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## **EVOLUTION OF PROFESSIONAL ENFORCEMENT IN TEXAS: AN EXAMINATION OF VIOLATIONS AND SANCTIONS**

*Abstract:* The purpose of this paper is to examine the enforcement of the Texas Rules of Professional Conduct (Rules) from 1946 to 1978. This period encompasses the early regulation of the Texas accounting profession after the passage of the Texas Public Accountancy Act (Act) in 1945. The Act and accompanying Rules remained in effect until 1979, when the Texas legislature enacted new accountancy legislation which inaugurated a more regulatory era.

Results indicate that enforcement of the Rules of Conduct was a process evolving over time as both the state and professional political systems impacted the behavior of the Texas State Board of Public Accountancy. During the period under study, internal professional competition between certified public accountants and non-certified public accountants surfaced as a substantial explanatory factor behind rule promulgation and enforcement. Violators differed from non-violators in level of education, type of training, and type of practice. In total numbers, certified public accountants were subject to more hearings and sanctions than non-certified public accountants. However, in accordance with expectations, the public accountants received a disproportionate share of alleged violations and sanctions. Violations implying practice incompetence and those impairing professional integrity were subject to more severe disciplinary actions, but the Board heard more competitive behavior allegations than those involving malpractice.

### **INTRODUCTION**

The purpose of this paper is to examine the enforcement of the Texas Rules of Professional Conduct (Rules) from 1946 to 1978. This period encompasses the early regulation of the Texas accounting profession after the passage of the Texas Public Accountancy Act (Act) in 1945. The Act and accompanying Rules remained in effect until 1979, when the Texas legislature en-

acted new accountancy legislation which inaugurated a more stringent regulatory era.

The paper addresses whether the early regulatory process was able to find and sanction offenders within the profession. The research specifically investigates the following questions:

1. What type of violations triggered hearings and punishment under the 1945 Act and Rules?
2. Did the demographics of violators differ from the demographics of non-violators?
3. Did violations and punishment change as the 1945 Act and Rules were amended?

Rules violations during the period under study are categorized into three classifications: those pertaining to morality and societal relationships (integrity), responsibility to clients and technical competence (practice), and competitive behavior among colleagues (competition). We examine the violations in light of practitioner demographic characteristics that include level of education, type of training, and type of practice. We also compare enforcement activity between certified (CPAs) and non-certified public accountants (PAs) and relate that activity to an increased power of the State to sanction.<sup>1</sup>

Based upon the literature from the sociology of professions and the history of the profession in Texas, we expect to find differences in the demographics between alleged violators and non-violators. Results indicate that enforcement of the Rules of Conduct evolved as a process over time as the political system impacted the behavior of the Texas State Board of Public Accountancy (Board). During the period under study, internal professional competition surfaced as a substantial explanatory factor behind rule promulgation and enforcement.<sup>2</sup> Education, often advocated by accountants as an attribute requisite to maintaining competence and substantiating professional integrity, emerged as a differentiating variable between violators and non-violators. Violators also differed from non-violators in type

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<sup>1</sup>Non-certified public accountants, who did not become registered until the 1945 Act, performed services similar to those of CPAs and sat on the Texas State Board of Public Accountancy through 1981 [Tinsley, Undated, pp. 22, 24, 27, 29, 85].

<sup>2</sup>Although Board records indicate an active pursuit of unlicensed bookkeepers and tax preparers holding out as accountants, this study does not examine sanctions against these competitive forces external to the accounting profession.

of training, and type of practice. In total numbers, CPAs were subject to more hearings and sanctions than PAs. However, in accordance with expectations, PAs received a disproportionate share of alleged violations and sanctions. In addition, the Board heard more competitive behavior allegations than those involving malpractice, but violations implying practice incompetence and those impairing professional integrity were subject to more severe disciplinary actions.

In the subsequent sections of this paper we first discuss the literature of the sociology of professions. Then we briefly correlate the history of Texas accounting professional regulation with that prevalent elsewhere in the United States (U.S.) from the period of 1896 to 1979. Testable hypotheses are provided in the next section. A discussion of data collection and statistical methodology appears in section four followed by the results of the analysis. A discussion of the results and conclusions are provided in the final section.

## THE SOCIOLOGY OF PROFESSIONS

Researchers in the sociology of professions posit that members of occupational groups employ specialized knowledge, credentialism, professional associations, and closure to establish professions that externally delineate their disciplines from other invading occupations [Wilensky, 1964, pp. 142-146; Larson, 1977, pp. x-xi, xvii, 225; Lubell, 1980, pp. 7, 14, 21-23; Freidson, 1986, pp. 63-64, 70, 186, 210, 225-226; Abbott, 1988, pp. 1-2, 5-9, 323].<sup>3</sup> Rules of Professional Ethics or Conduct, embodying public service as an ideal, not only serve as an alleged standard of practice, but also contribute in achieving social credibility and public confidence [Cerf, 1970, p. 45; Larson, 1977, p. 58-59; Lubell, 1980, p. 42]. Casler [1964, p. iii] states that a code of ethics provides a signal that a given occupation is evolving into an established profession. While the development of abstract specialized knowledge and Rules of Conduct create a mystique that legitimizes professional work and claims to prestige, Abbott [1988, pp. 2, 5, 136] maintains that both are used by professions to defend against attacks from other occu-

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<sup>3</sup>Freidson [1986, p. 63] describes credentials as items that provide information regarding the ability of a worker. Examples are professional certification and licenses. Closure refers to the ability of a profession to exclude unwanted outsiders in order to achieve group social status and market control [Macdonald, 1985, p. 541].

pations in a highly competitive market for provided services. The resolution of territorial disputes over market domain is the primary factor determining the evolution of a profession [Abbott, 1988, p. 2].

Abbott [1988, pp. 2-3, 18-20, 325] suggests that research should examine how market control of professional services, especially that of accounting, has developed and how conflict over providing those services has impacted practitioners. We suspect that competition for the control of accounting services may have impeded some practicing accountants from adhering to certain Rules of Conduct, especially those concerning competitive behavior. The following sections discuss the evolution of the Rules of Conduct in Texas and observed data regarding the enforcement of such Rules from 1946 through 1978, then concludes with an application of Abbott's [1988, pp. 2-3] theory to the results.

#### HISTORY OF PROFESSIONAL REGULATION IN TEXAS: 1896-1979

Freidson [1986, p. 30-31, 37], Lubell [1980, p. 39], and Caplow [1966, pp. 21] assert that professions emerge through time. In 1896, when the first U.S. CPA law was passed [Edwards, 1960, pp. 68-69; Previts and Merino, 1979, p. 97-98], the public accounting profession in Texas was just emerging [Tinsley, Undated, p. 1].<sup>4</sup> Texas did not introduce credentialism until the enactment of the initial Public Accountancy Act in 1915.<sup>5</sup> This legislation provided legal recognition of the profession and established a governor-appointed Texas State Board of Public Accountancy.

In accord with the national Progressive Reform movement of the early 1900s and in response to local business scandals, Texas practitioners organized themselves to become politically active in 1911 through the Texas Society of Public Accountants [Tinsley, 1962, p. 17]. This small group of practitioners, which became the predecessor of the Texas Society of Certified Public Accountants (TSCPA), served as the primary originator and

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<sup>4</sup>Practitioners first opened offices in Fort Worth and Galveston, with other accounting firms appearing in numerous Texas cities, including Dallas, San Antonio, Houston, and El Paso, during the next decade [Tinsley, Undate, p. 1].

<sup>5</sup>Although Texas was far behind New York in legislating certification of public accountants, it was not among the last states to establish legal credentials.

proponent of all professional legislation [Tinsley, Undated, pp. 1, 10; Tinsley, 1962, pp. x, 17].<sup>6</sup> An important factor in understanding the regulation of the accounting profession in Texas is the circuitous and close relationship between the Board and the TSCPA. Such mutually supportive affiliations are not unusual in Texas politics. Anderson *et al.* [1989, p. 95] maintain that most of the Texas boards or commissions "have been 'captured' by the industry they are supposed to regulate."

Three aspects of Texas political history demonstrate why special interest groups, such as the public accounting profession, were able to initiate Texas legislation in their self interests. First, Texas political culture embodied the Social Darwinism and conservative entrepreneurism of its populace, who not only disliked, but distrusted, government [Kraemer and Newell, 1987, p. 27; Anderson *et al.*, p. 35]. Second, Texas legislators, historically possessing relatively low levels of expertise and staff resources, had to rely on external sources for information and direction in writing bills [Kraemer and Newell, 1987, p. 116; Benton, 1972, p. 125]. Third, weak lobbying control laws enabled homogeneous interest factions to mobilize and produce legislative change [Anderson *et al.*, 1989, p. 87; Benton, 1972, p. 125]. The authors suggest that the TSCPA expanded over the years to become a cohesive force that not only could provide requisite technical information and expertise to a legislature with limited knowledge regarding accounting issues, but, as was characteristic of other established business groups in Texas, also could design and promote legislation that protected their interests [Anderson *et al.*, 1989, pp. 82, 87; Kraemer and Newell, 1987, p.116].

The 1915 Act was weak, as was true with most initial CPA legislation throughout the country, in ensuring competence and in restricting the practice of public accounting [Edwards, 1960, pp. 110-114; Previts and Merino, 1979, p. 144, 147; Tinsley, Undated, p. 2]. Protection of occupational jurisdiction was at a minimum. Although some licensing of occupations occurred in Texas after 1905, many legislators, typical of those in southern

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<sup>6</sup>Throughout the United States, state professional societies and individual representatives of the profession often drafted the certification bills passed by state legislatures [Previts and Merino, 1979, pp. 103, 139-142; Lubell, 1980, p. 390]. The *Minutes* of the State Board meeting January 31, 1953, provide evidence that the Board was not authorized by the State "to concern itself with public accountancy legislation."

and midwestern states, were antagonistic to restricting work to those who held permits to practice an occupation. Professional societies in many states considered themselves fortunate to obtain any CPA laws, however weak [Previts and Merino, 1979, p. 146; Tinsley, Undated, p. 1]. The purpose of the Texas law was to provide for a testing and certification process to indicate competence, not to regulate accounting practice throughout the state [Tinsley, Undated, pp. 2, 16]. Although the Act permitted certificate revocation for felonies and acts discreditable, it did not empower the Board to directly seek out and punish violators or promulgate rules of conduct [Tinsley, Undated, pp. 2, 16].

### *Evolution of Professional Regulation From 1915 to the 1945 Act*

By 1924 all states and territories had passed some form of certification laws governing their membership [Edwards, 1960, pp. 219-220, 302; Previts and Merino, 1979, p. 100].<sup>7</sup> Whereas in the early 1900s, stigmatizing "acts discreditable" was the primary method of assuring professional competence, the profession during the 1920s avowed that formal knowledge as the key to expertise [Previts and Merino, 1979 pp. 149, 152, 160, 213-215]. During the 1920s and 1930s the training of accountants often included education at universities [Edwards, 1960, pp. 135-136, 179; Previts and Merino, 1979, pp. 213-215].<sup>8</sup> Although the 1915 Act did not address educational requirements, as did CPA laws in states that required a high school degree or its equivalent, the TSCPA during the 1920s supported a university education through prizes for theses and assistance for graduates in obtaining jobs [Tinsley, 1962, p. 33; Previts and Merino, 1979, p. 152].<sup>9</sup> Lack of even a high school educational require-

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<sup>7</sup>By 1956 only 32 states had "legally enforceable" rules of conduct [Carey, 1956, p. 10].

