PERCEPTION OF NONPROFIT EMPLOYEES AND BOARD GOVERNANCE ON THE INTERNAL CONTROL OF CONTRIBUTIONS:
A QUALITATIVE STUDY

by

Holly Caldwell

Doctoral Study Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Business Administration

Liberty University, School of Business
August 2019
Abstract

This research contributes to the very limited number of qualitative studies on the development and implementation of internal controls in nonprofit organizations. The study explored the understanding of perceptions regarding internal controls in cash contributions from nonprofit organizational employees, Executive Directors/CEOs, and board members. This embedded single-case study consists of eight nonprofit organizations located in the Commonwealth of Virginia of the United States. Eleven themes of board governance, communication, contributions, development of policies and procedures, efficiency, fiduciary duty, leadership, resource availability, separation of duties, training, and trust were identified through interviews, review of policies and procedures for cash receipts and deposits, review of IRS Form 990s, and field notes.

This study revealed that there continues to be need for greater awareness and understanding of internal controls by nonprofit organizations. In addition, understanding of the roles and responsibilities by both management and board members for financial reporting, along with assessment risk of fraud is noted. The conclusions suggest accounting practitioners should seek to work with smaller nonprofits in identifying where internal control weaknesses exist in cash handling and to provide training and support for understanding financial reporting and assessing fraud risk.

Key words: Internal controls, nonprofit organizations, board governance, fraud, agency theory.
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Dr. Carlos Ranglin, Dissertation Chair

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Dr. Teresa Bounds, Dissertation Committee Member

___________________________________________________

Dr. Edward Moore, Director of Doctoral Programs
Dedication

I dedicate this dissertation to my Lord and Savior, Jesus Christ. For it is through Him that I can do all things. I thank my precious little girl, Zara, for her understanding when mama had to spend extra time working on doctoral work in order to meet deadlines. Zara, you are the greatest joy I have ever known and my daily reminder of God’s faithfulness in my life; you are and will always be my greatest accomplishment! To my parents, William Folkes Caldwell III and Deborah Garber Caldwell, I could not have made it through this educational goal without your constant support and encouragement. To my sister and best friend, Heather Caldwell Hite, I am so grateful for your presence and support throughout my entire life. You are such a blessing to me! To my late grandparents, William Folkes Caldwell Jr. and Hedy Karin Caldwell, I have felt your presence in my times of weakness. I await the day when we are reunited forever, I miss you so much. To my grandmother, Jean Virginia Garber, I adore you and am so thankful for the times we have shared together, you are truly one of my dearest friends.

Faithful is he that calleth you, who also will do it. 1 Thessalonians 5:24.
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I wish to thank my dissertation chair, Dr. Carlos Ranglin, for your encouragement and support as I embarked on the preparation and completion of this research study. You have been prompt to answer my questions and provided the reassurance needed when I questioned my ability to keep moving forward. To committee member, Dr. Teresa Bounds, I wish to thank you for making suggestions toward the betterment of this study, they were greatly appreciated. Finally, to my colleagues in the Economics and Business Administration Department at Bridgewater College, thank you for your constant willingness to step in and help with departmental tasks and in keeping me lifted up when the load got heavy! Your encouragement and support kept me going!
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Section 1: Foundation of the Study

Nonprofit organizations serve as a vital resource to people around the world in their capacity as employers, economic contributors, and service providers. These unique organizations are dependent upon the goodwill and generosity of donors and volunteers in order to achieve their mission. Because of this heavy reliance on others, nonprofit organizations are likely to be in a position of having weak internal control systems which create difficulty in the fulfillment of their missions (Charles & Kim, 2016; Murphy, 2015; Tsay & Turpen, 2011). It is essential for nonprofit organizations to exert the efforts necessary to strengthen and maintain effective internal controls and to understand principal/agent relationships so that their mission is properly aligned with outcomes and values expected by taxpayers and donors (Brown, 2005; D’Aquila & Houmes, 2014). These efforts further enhance the level of quality in nonprofit organizations when effective governance and policies are in place (Harris, Petrovits, & Yetman, 2015).

Background of the Problem

Nonprofit organizations fulfill the needs of many individuals and communities across the globe. These needs are fulfilled through the generosity of others through their donations of time and funds. With many nonprofits operating in an environment of trust, high member turnover, and lack of proper training and oversight, an enhanced opportunity for fraud to occur exists. Smaller nonprofits are particularly vulnerable to fraud as they are unlikely to have the organizational structure and resources capability as their larger counterparts. Increased attention to accountability, implementation and assessment of internal control procedures, recognition of principal/agent relationships, and board governance are essential to fostering an environment
where the susceptibility of fraud occurrence is minimized and where donors feel confident that their contributions will be used in a manner consistent with the organization’s mission.

As the Internal Revenue Service reports 1.41 million nonprofits registered in the United States, composing 5.4% of gross national product, these organizations are strong contributors to educating youth, healing the sick, supporting elders, and protecting natural resources, in communities across the globe. The National Council of Nonprofits (2018) highlighted the many ways in which communities are impacted by nonprofit organizations through their embodiment of national spirit and values, protecting, feeding, healing, sheltering, educating, and nurturing of bodies and spirit, and turning beliefs into actions. These functions performed by nonprofits are dependent upon public goodwill, volunteers, and donations. In 2014, donor contributions to nonprofits accounted for $358.38 billion with 25.3% of adults in the United States volunteering with a nonprofit organization (Charles & Kim, 2016; McKeever, 2015; National Center for Charitable Statistics, 2015; National Council of Nonprofits, 2018; Stephens & Flaherty, 2013).

Over the past two decades, practitioners and academics have increased their attention on the accountability and role nonprofits fill in the economy. This amplified emphasis on nonprofit organizations is due to increasing economic costs and heightened competition for donations and grants. As donors to nonprofit organizations seek assurance in the safeguarding and efficient use of their contributions, the governance structure is also receiving increased consideration (Grizzle & Sloan, 2016; Harris et al., 2015).

The garnering of increased focus on the governance structure is due to the unique characteristics in nonprofit organizations of high member turnover and volunteers who lack proper training and/or qualifications in oversight functions. Couple the lack of training and understanding of the oversight function, along with size, and small nonprofit organizations are
not likely to have the fraud detection measures in place like larger organizations and are likely to experience almost double the median loss due to fraud. The emphasis on nonprofit organizations’ accountability and governance signifies the importance of nonprofit employees and board members knowing and understanding their role in adhering to the internal controls in place to protect contributions to the organization (ACFE, 2018; Kummer, Singh, & Best, 2015; McNeal & Michelman, 2006).

Increased attention to governance is also attributed to recent financial scandals which highlighted the importance of fiduciary responsibilities in managing nonprofits and the weak regulatory oversight; triggering lawmakers to encourage nonprofits to adopt governance practices more rigorous in nature. Understanding of board performance and governance is dependent upon the fundamentals of agency theory. Agency theory within a nonprofit can include the organization’s devotion to its mission or purpose, organizational performance, board performance, fulfillment of obedience, and alignment in the social rationale for its existence. Tsay and Turpen (2011) cited nonprofit organizations’ governing practices over internal control measures should be in alignment with objectives. This relationship suggests consideration should be given by nonprofit organizations to strengthen their current governance practices so internal control practices are able to support their mission (Brown, 2005; Callen, Klein, & Tinkelman, 2003; Petrovits, Shakespeare, & Shih, 2011).

In a recent study performed by the Association of Certified Fraud Examiners of 2,690 cases of occupational fraud, internal control weaknesses accounted for almost 50% of all frauds and 9% of nonprofit organizations who experienced fraud had a median loss of $75,000. Recent nonprofit organizations experiencing fund embezzlement include New York's Metropolitan Council on Jewish Poverty, Cancer Fund of America, Acorn, D.C. United Way, Angel Food
Ministries, Soundview Healthcare Network, Birmingham Health Care and the Ohio Division of the American Cancer Society (ACFE, 2018; Garven, 2015). Clearly, with variance in the types of nonprofit organizations experiencing fraud, no nonprofit organization is exempt from the potential for fraud to occur.

Despite the prevalence of fraud in nonprofit organizations, there is concern that those in governance may not have an accurate pulse on the likelihood of it occurring within their organization. In a recent study of nonprofit CEOs, executive directors, CFOs, and board members, only 1% viewed fraud by staff as a major issue. With such a small percentage of those surveyed expressing concerns over fraud being perpetrated by staff, despite the number of nonprofit organizations publicly acknowledging fraud, there appears to exist blurred perceptions over the strengths of internal controls and governance to curb such behavior. Nonprofit organizations’ lack of proper governance, along with their trusting environments, is the recipe for increased vulnerability and exposure to fraud. Particularly, it is the trusting environment which contributes to leaders in nonprofit organizations not viewing fraud prevention as an issue until they experience fraud or perform risk assessments to reveal their vulnerability (Archambeault, Webber, & Greenlee, 2015; Greenlee, Fischer, Gordon, & Keating, 2007; Kummer et al., 2015; Marks Paneth, 2015).

The value of a nonprofit organizational assessment can be found in the IRS Form 990. Revamped by the federal government in 2008, this publicly available form, provides detail on the performance assessment of nonprofit organizations. The IRS Form 990 mandates public disclosures with an all-inclusive list of governance questions, exemplifying federal government efforts to enhance the publicly available information on nonprofit organizations. Those nonprofit organizations eligible for filing the Forms 990PF and 990EZ are not required to answer
questions centering on governance, management, and disclosure, which assist in performance
evaluations (Archambeault et al., 2015; Harris et al., 2015; Striebing, 2017). The inconsistencies
in required reporting among nonprofit organizations slants the public’s ability to view a complete
performance picture of those eligible to file Form 990PF and Form 990EZ.

This study fulfilled the current research gap of limited qualitative research on the
perceptions of nonprofit employees and board governance on the understanding of internal
controls in contributions. Gregory (2017) stated “limited empirical evidence exists on fraud and
the use of internal controls in the nonprofit sector” (p. 2). Similarly, Power and Gendron (2015)
claimed that more qualitative studies should contribute to work performed by practitioners.

**Problem Statement**

The general problem addressed is that many nonprofit organizations have experienced
financial scandals which have questioned the fiduciary responsibilities of those managing the
nonprofits and their regulatory oversight. Improper governance of nonprofit organizations can
lead to damaged reputations, loss of public trust, financial hardship, and inability to provide
services to fulfill their mission. With dependence on volunteers who may be untrained or
unqualified, and commitment of staff, nonprofit organizations are uniquely susceptible to weak
internal controls. As nonprofit organizations are not federally mandated to the same external
pressures and accountability as their public sector counterparts, effective performance
management can be inhibited. The specific problem addressed is that some nonprofit
organizations are likely to have an increased risk for fraud, specifically cash embezzlement.
With differing organizational structures and resource availability, small nonprofit organizations
are not likely to have the fraud detection measures like larger organizations and are likely to
experience almost double the median loss due to fraud. Research on nonprofit organizational
governance and cash management strategies contributed to existing knowledge in nonprofit organizational management and accounting (ACFE, 2018; Burde, 2018; Gartland, 2016; Greenlee et al., 2007; Gregory, 2017; Iyer & Watkins, 2008; Kummer et al., 2015; McNeal & Michelman, 2006; Mitchell & Berlan, 2018; Petrovits et al., 2011; Purdy & Lawless, 2012; Tsay & Turpen, 2011).

**Purpose Statement**

The purpose of this qualitative single-case study added to the understanding of strategies implemented by small Virginia-based nonprofit organizations to avoid opportunities for theft of cash contributions. In recent years, there have been increased concerns over the financial accountability and transparency of nonprofit organizations due to the number of financial scandals occurring in such environments. Due to the trusting environment found in many nonprofits, a consequential lack of proper investment in governance raises concerns over the financial accountability and transparency of the entity. With the lack of proper investment in governance, smaller nonprofit organizations, those with less than 100 employees, have a higher susceptibility of fraud due to their limited staff sizes. Current cutbacks in governmental aid and lack of growth in foundation support require nonprofit organizations to be proactive in their approach to avoid theft of cash contributions (ACFE, 2018; Archambeault et al., 2015; Bourassa & Stang, 2016; Branson, Buxton, & Canny, 2015; Daugherty & Neely, 2012; De Armond & Zach, 2017; Felix, Gaynor, Pevzner, & Williams, 2017; Fighting Fraud and Promoting Social Equity, 2012; Greenlee et al., 2007; Kummer et al., 2015; McSwain, Wukich, & McSwain, 2015).

A sample of eight nonprofit organizations was purposefully selected in Virginia from which a review of both internal controls for cash procedures and Form 990 filings with the IRS,
accessing public information, and completing interviews of cash procedures with board members and employees was performed. This study fulfilled the current research gap of limited qualitative research on nonprofits’ understanding of internal controls for contributions. Gregory (2017) claimed “limited empirical evidence exists on fraud and the use of internal controls in the nonprofit sector” (p. 2). Similarly, Power and Gendron (2015) asserted that more qualitative studies should contribute to work performed by practitioners.

**Nature of the Study**

Three research methods exist for research studies: qualitative, quantitative, and mixed methods. The characteristics of each method are discussed below, along with their suitability to this research study.

First, use of the qualitative method provides richness with direct communication and identification of variables which are not easily measured. Qualitative research provides empowerment to study participants for the hearing of their voices, the sharing of their stories, and the minimizing of the power relationship typically found between the study participants and the researcher. These characteristics are identified as contributing to the desire for meaning and richness in research can be supported by qualitative research through observations, interviews, and examinations of documents or artifacts. In addition, the field of accounting research has become complacent in answering research questions void of engagement and understanding of professional practices and suggests the need for change which adds meaning and richness to the data in the business, accounting, and finance arenas (Creswell & Poth, 2018; Stake, 2010; Stone & Miller, 2012).

The honoring of qualitative research is shared by ter Bogt and van Helden (2012) who indicated its significance to the underexposed how and why of management accounting in
conducting practice-relevant research. This focus on practice-relevant research has contributed to the movement of academic journals in shifting their commitment from quantitative research to qualitative research in accounting and auditing (Power & Gendron, 2015). Creswell (2014) claimed qualitative research respects inductive style, individual meaning, and interpreting complex situations. With these qualitative characteristics being viewed as desirable, it was the method selected for this research study.

Second, quantitative studies in accounting are prevalent, however, with the purpose of this study to seek understanding of strategies implemented by small Virginia-based nonprofits to avoid theft of cash contributions, it is the understanding of behaviors through interpretations desired in this study which made qualitative research more desirable over surveys and accounting data. The quantitative method would be most suitable for research focused on testing of relationships, examining the relationship between cause and effect, and analyzing of numbers. Quantitative methods provide an overall picture of trends, relationships, and association, but fail to capture people’s experiences, responses, contexts, and behaviors and thoughts governing those responses (Creswell & Poth, 2018; ter Bogt & van Helden, 2012).

Third, mixed method is suitable for instances when it is recognized that the study can be strengthened through the incorporation of both quantitative (closed-ended) and qualitative (open-ended) forms of data. With the integration of data, mixed method is argued to provide a more thorough understanding of the problem researched than either method existing alone (Creswell, 2014). This method was not selected as it extends beyond the scope of this study.
Discussion of method and design.

Designs used in the qualitative research studies include: case study, narrative, phenomenology, grounded study, and ethnography. A discussion of each is provided below along with its appropriateness for inclusion in this study.

Case study design. A single-case study design was selected for this research study. Research incorporating case study design can be formatted using single or multiple case situations contextually centered in contemporary or real-life environments. With the nonprofit organization setting, case study design seeks to contribute to an understanding of the perceptions of employees and board members on internal controls over contributions. Benefits in using case study design as a research method include the clarification of boundaries between observed phenomenon which is socially complex and the contextual environment under consideration (Aczel, 2015; Creswell & Poth, 2018; Yin, 2014).

Characteristics of case study research requires the presence of the researcher during data collection, consists of smaller samples sizes, is used when causality is central to the analysis of the research, and when it is impossible for the researcher to gain control over the research variables. With direct face-to-face interactions through interviews with research participants, observations became part of the data gathered to support this study. The preference for case study design exists when current events are examined and the relevant behaviors of those events cannot be manipulated (Dresch, Lacerda, & Cauchick Miguel, 2015; Yin, 2014).

Features of case studies, as identified by Creswell and Poth (2018), included identification within certain parameters or boundaries, ability to present in-depth understanding, and generation of important themes. Implementation of case studies in a nonprofit organizational environment is viewed by Gerring (2004) as being less problematic and highly
informative compared to other research design options in the analysis of correlative and proximate causal relationships. Aczel (2015) viewed the uniqueness of case study design as it provides research participants with opportunities to have their voices heard which potentially moves the research investigation into a completely new light.

**Narrative design.** Narrative design in qualitative research centers upon experiences expressed through lived and told stories of individuals. The narrative design is suitable to gain a rich understanding in the context of an individual’s experience. Studies suitable for narrative design emphasize the collection of stories which allow for individuals to tell of themselves and their identities, which are then retold and restoried through a narrative chronology by the researcher. The narrative can become collaborative with views from both the lives of the research participant and the researcher. With the suitability of narrative design for research which explores the life of the individual, it was not considered an appropriate option for this study (Creswell, 2014; Creswell & Poth, 2018).

**Phenomenology design.** Phenomenology design in qualitative research is suitable when the researcher seeks to describe a related meaning of several individuals of their lived experiences of a particular concept of a phenomenon. Moustakas (1994) stated the description of those lived experiences is what creates the essence of the study. Loureiro Alves Jurema, Correia Pimentel, Cordeiro, and Austregésilo Nepomuceno (2006) indicated that the intention of phenomenological research is to problematize a phenomenon to be understood. The understanding of the phenomenon is gained through the patterns, theories, or generalizations can be determined from the data collection which contribute to sketching the emerging larger picture. Creation of the larger picture includes both inductive and deductive reasoning, along with a keen focus on understanding the meaning participants have about the problem or issue under
consideration (Creswell, 2014; Creswell & Poth, 2018). Phenomenology design was not considered for this research study, as it requires the initial identification of a similar meaning to a lived experience. Although phenomenological studies begin with experiences stated by individuals in their lived and told stories, this research study did not have knowledge of a similar lived experience unless it surfaced during or after the data collection process.

**Grounded theory design.** Grounded theory design in qualitative research moves into generating and discovering a theory. Researchers implementing grounded theory design create general explanations of particular processes, actions, or interactions which are molded by a large number of research participants, usually 20-30 interviews. Grounded theory design can be useful when the exposure of explanation is sought rather than the description of what is occurring (Creswell & Poth, 2018; Ng & Hase, 2008). Grounded theory research design was not selected as this research study was not seeking to generate or discover theory, but rather to understand strategies of nonprofit organizations in avoiding theft of cash contributions.

**Ethnography design.** Ethnography research design for qualitative studies is used when the researcher seeks to understand the world from the research participants’ point of view, along with human cultures and social behaviors. Ethnographic design is useful in searching for shared patterns of behavior, beliefs, and language with participants and when the focus is on the entire culture-sharing group. It is suggested that researchers using ethnographic design should have a solid understanding of anthropology and social-cultural systems (Creswell & Poth, 2018; Durante & Feehan 2005; Palmer, 2001).

This study sought to understand strategies of nonprofit employees and board governance on internal controls of cash contributions within Virginia. Limited geographical reach of the study, along with sample size, would prohibit an extension of patterns of behavior, beliefs, and
language to an entire culture-sharing group. However, ethnographic design may be considered for future studies which broaden the geographical area to which the research participants are located.

Summary of the nature of the study.

In reviewing other research designs and the strengths and limitations of the case study, the researcher concluded that a single-case study design was the preferred method to perform this research. Yin (2014) highlighted the preference for case study design when current events are examined and the relevant behaviors of those events cannot be manipulated. Implementation of case studies in a nonprofit organizational environment is viewed by Gerring (2004) as being less problematic and highly informative compared to other research design options in the analysis of correlative and proximate causal relationships. Further, case study design gives the research participants an opportunity to have their voices heard; moving the investigation into a completely new light (Aczel, 2015). In this study research, the researcher used single-case study design to understand the perceptions of internal controls over cash contributions as viewed by employees, Executive Directors or CEOs, and board members in nonprofit organizations.

Research Questions

The central research questions for this study were the following:

RQ 1: How does the nonprofit organization generate cash management guidelines to prevent the misappropriation of cash contributions?

RQ 2: How does nonprofit management and board of directors differ in their perceptions on key governance aspects related to cash contributions?

RQ 3: How does the nonprofit organization ensure understanding of the internal controls over cash contributions by those directly involved with its management?
RQ 4: How does the nonprofit organization perceive its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions?


**Conceptual Framework**

The conceptual framework of this qualitative case study design was based on the four related theories of governance, agency, internal controls, and fraud. The flow represented in the framework is indicative of the components necessary to understand the processes and perceptions for management of cash contributions. The diagram below indicates the association of the respective theory components to the research questions.
Figure 1. Relationship among conceptual framework constructs and interview questions.


Governance theory.

Governance theory was the first component of the conceptual framework for this study. This component is considered a significant competency for management and an essential component of financial oversight and administration. Research studies on corporate governance began with work completed by Berle and Means in 1932. Citing the continued relevance of
research by Berle and Means, Seki and Clarke (2014) highlighted a focus on manifesting separation of ownership and control to managers who determine the direction of the enterprise. Governance is viewed as both a monitoring and enabling role which keeps watch on performance of management with requirements of accountability, transparency, and ethical business conduct (Gregory, 2017; Ibrahim & Samad, 2011; Malla, 2010).

Governance theory specifically addressed research question 1 which focused on the generation of cash management guidelines to prevent the misappropriation of cash contributions. The potential theme likely to surface from this research area was development of policies and processes (Gregory, 2017). The perception from this theme signified the importance of nonprofit leadership to be active in their influence on the procedures created to manage cash receipts.

**Agency theory.**

The second component of the conceptual framework was agency theory. The foundations of agency theory are fundamentally based upon principal-agent relationships by which a contract exists between two parties: the principal and the agent. The principal involves another party, the agent, to perform a service on behalf of the principal in which delegation of authority in decision making is granted to the agent. Within the nonprofit setting, literature places the principal role in the hands of the board of directors and agent role is extended to the manager who is tasked with operating the organizations according to stakeholder interests (Caers, Du Bois, Jegers, De Gieter, Schepers, & Pepermans, 2006; Jensen & Meckling, 1976).

Agency theory addressed research question 2 which focused on the perceptions of management and board of directors on key governance aspects related to cash contributions. The potential themes likely to surface from this research area included fiduciary, efficiency, and delegation. The perception from this theme signified the importance of nonprofit leadership,
management and board of directors, to be in alignment with their governing responsibilities related to cash contributions.

**Internal control theory.**

The third component of the conceptual framework for this study was internal control theory. There is not a universally accepted control system, but rather concepts are specific to the academic field. Within the field of accounting, internal control activities are primarily established by auditors. In 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its Internal Control – Integrated Framework for compliance with Section 404 of the Sarbanes-Oxley Act. This framework focused on five internal control principles: control environment, risk assessment, control activities, information and communication, and monitoring activities (Barra, 2010; McNally, 2013; Swinkels, 2012).

Internal control theory specifically addressed research question 3 which focused on the assurance by the nonprofit organization in management’s understanding of internal controls over cash contributions. Potential themes expected to surface in this study included development of policies and processes and strong executive leadership (Gregory, 2017). Perceptions of these themes signified the expectation of leadership to provide guidance to both board members and staff as to their awareness of the procedures for management of cash receipts and how compliance of those procedures aligns with internal controls.

**Fraud theory.**

Foundations of fraud theory began with Sutherland and his approach to develop theories of criminal behavior. Sutherland argued that it is the violation of delegated and implied trust in business and the professions which permits crimes such as the misrepresentation of asset values
Both Sutherland (1940) and Cressey (1973) asserted that a trust violation is the most common underlying characteristic of crimes committed in organizations. It was from Sutherland’s foundation that the work of Cressey, Sutherland’s mentee, evolved into the fraud triangle. The fraud triangle is used as a basis which identified three traits common in fraudulent transactions: opportunity, pressure, and rationalization. In addition, it aids the anti-fraud community in understanding the previous experiences of fraud and serves as a basis for the development and categorization of auditing standards from a global setting (Cressey, 1973; Dorminey, Fleming, Kranacher, & Riley, 2012b; Schuchter & Levi, 2016).

Fraud theory relates to this study as the incentives and settings of the criminals committing fraudulent acts. Fraud theory specifically addressed research question 4 which focused on the perception of the nonprofit organization’s role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions. Potential themes of trust and board governance were likely to surface (Gregory, 2017). Perceptions from these themes would coincide with the culture of nonprofits built on trust and the need for proper investment in governance (Archambeault et al., 2015; Daugherty & Neely, 2012; De Armond & Zach, 2017; Greenlee et al., 2007; McSwain et al., 2015).

**Summary of the conceptual framework.**

The conceptual framework recognized the constructs of governance, agency, internal controls, and fraud to the understanding of cash contributions in nonprofit organizations. The framework signifies the flow and interconnectedness which should exist among the four constructs. As indicated in the framework, it was expected that all four constructs provide an understanding of internal controls, generation of guidelines to prevent misappropriation of cash, understanding of perceptions of key governance aspects related to cash contributions, and the
role of the organization in assessing and determining the guidelines for preventing the misappropriation of assets.

**Definition of Terms**

*Agency theory.* The foundations of agency theory are fundamentally based upon principal-agent relationships by which a contract exists between two parties: the principal and the agent. The principal involves another party, the agent, to perform a service on behalf of the principal in which delegation of authority in decision making is granted to the agent (Jensen & Meckling, 1976).

*Association of Certified Fraud Examiners (ACFE).* The ACFE is the world’s largest antifraud organization and provides anti-fraud training and education. With 85,000 members, the ACFE is focused on the reduction of business fraud throughout the world and seeks to build public confidence with integrity and objectivity (ACFE, 2018).

*Cash.* In this study, cash consists of coins, currency (paper money) and checks and credit card transactions (Warren, Reeve, & Duchac, 2018).

*Cash embezzlement.* The fraudulent appropriation of money by an entrusted individual, who is responsible for its care on behalf of others, but who uses it for their own use (Embezzlement, 2016).

*Committee of Sponsoring Organizations (COSO).* This initiative from the private sector was voluntarily created to improve organizational performance and governance through effective internal controls, enterprise resource management and fraud deterrence. Sponsors of COSO include: American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Internal Auditors (IIA), and Institute of Management Accountants (IMA) (McNally, 2013).
Fraud. Intentional perversion of truth to induce others to part with valuables or to surrender a legal right (Cote, 2007).


Generally Accepted Accounting Principles. Standard methods followed by organizations for the presentation of financial information. For nonprofit organizations, these standards are set by the FASB (Cote, 2007).

Governance. The act or process of providing oversight. For this study it is the rules and practices used by the board of directors to oversee strategy setting and management of the organization (De Loach & Thomson, 2014).

Internal controls. Processes put in place by management to provide reasonable assurance over the efficiency and effectiveness of operations, reliable financial reporting, and compliance with both laws and regulations (Petrovits et al., 2011).

Material weakness. A material weakness is one or more internal control deficiencies creating a reasonable possibility of material misstatement in an entity’s financial statements and that the misstatement will not be prevented or detected or corrected in a timely manner (AU Section 325, n.d.).

Nonprofit organizations. Nonprofit, or not-for-profit, organizations are tax exempt by the federal government under section 501(c)(3) of the Internal Revenue Code (Internal Revenue Service, 2018). To maintain tax exempt status, the organization must abide by the exempt purposes identified in section 501(c)(3). Nonprofit organizations assist millions of individuals and families by protecting, feeding, healing, sheltering, educating, and nurturing bodies and spirits (National Council of Nonprofits, 2018).
Significant deficiency. A significant deficiency is one or more deficiencies in internal controls considered less severe than a material weakness, yet still worthy of attention by those in governance (AU Section 325, n.d.).

Assumptions, Limitations, Delimitations

This section includes an overview of the assumptions, limitations, and delimitations relating to this study. It is important to being upfront with biases which may limit the researcher’s ability to study the problem objectively and clarify for readers of the study the extent of research efforts and limits. Identifying assumptions, limitations, and delimitations adds to the academic integrity of the research project and advances knowledge frontiers (Leedy & Ormrod, 2016).

Assumptions.

