

Professional Liability Consequences Associated with the 2024 Changes to the Uniform CPA Exam: An Assessment of Potential Jurors

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Abstract

Updates to the Uniform CPA Exam scheduled to go into effect in January 2024 include a new testing format, commonly known as the CPA Evolution model, will consist of a core exam that focuses on the foundational elements of accounting and business (accounting, auditing, tax, business law, and technology) and one discipline-focused specialty exam in one of three subdiscipline areas of a candidate's choice: tax, technology, and assurance. Upon passing the core exam and one of the specialty exams, a candidate is eligible to become a licensed CPA and practice in any of the three subdiscipline areas. This study uses an experiment to test if the new exam structure potentially increases CPAs' professional liability when a CPA makes an error performing a service in a subdiscipline that they have not been tested on. Using an experiment and a sample of potential jurors, we find that when a CPA makes a large error performing a service in an untested subdiscipline, jurors are more likely to find the CPA to be liable, but the size of the error primarily influences the severity of any penalties they would assign. The results show how professional liability may be adjudicated for CPAs after the CPA Evolution model is implemented.

Introduction

In the summer of 2019, the National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA) revealed a proposal to change the format of the certification exam for Certified Public Accountants (CPA), the "CPA Evolution" model. The new model is designed to help adapt CPA professionals to today's business environment requiring higher-order skills in areas like technology that did not exist when the old exam model was created. The newly proposed CPA Evolution model is a "core plus discipline" approach which requires candidates to take a general core exam focusing on accounting, auditing, tax, business law, and technology and one of three discipline specialty exams in either: 1) Tax Compliance and Planning (tax); 2) Information Systems and Controls (technology); 3) Business Analysis and Reporting (assurance) (Tysiac, 2020).

Individuals who pass the general exam and one of the discipline specialty exams can become a CPA and practice in any area, including tax, technology, or assurance, under the new structure associated with the CPA Evolution model. The new model is slated to be launched in January 2024 (Coffey, 2020). Although there are significant benefits to

the changing model, there may be certain unintended consequences that should be considered. The AICPA purports that the new exam “reflects the realities of practice, requiring deeper proven knowledge in one of three disciplines that are pillars of the profession” (AICPA, 2021, p. 4). Considering the realities of the profession require a deep knowledge in specialty disciplines, we raise an important concern to CPAs who earn their professional license under the new exam model: The potential for increased malpractice litigation against individuals who perform services in a subdiscipline that they have not been tested on. Although the CPA exam tests entry-level skills, an unintended consequence of the new core plus discipline CPA Evolution model may be that the discipline specialty sections signal a level of expertise to the general public and may, therefore, signal a certain lack of expertise for candidates that do not choose to take a particular discipline specialty exam. Whereas the prior CPA exam signaled that a CPA had obtained the entry-level skills necessary for each discipline, the revised exam format adds a new element to a CPA’s credentials that could potentially be used to cast doubt on the CPA’s qualifications.

Historically, accounting firms spent large sums on malpractice insurance, settlements, or malpractice cases in the courtroom (Lowe & Pany, 1993). Although there have been legislative efforts to control litigation against public accounting firms, accountants’ liability remains burdensome. It is a major consideration in the conduct of a CPA firm’s professional practice (Arens, Elder, Beasley, & Hogan, 2020). The number of legal disputes between CPA firms and their clients is large and growing (Love & Manisero, 2017). Further, the potential for legal liability significantly increases during periods of economic contraction (Carmichael, 2019). The loss of investment incurred during a recession causes investors and creditors to look for scapegoats, and the CPA becomes a natural target (Klein, 2020). By identifying the potential for litigation change under the new CPA Evolution exam model, CPAs will be able to formulate a plan and create practices to decrease the probability of malpractice.

Under the previous CPA examination model, candidates were required to pass four sections that include financial accounting and reporting, auditing and attestation, regulation, and business environment and concepts that result in a total of sixteen testing hours that needed to be completed over eighteen months (Tysiac, 2020). The AICPA and NASBA report that the new exam will still be similar in length, with three sections for testing the foundational accounting knowledge. The fourth section will allow the exam candidate to choose one of the three discipline specialty exams in tax, technology, or assurance.

In addition to the ‘real’ differences in exam content, the new structure may signal a CPA’s expertise and ability even though CPAs generally gain additional expertise through experience, continued education, and advanced credentialing after being licensed. We rely on signaling theory (Spence, 1973) to understand how the new testing structure will emit cues regarding a CPA’s expertise and ability to perform services in a particular area of practice. Spence’s work suggests that workers send a signal to the job market about their abilities by obtaining educational credentials and licenses. Following that logic, we argue that failure to obtain credentials or take a competency exam sends an alternative signal. We integrate signaling theory with the path model of blame (Malle, Guglielmo, & Monroe, 2014) and the current literature regarding malpractice liability and accounting litigation to understand how accountants’ errors get adjudicated by potential jurors and test if the new structure could have unintended legal consequences.

We propose that practicing in a focus area in which a CPA has not taken the discipline specialty exam sends a signal that the CPA has not taken the appropriate steps to be knowledgeable and qualified in the particular discipline. Therefore, practicing in an area in which a CPA has not demonstrated competence would result in more legal liability. We focus on the traditional areas of audit and tax and conduct an experiment to capture the attitudes of potential jurors’ and to determine if they are more likely to attribute blame to CPAs who commit an error when performing services in a subdiscipline in which they have not been tested through the discipline specialty exam. We find that when a CPA makes an error performing an audit or preparing a tax return, potential jurors assign more blame to CPAs that have not taken the specialty exam in the associated subdiscipline, but only for large errors, with the severity of the punishment increasing with the size of the error.