<sup>8</sup>By 1930 over 300 colleges offered a baccalaureate degree (B.A.) in accounting [Previts and Merino, 1979, p. 213].

<sup>9</sup>Populist sentiment against CPA legislation, particularly in the Midwest and South resulted in a variety of admission requirements leading to diverse levels of expertise and quality of performance [Previts and Merino, p. 146]. A review of the Board *Minutes* for meetings during the 1920s and 1930s reveals that reciprocity of certification between states, not misconduct, was the prevailing issue being debated in Texas [*Minutes*, November 16-17, 1920, May 22, 1927, August 20, 1927, December 20, 1933, July 6, 1936, May 17, 1939, October 9, 1939, August 13, 1940]. Inferior certificates devalued certificates of qualified holders who had passed the American Institute of Accountants (AIA) exam and

ment in the 1915 Act was not surprising, given the anti-regulatory climate.

Ensuring technical competence was not the only concern of the accounting profession. While the progressive reform movement raised some serious questions regarding unrestrained competition, by the 1920s politicians condemned cutthroat competition" [Previts and Merino, 1979, pp. 128, 209]. The changing political environment forced the public accounting profession to brand practitioner competition as being in conflict with the public good. Accounting leaders argued that differentiating the profession from commercial activities was paramount to enhancing the image of "professional attitude" and public confidence in the profession [Richardson, 1931, pp. 48-49, 60-63; Carey, 1956, p. 56; Yerkes, 1975, p. 6, 8-10]. During the 1920s, under pressure from the U.S. Treasury, the AIA addressed two ethical issues perceived as not being in the public interest, contingent fees and advertising, banning both practices as inconsistent with professional conduct [Previts and Merino, 1979, pp. 209-213].

Competitive behavior among practitioners also was a concern of the TSCPA during the 1920s. Major problems included open solicitation of clients by both local and national firms, competitive bidding, and advertising [Tinsley, 1962, p. 30]. Despite national and local concern over the detriment that overt competition could bring to the profession, no prohibition against professional competitive behavior existed in Texas regulation. The 1915 Act did not enable the Board to establish Rules of Professional Conduct, even those that might have addressed competitive behavior issues. Two Texas incidents of inappropriate audit report signatures and other "acts discreditable" induced both TSCPA and Board action [Tinsley, Undated, pp. 16-18]. The TSCPA adopted a Code in 1929 that not only denounced acts of gross negligence in financial reporting, but prohibited advertising, commissions, contingent fees, and solicitation [Tinsley, Undated, p. 18; Tinsley, 1962, p. 30].

In 1932 the Board, despite the lack of statutory authority, asserted its prerogative and drafted its own Rules of Conduct. The initial Rules, emphasized professional integrity and identified two forms of misconduct: misrepresentation in audit reports and engaging simultaneously in inconsistent occupations.

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followed state professional standards [Tinsley, Undated, p. 16; Tinsley, 1962, pp. 5, 29].



The Board, assuming a moderate position in regulation, declined to address advertising or solicitation [Tinsley, Undated, p. 18].<sup>10</sup>

By 1939, the TSCPA had revised its own 1929 Code of Ethics. Debate persisted about retaining rules against contingency fees, but the major issue of contention was competitive bidding, which many Texas practitioners perceived as part of normal business [Tinsley, 1962, pp. 43-44]. Although the AIA had proposed banning the practice as impairing professional integrity and being contrary to the public interest, conflict among TSCPA members prevented the Texas Society from banning competitive bidding [Tinsley, 1962, p. 44; Carey, 1970, p. 244].

Jurisdictional disputes over provided services was no more clearly evident than in the conflict that existed between two competitive groups of accountants: the non-certified and the certified public accountants. Lubell [1980, pp. 45-46, 55, 96-97, 368] discusses the conflict between CPAs and PAs as being both internal and external. The National Society of Public Accountants (NSPA) claimed that PAs were part of the public accounting domain. The AICPA maintained that only CPAs were members of the profession of public accounting. PAs performed services similar to those of the CPAs [Edwards, 1960, p. 174; Lubell, 1980, p. 146], and in 1946, outnumbered certified accountants by a ratio of three to one [Tinsley, Undated, p. 27].<sup>11</sup> Eventually PAs, in Texas and other states licensing non-certified accountants, became a dying class of accountants because restrictive legislation provided a one-time only opportunity for registration. Such legislation closed the profession in the future to anyone who had not passed the CPA examination and was not a CPA [Edwards, 1960, p. 176; Lubell, 1980, pp. 2, 6].<sup>12</sup>

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<sup>10</sup>Tinsley [Undated, p. 16] notes that in 1935 the AIA was opposed to state boards issuing rules of conduct prohibiting competitive behavior for fear the rules would be construed by the public as benefitting the profession.

<sup>11</sup>The authors do not intend to resolve the dispute of whether PAs were internal or external to the public accounting profession. Although performing the same services and initially perceiving themselves as part of the same profession as their CPA counterparts [Lubell, 1980, p. 96], they evolved during the period under study into an external, dying class of practitioners. Our study examines violations of all registered accountants from 1945 through 1978 and treats this second tier of accountants as intraprofessional.

<sup>12</sup>Despite the significant influence of the TSCPA on the Board, the Texas Association of Public Accountants (TAPA) was successful in obtaining legislation in 1951 that permitted PAs to be appointed to the Board from 1951 until

Promotion of legislation permitting a two-tiered profession, became the most important issue of the TSCPA from 1927 to 1931 [Tinsley, 1962, p. 34]. Some Society members in Texas, as well as some CPAs throughout the country, perceived PA registration as demeaning the credentials belonging to the certified practitioners and confusing to the public. These members sought to invalidate the second-class registration [Tinsley, 1962, pp. 34, 56; Lubell, 1980, pp. 18, 160, 388]. In addition, lack of support from the AIA, and later the AICPA, who argued against strong registration laws, weakened the Society's efforts to achieve licensing for non-certified public accountants until 1945 [Tinsley, Undated, p. 20].

Promulgation of laws to curb competitive behavior was not the only issue before the Board during the 1920s and the 1930s [Tinsley, Undated, pp. 14-20]. Frequent discussion at Board meetings concerned the inability to prosecute violators of existing standards. The Depression brought lapses in payments of dues to the Society and permit fees to the Board [*Minutes*, June 24, 1938, August 13, 1940]. Inadequate funding and legal authority left the Board impotent. Corrective actions consisted mostly of written notification of infractions, frequently followed by the voluntary compliance of practitioners.<sup>13</sup> Lack of meaningful enforcement, competitive behavior between firms and practitioners, and, most of all, TSCPA support of a two-tiered profession to stipulate practitioner jurisdiction brought increased professional regulation beginning with the 1945 Act.

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1975. Lubell [1980, pp. 22] notes that as a result of legislative compromise numerous state PA societies succeeded in placing PAs on state accountancy boards. The three objectives of the NASPA were: equal representation of PAs on state boards, initial registration to grandfather-in PAs, and perpetuity for the second class of accountants through examination [Lubell, 1980, p. 79]. The ratio of PAs to CPAs sitting on the Texas Board averaged 44% until 1975. From 1975 through 1981 two sitting PA Board members were permitted to complete their terms making the percentage of PAs to CPAs 22%. For a limited twenty-four years this second tier of professionals possessed sufficient power to not only share in but also influence the decision-making process regarding the promulgation of rules and the enforcement of such rules [Tinsley, Undated, pp. 24, 30-32, 42, 45, 80-85; Tinsley, 1962, pp. 70-71].

<sup>13</sup>Board *Minutes* November 24, 1939, rationalized the sufficiency of written infraction notifications by reasoning that most violations were due to practitioner ignorance of the law rather than intent to disobey standards.

### *The 1945 Act and Accompanying Rules of Conduct*

Whereas the 1915 Act did not overtly restrict accounting practice to licensed practitioners, the 1945 Act explicitly prohibited the practice of public accounting without a state permit. The Act defined both the "Practice of Public Accounting" as well as use of the term "Public Accountant" by practitioners and delineated practitioners as either CPAs or PAs. The one-time registration of existing PA practitioners lasted for two years with only a few isolated cases of grandfathering occurring after 1947 [Tinsley, Undated, pp. 21-22]. The Texas profession had clearly established its domain of services offered to the public.

The 1945 Act provided similar education and work experience standards for PAs and CPAs. Both groups of practitioners could employ various combinations of college and on-the-job training to prepare themselves for their careers. The major difference in admission requirements between the PAs and the CPAs was that CPA applicants were required to pass a rigorous exam, which became the delineating factor and signal for expertise. Retention standards were also different. Unlike CPAs, failure of PAs to annually renew the state occupational permit brought loss of the right to practice. Such restrictions on practice ensured that non-certified practitioners would become a perishing class.<sup>14</sup>

The 1945 Act also legitimized efforts of the Board to promulgate rules of professional conduct viewed as requisite in establishing professional integrity and in preventing competitive behavior. In July 1946, the Board adopted sixteen Rules of Professional Conduct to accompany the new Act in regulating the profession. These Rules prohibited solicitation, advertising, and competitive bidding. They also provided evidence of the profession's increasing cognizance of misconduct by defining acts of gross negligence and, for the first time, introduced the issue of auditor independence.<sup>15</sup>

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<sup>14</sup>The Board often illegally delayed acceptance of fee payment as a means to discipline PA Rule violators [Tinsley, Undated, p. 29]. Permit records at the offices of the Texas State Board indicate that only 40 registered non-certified accountants remain in practice today.

<sup>15</sup>The Rules banned examiners from owning a substantial financial interest in any enterprise on which they expressed an opinion regarding the financial statements.

*Enforcement of the 1945 Act and 1946 Rules of Conduct*

Enforcement of the 1945 Act and Rules of Conduct was as problematic as the efforts to generate the regulations. During the 1940s and the 1950s, the Board could not independently initiate legal proceedings to suspend or revoke permits of violators without the cooperation of the Texas Attorney General. Lack of adequate funding also limited the pursuit of violators of the Act and Rules.<sup>16</sup>

Despite legal and monetary constraints, *Minutes* [January 20, 1951, April 7, 1951, June 10, 1951, September 21, 1951, October 20, 1951, March 29, 1952, January 2, 1954, January 22, 1955, July 15, 1957, March 24, 1958, March 8, 1961] reveal that the Board assumed a proactive stance in investigating and sanctioning violations. Written and verbal complaints received from other practitioners and the TSCPA provided the basis for most investigations into alleged violations [Tinsley, Undated, pp. 28, 36; Tinsley, 1962, p. 71; Tinsley, 1983, p. 31]. As late as January 30, 1961, Board *Minutes* disclose that accountants accused of lesser infractions were reprimanded by the Board as a whole or by individual Board members. Cases concerning substandard practice were directed to the Attorney General for court action.

