

Ethical Behavior

Among Texas CPAs – After the Mandatory College Ethics Course Requirement



Figure 1a. Disciplinary Actions per 1,000 CPAs Aggregate

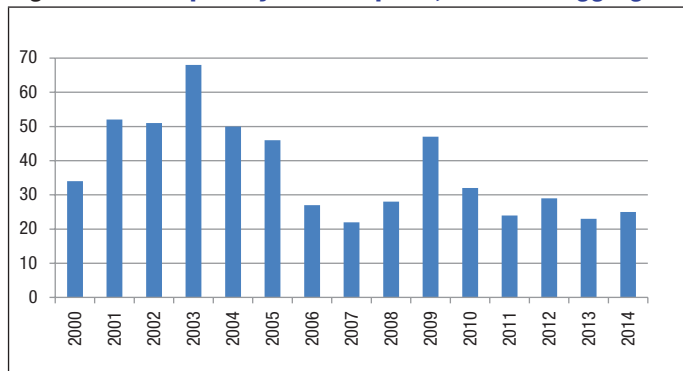
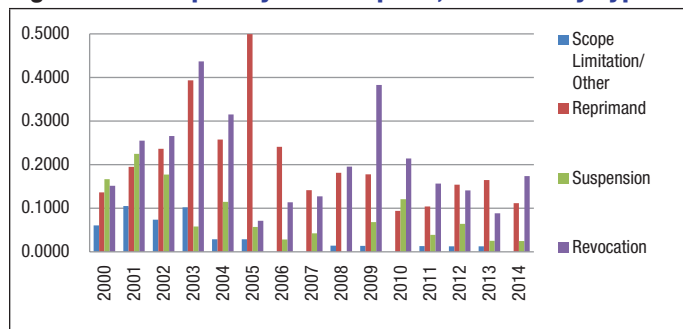


Figure 1b. Disciplinary Actions per 1,000 CPAs by Type



By Kathy F. Otero, CMA

In 2005, the Texas State Board of Public Accountancy began requiring the completion of a Board-approved three-semester-hour ethics class for all Texas CPA exam candidates. This change was in conjunction with the requirement for licensed CPAs in Texas to complete a Board-approved four-hour ethics course biannually. These new mandates were, in large part, a reaction to the devastating accounting scandals that surfaced in the early 2000s.

Hurt and Thomas (Hurt & Thomas, 2011) surveyed public accountants in Texas who were licensed between 2005 and 2010 and asked them about their perceptions of the impact of the required three-hour university ethics course requirement. They found respondents generally agreed that the course improved their ethical reasoning abilities. Respondents were somewhat less positive about the impact of the biennial ethics course required for licensed CPAs. Hurt and Thomas also found that the number of reported ethics violations declined significantly between 2005 and 2010, which they interpreted as evidence of the success of mandatory ethics education.

Although ethical behavior among CPAs in Texas has generally improved, there are no studies exploring changes in the composition of disciplinary actions imposed or in specific types of ethical violations. This study takes a step towards filling this gap in the literature.

Analysis and Results

A total of 563 disciplinary action cases from 2000 through 2014 were taken from archived copies of the Texas State Board Report. Information was categorized by disciplinary actions and code violations.