To our knowledge, this is the first study to test the effects of the CPA Evolution model on professional liability. If our findings hold in practice, the CPA Evolution model may affect professional liability, particularly the facet of the

model that calls for allowing newly minted CPAs to practice in any subdiscipline, regardless of what specialty exam they have taken. Therefore, this study provides important considerations for practitioners once the new CPA Evolution model is implemented. In addition, the study also makes a significant contribution to the literature on signaling theory by testing an unintended negative signal, a condition that is relatively unexplored and has been identified as an important area for future research (Taj, 2016).

Background and Hypothesis Development

Professional Liability in Accounting

In the practice of accounting, there are multiple ways that CPAs encounter risk from providing services. When the economy is in a downturn and businesses are stressed, blame commonly shifts toward accountants who provided inaccurate tax advice or completed an audit with an unqualified opinion (Russell, 2019). For example, the risk-based nature of a financial statement audit means that auditors face a higher volume of infrequent and complicated transactions that require greater levels of professional judgment and increase the overall audit risk. Although accounting restatements have been on the decline over the last 20 years (Audit Analytics, 2021), an inspection of public company audits by the International Forum of Independent Audit Regulators¹ (IFIAR) found problems in forty percent of the 918 audits they examined in 2017 (Ryan, 2018). These auditing failures can signal that the accounting firms are not properly performing an audit within the auditing standards.

Since 2009, the Big Four accounting firms have faced disciplinary action from the Public Company Accounting Oversight Board (PCAOB) on nearly 3.5 percent of their audits (De Haldevang, 2019). Since its inception 16 years ago, the PCAOB has only issued \$6.5 million in fines when this amount could have been \$1.6 billion, suggesting that the profession and U.S. regulators are hesitant about punishing their industry (Johnson, 2019). However, recent research has discovered that the disclosure of the PCAOB findings has increased the litigation exposure of CPA firms as these findings signal non-compliance with the auditing standards and open the door to increased litigation when an adverse event occurs (Christensen, Lundstrom, & Newton, 2020).

The regulatory environment continues to be fluid, and the resources of the regulatory oversight bodies can impact the level of penalties. For example, the Financial Reporting Council (FRC), the PCAOB's counterpart in the United Kingdom, has greater resources than the PCAOB and is less selective in the cases they investigate. As a result, the FRC hands out more fines. The FRC fined Big Four firms a total of \$39.5 million in 2018 alone (De Haldevang, 2019). The value of fines implemented by the FRC has risen by 44 percent in the last year and is expected to continue this trend in the coming years (Thomson-Reuters, 2019). CPA firms face potential disciplinary actions from regulators worldwide, with the cost and associated risk predicted to continue to increase in the future.

The total amount of fines from regulators pales in comparison to the amount of damages CPA firms have. They can be subject to civil court proceedings as CPAs can be sued by their clients and intended third-party users of the financial statements that were audited, however (Arens et al., 2020; Genevie, 1995). Claims can turn into large lawsuits, and settlements create risk for CPA firms, the partners that run them, and the viability of the profession in general. Further complicating matters is that the general public's lack of knowledge about the audit function can significantly increase the risk of liability for civil litigation (Hoos, Saad, & Lesage, 2018).

When an audit goes bad, the severity of the fines and settlements often lies within the hands of jurors, judges, and arbitrators who lack sufficient domain knowledge and generally have a limited understanding of what CPAs do

¹ The International Forum of Independent Audit Regulators (IFIAR) was formed in 2006 and aims to bring independent audit regulators from all 52 jurisdictions in the United States together and focuses on 1) sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms; 2) promoting collaboration and consistency in regulatory activity; and 3) providing a platform for dialogue with other international organizations that have an interest in audit quality.

(Klein, 2020; Grenier, Lowe, Reffett, & Warne, 2015). In addition, the legal standards indicate that auditors should be evaluated based on the quality of their work. However, the auditing literature consistently finds that jurors' evaluations of auditors are impacted by jurors' affective reactions and their knowledge of an adverse outcome associated with an audit (Backof, 2015). Despite this limited understanding, these decision-makers are still tasked with deciding where the blame for the faulty audit lands.

A study that included jurors and auditors showed that jurors have higher, unrealistic expectations of the accounting and auditing function, especially when malpractice cases appear in court (Lowe & Pany, 1993). The profession consistently refers to this phenomenon as an "expectations gap." Unless there becomes a way to address the expectations gap between what the general public expects from an audit and what an audit can deliver, firms' reputations and the work of individual auditors will continue to be impacted by the blame attributed to them (Ryan, 2018). The auditing standards require that auditors demonstrate competence and objectivity when performing an audit, and any appearance of a lack of qualifications can increase the risk of blame and litigation (Arens et al., 2020).

While auditors get most of the scrutiny and publicity regarding accounting-related blame, tax professionals are not immune from monetary discipline either. Most state boards include rules on tax preparation, and tax claims are now the most frequently asserted malpractice claim against CPAs (Rigos, 2017). The preparation of tax returns can contain estimates and judgments that create risk for the tax client and the preparer. This judgment is represented by a "not frivolous" provision from the IRS that stipulates that any tax position must have at least a 40 percent chance of success (50 percent for tax shelters and listed transactions) in an IRS audit (Rigos, 2017).