During the 1950s and early 1960s, lack of enforcement was a serious concern of both the TSCPA and the Board [Tinsley, 1962, pp. 72, 81; *Minutes*, August 8, 1952, October 18, 1952, September 10, 1954, May 25, 1959, March 8, 1961]. Evidence of substandard audits of insurance companies by Society members led the TSCPA to conclude that lack of knowledge or an unwillingness to meet professional standards was the at the root of malpractice [Tinsley, 1962, p. 81]. Practitioner intent became recognized by the profession as a possible factor in the incidence of violations. Amendments to Board Rules in 1959 addressed some TSCPA concerns by enhancing the integrity of audit opinions and empowering the Board directly to institute proceedings against accountants convicted of felonies or professional misconduct. Prior to this time, the 1945 Act, unlike the Act of 1915, did not specifically list felonies as one of the charges subject to revocation or suspension.

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<sup>16</sup>*Minutes* [September 18, 1959] reveal that the Board's cash balance increased until 1959 when rising administrative costs eroded the cushion. Tinsley [Undated, pp. 27, 47] reveals that by 1978 the Board was in a deficit situation with examination costs making up 67.9% of total expenditures and enforcement only 4.8%.

Board *Minutes* for an August 1, 1960, meeting indicate that for the first time, the State Board became proactive in recommending that the Texas legislature promote TSCPA sponsored regulation to enhance Board enforcement power. In a 1961 amendment to the Act, the Board finally received the power to subpoena evidence and directly discipline violators through certificate revocation or suspension.<sup>17</sup> The Board immediately began employing its new power. The number of meetings increased from approximately eight to ten a year in the 1950s to fifteen in 1962 [*Minutes*, 1950-1962].<sup>18</sup>

### *Continued Need for Professional Reform*

During the late 1960s and 1970s, national and state criticism continued to mount against public accountants due to the perceived failure of the profession to curb work that neither complied with standards nor met public expectations [Tinsley, 1983, pp. 97, 121, 123; Previts and Merino, 1979, pp. 316-324]. The image of "professional attitude" was once again revisited and found lacking. TSCPA concern over auditor responsibility to the public corresponded to national concerns and spurred the Society to take steps during the late 1970s to support legislative reform [Tinsley, 1983, pp. 143-145].

Concurrent with the debate pertaining to professional integrity, competence, and competition, rules of conduct were challenged by government at the national level. The Federal Trade Commission (FTC) attacked rules banning advertising, solicitation and competitive bidding, as providing evidence of professional price fixing and being contrary to the public interest. The U.S. Justice Department filed suit against both the Texas State Board and the TSCPA in 1977, alleging that Rule 14 on competitive bidding restricted price competition [Tinsley, 1983, pp. 133-137].<sup>19</sup> The TSCPA had neither the political clout nor the financial means to fight the U.S. Justice Department.

<sup>17</sup>The 1961 amendment also altered the substance of certification from a restrictive license to practice public accounting to a registered title for qualified practitioners. Competence continued to be an issue as educational and experience requirements for certification also were strengthened.

<sup>18</sup>The authors made a count of Board meetings per year during the period 1950-1962 by examining the books of *Minutes*.

<sup>19</sup>The major concern of the Board during the 1970s was the definition and regulation of competitive bidding. *Minutes* [February 3, 1964, April 23, 1968, February 5, 1972] disclose that competitive bidding on government contracts had been a concern starting in 1964 and continued to consume much of the Board's time throughout the 1960s and 1970s.

Ultimately, the Texas Sunset Act of 1977, which called for a systematic review of all state agencies, induced passage of a new Act [Tinsley, 1983, pp. 149-153; Kraemer and Newell, 1987, pp. 253-255; Anderson *et al.*, 1989, pp. 222-225]. If an agency or board did not pass review, it ceased to exist. The Sunset Advisory Commission urged Board independence from the licensees it governed, and questioned current rules on advertising, solicitation, and competitive bidding as not being in the public interest. The Commission also noted the lack of mandated continuing education requirements for Texas professionals. The Texas State Board of Public Accountancy, finding itself in the position of having to justify its existence to the Commission by September 1, 1979, worked with the TSCPA to launch professional reform through new legislative activity and by promulgating new Rules of Professional Conduct.

During the period that the 1945 Act and accompanying Board Rules were in effect, the Texas accounting profession evolved similarly to that in the rest of the country. Despite the rhetoric of the TSCPA and Board efforts to ensure competence through the enforcement of higher admission standards, sub-standard audits and accounting practice continued to be a major concern of both the public and the government. The regulatory history of the accounting profession generates several issues regarding enforcement. Specifically, was enforcement activity responsive to public concern or was it more enmeshed in professional efforts to preserve status and competitive position? The following section describes how this study examines these issues.

## HYPOTHESES

The evolution of the accounting profession during the period covered by the 1945 Act and its emerging regulation suggests several hypotheses. First, the history of the Texas accounting profession and the conflict therein during the period under study suggests that PAs and CPAs differed demographically in terms of education, type of training, and form of practice. We further posit that certain demographic characteristics might be linked to increased vulnerability to Rules violations.

Throughout this period, professional preparation involved formal education and/or on-the-job training. The profession maintained that increased formal education and more rigorous on-the-job training would provide a stronger background for public accounting practice, and thus enhance an individual's

likelihood of passing the exam required to become a certified public accountant. Yerkes [1975, pp. 80, 98-99, 101,102, 104, 137-139, 150] found differences in both education and training between CPAs and PAs, as well as differential attitudes toward professional ethical standards. Therefore, we posit that less education and/or more localized training would increase the likelihood that a given practitioner would violate a rule.

Certain forms of practice also might make the accountant more vulnerable to Rules violation. Cook [1962, p. 238] found that larger and national firms provided more unconditional support for professional ethical standards than smaller and local firms. Loeb [1971, p. 290] noted, while compiling his sample of CPAs for a study of ethics, that all the CPAs who had been sanctioned were members of small local firms or individual practitioners. In addition, practitioners in larger CPA offices expressed more disapproval of a number of unethical behaviors than those in small offices [Loeb, 1971, pp. 297, 305]. In addition, Schaefer and Welker [1974, pp. 113-114] observed more violations in small firms. Large national firms should have the shared expertise which would enable their professionals to better avoid technical errors than small, local practices. However, such firms might be viewed as being more overtly competitive by other accountants, and thus more prone to reported competitive violations. For purposes of this study, we refer to those professionals called before Board hearings for Rules violations as "violators," and to those professionals not subject to Board hearings for Rules violations as "nonviolators."

The above demographic characteristics are reflected in the first two hypotheses.

- H1: During the period 1946 through 1978, the demographics of CPAs and PAs differed.
- H2: During the period 1946 through 1978, the demographics of violators and non-violators of the Rules of Professional Conduct associated with the Act differed.

The history of the Texas profession indicates that, during the period 1946 through 1978, PAs were in conflict with CPAs for provision of accounting services. Yerkes [1975, p. 294] found evidence of less internalization of professional ethics among PAs than among national CPAs. Comments from one non-certified accountant indicate that those PAs being disciplined by the board believed that this second tier of accountants had been singled out for attention [Cornell Deposition,

1960, p. 20]. However, some certified practitioners argued that PAs lacked technical expertise, which may have led to more PA violations. This conflict led to the proposal of our third hypothesis.

**H3:** During the period 1946 through 1978, enforcement activity, violation citations and sanctions, would be greater for PAs than for CPAs.

Public criticism of accounting practice and professional concern over preservation of integrity [Tinsley, 1983, pp. 121-123] reflects reaction to behavior considered injurious to the client and public. Violations perceived to cause such harm should have resulted in more severe sanctions. We categorize punishments which withdraw the practitioner's right to practice, i.e., revocation of the certificate and revocation of the permit, as severe sanctions.<sup>20</sup> Loeb [1972, p. 6] and Tidrick [1992, p. 171] found evidence of a link between the seriousness of the violation and the severity of the sanction. Conversely, competitive behavior violations, which impair intraprofessional relationships, while subject to vigorous enforcement, should result in less punitive sanctions. This belief is expressed in Hypothesis 4.

**H4:** During the period 1946 through 1978, violations related to integrity and practice issues would trigger more severe sanctions than violations related to competitive issues.

Our study subdivides the interval during which the 1945 Act was in effect into two periods to examine hypothesized trends regarding violations and punishments. During the first period, from 1946 through 1961, the Board possessed minimal enforcement power. Two events occurred which contributed to the expectation that there would be more enforcement activity in the second period, from 1962 through 1978. First, in 1959, four new Rules were added, including Rule 19 that permitted the Board to institute sanctions for felony convictions.<sup>21</sup> Second, in 1961, an amendment to the 1945 Act gave the Board legal power to enforce rules without the aid of the Texas Attor-

<sup>20</sup>Both CPAs and PAs received permits, but only CPAs received certificates. Because PAs did not receive certificates, revocation of certificate could apply only to CPAs.

<sup>21</sup>Before the 1945 Act, although specific disciplinary authority regarding felonies was lacking, certificates were revoked for felony convictions, including draft evasion during World War II [Records, 1942]. From 1946 to 1959, three practitioners were cited for felonies, before adoption of Rule 19 [Records, 1951, 1956, 1961].



ney General. Thus, enforcement activity during this period was expected to exceed that of the first period. These changes lead to Hypothesis 5a and 5b.

H5a: Enforcement activity increased following the 1961 statutory change allowing the Board autonomous enforcement in terms of the number of citations for violations.

H5b: Enforcement activity increased following the 1961 statutory change allowing the Board autonomous enforcement in terms of the number and severity of sanctions.

Next we discuss the methodology used to test these hypotheses.

## METHODOLOGY

Several sources provided information for our study. We obtained enforcement data from available files of the Texas State Board of Public Accountancy. Tinsley [Undated, pp. 27, 45] offered details regarding the numbers of actual practitioners.

The records of formal hearings conducted during this time provided information regarding the nature of the offense(s) which triggered the formal hearing(s), the Rule(s) violated, and the action(s) taken by the Board to resolve the problem(s).<sup>22</sup> Records of hearings, as well as the computerized and microfiche records of individuals subjected to hearings offered demographic information.<sup>23</sup> In addition to records of violators, a random sample of non-violating CPAs and PAs was drawn to test for hypothesized differences. We first compared demographic characteristics between non-violating CPAs and PAs, and then compared violator attributes with those free from Board citations to see if they differed. While the State Board did not maintain continuous records tracking the number of active

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<sup>22</sup>One complaint regarding an alleged violation often triggered multiple hearings, due to postponements, prolonged communication processes, etc. If there were multiple hearings for one event, a large proportion of the hearings involved the rescheduling of the practitioner's appearance for another hearing. This study employs one hearing, the earliest recorded, per complaint event. Also, one hearing could entail violation of more than one rule.

<sup>23</sup>Attribute testing, with a tolerable error rate of 5%, was performed on a random sample of 231 CPAs and PAs practicing during the same period as the violators to determine if the file of formal hearings was complete. Results, one omission, indicated an upper occurrence limit of 2.4%, well below the tolerable error rate. The hearings file was determined to be substantially complete and representative of the practitioner population. The authors additionally relied on the random sample for demographic information representative of the population of CPAs and PAs as a whole.

practitioners during the period under study, we were able to obtain useful data from Tinsley [Undated, p. 27]. During the period under study, the largest number of active permits for PAs was 3,942 in 1947. The number of PAs with permits had fallen to 2,112 by 1965, 1,670 by 1970, and 923 by 1979 [Tinsley, Undated, p. 45]. In the same years, the number of permits issued to CPAs was 1,116, 6,414, 8,635, and 19,533, respectively, [Tinsley, Undated, p. 45].

