliance and consistent oversight by state boards of this universal requirement. The relationship between ethics CPE and CPA behavior should be further explored and other variables examined that may influence enhanced ethical behavior. For example, as noted from RQ5, the number and severity of sanctions, and the severity of the acts committed by CPAs may be more of a function of the oversight activities of state accountancy boards and their available resources, rather than the effectiveness of ethics CPE. It is hoped that this research provides the next step in this discussion and effort.

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APPENDIX A: POPULATION, ACTIVE CPA LICENSEES AND REGULATED PERSONS  
PER STATE IN SAMPLE

<b>State</b>	<b>Group #</b>	<b>Population 2020 (U.S. Census, 2020)</b>	<b>Active Licensees (NASBA, May 2020)</b>	<b>Regulated Persons (NASBA, May 2020)</b>
Alabama	1	5,024,279	7,111	9346
California	4	39,538,223	23,372	99,167
Colorado	3	5,773,714	16,212	18,593
Georgia	1	10,711,908	21,088	21,089
Hawaii*	2	1,455,271	2,703	2,703
Illinois	4	12,812,508	74,619	40,847
Kentucky	2	4,505,836	8,560	8,574
New Mexico	2	2,117,522	2,827	3,012
New York	4	20,201,249	60,045	111,143
North Dakota	2	779,094	2,982	2,982
Oklahoma	3	3,959,353	10,278	10,335
Pennsylvania**	2	13,002,700	22,000	22,000
South Carolina	2	5,118,425	6,143	6,524
South Dakota	1	886,667	1,260	1,775
Texas	4	29,145,505	60,488	70,053
Utah	2	3,271,616	5,722	5,722
West Virginia	2	1,793,716	2,218	2,385
Wisconsin	1	5,893,718	12,874	12,874
<b>Total for sample:</b>		<b>165,991,304</b>	<b>340,502</b>	<b>449,124</b>
<b>Total for U.S. ^^</b>		<b>331,449,281</b>	<b>669,595</b>	<b>867,777</b>
<b>% of Total:</b>		<b>50%</b>	<b>51%</b>	<b>52%</b>

Total # CPAs in US 9/2/2020*	650,620
Add: DE (900)**, HI (2,703)***, PA (22,000)****, VT (800)*****	26,403
REMOVE GU, VI, PR, CNMI	(7,428)
^^REVISED TOTAL #CPAs in 2020 - US :	<b>669,595</b>

- \* Per NASBA.org – the total number of CPAs did not include data from DE, HI, PA or VT.
- \*\* DE – the number of licensed CPAs in DE was estimated based on the DE Society of CPAs’ Facebook page since the information was not available on state board’s website. ([https://www.facebook.com/dscpa/about/?ref=page\\_internal](https://www.facebook.com/dscpa/about/?ref=page_internal))
- \*\*\* HI – the number of Active Licensees per State of Hawaii report dated July 2020.
- \*\*\*\* PA – the number of CPAs per [www.picpa.org](http://www.picpa.org) as of September 2020
- \*\*\*\*\* VT – the number of CPAs was obtained from <https://www.accounting.com/states/vermont/#careers>

### Population, Active CPAs, and Regulated Persons per Sample Group

<b>Group #</b>	<b>Population 2020</b>	<b>Active Licensees 2020</b>	<b>Regulated Persons 2020</b>
1	22,516,572	42,333	45,084
2	32,044,180	53,155	53,902
3	9,733,067	26,490	28,928
4	101,697,485	218,424	321,210
<b>Sample Total</b>	<b>165,991,304</b>	<b>340,502</b>	<b>449,124</b>
<b>U.S. Total</b>	<b>331,449,281</b>	<b>669,595</b>	<b>867,777</b>
<b>% of Total:</b>	<b>50%</b>	<b>51%</b>	<b>52%</b>