Monetary penalties are not the only risk associated with improper tax returns for tax preparers. Marc Berger, a CPA from California, was sentenced to eight months in prison in 2018 after a federal jury convicted him on three counts of aiding and abetting tax evasion for a client. Berger represented a client who underreported income to the IRS in the amount of \$18.2 million over six years (McCarthy, 2019). The jury blamed Berger for poor judgment in handling his client's tax matters (McCarthy, 2019).

Claims against accountants can be challenging to defend. Plaintiff attorneys can misconstrue facts and circumstances to make a more compelling case against a CPA's impropriety (FERENCE, 2020). This practice can confuse jurors and make a case harder to defend, especially given the CPA's association with improper tax returns. The combination of a lack of in-depth juror knowledge about the subject matter and the guilt-by-association mindset of many jurors leads to a heightened risk of liability for any CPA that goes to trial for a tax or audit-related charge.

Due Care

Accountants are required to exercise their duties with due care which includes having adequate professional competence. The due care principle of the AICPA code of conduct states,

"A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

.02 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession's responsibility to the public.

.03 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all

responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

.04 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed" (AICPA, 2014).

The AICPA (2014) explicitly states that exercising due care requires competence and education. According to the Professional Liability Litigation section of the American Bar Association, plaintiffs aim to attack accountants' qualifications and experience. They commonly try to demonstrate that a defendant firm assigned unqualified personnel to show negligence (Coleman, 2013). Documents commonly requested in accounting liability cases include education and continuing education material (Coleman, 2013; Bryan and Shapiro, 2013). Considering the AICPA articulates that education is a primary element of competence, and a defendant's educational background is commonly requested in accounting liability cases, it is reasonable to conclude that education will be a central point in future litigation.

The CPA Exam as a Signal of Competence

As mentioned, the previous version of the CPA exam consisted of four sections: Audit and Attestation, Financial Accounting and Reporting, Regulation, and Business Environment and Concepts. Candidates had eighteen months to complete and pass all portions of the exam. Once candidates completed the test sections and satisfied the experience requirement, they could officially obtain a CPA license. According to Bill Reeb, past chair of the AICPA, one potential problem with the old testing model is that "there are three times as many pages in the Internal Revenue Code, four times as many accounting standards, and five times as many auditing standards as there were in 1980. As our body of knowledge has expanded, we've stretched the exam and curriculum to cover more and more material, but that approach isn't sustainable" (McCabe, 2019). The purpose of the new CPA Evolution model is to solve this problem and adapt to the changing skills and competencies that the accounting profession requires (AICPA, 2021).

According to the AICPA and NASBA, the new structure reflects the reality of practice, where CPAs need greater in-depth knowledge of the discipline area in which they intend to practice (AICPA, 2021). However, in the CPA Evolution model, candidates are not restricted to practicing in the area they tested. This structure may pose a problem to CPAs facing potential litigation who must demonstrate that they have the appropriate technical qualifications needed to perform the professional services they provide. A CPA must prove his or her expertise, which has previously been achieved by taking the professional examination and completing the experience hours. Given that the new exam format requires a specialization component, there is a potential issue for public accountants practicing in a discipline separate from the one completed in the CPA exam. This new format may create an expectations gap in the general public's mind and provide plaintiff attorneys with potential evidence to discredit a CPA's technical qualifications.

We base this proposition on signaling theory (Spence, 1973). Spence (1973) introduced signaling theory to demonstrate how people and institutions deal with information asymmetry. Spence's (1973) model aimed to demonstrate how job applicants use education to signal their quality to potential employers. Potential employers lack information, and education reduces ambiguity and information asymmetry between employers and job applicants. Brown and Sessions (1999) support Spence's argument that education serves as a signaling mechanism in certain industries where the productivity gains that should be realized by increased education are less pronounced. Signaling theory has been used as a foundation for understanding communications, starting in economics (Spence, 1973; 2002), later applied in management (Srivastava, 2001; Connelly, Certo, Ireland, & Reutzel, 2011), and commonly used in marketing most recently (Kharouf, Lund, Krallman, & Pullig, 2020).

Signaling theory is comprised of four facets: the signaler, the signal, the receiver, and the feedback (Bergh, Connelly, Ketchen, & Shannon, 2014). In our situation, the signaler is the CPA performing client services. The signal is taking the discipline specialty exam or failing to take it. The receivers are potential jurors who give feedback through their verdicts. Although the signaler typically uses intentional signals to reduce information asymmetry by sending positive information to the receiver, signals can also be unintentional and send negative information (Connelly et al., 2011). There is little research on the effects of negative signals sent out unintentionally other than Myers & Majluf (1984), who examine the signaling effects on company share prices when new shares are issued, finding that issuing new shares sends a negative signal indicating the stock price is over-valued. Taj (2016) states that understanding the effects of negative signals is a primary gap in the signaling theory literature. In our situation, taking the discipline specialty exam sends a positive signal, whereas not taking the exam sends a negative signal regarding a CPA's preparedness to perform services in a subdiscipline.