The application to either take the CPA exam or to receive a practice permit provided information about both education and training. We assigned individuals to one of four educational groups according to the highest level completed: college degree, some college training, technical training or correspondence courses, and high school. The forms also indicated whether the individual obtained on-the-job training from Big Eight CPA firms, local CPA firms, companies, governmental entities, or a university. The permit applications or renewals, or correspondence often indicated whether the professional worked as an accountant for a Big Eight CPA firm, a local partnership, a corporation, or the government; or was a sole practitioner or a professor.

All *Minutes* of both the hearings and other Board meetings were read to gain further insight into the enforcement process. The hearings records identified both the specific Rule(s) broken by the violator and provided a description of the activity that triggered the complaint.

Several sources, addressing professional ethics, employ different models for classifying rules of conduct [Carey, 1956, p. xi; AICPA 1962 Code, in Casler, 1964, pp. 122-127; Casler, 1964, p. iii; Loeb, 1971, p. 289]. Each utilizes its own terminology and classification system. We grouped the Rules in effect from 1946 through 1978 into three categories: integrity, practice, and competition. The categories and labels are based on a combination of the models found in Exhibit 1, which we merged to better represent the spirit of the Texas Rules in ensuring integrity, in promoting practice competence and responsibility, and in regulating competitive behavior among colleagues.<sup>24</sup>

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<sup>24</sup>Although Loeb [1971, pp. 302-303] also categorizes rules of conduct into three groupings, public, client, and colleague, that article does not incorporate many of the rules that are included in this study. We found the models of Carey [1956], the AICPA 1962 Code, and Casler [1962] usually more appropriate for our purposes because they encompassed most of the rules analyzed in this paper.

**EXHIBIT 1  
COMPARISON OF MODELS FOR RULES OF CONDUCT**

RULE	CAREY [1956]				AICPA 1962 CODE OF PROFESSIONAL ETHICS				CASLER [1964]			LOEB [1971]										
	Compe- tence	Inte- grity	Attit- tude	Prac- tice	Rel. to Client	Rel. to Pract.	Org. Form	Client Pub.	Tech- nical	Promo- tion	Oper- ating	Fellow Mem.	Not Class.	Inte- grity	Respon- sibility	Attit- tude	Not Class.	Pub- lic	Clie- ent	Col- league	Not Class.	
PRACNAME			X							X						X		X			X	
FINTRST		X						X						X				X				X
SCHOOL																						X
OTHROCCU										X												X
CONFIDE					X			X							X							X
EMPSVCS	X				X					X					X							X
NONINDPT		X						X							X							X
FELONY				X								X										X
NEGLECT				X					X						X							X
SIGNREVVW				X					X						X							X
FORECAST				X					X						X							X
COMMISS			X		X					X					X							X
INCOMPAT			X							X					X							X
SOLICIT			X												X							X
STEALEMP											X											X
CONTINGT					X			X							X							X
ADVERT			X						X													X
COMPETE			X		X				X													X
DESCRIBE			X						X													X
CORP							X			X												X

## TABLE 1

### Texas Rules of Professional Conduct in Effect During Term of 1945 Act (1946-1978)

#### Integrity

- Rule 8 A public accountant may not accept contingent fees except in cases where the fee was determined by the findings of a court or administrative body. (CONTINGT)\*
- Rule 12 A public accountant may not express his opinion on the financial statements in which he had a beneficial interest. (FINTRST)
- Rule 13 A public accountant may not affiliate with any school that conducts its operations in a manner discreditable to the profession. (SCHOOL)
- Rule 18<sup>^</sup> A public accountant may not allow his name to be associated with financial statements in such a manner as to imply he was acting as an independent accountant when he was not. (NONINDPT)
- Rule 19<sup>^</sup> A public accountant convicted of a felony or offense involving moral turpitude is also guilty of professional misconduct. (FELONY)

#### Practice

- Rule 4 A public accountant may not be grossly negligent in disclosing material facts and applying generally accepted accounting principles. (NEGLECT)
- Rule 5 A public accountant may not sign a report unless reviewed by himself or an employee. (SIGNRE VW)
- Rule 10 A public accountant may not practice under a corporate charter unless authorized to do so before 1945. (CORP)
- Rule 11 A public accountant may not permit his name to be used in conjunction with estimates of future earnings that seem to vouch for the accuracy of a forecast. (FORECAST)
- Rule 16 A public accountant may not violate the confidential relationship between himself and his client. (CONFIDE)
- Rule 17<sup>^</sup> A public accountant may not allow an employee to perform services which the accountant was not permitted to perform. (EMPSVCS)

#### Competition

- Rule 1 A public accountant may not allow any person to practice in his name unless a partner or employee. (PRACNAME)
- Rule 2 A public accountant may not pay or receive commissions from the laity. (COMMISS)
- Rule 3 A public accountant may not engage in a business incompatible with his practice. (INCOMPAT)

**TABLE 1 (CONTINUED)**

**Texas Rules of Professional Conduct  
in Effect During Term of 1945 Act  
(1946-1978)**

Rule 6	A public accountant may not solicit clients or encroach upon the practice of another accountant. (SOLICIT)
Rule 7	A public accountant may not offer employment to an accountant employed by another without first notifying the employer. (STEALEMP)
Rule 9**	A public accountant may not advertise. (ADVERT)
Rule 14**	A public accountant may not make a competitive bid for professional engagements. (COMPETE)
Rule 15	A public accountant may not be immune from these rules when engaged simultaneously in the practice of another occupation. (OTHROCCU)
Rule 20^	A public accountant may not use certain descriptive designations, such as "Tax Accountant," "Head of Audit Section," "Business Counseling," and "Business Engineering." (DESCRIBE)

\* Term in parentheses is descriptive variable name given to rule.

\*\* This rule was amended in 1978.

^ This rule was added to the Code in 1959.

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Casler's [1964, pp. iii, 74] three categories, integrity, professional standards and responsibility, and professional attitude reflect the public accounting profession's concern regarding its obligations to the public, clients, and internally between members. Integrity suggests that accountants should possess moral principles and avoid conflicting relationships with others in society [Casler, 1964, pp. 6-7]. Casler's [1964, p. 7] integrity classification includes the topics of both Texas Rules 12 and 18 concerning independence. Carey [1956, pp. 21, 33] also classified the content of these two Rules under integrity, and Loeb [1971, pp. 302-303] related them to a practitioner's obligation to the public. In concurrence with Carey [1956, p. 20] and Casler [1964, p. 7] our study labels Rules in this category as integrity. In agreement with Casler [1964, p. 28, 34], we include Rule 8 on contingency fees in this group. Our study also classifies Rule 13, concerning affiliation with a discreditable school, and Rule 19 on felony convictions in the integrity category since both involve morality issues and do not specifically relate to practice standards or competitive behavior.

Professional standards concern the practitioner's responsibility to both client and society [Casler, 1964, p. 71]. This classification embodies Carey's practice and relations with clients groupings [1956, p. 46-57, 77, 82-93], the AICPA 1962 Code technical and operating classifications [in Casler, 1964, pp. 122-127], and Loeb's client category [1971, p. 302]. Following Casler's model [1964, p. 45], we place Rules 4, 5, 10, 11, 16 and 17 in this second category. We have chosen, however, to name this group *practice*, a more all-inclusive term encompassing both responsibility to clients and technical competence issues. Breach of these Rules indicated that the individual lacked the necessary knowledge or skill to perform the task, failed to exercise due care, or disregarded the client's interests.

Professional attitude includes rules that not only serve to preserve the collegiality and unity of the accounting profession, but more importantly condemn practice which is "incompatible with professional status" [Casler, 1964, p. 74]. Casler [1964, pp. 112, 116] depicts them as efforts to control the competition between practitioners that is in conflict with the professional image of altruism. The connection of the rules to the collegiality of the profession is also described by Carey [1956, pp. 50-83, 184-195] as issues affecting both professional attitude and relations with fellow practitioners. Loeb [1971, p. 302-303] classifies them as obligations to colleagues. Since colleague rules concern the competitive behavior of practitioners, we have relabeled this category competition to better relate the classification to the theory of Abbott [1988, pp. 2-3]. Our competition category includes all Texas Rules (Rules 1, 6, 7, 9, 14, 15, and 20) found in Casler's [1964, pp. 80, 112-115] professional attitude. In addition, we concur with the AICPA 1962 Code [in Casler, 1964, pp. 122-127] and Loeb [1971, p. 303] that Rule 2 on commissions be placed in this category of competition among colleagues. We also place Rule 3 on incompatible occupations, which Loeb [1971, p. 302] describes as colleague type issues, in this category.<sup>25</sup> The details of all 20 rules discussed in this paper are briefly summarized in Table 1.

The hearings and microfiche records also provided information regarding punishments. Sanctions were examined in

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<sup>25</sup>Casler [1964, pp. 80-81] includes "practice in the name of a member," Texas Rule 1, in his discussion of "Professional Attitude" because the intent of the AIA rule was to prevent CPAs from acting as fronts for non-certified public accountants, a colleague issue.

three respects. First, we tested for a relationship between the nature of the violations and severity of sanctions imposed. In addition, we compared punishments imposed on CPAs versus PAs for violation of the same rules. Lastly, we examined the trend of both violations reported and punishments meted out over time to determine if the nature of sanctions changed.

We analyzed the data gathered through the use of descriptive statistics. The analysis of nominative information was accomplished through the construction of contingency tables and the generation of Chi-square statistics. Univariate statistics and t-tests were calculated for the numeric data.

## RESULTS

Hypothesis 1 posited that during the period 1946 through 1978, the demographics of CPAs and PAs differed. CPAs and PAs did differ along certain dimensions within every demographic characteristic, supporting this hypothesis. Table 2 provides a summary of these findings.

**TABLE 2**

**Demographic Comparisons Between Certified Public Accountants and Public Accountants Not Found to Have Violated the Texas Rules of Professional Conduct in Effect (1946 - 1978)**

<b>Characteristic</b>	<b>CPAs</b> (Total n = 173)		<b>PAs</b> (Total n = 58)	
	<b>n</b>	<b>% of available n</b>	<b>n</b>	<b>% of available n</b>
<b>Education (highest level attained)*</b>				
Information available <sup>x</sup>	158	91.3	58	100.0
College degree	146	92.4**	14	24.1
Some college	10	6.3	19	32.7**
Technical/correspondence	2	1.3	22	37.9**
High school or less	0	0.0	3	5.3**
<b>Type of Training*</b>				
Information available <sup>x</sup>	151	87.3	57	98.3
Big Eight CPA firm	61	40.4**	5	8.8
Local partnership/proprietorship	44	29.1	25	43.8**
Corporate accountant	34	22.5	15	26.3
Government accountant (federal, state, or local)	7	4.7	12	21.1**
University academic	5	3.3	0	0.0
<b>Type of Practice*</b>				
Information available <sup>x</sup>	73	42.2	58	100.0
Big Eight CPA firm	5	6.9	1	1.7
Local partnership	7	9.6	6	10.3
Sole proprietorship	20	27.4	20	34.5
Corporate accountant	32	43.8	17	29.3
Government accountant (federal, state, or local)	3	4.1	14	24.2**
University accounting educator	6	8.2**	0	0.0

\* Records did not provide information for 100% of n for the individual demographic categories. Percentage for information available is percentage of total n, not available n.