## APPENDIX B: PROCESSES TO COLLECT DATA BY STATE

STATE	PROCESS
AL	<ol style="list-style-type: none"> <li>Downloaded list of disciplinary actions:  <a href="https://www.asbpa.alabama.gov/PDF/ListDisciplinary/LIST%20OF%20DISCIPLINARY%20ACTIONS%20-%20JULY%2016%202021.pdf">https://www.asbpa.alabama.gov/PDF/ListDisciplinary/LIST%20OF%20DISCIPLINARY%20ACTIONS%20-%20JULY%2016%202021.pdf</a>  Converted pdf to Excel.</li> </ol>
CA	<ol style="list-style-type: none"> <li>Reviewed California Board of Accountancy Enforcement Advisory Committee (EAC) meeting minutes for disciplinary orders (2015-2019). <ol style="list-style-type: none"> <li><a href="https://www.dca.ca.gov/cba/communications-and-outreach/meeting-materials.shtml">https://www.dca.ca.gov/cba/communications-and-outreach/meeting-materials.shtml</a></li> </ol> </li> <li>To look up individual cases: CA <a href="https://search.dca.ca.gov">https://search.dca.ca.gov</a></li> </ol>
CO	<ol style="list-style-type: none"> <li>Downloaded excel file of all CPAs – All statuses <ol style="list-style-type: none"> <li>Click on “Download list of licensee/discipline information”</li> <li><a href="https://apps.colorado.gov/dora/licensing/Lookup/GenerateRoster.aspx">https://apps.colorado.gov/dora/licensing/Lookup/GenerateRoster.aspx</a></li> <li>Check CPA box (did not include firms) – downloaded into Excel format.</li> </ol> </li> <li>Sorted by case # - this identifies CPAs with disciplinary actions - put these into separate spreadsheet</li> <li>Removed cases for 2020 based on case # and discipline effective date.</li> <li>Recorded year of sanction based on the discipline effective date for cases 2008-2019</li> <li>To look up individual cases: <ol style="list-style-type: none"> <li><a href="https://apps.colorado.gov/dora/licensing/Lookup/LicenseLookup.aspx">https://apps.colorado.gov/dora/licensing/Lookup/LicenseLookup.aspx</a></li> </ol> </li> </ol>
GA	No data available to collect – <a href="https://gsba.georgia.gov/organization/georgia-state-board-accountancy/board-meetings">https://gsba.georgia.gov/organization/georgia-state-board-accountancy/board-meetings</a>
HI	<ol style="list-style-type: none"> <li>Reviewed the Hawaii Board of Public Accountancy meeting minutes obtained from <ol style="list-style-type: none"> <li><a href="https://cca.hawaii.gov/pvl/boards/accountancy/board-meeting-minutes/">https://cca.hawaii.gov/pvl/boards/accountancy/board-meeting-minutes/</a></li> </ol> </li> <li>Also reviewed the listing of disciplinary actions taken by the Board’s Office of Administrative Hearings (OAH), sorted by Type (Accountancy); downloaded the individual files: <ol style="list-style-type: none"> <li><a href="http://web.dcca.hawaii.gov/OAHdecisions/PDF_INDEX/Public_ShowPDF_INDEXTable.aspx">http://web.dcca.hawaii.gov/OAHdecisions/PDF_INDEX/Public_ShowPDF_INDEXTable.aspx</a></li> </ol> </li> <li>For additional information on individual cases, used lookup: <ol style="list-style-type: none"> <li><a href="https://mypvl.dcca.hawaii.gov/public-license-search/">https://mypvl.dcca.hawaii.gov/public-license-search/</a></li> </ol> </li> </ol>
IL	<ol style="list-style-type: none"> <li>Reviewed minutes of Illinois Public Accountant Registration and Licensure Committee meetings (2015-2019) to identify potential actions: <ol style="list-style-type: none"> <li><a href="https://www.idfpr.com/profs/Boards/pa.asp">https://www.idfpr.com/profs/Boards/pa.asp</a></li> </ol> </li> <li>For additional information on individual cases, used lookup: <ol style="list-style-type: none"> <li><a href="https://online-dfpr.micropact.com/Lookup/LicenseLookup.aspx">https://online-dfpr.micropact.com/Lookup/LicenseLookup.aspx</a></li> <li>License Type: Select ‘Public Accountant’</li> </ol> </li> </ol>

STATE	PROCESS
KY	<p>Obtained Board minutes which were available on website:  <a href="https://cpa.ky.gov/Pages/default.aspx">https://cpa.ky.gov/Pages/default.aspx</a></p>
ND	<ol style="list-style-type: none"> <li>1. Reviewed minutes of the North Dakota Board of Accountancy meetings (2008-2019) obtained from: <ol style="list-style-type: none"> <li>a. <a href="https://www.ndsba.nd.gov/meeting-minutes">https://www.ndsba.nd.gov/meeting-minutes</a></li> </ol> </li> <li>2. For additional information on individual cases, used lookup: <ol style="list-style-type: none"> <li>a. <a href="https://cpaverify.org/">https://cpaverify.org/</a></li> </ol> </li> </ol>
NM	<ol style="list-style-type: none"> <li>1. Downloaded files of individual cases from website: <ol style="list-style-type: none"> <li>a. <a href="https://www.rld.nm.gov/boards-and-commissions/individual-boards-and-commissions/accountancy/accountancy-discipline-and-enforcement/">https://www.rld.nm.gov/boards-and-commissions/individual-boards-and-commissions/accountancy/accountancy-discipline-and-enforcement/</a></li> <li>b. Only actions since 2012 were available.</li> </ol> </li> <li>2. Reviewed minutes of the NM Accountancy Board meetings. <ol style="list-style-type: none"> <li>a. <a href="https://www.rld.nm.gov/boards-and-commissions/individual-boards-and-commissions/accountancy/accountancy-board-information/accountancy-board-meetings/">https://www.rld.nm.gov/boards-and-commissions/individual-boards-and-commissions/accountancy/accountancy-board-information/accountancy-board-meetings/</a></li> <li>b. Only meetings since 2013 were available.</li> </ol> </li> </ol>
NY	<ol style="list-style-type: none"> <li>1. From the NYSED.gov Office of the Professions website of Summaries of Regents Actions on Professional misconduct and Discipline. Reviewed website by year and month (2015-2019). <ol style="list-style-type: none"> <li>a. <a href="http://www.op.nysed.gov/opd/research.htm">http://www.op.nysed.gov/opd/research.htm</a></li> <li>b. After selecting year and month, click on “Public Accountancy” to identify any actions taken against CPAs.</li> <li>c. Copied the actions into a Word document</li> </ol> </li> <li>2. Reviewed minutes from the New York State Education Department Board meetings to identify further actions. Within the minutes, search for “Public Accountancy” and record actions (ensuring no duplicates from the other list). <ol style="list-style-type: none"> <li>a. <a href="https://www.regents.nysed.gov/meetings">https://www.regents.nysed.gov/meetings</a></li> </ol> </li> </ol>
OK	<ol style="list-style-type: none"> <li>1. Reviewed all published meeting minutes of the Oklahoma Accountancy Board: <ol style="list-style-type: none"> <li>a. <a href="https://www.ok.gov/oab_web/About_the_Board/Meeting_Agendas_and_Minutes/">https://www.ok.gov/oab_web/About_the_Board/Meeting_Agendas_and_Minutes/</a></li> </ol> </li> <li>2. Looked up sanctioned licensees online to identify other relevant info such as additional sanctions; details of case <ol style="list-style-type: none"> <li>a. <a href="https://oab.us.thenticcloud.net/webs/oab/register/#">https://oab.us.thenticcloud.net/webs/oab/register/#</a></li> </ol> </li> </ol>
PA	<ol style="list-style-type: none"> <li>1. Downloaded monthly disciplinary action reports from website: disciplinary actions are listed by year then month. <ol style="list-style-type: none"> <li>a. <a href="https://www.dos.pa.gov/ProfessionalLicensing/VerifyaProfessional/DisciplinaryActions/Pages/default.aspx">https://www.dos.pa.gov/ProfessionalLicensing/VerifyaProfessional/DisciplinaryActions/Pages/default.aspx</a></li> </ol> </li> <li>2. Click on "board of accountancy" link</li> <li>3. Recorded actions taken against CPAs for that month, if any.</li> <li>4. Obtained additional information for individual cases by using PA Licensing System Verification service lookup to identify any related documents/orders/etc.: <a href="https://www.pals.pa.gov/#/page/search">https://www.pals.pa.gov/#/page/search</a></li> </ol>