Figure 2a. Scope Limitations/Other as % of Total Disciplinary Actions

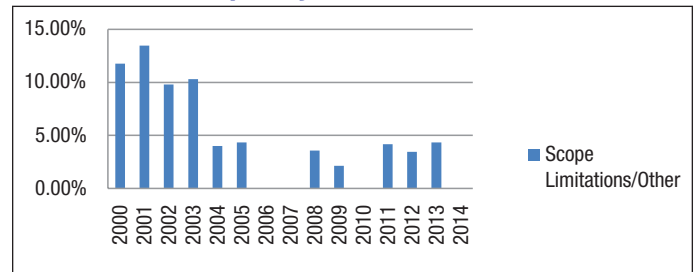


Figure 2b. Reprimands as % of Total Disciplinary Actions

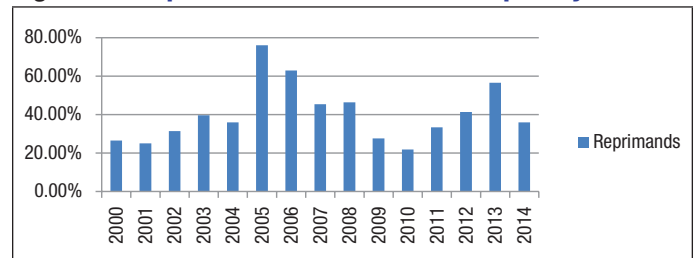


Figure 2c. Suspensions as % of Total Disciplinary Actions

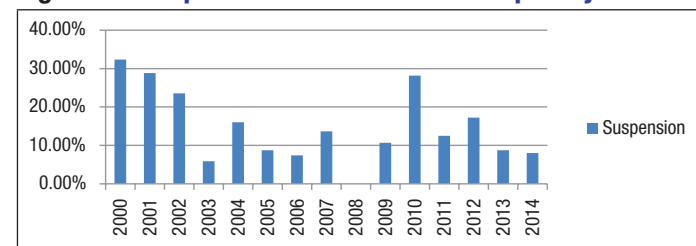
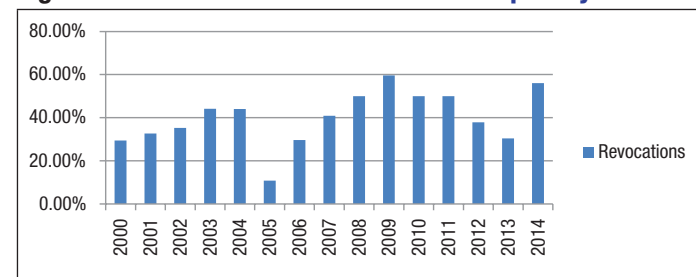


Figure 2d. Revocations as % of Total Disciplinary Actions



Disciplinary Actions in the Texas CPA Population

Figures 1a and 1b show disciplinary actions per 1,000 CPAs from 2000 to 2014 in Texas. Figure 1a presents aggregate disciplinary actions. Figure 1b breaks down disciplinary actions by type: scope limitations/other, reprimands, suspensions and revocations.

Total disciplinary actions were on a downward trend prior to the implementation of the ethics course requirement and continued to decline through 2007. The numbers have crept up since the lowest level in 2007, although the levels remain well below the pre-2005 levels for both the 2006-2010 and 2011-2014 periods. The decreases are significant¹.

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Table 1
Summary of Average Changes in Disciplinary Action Types as a Percent of Total Disciplinary Actions

Disciplinary Action Type	Direction of Average Change between 2000-2004 and 2006-2010	Direction of Average Change between 2006-2010 and 2011-2014
Scope Limitation/Other	Decrease*	Increase
Reprimands	Increase*	Increase
Suspensions	Decrease	Decrease
Revocations	Increase*	Decrease

Table 2
Occupations Code Violation Categories

Code Violation	Texas Occupations Code # and Section	Description of Violation
1	901.502 §1	Fraud/deceit in obtaining license
2	901.502 §2	Fraud/negligence in practice of public accounting
3	901.502 §5	Unauthorized practice violations
4	901.502 §6	Board rule violations
5	901.502 §10A	Felony convictions
6	901.502 §10B	Other convictions with an element of fraud or deceit
7	901.502 §8	Loss of right to practice in another state
8	901.502 §9	Loss of right to practice before a government agency
9	901.502 §3,4	License related violations
10	901.502 §11	Conduct unbecoming
11	901.502 §7,12	Violations of firm related rules

While the decline in the overall number of disciplinary actions is positive, the aggregate numbers fail to provide a complete picture of disciplinary action behaviors. To extend the understanding of these changes, it is helpful to compare how the composition of disciplinary actions has changed.

Annual Disciplinary Actions as a Percentage of Total Disciplinary Actions

To evaluate the changes in the annual composition of overall disciplinary actions, disciplinary actions are scaled as a percentage of total annual disciplinary actions for each study year. The results, by year, appear in Figures 2a through 2d.