\* Demographic category exhibits significant between CPAs and PAs at .05 probability level.

\*\* Individual category exhibits significant difference between CPAs and PAs at .05 probability level.

The differences in both education and training obtained between the two groups were notable. Yerkes found similar differences [1975, pp. 80, 99]. PAs acquired significantly more training at the technical and high school level and earned sig-



nificantly fewer college degrees than CPAs. PAs received significantly more training at the local firm level, and less than their certified counterparts at Big Eight CPA firms. Proportionally more PAs both trained with federal, state, or local government entities, and then continued to work in the government accounting sector than did CPAs. Fewer PAs than CPAs worked for corporations.

The second hypothesis stated that the demographics of violators and non-violators of the Rules of Professional Conduct associated with the Act differed. The comparison of the demographic characteristics of the violating and non-violating groups yielded partial support for Hypothesis 2. Violating CPAs exhibited significantly different demographic characteristics from their non-violating counterparts. These differential characteristics may reflect attitudinal differences found by both Cook [1963, p. 238] and Loeb [1971, pp. 297, 305]. Schaefer and Welker [1994, p. 113-114] found more violations among small firms. Table 3 provides information regarding these differences between the two CPA groups. Table 4, however, reveals that the demographic characteristics of PAs did not differ with respect to their violation status.

TABLE 3

**Demographic Comparisons Between Certified Public Accountant Violators and Nonviolators of the Texas Rules of Professional Conduct in Effect (1946 - 1978)**

<b>Characteristic</b>	<b>Violators</b> (n=88)		<b>Nonviolators</b> (n=173)	
	<u>n</u>	<u>% of available n</u>	<u>n</u>	<u>% of available n</u>
<b>Education (highest level attained)*</b>				
Information available <sup>x</sup>	53	60.2	158	91.3
College degree	43	81.1	146	92.4
Some college	5	9.4	10	6.3
Technical/correspondence	4	7.6**	2	1.3
High school or less	1	1.9**	0	0.0
<b>Type of Training*</b>				
Information available <sup>x</sup>	64	72.7	151	87.3
Big Eight CPA firm	12	18.7	61	40.4
Local partnership/proprietorship	33	51.6**	44	29.1
Corporate accountant	16	25.0	34	22.5
Government accountant (federal, state, or local)	3	4.7	7	4.7
University academic	0	0.0	5	3.3
<b>Type of Practice*</b>				
Information available <sup>x</sup>	74	84.1	73	42.2
Big Eight CPA firm	8	10.8	5	6.8
Local partnership	26	35.1**	7	9.6
Sole proprietorship	33	44.6	20	27.4
Corporate accountant (federal, state, or local)	7	9.5	32	43.9
Government accountant	0	0.0	3	4.1
University accounting educator	0	0.0	6	8.2

<sup>x</sup> Records did not provide information for 100% of n for the individual demographic categories. Percentage for information available is percentage of total n, not available n.

<sup>\*</sup> Demographic category exhibits significant between violators and non-violators at .05 probability level.

<sup>\*\*</sup> Individual category exhibits significant difference between violators and non-violators at .05 probability level.

TABLE 4

**Demographic Comparisons Between Public Accountants  
Violators and Nonviolators of the Texas Rules of Profes-  
sional Conduct in Effect (1946 - 1978)**

<b>Characteristic</b>	<b>Violators</b> (n=22)		<b>Nonviolators</b> (n=58)	
	<b>n</b>	<b>% of available n</b>	<b>n</b>	<b>% of available n</b>
<b>Education (highest level attained)*</b>				
Information available <sup>x</sup>	15	68.2	58	65.5
College degree	3	20.0	14	24.1
Some college	3	20.0	19	32.7
Technical/correspondence	6	40.0	22	37.9
High school or less	3	20.0	3	5.3
<b>Type of Training</b>				
Information available <sup>x</sup>	8	36.4	57	98.3
Big Eight CPA firm	1	12.5	5	8.8
Local partnership/proprietorship	4	50.0	25	43.8
Corporate accountant	2	25.0	15	26.3
Government accountant (federal, state, or local)	1	12.5	12	21.1
University academic	0	0.0	0	0.0
<b>Type of Practice</b>				
Information available <sup>x</sup>	6	27.3	58	100.0
Big Eight CPA firm	0	0.0	1	1.7
Local partnership	1	16.7	6	10.3
Sole proprietorship	2	33.3	20	34.5
Corporate accountant	2	33.3	17	29.3
Government accountant (federal, state, or local)	1	16.7	14	24.2
University accounting educator	0	0.0	0	0.0

<sup>x</sup> Records did not provide information for 100% of n for the individual demographic categories. Percentage for information available is percentage of total n, not available n.

<sup>\*</sup> No significant differences were found in demographic characteristics at the .05 probability level, either as a whole, or individually between violators and non-violators.

Increased technical knowledge, as evidenced by both greater education and better on-the-job training, were negatively associated with illicit CPA behavior. The Board cited CPAs without a college education significantly more frequently for Rules violations than those with at least some college education. Furthermore, CPAs who had trained under the tutelage of a Big Eight CPA firm triggered significantly fewer hearings

than did those who worked with a local partnership or individual practitioner.

Certain forms of practice also were linked significantly to hearings for CPAs. The CPA most likely to be cited by the State Board was the person employed by local partnerships, and the CPA least likely worked for a corporation or university.

### *Violations*

Hypothesis 3 posited that during the period 1946 through 1978, enforcement activity, hearings and sanctions, would be greater for PAs than for CPAs. Yerkes [1975, p. 294] found evidence of less internalization of professional ethics among PAs than among national CPAs. Table 5 reports the Rules violations, arranged by integrity, practice, and competition classifications. It also provides information regarding differences in violation incidents between CPAs and PAs.

**TABLE 5**

**Violations of the Texas Rules of Professional Conduct for  
Which Hearings Were Held (1946 - 1978)  
Classified by Type and Violator**

Total individuals	<u>CPAs</u>			<u>PAs</u>			<u>Total</u>	
		88		22		110 <sup>x</sup>		
	Num- ber of Viola- tions	% of CPA Viola- tions	% of Total Viola- tions	Num- ber Viola- tions	% of PA Viola- tions	% of Total Viola- tions	Num- ber of Viola- tions	% of Total Viola- tions
<b>Integrity Rules</b>								
<b>Variable Name</b>								
CONTINGT	2	1.8	1.5	0.0	0	0.0	2	1.5
FINTRST	1	0.9	0.7	0.0	0	0.0	1	0.7
SCHOOL	0	0.0	0.0	0.0	0	0.0	0	0.0
NONINDPT*	1	0.9	0.7	8.3	2	1.5	3	2.2
FELONY	<u>17</u>	<u>15.3</u>	<u>12.6</u>	<u>16.7</u>	<u>4</u>	<u>3.0</u>	<u>21</u>	<u>15.6</u>
Total	21	18.9	15.5	25.0	6	4.5	27	20.0
<b>Practice Rules</b>								
<b>Variable Name</b>								
CONFIDE	0	0.0	0.0	0.0	0	0.0	0	0.0
EMPSVCS	0	0.0	0.0	0.0	0	0.0	0	0.0
CORP	0	0.0	0.0	0.0	0	0.0	0	0.0
NEGLECT	27	24.3	20.0	25.0	6	4.5	33	24.5
SIGNREVV*	0	0.0	0.0	4.2	1	0.7	1	0.7
FORECAST	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total	27	24.3	20.0	29.2	7	5.1	34	25.2

TABLE 5 (CONTINUED)

**Violations of the Texas Rules of Professional Conduct for  
Which Hearings Were Held (1946 - 1978)  
Classified by Type and Violator**

Variable Name	CPAs			PAs			Total	
	Number of Violations	% of CPA Violations	% of Total Violations	Number of Violations	% of PA Violations	% of Total Violations	Number of Violations	% of Total Violations
<b>Competition Rules</b>								
PRACNAME*	0	0.0	0.0	4.2	1	0.7	1	0.7
OTHROCCU	5	4.5	3.7	0.0	0	0.0	5	3.7
COMMISS*	0	0.0	0.0	4.2	1	0.7	1	0.7
INCOMPAT	1	0.9	0.7	0.0	0	0.0	1	0.7
SOLICIT	26	23.4	19.3	12.5	3	2.2	29	21.5
STEALEMP	4	3.6	3.0	0.0	0	0.0	4	3.0
ADVERT	14	12.6	10.4	12.5	3	2.2	17	12.6 <sup>xx</sup>
COMPETE	13	11.7	9.7	8.3	2	1.5	15	11.2
DESCRIBE*	0	0.0	0.0	4.2	1	0.7	1	0.7
Total	63	56.8	46.8	45.8	11	8.0	74	54.8
<b>Total Violations</b>	<b>111</b>	<b>100.0</b>	<b>82.2</b>	<b>100.0</b>	<b>24</b>	<b>17.8</b>	<b>135*</b>	<b>100.0</b>

<sup>x</sup> One individual may be cited for more than one rule violation.

<sup>\*</sup> Significantly more PAs than CPAs at .05 probability level..

<sup>xx</sup> One advertising violation not identified by type of professional.

Hypothesis 3 received only limited support in terms of the number of violations cited. Overall, CPAs received more citations than PAs. Only in five instances of rarely cited Rules violations did the Board cite PAs for violating specific Rules proportionally more frequently than CPAs. Competition Rules violations accounted for over half of total citations, with the rest being split approximately equally between integrity and practice Rules violations. Citations were absent for five Rules, 10 (form of practice), 11 (certifying forecast estimates), 13 (affiliation with a discreditable school), 16 (violating a client's confidentiality), and 17 (allowing an employee to perform services for which the professional cannot perform). The discussions of sanctions and enforcement periods below further address the contention of Hypothesis 3 regarding greater enforcement activity directed at PAs when compared to CPAs.

The only demographic characteristic which significantly affected the types of violations which occurred was the type of practice in which the CPA or PA was employed. Form of practice was identifiable in 80 of the hearing files. Table 6 reflects these results.

**TABLE 6**  
**Violations for Which Hearings Were Held  
by Form of Practice (1946 - 1978)**

	Big Eight CPA Firm	Corporate	All Government	Local Firm	Sole Practitioner	Total
Number	8	9	1	27	35	80
% of Identified Practices	10.0	11.3	1.3	33.7	43.7	100.0
<b>Integrity Rules</b>						
<b>Variable Name</b>						
CONTINGT	0	0	0	1	1	2
FINTRST	0	0	0	1	0	1
SCHOOL	0	0	0	0	0	0
NONINDPT	0	0	0	1	0	1
FELONY	1	3	1	5	5	15
Total integrity violations	1	3	1	8	6	19
% of integrity violations	5.3	15.8	5.3	42.1	31.5	100.0
% of total violations	0.9	2.8	0.9	7.5	5.6	17.7
<b>Practice Rules</b>						
<b>Variable Name</b>						
CONFIDE	0	0	0	0	0	0
EMPSVCS	0	0	0	0	0	0
CORP	0	0	0	0	0	0
NEGLECT	0	2	0	8	15	25
SIGNREVW	0	0	0	0	0	0
FORECAST	0	0	0	0	0	0
Total practice violations	0	2	0	8	15	25
% of practice violations	0.0	8.0	0.0	32.0	60.0	100.0
% of total violations	0.0	1.9	0.0	7.5	14.0	23.4
<b>Competition Rules</b>						
<b>Variable Name</b>						
PRACNAME	0	0	0	0	0	0
OTHROCCU	0	1	0	1	2	4
COMMISS	0	0	0	0	0	0
INCOMPAT	1	0	0	0	0	1
SOLICIT	5	1	0	9	10	25
STEALEMP	0	0	0	3	1	4
ADVERT	3	2	0	3	6	14
COMPETE	2	1	0	5	6	14
DESCRIBE	0	0	0	0	1	1
Total competition violations	11	5	0	21	26	63
% of competition violations	17.5	7.9	0.0	33.3	41.3	100.0
% of total violations	10.3	4.7	0.0	19.6	24.3	58.9
<b>Total Violations *</b>	12	10	1	37	47	107
<b>% of total violations</b>	11.2	9.4	0.9	34.6	43.9	100.0

\* Information regarding form of practice was missing from some violation data.