<b>STATE</b>	<b>PROCESS</b>
SC	1. Reviewed board minutes and board orders. a. <a href="https://eservice.llr.sc.gov/PublicOrdersWeb/?divisionId=15">https://eservice.llr.sc.gov/PublicOrdersWeb/?divisionId=15</a>
SD	1. Reviewed board minutes and board orders. a. <a href="https://dlr.sd.gov/accountancy/disciplinary_action.aspx">https://dlr.sd.gov/accountancy/disciplinary_action.aspx</a>
TX	1. Reviewed board reports and individual orders as needed. a. <a href="https://www.tsbpa.texas.gov/general/board-reports.html">https://www.tsbpa.texas.gov/general/board-reports.html</a>
UT	1. Reviewed board reports and individual orders as needed. a. <a href="https://dopl.utah.gov/cpa/">https://dopl.utah.gov/cpa/</a>
WI	1. Reviewed board reports and individual orders as needed. a. <a href="https://online.drl.wi.gov/orders/searchorders.aspx">https://online.drl.wi.gov/orders/searchorders.aspx</a>
WV	1. Reviewed disciplinary actions posted on website and board minutes as available. a. <a href="https://www.boa.wv.gov/Public/DisciplinaryActions.asp">https://www.boa.wv.gov/Public/DisciplinaryActions.asp</a>



## APPENDIX C: VIOLATION RATE BY STATE BY YEAR

(\*Post\_Change variable: 0=year w/no ethics CPE; 1=year w/ethics CPE)

State	Group	Year	* Post_Change	Reg Persons	Total Sanctions	Sanctions_Rate by year	Total Sanction_Sever score by year	Total Act_Sever score by year
AL	1	2008	0	8,776	6	6.837	46	68
AL	1	2009	0	8,850	2	2.260	12	15
AL	1	2010	0	8,891	5	5.624	38	56
AL	1	2011	0	8,927	4	4.481	28	23
AL	1	2012	0	8,957	4	4.466	30	29
AL	1	2013	0	8,984	42	46.750	336	181
AL	1	2014	0	9,006	22	24.428	176	89
AL	1	2015	0	9,026	19	21.050	152	77
AL	1	2016	0	9,046	35	38.691	252	178
AL	1	2017	0	9,067	30	33.087	230	141
AL	1	2018	0	9,091	22	24.200	165	135
AL	1	2019	0	9,120	39	42.763	298	172
SD	1	2008	0	1,599	12	75.047	94	58
SD	1	2009	0	1,615	2	12.384	15	8
SD	1	2010	0	1,629	1	6.139	1	5
SD	1	2011	0	1,648	2	12.136	14	22
SD	1	2012	0	1,668	2	11.990	12	8
SD	1	2013	0	1,686	0	0.000	0	0
SD	1	2014	0	1,699	1	5.886	7	4
SD	1	2015	0	1,709	0	0.000	0	0
SD	1	2016	0	1,727	0	0.000	0	0
SD	1	2017	0	1,747	0	0.000	0	0
SD	1	2018	0	1,759	1	5.685	3	4
SD	1	2019	0	1,770	1	5.650	7	14
WI	1	2008	0	12,321	3	2.435	20	25
WI	1	2009	0	12,383	4	3.230	16	20
WI	1	2010	0	12,422	4	3.220	16	17
WI	1	2011	0	12,462	2	1.605	10	15
WI	1	2012	0	12,494	8	6.403	42	49
WI	1	2013	0	12,531	4	3.192	14	42
WI	1	2014	0	12,563	4	3.184	24	51
WI	1	2015	0	12,583	3	2.384	9	16
WI	1	2016	0	12,609	8	6.345	50	88