The following five assumptions were applicable to this study: 1) nonprofit organizations from Virginia participating in the study were representative of the geographic region, 2) research study is supported by literature review, 3) participants responded freely to questions with openness and integrity, 4) researcher conducted the study free from bias or personal beliefs, and 5) interview questions (see Appendix A) were clear and coherent. To mitigate the risk with participants, the researcher provided assurance on the nature and confidentiality of the study. Research performed by Gregory (2017) confirmed the inclusion of literature review components of fraud, internal controls, and board governance in exploring cash fraud awareness in nonprofit settings. To mitigate the risk of researcher bias or inclusion of personal beliefs, questions were limited to those that supported necessary and useful information to the study.
Limitations.

Limitations identified in the study were based upon the types of data collected. In performing interviews, the researcher recognized that there may be inherent flaws due to restrictions such as accessing participants, researcher’s bias, and inequality in participants’ ability to articulate and discern interview questions. This inequality to articulate and discern extends as a limitation in collecting documents, along with the need to seek information which may be located in hard-to-find places, the incompleteness of documents, and the questionable authenticity and accuracy of documents (Creswell, 2016).

This study focused on nonprofit organizations located in Virginia and findings, therefore, were limited to this population. The study should not be used to generalize information regarding nonprofit organizations from other locations. Readers of this research should not project the findings beyond the scope of the nonprofit organizations located in Virginia.

Delimitations.

Leedy and Ormrod (2016) stated delimitations inform the reader what the researcher is not going to do. To narrow the scope of this research, the study was limited to the geographic target population of small nonprofit organizations located in Virginia. Study participants were not extended beyond this geographic region. Following proper protocol of the procedures for Liberty University’s Institutional Review Board (see Appendix B), the researcher selected eight nonprofit organizations in Virginia to perform a case study as a qualitative research method. Interviews within the target population included employees responsible for cash management, executive director or CEO, and board members. Participants not meeting the designated classifications were not considered for inclusion in interviews. In selecting the targeted population, the researcher desired to understand the perceptions of nonprofit organizations on
their internal controls over cash receipts. Other aspects of internal controls over assets exist, however they were eliminated for the purpose of this study. The researcher purposefully limited the scope of this study to focus on internal controls over cash receipts as fund embezzlement has been the type of fraud experienced by many nonprofit organizations in the recent past (Garven, 2015).

**Significance of the Study**

This case study contributed to the body of literature on nonprofit organizations in their development and use of internal controls. Although multiple researchers have indicated the need for greater awareness of internal controls in nonprofit organizations, there is very little empirical evidence of its activity (Connors, 2011; Maguire, 2013). Gregory (2017) stated the development and implementation of internal controls in small nonprofit organizations to reduce cash embezzlement is still in its early stages and there is need to continue research to identify and mitigate risks for management. This qualitative case study included data collection through face-to-face interviews, observations, and supporting documentation provided a unique perspective from nonprofit employees, management, and board members as to their perceptions of the internal control policies and processes in place for the handling of cash.

**Implication of gaps.**

The study of this applied doctoral research project aided the enhancement of internal controls and reductions of fraud scandals in nonprofit organization through increased understanding of nonprofit employees and board governance perceptions on the internal controls of cash contributions through qualitative research. Gregory (2017) expressed concern over the limited empirical evidence on fraud and the use of internal controls in nonprofit organizations. Power and Gendron (2015) claimed that more qualitative studies should contribute to work
performed by practitioners. It is the understanding of behaviors through interpretations desired in this study which made qualitative research more desirable over surveys and accounting data (ter Bogt & van Helden, 2012).

In this study, the researcher added to the existing literature to expand the scope of qualitative research on the perceptions of internal controls to nonprofit organizations located in Virginia. The only other qualitative research in this area was performed by Gregory (2017) whose study focused on nonprofits located in the Pacific Northwest. This study addressed the concern expressed by Stone and Miller (2012) that the field of accounting research has become complacent in answering research questions void of engagement and understanding of professional practices and suggests the need for change which adds meaning and richness to the data in the business, accounting, and finance arenas.

**Implications for Biblical integration.**

The four focal points of fraud, governance, agency relationship, and internal controls discussed in this study were referenced in the Bible. Ephesians 4:28 (ESV) states, “Let the thief no longer steal, but rather let him labor, doing honest work with his own hands, so that he may have something to share with anyone in need.” Nonprofit organizations perform community work that is dependent upon public goodwill, volunteers, and donations (Stephens & Flaherty, 2013). Further, agency relationship is addressed in 1 Timothy 5:8 (ESV) which states, “But is anyone does not provide for his relatives, and especially for members of his household, he has denied the faith and is worse than an unbeliever.” When nonprofit organizations perform honest work, they are better able to provide for those in need. This requires nonprofit entities to possess both effective internal control policies and processes over cash receipts and understanding of agency relationships and board governance which oversees efficiency in operations.
Internal control procedures are evident in 2 Kings 12:9-16 (NIV) which describes the rebuilding of the temple by King Joash through the collection of offerings made by those entering the temple. The Bible indicates that the offering was counted by both the royal secretary and the high priest, which exemplifies an internal control procedure over cash in verifying contribution amounts. Along with internal control measures, the importance of governance is exemplified in Hebrews 13:7 (ESV) which states “Remember your leaders, those who spoke to you the word of God. Consider the outcome of their way of life, and imitate their faith.” Those in board governance should be mindful of the work they are performing and in being attentive to the alignment of their actions with the mission of the nonprofit organization. Board members actions should follow 1 Peter 5:3 (ESV), “Not domineering over those in your charge, but being examples of the flock.”

**Relationship to field of study.**

The field of accounting, particularly the auditing sector, has placed an increased emphasis on the area of internal controls since the implementation of both the Internal Control – Integrated Framework originally released in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Sarbanes-Oxley Act of 2002. With the increased attention on financial scandals in the nonprofit sector, lawmakers are demanding governance practices more rigorous in nature which include improvements to internal control practices. A well-functioning internal control system is important to the initiating, authorizing, recording, processing and reporting of financial data in compliance with generally accepted accounting principles (Kanagaretnam, Lobo, Ma, & Zhou, 2016; Petrovits et al., 2011).

The pressure of accountability experienced by nonprofit organizations is signifying the need to establish their effectiveness as an organization (Liket & Maas, 2015; Yang & Brennan,
Dzomira (2014) expressed that part of nonprofit organizational effectiveness is found in the internal control arm. In addition to organizational effectiveness, Maguire (2014) claimed the need for assessment of internal control policies and procedures in order to provide evidence of the level of organizational efficiency in backroom operations alignment to mission and building of capacity.

Understanding of internal controls processes among employees, management, and board members is crucial for the detection of activities which may be unusual in nature. Direct impact to nonprofit organizations experiencing financial scandals may result in a decrease in donor contributions. It may also result in their ability to meet the needs of community members dependent upon their services.

**Summary of the significance of the study.**

This study contributed to the body of literature on nonprofit organization’s development and use of internal controls. It is expected that this study provides nonprofit organization employees, Executive Directors/CEOs, and board members with opportunities to enhance their internal controls over cash contributions and decrease the occurrence of fraud in such settings. With increased pressures from the public to both strengthen the rigor of internal controls and accountability, nonprofit organizations are seeking greater alignment of operational efficiency to their mission.

**A Review of the Professional and Academic Literature**

The intention of this study was to increase understanding of the actions by nonprofit employees and board members in their control measures over cash contributions. This literature review considers the four components included in the conceptual framework for this study:
internal controls, fraud, governance, and agency. The relationship of each component to the purpose of the study is discussed.

Stone and Miller (2012) argued that the field of accounting research has become complacent in answering research questions void of engagement and understanding of professional practices and suggested the need for change which adds meaning and substance, through its value and worth, to the data in the business, accounting, and finance arenas. It is this desire for meaning and substance which can be supported by qualitative research through observations, interviews, and examinations of documents or artifacts (Stake, 2010). All of which were incorporated in this study.

Supporting the study was an inclusion of the theories of internal controls, fraud, board governance, and agency. A foundation of internal control was provided which includes both the Internal Control-Integrated Framework created by the Committee of Sponsoring Organizations of the Treadway Commission and Sections 302 and 404 of the Sarbanes-Oxley Act of 2002, and how it is viewed in a nonprofit setting (D’Aquila & Houmes, 2014; Dickins & Fay, 2017; McNally, 2013; Tysiac, 2012). Second, a foundation on fraud occurrence in nonprofits was included with discussion of the theories of fraud triangle, fraud diamond, fraud scale, new fraud triangle, meta-model of fraud, crime triangle, and disposition-based fraud (Cressey, 1973; Dorminey et al., 2012b; Kassem & Higson, 2012; Mui & Mailley, 2015; Raval, 2018; Wolfe & Hermanson, 2004). Third, a foundation on board governance and its uniqueness in a nonprofit environment, along with its impact on organizational effectiveness, risk management, regulation, and auditing was addressed (Cornforth, 2012; Harris et al., 2015; Jackson, 2008; Liket & Maas, 2015; McDonnell & Rutherford, 2018; National Council of Nonprofits, 2018; Neely, 2011; Radbourne, 2003; Vermeer, Raghunandan & Forgione, 2009; Willems, Jegers, & Faulk, 2015).
Finally, a foundation on agency theory was provided to assist in understanding role and responsibilities of governing boards and relationships between board members and CEOs (Bernstein et al., 2016; Brown 2005; Jensen & Meckling, 1976; Miller-Millesen, 2003; Van Slyke, 2005).

**Foundation of Internal Controls**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, The Institute of Internal Auditors, and the Institute of Management Accountants, released the Internal Control – Integrated Framework in 1992. This framework has received extensive acceptance around the world and is regarded as a leading framework in the designing, implementing, and conducting of internal controls and in assessing of internal control effectiveness. With changes in business and operating environments, along with the need for greater transparency and accountability, the original framework was updated on May 14, 2013 (Committee of Sponsoring Organizations of the Treadway Commission, 2013; McNally, 2013).

Within the updated Internal Control – Integrated Framework is the inclusion of 17 principles which are classified into five components for internal controls. These components include 1) the control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring activities. These five components and 17 principles must act in an integrated manner for intended controls to be viewed as effective (Committee of Sponsoring Organizations of the Treadway Commission, 2013; D’Aquila & Houmes, 2014; Dickins & Fay, 2017; Tysiac, 2012).
The updated framework retained the core definition of internal control and the five components of internal control, with added enhancements which expanded financial reporting categories to include non-financial and internal reporting (Committee of Sponsoring Organizations of the Treadway Commission, 2013; Tysiac, 2012). Because of the updated inclusions to recognize changes in the business and operating environment, the current framework indicates organizational emphasis on the following:

- Expectations for governance oversight
- Globalization of markets and operations
- Changes and greater complexities of business
- Demands and complexities in laws, rules, regulations, and standards
- Expectations for competencies and accountabilities
- Use of, and reliance on, evolving technologies
- Expectations relating to preventing and detecting fraud  

(Committee of Sponsoring Organizations of the Treadway Commission, 2013).

Internal controls assist entities in the achievement of objectives and in the sustainment and improvement of performance. For the internal control systems to operate effectively, the use of judgment from management and board of directors is required. In recognizing the required use of judgment, the Internal Control – Integrated Framework acknowledges support of entity management, board members, external stakeholders, and others charged with internal control duties without being excessively prescriptive in system operations (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

In addition to the internal control framework completed by COSO, the Sarbanes-Oxley Act (SOX) of 2002 was created to strengthen investor confidence and improve the accuracy and
reliability of corporate disclosures through the enhancement of accountability, responsibility, and financial reporting transparency. Although it was not the intention of Congress to apply SOX to nonprofit organizations, many have self-imposed the adoption of certain aspects of the act as best practices. Nezhina and Brudney (2012) cited those nonprofit organizations complying with SOX requirements were likely to experience benefits of increased understanding, effectiveness, and communication of business processes, revelation of internal control weaknesses which could be damaging, establishment of more effective risk management, reduction of fraud, and increased board effectiveness. Proof of SOX voluntary adoption and subsequent benefits by nonprofit organizations are evident in Eliot Spitzer’s changes to New York state law to strengthen accountability of nonprofit organizations, California’s passing of the Nonprofit Integrity Act in 2004, and New Hampshire’s requirement of all nonprofit organizations with revenues greater than $1 million annually to have audits on financial statements (Branson et al., 2015; Gupta, Sami, & Zhou, 2018; Iyer & Watkins, 2008; Yallapragada, Roe, & Toma, 2010).

Sections 302 and 404 of SOX are particularly pertinent to internal controls. Section 302 of SOX required assessment by management of internal control systems, while Section 404 of SOX required companies to provide an internal control report within their annual report indicating management’s responsibility for establishing and maintaining internal control structures and procedures over financial reporting and an assessment of the effectiveness of the internal control structure and procedures. Although not all components of SOX apply to nonprofit organizations, two specific SOX provisions which require adherence by all private organizations include whistleblower provisions and document preservation policy (Gupta et al., 2018; Iyer & Watkins, 2008; Nezhina & Brudney, 2012; Udeh & Epps, 2013; Yallapragada et al., 2010).
With SOX Section 404 requiring for-profit companies to now report on internal controls, research performed by Schroeder and Shepardson (2016) concluded the requirements of audits and management assertions on internal controls over financial reporting contribute to maintained improvements in the quality of internal control systems. They claimed with mindsets of control improvements into future interim reporting periods, management is acknowledging their commitment to internal controls and reporting quality. With a heightened focus by management in taking responsibility for establishing, maintaining, and assessing internal controls, it seems likely that these actions would improve the value of operations.

Prior to the implementation of SOX, auditor responsibilities over internal controls extended to their understanding and testing of their clients’ internal controls when the audit planned to depend on them. With increased numbers of financial scandals, there appears to be a legislative shift which called on nonprofit organizations to improve their internal control practices, particularly on fiduciary duties of management and existing weak regulatory oversight. After the implementation of SOX and the enhancements of auditor evaluation on both effectiveness of internal controls and management’s assertion on its effectiveness, there are likely to be changes in the audit procedures for the evaluation and testing of internal controls. Additional changes noted post-SOX include increases in auditor litigation which should encourage auditors to have a heightened perception toward the possibility of fraud risk occurring in organizations (Petrovits et al., 2011; Udeh & Epps, 2013). For small nonprofits, the possibility of fraud being undetected could be based on Zhao, Bedard, and Hoitash’s (2017) identification of audit fee constraints. These constraints result when the auditor experiences difficulty in leveraging knowledge acquired from the testing of controls in order to plan an audit which is effective and efficient in nature.
Adoption of SOX Provisions, Internal Control Assessment, and Accountability

When the U.S. Congress passed SOX in 2002, the focus was on the prevention of financial scams and abuses in publicly-traded corporations. However, many nonprofit organizations voluntarily adopted various provisions of SOX in recognition of its value. Business executives were prompted by SOX requirements to revisit their internal control system and if weaknesses were identified to find ways to eliminate them. In recognition of the value in SOX implementation, nonprofit organizations acknowledged the added costs of time spent by board and audit committee members contributed to the benefit of improved financial oversight (Nezhina & Brudney, 2012). Similar sentiments were expressed by Gupta et al. (2018) in referencing a 2009 study performed by the SEC’s Office of Economic Analysis, which acknowledged that despite the high cost of internal control implementation, the benefits gained exceeded costs.

Nezhina and Brudney (2012) researched the adoption of SOX provisions by nonprofit organizations. With results suggesting half of study participants indicating adoption, at least one in five nonprofits organizations surveyed indicated experiencing better financial control, reduced risk of accounting fraud, and enhanced board effectiveness. Over one-third of nonprofit organizations surveyed indicated increased external audit fees and almost 15% had to reallocate fees from program expenses to administrative expenses to cover the cost. Despite nonprofits indicating the reallocation of program expenses to pay external audit fees was worth the cost, the authors expressed concern that the additional expenses impact the nonprofit organizations’ ability to pursue their mission, which was not the aim of SOX.

McNally (2013) considered the need for entities to periodically reassess internal control systems over financial reporting for the identification of opportunities to improve their efficiency
and effectiveness. This need for reassessment is viewed by Maguire (2013) as a best practice for nonprofit organizations. Maguire (2013) suggested nonprofit organizations perform a self-assessment of their internal controls policies and procedures and encouraged the action regardless of size or life cycle stage. Upon completion of self-assessment, nonprofit organizations have evidence of their efficiency in backroom operations which can be provided to stakeholders and contributes to effective operations of both mission and capacity building.

Maguire (2013) encouraged assessment of current policies and procedures manuals used by nonprofit organizations in Horry and Georgetown Counties of South Carolina. The goal was to improve the cost effectiveness of internal and external audits performed in nonprofit organizational settings and to assist in their attainment of best practices based upon size using full-time employee equivalents (FTE). Using South Carolina Association of Nonprofit Organizations’ (SCANPO) Nonprofit Membership categories, nonprofit organizations were considered small with up to 2 FTE, medium with 3-15 FTE, large with 16-50 FTE, and extra-large with 51+ FTE. Table 1 below provides details on the number of suggested policies, internal control activities, and self-assessment tasks based upon size of the nonprofit organization.
Table 1

*Best Practices and Recommended Policies for Internal Controls (IC) by Size of Nonprofit.*

<table>
<thead>
<tr>
<th>Size</th>
<th>No. of Policies for Manuals</th>
<th>No. of IC Activities in Manuals</th>
<th>No. of Tasks in Self-Assessment of IC Effectiveness</th>
<th>No. of Tasks in Self-Assessment of IC when viewed as an entire Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>56</td>
<td>280</td>
<td>127</td>
<td>80</td>
</tr>
<tr>
<td>Medium</td>
<td>87</td>
<td>446</td>
<td>186</td>
<td>107</td>
</tr>
<tr>
<td>Large</td>
<td>109</td>
<td>480</td>
<td>219</td>
<td>130</td>
</tr>
<tr>
<td>Extra-Large</td>
<td>124</td>
<td>525</td>
<td>235</td>
<td>143</td>
</tr>
</tbody>
</table>


As nonprofit organizations experience growth, it is important as a best practice to understand how the growth impacts the number of policies, activities, and tasks involved in performing self-assessment of internal controls. For instance, in addressing asset policies, small nonprofit organizations are encouraged to have policies in accounting for assets and cash management. These policies are expanded to include capital expenditures, petty cash, and cash best practices for medium sized nonprofit organizations. Further expansion of policies to include asset disposal and asset disposal methods are encouraged for nonprofit organizations considered to be large or extra-large in size. The benefits gained in performing self-assessment of policies and procedures is reduction in cost of audits and reviews, along with the achievement of compliance in best practices for transparency, financial accountability, and board governance (Maguire, 2013).

Nonprofit managers and board members need to understand the risks in failing to meet accountability expectations of donors and governmental agencies (Petrovits et al., 2011). In their study, nonprofit organizations who experienced problems in internal controls were likely to receive 3.8 percent less public support and 2.1 percent less governmental support. These results suggested if nonprofit organizations have internal controls audits which result in the identification of weaknesses, direct reductions in financial support can be expected. Concerns
are raised by nonprofits in the performance of internal audits, as even if not required, the identification of a weakness could impact donor funding. Even with the potential for reductions in donative support, Gregory (2017) specified that internal control audits are not performed as often in nonprofit organizations unless they are recipients of large sums of federal funds.

**Internal control application and impact on operations.** Barra (2010) indicated empirical investigations into internal control activities, although limited, began in the late 1970s. Since then, when internal controls are properly placed in organizations, they can contribute to the deterrence of dishonesty, fraud, and lax management. In other words, when present, they remove the ability and temptation to steal or engage in subnormal practices (Gallagher & Radcliffe, 2002).

One of the most significant impacts on an organization and its processes is the tone management sets for the importance of internal controls. Management’s tone is part of the control environment component of COSO’s Internal Control – Integrated Framework. Management’s tone, coupled with increased penalties by SOX on fraud committed by management, directly impacts the quality of management and board governance (Barra, 2010; Schneider, 2018). Nonprofit management and board members need to have an understanding of the important role they play in implementing internal controls standards as their level of adherence and loyalty to following the standards impacts the efficiency and effectiveness of operations.

In addition to setting the tone at the top for internal control implementation, research by Barra (2010) asserted the importance of separation of duties, as it increases the cost and effort required by the employee to commit the fraud and when present contributes to a decrease in fraud occurrence. It is expected that the higher cost due to increased penalties on managerial
employees, imparted by the SOX Act of 2002, can be more effective in deterring fraud over other internal control activities. This implies that the fraud perpetrators may be more likely to resist committing the fraud if they are aware of the increased energy required for its commitment and the potential financial consequences of the action.

Implementation of effective internal controls provides assurance in efficiency and effectiveness of operations, reliability in financial reporting, and reliability in observations of governance. Connections between the performance of an entity and internal controls are based upon the five components of internal control identified in the COSO internal control framework. Syou-Ching, Hungchih, Henghsiu, and Wu (2017) expressed that each of the five components corresponds to a process in the entity’s value chain and that there is benefit in identifying the contributions from the internal control system to the efficiency and effectiveness of operations.

Syou-Ching et al. (2017) studied internal control weaknesses on firm performance, with a specific focus on the COSO internal control framework components of control environment and control activity. Results from their study identified 17% of weaknesses were identified with management, accounting personnel resources, audit committee and ethical issues, 6% IT controls, 25% accounting documentation, policies, and/or procedures, and 5% control designs. Internal control weaknesses related to financial reporting were evenly divided among 1) journal entries, account reconciliations, non-routine transactions, 2) end of period adjustments, and 3) restatement of financial statements and restatements of Section 404 disclosures. The authors’ study concluded that if internal control weaknesses are not improved upon, there can be negative impacts on the financial performance in both the current and subsequent year.

Aguolu (2018) identified five challenges faced by organizations implementing internal controls over financial reporting. These challenges include increased costs associated with
compliance, ability to segregate duties given limited resources, management focus on targets and goals rather than internal controls, lack of resources with adequate skills in accounting and financial reporting, and limited technical support control over information systems. Legitimizing the concerns over budgetary constraints, Dorminey, Fleming, Kranacher, and Riley (2012a) suggested that organizations select the preventive controls over fraud which will deliver the greatest benefit. Outside of cost considerations for the implementation of internal controls, both McDonald (1999) and Aguolu (2018) voiced concern over the monitoring and inspection of internal control systems by individuals who were ill-equipped to handle the task at hand. They insinuated that greater emphasis on the expertise of those involved in such tasks should be considered so their specializations align with assigned responsibilities, thus contributing to internal coherence.

**Internal controls and the audit environment.** Webb and Waymire (2016) recognized the importance of monitoring by stakeholders and resource providers to ensure proper stewardship of social objectives of nonprofit organizations. The authors acknowledged the credibility gained by nonprofit organizations in the completion of external audits and the opportunities presented to stakeholders in the making of decisions based upon those audited financial statements. Despite the acknowledgment of heightened organizational credibility gained through external audits, there is a lack of research on the reporting and auditing processes in nonprofit organizations and how the inclusion of consultants, member groups or committees are used in the organization’s system of governance (Gregory, 2017). Reasons for exclusion of others could be due to funding availability for such activities or perceptions by nonprofit to restrict governance to a limited number of individuals within the nonprofit organization.
For those nonprofit organizations choosing to incorporate either internal or external audits, their inclusions may expose their level of risk for the occurrence of fraudulent transactions. In the 2018 Global Study on Occupational Fraud and Abuse conducted by the ACFE (2018), 15% of occupational fraud was exposed through internal audits and 4% through external audit. With audits contributing to the exposure of fraud, audit requirements by nonprofit organizations are usually dependent upon their reliance of external resources such as federal funding. If receiving federal funding, monitoring costs such as auditing fees are likely to be higher, whereas those organizations whose revenues are internally generated through investment income, lower cost of monitoring is expected. For those nonprofit organizations not required to have an external audit performed, consideration should be given to obtaining one in order to reduce risks associated with regulation, compliance, transparency, and accountability (D’Aquila & Houmes, 2014; Petrovits et al., 2011; Webb & Maymire, 2016).

Where securitization of funding is dependent upon having effective internal controls, it is likely that the nonprofit organization will have an audit committee that is active in monitoring the entity. Publicly traded companies are required to have audit committees and members of the audit committee are responsible for appointment, oversight, and compensation of the external auditors. Both the Panel on the Nonprofit Sector and the AICPA have advised nonprofit organizations to create audit committees to help ensure the accountability and compliance of the entity (D’Aquila & Houmes, 2014; Pridgen & Wang, 2012; Whittington & Pany, 2018).

Pridgen and Wang (2012) concluded that the audit committee impacted the quality of internal controls over the administration of federal programs, but do not impact the quality of internal controls over financial reporting. This could suggest that there is less involvement by
audit committees in financial reporting and that more of the responsibility for financial reporting is passed to the external auditor.

External auditors are required to communicate with the audit committee on issues such as internal control weaknesses, proposed adjustments to the audit, accounting principles disagreements with management, assessment on the quality of accounting principles used by management, and signs indicating the presence of management fraud and other illegal acts by corporate officers. Although these communications are important, a lack of research exists regarding the effective use of audit committees by nonprofit organizations for internal control improvements which may be due to only 20% of nonprofit organizations having separate audit committees (Daugherty & Neely, 2012; Pridgen & Wang, 2012; Whittington & Pany, 2018).

For those smaller nonprofit organizations, the only audits which may be performed are those received voluntarily by external auditors (Jackson, 2006). Petrovits et al. (2011) expressed concerns over the costs associated with audits of internal controls and cited if external audits are cost prohibitive, nonprofit organizations should seek in-kind support to assist in the strengthening of internal control policies and procedures. This suggested manner for assistance could be challenging as it requires the ability to partner with another organization who might have needs that you can supply in return for the needs you are attempting to fulfill. Another option for those organizations seeking support to strengthen internal controls, the creation of an internal auditor may be warranted. For those nonprofit organizations who move the audit function internally, the following oversight functions by the audit committee to the internal auditor include:

- Evaluate current and projected internal audit coverage of risk management and governance
• Ensure the internal audit’s risk-based plan is flexible and open to change
• Determine how technology is used by internal auditors
• Assess internal audit strategic vision and plan
• Define value provided by internal audit
• Strengthen communication between audit committee and internal auditor
• Ensure activities of internal auditor follow The International Standards for the Professional Practice of Internal Auditing
• Understand the internal audit’s role in addressing talent needs of the organization
• Inquire about training of internal auditor
• Determine if periodic assessment of skills is performed by internal auditor to identify gaps and how they are being addressed

(Internal Audit Oversight, 2013).

Petrovits et al. (2011) addressed concerns over the lack of fiduciary significance in the duties of nonprofit managers and the weak regulatory oversight in the nonprofit sector. The authors suggested the gaining of internal support through the inclusion of an internal auditor. It is likely that the lack of emphasis on these areas in the past has contributed to the increase in financial scandals, which resulted in lawmakers calling on nonprofit organizations to improve their internal control practices.

**Expectations and Restrictions**

**Auditing Standards on Internal Controls**

Standards which auditors need to follow include Auditing Standard No. 5 - An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, which was created by the Public Accounting Oversight Board. Auditing Standard
(AS) No. 5 went into effect for fiscal years ending on or after November 15, 2007 and superseded AS No. 2. (Public Company Accounting Oversight Board, 2018). AS No. 5 provides requirements and directions to auditors engaged in auditing assertions made by management on the effectiveness of internal controls over financial reporting. Effective internal controls over financial reporting indicates reasonable assurance over the reliability of financial reporting and preparation of financial statements to be used for external purposes. If a material weakness is identified during an audit, then internal controls are not effective. It is the auditor’s responsibility to plan and perform the audit in a manner where evidence is obtained to provide reasonable assurance as to the existence of a material weakness.

Auditors also must follow AICPA Statement on Auditing Standard (SAS) No. 115 – Communication of Internal Control Related Matters Identified in an Audit, which went into effect for fiscal years ending on or after December 15, 2009 and superseded SAS No. 112. SAS No. 115 is meant to provide auditors with guidance on communicating matters regarding an entity’s internal control over financial reporting and is meant to maintain consistency with definitions, internal control deficiencies, and guidance in deficiency evaluation as indicated in AS No. 5. Significant differences between SAS No. 112 and the superseded SAS No. 115 is the definitions of material weaknesses and significant deficiencies are now in alignment with AS No. 5 (AU Section 325, n.d.).

Since the implementation of AS No. 5, disclosures of audited material misstatements decreased from 13% in 2005 to approximately 3% in 2011. Although the downward trend may be viewed as encouraging, the decrease in rate could be due to a lower number of material weakness incidents or lower identification rate and/or existing material weakness disclosures (Schroeder & Shepardson, 2016). Either way, it is unfortunate that many times the public is not
aware of the possibility or existence of a material misstatement until the announcement is made necessitating the need to correct the misstatement (Rice, Weber, & Wu, 2015).