Practitioners working in certain forms of practice were cited more frequently for the different types of violations than would have been expected, given their practice's representation among all identifiable forms. For instance, the nine corporate accountants (11.3% of the identified practices) accounted for 15.8% of the violations of integrity Rules (all felonies), a disproportionately large number. Additionally, local firms, 33.7% of identified practitioners, committed 42.1% of this type of violation. While Big Eight CPA firms were not cited once for practice violations, sole practitioners, 43.7% of the violators identified by practice, accounted for 60.0% of the violations in this area. Specifically, they were cited for 15 instances gross negligence. Regarding competition violations, given their 10.0% proportion among the group of violators, the eight accountants identified as Big Eight CPA firm practitioners were over-represented, accounting for 17.5% of the competition violations identifiable with a specific practice. The Board cited them for five solicitations of clients or encroachments on the practice of another accountant, three instances of advertising, two of competitive bids, and one instance of engaging in an occupation incompatible with the profession.

### *Sanctions*

The fourth hypothesis stated that during the period 1946 through 1978, more serious violations in terms of harm to the public and client (i.e., breach of Integrity and Practice Rules) would trigger more severe punishments than would violation of rules impairing intraprofessional relationships (i.e., breach of Competition Rules). We classify sanctions which withdraw the practitioner's right to practice, i.e., revocation of the certificate and revocation of the permit, as severe. The results of the comparison of violation categories with sanctions, shown in Table 7, support Hypothesis 4.

**TABLE 7**  
**Type of Sanction by Type of Violation (1946 - 1978)**

	<u>Type of Violation</u>							
	<u>Integrity</u>		<u>Practice</u>		<u>Competition</u>		<u>Total</u>	
	<u>Number Assessed</u>	<u>% of Total</u>	<u>Number Assessed</u>	<u>% of Total</u>	<u>Number Assessed</u>	<u>% of Total</u>	<u>Number Assessed</u>	<u>% of Total</u>
<b>Violations</b>	27	20.0	34	25.2	74	54.8	135	100.0
<b>Sanction</b>								
Revoke Certificate*	14	8.1*	17	9.7*	3	1.7	34	19.5
Revoke Permit*	15	8.6*	20	11.5*	8	4.6	43	24.7
Letter of Reprimand	5	2.9	6	3.4	21	12.1*	32	18.4
Advise/Warn	0	0.0	0	0.0	2	1.1	2	1.1
Other Letter	1	0.6	1	0.6	3	1.7	5	2.9
Publicize	12	6.9	12	6.9	9	5.2	33	19.0
Close File	6	3.4	5	2.9	12	6.9	23	13.2
Wait	<u>1</u>	<u>0.6</u>	<u>1</u>	<u>0.6</u>	<u>0</u>	<u>0.0</u>	<u>2</u>	<u>1.2</u>
Subtotals	54	31.1	62	35.6	58	33.3	174	100.0

\* Significant difference in sanctions assessed for violation category at .05 probability level.

Integrity and practice Rules violations resulted in the most severe punishments, accounting for six times the serious sanctions assessed for competition violations. Specifically, if the practitioner was convicted of a felony, the certificate and/or permit to practice was revoked. When CPAs were found guilty of gross negligence, they also received revocations of certificate and permit. For both categories of violations, the Board also published the names of those sanctioned. Loeb [1972, p.6] and Tidrick [1992, p. 171] also found linkage between the nature of the violation and the severity of the sanction.

Competition violations accounted for two-thirds of the less severe punishments, issuance of various types of formal letters. Four different competition violations were significantly linked with sanctions. The Board wrote letters of reprimand for solicitation of clients of another accountant or for offering the employee of another accountant a job without receiving permission. Although the Board only issued letters of Rules clarification for advertising offenses, it also publicized those sanctioned. The Board also issued an advisory or warning letter for making a competitive bid for an engagement.

Competition between CPAs and PAs, and the perception of some practitioners that PAs were inferior in expertise could have led to greater and more severe sanctions of PAs. Table 8 presents punishments by professional designation, as well as by type of violation.



TABLE 8

**Type of Sanction by Type of Violation (1946 - 1978)  
Comparison Between CPAs and PAs**

**Summary of Total Violations**

	<u>CPAs</u>	<u>PAs</u>	<u>Total</u>
Number	111	24	135
% of Total Violations	82.2	18.8	100.0

**Summary of Total Sanctions**

<u>Sanction</u>	<u>CPAs</u>			<u>PAs</u>			<u>Total</u>	
	Number Assessed	% of CPA	% of Total	Number Assessed	% of PA	% of Total	For Sanction	% of All Sanctions
Revoke Certificate	34	23.0	19.6*	0	0.0	0.0	34	19.6
Revoke Permit	28	18.9	16.1	15	57.7	8.6*	43	24.7
Letter of Reprimand	28	18.9	16.1	4	15.4	2.3	32	18.4
Advise/Warn	2	1.4	1.1	0	0.0	0.0	2	1.1
Other Letter	5	3.4	2.9	0	0.0	0.0	5	2.9
Publicize	28	18.9	16.1	5	19.2	2.9	33	19.0
Close File	21	14.2	12.1*	2	7.7	1.1	23	13.2
Wait	<u>2</u>	<u>1.4</u>	<u>1.1</u>	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>2</u>	<u>1.1</u>
Subtotals	148	100.0	85.1	26	100.0	14.9	174	100.0

**Summary of Integrity Violations**

	<u>CPAs</u>	<u>PAs</u>	<u>Total</u>
Number	21	6	27
Percent of Integrity Violations	77.8	22.2	100.0

**Sanctions for Integrity Violations**

<u>Sanction</u>	<u>CPAs</u>			<u>PAs</u>			<u>Total</u>	
	Number Assessed	% of CPA	% of Integrity	Number Assessed	% of PA	% of Integrity	For Sanction	% of All Sanctions
Revoke Certificate	14	31.8	25.9 <sup>^</sup> *	0	0.0	0.0	14	8.1
Revoke Permit	10	22.7	18.6	5	50.0	9.3 <sup>^</sup> *	15	8.6
Letter of Reprimand	4	9.1	7.4	1	10.0	1.8	5	2.9
Advise/Warn	0	0.0	0.0	0	0.0	0.0	0	0.0
Other Letter	1	2.3	1.8	0	0.0	0.0	1	0.6
Publicize	9	20.4	16.7 <sup>^</sup>	3	30.0	5.6	12	6.9
Close File	5	11.4	9.3	1	10.0	1.8	6	3.4
Wait	<u>1</u>	<u>2.3</u>	<u>1.8</u>	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>1</u>	<u>0.6</u>
Subtotals	44	100.0	81.5	10	100.0	18.5	54	31.1

TABLE 8 (CONTINUED)

### Type of Sanction by Type of Violation (1946 - 1978) Comparison Between CPAs and PAs

**Summary of Practice Violations**

	<u>CPAs</u>	<u>PAs</u>	<u>Total</u>
Number	27	7	34
Percent of Practice Violations	79.4	20.6	100.0

**Sanctions for Practice Violations**

<u>Sanction</u>	<u>CPAs</u>			<u>PAs</u>			<u>Total</u>	
	<u>Number Assessed</u>	<u>% of CPA</u>	<u>% of Practice</u>	<u>Number Assessed</u>	<u>% of PA</u>	<u>% of Practice</u>	<u>For Sanction</u>	<u>% of All Sanctions</u>
Revoke Certificate	17	31.5	27.4 <sup>^*</sup>	0	0.0	0.0	17	9.8
Revoke Permit	14	25.9	22.6	6	75.0	9.7 <sup>^*</sup>	20	11.4
Letter of Reprimand	5	9.2	8.1	1	12.5	1.6	6	3.4
Advise/Warn	0	0.0	0.0	0	0.0	0.0	0	0.0
Other Letter	1	1.9	1.6	0	0.0	0.0	1	0.6
Publicize	11	20.4	17.7 <sup>*</sup>	1	12.5	1.6	12	6.9
Close File	5	9.2	8.1	0	0.0	0.0	5	2.9
Wait	<u>1</u>	<u>1.9</u>	<u>1.6</u>	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>1</u>	<u>0.6</u>
Subtotals	54	100.0	87.1	8	100.0	12.9	62	35.6

**Summary of Competition Violations**

	<u>CPAs</u>	<u>PAs</u>	<u>Total</u>
Number	63	11	74
Percent of Competition Violations	85.1	14.9	100.0

**Sanctions for Competition Violations**

<u>Sanction</u>	<u>CPAs</u>			<u>PAs</u>			<u>Total</u>	
	<u>Number Assessed</u>	<u>% of CPA</u>	<u>% of Competition</u>	<u>Number Assessed</u>	<u>% of PA</u>	<u>% of Competition</u>	<u>For Sanction</u>	<u>% of All Sanctions</u>
Revoke Certificate	3	6.0	5.2 <sup>*</sup>	0	0.0	0.0	3	1.7
Revoke Permit	4	8.0	6.9	4	50.0	6.9 <sup>*</sup>	8	4.5
Letter of Reprimand	19	38.0	32.7 <sup>^*</sup>	2	25.0	3.5	21	12.1
Advise/Warn	2	4.0	3.5	0	0.0	0.0	2	1.2
Other Letter	3	6.0	5.2	0	0.0	0.0	3	1.7
Publicize	8	16.0	13.7	1	12.5	1.7	9	5.2
Close File	11	22.0	19.0	1	12.5	1.7	12	6.9
Wait	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Subtotals	50	100.0	86.2	8	100.0	13.8	58	33.3

\* Significant difference between CPAs and PAs in sanction assessed at .05 probability level.

<sup>^</sup> Significant relationship between violation type and sanction assessed at .05 probability level.

Of total sanctions received by CPAs, 41.9% resulted in the loss of the ability to continue to practice. Regarding PAs sanctions, 57.7% resulted in the loss of the ability to continue to

practice. This appears to lend support to the notion of Hypothesis 3, that PAs were subject to more severe sanctions.