State	Group	Year	* Post_Change	Reg Persons	Total Sanctions	Sanctions_Rate by year	Total Sanction_Sever score by year	Total Act_Sever score by year
WI	1	2017	0	12,647	7	5.535	44	53
WI	1	2018	0	12,685	4	3.153	23	19
WI	1	2019	0	12,718	6	4.718	31	53
HI	2	2008	0	2,474	1	4.042	8	15
HI	2	2009	0	2,501	1	3.998	7	16
HI	2	2010	0	2,526	1	3.959	7	5
HI	2	2011	1	2,561	0	0.000	0	0
HI	2	2012	1	2,590	0	0.000	0	0
HI	2	2013	1	2,615	1	3.824	8	5
HI	2	2014	1	2,627	0	0.000	0	0
HI	2	2015	1	2,641	2	7.573	10	31
HI	2	2016	1	2,651	5	18.861	13	27
HI	2	2017	1	2,645	3	11.342	10	18
HI	2	2018	1	2,638	2	7.582	8	25
HI	2	2019	1	2,629	0	0.000	0	0
PA	2	2008	0	21,339	18	8.435	67	76
PA	2	2009	0	21,431	39	18.198	120	175
PA	2	2010	0	21,491	25	11.633	114	106
PA	2	2011	1	21,565	32	14.839	100	167
PA	2	2012	1	21,601	29	13.425	82	195
PA	2	2013	1	21,616	11	5.089	29	69
PA	2	2014	1	21,637	13	6.008	43	76
PA	2	2015	1	21,631	5	2.311	15	34
PA	2	2016	1	21,627	7	3.237	40	87
PA	2	2017	1	21,636	6	2.773	23	60
PA	2	2018	1	21,658	20	9.234	56	116
PA	2	2019	1	21,660	7	3.232	28	69
SC	2	2008	0	5,772	8	13.860	34	45
SC	2	2009	0	5,850	15	25.641	65	64
SC	2	2010	0	5,895	1	1.696	3	5
SC	2	2011	0	5,954	2	3.359	10	21
SC	2	2012	0	6,012	4	6.653	20	18
SC	2	2013	1	6,072	5	8.235	33	24
SC	2	2014	1	6,148	4	6.506	21	29
SC	2	2015	1	6,235	7	11.227	36	53
SC	2	2016	1	6,319	2	3.165	14	8
SC	2	2017	1	6,400	16	25.000	52	79

State	Group	Year	* Post_Change	Reg Persons	Total Sanctions	Sanctions_Rate by year	Total Sanction_Sever score by year	Total Act_Sever score by year
SC	2	2018	1	6,480	8	12.346	31	49
SC	2	2019	1	6,562	11	16.763	21	47
UT	2	2008	0	4,657	1	2.147	7	5
UT	2	2009	0	4,763	0	0.000	0	0
UT	2	2010	0	4,833	1	2.069	5	16
UT	2	2011	0	4,922	9	18.285	43	44
UT	2	2012	0	4,990	4	8.016	24	28
UT	2	2013	0	5,067	2	3.947	17	8
UT	2	2014	0	5,136	7	13.629	53	56
UT	2	2015	0	5,215	8	15.340	40	45
UT	2	2016	0	5,320	2	3.759	2	9
UT	2	2017	1	5,423	4	7.376	16	42
UT	2	2018	1	5,515	2	3.626	8	10
UT	2	2019	1	5,607	6	10.701	33	39
WV	2	2008	0	2,446	3	12.265	13	13
WV	2	2009	0	2,456	2	8.143	13	10
WV	2	2010	0	2,463	0	0.000	0	0
WV	2	2011	0	2,468	2	8.104	4	8
WV	2	2012	0	2,468	0	0.000	0	0
WV	2	2013	0	2,465	2	8.114	9	9
WV	2	2014	0	2,459	0	0.000	0	0
WV	2	2015	0	2,449	0	0.000	0	0
WV	2	2016	1	2,434	1	4.108	3	5
WV	2	2017	1	2,415	0	0.000	0	0
WV	2	2018	1	2,399	5	20.842	29	44
WV	2	2019	1	2,382	2	8.396	13	17
CO	3	2008	0	15,746	8	5.081	23	33
CO	3	2009	0	16,011	22	13.741	78	96
CO	3	2010	0	16,195	33	20.377	128	141
CO	3	2011	0	16,491	74	44.873	240	335
CO	3	2012	0	16,721	63	37.677	202	295
CO	3	2013	1	16,967	36	21.218	127	166
CO	3	2014	1	17,228	53	30.764	173	230
CO	3	2015	1	17,552	33	18.801	113	135
CO	3	2016	1	17,837	35	19.622	112	148
CO	3	2017	1	18,071	46	25.455	147	245
CO	3	2018	1	18,327	42	22.917	141	199

State	Group	Year	* Post_Change	Reg Persons	Total Sanctions	Sanctions_Rate by year	Total Sanction_Sever score by year	Total Act_Sever score by year
CO	3	2019	1	18,544	39	21.031	141	163
OK	3	2008	0	9,577	15	15.663	93	83
OK	3	2009	1	9,703	29	29.888	162	131
OK	3	2010	1	9,792	34	34.722	169	164
OK	3	2011	1	9,888	20	20.227	117	102
OK	3	2012	1	9,968	14	14.045	53	71
OK	3	2013	1	10,057	31	30.824	120	150
OK	3	2014	1	10,123	13	12.842	58	55
OK	3	2015	1	10,204	6	5.880	25	38
OK	3	2016	1	10,248	12	11.710	62	62
OK	3	2017	1	10,261	3	2.924	17	32
OK	3	2018	1	10,285	2	1.945	8	10
OK	3	2019	1	10,328	0	0.000	0	0
CA	4	2008	1	91,808	31.429	3.423		
CA	4	2009	1	92,703	31.429	3.390		
CA	4	2010	1	93,437	31.429	3.364		
CA	4	2011	1	94,401	31.429	3.329		
CA	4	2012	1	95,180	31.429	3.302		
CA	4	2013	1	95,963	31.429	3.275		
CA	4	2014	1	96,806	31.429	3.247		
CA	4	2015	1	97,611	59	6.044	433	447
CA	4	2016	1	98,236	84	8.551	651	539
CA	4	2017	1	98,716	57	5.774	450	343
CA	4	2018	1	98,974	55	5.557	448	356
CA	4	2019	1	99,101	49	4.944	372	314
IL	4	2008	1	40,638	12.571	3.094		
IL	4	2009	1	40,796	12.571	3.082		
IL	4	2010	1	40,904	12.571	3.073		
IL	4	2011	1	41,022	12.571	3.065		
IL	4	2012	1	41,070	12.571	3.061		
IL	4	2013	1	41,110	12.571	3.058		
IL	4	2014	1	41,076	12.571	3.061		
IL	4	2015	1	40,994	17	4.147	97	120
IL	4	2016	1	40,872	17	4.159	99	104
IL	4	2017	1	40,739	19	4.664	95	104
IL	4	2018	1	40,561	32	7.889	168	150
IL	4	2019	1	40,398	17	4.208	76	110