We rely on the path model of blame developed by Malle et al. (2014) to establish a theoretical understanding of how blame for professional errors and omissions is determined and how negative signals can have a significant effect. The cognitive system is sensitive to negative events, which can be applied to the negative outcome that results from accounting malpractice. The path model of blame attempts to identify if the "agent had an obligation to prevent the negative event (e.g., due to role, relationship, or context) and to what extent the agent had the capacity to prevent the negative event (both the cognitive capacity to foresee the event and the physical capacity to actually prevent it)" (Malle et al., 2014, p. 9).

Similarly, this model also explores that "people in higher positions of a social hierarchy are subject to stronger obligations for preventing negative outcomes and are blamed more for those outcomes when they occur, connecting directly to the professional field of CPAs and the responsibility that comes with that designation" (Malle et al., 2014, p. 9). Based on the path model of blame, someone with the cognitive capacity or foreseeability to stop an event from happening is the basis for negligence and can be attributed to receiving more blame than a person who could not foresee the event (Malle et al., 2014). The theory also considers the alternative options available for a person to take to prevent the event from occurring (Malle et al., 2014).

The new CPA exam presents new CPAs with the opportunity to focus on one discipline when entering the profession, develop knowledge in that subject area, and demonstrate their training and competency. Upon passing the discipline specialty portion of the exam, an accountant should have credible evidence that he or she has exercised due care in obtaining the necessary knowledge and training to enter the profession. Although the CPA exam tests entry-level skills, and factors like experience and advanced credentials enhance a practitioner's competence, the CPA Evolution model, with a core plus discipline specialty approach, may send a signal to the general public that a CPA has a minimum level of necessary expertise in the area tested. As mentioned, the AICPA purports that the new exam "reflects the realities of practice, requiring deeper proven knowledge in one of three disciplines that are pillars of the profession" (AICPA, 2021, p. 4). Considering the general public commonly does not understand the CPA's job and the role of the examination in demonstrating a level of competence, the new CPA Evolution model provides an opportunity to cast doubt on a CPA's level of expertise for untested subdisciplines and may, therefore increase the possibility of claims against CPAs for negligence.

Consistent with signaling theory (Spence, 1973), jurors may perceive that failure to take the discipline specialty exam signals that the CPA is less competent in the particular subdiscipline and may not have adequate knowledge to stop some errors from happening. This situation may create a negligence defense, but alternatively, it may suggest the CPA did not practice due diligence by failing to take necessary steps to reduce potential errors and showing competence through taking the specialty exam. Under the latter assumption, we expect that accountants will receive more blame when they make an error in a subdiscipline in which they have not taken the test compared to when they have taken the test when all other factors are held constant. Operationally, we propose that a CPA who makes errors on a tax or audit engagement will be held liable and penalized more severely by jurors when they have not taken the specialty exam in the subdiscipline. Our hypotheses state:

Hypothesis 1: Jurors will attribute more liability to a CPA who has made an error on an engagement in a practice area where they have not taken the specialty exam versus a practice area where they have taken the exam.

Hypothesis 2: Jurors will assign a more severe penalty to a CPA who has made an error on an engagement in a practice area where they have not taken the specialty exam versus a practice area where they have taken the exam.

Methods

Experiment

Our study involved a 2 x 2 survey-based experiment with a between-subjects design. Participants read an online scenario describing a situation where a practicing CPA took either a tax or audit specialty exam and made (or failed to identify) either a large or small error when serving a client.

Administration and Participation

The survey was designed in Qualtrics and allowed for assigning a different experimental treatment to each successive respondent. We connected with potential participants by posting the survey on social media (Facebook). (The survey is presented in Appendix A and B)².

Participants answered basic demographic questions and were randomly assigned to one scenario. After they read it, they answered questions assessing if they felt the CPA in the scenario should be held liable for the error and how severely. Participants then answered manipulation check questions to ensure they understood whether the accountant took the specialty exam and what size of error the accountant committed, as well as several follow-up questions related to potential control variables and other factors for follow-up analyses.

We screened the responses to ensure the data was complete and respondents understood the decision case. A total of 152 individuals completed the entire survey. Fourteen individuals failed manipulation check questions that tested if they recognized the experimental manipulations correctly. We ensured participants were age 18, the age at which individuals can be selected to serve on a jury in most states (Preller, 2012), which resulted in the removal of two participants.

Preller (2012) notes that 41 states use both voter registration and other data such as driver registration to populate juror roles, five states only use driver's license and motor vehicle registrations, only two states restrict jury panels to registered voters, and a few states do not keep track of mandatory voter lists. As a result, non-registered voters are likely to be selected to be jurors in most states. On the other hand, the federal Jury Act requires citizens be randomly selected from voter rolls (USCourts.gov). We elected to include both registered and non-registered voters. The number of non-registered voters was small (10) and was split relatively even across treatments.

The federal Jury Act also indicates that individuals in the military, police officers, firefighters, and elected officials are not *required* to serve on jury duty (USCourts.gov). Furthermore, people with legal expertise, including lawyers and members of law enforcement, are commonly excluded from juries by attorneys during the process of *Voir Dire* because their background makes it likely they can influence the rest of the jury, yet there is debate on whether individuals with specialized expertise should be eliminated (Diamond, Rose, & Murphy, 2013). We collected data to screen participants on their experience in law and law enforcement and based on their expertise in accounting, auditing, and tax. We did not eliminate individuals based on these characteristics. However, we tested if individuals with any of these characteristics were evenly distributed across treatments, and we performed robustness tests

² The Institutional Review Board at the researcher's university approved the survey and data collection procedures.