Both AS No. 5 and SAS No. 115 require auditors to be knowledgeable in distinguishing between a material weakness and significant deficiency. This distinction made by auditors is supported by Rice, Weber, and Wu (2015) who cautioned that control reporting requires both a high degree of judgment and that the internal control processes are difficult to assess. Improper classification can impact the audit opinion. Entities experiencing material weaknesses or significant deficiencies in internal controls system should determine where the changes need to occur and to seek remedies for strengthening the system moving forward.

**Nonprofit Internal Controls**

D’Aquila and Houmes (2014) stated that the objective of internal controls is to assist entities in the achievement of their mission and the best outcome for the best value of taxpayers and donors. Dzomira (2014) argued how the internal control arm of a nonprofit organization is crucial due to heavy reliance on donor funds, grants, and fundraising. Much of the continued flow of funds received is dependent upon how the public views the nonprofits’ ability to use the funds in the manner by which they were intended to be used.

In performing research on best practices for nonprofit organizations, Maguire (2013) consulted South Carolina Association of Nonprofit Organizations (SCANPO), Blue Avocado’s Five Internal Controls for the Very Small Nonprofit, and the National Council of Nonprofits and the Panel on the Nonprofit Sector’s Principles of Good Governance and Ethical Practice. SCANPO’s best practices were divided into the following nine areas:

- mission and strategic direction,
- governance,
• legal and ethical accountability,
• financial management and stewardship,
• operations and evaluation,
• human resources,
• fundraising,
• marketing and communications, and
• information management
  (Maguire, 2013).

Blue Avocado’s Five Internal Controls for the Very Small Nonprofit best practice principles included:

• setting the control environment,
• clearly define responsibilities,
• implementation of physical controls,
• have two individuals involved with cash, and
• separation of bookkeeping and bank reconciling
  (Maguire, 2013).

The National Council of Nonprofits’ and the Panel on the Nonprofit Sector’s Principles of Good Governance and Ethical Practice best practice principles included:

• legal compliance and public disclosure,
• effective governance,
• strong financial oversight, and
• responsible fundraising
  (Maguire, 2013).
Combining the best practices from each of these three sources, Maguire (2013) suggested the following recommendations when assessing internal controls in nonprofit organizations:

- Provide new employees with Policies and Procedures Manual to read, understand, and sign documentation which is evidence of such actions
- Invest in not-for-profit off-the-shelf accounting software
- Ensure monthly bank statement is received by someone other than the individual preparing the reconciliation
- Provide view only access of bank account information to members on the Board of Directors for monitoring of accounts
- Utilize financial institutions use of a lockbox service
- Adopt and transition to the Unified Chart of Accounts
- Adhere to financial statement certification as required by public companies in their compliance with SOX

(Maguire, 2013).

Maguire (2013) recommended small nonprofits to operate in a SOX-like environment which can protect the environment from legal liability and create a foundation upon which the nonprofit organization can operate. For small nonprofit organizations handling cash contributions, the author strongly encouraged the creation of a cash policy, securitization or lock up of cash, daily deposits of cash, and separation of individuals performing cash handling and cash accounting transactions.

**Fraud Occurrence in Nonprofit Settings**

In addressing internal controls as they relate to fraud in nonprofit organizations, Dzomira (2014) cited the importance of guarding against improper or illegal behavior and tasked
administrators with the responsibility to be attentive to fraudulent activity. Particular to nonprofit organizations is fundraising activities which many times are entrusted to vendors and volunteers outside of the organization, who are not subject to the internal controls adhered to by employees (Jackson, 2006). For those who are nonprofit employees, skimming fraud as the most likely fraud perpetrated in a nonprofit setting. Skimming fraud occurs when the fraud perpetrator embezzles incoming organizational funds prior to the funds being deposited into the organization’s bank account (Jackson, 2008).

Given the same attention as skimming fraud, the size and complexity of the nonprofit organization should be considered in the creation of internal controls as the usual overlooking and ignoring of these policies and procedures can directly impact the long-term sustainability of the organization. The types of fraud perpetrated against and by nonprofit organizations can be internally through revenue and cash receipts, purchasing and cash disbursements, payroll padding and employee expense reporting, or externally through vendor supplier and kickbacks, skimming and conflicts of interest (Dzomira, 2014). Suggested areas for strong internal control system as identified by Dzomira (2014) include:

- Competency of nonprofit staff, volunteers, and members
- Well documented and clear policies
- Responsibility assignments should be thorough
- Proper outlining of authorization processes
- Close supervision of employees and volunteers
- Segregation of duties: board governance from operations, operations from accounting, and custody of assets from accounting
- Consideration of opinions and findings of undertaken internal and external audits
• Securitization of records and documents
• Monitoring or electronic records

(Dzomira, 2014).

As representative of strong internal controls, nonprofit organizations need to assess how their inclusion impacts the effectiveness and efficiency of the internal controls over financial reporting. The goal for internal controls should provide assurance that less than a reasonable possibility for material misstatement exists in financial reports. Understandably, the more controls in place the greater likelihood of achieving this goal, however the more controls the greater the costs involved. Implementation of more controls requires the involvement of more employees to conduct controls and more time to produce financial statements. The balance of effectiveness (reliability) with efficiency (relevancy) by managers must be sought within the organizational environment (Dickins & Fay, 2017).

**Internal Controls in Nonprofit Religions Organizations**

As any other nonprofit organization, religious organizations should take active measures for strengthening internal controls. Vulnerability to fraud and misappropriation of assets is higher in religious organizations and churches due to lack of monitoring, weak internal controls, lack of governance, management override, lack of employee knowledge on generally accepted accounting principles, environment of trust, and commitment to mission. Despite the continued growth of fraud in religious organizations, it is very seldom reported to the public (Enofe & Amaria, 2011; Passing the Plate: A Survey of Internal Controls in Local Churches, 2016).

Enofe and Amaria (2011) questioned who carries responsibility and accountability for churches spiritual and financial management. In their study of 75 churches in Jacksonville, the authors identified the common thread of weak or non-existent internal control systems. Internal
control systems were weak due to control decisions and financial management being left to the trustees and leaders of the church who are selected by their leader, all of whom were expected to be men of God. This weakness extends into the governance of the church, as board of directors and committees who provide supervision on church financial stewardship is non-existent (Enofe & Amaria, 2011; Siino, 2004). Lack of supervision, coupled with the ability for management to override the internal controls and staff who are lacking knowledge of generally accepted accounting principles, promotes opportunities for fraudulent activity to occur.

Results from Enofe and Amaria (2011) indicated that 71% of participants agreed that there have been many cases of religious organizational leaders committing financial fraud, however 88% stated they have not had any incidents of fraud in their church. For approval of both disbursements and purchase requisitions, 55% of participants stated this was done by the church pastor, who 75% indicated was also responsible for the establishment of policies and procedures. These results are not surprising given that 89% of participants stated their church does not have or use a committee to provide financial oversight, which could be related to 73% of participants indicating lack of training for accounting personnel to understand the accounting process within the church.

Although there is recognition by study participants in knowing of financial fraud occurring within religious organizations, there appears to be lack of action on their part to separate duties, create oversight through board governance, and to provide opportunities for those personnel completing accounting tasks to be competent in their work. Siino (2004) argued taking steps necessary to improve internal controls and to provide congregations with financial reports, may encourage members to donate more to the church knowing that the funds are being
properly spent and members are able to view where contributions are needed to meet the organization’s objectives.

**Internal Controls in Nonprofit Healthcare Organizations**

Nonprofits in the healthcare sector have also been victims of fraud due to weak internal control systems, with particular emphasis in the literature focused on Medicare and Medicaid reimbursements. Pridgen and Wang (2012) indicated nonprofit organizations must comply with the Single Audit Act when recipients of federal funding. This compliance requires the maintenance of internal controls for their alignment with the requirements of the federal program. Nonprofit healthcare organizations who experienced the federal removal of Medicaid funding due to fraud embezzlement include Preferred Family Healthcare in Arkansas and the federal denial of $2 million in Medicare reimbursement requests by West Alabama Health Services due to noncompliance and allegations of fraud and financial mismanagement (Massey, 2018; Savage, Dunkin, & Ford, 2004).

**Foundations of Fraud**

Nonprofit organizations need to gain an understanding of their susceptibility to fraud and the measures which can be placed to minimize its occurrence. Fraud is defined as the intentional perversion of truth to induce others to part with valuables or to surrender a legal right (Cote, 2007). The largest and most prevalent type of fraud perpetrated against organizations is occupational fraud and over the past 20 years, The Association of Certified Fraud Examiners (ACFE) has classified it into three distinct categories: corruption, asset misappropriation, and financial statement fraud. Table 2 below indicates the inclusion for each category classification. In the 2018 Global Study on Occupational Fraud and Abuse, the ACFE concluded when
occupational fraud occurs in an organization, 89% is of cases involve asset misappropriation, 38% of cases involve corruption, and 10% involve financial statement fraud (ACFE, 2018).

Table 2

ACFE Occupational Fraud and Abuse Classification System (Summary of Fraud Tree)

<table>
<thead>
<tr>
<th>Corruption</th>
<th>Asset Misappropriation</th>
<th>Financial Statement Fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflicts of interest</td>
<td>Theft of Cash on Hand</td>
<td>Net Worth/Net Income Overstatements</td>
</tr>
<tr>
<td>Bribery</td>
<td>Theft of Cash Receipts</td>
<td>Net Worth/Net Income Understatements</td>
</tr>
<tr>
<td>Illegal Gratuities</td>
<td>Fraudulent Disbursements</td>
<td></td>
</tr>
<tr>
<td>Economic Extortion</td>
<td>Inventory and All Other Assets</td>
<td></td>
</tr>
</tbody>
</table>

Note. Adapted from “Report to the Nations on Occupational Fraud and Abuse,” 2018, Association of Certified Fraud Examiners, p. 11.

With continued scandals of fraud occurring in the nonprofit sector, pressures of accountability have been felt from multiple parties including contributors, legislators, regulators, bond underwriters, and liability insurers. These pressures of accountability are being felt within the nonprofit organization, as their financial well-being is heavily dependent upon external support through fundraising, donations, and gift giving, along with maintenance of public trust which is crucial to their existence. Organizational existence is likely to be compromised by fraud in conditions of weak internal control systems, poor security over company property, or unclear policies on acceptable company behavior. Couple funding dependency and maintaining public trust with the fact that most nonprofit organizations have few employees with limited training, and the ability to provide reasonable assurance of internal controls becomes a struggle (Huang, Lin, Chiu, & Yen, 2017; Iyer & Watkins, 2008; Yang & Brennan, 2016; Young, 2014).

Charity misconduct typically focuses on occupational fraud which falls into two categories: fraud against the organization and fraud conducted by the organization (McDonnell & Rutherford, 2018). Misconduct in nonprofit organizations impacts not only the organization,
but the beneficiaries and its reputation. Although recognizing the financial loss which results from fraudulent crimes, Sutherland (1940) expressed the true loss lies in the damage created to social relations. In addition to the detrimental impact on social relations, Huang et al. (2017) extends the impact for potential legal liability to external auditors for failing to detect fraud. Once this damage occurs, it may be difficult for the nonprofit organization to maintain its sustainability and for external auditors to maintain their professional reputations.

**Fraud Theory**

Foundations of fraud theory began with Sutherland (1940) and his approach to develop theories of criminal behavior. Sutherland (1940) argued that it is the violation of delegated and implied trust in business and the professions which permits crimes such as the misrepresentation of asset values to occur. Both Sutherland (1940) and Cressey (1973) asserted that a trust violation is the most common underlying characteristic of crimes committed in organizations.

It was from Sutherland’s foundation that the work of Cressey (1973), Sutherland’s mentee, evolved into the fraud triangle. Although the foundation of the fraud triangle was set by Cressey, the coining of the term fraud triangle is credited to Albrecht. The fraud triangle is used as a basis which identified three traits common in fraudulent transactions: opportunity, pressure, and rationalization. When used, the fraud triangle can aid the anti-fraud community in understanding previous experiences of fraud, thus providing a basis for the development and categorization of auditing standards from a global setting (Dorminey et al., 2012a; Mui & Mailley, 2015; Roden, Cox, & Kim, 2016; Schuchter & Levi, 2016).

In addition to the three areas comprising the fraud triangle, Dorminey et al. (2012b) charted a triangle of fraud action which identified the actions performed by individual in their perpetration of fraud. These actions consisted of the act, concealment, and conversion. The act
is the execution or methodology of fraud, the concealment is the hiding of the fraudulent act, and the conversion is the processing of illegal gains into something of use to the fraud perpetrator.

**Fraud Triangle Theory**

The foundation for fraud theory began when Cressey identified three common traits in fraudulent actions: 1) a trust violator can commit the fraud, 2) an existence of a perceived need or pressure providing the motivation to commit the fraud, and 3) an ability to rationalize the justification of the fraudulent action. In understanding the three components to the fraud triangle, the perceived opportunity is the perception that a control weakness exists and that the likelihood of being caught is distant, thus requiring the ability to commit the act without detection. The perceived pressure component which serves as a motivator for the fraud to occur results from a non-sharable financial problem which is viewed as such by the fraud perpetrator due to the social stigma which may be associated with ownership of the problem (Dorminey et al., 2012b). Cressey identified non-sharable issues as those in violation of ascribed obligations, resulting from personal failure, business reversals, physical isolation, status gaining, employer-employee relations, and the importance of solving problems secretly. Finally, the component of rationalization is described by Cressey as essential and necessary to the criminal violation of trust. Rationalization can be determined by management characteristics and ethics (Huang et al., 2017) and to some degree are connected to the social and economic position of the trust violator (Cressey, 1973). Dorminey et al. (2012b) asserted that the fraud perpetrator actively seeks to justify the fraud before it occurs and seeks to reconcile what is right versus what I am about to do.

The fraud triangle theory is used as the basis in accounting curricula for discussions focused on white collar crime (Dorminey et al., 2012b). It is also viewed as the dominant theory
used by professional associations in fraud-related training and guidance (Boyle, DeZoort, & Hermanson, 2015). Despite the prevalence of the fraud triangle being used in the academia and professional associations, Lokanan (2015) expressed concerns that while the components of the fraud triangle focus heavily on why a fraud perpetrator chooses to commit fraud, it fails to identify other issues and process which may be related to the fraud. Citing that the ACFE’s endorsement of the fraud triangle, Lokanan (2015) took issue in their focus on viewing fraud as an individualized problem rather than a socio-political concern. In referencing sociology and criminology literature, the author suggested that views on white-collar crimes should include wider societal influences.

There have been many expansions in fraud theory, many of which extend from the fraud triangle. These expansions include the fraud diamond theory, fraud scale theory, new fraud triangle, the meta-model of fraud, the crime triangle, and the disposition-based fraud theory (Dorminey et al., 2012b; Kassem & Higson, 2012; Mui & Mailley, 2015; Raval, 2018; Wolfe & Hermanson, 2004). Each of these models is discussed below.

**Fraud Diamond Theory**

Wolfe and Hermanson (2004) created the Fraud Diamond which is an extension of the fraud triangle and includes the element of capability. Schuchter and Levi (2016) argued that individuals motivated by crime are not just motivated by opportunity but understand the existing opportunity to commit the fraud and that the perceptions and skills required to perpetrate the fraud must be distinguished from the opportunity. Wolfe and Hermanson (2004) specified the enhancement of fraud detection and prevention measures with the fourth element of capability, as it considers the major role that personal traits and abilities play in the occurrence of fraud along with the presence of incentive (pressure), opportunity, and rationalization. Evidence
examined by Wolfe and Hermanson suggested that many fraudulent acts would not have occurred without the fraud perpetrator embodying the right capabilities (Dorminey et al., 2012b).

**Fraud Scale Theory**

With the increased complexity and creativity of white-collar schemes since Sutherland observations in 1940, models and theories have been extended to explain why individuals commit fraud and financial crimes past the boundaries of the fraud triangle. The fraud scale is one of those theory extensions. Created in the early 1980s by Albrecht and his colleagues, it was hypothesized that fraud was difficult to predict and that perpetrators of occupational fraud were challenging to profile. The fraud scale, as shown in Figure 2 below, relies on the fraud triangle components of pressure and opportunity, but replaces rationalization with personal integrity, thus recognizing the degree of fraud risk as components of pressure, opportunity, and integrity (Dorminey et al., 2012b). When the scale is in balance then fraud risk is impartial or unbiased, however as the scale becomes imbalanced through increases in pressure and opportunity, conditions are ripe for fraud risk to increase.
Connecting Fraud Diamond, Fraud Scale and MICE Theories: New Fraud Triangle Model

Introduced by Kassem and Higson (2012), the new fraud triangle model adds components of capability from the fraud diamond and personal integrity from the fraud scale to motivation and opportunity. Viewed as an integrated model, as shown in Figure 3 below, the New Fraud Triangle Model encompasses the fraud perpetrator’s capability from the fraud diamond theory created by Wolfe and Hermanson (2004) and the personal integrity component, which is a substitute for rationalization in the fraud scale model by Albrecht and his colleagues (Dorminey et al., 2012b). Finally, the model includes components of the MICE model suggested by Kranacher et al. in 2010 (as cited in Dorminey et al., 2012b) which expanded motivation of fraud perpetrators to include money, ideology, coercion, and ego. Kassem and Higson (2012) argued that auditors should consider all fraud models to gain understanding as to why fraud is perpetrated. Despite the support and use of the fraud triangle by audit regulators, critics have expressed concerns over being used alone for preventing, deterring, and detecting fraud. Suggesting the connections presented in these multiple fraud models to Cressey’s fraud triangle, Kassem and Higson (2012) viewed fraud from a combined perspective which encompassed components of motivation, fraud perpetrator capabilities, opportunity, and personal integrity.
The Meta-Model of Fraud

Dorminey, Fleming, Kranacher, and Riley (2012a) introduced the meta-model of fraud. This model integrates components of opportunity, rationalization, and financial pressure from the fraud triangle to the actions necessary for committing the fraud consisting of concealment, conversion, and the act which is part of the triangle of fraud action. This expanded model takes into consideration the many factors which contribute to having a more comprehensive view on financial fraud. In moving from the elements in the fraud triangle (focus on perpetrator) to the elements in the triangle of fraud action (focus on the crime), the fraud perpetrator must consider their personal situation in relation to the deterrence, prevention, and deduction conditions to determine if the fraud can be executed and concealed in a successful manner. Professionals seeking to implement antifraud measures may find the meta-model of fraud to be both useful in
recognizing factors increasing the probability of fraud occurrence and evaluative of weaknesses in antifraud measures.

**Counterpart to The Fraud Triangle: The Crime Triangle**

Mui and Mailley (2015) proposed a counterpart to the fraud triangle in the application of the crime triangle of routine activity theory (i.e. the crime triangle). The crime triangle is a complement to the fraud triangle as they both center on the fraud perpetrator and examine the environment and relevant parties’ impact on whether they are preventing or allowing the fraud to occur. Determining the fraud perpetrator’s motivation or rationalization for committing fraud is not always possible, which creates challenges for organizations designing strategies for fraud risk management. With the missing motivation or rationalization component in the fraud triangle, the complementary crime triangle can provide forensic accountants and researchers with the ability to identify gaps in the current strategies used for fraud risk management, along with a place to start in the creation and design of strategies for fraud risk management.

In questioning the usefulness of the fraud triangle, Lokanan (2015) indicated that the model does provide some understanding as to why corporate executives, accountants, lawyers and information technology experts relate to fraud. However, it fails to draw attention to other approaches to decision making and fraud issues outside of an individualized perspective. Suggestions have been made by Dorminey et al. (2012a) as to antifraud measures for the prevention, deterrence, and perception of detection which may be useful in identifying fraud perpetrators.

**Disposition-Based Fraud Model**

Raval (2018) introduced the disposition-based fraud model “to explain the role of human desires, intentions, and actions in indulgence of, or resistance to, the act of financial fraud” (p.
The author argued that a fraud model which focuses on the human side of the act would include the behavior of the actors and the process involved; the consideration of interaction between the human and the circumstances surrounding the fraud. Inclusion of motivations for both actions and desire, the disposition-based fraud model considers fraud an act of indulgence in which the fraud is committed through the act of indulgence. The discipline-based fraud model focuses on how the fraud perpetrator deals with external pressures in their judgment shift, which includes accounting for both perpetrators and non-perpetrators of fraud.

**Fraudulent Environments**

Murphy and Free (2016) cited research performed by CFO.com which surveyed U.S. employees and bosses and found 43 percent described their organizational leadership as coercive, while 41 percent of bosses and only 14 percent of employees believed rewards for performance were based on values rather than financial results. Clearly, these perceptions exemplify differences among management and employees as to the level of ethical or value-based climate present within the organization. These differences in climate perceptions can create an environment susceptible to fraudulent practices.

Young (2014) highlighted the difficulties experienced by nonprofit organizations in finding employees who are qualified for the lower level positions within the organization which can contribute to the rationalization component of fraud risk. Additionally, the climate of trust without intermittent verification of employees can contribute to the opportunity component of fraud risk. Suggested verification of employees through background, reference, and credit checks should be included in hiring practices, particularly for those in positions of fiscal responsibility.
Features of Fraud Perpetrators

The Report to the Nations on Occupational Fraud and Abuse concluded that of the fraud committed in the United States, 45.3% is committed by employees, 31.1% is committed by managers, and 19.9% is committed by owners/executives. The fraud perpetrator is likely to have 6-10 years of tenure with the entity and the top five areas where the fraud was committed include the accounting department, operations, sales, executive/upper management, and customer service. Fraud perpetrators in the United States are 55.7% likely to be male, most likely to commit asset misappropriation over corruption or financial statement fraud, and 55% were between age 31-45 with median losses increasing with age. Almost half of perpetrators had a university degree and 13.2% had postgraduate degrees, while over 88% of perpetrators had never been charged or convicted of a fraud-related offense and only 5.2% had prior convictions (ACFE, 2016).

In addition to the specific features regarding gender, age, education level and criminal history, Wolfe and Hermanson (2004) identified six essential traits for fraud perpetrators. These traits include: 1) having a position or function within the organization provides the ability to create or exploit opportunities for fraud to occur, 2) ability to identify internal control weaknesses and use their position, function, or authorized access to their advantage, 3) characteristics of strong ego and confidence contribute to the mentality that they will not be detected and if caught they could talk themselves out of the situation, 4) ability to coerce others in the committing and concealing of the fraud, 5) capability to effectively and consistently lie, and 6) ability to successfully handle stress. The authors expressed the importance of assessing the capabilities of top management executives and key personnel through gaining knowledge of their individual traits and abilities, particularly for those responsible for high risk areas.
Peltier-Rivest and Lanoue (2012) studied occupational fraud perpetrators and their impact on fraud losses within the organization. Their analysis of fraud perpetrators included: the position held by the perpetrator, gender, level of education, length of time with victim organization, and presence of collusion. Conclusions from the study indicated that personal attributes of gender and education level are not players to explaining fraud loss, but rather the level of authority and the presence of collusion increased fraud loss by providing an enhanced opportunity to bypass internal controls and to commit the fraud.

Further, Ramamoorti and Epstein (2016) cited work performed by Professor Delroy Paulhus at the University of British Columbia who classified deviant personalities into narcissists, Machiavellians, and psychopaths. Interestingly, while less than 2% of the male population has some form of these deviant personalities, they are likely to appear in 10-20% of individuals working in corporate America. The researchers exerted that individuals exhibiting these characteristics collapses the fraud triangle into one area, in which if the opportunity presents itself there is likely to be a higher expectation for fraud to occur.

**Exposure and Deterrence of Occupational Fraud**

The Report to the Nations on Occupational Fraud and Abuse identified the top five initial detectors of occupation fraud as tips (39.1%), internal audit (16.5%), management review (13.4%), by accident (5.6%), and account reconciliation (5.5%) (ACFE, 2016). Albrecht, Albrecht, and Albrecht (2008) and McDonnell and Rutherford (2018) asserted that the success of fraud detection is dependent upon the elimination of factors which contribute to fraud and assist auditors in their effectiveness in detecting fraud. In order to detect fraud, measures in place are likely to be based upon the organization’s size. For instance, those organizations considered as small, with less than 100 employees, were more likely to detect fraud through management
review, account reconciliation, by accident, external audit, document examination, notification by law enforcement, surveillance/monitoring, confession, and IT controls. Whereas those organizations with greater than 100 employees were likely to detect fraud through tips and internal audits (ACFE, 2016).

Referencing a 2008 study performed by the ACFE, Lord (2010) stated almost 50% of occupational fraud was exposed by tips and of those tips 60% were from employees. A decade later, the same study by ACFE reported 40% of occupational fraud was exposed by tips and of those tips 50% were from employees (ACFE, 2018). This implies over the last decade there has been a decrease in the exposure of occupational fraud through tips, however employees are still the predominate party providing the tips.

Anti-fraud measures are costly and can be particularly challenging to implement by small organizations which have limited funds. For those organizations seeking the most cost-effective means of dealing with fraud, Albrecht et al. (2008) suggested greater emphasis on preventive rather than detective fraud measures. Preventive measures for consideration in nonprofit organizations included employee background checks, ethical tone at the top, encouragement of employees to report alleged fraud, strong, independent, and competent board of directors, employee fraud hotline, employee support programs, segregation of duties, and system of checks and balances (Daugherty & Neely, 2012; Gallagher & Radcliffe, 2002; Jennings, 2015). Despite concerns over the cost effectiveness and preventive measurement options in addressing fraud, McMahon, Pence, Bressler, & Bressler (2016) stated the need for their inclusion throughout all levels of the organization from basic security to the creation of fraud prevention attitudes.

With stretched budgets of the IRS and governmental agencies, nonprofit managers, board members, and donors are burden with ensuring that nonprofit organizations are operating
ethically with good internal controls in place (Jennings, 2015). Some of those measures and controls for consideration, as identified in The Report to the Nations on Occupations Fraud and Abuse (ACFE, 2016) include:

- Anonymous reporting mechanism or fraud hotline
- Internal audit department
- Surprise audit opportunities
- External audits of an organization’s internal controls over financial reporting
- Frequent management review of internal controls, processes, accounts, or transactions
- Mandatory vacations, rotations of job duties, whistleblower rewards
- Fraud awareness/ethics training for employees, managers, and executives
- Formal anti-fraud or fraud prevention policy and code of conduct
- Formation of independent audit committee
- Certification by management of financial statements and support programs for employees (Albrecht, Holland, Skousen, & Skousen, 2018; Azam, 2018).

In addition to the specific measures listed above, research performed by Suh, Shim, and Button (2018) on occupational fraud indicated the perception of increased investment in anti-occupational fraud measures significantly enhanced the ethical corporate culture and effectiveness of monitoring control. These results suggest that simply developing an ethical culture is likely to have greater impact in the prevention of occupational fraud than the monitoring of controls. Furthermore, the research results should signify to CEOs and directors the importance of cultural interaction in the reduction of employee’s malpractice in organizations.
In addressing best practices for nonprofit organizations in safeguarding assets, such as cash, Maguire (2013) recommended no one individual should be held responsible for fund management. Specifically, small nonprofit organizations should have physical controls over their assets, checks should be locked away to prevent unauthorized access, and cash should be deposited daily. If proper segregation of duties is not permissible in a small environment, a board member should provide reconciliation duties for unopened bank statements and all transactions involving cash receipts and payments should follow the nonprofit organization’s cash management policy.

**Susceptibility of Fraud in Nonprofit Settings**

Nonprofit organizations are uniquely susceptible to experiencing fraud due to their differing organizational structures and resource availability. Specifically, small nonprofit organizations are not likely to have the fraud detection measures like their larger counterparts and are likely to experience almost double the median loss due to fraud. With dependence upon volunteers who may be unqualified or untrained, nonprofit organizations are likely to have weak internal control systems (ACFE, 2018; Kummer et al., 2015; McNeal & Michelman, 2006; Tsay & Turpen, 2011).

These weaknesses contribute to opportunities for fraud to be experienced by nonprofit organizations. The ACFE (2018) indicated nonprofit organizations suffering occupational fraud were likely to have a median loss of $75,000, which for those small in size could be devastating. Smaller organizations with less than 100 employees, either nonprofit or for-profit categories, represented the highest number of occupation fraud cases and experienced the highest median loss of $200,000 in comparison to all other size categories. Forty-two percent of occupational fraud committed in small organizations were due to lack of internal controls.
Consideration should be given by nonprofits regarding their susceptibility for fraud occurrence. Becoming familiarized with the undercurrents of fraud and use of fraud theories can assist nonprofit organizations in understanding the actions of fraud perpetrators. With many nonprofit organizations exhibiting a lack of proper governance and a trusting environment, they are likely to have increased vulnerability and heightened exposure to fraud. For those nonprofit organizations experiencing fraud, sustainability is jeopardized as over 25% of the organizations did not survive three years after fraud was reported to the public (Archambeault & Webber, 2018; Archambeault et al., 2015; Greenlee et al., 2007; Kummer et al., 2015).