We further examined sanctions between the two groups of professionals to determine whether the more severe sanctions accorded PAs could be linked to differences in the types of violations they committed. Given the number of integrity violations each committed, we found little difference between CPAs and PAs in the proportion of total sanctions accorded to each which were serious (54.5% and 50.0%, respectively). However, variation in sanctions was found for practice and competition violations. The Board cited CPAs for 79.4% of practice violations, but assessed them with 87.1% of the sanctions. However, of these sanctions, 57.4% were serious, compared with 75.0% of those imposed on PAs. Fourteen percent of the sanctions meted out to CPAs for competition violations were serious, versus 50.0% of those meted out to PAs. Additionally, three of the four CPAs who lost their permits due to violation of competition rules were also cited for practice or integrity violations for the same incidents. Three of the four PAs, however, lost their permits when they engaged in competition violations only. In summary, while similar punishment was meted out for integrity violations, CPAs received more sanctions for practice violations, and PAs received more severe punishment for both practice and competition violations. These findings tend to support Hypothesis 3 regarding sanctions.

#### *Comparisons Between Enforcement Periods*

Hypothesis 5a proposed that enforcement activity would have increased following the 1961 statutory change allowing the Board autonomous enforcement in terms of the number of citations for violations. Table 9 separates information regarding offense categories and specific violations into the time periods in which they occurred. The two periods in this study were almost equal in length: the early period, from 1946 through 1961, encompassed 16 years, and late period, from 1962 through 1978, comprised 17 years.

**TABLE 9**  
**Specific Violations Over Time**

Violators Involved Violation	Time Period												Overall (1946-1978)				
	Early Period (1946-1961)			Total in Period			CPA			Late Period (1962-1978)			Total in Period			Total	
	Number	%	EA	Number	%	Number	%	Number	%	EA	Number	%	Number	%	Number	%	
<b>Integrity Rules</b>																	
<b>Variable Name</b>																	
CONTINGT	1	4.2	0	0.0	1	4.2	1	0.9	0	0.0	0	0.0	1	0.9	2	1.5	0.7
FINTRST	0	0.0	0	0.0	0	0.0	1	0.9	0	0.0	0	0.0	1	0.9	1	0.7	0.0
SCHOOL	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0
NONINDPT	1	4.2*	0	0.0	1	4.2	0	0.0	2	1.8	2	1.8	2	1.8	3	2.2	2.2
FELONY	2	8.3	0	0.0	2	8.3	15	13.5	4	3.6	4	3.6	19	17.1	21	15.6	15.6
Total integrity violations in period	4	16.7	0	0.0	4	16.7	17	15.3	6	5.4	6	5.4	23	20.7	27	20.0	20.0
<b>Practice Rules</b>																	
<b>Variable Name</b>																	
CONFIDE	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0
EMPSVCS	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0
CORP	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0
NEGLECT	6	25.0	3	12.5*	9	37.5	21	18.9	3	2.7	3	2.7	24	21.6	33	24.5	24.5
SIGNREVW	0	0.0	0	0.0	0	0.0	0	0.0	1	0.9	1	0.9	1	0.9	1	0.7	0.7
FORECAST	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0
Total practice violations in period	6	25.0	3	12.5	9	37.5	21	18.9	4	3.6	4	3.6	25	22.5	34	25.2	25.2

**TABLE 9 (CONTINUED)**  
**Specific Violations Over Time**

Competition Rules Variable Name	Time Period														
	Early Period (1946-1961)			Total in Period			CPA			Late Period (1962-1978)			Overall (1946-1978)		
	Number	%	PA	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
PRACNAME	0	0.0	0	0	0.0	0	0.0	1	0.9	1	0.9	1	0.9	1	0.7
OTHROCCU	0	0.0	0	0	0.0	5	4.6	0	0.0	5	4.6	5	4.6	5	3.7
COMMISS	0	0.0	0	0	0.0	0	0.0	1	0.9	1	0.9	1	0.9	1	0.7
INCOMPAT	0	0.0	0	0	0.0	1	0.9	0	0.0	1	0.9	1	0.9	1	0.7
SOLICIT	5	20.8	0	0	0.0	21	18.9	3	2.7	24	21.6	29	21.6	29	21.5
STEALEMP	2	8.3*	0	0	0.0	2	1.8	0	0.0	2	1.8	4	3.0	4	3.0
ADVERT+	2	8.3	0	0	0.0	2	8.3	3	2.7	15	13.5	17	12.7	17	12.7
COMPETE	1	4.2	0	0	0.0	1	4.2	2	1.8	14	12.6	15	11.1	15	11.1
DESCRIBE	0	0.0	1	4.2*	4.2	0	0.0	0	0.0	0	0.0	1	0.7	1	0.7
Total competition violations in period	10	41.6	1	4.2	11	45.8	53	47.8	10	9.0	63	56.8	74	54.8	
<b>Total violations in period</b>	20	83.3	4	16.7	24	100.0	91	82.0	20	18.0	111	100.0	135	100.0	

+ One advertising violation in first period not identified by type of professional.

\* Significant difference between CPAs and PAs in sanction assessed at .05 probability level.

The Board initiated much more enforcement activity following its empowerment. It issued four integrity violation citations in the early period, compared with 23 citations from 1962 through 1978. Practice violation citations were as follows: nine citations in the early period, and 25 citations in the late period. Competition violation citations increased from 11 from 1946 through 1961, to 63 from 1962 through 1978. However, these numbers may reflect the increase in the overall number of licensed practitioners.

An examination by type of professional yields additional insight. In the first period, during which CPA and PA numbers reached approximate parity, CPAs were subject to five times the number of the citations as PAs. In the late period, the increase in the number of citations is more proportional to the increase the number of CPAs. While the number of CPAs slightly more than tripled during late period, from 5,686 professionals in 1962 to 19,533 in 1979 [Records, 1962; Tinsley, Undated, pp. 27, 45], the number of violations cited increased over fourfold. PA numbers dropped to approximately a quarter of their highest membership by 1970 [Tinsley, pp. 27, 45], yet the number of violations for which they were cited quintupled, from four to 20. The CPAs' share of total citations declined slightly (from 83.3% to 82.0%) as their numbers increased significantly, while there was a slight increase in the proportion of total citations issued to PAs (from 16.7% to 18.0%). These results lend support for both Hypotheses 3 and 5a regarding citations. Violation citations increased for both CPAs and PAs, but especially for PAs, given the decline in their numbers.

We additionally examined the citations in light of the types of violations enforced, and found that the relative mix of violations also varied between periods. The ratio of integrity violations increased from 16.7% to 20.7% of total violations between the early and late periods, reaching approximate parity with practice violations in the late period. The proportion of practice violations to total violations decreased significantly, from 37.5% to 22.5% of total violations between periods. The proportion of competition violations over the periods increased from 45.8% to 56.8% of all citations for which hearings were held. The increasing professional concern regarding substandard practice during the late period is not reflected in the number of citations for practice violations, where it would be expected, but it may be reflected in the increase in integrity rules enforcement. Competitive behavior continued to command the largest

share of the Board's attention.

Hypothesis 5b predicted that enforcement activity would have increased following the 1961 statutory change allowing the Board autonomous enforcement in terms of severity of sanctions. Tables 10 and 11 present information regarding sanctions in the two enforcement periods.

**TABLE 10**  
**Specific Sanctions Over Time**

Sanction	Early Period (1946-1961)		Total in Period		CPA		Late Period (1962-1978)		Total in Period		Overall (1946-1978)	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Violators Involved</b>	17	81.0	4	19.0	21	100.0	71	79.8	18	20.0	89	100.0
<b>Violations Involved<sup>x</sup></b>	20	83.3	4	16.7	24	100.0	91	82.0	20	18.0	111	100.0
<b>Sanction</b>												
Revoke Certificate	4	13.8*	0	0.0	4	13.8	28	19.4*	0	0.0	28	19.4
Revoke Permit	4	13.8	2	6.9*	6	20.7	27	18.7	13	9.0*	40	27.7+
Letter of Reprimand ^	5	17.2	2	6.9	7	24.1	21	14.6	3	2.1	24	16.7
Advise/Warn	0	0.0	0	0.0	0	0.0	2	1.4	0	0.0	2	1.4
Other Letter	1	3.4	0	0.0	1	3.4	3	2.1	0	0.0	3	2.1
Publicize	2	6.9^	0	0.0	2	6.9	25	17.4+	5	3.5	30	20.9+
Close File	9	31.1+	0	0.0	9	31.1+	12	8.3	2	1.4+	14	9.7
Wait	0	0.00	0	0.0	0	0.0	3	2.1	0	0.0	3	2.1
Total sanctions	25	86.2	4	12.8	29	100.0	121	84.0	23	16.0	144	100.0
Per violator	1.47		1.0		1.38		1.70	1.28	1.62*		1.57	
Per violation	1.25		1.0		1.21		1.33	1.15	1.30		1.28	

<sup>x</sup> Single individual may be subject to more than one sanction.

<sup>+</sup> Significant difference between periods for sanctions at .05 probability level.

<sup>^</sup> One letter of reprimand for advertising violation in first period not identified by type of professional.



**TABLE 11**  
**Sanctions Dispensed To Type of Professional**  
**by Type of Violation Over Time**

**PA**

	<u>Type of Violation</u> <sup>x^</sup>			Total	<u>In Period</u>	
	<u>Integrity</u>	<u>Practice</u>	<u>Competition</u>		<u>% of PA</u>	<u>% of Total</u>
<b><u>Early Period (1946-1961)</u></b>						
<b><u>Violations</u></b>						
Total Number	0	3	1	4	100.0	16.7
Total Serious	0	3	0	3	75.0	23.1
<b><u>Sanction</u><sup>+</sup></b>						
Revoke Permit	0	2	0	2	50.0	6.9
Letter of Reprimand <sup>@</sup>	0	1	1	2	50.0	6.9
Publicize	0	0	0	0	0.0	0.0
Close File	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>	<u>0.0</u>
Total sanctions	0	3	1	4	100.0	13.8
Total serious sanctions <sup>s</sup>	0	2	0	2	50.0	20.0
<b><u>Late Period (1962-1978)</u></b>						
<b><u>Violations</u></b>						
Total Number	6	4	10	20	100.0	18.0
Total Serious	6	4	0	10	50.0	20.8
<b><u>Sanction</u><sup>+</sup></b>						
Revoke Permit	5	4	4	13	56.5	9.0
Letter of Reprimand	1	0	2	3	13.0	2.1
Publicize	3	1	1	5	21.7	3.5
Close File	<u>1</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>8.7</u>	<u>1.4</u>
Total sanctions	10	5	8	23	100.0	16.0
Total serious sanctions <sup>s</sup>	5	4	4	13	56.5	19.1

**TABLE 11 (CONTINUED)****Sanctions Dispensed To Type of Professional  
by Type of Violation Over Time****CPA**

	Type of Violation <sup>x^</sup>			Total	In Period	
	Integrity	Practice	Competition		% of PA	% of Total
<b>Early Period (1946-1961)</b>						
<b>Violations</b>						
Total Number	4	6	10	20	100.0	83.3
Total Serious	4	6	0	10	50.0	76.9
<b>Sanction <sup>+</sup></b>						
Revoke Certificate	1	3	0	4	16.0	13.7
Revoke Permit	1	3	0	4	16.0	13.7
Letter of Reprimand <sup>@</sup>	1	2	2	5	20.0	17.2
Advise/Warn	0	0	0	0	0.0	0.0
Other Letter	0	0	1	1	4.0	13.7
Publicize	1	0	1	2	8.0	6.9
Close File	<u>1</u>	<u>2</u>	<u>6</u>	<u>9</u>	<u>36.0</u>	<u>31.0</u>
Total sanctions	5	10	10	25	100.0	86.2
Total serious sanctions <sup>s</sup>	2	6	0	8	32.0	80.0

**Late Period (1962-1978)**

<b>Violations</b>						
Total Number	17	21	53	91	100.0	82.0
Total Serious	17	21	0	38	41.8	79.2
<b>Sanction <sup>+</sup></b>						
Revoke Certificate	11	14	3	28	23.1	19.4
Revoke Permit	10	13	4	27	22.3	18.7
Letter of Reprimand	2	2	17	21	17.4	14.6
Advise/Warn	0	0	2	2	1.6	1.4
Other Letter	0	1	2	3	2.5	2.1
Publicize	7	11	7	25	20.7	17.4
Close File	3	3	6	12	9.9	8.3
Wait	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>2.5</u>	<u>2.1</u>
Total sanctions	34	45	42	121	100.0	84.0
Total serious sanctions <sup>s</sup>	21	27	7	55	45.4	80.9

<sup>x</sup> Single individual may be subject to more than one violation and sanction.