(discussed below) to check if the results hold when these characteristics are controlled and when participants are excluded.

The screening process resulted in 136 sets of usable responses. The sample consists of a wide range of ages, more males than females, primarily white with at least some college education, a wide range of occupations and incomes, and slightly more participants are church-going than not. We performed Chi-Square tests of participants' demographics and other relevant factors across treatment conditions to ensure they were evenly distributed across the experimental conditions and would not bias the findings (Table 1). There were no significant differences across treatment conditions or between the scenarios (all $p > .05$). These tests suggest potential confounding demographic factors or participant predispositions are controlled through random assignment.

Decision Case

Two groups of participants received either a tax-based or an audit-based decision case that asked participants to evaluate a situation where a CPA made an error. The case discusses that the CPA had become licensed after taking two exams, a broad knowledge exam which is taken by all, and a specialty exam that the CPA chooses in either audit or tax, which represents the first manipulation. The size of the error committed by the CPA was also manipulated as either small or large (the experimental manipulations are presented in Appendix A). Questions asked participants to assess whether the CPA in the scenario should be held liable for resultant damages and how severely the CPA should be penalized (Table 2).

Results

We employed two ANOVAs to test our hypotheses³. Hypothesis one predicted that participants (prospective jurors) would find the CPA in the decision case more liable if they did not take the CPA specialty exam in the discipline in which they made an error. Table 3 Panel A presents the means, standard errors, and sample sizes across treatment conditions for the test of hypothesis 1. Table 3 Panel B presents the results of the first ANOVA employing *LIABLE* as the dependent variable, and the independent variable of interest is *EXAM*. The *ERRORSIZE* is included as an independent variable along with an interaction term *EXAM* x *ERRORSIZE*. The *SCENARIO* (tax or audit) is included to control for any differences in responses to the tax or audit-based scenarios. Figure 1 presents a visualization of the means by treatment conditions.

The results in Table 3 Panel B fail to show a main effect for *EXAM* ($P > .05$) but show a significant interaction term for *EXAM* x *ERRORSIZE* ($P < .05$). The mean differences in Panel A show a significant increase in *LIABLE* in the no exam condition when the error is large (mean = 4.182) versus small (mean = 3.543). There is little difference in *LIABLE* in the exam condition when the error is large (mean = 3.694) or small (mean = 3.750). Thus, hypothesis 1 is supported when the error is large.

Hypotheses two predicted that participants (prospective jurors) would assign a more severe penalty to the CPA in the decision case if they did not take the CPA specialty exam in the discipline in which they made an error. Table 4 Panel A presents the means, standard errors, and sample sizes across treatment conditions for the test of hypothesis 2. Table 4 Panel B presents the results of the second ANOVA employing *SEVERITY* as the dependent variable and the same independent and control variables. Figure 2 presents a visualization of the means by treatment conditions.

The results in Table 4 Panel B fail to show a main effect for *EXAM* ($P > .05$) but do show a significant main effect for *ERRORSIZE* ($P < .05$). The interaction term is not significant ($P > .05$). The mean differences in Panel A show a significantly larger *SEVERITY* in the large error conditions (mean = 2.128) versus small error conditions (mean = 1.625). There is little difference in *SEVERITY* in the exam (mean = 1.881) versus no exam conditions (mean =

³ We employed two additional ANOVAs using a sample that removed the 9 participants with work experience in law or law enforcement. The findings are the same as the findings using all participants' responses.

1.872). Hypothesis 2 is not supported. The size of the error influenced the severity of the penalty levied by participants.

Conclusion

We conducted an experiment involving 134 potential jurors representing various demographics. We tested whether jurors would be more likely to find a CPA liable if they made errors while working in a line of practice where they did not take the specialty exam relative to a discipline in which they took the exam. We found that potential jurors are more likely to hold a CPA more liable when practicing in an area where they did not take the specialty exam but only when they make a large error.

The new exam format and licensing structure will allow a CPA to practice in areas where they did not take the specialty exam. The results of this study suggest that when this happens, there is a greater possibility that the practitioner will be found liable if there is a large error. Thus, the new exam format can create an unintended consequence of having more blame placed on CPAs than the current exam when the CPAs practice in an area where they have not taken the specialty exam. Although CPAs are certified in all subdisciplines, the data suggests they will need to be more careful practicing in the areas where they did not take the specialty exam and may need to emphasize their experience and other advanced credentials as alternative mechanisms for reducing the potential for liability.

We also examined the severity of the penalty assessed for the malpractice. We discovered that the severity of the fine significantly increases as the size of the error increases for CPAs who have taken the exam and those who have not. Therefore, the only significant driver of severity was the size of the error. The lack of interaction between the exam and size components is likely because the level of blame was largely determined by perceived competence. In contrast, the size of the error, and therefore the severity of the penalty, includes an element of potential negligence for those who have taken the exam. Future researchers can determine whether potential negligence factored into the severity outcome.