**Foundation of Nonprofit Governance**

Nonprofit governance is viewed as the set of safeguards used by management in order to accomplish obligations and responsibilities to minimize the opportunity for the mismanagement of assets (Harris et al., 2015). However, variance exists in the definition of governance as Radbourne (2003) recognized its meaning as dependent upon the characteristics and the type of underlying organization. For instance, the Committee of Sponsoring Organizations of the Treadway Commission (2014) included providing oversight and authoritative direction or control in defining governance. Further, the National Council of Nonprofits (2018) considered governance in nonprofit organizations as consisting of board roles and responsibilities as fiduciary in nature with directing the organization toward sustainability with the adoption of sound, legal, and ethical policies of governance and financial management in order to provide resources necessary to advance the mission. Andersson and Edenfield (2015) and Radbourne (2003) view governance in two spheres: 1) how the organization relates to those in the external environment through reporting, performance, mission, and leadership, and 2) the internal performance of the board via authority and control. Added distinction between the two
components of nonprofit governance: board and governance were identified by Andersson and Edenfield (2015). The authors stated the board is a structure whereas governance is a function and considers governance to be an organizational and political process extending to multiple layers of stakeholders both internal and external of the boardroom. Those identified stakeholders are likely to consider governance to be effective when it seeks to ensure accountability, transparency, care, loyalty, obedience, and fairness (Committee of Sponsoring Organizations of the Treadway Commission, 2014; Gazley & Nicholson-Crotty, 2018).

With media reports highlighting the ineffectiveness and abuse of funds by nonprofit organizations, the increase of public concern over the governance role served by board members in the achievement of its mission through public donations seems justified. It is expected that nonprofit organizations will exhibit a level of trust in their accountability and delivery of services to their beneficiaries. However, with the prevalence of fund abuse by nonprofit directors and a trusting environment with lack of investment in good governance makes nonprofits particularly susceptible to fraud. In addition to fund abuse, some of the blame for lack of good governance is on the insufficient transparency of current reporting procedures, which contributed to the 2008 revamping of the IRS Form 990, the overriding of formal governance policies, and use of volunteers who are not well versed on how to properly implement good governance (Harris, Petrovits, & Yetman, 2017; Hilton, 2016; Omar, Arshad, Samad, & Ismail, 2016).

**Governance Considerations by Nonprofit Organizations**

In their research on asset diversion and governance in nonprofit organizations, Harris et al. (2017) identified four governance mechanisms for use by board of directors, they include 1) using an external auditor, 2) reviewing by the board of Form 990 and asset diversions, 3) implementing conflict of interest policy, and 4) considering tone at the top, particularly with the
hiring of a third-party manager. In addition to these mechanisms, BoardSource’s (2017) suggested the following oversight, transparency, and accountability practices: 1) carrying of liability insurance for directors and officers, 2) posting the Form 990 and financial statements to the organization’s website, and 3) creation of policies governing privacy and data security. Not only do these suggestions alleviate a portion of the risks involved with nonprofit governance, but it provides transparency and accountability of financial results to stakeholders.

In research performed by Radbourne (2003) on nonprofit arts boards, participants described good governance as healthy organizations who do the following:

- exhibit integrity with sponsors and governmental agencies
- willingness to take risks
- allow for creative environments to cultivate a strong future
- easy relationships between staff and board members
- hold market position reflective of the sector’s integrity and professionalism
- add value to stakeholders
- demonstrate quality of board, staff, and service
- instrument for change.

With these areas contributing to a positive governance reputation in art boards, the outcomes included increased audiences, investment partners, and productivity, along with public acceptance of the benefits of arts (Radbourne, 2003). Clearly there is appreciation in extending governance beyond the boardroom to better identify, as a collective group, the ways in which to meet expectations of all who benefit from their existence. Further, Harris et al. (2015) recognized donors’ interest in the nonprofit governance structure as it provided them with an understanding of the safeguards and efficient use of their monetary contributions.
**Nonprofit transparency to the public and SOX compliance.** The availability of nonprofit governance information for public viewing is lacking, however there has been a shift with the disclosures now required on the Form 990 used by the Internal Revenue Service which are likely to be considered valuable by the public (Harris et al., 2015). Sections of interest include Part VI which addresses governance, management, and disclosure and Part VII which discloses compensation of officers, directors, trustees, and key employees. In addition to Form 990, efforts have been made by the Committee of Sponsoring Organizations of the Treadway Commission (2014) to distinguish areas of responsibilities for board of directors and executive management. Those responsibilities for board of directors to include approval of strategic decisions, overseeing execution and ensuring accountability, establishing appropriate boundaries, and fairness and transparency, while executive management is responsible for aligning strategy, processes, people, reporting, and technology to accomplish the mission of the organization with established values.

In addition to the Internal Revenue filing requirements for nonprofit organizations, Neely (2011) expressed concern over the variance which can exist in nonprofit governance practices and if required to comply with SOX, varying levels of change would exist within nonprofit organizations. Some of this change would require nonprofit organizations to reconsider the effectiveness in their current governance mechanisms, such as the involvement of external audits and creation of an audit committee (Daugherty & Neely, 2012). Interestingly, Neely (2011) cited studies performed by Ostrower and Bobowick, which indicated that 67% of nonprofits surveyed had an external financial statement audit performed within the past two years and 20% reported having an audit committee. Nonprofit organizational research performed by Urban Institute and cited by Daugherty and Neely (2012) resulted almost 50% of surveyed nonprofit
organizations did not require certification of the accuracy of financial statements by executive directors and a majority did not have policies for document retention, whistleblower, or conflict of interest. This weak level of governance creates an environment ripe for fraudulent activity to occur.

**Governance specific to nonprofit organizations.** Changes occurring in the nonprofit sector where services may be handed over to a third sector, separation of purchasers of services from those who provide the services, along with a growing level of control by the government has distorted the boundaries between private, public, and third sectors. Moreover, shifts in levels of governmental funding of nonprofits have resulted in increased inspection and performance monitoring. With nonprofit board governance experiencing high levels of member turnover and inclusion of volunteers who are likely to be untrained and unqualified in performing oversight functions, there is high probability that questions will not be asked which would contribute to the detection of fraud or financial mismanagement (Cornforth, 2012; McNeal & Michelman, 2006). COSO expressed similar concerns over board members’ needs to exercise good judgment and cited the current gap in formal training to provide board members with a description of what it consists of and what threatens its occurrence (Committee of Sponsoring Organizations of the Treadway Commission, 2012).

Stewart and Diebold (2017) indicated the performance monitoring of resources and mission should be undertaken by the nonprofit’s governing body. It is suggested that such monitoring will result in a harmonious relationship between board members and executives to develop and monitor performance accountability as efficient and effective. Radbourne (2003) argued governance and accountability are inseparable and alignment needs to occur among authority, responsibility, and accountability. Without proper alignment it becomes possible for
individuals to be held accountable for actions to which they have not been given authority and responsibility. This becomes increasingly evident in nonprofit organizations who are publicly-funded to meet performance measurements established by funding agencies or governments to pay attention to governance and board accountability.

Research by LeRoux and Langer (2016) expanded upon the relationship between board members and executives. The researchers expressed a disconnect between the idealized vision of the nonprofit board of directors and the functions or activities being performed; all in part to the multiple governance models which place varying levels of importance on the roles of executives and board members. With nonprofit board members requirement of obedience, their monitoring and oversight roles may be more extensive than what is represented in theory models, particularly resource provisional roles since they assess financial state and activities and performance requirements in pursuit of their mission. This gap suggests that governance theory models may need expansion in order to be more current of board member expectations and roles within the nonprofit organizations.

Although not a requirement for nonprofit organizations, SOX requires public companies to create an independent audit committee of which one member needs to have financial expertise. For those nonprofit voluntarily choosing to have external audits, McNeal and Michelman (2006) identified enhancement in oversight and stronger benefits gained in the performance of the independent audit. Table 3 below provides details on governance policies and practices and the disconnect which exists in organizations over the belief of importance and those who have the policy or practice in place. In every single instance, the specified policy or practice was highly recognized as being important, however a much lower percentage actually had the policy or practice in place.
Table 3

Governance Practices in Nonprofit Organizations

<table>
<thead>
<tr>
<th>Governance Policy or Practice</th>
<th>Belief in Importance of having this policy/practice</th>
<th>Number of organizations actually having this policy/practice Number/Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflicts of interest policy</td>
<td>96%</td>
<td>63 (83%)</td>
</tr>
<tr>
<td>Document retention policy</td>
<td>89%</td>
<td>51 (67%)</td>
</tr>
<tr>
<td>Whistleblowing policy</td>
<td>85%</td>
<td>32 (42%)</td>
</tr>
<tr>
<td>Audit committee</td>
<td>96%</td>
<td>65 (86%)</td>
</tr>
<tr>
<td>Directors with financial expertise</td>
<td>96%</td>
<td>67 (88%)</td>
</tr>
<tr>
<td>Term limits for directors</td>
<td>85%</td>
<td>54 (71%)</td>
</tr>
<tr>
<td>Code of ethics for organization</td>
<td>93%</td>
<td>49 (64%)</td>
</tr>
</tbody>
</table>

N = 71 N = 76


Qualities of board members in nonprofit organizations. Nonprofit organizational boards are vital in contributing to the organization’s sustainability. A large body of literature exists on capabilities of board directors in for-profit organizations, however it is an area lacking research from the nonprofit sector. With expectations of stakeholders that the nonprofit organization is capable of managing resources both efficiently and effectively, Roshayani, Hisham, Ezan, Ruhaini, and Ramesh (2018) incorporated the resource based view theory to identify the capabilities and analysis thereof within the board of directors for nonprofit organizations. Research results identified the capabilities of experience, expertise, and social relations as important for embodiment in nonprofit board members.

Hambrick and Mason (1984) identified functional knowledge and firm-specific knowledge as two specific competencies for board of director members, while Vermeer et al. (2009) identified the inclusion of a financial expert on the board of directors when the
organization receives governmental funding and includes an internal auditor function. Similar determinations were reached in PricewaterhouseCooper’s 2016 Annual Corporate Directors Survey, where respondents identified expertise in financial (96%), operational (69%), industry (68%), and risk management (63%) as attributes important for directors (Roshayani et al., 2018). These areas were not only identified as important, but also embodied the board member’s ability to effectively contribute to the organization.

Competencies of nonprofit leadership as determined by research performed by Harrison and Murray (2012) resulted in four themes for effectiveness: team leader, relational leader, motivational and personal qualities of leader, and multidimensional constructs. Building of both social cohesion and commitment in their communications with CEOs, stakeholders, and board members contributed to team leadership, while relational leaders seek ways to build relationships with others outside of their formal position within the nonprofit organization. Leadership effectiveness related to motivational qualities such as the leader’s personality of empowerment, consideration, and respect for others, while the multidimensional constructs identified personal traits and engagement in certain behaviors as contributing to the overall effectiveness of the nonprofit organization board chair. Interestingly, the research concluded that others’ perception of the chair having the capability to lead had the greatest impact on the performance of board members, CEO, nonprofit organization, and external stakeholders.

In recognizing some of the confusion which may exist the governance and management of nonprofit organizations, the AICPA (2018) created a list of best practices and tips for board activities. Recommendations include 3-5 board members, orientation of new board members to discuss organization’s mission, organizational chart, review of bylaws, review of most recent Form 990, board members responsibilities, fundraising obligations, and frequency of board
meetings. Jackson (2006) cautions that nonprofit organizational board members usually consist of movers and shakers who may be very good at soliciting cash donations but are unable to serve in a capacity to circumvent fraud. This concern is addressed by the AICPA (2015) in its identification of the following abilities needed by prospective nonprofit board members: 1) to read and understand financial statements, 2) to ask questions about use of resources and financial soundness, 3) to understand investment strategy and its consistency with strategic goals, 4) to read, understand, and approve annual budget, 5) to ensure filing requirements and tax obligations have been met, and 6) to review IRS Form 990 before filing.

**Expertise and diversity of board members.** Harris (2014) examined the impact of expertise and diversity of board members to the performance of nonprofit academic organizations. Results indicated that nonprofit organization boards with higher numbers of female and minority directors were likely to be better performing in relation to their competition. The author identified that the results could be due to specific characteristics of the board member and being attracted to the better performing organizations. Regardless of the reasons for the conclusions, the results suggest that nonprofit organizations should consider the contributing qualities of the board member and the management of operational performance.

In recognizing the inherent value of diversity in a group setting, Buse, Bernstein, and Bilimoria (2016) sampled 1,456 nonprofit board CEOs to study how and when board performance was impacted by diversity. Their study concluded that diversity in nonprofit organizational boards impacts performance effectiveness of governance responsibilities and duties, while diversity practices and procedures impact effectiveness. Aspects of gender, race/ethnicity, and age impact the diverse practices and policies and in turn impact the internal and external governance practices. Knowing the complexities in relationships between
racial/ethical diversity of board members and governance practices, its inclusion can provide board directors and CEOs with the ability to leverage the diversity on governance practices for the fulfillment of the nonprofit’s mission. Practically, the inclusion of diverse practices and policies within nonprofit organizational boards provides a foundation respectful of differences which may better allow the board to meet the needs of the those impacted by their mission.

Despite the recognition by Buse et al. (2016) in valuing diversity within nonprofit boards, the 2017 National Index of Nonprofit Board Practices suggested that board diversity has not changed over the past two years, nor have recruitment priorities. In sampling 1,759 nonprofit organization CEOs and board chairs (or board designees), demographic profiles indicated 90% and 84% of board chairs and board members, respectively, were Caucasian. Even with recognition by chief executives of their dissatisfaction with their board’s racial and ethnic diversity, only 25% of survey respondents stated that demographics were a high priority in their recruitment of board members (BoardSource, 2017). Clearly, there is a disconnect in the literature in recognizing the value of diversity in the nonprofit board room and in taking the necessary actions to facilitate the change.

**Governance contribution to performance management and effectiveness.** Willems et al. (2015) defined organizational effectives as the balance between inputs and outputs using internal processes and external programs to reach goals. Mitchell and Berlan (2018) stated nonprofit organizations are more efficient and effective providers of service relative to their governmental agency counterparts. As nonprofit organizations are not under the same formal obligations as the public sector in demonstrating the accomplishments of their programs through recurrent and demanding evaluations, it is suggested that they understand the factors which promote a willingness within to engage in more effective performance management.
In their research on nonprofit organizational effectiveness, Liket and Maas (2015) identified three pillars of transparency, program, and organizational characteristics in contributing to best practices. Transparency provides the needed accountability of the nonprofit organization to their beneficiaries through reporting, of actions, accessibility of information, and online publication of strategic plans, annual reports, and board member identify. Program design, ownership, and evaluation should be based upon those benefiting from its inclusion within the nonprofit organization. In fulfillment of the nonprofit organization’s mission, the authors suggested board governance should consider focusing on aligning mission with operations, formulating the strategic plan, and recognizing the legal responsibility of the board members position. Further, Willems et al. (2015) included an expansion of Liket and Maas (2015) description of organizational effectiveness to include its effectiveness in reputation as viewed by individual stakeholders which is grounded in the role of trust. Determination of trust within the nonprofit organization is directly impacted by levels of satisfaction with communication and representation. The impact of satisfaction on trust had a more lasting impact on the reputational capacity of the organization as seen through the lens of stakeholders.

In addressing effectiveness in nonprofit organizations through governance, Omar et al. (2016) performed research on board characteristics of 216 Malaysian nonprofit organizations. The results from their study indicated an average of 7 members per board, with less than 50% of board members reported involvement with generating funds for the organization. For those board members who indicated commitment to effective management of nonprofit organizations, 44% were politically connected and 14% had professional affiliations; highlighting the value added to organizational effectiveness and to be socially impactful to their beneficiaries.
**Governance contribution to risk oversight.** COSO recognized the contribution made by board of directors in effective risk oversight and indicated the need for sound high-quality judgment and oversight is at an all-time high (Committee of Sponsoring Organizations of the Treadway Commission, 2012). In spite of provisions in federal and state law in the nonprofit arena, researchers (Irvin, 2005; Moore, 2001) have indicated limited impact on the accountability of nonprofit organizations (Young-Joo, 2016). Neely (2011) emphasized how mismanagement of entrusted resources by nonprofit organizations has spurred the state legislature of California to pass the Nonprofit Integrity Act to increase transparency and governance, with similar laws passed by Arkansas, Virginia, and the District of Columbia.

The duty of oversight by the organization’s governance is identified by Hyatt and Charney (2005) as part of the overall duty of care. In the absence of oversight, the risks involved with governance included the breach of duty which results in the board failing to act in situations resulting in misconduct, law violation, or loss. These oversights result when directors fail to supervise and monitor management, to take action when informed of employee wrongdoings, and to monitor officers and employees with managerial responsibilities.

With expressed concerns on mismanagement of resources and the recognition of governance duty of care, emphasis should be placed by the nonprofit organization in obtaining information which is truthful, timely, and valuable for decision making purposes (Hyatt & Charney, 2005; Neely, 2011). Thomas (2018) suggested as best practices the preparation of financial reports which are easy to read, describe profit and loss by program, use ratio analysis, present cash flow and liquidity data, and keep it simple. It is implied that board of directors can likely identify risks when they are provided with financial information which is able to be
understood and provides the ability to compare current to prior results and budgeted expectations.

**Governance contribution to federal accountability.** McDonnell and Rutherford (2018) indicated the importance of nonprofit organizational boards to recognize their responsibilities for governance and to ensure that policies and procedures are in place. These responsibilities included being tasked with reducing risk of misconduct, taking corrective action as determined by regulators, and developing functions for management and reporting on the consequences of the misconduct. With increased calls for accountability inside the nonprofit arena, most have focused on an increase in financial oversight (St. Clair, 2016).

Accountability by nonprofit organizations includes compliance with federal regulations in order to maintain tax-exempt status and the ability to collect tax-exempt contributions (St. Clair, 2016). The author cited an estimated $3.2 billion cost of compliance, or 0.4% of total revenues, for nonprofit organizations to maintain their tax-exempt status. Compliance comes at a cost and can place unusually high burdens on smaller nonprofit organizations.

For those nonprofits receiving federal funding in excess of $750,000, not only are there requirements for the completion of external audits, but auditing requirements for compliance with the Single Audit Act (St. Clair, 2016). Concerns have been raised for uniformity of the accounting standards used for filing the IRS Form 990 and the Single Audit Act. If consistency existed among the two compliance requirements, organizations would likely experience decreased time, effort, and cost involved in meeting those filings.

Nonprofit governance over federal accountability can be burdensome for board members who may not have financial expertise to understand, much less review, the required documents for federal compliance. However, filers of the IRS Form 990 are required to disclose the process
used by management to review the form, identify who reviewed it, and extent of the review (Hilton, 2016). Concerns are raised that the complexity and time required for looking over such documents takes away from more valuable activities such as fundraising, development and strategic planning (Fishman, 2010).

**Governance contribution to auditing.** Jackson (2008) voiced concern over the unpredictable environment which exists in nonprofit organizations with uneven and unpredictable flow of cash contributions and expenditures contributing to fiscal volatility. The author argued that this randomness in cash flow contributes to a ripe field for fraud to occur. Knowing that nonprofit organizations are heavily dependent upon volunteer leadership which can lack expertise in the field of auditing, including absence of an audit committee and internal auditor, efforts should be made to include audit procedures for the prevention and detection of fraud.

Baumüller (2013) and Vermeer et al. (2009) cited the differences in the role of the nonprofit external auditor due to the culture, structure, financial needs, accounting rules and reporting, users of financial statements, and audit risk environment of the organization. With recent fraud and governance problems extending to the nonprofit sector, several laws and legislative proposals have extended the mandatory completion of external audits by independence public accountants. One such law is the Nonprofit Integrity Act enacted in 2004 by California which required nonprofits with $2 million or more in gross revenues to have external audits and prepare financials in accordance with generally accepted accounting principles, and establish audit committees.

Completion of external audits provide the nonprofit with credible information which can be used for decisions on resource allocations and improvements in systems and processes (Carey,
In addition to the performance of audits, the establishment of audit committees with financial expertise was recognized by SOX in contributing to the improved quality of financial reporting (Badolato, Donelson, & Ege, 2014). Further, Hassan, Hijazi, and Naser (2017) concluded board characteristics, such as size, independence, and CEO-duality, serve as complimentary to the audit committee effectiveness. The authors also concluded that boards and their committees, including audit committees, alleviate the agency problem with that can be experienced between managers and shareholders.

One area of concern for nonprofits is the amount of audit fees incurred in the completion of an external audit. Vermeer et al. (2009) concluded in their study of 125 nonprofits, that half of research participants indicated having a good audit committee with independent members, representation of a financial expert, and meeting at least twice annually, and over half indicating the inclusion of an internal audit staff. Additionally, entity size, type of nonprofit, complexity, resource, dependency, and liquidity were all contributors to the audit fees and the greater the emphasis placed by the nonprofit on quality internal oversight, the greater the readiness to incur the costs of an external auditor.

The governance element in a nonprofit organization links the actions of the board members to the overall mission of the organization. Expectations of clear communication by the board members is needed to ensure employees understanding of organizational objectives and address deviant actions by members of management (Turbide, 2012; Van Puyvelde, Caers, Du Bois, & Jegers, 2014). Transparency, risk oversight, financial accountability, and auditing roles are expected to be effectively administered by those serving in governance positions.
Foundations of Agency Theory

Agency theory, also known as principal-agent model, is a theoretical framework used to construct contractual relationships and to explain the behaviors of principals and agents in that relationship (Van Slyke, 2005). The foundations of agency theory are fundamentally based upon the principal-agent relationships by which the principal involves another party, the agent, to perform a service on behalf of the principal. It is the principal’s delegation of authority over decision making which is granted to the agent (Jensen & Meckling, 1976).

It is through the delegation of authority that agents act on behalf of principals with the principals’ interests as the determining factor for performance definitions and measures. Agency theory schemes in the nonprofit setting are likely to be explained through following its mission or purpose and can assist in understanding the roles and responsibilities of nonprofit governing boards (Brown, 2005; Miller-Millesen, 2003). In applying the principal-agent relationship to the nonprofit setting, Greller (2015) indicated that if society is considered the party served by the organization, then they are representative of the principal, while the nonprofit board of directors are considered the agent. Frequently nonprofit boards are expected to use their best judgment as no one is holding them accountable. This inverts the principal-agent relationship and questions where oversight exists.

The principal-agent relationship has also been defined in a nonprofit setting with the CEO serving as the agent to the board members who serve as the principal (Bernstein et al., 2016). In addition to addressing the issues of relationships between CEO and board members, agency theory has been used to address issues of performance of the board, leadership, and operations. This relationship represents the legal duty of obedience filled by the nonprofit board and guided by statutes and bylaws (Brown, 2005). The recognition of such duty acknowledges
the accountability and monitoring of decisions to the nonprofits’ mission. As agency theory requires the separation of ownership from control, it is crucial that nonprofit board of directors assume responsibility for ratifying and monitoring decisions initiated and implemented by management and to make sure those decisions do not conflict with society or the organization (Miller-Millesen, 2003).

Mead and Pollack (2016) stated that whether for-profit or nonprofit, the board of directors is responsible for the selection of management, maintenance of financial integrity, and guidance of the organization. Further these responsibilities can be characterized as duties of care, loyalty, and obedience. There is a close connection between responsibilities and components of the agency theory. There are expectations that principals and agents will exercise reasonable judgment, act in the interest of the organization rather than self and make decisions to further the organization’s mission which align with the duties of care, loyalty, and obedience, respectively. When there are differing perspectives between the CEO and board members on the effectiveness of governance, it is likely due to differing roles, goals and interests of the parties involved in the agency relationship (Caers et al., 2006). The perspectives of governance effectiveness as held by the CEO and board members are crucial, as donors who make cash contributions to the nonprofit organization expect that their contribution will be used by the organization to further its mission and purpose (Mead & Pollack, 2016).

**Characteristics of Agency Theory**

Assumptions underlying the characteristics of agency theory include goal conflict and information asymmetry. Goal conflict arises from the differences in power exhibited by both the principal and agent, while information asymmetry occurs when there exist differences in the amounts of information between the principal and agent resulting in exploitation for self-gain
rather than the collective interests of contracting parties. With the inefficiencies which can result from these two identified assumptions is the need for the principal to implement several incentives, sanctions, information systems reporting procedures, and monitoring mechanisms (Van Slyke, 2005). These implementations are expected to align the agent’s behavior with the organization’s goals.

Eisenhardt (1989) suggested when alignment exists between the principal and agent on the actions and resulting outcomes, conflicts of self-interest are reduced. Rash and Thiagarajan (2015) highlighted the importance of information systems within organizations to serve as notification and advisory mechanism to allow the principal to gain understanding of the agent’s action. Information systems can serve as an internal control component over the recording of cash contributions received by the nonprofit organization.

Agency theory can be useful in placing attention on board of directors’ strategic contributions with emphasis on mission development, resource allocation, program evaluation, strategic planning, and executive recruitment and oversight (Miller-Millesen, 2003). Further, agency theory can be used to address accountability between nonprofit organizations and donors to the organization. Principal-agent relationship assumptions such as individual characteristics of being self-interested, boundedly rational, and risk adverse, along with the recognition of goal conflict, information asymmetry, and uncertainty of outcomes insinuate that there are likely to be differences among the perceptions of expectations by the employees, CEOs, and board members in a nonprofit organization (Carman, 2011).

Greller (2015) emphasized the uniqueness of nonprofit organizations and described them as existing on a middle ground as a formal organization who derives resources, such as financial and human, from a variety of sources. The nonprofit is not held accountable to one individual
and the organization is expected to achieve results in alignment with their purpose and mission. In order to succeed in accountability and in meeting expectations, governance of the nonprofit organization should provide for adaptation and performance growth considered of value to civil society.

Perceptions of internal controls over cash contributions within the nonprofit organization may be quite different depending upon the employee, executive director, and board member interviewed due to moral hazard. Moral hazard arises when there is a lack of effort being exhibited by the agent and occurs when the principal lacks information about the actions of the agent. This signifies the need for oversight and monitoring measures to be in place within the nonprofit organization. Moral hazard aligns with the duty of care identified by Bernstein et al. (2016) and should be exhibited by nonprofit boards in their need to ask probing questions to the CEO when knowledge is lacking and when additional information is needed. Although the need for oversight and monitoring measures exists, concern over the poor monitoring of performance by organizational boards and suggested that it was primarily due to inadequate board structure, inappropriate composition of members, or domination by some members (Carman, 2011; Nicholson-Crotty, 2004; Rash & Thiagarajan, 2015; Van Puyvelde, Caers, Du Bois, & Jegers, 2013).

Numerous researchers (Brown, 2005; Greller, 2015; Miller-Millesen, 2003) have successfully incorporated agency theory in nonprofit settings. However, Bhandari (2010) argued that since nonprofits do not have owners or shareholders, that principals do not even exist in those environment. In absence of principals, the author suggested the self-interests of the agent-manager and the behaviors exhibited become more pronounced in the nonprofit environment contributing to a higher occurrence of unethical behavior. With the argued absence of a principal
figure in the nonprofit setting, the board consists of “eminent citizens and successful public figures regardless of their skill, expertise, and qualification” (Bhandari, 2010, p. 37). With these expected characteristics, it is implied that there exists a group of ill-informed and closed club individuals who from an agency theory perspective make the organization highly susceptible to unethical behaviors.

Board of directors need to ensure the existence of clear communication of organizational objectives to employees and to address deviant actions by members of management (Turbide, 2012; Van Puyvelde et al., 2014). The communication between the board of directors and management should be periodically reviewed to assess how well they are working together and if there is consistency in their vision to achieve the organization’s goals. This consistency provides alignment between the principal’s expectations and the agent’s actions within the nonprofit setting.

**Perceptions of CEOs and board chairs on governance.** Bernstein et al. (2016) researched nonprofit board governance through the application of agency and stewardship theories to examine the perceptions of CEOs and board chairs on governance aspects of board performance, leadership, board meetings, and satisfaction with diversity. The authors found significant differences in perspectives between the board chairs (principals) and CEOs (agents) on the following items related to board performance:

- Understanding the organization’s mission
- Strategic planning and thinking
- Knowledge of programs
- Monitoring of performance and impact
- Providing CEO with guidance and support
• Understanding of board roles and responsibilities
• Relations with community and outreach
• Recruiting of new board members
• Increasing diversity of board members

(Bernstein et al., 2016).