State	Group	Year	* Post_ Change	Reg Persons	Total Sanctions	Sanctions_ Rate by year	Total Sanction_ Sever score by year	Total Act_Sever score by year
NY	4	2008	1	105,702	21.857	2.068		
NY	4	2009	1	106,223	21.857	2.058		
NY	4	2010	1	106,614	21.857	2.050		
NY	4	2011	1	107,280	21.857	2.037		
NY	4	2012	1	107,686	21.857	2.030		
NY	4	2013	1	107,969	21.857	2.024		
NY	4	2014	1	108,115	21.857	2.022		
NY	4	2015	1	108,135	25	2.312	154	175
NY	4	2016	1	108,018	20	1.852	107	169
NY	4	2017	1	107,777	23	2.134	136	178
NY	4	2018	1	107,451	27	2.513	146	177
NY	4	2019	1	107,029	12	1.121	71	93
TX	4	2008	1	58,428	44	7.531		
TX	4	2009	1	59,612	44	7.381		
TX	4	2010	1	60,438	44	7.280		
TX	4	2011	1	61,640	44	7.138		
TX	4	2012	1	62,695	44	7.018		
TX	4	2013	1	63,646	44	6.913		
TX	4	2014	1	64,810	44	6.789		
TX	4	2015	1	66,025	26	3.938	150	144
TX	4	2016	1	67,093	35	5.217	228	262
TX	4	2017	1	68,009	34	4.999	187	275
TX	4	2018	1	68,810	11	1.599	61	79
TX	4	2019	1	69,693	32	4.592	168	231

#### APPENDIX D: PROCESS TO CONSOLIDATE GROUP 4

Step #	Action
Step 1	Copied group 4 from consolidated data file
Step 2	Identified CPAs sanctioned by other jurisdictions and coded 111
Step 3	Identified CPAs convicted of crimes and violated professional standards. Coded 222 to avoid double counting.
Step 4	Created tab 'Group 4 mod'
Step 5	Removed CPAs convicted of crimes (coded 222) and created tab "group 4 mod 2"
Step 6	Ran pivot tables from tab 'Group 4 mod 2' to consolidate with Krom (2019) data.
Step 7	See Group 4 Translation table below for final compilation explanation, followed by the final Group 4 consolidation.
Step 8	To enable appropriate comparison, steps 1-5 were repeated for Group 1 data.

<b>Group 4 Translation Table - Primary reason for disciplinary actions:</b>		
(Categories per Krom 2019)		(Coding Categories in this Study)
Professional Practice Misconduct	=	All Prof Issues excluding those coded 111 or 222
Actions in other jurisdictions	=	Prof Issues only coded with additional code 111
Social Crimes	=	Crimes 1 & 2
Fed or St convictions (except Social Crimes)	=	Crimes 3-9

	<b>Krom (2019) 2008-2014</b>					<b>This study 2015-2019</b>					<b>Group 4 Consolidated- 2008 - 2019</b>				
<b>Primary reason for disciplinary actions:</b>	CA	IL	NY	TX	<b>Totals</b>	CA	IL	NY	TX	<b>Totals</b>	CA	IL	NY	TX	<b>Totals</b>
Professional Practice Misconduct	101	44	63	166	374	224	73	64	102	463	325	117	127	268	837
Actions in other jurisdictions	27	8	17	56	108	49	22	24	12	107	76	30	41	68	215
Social Crimes	14	8	11	38	71	2	0	0	2	4	16	8	11	40	75
Fed or St convictions (except Social Crimes)	78	28	62	48	216	29	7	19	22	77	107	35	81	70	293
<b>Totals:</b>	<b>220</b>	<b>88</b>	<b>153</b>	<b>308</b>	<b>769</b>	<b>304</b>	<b>97</b>	<b>104</b>	<b>147</b>	<b>651</b>	<b>524</b>	<b>185</b>	<b>260</b>	<b>446</b>	<b>1,420</b>

## APPENDIX E: SANCTION SEVERITY SCORES – BY STATE / BY YEAR

The Sanction Severity Scores by State and Year are presented below in 3 panels: 1) Number of Sanctions by sanction year; 2) Total Sanction Severity Scores by year; 3) Average Sanction Severity Score by year.