When looking at the potential consequences of implementing the new exam format, it is important to look at both the attribution of liability and the severity of punishments to predict the future outcomes of malpractice litigation. In the experiment, the potential jurors were given an indicator of a lack of competence when the CPA did not take the exam. This indicator led to a significantly higher likelihood that the jurors would attribute liability to the practitioner when there was a large error. Therefore, if a CPA were to take the specialty examination in the field of audit but practice in the field of tax (or vice versa), he or she needs to be aware that potential jurors are more likely to attribute liability when there is a large error size than if he or she would have taken the examination in the area he or she is practicing. In a trial by jury, a failure to take the exam demonstrates a choice that could result in a lack of competence when an alternate choice exists. The combination of choice and a resultant error leads to a greater chance of being found liable by jurors in our sample.

These findings are important to the accounting profession as changing the basis of the exam can bring new challenges. Future CPAs licensed under the new exam format need to be aware of the potential consequences of practicing in an area different from the one they were tested. Although accountants will still be able to practice in all areas, individuals and firms will need to evaluate the potential risks and outcomes that might come from malpractice based on the specialty examinations taken. The discipline portion of the CPA exam represents a criterion that could influence jurors' perceptions in a litigation scenario. Therefore, CPA firms will need to be aware of the discipline specialty examination taken by each of their CPAs to better understand the risks they might face and to ensure evidence of competence gained through other means is retained. Testing how experience and advanced credentials can mitigate the effects we found in this study would be an interesting follow-up. The changes to the exam could impact future accounting students as well. Candidates preparing for the exam may need to decide the area they want to specialize in when they start work. Being a generalist may be difficult, considering the potential legal consequences. Our findings also suggest that students contemplating which specialty exam to take should carefully consider where they intend to practice and not choose the exam based on perceived difficulty or pass rate.

In addition to our study's practical implications, the findings contribute to the signaling theory literature, where a significant gap in the literature is the limited research on the effects of negative signals sent out unintentionally (Taj, 2016). Failure to take the specialty exam sends out an unintentional signal that has a significant effect in our findings.

This study has limitations that should be considered when interpreting the results. First, the sample is made up of people from a wide range of demographics, but it lacks significant minority representation, which may have been exacerbated by using Facebook in our sampling procedure. It is possible that individuals with different characteristics than those in our sample may behave differently. Second, the hypothetical scenario is relatively simple in order to isolate the effects of the exam on juror attitudes and improve internal validity. However, the simplicity may hinder external validity as many other factors may influence jurors' attitudes and opinions. One factor that should be tested is that the accountant can only choose one discipline specialty exam. A question remains if that fact moderates the effects found here since the practicing CPA cannot take a second or third specialty exam if they want to expand into another area of business. The path model of blame assumes that adjudicators consider all of the options available to a defendant when passing judgment. Suppose a CPA were to change areas of practice or work in multiple areas of practice, as would be common in a small firm, and the opportunity to take the specialty exam in the second line of practice is not available, does the lack of opportunity to take the specialty exam in all three disciplines effectively mitigate blame? Third, the study does not directly compare liability under the new and old CPA exam models. Future research could provide more insight by testing how jurors assess liability to CPAs under both models. Fourth, we focused on a narrow element of a potential litigation case, whether the CPA took the specialty exam. We did not test or control for other information that might be presented to jurors in a court proceeding, including the CPA's experience or the CPA's firm's review process, et cetera. This uncertainty is another avenue for future research, as our findings set the table by showing that CPAs who practice in an area in which they have not been tested may be susceptible to more liability, but experience, additional professional training, or internal review procedures might mitigate the liability.

In conclusion, the CPA profession has continued to evolve and adapt to the changing business environment. The AICPA and NASBA have changed the CPA exam format to keep up with the changing profession. However, changing the exam creates the potential for increased blame and litigation, as it may signal a level of expertise, or lack thereof, in different accounting disciplines. Although the AICPA and NASBA are keeping up with the changing profession and business needs of clients, the new exam format has potentially created an unintended consequence that could increase litigation to future CPAs. Years of experience and additional credentials may eventually outweigh the effects of not taking a particular section of the exam, but CPAs should still be mindful of the potential for claims. Firms and CPAs should consider the effect of the CPA Evolution model on the public's perception of a CPA's competence. Additional strategies to demonstrate competence beyond what may have been customary in the past would be prudent for individuals working in an area in which they were not tested.

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Appendix A – Manipulations (Participants Received either an Audit or Tax Scenario)

Scenario 1 (exam & large error): Consider the following scenario: Taylor, a practicing Certified Public Accountant (CPA), took the CPA exam that consists of one exam testing for broad accounting knowledge and one exam of a candidate's choosing that specializes in a certain area of accounting. *(Audit Scenario) Taylor took the specialization exam in the field of auditing. Taylor was responsible for auditing certain financial statement areas for her client. In performing the audit procedures, Taylor failed to identify a large error.*

(Tax Scenario) Taylor took the specialization exam in the field of taxation. In filing a tax return for a separate business entity, Taylor made a large error.

Scenario 2 (no exam & large error): ... *(Audit Scenario) Taylor took the specialization exam in the field of taxation, not auditing. Taylor was responsible for auditing certain financial statement areas for her client. In performing the audit procedures, Taylor failed to identify a large error.*

(Tax Scenario) Taylor took the specialization exam in the field of auditing, not taxation. In filing a tax return for a separate business entity, Taylor made a large error.

Scenario 3 (exam & small error): ... *(Audit Scenario) Taylor took the specialization exam in the field of auditing. Taylor was responsible for auditing certain financial statement areas for her client. In performing the audit procedures, Taylor failed to identify a small error.*

(Tax Scenario) Taylor took the specialization exam in the field of taxation. In filing a tax return for a separate business entity, Taylor made a small error.