Further, research indicated significant differences in perspectives between the board chairs (principals) and CEOs (agents) on the following areas related to leadership:

• Engaging in effective oversight and governance of organization
• CEO initiatives to actively involve board in leading the organization
• Communication between both parties is open and honest
• CEO can share and discuss mistakes with board
• Board is considered effective with current members
• Effective plan for succession of board members exists
• Level of financial expertise of board is sufficient for monitoring financial health
• Orientation process for board members is effective
• Board members coach and team one another
• Board members develop one another’s strengths
• Variability in board members taking the lead on issues
• Board member contributions of unique perspectives to issues
• Board members listen to one another

(Bernstein et al., 2016).

With each of these areas representative of differences in board performance and leadership as viewed by board chairs and CEOs, ratings in each of these perspectives were
ranked higher by board chairs than CEOs. This suggests not only differences in perceptions by both parties, but that board chairs may be looking through rose-colored lenses in comparison to their CEOs. Bernstein et al. (2016) suggested that part of the perception differences could relate to the separate operating environment of the board chairs and CEOs. Board chairs frequently operate in environments which are removed from the daily nonprofit operations, while CEOs focus on the complexities in the daily oversight of those operations. Research results suggest the need by nonprofit board members and CEOs to improve goal alignment, foster an open trusting environment, build communication, understand goals and roles, and ensure proper performance evaluations. This extends the agency theory application to include viewing the nonprofit board as an instrument entrusted with ensuring that management acts in interest of members (Chelliah, Boersma, & Klettner, 2015). The increased need in collaboration between CEOs and board chairs identified by Bernstein et al. (2016) and Miller-Millesen (2003) suggested the exercise of caution over the allocation of responsibilities between the board of directors and the executive director. Although it is appropriate for the board of directors to rely on the expertise and professional knowledge of the chief executive officer, the board must be cognizant of the possibility for management opportunism and ensure that only activities which are in alignment with community expectation are pursued.

**Agency Theory Application in Nonprofit Auditing**

Audits are frequently analyzed from the perspective of a principal-agent relationship as auditors serve in a position to reducing information asymmetries and increasing shareholder value. As the relevance of shareholder value does not apply in the nonprofit sector, the relationship of donors and external funders serving in a principal capacity with the nonprofit boards taking on the agent responsibility does apply. Issues of nonprofit accountability and
stewardship of donor contributions may arise due to lack of operational monitoring (Baumüller, 2013).

**Extension of the Principal-Agent Relationship in Nonprofit Organizations**

Van Puyvelde, Caers, Du Bois, and Jegers (2013) indicated that most research performed on principal-agent relationships in nonprofit organizations focused on board members and management. The authors extended this relationship to consider nonprofit managers serving in a principal capacity with their employees as agents. This extension is likely to occur as managers recruit employees to assist in the pursuit of tasks established by the board. As both principal and agent parties are motivated by self-interest, different goals and different levels of knowledge, if not controlled the results of such differences can lead to the occurrence of such problems as adverse selection and moral hazard.

Adverse selection occurs when the agent misrepresents their skills and abilities to the principal. In other words, they are not providing an accurate or clear picture of their skills and abilities. Adverse selection is likely to occur when the principal has not observed the agent’s skills and abilities in action. Moral hazard results when there is a lack of effort being exhibited by the agent and occurs when the principal lacks information about the actions of the agent. These problems are of concern in nonprofit settings which commonly lack efficient principals and measures for output (Rash & Thiagarajan, 2015; Van Puyvelde et al., 2013).

**Criticisms of Agency Theory in a Nonprofit Setting**

Eisenhardt (1989) described agency theory as controversial as its focus is on resolving problems within agency relationships. Mead and Pollack (2016) argued it is the uniqueness of nonprofit governance which results in control vested exclusively in a board which is self-perpetuating. The authors described the nonprofit environment to be typically absent to external
checks over their boards; which likely results in lower quality board members and concern over the discretion in managing the affairs of the nonprofit organization. For those nonprofit boards who express concern over the managing of the organization, if too much control or power is exerted by the board over the CEO, the actions may be misconstrued as distrust by the CEO (Bernstein et al., 2016).

Further, the understanding of nonprofit governance in a civil society is cyclical in nature as it exists between the impact society has on the nonprofit organization and the nonprofit organizations impact on society. The cyclical nature of governance suggests that the agency theory fails to recognize the complexity of the nonprofit environment and should be combined with other theories such as stakeholder theory, stewardship theory, or empirical literature on governance and management aspects of nonprofit organizations (Greller, 2015; Van Puyvelde, Caers, Du Bois, & Jegers, 2012). The study expands on the empirical literature of governance in combination with agency theory.

Agency theory within the nonprofit setting is likely to be viewed from the perspective of the board of directors serving as the principal while the agent role is extended to management. Recognition of assumptions such as moral hazard and asymmetrical information in agency theory suggest inclusions such as monitoring and information systems within the nonprofit organizational environment. When alignment exists between the principal and agent parties representative of the agency theory framework, the results are likely to include effective oversight, accountability, and communication within the nonprofit setting.

**Potential Themes and Perceptions**

With the study inclusion of internal controls, fraud, governance, and agency theories, several themes and perceptions were expected to surface in the completion of the study.
Internal control themes of development of policies and processes, strong executive leadership, reporting quality, and management’s tone were anticipated (Gregory, 2017; Schneider, 2018; Schroeder & Shepardson, 2016). Perceptions from these themes signified the expectation of leadership to provide guidance to both board members and staff as to their awareness of procedures for management of cash receipts and how procedure compliance aligns with internal controls to foster an efficient and effective organizational environment.

Fraud themes of trust, reputation, and board governance were anticipated (Cressey, 1973; Gregory, 2017; Sutherland, 1940). Perceptions from these themes coincided with the culture of nonprofits built on trust and the need for proper investment in governance (Archambeault et al., 2015; Daugherty & Neely, 2012; De Armond & Zach, 2017; Greenlee et al., 2007; McSwain et al., 2015).

Governance themes of accountability, transparency, ethical business conduct, resource monitoring, and development of policies and processes were anticipated (Gregory, 2017; Malla, 2010; Stewart & Diebold, 2017). The perceptions from these themes signified the importance of nonprofit leadership to be active in their influence on procedures created to manage cash receipts, to assure others that their actions are in alignment with the organization’s mission, and to openly communicate financial results with stakeholders.

Agency themes of control, delegation, duty of care and obedience, and financial integrity, were anticipated (Bernstein et al., 2016; Brown, 2005; Mead & Pollack, 2016). The perceptions from these themes signified the importance of nonprofit leadership, management, and board of directors to be in alignment with their governing responsibilities related to cash contributions.
Summary of the Literature Review

The presented literature review is intended to provide understanding within the accounting and auditing fields regarding the actions of nonprofit employees and board members in their control measures over cash contributions. With component theories of internal controls, fraud, governance, and agency included in the literature review, a more complete understanding of the study was achieved.

Nonprofit management and board members need to understand the important role they play in implementing internal controls standards. Their level of adherence and loyalty to following the standards impacts the efficiency and effectiveness of nonprofit operations and is crucial due to heavy reliance of donors, funds, grants, and fundraising. The goal for internal controls should provide assurance that less than a reasonable possibility for material misstatement exists in financial reports. Assistance for entities in achieving their objectives and sustaining and improving their performance can be found in the Internal Control – Integrated Framework. Additionally, many nonprofit organizations have adopted certain aspects of the Sarbanes Oxley Act of 2002 as best practices in that it enhances evaluation of effectiveness of internal controls and management’s assertions on its effectiveness (Branson et al., 2015; Committee of Sponsoring Organizations of the Treadway Commission, 2013; Dickins & Fay, 2017; Dzomira, 2014; Tysiac, 2012; Udeh & Epps, 2013; Yallapragada et al., 2010).

Foundation of fraud provided understanding of nonprofit organizations’ susceptibility to fraud and the measures which can be placed to minimize its occurrence. With the presentation of fraud triangle, fraud diamond theory, fraud scale theory, new fraud triangle model, the meta-model of fraud, the crime triangle, and disposition-based fraud model, an understanding of environments susceptible to the occurrence of fraudulent behavior and the characteristics of
those likely to participate in fraudulent activity is gained (Cressey, 1973; Dorminey et al., 2012a; Dorminey et al., 2012b; Kassem & Higson, 2012; Mui & Mailley, 2015; Raval, 2018; Wolfe & Hermanson, 2004). This is especially important in a nonprofit setting due to their differing organizational structures and resource availability (Kummer et al., 2015).

Nonprofit governance is a culmination of safeguards used by management to accomplish obligations and responsibilities to minimize opportunities for asset mismanagement. These safeguards consist of board roles and responsibilities which are fiduciary in nature and direct the organization toward sustainability with the adoption of sound, legal, and ethical policies of governance and financial management to provide resources necessary to advance the mission. Nonprofits in particular are susceptible to fraud due to their lack of investment in good governance practices, such as the insufficient transparency of current reporting procedures, high levels of volunteer turnover, and volunteers who are untrained and unqualified in oversight functions (Harris et al., 2015; Harris et al., 2017; Hilton, 2016; McNeal & Michelman, 2006; National Council of Nonprofits, 2018; Omar et al., 2016).

Finally, inclusion of agency theory in a nonprofit setting assisted in understanding the roles and responsibilities of governing boards and relationships between CEO and board members in addressing issues of performance, leadership, and operations (Bernstein et al., 2016; Brown 2005; Miller-Millesen, 2003). Assumptions of adverse selection and moral hazard can arise within agency theory relationship of principal and agent. Nonprofits should be proactive in addressing these assumptions which contribute to both misconceptions to the principal of the agent’s skills and abilities, lack of effort, and lack of information provided to the principal regarding the agent’s actions. When alignment exists between the principal and agent parties, the nonprofit is likely to experience effective oversight, accountability, and communication.
Transition and Summary of Section 1

Section 1 provided a thorough review of scholarly literature on the four theories used in the conceptual framework for this qualitative single-case study. The review of professional and academic literature expanded upon the theories of internal control, fraud, governance, and agency, and provided understanding as to how each related to the research topic. The literature review established scholarly support of the conceptual framework used for the study. The goal of the study was to understand the perceptions of nonprofit organizational employees, Executive Directors/CEOs, and board members on the internal controls of cash contributions. Current literature is limited in qualitative studies focused on understanding these themes in a nonprofit organizational environment.
Section 2: The Project

The focus of this qualitative single-case research study was to explore the perceptions of nonprofit employees and board governance on internal controls of cash contributions. As nonprofit organizations are heavily dependent and reliant upon the goodwill and generosity of donors and volunteers, they are likely to be in positions of having weak internal control systems which contribute to the difficulty in fulfillment of their missions (Charles & Kim, 2016; Murphy; 2015; Tsay & Turpen, 2011). A purposeful sample of employees, Executive Directors/CEOs, and board members who have knowledge of cash contribution procedures and operations from eight nonprofit organizations in Commonwealth of Virginia were selected. The researcher designed the project so that results of the study would contribute to the current body of knowledge on oversight processes relating to cash contributions and improved financial stability of nonprofit settings.

This section includes the role of the researcher and the procedures used for gaining access to participants. The analysis and discussion of the research methodology and design used in the study is included. Further, discussions on data collection, data analysis, reliability, and validity are provided.

Purpose Statement

The purpose of this qualitative single-case study added to the understanding of strategies implemented by small Virginia nonprofit organizations to avoid opportunities for theft of cash contributions. In recent years, there have been increased concerns over the financial accountability and transparency of nonprofit organizations due to the number of financial scandals occurring in such environments. Due to the trusting environment found in many nonprofits, a consequential lack of proper investment in governance raises concerns over the
financial accountability and transparency of the entity. With the lack of proper investment in governance, smaller nonprofit organizations, those with less than 100 employees, have a higher susceptibility of fraud due to their limited staff sizes. Current cutbacks in governmental aid and lack of growth in foundation support require nonprofit organizations to be proactive in their approach to avoid theft of cash contributions (ACFE, 2018; Archambeault et al., 2015; Bourassa & Stang, 2016; Branson et al., 2015; Daugherty & Neely, 2012; De Armond & Zach, 2017; Felix et al., 2017; Fighting Fraud and Promoting Social Equity, 2012; Greenlee et al., 2007; Kummer et al. 2015; McSwain et al., 2015).

A sample of eight nonprofit organizations was purposefully selected in Virginia from which a review of both internal controls for cash procedures and Form 990 filings with the IRS, accessing public information, and completing interviews of cash procedures with board members and employees was performed. This study fulfilled the current research gap of limited qualitative research on nonprofits understanding of internal controls for contributions. Gregory (2017) claimed “limited empirical evidence exists on fraud and the use of internal controls in the nonprofit sector” (p. 2). Similarly, Power and Gendron (2015) claimed that more qualitative studies should contribute to work performed by practitioners.

**Role of the Researcher**

Qualitative research seeks to understand the lived experiences of participants as it relates to the phenomenon. The case study form of qualitative research requires the researcher to be present during the data collection and is used when causality is central to the analysis of the research (Dresch et al., 2015; Yin, 2014). Further, qualitative research requires the collection of data in a natural setting and to gather data from multiple forms, such as interviews, observations, and documents (Creswell & Poth, 2018; Stake, 2010). As a result, the researcher interacted
directly with participants through interviews and observations. The direct interaction between researcher and participants in case study settings, stimulates reflection and learning about the actions of all involved (Cooper & Morgan, 2008).

The researcher sought participants who were classified by the Internal Revenue Service as a 501(c)(3) public charity who filed the IRS Form 990, had a maximum of $2,000,000 in revenues, employed less than 50 employees, accepted cash contributions through fundraising or sales of good and services, and were located in the Commonwealth of Virginia. Participating nonprofit organizations received donor contributions through cash and checks due to the heightened likelihood of those cash streams being vulnerable to fraud. Participant identification occurred through nonprofit organizational connections such as GuideStar.org, Propublica.org, and personal networking leads. The researcher interviewed three individuals within each of the eight selected nonprofit organizations who had detailed knowledge of the cash handling responsibilities and internal controls vital to answering the research questions. These individuals held positions of employees responsible for cash handling, Executive Directors/CEOs, and board members.

The researcher sent permission request letters via email to the Executive Director/CEO of selected nonprofits requesting their participation in the study. Nonprofits agreeing to participate in the study provided a signed statement or permission letter on official letterhead indicating their approval for participation in the study. Upon receipt of the signed permission letter, the researcher requested from the Executive Director/CEO the appropriate personnel to be directly contacted by the researcher. The researcher then sent recruitment letters to the identified employee who handled cash receipts and deposits, Executive Director/CEO, and board member.
Attached to the recruitment letter was a consent letter. Upon receipt of the signed consent letter, the researcher contacted participants to schedule interviews.

Interviews took place with each individual participant in a neutral location where others would not easily overhear the conversation, such as a coffee shop or local library. The researcher asked level one and level two questions as indicated in Appendix A, along with demographic data for each participant. The gathering of evidence on cash receipt processes was provided from accounting staff or clerks, with their responses compared to participants holding management positions.

During the interview process, the researcher recorded participant interviews with an audio recorder to document the interview. Upon completion of the interview session, the researcher prepared transcripts of the participant’s responses to the interview questions. The completed transcript was emailed to the participant for review and to ensure accuracy. Upon confirmation of accuracy, the researcher used the transcript to begin coding the data using NVivo® qualitative software for analysis and interpretation of research results. Yin (2014) indicated in case study research the importance of using documents to corroborate and augment information from other sources. Therefore, in addition to data collected from the interviews, each nonprofit organization was requested to provide a copy of their policy and procedures manual used by the nonprofit organization in the handling of cash receipts and deposits.

**Participants**

In case study research, participants are the persons from whom data is collected by the researcher (Yin, 2014). For this case study, participating nonprofit organizations were those classified by the Internal Revenue Service as a 501(c)(3) public charity who annually filed the IRS Form 990, had a maximum of $2,000,000 in revenues, employed less than 50 employees,
accepted cash contributions through fundraising or sales of good and services, and were located in the Commonwealth of Virginia. The initial round of participant recruiting consisted of networking with nonprofit organizations and trusted contacts. Participants within the eight selected nonprofit organizations in the Commonwealth of Virginia included employees responsible for cash handling duties, Executive Directors/CEOs, and board members.

The researcher sent permission request letters via email to the Executive Director/CEO of selected nonprofits requesting their participation in the study. Nonprofits agreeing to participate in the study provided a signed statement or permission letter on official letterhead indicating their approval for participation in the study. Upon receipt of the signed permission letter, the researcher requested from the Executive Director/CEO the appropriate personnel to be directly contacted by the researcher. The researcher sent recruitment letters to the identified employee who handles cash receipts and deposits, Executive Director/CEO, and board member. The recruitment letter provided participants with the purpose of the research, participant criteria, and expectations. Attached to the recruitment letter was a consent letter. The consent letter provided participants with background information of the study, procedures, risks, benefits, compensation, confidentiality, voluntary nature of the study, and option to withdraw from study. Upon receipt of the signed consent letter, the researcher contacted participants to schedule interviews.

Creswell and Poth (2018) detailed the importance of informing participants on the purpose of the study, providing assurance that their contributions will remain confidential, and acknowledging that their voices will be represented in the study. Singh (2014) indicated the importance of building trust with the interviewee, this includes indicating to participants that their names will not be disclosed, and information will be coded and structured in a way which would not allow their identities to be made known.
**Research Method and Design**

The researcher selected a qualitative method to explore the perceptions of nonprofit employees and board governance on the internal controls of cash contributions. In addition, the researcher selected an embedded single-case study design to analyze the case. Yin (2014) suggested the use of case studies to understand complex social phenomena and to retain real-world and holistic perspectives. This section describes the researcher’s justification for the research method and design selected.

**Discussion of method.**

Researchers can select from one of three research methods to plan and execute their projects. These three approaches include qualitative, quantitative, and mixed methods. The quantitative approach seeks to create explanations and predictions which can be applied to other persons and places and seeks to detect relationships among variables which can then drive confirmation or modification of existing theories or practices (Leedy & Ormrod, 2016). Mixed method approach combines qualitative and quantitative methodologies into one study.

The objective of qualitative research seeks to better understand complex situations, which may be exploratory in nature and may contribute to the building of theory (Leedy & Ormrod, 2016). Participants are empowered through qualitative research as it allows for the sharing of their stories, the hearing of their voices, and the minimizing of power relationships between researchers and study participants (Creswell & Poth, 2018). Qualitative research relies on human perception and understanding where the researcher observes action and context in making interpretations (Stake, 2010). The most common methods for gathering information and data in qualitative research include observations, examination of documents and interviewing, which can

The researcher decided not to use the quantitative research method as the study sought to explore the perceptions of nonprofit employees and board governance on the internal controls over cash contributions. The quantitative method would require the establishment of hypotheses and closed-ended questionnaires. Implementation of the qualitative research method permitted the incorporation of open-ended questions for the interview process, which allowed the gathering of information to explore the perceptions of nonprofit employees and board governance in their responsibilities over the receipt of cash contributions.

Discussion of design.

Performance of qualitative research permits the researcher to select from one of five different research designs. These designs include narrative, phenomenology, grounded theory, ethnography, and case study. Narrative design is appropriate for studies which focus on individual experiences which are expressed through told and lived stories. Studies appropriate for narrative design emphasize the collection of stories which permit individuals to tell of themselves and their identities. Since this research study did not seek to explore the life of an individual, it was not considered a suitable option (Creswell, 2014; Creswell & Poth, 2018).

Phenomenology design is appropriate for studies which seek to describe an associated meaning from several individuals of their lived experiences related to a specific concept of a phenomenon. Phenomenology design was not suitable for this research as the associated meaning of the lived experience would need to be identified prior to the study and would not likely surface until during or after the data collection process. Grounded theory design is used when researchers are interested in generating or discovering a theory. This research study did
not seek to generate or discover theory, but rather to understand the strategies implemented by nonprofit organizations to avoid theft of cash contributions. Ethnography design is used when researchers seek to find shared patterns of belief, behavior, and language with a focus on the entire culture-sharing group. With limited geographic reach of the study and small sample size, the extension of patterns of belief, behavior, and languages to an entire culture-sharing group is prohibited (Creswell, 2014; Creswell & Poth, 2018).

Since the researcher sought to gain understanding of the perceptions of nonprofit employees and board governance on the internal controls of cash contributions, the case study was the most effective design for this study. The qualitative case study allows for evaluation, through in-depth analysis of case, program, event, activity, or process (Creswell, 2014). Yin (2014) indicated that single-case studies permit the gathering of process perceptions from multiple perspectives. This study sought to understand the process of internal controls by nonprofit organizations over cash contributions. The understanding of perceptions of internal controls over cash contributions were gained through interviewing employees tasked with cash handling responsibilities, Executive Directors/CEOs, and board members within eight nonprofit organizations located in Commonwealth of Virginia.

Characteristics of case study research necessitates the researcher to be present during data collection and consists of smaller sample sizes. Further, case study research is implemented when causality is fundamental to the analysis of the research and when the researcher is unable to gain control over the research variables. Case study is the preferred research design when current events are examined, and the behaviors of those events cannot be manipulated. In addition, it is less problematic and highly informative in comparison to other design options in
analyzing correlative and proximate causal relationships (Dresch et al., 2015; Gerring, 2004; Yin, 2014).

The researcher desired to gain an understanding of internal controls over cash contributions from the perspective of nonprofit employees and board governance. Case study inclusion of personal observations and interview processes serve as preferences in the gathering of data and information. In addition, the researcher used open-ended questions to lead the interview process. The presence of interviews in the research permits for explanations and personal views in a conversational manner which is non-threatening to the research participant (Yin, 2014). In addition to data collected through interviews, other corroborating sources such as cash collection policies and procedures and publicly available information was gathered. In reviewing the five qualitative research designs and understanding the strengths and restrictions of each, the researcher concluded that case study was the preferred design for this research study.

**Population and Sampling**

There are approximately 1,808,000 nonprofits in the United States with 501(c)(3) public charity status from which close to 50,000 are registered in the Commonwealth of Virginia. From this population, approximately 5,500 nonprofits have a maximum of 50 employees, up to $2,000,000 in revenues, and file IRS Form 990 (Guidestar, 2019). For the purpose of this study, the researcher selected eight nonprofits from this population.

Participant selection is subjective and is seldom discussed beyond topic selection and participant selection criteria (Reybold, Lammert, & Stribling, 2012; Stake, 2010). Leedy and Ormrod (2016) indicated the importance of population samples to represent the diversity of participants with the understanding that the researcher may not be able to generalizes findings of the study to other individuals with different sets of characteristics. The logic of selection in
Qualitative research is anchored in the value of cases which possess a great deal of information and emerge with in-depth understanding which is not obtainable in random sampling. Participant selection is considered one of the least critiqued and most invisible method in qualitative research which does not require the selection of a large number of participants and sites (Creswell, 2014; Reybold et al., 2012). For this study, the researcher used purposeful sampling in the selection of nonprofit participants.

The use of purposeful selection is the mechanism for the creation of meaning, not just revealing it (Reybold et al., 2012). The importance of purposeful selection lies in the participants who will assist the researcher in understanding the problem and research questions (Creswell, 2014). Purposeful sampling encourages the researcher to use judgment in sampling selections and provides strategies that permit the researcher to learn a great deal over that which is being investigated. Large sample sizes in case studies are relatively uncommon, with most ranging from 1-200 participants. Currently, there are no guidelines, tests of adequacy, or power calculations available in qualitative research to establish sample sizes and it is the smaller numbers which permit the richness and detail sought in performing such research (Emmel, 2013).

Qualitative research relies on human perception and understanding which results in the gathering of experiential data rather than measurements (Stake, 2010). For this study, the experiential data was collected by a sample consisting of three individuals from each of eight selected nonprofit organizations, totaling twenty-four participants. Participants held positions of an employee tasked with cash handling responsibilities, Executive Director/CEO, and board member. Participants were selected based upon their understanding and involvement in the nonprofit accounting and financial processes. Experiential data of cash receipt processes were
primarily gathered from employees tasked with cash handling responsibilities. Participants were expected to possess knowledge of the cash receipt processes in order to answer the research questions. It was anticipated that the responses from these participants provided reliability to the Executive Director/CEO and board member’s responses. Yin (2014) viewed the multiple sources of evidence as a major strength in the performance of case study research.

Data Collection

Data collection in qualitative research requires the researcher to serve as a key instrument in the data collection process (Leedy & Ormrod, 2016). The active role by the researcher is represented in case studies through examination of documents, observation of behaviors, and interview of participants (Creswell, 2014; Yin, 2014). Data collection involves the anticipation of ethical issues in gaining permission, directing a good sampling strategy, developing the means for recording information, responding to issues in a timely manner, and storing of data in a secure manner (Creswell & Poth, 2018). In this study, data was collected by the researcher in the performance of interviews using open-ended questions to gain understanding of the research questions.

Instruments.

The researcher conducted interviews using a semi structured interview process. As a key instrument to the data collection process, the researcher sought to create a conversational space which permitted transparency, rapport, and interpersonal connection with participants during the interview process (Pezalla, Pettigrew, & Miller-Day, 2012). Participants were allowed to select their conversational space at a local coffee shop, library, or other neutral area where others would not easily overhear the conversation. The researcher presented four primary research questions to understand the perceptions of nonprofit employees and board governance over the
internal controls for cash contributions in the Commonwealth of Virginia. The following are the four research questions:

- How does the nonprofit organizations generate cash management guidelines to prevent the misappropriation of cash contributions?
- How does nonprofit management and board of directors differ in their perceptions on key governance aspects related to cash contributions?
- How does the nonprofit organization ensure understanding of the internal controls over cash contributions by those directly involved with its management?
- How does the nonprofit organization perceive its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions?

Interview questions to facilitate understanding of these four research questions are included in Appendix A. The interview questions were expected to explore understanding of the perceptions of nonprofit employees and board governance over the internal controls of cash contributions.

**Data collection techniques.**

Researchers need to cater to the schedules and availability of interviewees, thus requiring special arrangements to be made for the interview session. Further, arrangements in case study research requires explicit and well-planned field procedures, as the interviewee may deviate from the agenda set by the interview questions with some choosing to not follow procedures and drop out of the study (Yin, 2014). Care must be taken by the researcher to ensure the interview environment is as comfortable as possible (Creswell & Poth, 2018).

For this study, the researcher sent permission request letters via email to the Executive Director/CEO of selected nonprofits requesting their participation in the study. Nonprofits
agreeing to participate in the study provided a signed statement or permission letter on official letterhead indicating their approval for participation in the study. Upon receipt of the signed permission letter, the researcher requested from the Executive Director/CEO the appropriate personnel to be directly contacted by the researcher. The researcher then sent recruitment letters to the identified employee who handled cash receipts and deposits, Executive Director/CEO, and board member. The recruitment letter provided participants with the purpose of the research, participant criteria, and expectations. Attached to the recruitment letter was a consent letter. The consent letter provided participants with background information of the study, procedures, risks, benefits, compensation, confidentiality, voluntary nature of the study, and option to withdraw from study. Upon receipt of the consent letter, the researcher contacted participants to schedule interviews.

The researcher collected interview data using a digital recording device. Upon completion of the interview, the researcher used Microsoft® Word to transcribe the recordings verbatim prior to the data analysis process. Accuracy of the data collection was performed by using member-checking. Member-checking determines the accuracy of qualitative findings by “taking the final report or specific descriptions or themes back to participants and determining whether these participants feel that they are accurate” (Creswell, 2014, p. 201). In this study, participants were provided transcripts of their interview to confirm accuracy of responses. The transcripts were sent to a personal email account to which only the participant had access with suggested feedback requested within 10 days of receipt.

The researcher used field notes to complement the digitally recorded interviews. Sutton and Austin (2015) indicated field notes can provide the researcher with a record of impressions, environmental contexts, behaviors, and nonverbal cues and can serve as a reminder of situational
factors useful in data analysis. Yin (2014) recommended field notes be organized, categorized, complete, and available for later access. Leedy and Ormrod (2016) valued the preparation and use of field notes to document initial interpretation of what the researcher is hearing and seeing. Data collection in case studies does not follow a formal procedure and relevant information to the study is not easily predictable. This requires the researcher to continually review the evidence collected and to evaluate why events or perceptions appear as they do (Yin, 2014).

Following completion of the interviews, the researcher requested a copy of the policy and procedures manual used by the nonprofit organization in the handling of cash receipts and deposits. This documentation was received in paper form during the interview session or sent to the researcher electronically. In addition, secondary documentation available publicly such as IRS Form 990s was reviewed by the researcher. Secondary documentation was used to corroborate the data collected from participant interviews. All electronic documentation, including interview transcripts, was stored on a secure database. Field notes and other data collected in hard copy form are stored in a locked, fireproof safe for the required three-year period.