	<b>Number of Sanctions by Sanction Year</b>												
<b>Group / State</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
<b>Group 1 (CPE_Zero)</b>													
AL	6	2	5	4	4	42	22	19	35	30	22	39	230
SD	12	2	1	2	2	0	1	0	0	0	1	1	22
WI	3	4	4	2	8	4	4	3	8	7	4	6	57
<b>Group 1 Totals:</b>	<b>21</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>14</b>	<b>46</b>	<b>27</b>	<b>22</b>	<b>43</b>	<b>37</b>	<b>27</b>	<b>46</b>	<b>309</b>
<b>Group 2 (CPE_Increase From 0)</b>													
HI	1	1	1	0	0	1	0	2	5	3	2	0	16
PA	18	39	25	32	29	11	13	5	7	6	20	7	212
SC	8	15	1	2	4	5	4	7	2	16	8	11	83
UT	1	0	1	9	4	2	7	8	2	4	2	6	46
WV	3	2	0	2	0	2	0	0	1	0	5	2	17
<b>Group 2 Totals:</b>	<b>31</b>	<b>57</b>	<b>28</b>	<b>45</b>	<b>37</b>	<b>21</b>	<b>24</b>	<b>22</b>	<b>17</b>	<b>29</b>	<b>37</b>	<b>26</b>	<b>374</b>
<b>Group 3 (CPE_Increase)</b>													
CO	8	22	33	74	63	36	53	33	35	46	42	39	484
OK	15	29	34	20	14	31	13	6	12	3	2	0	179
<b>Group 3 Totals:</b>	<b>23</b>	<b>51</b>	<b>67</b>	<b>94</b>	<b>77</b>	<b>67</b>	<b>66</b>	<b>39</b>	<b>47</b>	<b>49</b>	<b>44</b>	<b>39</b>	<b>663</b>
<b>Group 4 (CPE_Same)</b>													
CA								59	84	57	55	49	304
IL								17	17	19	32	17	102
NY								25	20	23	27	12	107
TX								26	35	34	11	32	138
<b>Group 4 Totals:</b>								<b>127</b>	<b>156</b>	<b>133</b>	<b>125</b>	<b>110</b>	<b>651</b>
<b>Overall Totals:</b>	<b>75</b>	<b>116</b>	<b>105</b>	<b>147</b>	<b>128</b>	<b>134</b>	<b>117</b>	<b>210</b>	<b>263</b>	<b>248</b>	<b>233</b>	<b>221</b>	<b>1,997</b>

	Total Sanction Severity (Sanction Sever) Scores by Sanction Year												
Group / State	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Totals:
<b>Group 1 (CPE Zero)</b>													
AL	46	12	38	28	30	336	176	152	252	230	165	298	1,763
SD	94	15	1	14	12	0	7	-	-	-	3	7	153
WI	20	16	16	10	42	14	24	9	50	44	23	31	299
<b>Group 1 Totals:</b>	<b>160</b>	<b>43</b>	<b>55</b>	<b>52</b>	<b>84</b>	<b>350</b>	<b>207</b>	<b>161</b>	<b>302</b>	<b>274</b>	<b>191</b>	<b>336</b>	<b>2,215</b>
<b>Group 2 (CPE Increase From 0)</b>													
HI	8	7	7	0	0	8	0	10	13	10	8	-	71
PA	67	120	114	100	82	29	43	15	40	23	56	28	717
SC	34	65	3	10	20	33	21	36	14	52	31	21	340
UT	7	0	5	43	24	17	53	40	2	16	8	33	248
WV	13	13	0	4	0	9	0	-	3	-	29	13	84
<b>Group 2 Totals:</b>	<b>129</b>	<b>205</b>	<b>129</b>	<b>157</b>	<b>126</b>	<b>96</b>	<b>117</b>	<b>101</b>	<b>72</b>	<b>101</b>	<b>132</b>	<b>95</b>	<b>1,460</b>
<b>Group 3 (CPE Increase)</b>													
CO	23	78	128	240	202	127	173	113	112	147	141	141	1,625
OK	93	162	169	117	53	120	58	25	62	17	8	-	884
<b>Group 3 Totals:</b>	<b>116</b>	<b>240</b>	<b>297</b>	<b>357</b>	<b>255</b>	<b>247</b>	<b>231</b>	<b>138</b>	<b>174</b>	<b>164</b>	<b>149</b>	<b>141</b>	<b>2,509</b>
<b>Group 4 (CPE Same)</b>													
CA								433	651	450	448	372	2,354
IL								97	99	95	168	76	535
NY								154	107	136	146	71	614
TX								150	228	187	61	168	794
<b>Group 4 Totals:</b>								<b>834</b>	<b>1,085</b>	<b>868</b>	<b>823</b>	<b>687</b>	<b>4,297</b>
<b>Overall Totals:</b>	<b>405</b>	<b>488</b>	<b>481</b>	<b>566</b>	<b>465</b>	<b>693</b>	<b>555</b>	<b>1,234</b>	<b>1,633</b>	<b>1,407</b>	<b>1,295</b>	<b>1,259</b>	<b>10,481</b>