Scenario 4 (no exam & small error): ... *(Audit Scenario) Taylor took the specialization exam in the field of taxation, not auditing. Taylor was responsible for auditing certain financial statement areas for her client. In performing the audit procedures, Taylor failed to identify a small error.*

(Tax Scenario) Taylor took the specialization exam in the field of auditing, not taxation. In filing a tax return for a separate business entity, Taylor made a small error.

Appendix B – Survey Measures

Dependent Variable Measures

Taylor should be held liable for any resultant damages. (Mark One)*
How severe should Taylor be penalized? (Mark One)**

Manipulation Check questions given with each scenario:

Did Taylor take a specialization exam for the area of audit (taxation)? (Mark One)***
Did Taylor fail to catch (make) a large or a small error? (Mark One)***

Other Questions:

Do you think Taylor has done everything possible to gain the professional expertise needed to identify the error (avoid the error)? ***

Would you consider Taylor to be an expert in Auditing (Taxation)? ***

Who is ultimately responsible for the audited financial statements (tax return)? ****

Have you used an accountant to prepare, review, or audit your personal or business financial records (prepare your personal or business taxes)? ***

Have you ever had a bad experience with an accountant that has performed services for you? ***

An accountant has a professional responsibility to ensure his or her work is complete and accurate.*

An accountant should ‘not’ practice in an area that he or she has ‘not’ taken an expert exam.*

Do you think an accountant should be subject to more or less liability if he or she has only passed a basic exam in an area he or she practices and not an expert exam? *****

Do you have any education in the field of accounting or auditing (or tax)? ***

Do you have any work experience in the field of accounting or auditing (or tax)? ***

Do you have any education in the field of law or law enforcement? ***

Do you have any work experience in the field of law or law enforcement? ***

- * Strongly Disagree (1) to Strongly Agree (5)
- ** Not Penalized at all (1) to Severely (4)
- *** Yes / No
- **** Taylor / The Client (The Business Entity)
- ***** More Liable / Less Liable

Table 1: Participant Characteristics by Treatment Condition

	Descriptive Characteristics by Treatment (Usable Data)				Group Diff.* n = 136	Total Usable Data n = 136
	No EXAM; Small ERROR n = 35	EXAM; Small ERROR n = 32	No EXAM; Large ERROR n = 33	EXAM; Large ERROR n = 36		
<i>SCENARIO</i> ^a	17(18)	17(15)	16(17)	17(19)	p = .966	67(69)
<i>AGE</i> ^b	3(12)[8] {7}<5> *0*:0:	3(13)[5] {6}<2> *2*:1:	4(11)[5] {8}<4> *1*:0:	5(9)[6] {6}<4> *4*:2:	p = .833	15(45)[24] {27}<15> *7*:3:
<i>GENDER</i> ^c	20(14)	21(11)	22(11)	21(15)	p = .841	84(51)
<i>ETHNICITY</i> ^d	32(1)[1]	30(1)[1]	32(0)[1]	32(3)[1]	p = .741	126(5)[4]
<i>EDUCATION</i> ^e	3(1)[7] {4}<12> *8*	0(0)[7] {4}<16> *5*	1(2)[9] {1}<15> *5*	8(0)[9] {3}<13> *3*	p = .165	12(3)[32] {12}<56> *21*
<i>INCOME</i> ^e	7(5)[12] {8}<2>	5(5)[8] {10}<3>	8(5)[9] {7}<4>	10(2)[9] {12}<2>	p = .888	30(17)[38] {37}<11>
<i>RELIGIOSITY</i> ^f	11(24)	6(26)	13(20)	12(24)	p = .330	42(94)
<i>REGISTERED</i> ^g	1(34)	4(28)	2(31)	3(33)	p = .491	10(126)
<i>LAW</i> ^h	32(2)	28(4)	30(1)	32(2)	p = .506	122(9)
<i>EXPERTISE</i> ⁱ	33(2)	30(2)	32(1)	34(2)	p = .937	129(7)
<i>OBLIGATION</i> ^j	4.2(1.5)	4.5(1.2)	4.8(.76)	4.7(.87)	p = .205	4.5(1.1)

*All p are Chi-Square results except for the p for RESPONSIBILITY is the mean difference.

^a SCENARIO: Tax (Audit)

^b AGE: 18-20 (21-29) [30-39] {40-49} <50-59> *60-69* :70-79:

^c GENDER: Female (male)

^d ETHNICITY: White (Black) [Asian] {Other}

^e EDUCATION: High school or GED (Trade school) [Some college] {Associate degree} <Bachelor degree>

Graduate degree

^f INCOME: < \$25,000 (\$25,000 - \$50,000) [\$50,000 - \$100,000] {\$100,000 - \$200,000} <> \$200,000>

^g REGISTERED: No (Yes)

^h LAW: No (Yes)

ⁱ EXPERTISE: No (Yes)

^j OBLIGATION: Mean (Std. Dev.)