**Data organization techniques.**

The researcher collected data from the interview questions, secondary documentation from the public domain, and cash handling procedures received from the participants. Recordings from interviews were uploaded from the digital recorder to computer through USB outlet. Upon the transcription of the digital recording into a Microsoft® Word file and the subsequent member-checking of the file, the researcher uploaded the file to NVivo®12 software for coding. QSR International produces NVivo® 12 as a place to organize, store, and retrieve data in an efficient manner to support findings with evidence (QSR International, n.d.).
researcher used computer-assisted software as a tool for coding and categorizing large amounts of data. It was essential for researcher to determine if meaningful patterns were emerging from the data (Leedy & Ormrod, 2016; Yin, 2014).

Coding is a common feature in qualitative analysis and synthesis which involve the interpretation and storage of data. The process of coding may begin early in the study or may be postponed until most of the data has been collected. The categories of codes are likely to change as the research questions take new meaning and the interviews performed during fieldwork provide new relationships and stories (Stake, 2010).

To maintain confidentiality, each participant was provided with an identification number which was used for all data collected from the recipient. Electronic data was stored on a flash drive device with password protection. The flash drive device, along with documentation of procedures, field notes, and any other data collected in paper form was secured in a locked, fireproof safe to which only the researcher has access. After three years, the flash drive device will be destroyed, and documentation in paper form will be shredded. No documents will be retained from the nonprofit organization without their expressed consent.

**Data Analysis**

Creswell and Poth (2018) identified data collection, data analysis, and report writing as interrelated steps which occur simultaneously in the completion of research projects. Of these interrelated steps, the analysis of case study evidence is the least developed aspect in performing case study research (Houghton, Murphy, Shaw, & Casey, 2015; Yin, 2014). Analysis of the data is impacted by the researcher’s style of empirical thinking, presentation of evidence, and consideration of alternative interpretations (Creswell, 2014).
With the qualitative researcher serving as a key instrument in their study, the meaning generated in data analysis comes from their own experiences, those they interview, and the documents examined (Stake, 2010). Data analysis and management must be performed in a manner which allows the researcher to be true to the participants. It is the participant’s voice the researcher is “trying to hear, so that they can be interpreted and reported on for others to read and learn from” (Sutton & Austin, 2015, p. 227).

Creswell, (2014) identified three steps in completing data analysis in Qualitative Research. Those steps include:

- Organize and prepare data for analysis by transcribing interviews, scanning material, typing field notes, and cataloguing visual material.
- Read and look at all data to determine both general ideas and tone of ideas, and initial impressions of the depth, credibility, and use of information.
- Begin coding all data.

The early stages of data analysis required the researcher to organize data into digital files and to create a file naming system (Creswell, 2014). The use of computer-assisted tools by the qualitative researcher supports data analysis. Prepackaged software programs include Atlas.ti®, HyperRESEARCH®, NVivo®, and The Ethnograph® (Yin, 2014).

Upon the transcription of the digital recording of participant interviews into a Microsoft® Word file and the subsequent member-checking of the file, the researcher uploaded the file to NVivo®12 software for coding. The use of qualitative computer data analysis programs assisted the researcher in analyzing data and permits the process of coding data into topics, themes, and issues. Computer data analysis programs provide the storage and organizing of data, the ability
to search text associated with specific codes, and the interrelatedness of codes for inquiries of relationships among specified codes (Creswell, 2014; Stake, 2010).

The coding process permits the researcher to understand the world from the perspective of the participant (Sutton & Austin, 2015). Despite the use of computer data analysis programs, the researcher is still required to go through each line of text and to assign codes to the text which is typically more efficient than coding by hand. The development of coding should fall into three categories: codes based on past literature and common sense, codes not anticipated at beginning of study, and codes that are unusual and conceptually interesting to the researcher. Further, coding permits the researcher to quickly locate passages and text segments which are coded similarly, and if so determine if participants are responding to the code in a like manner and if meaningful patterns are developing. Development of explanation and response to the initial “how” and “why” questions in case studies requires the researcher to perform post-computer thinking and analysis (Creswell, 2014; Yin, 2014).

In addition to coding of interview transcripts, the researcher reviewed secondary documentation on each nonprofit including IRS Form 990s, policy and procedures manual on the handling of cash receipts and deposits, and other publicly available information. The process of coding interview transcripts in corroboration with review of secondary documentation supported the internal validity of the study through triangulation. Triangulation is a strategy used by qualitative researchers to “collect multiple forms of data related to the research question[s], with the goal of finding consistencies or inconsistencies among the data” (Leedy & Ormrod, 2016, p. 260). Figure 4 below provides the connections between the research questions, theories, and the initial coding themes.
Yin (2014) identified four principles common to high quality analysis. These principles included: 1) analysis which shows the researcher attended to all evidence and interpretations should consider all evidence gathered, 2) analysis reports all plausible competing interpretations, 3) analysis addresses the most important parts of the case study, and 4) researcher should use prior expert knowledge which reveals current thinking and discourse on topic. In this study, data analysis by the researcher determined the common topics, themes, or issues. These
commonalities permitted the development of data results which determine the perceptions of nonprofit employees and board governance on the internal control of contributions.

**Reliability and Validity**

Creswell (2014) cited the importance of the researcher to provide the procedures undertaken for validating study findings and to convey the steps taken for accuracy and credibility of findings. Validity in qualitative research occurs when the data collected by the researcher is reasonably accurate to the features and subtleties of the entity being studied. Reliability in qualitative research exists when the approach by the researcher is consistent with other researchers and projects (Creswell, 2014; Leedy & Ormrod, 2016). Researchers are encouraged to include strategies for reliability and validity, as they attribute to the trustworthiness, credibility, confirmability and data dependability of their case study (Yin, 2014).

**Reliability.**

The objective of reliability in case studies is for the researcher to provide procedures which would allow a later investigator to conduct the same study and arrive at the same findings and conclusion. The goal of the objective is to minimize errors and bias in the study. The lack of reliability in a study may result in external reviewers becoming suspicious of case studies as a research method. Use of case study protocol and development of case study database can assist researchers in strengthening the reliability of their study (Yin, 2014). In this study, the researcher maintained consistency in the interview process with the semi-structured interview guide provided in Appendix A. Further, the researcher checked interview transcripts for obvious mistakes during transcription and ensured codes used in data analysis were consistent in meaning by continually comparing data to codes (Creswell, 2014).
Validity.

Creswell (2014) suggested validity as one of the strengths found in qualitative research for addressing trustworthiness, authenticity, and credibility of studies. Acknowledgment of validity should be addressed at the beginning of the study and viewed as evolving with understandings from traditional and contemporary perspectives (Creswell & Poth, 2018; Leedy & Ormrod, 2016). The use of multiple validity strategies augments the researcher’s capability to assess research findings and to convince readers of its accuracy (Creswell, 2014).

Internal validity strategies for case study include pattern matching, explanation building, time-series analysis, and logic modules (Yin, 2014). Creswell (2014) identified eight external validity strategies including: triangulation, member-checking, providing detailed descriptions of findings, clarifying researcher bias, presenting negative or inconsistent information, spending extensive time in the field, using peer debriefing, and reviewing of project by external auditor (Creswell, 2014). In this study, the researcher used NVivo®12 software in the identification of pattern matching to establish internal validity. External validity strategies implemented by the researcher in this study included: triangulation, member-checking, detailed descriptions of findings, and extensive time in the field.

Triangulation requires the researcher to examine multiple data sources of information in order to build a cohesive and coherent justification for the identified themes in the study (Creswell, 2014). The inclusion of triangulation in qualitative studies allows the researcher to get the meanings straight and to increase confidence in the evidence gathered. In addition, triangulation can contribute to differentiation and the ability to respect multiple views to see multiple meanings (Stake, 2010). In this study, the collection of data via participant interviews were compared to secondary data collected from policy and procedures for cash receipts and
deposits, IRS Form 990 filings, and other publicly available information for the nonprofit organization.

Member-checking permits the determination of accuracy in qualitative findings by taking themes or descriptions identified during the data analysis back to study participants for comment (Creswell, 2014; Yin 2014). Creswell and Poth (2018) cited member-checking as a technique critical to the establishment of credibility to the study as it permits participants to take a critical role in the study, as they are encouraged to share how the data analysis is representative of their experience. In this study, participants were provided transcripts of their interview to confirm accuracy of responses and development of emerging themes.

The researcher provided detailed descriptions of study findings. The inclusion of detailed descriptions of the participants or study setting permits the reader to make decisions on the transferability of the study and transports them to the setting. Thick descriptions occur when the researcher provides extensive details on the case and its themes and emerges through the researcher’s account of the physical, movements, and activities occurring in the study (Creswell, 2014; Creswell & Poth, 2018).

Extensive time was spent with participants by the researcher in the collection of data via interviews. Despite the absence of guidelines, tests of adequacy, or power calculations available to establish sample sizes in qualitative research, the study was within the 20-30 interview range for qualitative research methods (Creswell & Poth, 2018; Emmel, 2013). This interview range was expected to provide enough information for the study to fully develop, or saturate understanding of the themes.
Transition and Summary of Section 2

The purpose of this qualitative case study was to add to the understanding of strategies implemented by small Virginia nonprofit organizations to avoid opportunities for theft of cash contributions. The researcher explored the perceptions of nonprofit employees with cash handling responsibilities, Executive Directors/CEOs, and board members on the internal controls of contributions. Section 2 described the role of the researcher, participants, research method and design, population and sampling, data collection, data analysis, and validity and reliability of the study.

In the next section, details include results and application of the study. Study results provide nonprofit employees, Executive Directors/CEOs, and board members with opportunities to enhance their internal controls over cash contributions and decrease the occurrence of fraud in such settings. Section 3 describes the findings, identified themes, patterns and relationships during the data collection process. The researcher provides application of the study to professional practice, recommendations for action and further study, reflections on the research process, summarize the results, and concludes with salient points of the research.
Section 3: Application to Professional Practice and Implications for Change

Section 3 will provide the summarized results and analysis of the study. The results and analysis were collected from 24 participants representing eight nonprofit organizations, which focused on perceptions of internal controls over contributions. In this section the researcher presents an overview of the study, presentation of the findings, and application to professional practice. In addition, recommendations for actions and future study, reflections, and study conclusions are provided.

Overview of the Study

The purpose of this qualitative case study was to understand the perceptions of nonprofit employees and board governance on the internal controls of contributions. This study intends to determine the strategies used by small nonprofit organizations located in the Commonwealth of Virginia to prevent cash embezzlement. Results from the research are expected to contribute to the body of literature on nonprofit organizations in their development and use of internal controls. Although multiple researchers have indicated the need for greater awareness of internal controls in nonprofit organizations, there is very little empirical evidence of its activity (Connors, 2011; Maguire, 2013). Gregory (2017) stated the development and implementation of internal controls in small nonprofit organizations to reduce cash embezzlement is still in its early stages and there is need to continue research to identify and mitigate risks for management.

The researcher collected data through 21 face-to-face interviews, 3 telephone interviews, observations, review of organizational websites and IRS Form 990, and supporting documentation from nonprofit employees, management, and board members on their perceptions of the internal control policies and processes in place for cash handling. Design of the study focused on four central research questions which addressed theories of governance, agency,
internal controls, and fraud respectively. The first question focused on the generation of cash management guidelines to prevent the misappropriation of cash contributions. The second question addressed differences in key governance aspects related to cash contributions as viewed by the nonprofit management and board of directors. The third question focused on the organizations’ assurance in understanding the internal controls over cash contributions by those directly involved with its management. The fourth question addressed the perception of the organization in its role to assess and determine cash management guidelines to prevent the misappropriation of cash contributions.

The researcher initially sent Institutional Review Board (IRB) approved permission letters to 16 nonprofit organizations requesting their participation in the study. The nonprofit organizations were selected based upon the criteria established in Section 2. Criteria included participants who were classified by the Internal Revenue Service as a 501(c)(3) public charity who annually filed the IRS Form 990, had a maximum of $2,000,000 in revenues, employed less than 50 employees, accepted cash contributions through fundraising or sales of goods and services, and were located in the Commonwealth of Virginia. From this initial request, responses were received from 9 nonprofit organizations with 6 returning permission letters and 3 indicating that they were not interested in participating. Within 11 days of the initial request, the researcher sent permission letters to 3 more nonprofits with 2 returning their permission letters for inclusion in the study. In total, 19 nonprofit organizations were contacted with 8 returning permission letters to indicate willingness to participate in the study; 42.1% acceptance rate.

Upon receipt of the permission letter, which requested the Executive Director to provide contact information for an employee who handles cash receipts and deposits and a board member, a recruitment email with attached consent letter was sent to individual participants.
Both contents of the recruitment material used in the email and the attached consent letter were previously approved by the IRB for use in the study. The researcher then followed up with an email or phone call to discuss participation in the study and to set up an appointment time for the interview. Interviews commenced when the researcher received the signed consent form. Each interview began with thanking participants for meeting to discuss their perceptions of internal controls over cash contributions in nonprofit organizations and reiterated the confidentiality of the study. Participants were encouraged to answer the interview questions to the best of their ability and the researcher requested verbal permission to record the conversation and to take notes. After the completion of the interview questions, the digital voice recorder was turned off and participants were asked if there was anything else not previously discussed that would be helpful to the study. Responses to this request were recorded in a notebook kept by the researcher.

The research study concluded with a total of 24 participants, consisting of 3 individual interviews from each of the selected eight nonprofit organizations located in the Commonwealth of Virginia. Of the 24 interviews, 13 were held at the nonprofit organizations, 5 were held at business offices, 2 were held at homes, 1 at a local café, and 3 were conducted via telephone. All interviews were conducted during May and June of 2019. Saturation in data collection was reached upon completion of interviews with the eighth nonprofit organization.

Data was triangulated through the inclusion of participant interviews, member-checking, and field notes which recorded observations and comments made by the participant after the digital recording was completed. Upon the start of data collection, the researcher noted any unusual or uncommon reactions to the research questions and recorded those in the field notes. Once data collection was completed, the researcher instituted member-checking. As one of eight
external validity strategies, member-checking determines the accuracy of qualitative findings by “taking the final report or specific descriptions or themes back to participants and determining whether these participants feel that they are accurate” (Creswell, 2014, p. 201). Within 5 days of completing the interview, participants were emailed a Microsoft® Word file attachment containing a copy of their interview transcript, with the body of the email containing initial themes. Within the email was a request for participants to review the transcript and the initial themes identified and if any discrepancies were noticed, to please email them to the researcher within 10 days of email receipt.

In conducting the individual interviews, 21 of the interviews were face-to-face, while 3 of the interviews were via telephone per request of the participant. Each participant answered questions relating to:

- background and demographics (4 questions)
- general questions on primary functions or duties, perception of management’s role in supervision of cash receipts, perception of role the board of director(s) plays in oversight of cash assets, procedures for reporting cash theft, and effect of cash embezzlement on the organization (5 questions)
- specific questions relating to the role of the participant: for staff performing cash handling duties, for management overseeing staff, and for members of the board of directors (5-7 questions).

**Participant Demographics**

The eight nonprofit organizations encompassed the single embedded case study. Figure 5 below summarizes participants in the study based upon titles, years associated with the nonprofit, previous nonprofit experience, and educational level. The prefix presented by each participant
demographic is used as identification in the study findings. A mix of Executive Directors, support staff, Vice Presidents, Presidents, and board members participated in the study. Six participants indicated having no prior nonprofit organizational experience. Seven of the participants were associated with the nonprofit for 3 years or less, while twelve participants were associated with the nonprofit for a period of 4-10 years. Four participants had been associated with the nonprofit between 11-20 years and one participant had over 36 years of association with the nonprofit.

ORG 1

- ED 1 - Executive Director - 7 years - prior nonprofit experience - Masters
- AED 1 - Assistant Executive Assistant - 3 years - prior nonprofit experience - High School and some college
- BD 1 - Board Chairman - 4 years - prior nonprofit experience - Juris Doctorate

ORG 2

- CEO 2 - President/CEO - 2 years - no prior nonprofit experience - Masters
- VP 2 - Vice President of Operations - 12 years - prior nonprofit experience - Bachelors
- T 2 - Board Treasurer - 1.5 years - prior nonprofit experience - Bachelors and Current CPA Licensure

ORG 3

- P 3 - President - 9 years - no prior nonprofit experience - Masters
- VP 3 - Vice President - 9 years - no prior nonprofit experience - Masters
- BD 3 - Board Member - 3 years - prior nonprofit experience - Bachelors
ORG 4
- ED 4 - Executive Director - 14 years - no prior nonprofit experience - High School
- T 4 - Treasurer - 8 years - prior nonprofit experience - Masters and CPA Licensure
- BD 4 - Board Chairman - 3 years - prior nonprofit experience - MD (Retired Physician)

ORG 5
- ED 5 - Executive Director - 10 years - prior nonprofit experience - Associates and Bachelors
- AED 5 - Assistant to the Executive Director - 4 years - prior nonprofit experience - Associates
- T 5 - Treasurer - 1 year - no prior nonprofit experience - Bachelors and CPA Licensure

ORG 6
- ED 6 - Executive Director - 1.5 years - prior nonprofit experience - Doctorate
- DDA 6 - Director of Development and Administration - 4.5 years - prior nonprofit experience - Masters
- T 6 - Treasurer - 6 years - prior nonprofit experience - Bachelors and Non-active CPA Licensure (Retired)

ORG 7
- ED 7 - Executive Director - 7 years - prior nonprofit experience - Bachelors
- OM 7 - Office Manager - 12 years - prior nonprofit experience - High School and some college
- T 7 - Treasurer - 8 years - prior nonprofit experience - Bachelors

ORG 8
- P 8 - President/Co-Founder - 36.5 years - prior nonprofit experience - Bachelors and some Graduate Studies
- VPA 8 - Vice President of Administration - 10 years - no prior nonprofit experience - Bachelors
- S 8 - Secretary - 17 years - prior nonprofit experience - Masters
Figure 5. Summary of interviewed participants by title, number of years associated with the nonprofit, previous nonprofit experience, and educational level. Source of data from participant interviews.

The researcher recorded the interviews using a digital voice recorder, uploaded the interview to their personal computer via USB port, and then transcribed the interview for data analysis. Efforts by the researcher to preserve confidentiality were maintained by assigning a code to each participant as 0101, 0102, 0103, 0201, 0202, 0203,…0803. Upon completion of all 24 interviews, the researcher then uploaded the transcript prepared in Microsoft® Word to NVivo®12 software for coding to identify themes. Through the completion of the analysis of the data collected, the researcher identified 11 main themes. These themes include board governance, communication, contribution, development of policies and procedures, efficiency, fiduciary duty, leadership, resource availability, separation of duties, training, and trust.

Research question 1 which focused on the generation of cash management guidelines to prevent the misappropriation of cash contributions was addressed with themes of board governance, separation of duties, development of policies and procedures, and efficiency. Support for research question 2 which focused on perception differences by nonprofit board and management on key governance aspects related to cash contributions was addressed with themes of board governance and resource availability. Research question 3 which focused on how the nonprofit organization ensures understanding of internal controls over cash contributions by those directly involved with its management was addressed with themes of communication, separation of duties, development of policies and procedures, training, and trust. Support for research question 4 which addressed how nonprofit organizations perceive their role in assessing and determining cash management guidelines to prevent cash misappropriation was addressed with themes of board governance, communication, contributions, separation of duties, efficiency,
fiduciary duty, leadership, and training. The paragraphs below provide an overview on each of the eight nonprofit organizations participating in the study, descriptions of themes, and study results.

**Overview of Participating Organizations**

Profiles from selected nonprofit organizations were established based upon interviews, examination of organizational websites, and review of 2016 IRS Form 990. Figure 6 below provides details on years of existence, number of board members and revenue totals for each of the eight 501(c)(3) public charities participating in the study.

*Figure 6.* Specifics of participating organizations including years of existence, number of board members, and approximate revenue for 2016. Source of data from nonprofit organization websites and GuideStar.org.

**Organization 1 (ORG 1)**

ORG 1 is recognized by the Internal Revenue Service as a 501(c)(3) public charity and is the oldest of the eight nonprofit participants, having been in existence for close to 50 years. The
organization maintains two thrift shops and one building which houses administrative and staff offices and provides shelter to community members. The primary mission of ORG 1 is to provide shelter and food for the homeless.

As of 2019, four individuals serve in an administrative capacity in the organization: Executive Director, Assistant Executive Director, Director of Marketing and Development, and Case Manager. Five individuals serve as support staff holding titles of Case Manager, Thrift Store Manager, Building and Ground Manager, After School Program Coordinator, and Chaplain. The employee who serves the organization in an accounting capacity is a licensed CPA.

Governance through the Board of Directors consists of 12 board members, four of whom serve in officer positions. All board members serve as voting members of the governing body. Board members include attorneys, bankers, retired law enforcement, and administrators.

The organization’s 2016 IRS Form 990 indicated revenue of approximately $1.3 million. Primary sources of revenue are from individual donors, community-based grants, churches, and civic organizations. Although the organization receives private and governmental grants, they are not included for purposes of this study. Of the revenue generated, approximately 55% is from the two thrift store operations and 3.2% is from two major fundraising activities. The organization is heavily dependent on the public, which contributes 87.5% of their support. In addition to financial support, the organization reported close to 1,600 volunteers contributing approximately 6,500 hours of service in 2016 (GuideStar, 2019).

Sources of data for ORG 1 included face-to-face interviews with the Executive Director, Assistant Executive Director, and Chairman of the Board, notes taken during and after interviews, review of the organization’s website, examination of the policy and procedures
Organization 2 (ORG 2)

ORG 2 is recognized as a 501(c)(3) public charity by the Internal Revenue Service and has been in existence for close to 40 years. The organization maintains three locations to provide medical assistance to expectant mothers. The organization’s services are free and confidential to all they serve regardless of race, income, or religion.

As of 2019, ten individuals serve in a staff capacity in the organization: CEO/President, VP of Medical Services, VP of Operations, VP of Advancement, VP of Patient Services, Director of Events, Office and Events Coordinator, Nurse Manager, and two Directors of Patient Services serving different geographic locations.

Governance through the Board of Directors consists of 9 members, with a minimum requirement of 5. Officers consist of Chairman, Vice Chair, Secretary, and Treasurer. The board does not have subcommittees. All board members serve as voting members of the board body. Board members include an attorney, a pastor, a medical doctor, and a CPA who serves as Treasurer.

The organization’s 2016 IRS Form 990 indicates revenues of close to $500,000. Primary sources of revenue consist of 51.4% from contributions and grants, and 47.7% from three major fundraising activities. For purposes of this study, grants are not included. The public provided 90.46% of support to the organization, along with 43 volunteers donating their time and efforts (GuideStar, 2019).

Sources of data for ORG 2 included face-to-face interviews with the President/CEO, Vice President of Operations, and Treasurer of the Board, notes taken during and after interviews, review of the organization’s website, examination of the policy and procedures
provided by the Vice President of Operations, and review of the 2016 IRS Form 990.

**Organization 3 (ORG 3)**

Recognized by the Internal Revenue Service as a 501(c)(3) public charity, ORG 3 is the youngest of nonprofit participants, having been in existence for close to 10 years. The organization does not maintain a formal office space. The process of cash handling and maintenance of cash accounts is housed at the President’s personal residence. The nonprofit’s mission is to provide support to pediatric cancer patients and their families in the local community.

As of 2019, the Board of Directors consisted of 8 members with 4 serving in officer positions of President, Vice President, Secretary, and Treasurer. Per bylaws there are no employees and board members are to serve in a voluntary capacity without compensation.

ORG 3 is the smallest nonprofit in the study, based upon revenue totals, and meets requirements to file the short form of the IRS Form 990. The organization’s 2016 Form 990 indicated revenues of approximately $100,000. Primary sources of revenue include grants, donations, and two annual fundraisers, contributing 47.5%, 9.5%, and 43% of revenues, respectively. The public contributed 99.91% of support to the organization during 2016 (GuideStar, 2019).

Sources of data for ORG 3 included two face-to-face interviews with the President and Board Member, one telephone interview with the Vice President, notes taken during and after interviews, review of the organization’s website, and the 2016 IRS Form 990. There were no existing policy and procedures for cash receipts and deposits available for review by the researcher.
**Organization 4 (ORG 4)**

ORG 4 is recognized by the Internal Revenue Service as a 501(c)(3) and has been in existence for close to 30 years. ORG 4 has the largest level of revenue of study participants. The organization is housed in one building and its mission is to provide medical and dental services to those who do not have the necessary financial resources to obtain basic healthcare services.

As of 2019, the nonprofit has 23 staff providing medical and dental services, including an Executive Director. Governance through the Board of Directors consists of 15 members, with 4 serving in officer positions of Chairman, Vice Chairman, Secretary, and Treasurer. All board members serve as voting members of the board body. The Board includes members with doctoral, divinity, and accounting degrees. The Treasurer of the Board is a CPA.

The organization’s 2016 Form 990 indicates over $1.6 million in revenues. Primary sources of revenue are derived from contributions, grants, and program service revenue. For purposes of this study, grants are not included. The organization hosts one annual fundraising event which contributes close to 1% of revenue with no direct expenses incurred from the event. Support received from the public is 49.54% of the organization’s total support. In addition to financial support, the organization reported close to 70 volunteers who contributed services valued at over $53,000 in 2016 (GuideStar, 2019).

Sources of data for ORG 4 included face-to-face interviews with the Executive Director, Treasurer, and Chairman of the Board, notes taken during and after interviews, review of the organization’s website, examination of the policy and procedures provided by the Executive Director, and the 2016 IRS Form 990.
Organization 5 (ORG 5)

ORG 5 has been approved by the Internal Revenue Service as a 501(c)(3) organization. ORG 5 has been in existence for close to 35 years. The organization is housed in two buildings on one property. The organization’s mission is to provide therapeutic services to nonviolent offenders transitioning into healthy community living.

As of 2019, the nonprofit has 14 employees and staff. Governance through the Board of Directors consists of 21 members, of which 4 serve in officer positions of Chair, Vice Chair, Secretary, and Treasurer. All board members serve as voting members of the board body. The Board includes members with doctoral and accounting degrees. The Treasurer of the Board is a CPA.

The organization’s 2016 Form 990 indicates approximately $750,000 in revenues. Primary sources of revenue are derived from contributions, grants, and program service revenue. For purposes of this study, grants are not included. Fundraising events by the organization generated close to 1.5% of revenue with no direct expenses reported from these events. Support received from the public generates 81.91% of the organization’s total financial support. In addition, 20 volunteers contributed services to the nonprofit organization (GuideStar, 2019).

Sources of data for ORG 5 included two face-to-face interviews with Executive Director and Assistant to the Executive Director, one telephone interview with Board Treasurer, notes taken during and after interviews, review of the organization’s website, examination of the policy and procedures provided by the Executive Director, and review of the 2016 IRS Form 990.
Organization 6 (ORG 6)

ORG 6 is recognized by the Internal Revenue Service as a 501(c)(3) public charity and has been in existence for 20 years. The organization is housed in two buildings near one another, one which serves as a community center and the other as an administrative office. The organization exists to serve all members of the community by promoting personal growth and community well-being.

As of 2019, the nonprofit has 5 employees and staff who serve in positions of Executive Director, Director of Development and Administration, Volunteer & Community Care Coordinator, Activities & Program Coordinator, and Kitchen Coordinator. Governance through the Board of Directors consists of 8 members, of which 3 serve in officer positions of Chair, Secretary, and Treasurer. All board members serve as voting members of the board body. The Board includes members with doctoral and accounting degrees. The Treasurer of the Board is both a retired Chief Financial Officer and CPA.

The organization’s 2016 Form 990 indicates approximately $250,000 in revenues. Primary sources of revenue are derived from contributions, grants, and program service revenue. For purposes of this study, grants are not included. Seven fundraising events by the organization netted over 15% of total annual revenue. Support received from the public is 84.79% of the organization’s total support. In addition to financial support, 300 volunteers contributed services to the nonprofit organization (GuideStar, 2019).

Sources of data for ORG 6 included face-to-face interviews with Executive Director, Director of Development and Administration, and Treasurer, notes taken during and after interviews, review of the organization’s website, examination of the policy and procedures
provided by the Director of Development and Administration, and review of the 2016 IRS Form 990.

**Organization 7 (ORG 7)**

Approved by the Internal Revenue Service as a 501(c)(3) public charity, ORG 7 has been in existence for more than 30 years. The organization is housed in one location and provides daily care to adults to enhance their quality of life. Services provided by ORG 7 permit their clients to be an active part of both family and community environments.