	Average Sanction Severity Score by Sanction Year												
Group / State	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Totals:
<b>Group 1 (CPE Zero)</b>													
AL	7.67	6.00	7.60	7.00	7.50	8.00	8.00	8.00	7.20	7.67	7.50	7.64	7.67
SD	7.83	7.50	1.00	7.00	6.00	0.00	7.00	0.00	0.00	0.00	3.00	7.00	6.95
WI	6.67	4.00	4.00	5.00	5.25	3.50	6.00	3.00	6.25	6.29	5.75	5.17	5.25
<b>Group 1 Totals:</b>	<b>7.62</b>	<b>5.38</b>	<b>5.50</b>	<b>6.50</b>	<b>6.00</b>	<b>7.61</b>	<b>7.67</b>	<b>7.32</b>	<b>7.02</b>	<b>7.41</b>	<b>7.07</b>	<b>7.30</b>	<b>7.17</b>
<b>Group 2 (CPE Increase From 0)</b>													
HI	8.00	7.00	7.00	0.00	0.00	8.00	0.00	5.00	2.60	3.33	4.00	0.00	4.44
PA	3.72	3.08	4.56	3.13	2.83	2.64	3.31	3.00	5.71	3.83	2.80	4.00	3.38
SC	4.25	4.33	3.00	5.00	5.00	6.60	5.25	5.14	7.00	3.25	3.88	1.91	4.10
UT	7.00	0.00	5.00	4.78	6.00	8.50	7.57	5.00	1.00	4.00	4.00	5.50	5.39
WV	4.33	6.50	0.00	2.00	0.00	4.50	0.00	0.00	3.00	0.00	5.80	6.50	4.94
<b>Group 2 Totals:</b>	<b>4.16</b>	<b>3.60</b>	<b>4.61</b>	<b>3.49</b>	<b>3.41</b>	<b>4.57</b>	<b>4.88</b>	<b>4.59</b>	<b>4.24</b>	<b>3.48</b>	<b>3.57</b>	<b>3.65</b>	<b>3.90</b>
<b>Group 3 (CPE Increase)</b>													
CO	2.88	3.55	3.88	3.24	3.21	3.53	3.26	3.42	3.20	3.20	3.36	3.62	3.36
OK	6.20	5.59	4.97	5.85	3.79	3.87	4.46	4.17	5.17	5.67	4.00	0.00	4.94
<b>Group 3 Totals:</b>	<b>5.04</b>	<b>4.71</b>	<b>4.43</b>	<b>3.80</b>	<b>3.31</b>	<b>3.69</b>	<b>3.50</b>	<b>3.54</b>	<b>3.70</b>	<b>3.35</b>	<b>3.39</b>	<b>3.62</b>	<b>3.78</b>
<b>Group 4 (CPE Same)</b>													
CA								7.34	7.75	7.89	8.15	7.59	7.74
IL								5.71	5.82	5.00	5.25	4.47	5.25
NY								6.16	5.35	5.91	5.41	5.92	5.74
TX								5.77	6.51	5.50	5.55	5.25	5.75
<b>Group 4 Totals:</b>								<b>6.57</b>	<b>6.96</b>	<b>6.53</b>	<b>6.58</b>	<b>6.25</b>	<b>6.60</b>
<b>Overall Totals:</b>	<b>5.40</b>	<b>4.21</b>	<b>4.58</b>	<b>3.85</b>	<b>3.63</b>	<b>5.17</b>	<b>4.74</b>	<b>5.88</b>	<b>6.21</b>	<b>5.67</b>	<b>5.56</b>	<b>5.70</b>	<b>5.25</b>

## APPENDIX F: ACTIONS SEVERITY SCORES – BY STATE / BY YEAR

The Actions Severity Scores by State and Year are presented below in 3 panels: 1) Number of Acts by sanction year; 2) Total Act Severity Scores by year; 3) Average Act Severity Score by year.

	<b>Number of Acts by Sanction Year</b>												
<b>Group / State</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
<b>Group 1 (CPE Zero)</b>													
AL	6	2	5	4	4	42	22	19	35	30	22	39	230
SD	12	2	1	2	2	0	1	0	0	0	1	1	22
WI	3	4	4	2	8	4	4	3	8	7	4	6	57
<b>Group 1 Totals:</b>	<b>21</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>14</b>	<b>46</b>	<b>27</b>	<b>22</b>	<b>43</b>	<b>37</b>	<b>27</b>	<b>46</b>	<b>309</b>
<b>Group 2 (CPE Increase From 0)</b>													
HI	1	1	1	0	0	1	0	2	5	3	2	0	16
PA	18	39	25	32	29	11	13	5	7	6	20	7	212
SC	8	15	1	2	4	5	4	7	2	16	8	11	83
UT	1	0	1	9	4	2	7	8	2	4	2	6	46
WV	3	2	0	2	0	2	0	0	1	0	5	2	17
<b>Group 2 Totals:</b>	<b>31</b>	<b>57</b>	<b>28</b>	<b>45</b>	<b>37</b>	<b>21</b>	<b>24</b>	<b>22</b>	<b>17</b>	<b>29</b>	<b>37</b>	<b>26</b>	<b>374</b>
<b>Group 3 (CPE Increase)</b>													
CO	8	22	33	74	63	36	53	33	35	46	42	39	484
OK	15	29	34	20	14	31	13	6	12	3	2	0	179
<b>Group 3 Totals:</b>	<b>23</b>	<b>51</b>	<b>67</b>	<b>94</b>	<b>77</b>	<b>67</b>	<b>66</b>	<b>39</b>	<b>47</b>	<b>49</b>	<b>44</b>	<b>39</b>	<b>663</b>
<b>Group 4 (CPE Same)</b>													
CA								59	84	57	55	49	304
IL								17	17	19	32	17	102
NY								25	20	23	27	12	107
TX								26	35	34	11	32	138
<b>Group 4 Totals:</b>								<b>127</b>	<b>156</b>	<b>133</b>	<b>125</b>	<b>110</b>	<b>651</b>
<b>Overall Totals:</b>	<b>75</b>	<b>116</b>	<b>105</b>	<b>147</b>	<b>128</b>	<b>134</b>	<b>117</b>	<b>210</b>	<b>263</b>	<b>248</b>	<b>233</b>	<b>221</b>	<b>1997</b>