To analyze general trends, the annual values presented in figures 2a – 2d were grouped into three timeframes: 2000-2004, 2006-2010 and 2011-2014. Scope limitations/other averaged around 10 percent of

Figure 3a. Felony Convictions as % of Total Violations

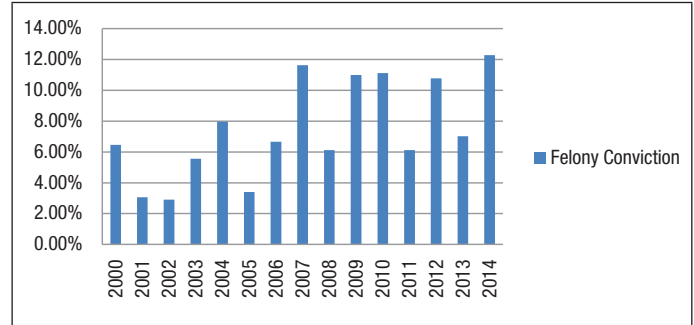


Figure 3b. Board Rule Violations as % of Total Violations

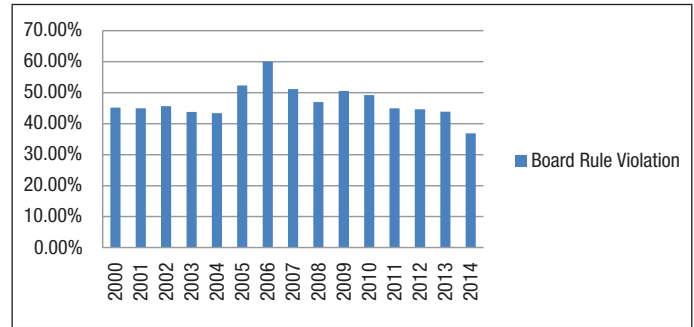


Figure 3c. Conduct Unbecoming as % of Total Violations

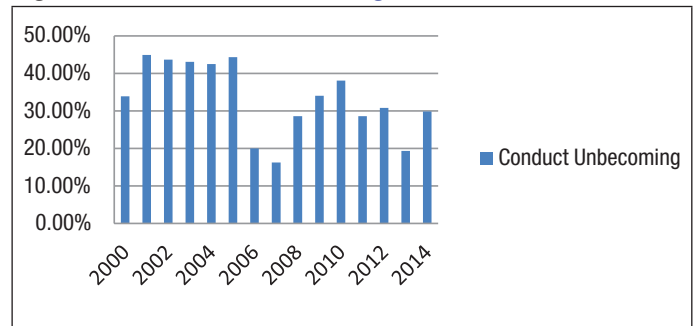
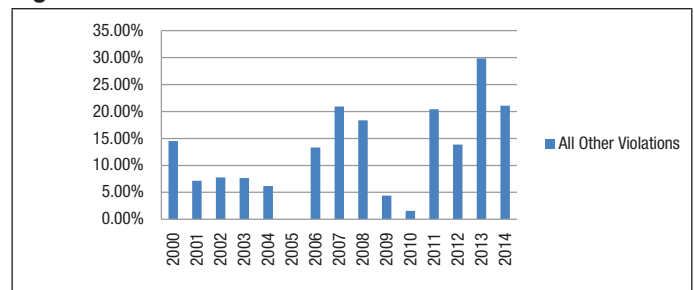


Figure 3d. All Other Violations as % of Total Violations



total disciplinary actions from 2000-2004; the value dropped to 1 percent between 2006-2010 and remained low at 3 percent between 2011-2014. Reprimands averaged 32 percent of disciplinary actions between 2000-2004 and have continued a generally upward trend for subsequent time periods – to 39 percent from 2006-2010 and 42 percent from 2011-2014. Suspensions averaged roughly 20 percent of all disciplinary

Table 3
Summary of Average Changes in Code Violation
Types as a Percent of Total Code Violations