As of 2019, the nonprofit has 7 employees and staff. Governance through the Board of Directors consists of 10 members, of which 3 serve in officer positions of Chairperson, Secretary, and Treasurer. All board members serve as voting members of the board body. The Board includes members with doctoral and finance degrees. The Treasurer of the Board is a banker.

The organization’s 2016 Form 990 indicates approximately $350,000 in revenues. Primary sources of revenue are derived from contributions, grants, and program service revenue. For purposes of this study, grants are not included. One annual fundraising event by the organization contributed close to 10% of total revenue with less than 3% of the fundraising revenue allocated to direct expenses from the event. Support received from the public is 93.53% of the organization’s total support. In addition to financial support, over 100 volunteers contributed nursing, management, choral, and art services to the nonprofit organization (GuideStar, 2019).

Sources of data for ORG 7 included face-to-face interviews with Executive Director, Office Manager, and Treasurer, notes taken during and after interviews, review of the
organization’s website, examination of the policy and procedures provided by the Executive Director, and the 2016 IRS Form 990.

**Organization 8 (ORG 8)**

In existence for more than 35 years, ORG 8 is recognized as a 501(c)(3) public charity by the Internal Revenue Service. The organization is housed on one property with extensive acreage. Their mission is to provide treatment and rehabilitation to wild animals and educational programs on various environmental issues.

As of 2019, the nonprofit has 21 employees and staff. Governance through the Board of Directors consists of 8 members, with 4 serving in officer positions of Chair, Vice Chair, Secretary, and Treasurer. All board members serve as voting members of the board body. The Board includes members with doctoral, master, and law degrees. The Treasurer of the Board holds a CPA license and is an auditor by training.

The organization’s 2016 Form 990 indicates over $1.6 million in revenues. Primary sources of revenue are derived from campaigns, contributions, grants, program service revenue, and fundraising. For purposes of this study, grants are not included. Fundraising consists of an annual benefit gala and multiple receptions which generate close to 12% of total revenue. Approximately 37% of fundraising revenue was allocated to direct expenses from the events. Support received from the public is 91.71% of the organization’s total support. In addition to financial support, over 200 volunteers contributed services to the nonprofit organization (GuideStar, 2019).

Sources of data for ORG 8 included face-to-face interviews with the Vice President of Administration and Secretary, telephone interview with the President, notes taken during and
after interviews, review of the organization’s website, examination of the policy and procedures
provided by the Vice President of Administration, and review of the 2016 IRS Form 990.

Presentation of the Findings

This section reveals the findings of this research project. The study was designed to
address four research questions. The researcher organized the presentation of the findings
around themes supporting each of the four research questions. Further, the findings of this study
enhanced the existing body of literature discussed in prior sections.

The purpose of this study was to understand the perceptions of nonprofit employees and
board governance on the internal controls of contributions. The researcher interviewed 24
participants from 8 nonprofit organizations in the Commonwealth of Virginia in the United
States. Interview questions supporting the four research questions focused on cash handling,
processes used for the development of policies and procedures and training, board governance in
the oversight of financial reporting, assessment of risk and potential for fraud occurrence.

Themes surfacing include board governance, communication, contributions, development
of policies and procedures, efficiency, fiduciary duty, leadership, resource availability,
separation of duties, training, and trust. Each theme is discussed below.

Theme 1 - Board Governance

Nonprofit governance is viewed as the set of safeguards used to accomplish obligations
and responsibilities to minimize the opportunity for the mismanagement of assets (Harris et al.,
2015). Governance is likely to be considered effective when it seeks to ensure accountability,
transparency, care, loyalty, obedience, and fairness (Committee of Sponsoring Organizations of
the Treadway Commission, 2014; Gazley & Nicholson-Crotty, 2018). The Committee of
Sponsoring Organizations of the Treadway Commission (2014) identified responsibilities for the
board of directors to include approval of strategic decisions, overseeing execution and ensuring accountability, establishing appropriate boundaries, and fairness and transparency. Donors’ interest in nonprofit governance provides them with an understanding of the safeguards and efficient use of their monetary contributions (Harris et al., 2015).

Participant interviews identified five subthemes to board governance. Those subthemes included: establishment and amendment of protocols, Audit, IRS Form 990, Financial Reporting, and member preparedness. Each is discussed in detail below.

**Establishment and amendment of protocols.**

The National Council of Nonprofits (2018) identified board roles which direct the organization toward sustainability with the adoption of sound, legal, and ethical policies of governance and financial management in order to provide resources necessary to advance the mission. Board members recognized the importance of having protocols in place for cash management and was generally viewed as a role to which great reliance was placed in the expertise of the Board Treasurer. Expectations of and by the board were to make sure the protocols were in place and that they remained current.

ED 1 described the role of the board as to pass and approve protocols with amendments as necessary. With no amendments made since becoming a board member, ED 1 indicated there was reliance on staff to follow implemented protocols and to address issues with staff if not followed. T 4 voiced a different approach to the establishment of the protocols and believed most board members feel the responsibility for internal controls should be in the hands of the organization’s external auditor. T 4 expressed concerns that board members rarely pay attention to internal controls and if they do, it is the auditor’s version that may not be customized to the needs of the organization.
Audit.

In addition to the establishment and amendment of protocols, Harris et al. (2017) identify audits as one of four governing mechanisms for use by board of directors. Completion of audits provide the nonprofit with credible information which can be used for decisions on resource allocations and improvements in systems and processes (Carey et al., 2013). Nonprofit organizations with $1,000,000 or more in gross revenue are required by the Commonwealth of Virginia to participate in the completion of an annual audit (Virginia Tax, 2019). ORG 1, ORG 4, ORG 5, and ORG 8 had the completion of an annual audit. Although falling below the required filing threshold, ORG 5 viewed completion of the audit as a best practice.

Reliance on audit results varied by nonprofit organization. T 4 and BD 1 had very different views on the level of emphasis placed on audit results. T 4 felt confident that audits would “catch the road mechanical things” taught in training but were not likely determine if the organization was charging, paying, and collecting appropriately. BD 1 indicated heavy reliance on audit results, with particular attention placed on the audit summary. Dependence on the audit was due to the belief that it would catch issues which may not have previously come to the board’s attention.

Differences in audit reliance between BD 1 and T 4 may relate to the educational and professional work backgrounds of the two individuals. T 4 has an undergraduate degree in accounting, CPA licensure, and prior to retirement served for many years as Chief Executive Officer for multi-million-dollar nonprofits. BD 1 has a Juris Doctorate and has over 20-year tenure practicing law.

Audit results are communicated differently among each of the organizations. ORG 1 provides a full copy of the audit to all board members and any issues are discussed at the next
board meeting. BD 3 indicated the audit results are not presented to ORG 3 board and would like for this to be a change in practice. ORG 4 reviews the audit results with the auditor and gives them a chance to meet with the board alone to discuss any comments about management and provides copies to all board members. ORG 5 has no in-person communication with the auditor and results of the audit are relayed through the Finance Committee with copies of the management letter provided to all board members. ORG 8 is the most extensive in their communication of the audit and recently changed their communication approach between the auditor and board members. S 8 stated discussions on the audit and its completion status were presented at each board meeting. Board members were kept abreast of when the audit was occurring, the status of preliminary reports, and subsequent receipt of the management letter. Over the past couple of years, ORG 8 board members began having a conference call with the auditor to ensure the board can hear directly from the auditor if there was an issue and to promote free flow of information between the parties. S 8 described this recent change to be a good move for the board.

Nonprofits are placing different levels of reliance on the audit despite indication by Carey et al. (2013) of the credible information it provides for useful decision-making. Communication of the audit both in preparation and completion indicates that some nonprofit boards are more informed of its status and overall results. Although rare, direct communication provided by the auditor to board members was valued and reduced potential selectivity by some board members of audit areas discussed between both parties.

**IRS Form 990.**

As an annual information return, IRS Form 990 is required to be filed with the Internal Revenue Service by most organizations with the section 501(c)(3) income exemption (Internal
Revenue Service, 2019). Participants indicated active contribution by both executive management and board members in the gathering of documentation and reports needed to prepare the form. The same CPA or CPA firm completing the audit generally prepares the IRS Form 990. ORG 5 has a Finance Committee Board Member, who is an accountant by trade, prepare the IRS Form 990 for the organization.

T 2 and ED 6, both in their second year of service to the organization, recognized that the Form 990 needed to be coming to the board. ORG 2 has implemented procedures to bring the IRS Form 990 to the entire board for review prior to filing, as T 2 wanted assurance that the financials agreed to year-end amounts shown on the document. ORG 6 is planning to implement changes for the IRS Form 990 to extend the review of the document, prior to filing, to all board members and not just the Treasurer.

Using GuideStar.org, the 2016 IRS Form 990s were downloaded for the nonprofit organizations. Specific questions from IRS Form 990 Part VI: Governance, Management, and Disclosure and Part XII: Financial Statements and Reporting are provided in Table 4 and Table 5, respectively.
### Table 4

**IRS Form 990 Part VI: Governance, Management, and Disclosure**

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5. Did the organization become aware during the year of a significant diversion of the organization’s assets?</strong></td>
</tr>
<tr>
<td>Yes – none</td>
</tr>
<tr>
<td>No – ORG 1, ORG 2, ORG 4, ORG 5, ORG 6, ORG 7, ORG 8</td>
</tr>
<tr>
<td>N/A – ORG 3</td>
</tr>
</tbody>
</table>

| 11a. Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form? |
| Yes – ORG 1, ORG 2, ORG 6, ORG 7, ORG 8 |
| No – ORG 4, ORG 5 |
| N/A – ORG 3 |

**11b. Describe in Schedule O the process, if any, use by the org. to review this Form 990.**

- ORG 1 - Review by Executive Director and Treasurer
- ORG 2 - Review by Board
- ORG 3 – N/A
- ORG 4 – Provided to the governing body. The Finance Comm. reviewed the return for errors.
- ORG 5 – Members of the Finance Comm. and the Treasurer review Form 990 before it is filed.
- ORG 6 – The 990 is reviewed by the Treasurer before it is filed.
- ORG 7 – Review by the Executive Director and Treasurer before filing.
- ORG 8 – Board members received a draft Form 990 for review prior to filing.

| 12a. Did the organization have a written conflict of interest policy? |
| Yes – ORG 1, ORG 2, ORG 4, ORG 5, ORG 6, ORG 7, ORG 8 |
| No – none |
| N/A – ORG 3 |

| 13. Did the organization have a written whistleblower policy? |
| Yes - ORG 1, ORG 2, ORG 7, ORG 8 |
| No – ORG 4, ORG 5, ORG 6 |
| N/A – ORG 3 |

| 14. Did the organization have a written document retention and destruction policy? |
| Yes – ORG 1, ORG 2, ORG 5, ORG 7, ORG 8 |
| No – ORG 4, ORG 6 |
| N/A – ORG 3 |
Over half of participants are providing a full copy of the IRS Form 990 to board members prior to filing it with the Internal Revenue Service. Varying degrees of understanding by board members on the content presented in the IRS Form 990 was expressed. S 8 described confusion by some board members and indicated “…members may be overwhelmed with the layout of the 990. There is just too much stuff that doesn’t make sense to them.” Responses to questions on policy existence indicated that all have a conflict of interest policy, while over half have written whistleblower policies and document retention and destruction policies.

In expansion of the response to question 5 listed above in Table 4 taken from IRS Form 990 Part VI: Governance, Management, and Disclosure, all nonprofits filing the form provided a ‘No’ response to the question which addressed awareness of a significant diversion of funds in the organization during the year. The IRS defines a diversion of assets as “any unauthorized conversion of use of the organization’s assets other than for the organization’s authorized purposes, including but not limited to embezzlement or theft” (Internal Revenue Service, 2019, p. 22). The diversion is considered significant when the gross value of all diversion discovered during the taxable year “exceeds the lesser of (1) 5% of the organization’s gross receipts for its tax year, (2) 5% of the organization’s total assets as of the end of its tax year, or (3) $250,000” (Internal Revenue Service, 2019, p. 23).

Study participants serving in a board member capacity were asked: Can you describe what the term ‘significant diversion of funds’ as it relates to the IRS Form 990?” Responses to the question varied. BD 3 stated “I don’t know what that would mean. Should I know what means?” T 6 expressed, “No, I don’t think I can.” BD 4 was creative in responding “No, I’m sure that it means a percentage of net assets or revenue or something like that, but I don’t know
what it is.” Responses from BD 1, T 2, T 5 and S 8 appeared to have responses which aligned more closely with the IRS definition. BD 1 stated, “sounds like a euphemism for embezzlement, essentially that is the nice term.” T 2 considered it include a “drastic change from what you had from one year to the next and can that be explained.” T 5 indicated, “Is this in the context of misappropriation of assets? Like in the misappropriation of assets, like fraud and embezzlement.” S 8 replied, “I would think there is a substantial amount of money that isn’t where it’s supposed to be.” In addition to highlighted segments from IRS Form 990 Part VI: Governance, Management, and Disclosure, questions from IRS Form 990 Part XII: Financial Statements and Reporting, Form 990 preparation, and Form 990 signatory are included in Table 5 below.
Table 5

**IRS Form 990 Part XII: Financial Statements and Reporting**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes –</th>
<th>No –</th>
<th>N/A –</th>
</tr>
</thead>
<tbody>
<tr>
<td>2a. Were the organization’s financial statements compiled or reviewed by an independent accountant?</td>
<td>ORG 2, ORG 6, ORG 7</td>
<td>ORG 1, ORG 4, ORG 5, ORG 8</td>
<td>ORG 3</td>
</tr>
<tr>
<td>2b. Were the organization’s financial statements audited by an independent accountant?</td>
<td>ORG 1, ORG 4, ORG 5, ORG 8</td>
<td>ORG 2, ORG 6, ORG 7</td>
<td>ORG 3</td>
</tr>
<tr>
<td>3a. As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?</td>
<td>none</td>
<td>ORG 1, ORG 2, ORG 4, ORG 5, ORG 6, ORG 7, ORG 8</td>
<td>ORG 3</td>
</tr>
<tr>
<td>Form 990 prepared by:</td>
<td>CPA Firm</td>
<td>CPA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ORG 1, ORG 2, ORG 4, ORG 6, ORG 7, ORG 8</td>
<td>ORG 5</td>
<td></td>
</tr>
<tr>
<td>Form 990 signed by:</td>
<td>Executive Director</td>
<td>Board Chair</td>
<td>Board Treasurer</td>
</tr>
<tr>
<td></td>
<td>ORG 1, ORG 5, ORG 7</td>
<td>ORG 2</td>
<td>ORG 4, ORG 6</td>
</tr>
</tbody>
</table>

Note: Source was 2016 IRS Form 990 available from GuideStar.org. ORG 3 files the short form of Form 990 and was not included in table.
Less than half of participants indicated having their financial statements compiled or reviewed by an independent accountant, while over half had their financial statements audited by an independent accountant. Participants did not receive federal funding generating the need for an audit under the Single Audit Act and OMB Circular A-133. Most participants hired CPA firms, rather than individual CPAs, to complete the IRS Form 990 and Executive Directors were the most common signatories on the document when filed with the Internal Revenue Service.

**Financial reporting.**

Performance monitoring of resources and mission should be undertaken by the nonprofit’s governing body (Stewart & Diebold, 2017). Expectations from board governance to stakeholders includes the ability to manage resources both efficiently and effectively, along with expertise in financial attributes (Roshayani et al., 2018). Nonprofits need to understand the factors which promote a willingness within to engage in more effective performance management and governance should seek to align mission with operations (Liket & Maas, 2015; Mitchell & Berlan, 2018). Nonprofit board governance has the responsibility to exercise a duty of care which includes obtaining information which is truthful, timely, and valuable for decision making purposes (Hyatt & Charney, 2005; Neely 2011).

Oversight by board members of financial reporting was a common theme expressed by participants in all levels of the nonprofit organization. Financial reports prepared in the nonprofit organization are usually generated by management and are being reviewed on a monthly basis in preparation of the Treasurer’s Reports presented at board meetings. T 2 described receiving reports on a monthly basis after they have been prepared and reconciled by management. T 2 then reviews the documents and asks any questions to ensure full understanding prior to the board meeting where it is presented to the rest of the members.
Generation of the financial reports is viewed by CEO 2 as a “huge part of our accountability [to the Board] and I appreciate that they do a thorough review of our financials.” Part of the thorough review by the Board Treasurer is described by VP 2 as consisting of checks and rechecks, looking at trends, reporting to the board if they feel something is off or different. Understanding of trend identification by ORG 2 board of directors occurs through delivering financial reports in a 3-year comparative basis. This provides the organization with the ability to make sure nothing looks unusual or out of character given expected trends due to timing of fundraising events and donation inflows. Upon generation of the financial reports, T 5 recognizes that not all board members have the same recordkeeping and financial competencies and takes responsibility in translating the financial results to those board members.

**Member preparedness.**

Proper board governance requires the inclusion of board members who are capable of performing the tasks and responsibilities assigned. Hambrick and Mason (1984) identified functional knowledge and firm-specific knowledge as two specific competencies for board of director members, while Vermeer et al. (2009) identified the inclusion of a financial expert on the board of directors.

BD 1 indicated feeling prepared on understanding the practices and procedures of presenting the financial reports to the board, while admitting finances were not a strong suit. Despite this admittance, BD 1 recognized the importance of reviewing financial reports to understand what was going on in the organization. To include board members with financial expertise, T 2 described ORG 2’s interest in fulfillment of their Board Treasurer’s role stating they were hoping to include someone with key qualities of a background in finance and CPA licensure. Board members lacking financial expertise results in monitoring and assurance
concerns raised by ED 6 over lack of questions asked by board members in the areas of operations, execution of policies, understanding of cash transactions, communication directed toward management on problems and how they are being addressed. When prompted further on why questions are not asked, ED 6 responded that board members are not educated about their fiduciary responsibilities and role expectations, may be nervous, and lack understanding of financial reports and questions that should be asked of the documents.

**Analysis**

The theme of board governance highlighted the connectedness among governance, agency, and fraud theories. Board members recognized their role in passing and approving internal control protocols and reliance on staff to follow through with execution of those protocols to prevent misappropriation of cash. Participants identified expectations of and by the board were to make sure the protocols were in place and that they remained current. This intersection between governance, agency, and fraud recognizes the importance by the governing board in the monitoring of resources and mission (Stewart & Diebold, 2017). Governance is likely to be considered effective when it seeks to ensure accountability, transparency, care loyalty, obedience, and fairness (Committee of Sponsoring Organizations of the Treadway Commission, 2014; Gazley & Nicholson-Crotty, 2018).

In some instances, reliance was on the external auditor as the party responsible for internal controls with concerns that controls suggested may not be in alignment to the needs of each individual nonprofit. Jackson (2006) suggested that nonprofit organizational board members usually consist of movers and shakers who may be very good at soliciting cash donations but are unable to serve in a capacity to circumvent fraud.
Communication to board members in preparation of Audits and IRS Form 990s varied significantly among the participants. Fishman (2010) raised concerns that the complexity and time required for looking over such documents takes away from more valuable activities such as fundraising, development and strategic planning. Some participants viewed the audit as a means to catch issues not previously addressed by the board, while others expressed not much reliance on the process, as it does not highlight effectiveness of the organization.

Participants indicated IRS Form 990 was very confusing to board members and difficult to understand, with similar sentiments recognized in Gregory’s (2017) nonprofit study. Board governance over financial reporting was viewed by participants as a checks-and-balance or oversight role. Gregory (2017) noted the heavy reliance placed on executive directors in oversight of financial activity. Many participants were dependent on the Board Treasurer’s competencies in finances and recordkeeping to decipher the financial reports to other board members who lacked such understanding. Lack of understanding by board members of questions asked regarding assigned duties, suggests concerns over the effective monitoring and assurance extended to such responsibilities. Hilton (2016) indicated nonprofit governance over federal accountability can be burdensome for board members who may not have financial expertise to understand, much less review, the required documents for federal compliance. Further, the lack of questioning by board members as part of their financial oversight roles may contribute to lack of detection of fraud or financial mismanagement (Cornforth, 2012; McNeal & Michelman, 2006).

Participants recognized the generation of cash management guidelines as a board role to which great reliance was placed in the expertise of the Board Treasurer (RQ 1). Differences by nonprofit management and board of directors existed in the establishment and amendment of
protocols (RQ 2). Executive management identified responsibility of the board in making sure protocols were in place and that they remained current, while another view taken by a board member indicated the establishment of protocols should be in the hands of the organization’s external auditor, citing board members rarely pay attention to internal controls. Perceptions by the nonprofit organization in its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions included heavy reliance on input from the Board Treasurer (RQ 4). Participants valued the accounting financial reporting competencies of the Board Treasurer and valued their insight in assessment and determination of cash management guidelines. Figure 7 below represents a word cloud created in NVivo® 12 using the words coded to the theme of board governance.

Figure 7. Words associated with the coding of board governance.
**Theme 2 – Communication**

Recognized as one of the five internal control principles identified in the Internal Control – Integrated Framework released by the Committee of Sponsoring Organizations of the Treadway Commission, communication serves as a vital component to nonprofit environments (Barra, 2010; McNally, 2013; Swinkels, 2012). Participants identified five different types of communication occurring in the nonprofit organization: Board to Management, Management to Board, Within Board, Employees, and Donors. Further, participants were asked to discuss how they would strategize communicating with donors if fraud occurred in the organization.

Communication from Board to Management is needed to ensure the existence of clear understanding of organizational objectives to employees and to address deviant actions by members of management. The communication between the board of directors and management should be periodically reviewed to assess how well they are working together and if there is consistency in their vision to achieve the organization’s goals. This consistency provides alignment between the principal’s expectations and the agent’s actions within the nonprofit setting (Turbide, 2012; Van Puyvelde et al., 2014). When alignment exists between the principal and agent parties, the nonprofit is likely to experience effective oversight, accountability, and communication. As Board Chairman, BD 1 indicated regular weekly email correspondence with the Executive Director, Assistant Executive Director, and Director of Marketing, and the Executive Committee to keep current on the events taking place in the organization.

Communication by Management to Board was primarily focused on activities which were financial in content and required working with the Board Treasurer or reporting on financial and strategic plans. DDA 6 indicated working closely with the Board Treasurer in
producing reports and making decisions that are financially related. DDA 6 valued the Treasurer’s input when trouble shooting to work though questions related to financial decisions. ED 5 expressed similar sentiments in communicating with the Board Treasurer for assistance with issues relating to entering receipts, payables, receivables, and double-checking of all month-end activity.

ED 6 recognized the oversight function of the board in making sure they have the best policies in place to manage cash and to make revisions in policies when necessary. Part of that responsibility was identified as making sure policies are carried out and the need to ask questions. Concerns that those questions are not being asked raises concerns over the monitoring and assurance roles expected by the board. CEO 2 indicated having the sole responsibility in reporting directly to the Board with communications centered on providing a thorough update on what has been occurring since the last board meeting and the status of the organization’s strategic direction for the year. VP 2 expressed the importance of making sure that the Board understands periods of time for cash flows in the organization and its contribution to planning and decision making.

Communication within the Board centered on participants’ reliance on the Board Treasurer in presenting, compiling, and assisting other Board members’ understanding of financial information. ED 6 expressed concerns that board members may not be educated about fiduciary responsibilities and may be nervous about not understanding the reports, their role, and the questions they should be asking about the reports presented to them. Similar sentiments were expressed by T 5 in board members may have the inability to translate financial results due to lack of recordkeeping and financial competencies. Nervousness could be heightened by the level of detail involved in the reports, for instance, BD 1 stated “our Treasurer will prepare a financial
report for the month on how we are doing relative to budget. It’s pretty extensive, usually 5-6 pages including his summary.”

With the focus of this study centering on small nonprofit organizations, the size also coincides with the ease of communication in the work settings. The smaller work settings of participants permitted greater opportunities for communication with employees and understanding of the issues being addressed throughout the workday. P 8 stated that the Executive VP, VP of Administration, and Office Manager all share an office in ORG 8. This closeness in proximity permits parties to be “very aware of what’s going on in our entry lobby where animals are admitted, where people from the public come in.” The close proximity of employees lends itself to an environment where if employees feel there is a concern, they might be more likely to express it to others. AED 5 expressed “if there is an issue in the organization, we communicate.” Great communication identified in ORG 5 extended to joint efforts by the organization in identifying locations of errors when they occur.

In addressing communication with donors, particularly in uncomfortable situations such as when fraud has occurred in the nonprofit organization, care must be exercised with donors. VP 2 felt the perception and reaction of challenging content is “a lot of perception and reaction is based on how you frame it.” Expectations of transparency become critical to the maintenance of trust between the nonprofit organization and donor. If fraud occurred, ED 1 felt transparency would include investigation of the situation and the restitution going forward.

In one instance where fraud did occur in ORG 8, P 8 indicated providing the opportunity for the accused to restore the funds and when she refused, they prosecuted the case and made it public. With insurance available to restore the provable losses, they were able to recover the entire loss.
P 8 stated, “Our communication with our donor is we are responsible for caring for your money, if someone takes it, we go get it and bring it back.”

**Analysis**

The theme communication focused on internal control and fraud theories. Communication benefits nonprofit organizations by providing understanding of expectations and accountability between both board and management, and management and employees. Communication contributed to the assurance by the nonprofit organization in the understanding of internal controls over cash contributions by those directly involved with its management (RQ 3). Barra (2010) and Schneider (2018) recognized the tone of management as playing an important role in the quality of management and board governance. Participants viewed communication by management as a vital component for ensuring policies and procedures were in place to manage cash and promote proper implementation by staff.

Communication by management extended to the board when revisions to the policies and procedures were warranted. Perceptions by the nonprofit organization in assessing and determining cash management guidelines to prevent misappropriation of cash contributions included activities which required working with the Board Treasurer (RQ 4). Heavy reliance of the Board Treasurer coupled with the lack of questions asked by board members to management raises concerns over the monitoring and assurance roles expected of board members.

Participants indicated the importance of communication in keeping abreast of events occurring in the organization and preparation of financial reports. The close physical proximity, which exists in small nonprofit organizations, enhanced the likelihood of expressing concerns when identified by the organization. Nonprofit organizations that seek to foster communication avenues within all levels are likely to find overall increased understanding of the preparation and
reporting of financial results, greater awareness of what is happening in the organization, recognition of efficiency and effectiveness of current policies and procedures, and transparency with donors. Figure 8 below represents a word cloud created in NVivo® 12 using the words coded to the theme of communication.

![Word Cloud](image)

*Figure 8. Words associated with the coding of communication.*

**Theme 3 – Contributions**

Contributions were received by participants in the form of cash, checks, debit cards, and credit cards. Receipt of contributions occurred either through mailbox, PO box, in-person, or organizational website. Changes in donor demographics impacts the form of payment used by the donor in contributing to the organization. Providing multiple options for the acceptance of payment and contributions by nonprofits, acknowledges the change identified by ED 1 which focused on the demographic differences in donors and their preference in transferring their
payment or contribution to the nonprofit. ED 1 noted “we have a lot of older donors, and they want to write checks and that’s fine. Our younger donors want to do credit card transactions online using our credit card module.”

QuickBooks is the most popular choice of accounting software of participants, with ORG 8 using software described by P 8 as “sophisticated financial recordkeeping software that is considered to be state of the art for nonprofits.” Nonprofits also identified the use of Excel for the purposes of recordkeeping and calculations. Prior to the arrival of ED 5 to ORG 5 and the implementation of QuickBooks, the nonprofit was using software that was designed by the bookkeeper himself. In being unable to gain access to this software, ED 5 shared concerns over the ‘homemade software,’ which did not permit the printing of reports directly from the system. With concerns over the manipulation of numbers and the importance of character and credibility in the field, ED 5 refused to use software and demanded the switch to QuickBooks.

In addition to QuickBooks, ORG 4 and ORG 6 used Donor Perfect software to record contributions received from donors. The software permits the organization to manage contributions received by donors according to time and amount. Since QuickBooks is not linked to Donor Perfect, employees are required to record contributions in both software systems. Third party vendors such as PayPal and EVENTBRITE were used to accept online payments and donations at organizational websites. Square devices have been implemented in ORG 3 and ORG 6 to accept payments onsite at fundraising and other revenue generating events. Use of third-party vendors, such as PayPal, EVENTBRITE, and Square, lessens the opportunity for tampering of funds. Amounts collected by the third-party vendor are automatically deposited into the organization’s bank account, which is linked on the organization’s behalf by the vendor.
Participants indicating the safeguarding of contributions through lockboxes, safes, and locked drawers to secure cash until deposited in the bank. Deposits ranged from daily to once a week. All organizations, with the exception of ORG 4, had a designated individual or two that would transport the deposit to the bank. ORG 4 had a representative from the bank arrive every Thursday to pick up the deposit in a locked deposit bag and to leave a new deposit bag for the following week’s deposit.