Table 2: Variables and Measures

	Variable	Facet(s) and Measurement
Dependent Variables	LIABLE	Potential jurors' determination of whether the CPA in the scenario is liable scored from (1) strongly disagree; to (5) strongly agree.
	SEVERITY	Potential jurors' determination of the severity of the penalty for the CPA in the scenario scored from (1) not penalized at all; to (4) severely.
Manipulated Independent Variables	EXAM	Manipulated item scored (0) if the CPA did not take the expert tax or audit exam; or (1) if the CPA took the tax expert tax or audit exam.
	ERRORSIZE	Manipulated item scored (0) for a small error or (1) for a large error.
Participant Characteristics & Potential Covariates	SCENARIO	Tax or Audit Scenario
	AGE	18-20 (1); 21-29 (2); 30-39 (3); 40-49 (4); 50-59 (5); 60-69 (6); 70-79 (7); 80+ (8)
	GENDER	Male (0); Female (1)
	ETHNICITY	White (1); Black (2); American Indian (3); Asian (4); Hawaiian or Pacific Islander (5); Other (6)
	EDUCATION	Some high school (1); High school degree or GED (2); Trade school (3); Some college (4); Associate degree (5); Bachelor degree (6); Graduate degree (7)
	INCOME	< \$25,000 (1); \$25,000 - \$50,000 (2); \$50,000 - \$100,000 (3); \$100,000 - \$200,000 (4); > \$200,000 (5)
	RELIGIOSITY	Do not attend church (0); Attend church (1)
	REGISTERED	Are you a registered voter? No (0); Yes (1)
	LAW	Do you have work experience in the field of law or law enforcement? No (0); Yes (1)
	EXPERTISE	Do you have any education in the field of accounting or auditing (or tax)? No (0); Yes (1)
OBLIGATION	An accountant has a professional responsibility to ensure his or her work is complete and accurate. scored from (1) strongly disagree; to (5) strongly agree.	

Table 3: LIABLE Results**Panel A: Mean ^a (Standard Error) [Sample Size]**

	Small Error	Large Error	Small & Large Error
No Exam	3.543 (.189) [35]	4.182 (.194) [33]	3.861 (.136) [68]
Exam	3.750 (.189) [32]	3.694 (.178) [36]	3.668 (.136) [68]
No Exam & Exam	3.649 (.137) [67]	3.881 (.135) [69]	3.765 (.096) [136]

* Means represent potential jurors' determination of whether the CPA in the scenario is liable scored from (1) strongly disagree; to (5) strongly agree.

Panel B: ANOVA Results

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	9.328	4	2.332	1.867	.120
Intercept	913.346	1	913.346	731.058	.000
SCENARIO	.680	1	.680	.545	.462
ERRORSIZE	1.823	1	1.823	1.459	.229
EXAM	1.268	1	1.268	1.015	.316
ERRORSIZE * EXAM	5.613	1	5.613	4.493	.036
Error	163.664	131	1.249		
Total	2093.000	136			
Corrected Total	172.993	135			

a. R Squared = .054 (Adjusted R Squared = .025)

** Dependent Variable: LIABLE (1 Strongly disagree, 5 Strongly agree)

Figure 1: Mean LIABLE Scores

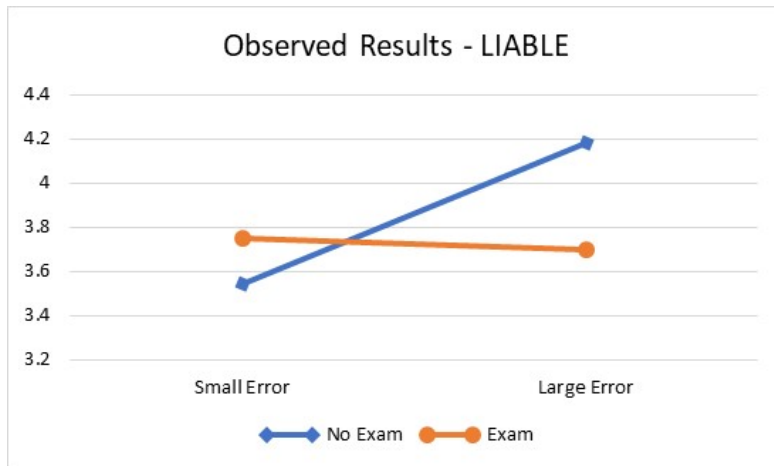


Table 4: SEVERITY Results**Panel A: Mean ^a (Standard Error) [Sample Size]**

	Small Error	Large Error	Small & Large Error
No Exam	1.679 (.111) [35]	2.083 (.111) [33]	1.881 (.080) [68]
Exam	1.570 (.117) [32]	2.174 (.110) [36]	1.872 (.080) [68]
No Exam & Exam	1.625 (.081) [67]	2.128 (.079) [69]	1.876 (.057) [136]

* Means represent potential jurors' determination of the severity of the penalty for the CPA in the scenario scored from (1) not penalized at all; to (4) severely.

Panel B: ANOVA Results – SEVERITY

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	45.219	4	11.305	26.027	.000
Intercept	124.117	1	124.117	285.758	.000
SCENARIO	34.979	1	34.979	80.533	.000
ERRORSIZE	8.603	1	8.603	19.807	.000
EXAM	.003	1	.003	.006	.938
ERRORSIZE * EXAM	.335	1	.335	.772	.381
Error	56.899	131	.434		
Total	584.000	136			
Corrected Total	102.118	135			

a. R Squared = .443 (Adjusted R Squared = .426)

**Dependent Variable: SEVERITY (1 Not Penalized at all, 4 Penalized Severely)

Figure 2: Mean SEVERITY Scores