<sup>^</sup> If more than one instance of the same *type* violation in one hearing, type was counted only once.

<sup>@</sup> One reprimand for advertizing violation in first period not identified by type of professional

<sup>+</sup> Significant relationship between sanction and type of violation in period at .05 probability level.

<sup>s</sup> Serious sanctions involve loss of ability to practice (revocation of certificate and revocation of permit.

As discussed in the section on the history of enforcement, an increase in the number and severity of punishments was expected. Results, shown in Table 10, indicate an increase, overall, in both the number of sanctions levied per practitioner and the number levied per violation between the two periods. Sanctions averaged 1.38 per person in the early period, versus 1.62 per person in the late period. Each violation earned, on average, 1.21 sanctions from 1946 to 1961 versus 1.30 sanctions from 1962 to 1978. In addition, the proportion of all sanctions considered to be severe (revocation of certificate and revocation of permit) increased from 34.5% in the first period to 45.1% in the second period. The results support Hypothesis 5b.

We made a comparison of sanctions levied against CPAs versus those levied against PAs, grouped by the period in which the punishment was levied. Results, also shown in Table 10, indicate that the proportion of total sanctions (combination of both CPAs and PAs) represented by revocation of certificates and revocation of permits increased in the second period for both CPAs, from 27.6% to 38.1%, and for PAs, rising from 6.9% to 9.0%.

Further examination involved a comparison of the sanctions between the two periods and professional designations, given the type of violation. Our results, shown in Table 11, indicate that while the proportion of serious sanctions to total sanctions against both CPAs and PAs increased from the early to the late period, in both periods severe PA punishments exceeded those for CPAs on a proportional basis. This occurred while the proportion of serious violations (integrity and practice) committed by PAs dropped, from 23.1% of all early serious violations (committed by both PAs and CPAs) to 20.8% of all late serious violations. Of the total CPAs violations during the early period, 50.0% were serious. Of their sanctions during that period, 32.0% resulted in revocation of certificates and permits. During the early period, 50.0% of PA sanctions resulted in loss of permit, when 75.0% of the violations were serious. In the late period, the proportion of CPA sanctions resulting in loss of ability to practice was 45.4%, while the proportion of serious to total violations was 41.8%. For PAs, 56.5% of the sanctions were serious, punishing violations of which 50.0% were serious. However, it should be noted that the Board initiated a 42.2% increase in the number of severe sanctions for CPAs, for only a 3.0% increase in the proportion of serious violations committed by them. In addition, a higher proportion of PAs than CPAs lost

their ability to practice in the late period for competition violations. These results lend support for Hypothesis 5b. PAs, however, appeared to receive more severe treatment for less serious violations, providing partial support for Hypothesis 3.

## DISCUSSION

From 1945 through 1978, certain demographic characteristics were associated with the incidence of Rules violations of CPAs. College-educated professionals and those trained by Big Eight CPA firms appeared better prepared to adhere to standards. Education, championed by the accounting profession as the path to expertise and passage of the CPA exam, was used not only to signal competence for applicant accountants, but to differentiate CPAs from PAs. The results of this study lend credence to the linkage between education and expertise. Those CPA practitioners with less education, may have possessed less accounting knowledge and may have been more prone to Rules violations. However, the study does not examine whether lack of expertise specifically caused illicit behavior.

CPAs engaged as sole practitioners or in local partnerships were more likely to be cited for violations. Loeb [1971, pp. 297-298, 301] in a 1969 study of Wisconsin CPAs found that accountants in large public accounting firms were more accepting of and possessed greater adherence to ethical norms than medium and small firms. He reasoned that large firms may have faced greater responsibility and higher penalties than small firms for unethical behavior. Yerkes [1975, p. 139] argued that since accountants working for national firms perform more audits and have closer relations with professional colleagues than those with smaller firms, they should exhibit higher ethical behavior than practitioners from smaller firms and firms solely consisting of PAs. Abbott [1988, pp. 137-138], however, suggests that dominant professions often possess sufficient power to define services and measurements of success that make them appear effective and, in the short run through these definitions, protect their members from claims of incompetence from external forces. Abbott's [1988, pp. 137-138] theory may apply to professions at a micro level. Big Eight CPA firms may have been sufficiently empowered and positioned within the business community to shelter their practicing accountants from allegations. Alternatively, the CPA working alone or in the local partnership may have accepted engagements for which requisite

competence was lacking. However, considering Loeb's results [1971, pp. 297, 305], the Big-Eight CPA offices may have had a slightly higher acceptance of ethical norms than local partnerships and sole practitioner offices, and acted accordingly.

Abbott [1988, pp. 2, 316-319] alleges that interprofessional competition over the jurisdiction of provided services is one of the major factors in determining the evolution of any profession.<sup>26</sup> Both the theory regarding professions and the history of the Texas accounting profession point to conflict between CPAs and PAs over the domain of accounting services. Given the majority power of the more prestigious CPA tier on the Board, the literature leads to an expectation of more enforcement activity taken against PAs than CPAs, especially during the second period when PA strength on the Board began to decline. While enforcement in the first period appeared to target CPAs, the expectation of a proportionately higher incidence of violations and sanctions for PAs appears to be born out in the second period, when the Board had stronger enforcement power. PAs received more severe punishment in both periods.

Two elements may explain the higher overall incidence of competition violations: Board constraints and practitioner accessibility to facts. Board *Minutes* provide evidence that lack of funding, resources spent on administering applications and examinations, and insufficient legal power were primary factors in determining the degree and quality of enforcement procedures. The Board frequently employed an uncomplicated, inexpensive method to detect competitive behavior by canvassing telephone directories and newspaper listings for advertising and solicitation infractions [*Minutes*, June 8, 1954, September 29, 1958]. Such canvassing produced numerous Board-initiated citations concerning competitive behavior. In addition, practitioners usually had no access to audit records of their competitors and may not have been able to detect and report practice violations concerning negligent practice. The percentage increase in competition violations from the early to the late period indicated a continued Board emphasis in competitive behavior issues. Regarding the less punitive use of rep-

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<sup>26</sup>Although Abbott [1988, p. 2] discusses competition for work between professions, his theory is also applicable to jurisdictional disputes between two sub-groups of a profession such as CPAs and PAs. Lubell [1980, p. 368] concludes that the conflict between CPAs and PAs was external or inter-professional.

rimands and other letters for competitive behavior citations, accounting leaders, although concerned about maintaining "professional attitude" and distinguishing the profession from ordinary commercial enterprises, possibly were not willing to inflict severe punishment for competitive behavior, a part and parcel of "doing business." Pressure from government, and public and professional concern over cases of malpractice called for a more punitive response for practice and integrity violations.

This partial analysis of the enforcement activity in Texas concurs with literature from the sociology of professions, maintaining that professions are a process [Caplow, 1966, pp. 20-21; Wilensky, 1964, pp. 142, 157; Lubell, 1980, pp. 44, 57; Freidson, 1986, pp. 30-32]. Proof of professional process is evidenced by the fact that Board enforcement activities increased for all types of violations during the early 1960s. While the Board increased the proportion of integrity violations heard during from 1962 through 1978, it continued to process more competition than integrity or practice violations. As the records do not indicate whether member activity grew more competent, or whether fewer complaints resulted in formal hearings, no conclusion can be drawn regarding the true incidence of malpractice versus competitive behavior violations. The lack of enforcement funding and legal power, ease in detecting advertising and solicitation offenses, fear of losing control over the competitive behavior of practitioners, a tenacious concern with preventing competitive bidding, and during the 1970s, a defensive stance against attack by the Federal government over Rules banning competitive behavior were probable reasons for the proportionally small enforcement efforts against more serious practice violations [Tinsley, 1983, p. 133].

The historical evolution of the Texas accounting profession, especially that period covering the decline of non-certified practitioners, may offer implications for the accounting profession in the future. Abbott [1988, pp. 19, 137] warns that a profession is determined by the manner in which the content of "work" and jurisdiction over provided services change and by the manner in which that "work" is controlled by various occupational groups. Despite a majority in numbers, in 1946, PA practitioners choosing to remain as PAs, lost jurisdictional domain due to a lack of understanding of shifting market demands for more complex services requiring expert judgment as evidenced through certification. Perceived expertise, as embodied in the CPA exam, placed certified accountants above their less creden-

tialed counterparts. PAs forfeited the ability to define the accountant's task by failing to become the experts in abstract knowledge. The ability of current practicing CPAs to define their "work" may be in jeopardy today. Chenok [1995, p. 68] alerts the profession that survival of public accounting depends not only on the provision of quality service, but upon the ability of firms to provide a "broad range of specialized services" in order to compete against providers external to the accounting profession. Abbott [1988, pp. 317, 324] maintains that professions constantly need to reassess services, redefine professional knowledge, and redetermine division of labor.

### CONCLUSIONS

This paper discusses the evolution of accounting professional regulation in Texas from 1915 through 1979 and associates the competitive process within the profession to Rules violations and enforcement during the period in which the 1945 Act was in effect. The Act and the Rules of Professional Conduct reflected the emergence of professional self-regulation through the influence of the TSCPA on the Board. In an effort to determine compliance with professional standards in the workplace, this study indirectly observed the behavior of practitioners by examining violation and sanction records.

Anecdotal evidence from the history of the Texas accounting profession, in addition to the results of this study, raise questions regarding the ability of the Board and the profession to obtain access to critical information regarding malpractice and to regulate practitioner behavior. Despite national and local concern over malpractice issues, results of the study suggest that intraprofessional competition surfaced as a substantial explanatory factor with professional preparation appearing as a differentiating variable between violators and non-violators. CPA practitioners with a college education and Big Eight firm training were less prone to be cited for Rules violations. Conflict between CPAs and PAs over the domain of accounting services may have impacted enforcement activity. Proportionately more violations were heard and more severe sanctions were issued against PAs than CPAs during the second period under study. Although the percentage of citations involving integrity violations increased over time, those concerning practice Rules declined. A large portion of enforcement activity continued to pertain to competitive behavior allegations. Although sanctions

were greater during the 1960s after the Board became empowered by legislative amendments to investigate and discipline violators, continued evidence of substandard practice in the history literature raises questions about the effectiveness of the accounting profession's regulatory framework.

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