	<b>Total Act Severity Scores (Act Sever) by Sanction Year</b>												
<b>Group / State</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
<b>Group 1 (CPE Zero)</b>													
AL	68	15	56	23	29	181	89	77	178	141	135	172	1164
SD	58	8	5	22	8	0	4	0	0	0	4	14	123
WI	25	20	17	15	49	42	51	16	88	53	19	53	448
<b>Group 1 Totals:</b>	<b>151</b>	<b>43</b>	<b>78</b>	<b>60</b>	<b>86</b>	<b>223</b>	<b>144</b>	<b>93</b>	<b>266</b>	<b>194</b>	<b>158</b>	<b>239</b>	<b>1735</b>
<b>Group 2 (CPE Increase From 0)</b>													
HI	15	16	5	0	0	5	0	31	27	18	25	0	142
PA	76	175	106	167	195	69	76	34	87	60	116	69	1230
SC	45	64	5	21	18	24	29	53	8	79	49	47	442
UT	5	0	16	44	28	8	56	45	9	42	10	39	302
WV	13	10	0	8	0	9	0	0	5	0	44	17	106
<b>Group 2 Totals:</b>	<b>154</b>	<b>265</b>	<b>132</b>	<b>240</b>	<b>241</b>	<b>115</b>	<b>161</b>	<b>163</b>	<b>136</b>	<b>199</b>	<b>244</b>	<b>172</b>	<b>2222</b>
<b>Group 3 (CPE Increase)</b>													
CO	33	96	141	335	295	166	230	135	148	245	199	163	2186
OK	83	131	164	102	71	150	55	38	62	32	10	0	898
<b>Group 3 Totals:</b>	<b>116</b>	<b>227</b>	<b>305</b>	<b>437</b>	<b>366</b>	<b>316</b>	<b>285</b>	<b>173</b>	<b>210</b>	<b>277</b>	<b>209</b>	<b>163</b>	<b>3084</b>
<b>Group 4 (CPE Same)</b>													
CA								447	539	343	356	314	1999
IL								120	104	104	150	110	588
NY								175	169	178	177	93	792
TX								144	262	275	79	231	991
<b>Group 4 Totals:</b>								<b>886</b>	<b>1074</b>	<b>900</b>	<b>762</b>	<b>748</b>	<b>4370</b>
<b>Overall Totals:</b>	<b>421</b>	<b>535</b>	<b>515</b>	<b>737</b>	<b>693</b>	<b>654</b>	<b>590</b>	<b>1315</b>	<b>1686</b>	<b>1570</b>	<b>1373</b>	<b>1322</b>	<b>11411</b>

	Average Act Severity Score by Sanction Year												
Group / State	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Totals:
<b>Group 1 (CPE_Zero)</b>													
AL	11.33	7.50	11.20	5.75	7.25	4.31	4.05	4.05	5.09	4.70	6.14	4.41	5.06
SD	4.83	4.00	5.00	11.00	4.00	0.00	4.00	0.00	0.00	0.00	4.00	14.00	5.59
WI	8.33	5.00	4.25	7.50	6.13	10.50	12.75	5.33	11.00	7.57	4.75	8.83	7.86
<b>Group 1 Totals:</b>	<b>7.19</b>	<b>5.38</b>	<b>7.80</b>	<b>7.50</b>	<b>6.14</b>	<b>4.85</b>	<b>5.33</b>	<b>4.23</b>	<b>6.19</b>	<b>5.24</b>	<b>5.85</b>	<b>5.20</b>	<b>5.61</b>
<b>Group 2 (CPE_Increase_From_0)</b>													
HI	15.00	16.00	5.00	0.00	0.00	5.00	0.00	15.50	5.40	6.00	12.50	0.00	8.88
PA	4.22	4.49	4.24	5.22	6.72	6.27	5.85	6.80	12.43	10.00	5.80	9.86	5.80
SC	5.63	4.27	5.00	10.50	4.50	4.80	7.25	7.57	4.00	4.94	6.13	4.27	5.33
UT	5.00	0.00	16.00	4.89	7.00	4.00	8.00	5.63	4.50	10.50	5.00	6.50	6.57
WV	4.33	5.00	0.00	4.00	0.00	4.50	0.00	0.00	5.00	0.00	8.80	8.50	6.24
<b>Group 2 Totals:</b>	<b>4.97</b>	<b>4.65</b>	<b>4.71</b>	<b>5.33</b>	<b>6.51</b>	<b>5.48</b>	<b>6.71</b>	<b>7.41</b>	<b>8.00</b>	<b>6.86</b>	<b>6.59</b>	<b>6.62</b>	<b>5.94</b>
<b>Group 3 (CPE_Increase)</b>													
CO	4.13	4.36	4.27	4.53	4.68	4.61	4.34	4.09	4.23	5.33	4.74	4.18	4.52
OK	5.53	4.52	4.82	5.10	5.07	4.84	4.23	6.33	5.17	10.67	5.00	0.00	5.02
<b>Group 3 Totals:</b>	<b>5.04</b>	<b>4.45</b>	<b>4.55</b>	<b>4.65</b>	<b>4.75</b>	<b>4.72</b>	<b>4.32</b>	<b>4.44</b>	<b>4.47</b>	<b>5.65</b>	<b>4.75</b>	<b>4.18</b>	<b>4.65</b>
<b>Group 4 (CPE_Same)</b>													
CA								7.58	6.42	6.02	6.47	6.41	6.58
IL								7.06	6.12	5.47	4.69	6.47	5.76
NY								7.00	8.45	7.74	6.56	7.75	7.40
TX								5.54	7.49	8.09	7.18	7.22	7.18
<b>Group 4 Totals:</b>								<b>6.98</b>	<b>6.88</b>	<b>6.77</b>	<b>6.10</b>	<b>6.80</b>	<b>6.71</b>
<b>Overall Totals:</b>	<b>5.61</b>	<b>4.61</b>	<b>4.90</b>	<b>5.01</b>	<b>5.41</b>	<b>4.88</b>	<b>5.04</b>	<b>6.26</b>	<b>6.41</b>	<b>6.33</b>	<b>5.89</b>	<b>5.98</b>	<b>5.71</b>