Code Violation Category	Direction of Average Change between 2000-2004 and 2006-2010	Direction of Average Change between 2006-2010 and 2011-2014
Board Rule Violations	Increase*	Decrease
Felony Convictions	Increase*	Decrease
Conduct Unbecoming	Decrease	Decrease
All Other Violations	Increase	Increase*

actions between 2000-2004, although the trend during this time was generally declining. Between 2006 and 2014, suspensions declined to and remained at roughly 12 percent of disciplinary actions. Revocations averaged 38 percent of disciplinary actions between 2000-2004. They trended upwards quickly after a sharp decline in 2005, averaging 48 percent of disciplinary actions between 2006-2010 and dropped slightly to 44 percent between 2011-2014. In summary, scope limitations and suspensions were, on average, lower after 2005 than before 2005, while reprimands and revocations were generally higher after 2005.

These changes are summarized in Table 1. Statistically significant changes are marked with an asterisk. These results indicate that between the 2000-2004 and the 2006-2010 periods, changes in scope limitations decreased significantly, while reprimands and revocations increased significantly. Average values between 2006-2010 and 2011-2014 did not change significantly.

Although there are annual fluctuations in all disciplinary actions, revocations remain at generally higher levels after 2005. However, whether there is cause for concern depends largely on the reason for the increases. If the relative increase in revocations is due to the imposition of harsher penalties in general, this seems less troubling than the alternative explanation of more infractions considered sufficiently serious to warrant license revocation. To examine this issue further, changes in code violations are examined.

Code Violations

State code violations are classified into 11 descriptive categories based on the Texas Occupations Code and summarized in Table 2.

Each individual case often involved more than one code² violation. During the timeframe of this study, the incidences of violations in seven categories were relatively low and were grouped together in a single category³. The authors scaled the annual code violations as a percentage of total code violations for each category from 2000 through 2014.

Consistent with the analysis of disciplinary actions, the annual values were grouped into three time periods: 2000-2004, 2006-2010 and 2011-2014. Between 2000-2004, felony convictions averaged 5.2 percent of all code violations. This percentage increased to approximately 10 percent during 2006-2010 and declined slightly to 9 percent during 2011-2014. Conduct unbecoming averaged 42 percent of all code violations between

2000-2004. The average declined after 2005, falling to 29 percent between 2006-2010 and 27 percent between 2011-2014. Board rule violations averaged 44 percent of all code violations between 2000-2004. The average increased to 51 percent between 2006-2010 and declined to 43 percent between 2011-2014, bringing them close to the pre-2005 level. The remaining group, Other, increased steadily, from a low of 8 percent between 2000-2004 to a high of 21 percent between 2011-2014. The overall average increase in this group is attributable primarily to an increase in firm rule violations (from 1 percent of code violations in 2000-2004 to 8 percent in 2011-2014) and violations that were either not violations of code section 901.502 or were not identified by code section in the newsletter (from 1 percent in 2000-2004 to 7.5 percent in 2011-2014).

These changes are summarized in Table 3. Statistically significant changes are marked with an asterisk. These results indicate that average changes between the 2000-2004 period and the 2006-2010 period are significant, while average changes between 2006-2010 and 2011-2014 are generally not significant. The only category that had a significant change between 2006-2010 and 2011-2014 is other violations.

The significant and persistent increase in the percentage of code violations involving felony convictions after 2005 suggests that although there has been a decrease in disciplinary actions among Texas CPAs, a larger percentage of the remaining violations are more serious now than before 2005. The Board has considerable latitude with respect to the imposition of appropriate disciplinary actions (§901.501 of the Public Accountancy Act, TAC 22, 519.b §519.24), but the relative increase in felony convictions suggests the Board may not be imposing harsher penalties to set an example; the infractions may simply be more serious between 2006 and 2014.

Discussion

The good news is that far fewer CPAs in Texas have been subject to disciplinary actions since 2005, which suggests that ethics training has been effective for most CPAs. However, a greater percentage of remaining violations appear to involve criminal elements. While this study did not specifically analyze the nature of each felony conviction, the relative increase in felony convictions reflects poorly on the profession. One explanation for this may be that some CPAs will not adhere to professional codes of conduct regardless of the amount of required ethics training. Another explanation may be that there are other pressures influencing the ethical behavior of CPAs.

Coercion theory (Colvin, Cullen, & Ven, 2002) offers one such explanation for accountant misconduct. Coercion is defined as a social force causing individuals to act out of perceived or real fear or anxiety. Coercion occurs at two levels: an impersonal macro level (such as market pressure) and a personal micro level (such as pressure or intimidation from superiors).

Donegan and Ganon (2008) analyzed numerous SEC complaints and found that a common thread between a number of high-visibility accounting frauds involving publicly traded companies was the pressure to “meet and beat market expectations” (p. 8). Coercion theory asserts that high-level managers, under pressure to show improved company performance, convince lower level employees to act unethically through

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WHILE THE NUMBER OF DISCIPLINARY ACTIONS AND CODE VIOLATIONS HAS DECLINED SINCE THE IMPLEMENTATION OF THE COLLEGE-LEVEL ETHICS COURSE, THE COMPOSITION OF THE TYPE OF VIOLATION COMMITTED HAS CHANGED FOR THE WORSE.



a combination of intimidation, appeals to company loyalty and threats to employees' livelihoods. The situation at WorldCom provides an example of coercion theory in action. During the time leading up to the failure of WorldCom, CEO Bernard Ebbers, CFO Scott Sullivan and Controller David Myers realized the company was in serious financial trouble and was not going to meet analyst expectations. Their response was to pressure Director of Accounting Buford Yates and mid-level accounting managers Betty Vinson and Troy Normand into manipulating the company's financial records to hide the problems (Brooks, 2010). Although both Vinson and Normand allegedly balked at the requests, eventually both agreed to the fraudulent manipulations (Pulliam, 2003). Vinson later testified that she feared she would lose her job if she failed to acquiesce to upper management's instructions (McClam, 2005).

Donegan and Ganon express skepticism regarding the ability of ethics programs to deter macro-level coercive forces, such as analyst expectations. Data collected for this study indirectly support Donegan and Ganon's concern about ethics training versus macro-level forces. In 2009, the year after the beginning of the most recent U.S. economic downturn, total disciplinary actions per 1,000 CPAs spiked

to their highest levels since the mandatory changes in ethics education. Revocations made up nearly 60 percent of disciplinary actions, an increase of 10 percent from the previous year.

A Closer Look

This article takes a more in-depth look at the composition of disciplinary actions and the specific categories of ethical violations before and after the 2005 requirement to complete an approved college-level ethics course prior to sitting for the CPA exam. The analysis revealed that while the number of disciplinary actions and code violations has declined since the implementation of the college-level ethics course, the composition of the type of violation committed has changed for the worse. Felony convictions comprised a greater percentage of total violations after 2005. Coercion theory, a social force that causes individuals to act out of perceived or real fear or anxiety (Donegan & Ganon, 2008; Colvin, Cullen, & Ven, 2002), was offered as a possible explanation for these results.

Although ethics education cannot eliminate unethical behavior on the part of CPAs, it appears to be a contributory factor in reducing unethical CPA behavior in Texas. However, to develop a better understanding of how to minimize future ethical issues, additional research should examine both the nature and scope of violations and the CPAs who commit them. ■

Footnotes

1. Data observations were split into three groups: 2000-2004, 2006-2010 and 2011-2014. Group differences were analyzed using both ANOVA and Kruskal Wallis, and were found to be significant at the $p < .01$ level.
2. The dataset contained a total of 255 adjudicated cases and 516 separate violations between 2000 and 2004; 46 cases and 88 violations in 2005; 156 cases and 288 violations between 2006 and 2010.
3. Fraud/deceit obtaining license, fraud/negligence in practice, unauthorized practice violations, convictions with an element of fraud or deceit, loss of practice rights in other states, loss of practice rights before governmental agencies and license related violations.

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