**Fraud occurrence in participating organizations.**

Despite the implementation and efforts in safeguarding cash contributions, three of the participating organizations experienced embezzlement. Two of those embezzlements were employee theft of cash and the other was unauthorized use of company credit card for personal transactions. In two of the instances, the employees were terminated, and one is awaiting trial. The upcoming trial has been publicized by the media.

To understand the perception of nonprofit employees and governance on the impact of cash embezzlement in the organization, participants were asked, “If donors were made aware that cash embezzlement has occurred, what would be the effect on your organization?” ED 1 shared the effect of cash embezzlement on the organization would depend upon the amount and believed as long as donors were aware of the actions taken after collecting evidence, donations would not be affected. T 4 thought the occurrence of cash embezzlement would not likely impact contributions but would jeopardize endowments received by the organization. BD 4 voiced “I think it would clearly and potentially impact future donations. And people want to give money to places that are squeaky clean.” VP 8 did not feel donor contributions would be impacted by cash embezzlement citing the level of loyalty and empathy of their donor base.
Participants indicated that impact on donations may not be extensive if donors were told of the situation, how it was handled, and what the organization has done to correct the issue to prevent it from occurring again. In addition, donor’s level of connection and commitment to the services provided by the nonprofit to the community may be strong enough to weather the fraudulent storm.

**Analysis**

The theme contributions focused on fraud theory. Participants recognized the changing landscape in the form of payment used in making contributions to the organization. With the exception of ORG 4, policies and procedures did not reflect guidance on the handling of contributions made via credit card or debit card transactions. ORG 4 cash procedures indicated reconciliation of credit card payments against daily credit card transactions and QuickBooks. Therefore, recognition of the change was not followed through in changes to cash policies and procedures. With many receiving funds electronically through third-party vendors (e.g. EVENTBRITE and Square), guidelines must reflect this change despite its absence in existing policies and procedures.

In addressing how the organization perceives its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions, participants indicated the use of computerized software and securitization of cash (RQ 4). All participants used a computerized accounting software package to maintain cash records, with QuickBooks as the most popular tool. Maguire (2013) recommended no one individual should be held responsible for fund management and indicate small nonprofit organization should have physical controls over assets. Participants indicated the use of lockboxes, safes, and locked drawers for the securitization of cash. Many of the guidelines used by participants included performing
reconciliations of deposit tickets or bank documents to financial reports prepared in the accounting software package for confirmation. Figure 9 below represents a word cloud created in NVivo® 12 using the words coded to the theme of contributions.

![Word cloud](image)

Figure 9. Words associated with the coding theme of contributions.

**Theme 4 – Separation of Duties**

Recognition of the importance of separating of duties in cash management can be very difficult to achieve in a smaller setting due to the lack of resources available for allocating responsibilities. Limited resources could be financial, human, or both. The inclusion of separating duties as part of policies for effective controls over the management of cash increases the cost and effort exerted by an employee to commit fraud and is likely to decrease its occurrence (Barra, 2010). One of five challenges identified faced by organizations implementing internal controls over financial reporting is the ability to segregate duties given limited resources.
Aguolu, 2018). Dzomira (2014) suggested separation of duties to include three areas: board governance from operations, operations from accounting, and custody of assets from accounting.

As representative of strong internal controls, nonprofit organizations need to assess how their inclusion impacts the effectiveness and efficiency of the internal controls over financial reporting. The goal for internal controls should provide assurance that less than a reasonable possibility for material misstatement exists in financial reports. Understandably, the more controls in place the greater likelihood of achieving this goal, however the more controls the greater the costs involved. Implementation of more controls requires the involvement of more employees to conduct controls and more time to produce financial statements. The balance of effectiveness (reliability) with efficiency (relevancy) by managers must be sought within the organizational environment (Dickins & Fay, 2017).

Participants stated auditors are communicating to nonprofits the importance of separating duties. ED 5 indicated the struggle in separation of duties for small organizations and stated that every year the external auditor discusses the dividing up of responsibilities to others. Recognizing that they are doing the best given the circumstances, it remains a talking point with the auditor. With continued growth, ORG 5 is hoping to receive funding for a full-time accountant to expand separation of duties.

ORG 2 recognized the need to separate duties for cash handling when VP 2 shared concerns with the new CEO 2. Those concerns centered on VP 2 feeling uncomfortable in being held responsible for a bulk of the steps involved from the time cash was received in the organization to its deposit in the bank. CEO 2 recognized that the change needed to be respectful, efficient, and safely so it is not shouldered by one person. When VP 2 approached CEO 2 about the need to further separate cash handling duties, it was to eliminate the risk so that
no one was “holding the load by themselves.” Further, the change needed to respect donors and the efficiencies in place that permitted quick responses to the receipt of contributions.

Participants understood the concept of separation of duties and some had moved forward with implementing changes in cash handling policies (e.g. ORG 2). Despite auditors communicating its importance, the small working environment permitted challenges when there were not enough staff on hand to separate the custody, authorization, and recordkeeping responsibilities. Discussed below is how each nonprofit participant handles separation of duties within the organization. Sources used included interview responses and policies and procedures manuals provided by the nonprofit organization.

**Separation of duties by participant organization.**

Much of the separation of duties in ORG 1 is a back-and-forth shuffle between AED 1 and the Data Entry Clerk. Initial custody is held by AED 1 in opening the mail or receiving the cash directly from the donor. Once received, the cash then moves to the Data Entry Clerk for recordkeeping in QuickBooks. Both AED 1 and Data Entry Clerk review bank deposit slip and content which make up the deposit. Final confirmation of deposit and supporting documentation of the deposit is made by the Executive Director and AED 1 makes the deposit. For cash donations received in the mail, receipts are provided in a thank you note that is created by the Data Entry Clerk and then signed by the Executive Director. Those making donations at the front desk are immediately provided with a receipt which is prepared by either AED 1, ED 1, or front desk clerk and then the processes described above for recordkeeping and deposit are enacted.

Separation of duties in ORG 2 is primarily held by staff member and VP 2. Staff member gets mail from mailbox and PO box, opens mail, makes copies of all checks and cash in
preparation of the deposit, stamps checks “For Deposit Only” and prepares deposit slip. VP 2 then compares deposit totals with staff member and if no issues takes the deposit to the bank at the end of the day. VP 2 records deposit in QuickBooks and Donor Perfect.

ORG 3 has very little separation of duties. P 3 collects the mail from the PO box, prepares the deposit, make the deposit, and assigns account codes to the bank statement when received. Custody is housed with P 3 and recordkeeping responsibilities are predominately performed by ORG 3’s external accountant. Some authorization duties are extended to board in approval of disbursements above a certain level. P 3 indicated authorization approval is required at $100. Access to the cash account has been extended to two additional board members, but DB 3 indicated cash management is exclusively held by P 3.

Changes in organizational layout of ORG 4 has directly impacted the number of people involved with cash handling responsibilities in the organization. Positions that were once involved with cash handling were not replaced with new hires when employees left the organization which directly impacted the level of separation in those duties. ED 4 stated “We do still have some separation of duties in the touching of cash, it’s just that there are not as many people involved as before.”

Cash is collected in ORG 4 by either ED 4 or front office personnel. Daily sheets recording cash collections is reconciled daily by staff and then given to ED 4, along with cash, for securing of funds and preparation of deposit ticket. ED 4 reviews the work summarizing the cash collected by staff and prepares the deposit ticket. ORG 4 is the only participant that has bank pick up of their deposit. Members of the Executive Committee will randomly check daily receipts and associated documentation, including deposit ticket and associated confirmations received from the bank.
Cash handling duties in ORG 5 are primarily held by AED 5 and ED 5 with a continuous shuffle back-and-forth between the two parties. AED 5 is tasked with collecting mail from PO box and opening of mail. AED 5 then gives the checks and cash received to ED 5 for copying and recording on donor sheet and QuickBooks. Any cash received by front desk employee is receipted in the receipt book and given to ED 5. All checks are stamped “For Deposit Only” by ED 5. ED 5 records all cash and checks received. AED 5 receives cash and checks from ED 5 for preparing deposit ticket and then makes the deposit.

Responsibilities for cash handling in ORG 6 are held almost exclusively held by DDA 6. Despite documentation which indicates responsibility allocations to an Office Coordinator, changes in staff have moved those responsibilities to DDA 6. DDA 6 opens mail, endorses all checks using the rubber stamp, prepares cash and checks for deposit, and takes deposit to bank. The only time anyone else is involved in the process is in the completion of the cash form which was recently added as an internal control for staff receiving cash for merchandise sales, locker fees, and fundraising events. The form requires staff to indicate the amount received, description of what the cash as collected, and staff signatures. There must be two signatures on the cash form which indicates a dual count of the cash has occurred.

Cash handling duties in ORG 7 are allocated to ED 7 and OM 7. Mail is collected by either ED 7 or OM 7. ED 7 or OM 7 enters checks and cash received into the Money Log. OM 7 stamps checks “For Deposit Only” by OM 7 and records them in QuickBooks, along with cash received. OM 7 tallies the deposit slip and takes deposit to bank. T 7 will audit and reconcile Money Log to bank statement and QuickBooks deposit entries.

Duties for cash handling in ORG 8 have been assigned to VPA 8, Vice President, development staff member, and Office Administrator. VPA 8 or Vice President collects mail
from PO box daily. Mail is opened by VPA 8 or Vice President. Cash and checks received in mail and from front desk coordinator are given to a designated member in the Development Department for custody until deposit is made. Development Department staff member prepares the deposit slip and makes a copy of the slip to record account codes which make up deposit. Copy of deposit slip, deposit slip, and cash and checks are given to either the Office Administrator or VP 8. Office Administrator verifies the report and then VPA 8 or Vice President takes the deposit to the bank.

**Analysis**

The theme separation of duties focused among governance, internal control, and fraud theories. Considered as a preventive measurement for fraud occurrence, separation of duties is considered just as important as employee background checks, ethical tone at the top, employee fraud hotlines, and system of checks and balances (Daugherty & Neely, 2012; Gallagher & Radcliffe, 2002; Jennings, 2015). All participants identified the inclusion of separation of duties in cash handling policies, however small working environments permitted challenges when there were not enough staff to separate custody, authorization, and recordkeeping responsibilities.

In exploring research question 4, how the nonprofit organization perceives its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions, BD 4 recognized the financial risks in managing cash in a small setting and voiced concerns over the lack of diversity existing in the cash management process; understanding that improvements may come at the expense of “creating more work for people who are often overworked to begin with and then they don’t see the value in it often times.” Although acknowledging that controls for separation of duties is an important part of an organization’s internal control process, T 6 shared the difficulty existing in ORG 6 to get work done and
transactions recorded with people who were capable was a challenge. T 6 voiced, “I think it was more of push to get the work done than there was much concern on controls.”

In addressing how the nonprofit organization generates cash management guidelines to prevent the misappropriation of cash contributions, the efforts by a few participants for the allocation of cash duties to other individuals in the organization remains weak (RQ 1). Many of the procedures are flawed from the beginning with only one employee opening mail, entire cash processes allocated to one individual, or a back-and-forth method between two employees. Maguire (2013) suggested small nonprofit best practices to include having two individuals involved with cash and the separation of bookkeeping and bank reconciliation. Further, in organizations where proper segregation of duties is not permissible due to the small environment, a board member should provide reconciliation duties for unopened bank statements and all transactions involving cash receipts and payments should follow the nonprofit organization’s cash management policy (Maguire, 2013).

In understanding how the nonprofit ensures understanding of the internal controls over cash contributions by those directly involved in its management, participants indicated separation of duties as a concern expressed by external auditors (RQ 3). Despite the concern, there appeared to be a lack of discussion on suggestions from the external auditor for process changes. Similarly, Gregory (2017) acknowledged the reduction in cash embezzlement risk though separation of duties and expressed similar findings that the size and hierarchy of the nonprofit organization prevented its achievement. Figure 10 below represents a word cloud created in NVivo® 12 using the words coded to the theme of separation of duties.
Theme 5 – Development of Policies and Procedures

Participants generally viewed responsibilities for the development of policies and procedures as a joint collaboration between executive management and the board. In discussing the importance of exerting the effort and hard work necessary to create policies and procedures, ED 1 expressed the protection it provides from theft from the organization and protection for staff. Having experienced theft ED 1 stated, “I do very carefully think through the process and make sure it is fair for both sides and not just one side.” Subthemes of prior experience, consultation, expertise of board members, and communication were identified in the development of policies and procedures. Details for each subtheme are discussed below.
Prior experience.

Understanding of the policies and procedures which have worked well in similar settings can provide new hires with clarity on where weaknesses exist in current processes and identification on where enhancements can be made. Within 16 months of the arrival of ED 6 to ORG 6, one of the first changes instituted was the introduction of a purchase order form for use by staff in making purchases and a cash receipts form for use anytime cash is collected. Development of the cash receipts form for ORG 6 enhanced policies for cash handling and increased accountability of the staff involved in its daily collection.

ED 4’s prior experience in bank management, led to the suggestion of creating policies and procedures to provide guidance and understanding on performing tasks. Prior to her arrival, there were no written policies and procedures in place for cash handling. Although recognizing the importance of having the policies and procedures written down, ED 4 also saw it as contributing to the organization’s succession planning.

Consultation.

Consultation with others was likely to occur in the development of new policies and procedures. Participants were likely to include the Board Treasurer in discussions, while ORG 1 and ORG 8 indicated using an outside consultant in preparing practices and policies. ORG 2 was in the final stage of formalizing organizational policy and procedures, which included internal controls. VP 2 had identified piecemealing of prior policies and procedures and had recently attended training which provided resources, one of which was a model to begin writing the policies and procedures document.
**Expertise of board members.**

Many participants relied heavily on the inclusion of their Board Treasurer, and other board members with knowledge of accounting, in the creation of policies and procedures. ED 5 recognized the inclusion of both the Board Treasurer and board member with CPA credentialing for guidance during times of change, which influenced policies and procedures. ED 5 acknowledged the fiduciary responsibilities, due diligence, and reputation of the organization in the creation and development of such policies and procedures.

One method used by ED 5 in generating inclusion areas for policies and procedures was round tabling with the Treasurer or Finance Committee. The inclusion of others promoted the exercise of care and due diligence in the process. In recognition of the responsibility involved in preparing procedures which are effective in cash handling and management, ED 5 expressed, “here you are working with residents who are already being looked at in a particular way, the last thing you want is for them to be in an environment where the integrity of cash funds is being questioned.”

Working as an auditor, T 5, who is a CPA, expressed how his work experience has provided “a good idea of what to look out for, what can be effective.” ORG 7 is highly dependent on their Board Treasurer who is a banker and ED 7 recognized dependence on the guidance and expertise of T 7 on the creation of strategies for cash management. One of the areas mentioned multiple times in T 7’s interview was the importance of dual controls in the processes from start to finish.

**Communication.**

Nonprofits should be receptive to the input of those directly impacted by the policies and procedures. CEO 2 indicated conversations with VP 2 who expressed concerns over the lack of
segregation of duties in the completion of their job handling duties. Communication between organizational management prompted the need to evaluate responsibilities for current cash handling and to adjust the development and formalization of policies and procedures moving forward. ED 4 raised similar communications in conversing with her predecessor. Prior to the arrival of ED 4, ORG 4 was primarily volunteer based. With a banking background, ED 4 spoke with the executive director at the time and “made up some rules on how things should be done and then we can go forward with people knowing how to take care of things rather than just doing it.” Not only did this create written policies and procedures but provided documentation useful in succession planning and future training of new employees.

Upon creation of policies and procedures, nonprofits should perform self-assessments on continued levels of effectiveness and appropriateness to the organization. Performance of self-assessment of policies and procedures results in reduction of costs in audits and reviews, along with the achievement of compliance in best practices for transparency, financial accountability, and board governance (Maguire, 2013). Participants varied on the review of policies and procedures. Some reviewed on an annual basis, others were supposed to review annually but did not, while others only reviewed when management brought the need for revision to the board’s attention.

Analysis

The theme development of policies and procedures focused on governance and internal control theories. The development of policies and procedures is viewed as a task that is primarily the responsibility of the board with management’s inclusion. Participants brought prior experiences in other settings, such as banking and other nonprofits, to identify weaknesses and areas for improvement. The generation of guidelines to prevent misappropriation of cash
was in consultation with those having financial and accounting expertise or subcontracted to an external consultant (RQ 1). ACIPA (2015) identified the need of prospective nonprofit board members to include the ability to read and understand financial statements. Further, development occurred when those tasks with cash handling recognized the gaps in internal controls and voiced their concerns to executive management (RQ 3). Identified gaps led some participants to develop additional forms (e.g. cash receipt form by ORG 6) to increase the accountability and understanding of the controls needed by employees for the daily collection of cash contributions. Acceptance by both management and board members in their responsibilities for the development of policies and procedures requires judgment of both parties in the creation of effective operations for internal control systems (Committee of Sponsoring Organizations of the Treadway Commission, 2013). Figure 11 below represents a word cloud created in NVivo® 12 using the words coded to the theme of development of policies and procedures.

Figure 11. Words associated with the coding theme of contributions.
Theme 6 – Efficiency

Efficiency permits the ability for the organization to gauge their backroom operations alignment to mission and building of capacity (Maguire, 2014). Efficiency is tied to periodic assessment of internal control systems over financial reporting (McNally, 2013). Nonprofit management and board members need to have an understanding of the important role they play in implementing internal controls standards, as their level of adherence and loyalty to following the standards impacts the efficiency and effectiveness of operations.

Participants recognized efficiency in the processes in place during events generating cash, identifying fraudulent activity, and evaluating accounting procedures. In recognition of the oversight provided by the board in cash management, ED 1 indicated how the board is “very good when we have special events we all just kind of work together to make sure that all the cash boxes are safe and that everything is just moving along as it should be.” Particular emphasis on efficiency surfaced with participants’ discussions on fraud. In discussing assessment of risks in cash management, BD 1 indicated the reliance on policies and procedures to quickly catch diversions of funds. T 4 took a different approach in describing how efficiencies in policies and procedures may lead to increased susceptibility for fraud. T 4 suggested adjusting daily processes to create risk in the “eyes of a potential fraud perpetrator.”

Further, nonprofits should be sensitive to the impact changes in policy and procedures have on communication with donors. VP 2 stated the importance of being “respectful of our donors and the processes and not mitigating what we felt like had already been done to already establish a quick response to our doors whenever they send us money.” ED 7 included the important of maintaining efficiency by being up-to-date with technology used to support the organization’s operations.
Analysis

The theme efficiency focused on governance and fraud theories. In exploring how nonprofit organizations generate cash management guidelines, attention to efficiency was identified during events generating cash, identifying fraudulent activity, and evaluating accounting procedures (RQ 1). Research performed by Radbourne (2003) concluded one of the benefits in possessing good governance policies was increased efficiency and public acceptance of the benefits provided to the local community. Further, Harris et al. (2015) recognized the interest by donors in nonprofit governance as it relates to efficient use of monetary contributions.

In addition, efficiency was identified by nonprofit organizations in assessing and determining cash management guidelines (RQ 4). Participants expressed concern for changes to policies and procedures which would impact timing of internal and external communications and increase workloads of employees. Organizations are encouraged to consider changes to policies and procedure which include reviews by management, reconciliations of accounts, and internal controls to assist in the detection of fraud without impacting the efficiency of operations (ACFE, 2016). Figure 12 below represents a word cloud created in NVivo® 12 using the words coded to the theme of efficiency.
Figure 12. Words associated with the coding theme of efficiency.

**Theme 7 – Fiduciary Duty**

Increased attention to governance is also attributed to recent financial scandals which highlighted the importance of fiduciary responsibilities in managing nonprofits and the weak regulatory oversight; triggering lawmakers to encourage nonprofits to adopt governance practices more rigorous in nature. The National Council of Nonprofits (2018) considered governance in nonprofit organizations as Board roles and responsibilities that are fiduciary in nature. The fiduciary duty exhibited by the Board should direct the organization toward sustainability with the adoption of sound, legal, and ethical policies to advance its mission. Participants identified fiduciary duties in discussions on recordkeeping and financial reporting, cash embezzlement, cash management, supervision of cash receipts, and financial reporting.

Maintaining an accurate account of all transactions in the organization exhibits the fiduciary duty and care expected by both those within the organization and donors who support their efforts. In identifying the responsibilities of serving in a board capacity role, BD 3
expressed the inclusion of fiduciary responsibility for the entire organization and voiced if any illegal behavior were to occur, the board of directors would be accountable, regardless of their level of involvement with the organization’s finances. ED 1 described management’s responsibility in exhibiting fiduciary duties for cash receipt recordkeeping through the use of a separate Excel spreadsheet used by ORG 1 for recording restricted gifts.

If the fiduciary duty is broken, the impact on future sustainability of the organization could be in jeopardy. BD 1 indicated heavy reliance on donors and “I think the perception that their money had not gotten to the right place or had been misallocated could impact the public perception and could also impact the future donations potentially.” The Board of ORG 2 is planning to strengthen their fiduciary duties in governance by requesting management to supply supporting documentation when reviewing financial reports. T 2 expressed that it is not a process currently in place by ORG 2, but has been discussed by the board and considered wise.

**Analysis**

The theme fiduciary duty focused on fraud theory. Participants recognized the expectations of others in providing fiduciary duties to the organization. Fiduciary duties contributed to assessment and determination of cash management guidelines to prevent misappropriation of cash contributions (RQ 4). Recognition of the need for proper recordkeeping of restricted revenue classifications, prompted the use of Excel by ORG 1.

In addition, with the current overhaul of ORG 2’s policies and procedures, the planned request by board to management for supporting documentation when reviewing financial reports signifies the strengthening of oversight to prevent opportunities for cash misappropriation. Participants recognized that lack of fiduciary duty could directly impact sustainability and future viability of the organization.
Pressures of accountability are being felt within nonprofit organizations, particularly as their financial well-being is heavily dependent upon external support through fundraising, donations, and gift giving, along with maintenance of public trust which is crucial to their existence (Huang et al., 2017; Iyer & Watkins, 2008; Yang & Brennan, 2016; Young, 2014). Nonprofit organizations experiencing breach in fiduciary duty leading to fraud occurrence have a 75% chance of survival three years after fraud is reported to the public (Archambeault & Webber 2018; Archambeault et al., 2015; Greenlee et al., 2007; Kummer et al., 2015). Figure 13 below represents a word cloud created in NVivo® 12 using the words coded to the theme of fiduciary duty.

![Word Cloud](image)

**Figure 13.** Words associated with the coding theme of fiduciary duty.

**Theme 8 – Leadership**

Effective leadership encompasses cohesion and commitment in communications, building relationships with others outside of formal positions, exhibiting qualities of empowerment, consideration, and respect for others, and contributing to the overall effectiveness
of the board chair (Harrison & Murray, 2012). This relationship represents the legal duty of
obedience filled by the nonprofit board and guided by statutes and bylaws (Brown, 2005). The
recognition of such duty acknowledges the accountability and monitoring of decisions to the
nonprofits’ mission. It is crucial that nonprofit board of directors assume responsibility for
ratifying and monitoring decisions initiated and implemented by management and to make sure
those decisions do not conflict with society or the organization (Miller-Millesen, 2003).

Participants holding leadership positions in both board and executive management
overwhelmingly identified oversight of cash receipts as their primary responsibility in the
organization. Participants identified management roles to include human resource oversight,
financial oversight, and managerial oversight, while Board oversight included approval of
internal controls, participation in the organization’s annual audit, and oversight of financial
functions.

**Management oversight.**

ED 1 identified human resource oversight and financial oversight at the end of the
internal control process as primary duties in the role of executive management. Extending this
role to management’s responsibility for cash transactions, ED 1 included holding staff
accountable and making sure internal controls are being followed as intended in an honest
working environment. CEO 2 indicated, “I don’t believe my philosophy is to actually have my
hands in doing every single thing. If you have a good team, you shouldn’t need to do but
provide direction, oversight, strategy and the vision.” In understanding how the management
role extends to responsibilities for cash transactions, CEO 2 likened it to checks and balances and
ensuring staff have the resources, support, and training to perform their job.
Board oversight.

VP 3 expressed concern over the understanding, or lack thereof, by board members in their responsibilities and roles that they have regarding cash receipt transactions. S 8 expressed similar concerns over the gap in skill sets of board members and indicated the continued vacancy of seats on the Board due to the inability to find candidates suitable for the leadership positions needed to be filled.

Analysis

The theme leadership focused on fraud theory. Perceptions by participants in their role for assessing and determining cash management guidelines included leadership from both management and board members (RQ 4). Leadership expectations from management center on the day-to-day operations in making sure staff were being held accountable in their completion of assigned responsibilities. Holding staff accountable heightens the perception of having increased fraud measures in place which promotes an ethical culture and an increased effectiveness over control monitoring (Suh et al., 2018).

Leadership expectations from board members pertained to areas of approving policies and procedures relating to internal controls, oversight of the financial functions completed by management, and external reporting requirements (e.g. annual audit, filing of IRS Form 990). In small nonprofit settings, board leadership activities may extend to provide reconciliation duties and assurance that all cash transactions follow the nonprofit’s cash management policy (Maguire, 2013). Such actions existed in less than half of participating organizations. Figure 14 below represents a word cloud created in NVivo® 12 using the words coded to the theme of leadership.
Figure 14. Words associated with the coding theme of leadership.

**Theme 9 – Resource Availability**

With many nonprofits operating in an environment of trust, high member turnover, and lack of proper training and oversight, there exists an enhanced opportunity for fraud to occur. Smaller nonprofits are particularly vulnerable to fraud as they are not likely to have the organizational structure and resource capability as their larger counterparts. Aguolu (2018) identified the ability to segregate duties given limited resources as one of the five challenges faced by organizations implementing internal controls over financial reporting.

ORG 2 recognized the need to pull resources from other departments in order to permit internal controls for cash handling to be expanded beyond one person. CEO 2 recalls, “There is nobody else here that does finance, so we had to pull resources from other departments just to make sure it was not all resting on VP 2.” Despite pulling resources from other departments, which in turn increased the job responsibilities of others, the process change was viewed by CEO
2 as contributing to “being good stewards of what was coming in.” This change coincides with ORG 2’s Treasurer, T 2, who identified management’s role in the supervision of cash as “checking each other and keeping each other in check, so it’s not just one person who has access which opens door or things that you don’t want to have happening. They are supervising and watching over each other in that sense in a positive way.”

ED 4 also acknowledged the difficulty of limited human resources available for separation of cash handling in ORG 4. ED 4 acknowledged that it was hard to have many people involved with certain transactions and indicated, “our board is aware and they are comfortable with how we are doing it.” Despite ED 4’s indication of the board’s comfort with the handling of cash transactions, the Board Chairman, BD 4 acknowledge the risks involved. ED 4 stated there are huge risks with so few people involved and recognized there is only so much that can be done to diversity the cash management process.

In addition, Aguolu (2018) identified the lack of resources with adequate skills in accounting and financial reporting as another challenge faced by organizations. The recognition of the internal lack of staff with adequate skill sets in accounting and finance prompted the inclusion of ORG 8 to subcontract out their accounting work to the same firm that completes their audit. P 8 indicated the inclusion of an external CPA who comes to ORG 8 twice a month to process payable and payroll.

Analysis

The theme resource availability focused on agency theory. Smaller nonprofit organizations struggle with the ability to have adequate resources on hand to permit effective internal controls over cash contributions. Governance over resource availability was identified as one area nonprofit management and board of directors differ in their perception relating to
cash contributions (RQ 2). Despite recognition of difficulty in adequate separation of duties, there appeared to be disconnect between the level of comfort in cash handling duties as expressed by executive management and their respective boards. Participants have addressed this challenge through the inclusion of resources from other areas within the organization and the inclusion of others outside of the organization who have the expertise and knowledge needed to strengthen the process. Responsibilities for selection of maintenance of financial integrity and guidance in the organization corresponds to the duty of loyalty and obedience to the organization (Mead & Pollack, 2016). Expectations are that management and board members will exercise reasonable judgement, act in the interest of the organization rather than self and make decisions to further the organization’s mission. There are significant risks involved when a lack of resource availability exists, thus adequate oversight by both management and board governance is key. Figure 15 below represents a word cloud created in NVivo® 12 using the words coded to the theme of resource availability.
Theme 10 – Training

Small nonprofit organizations are likely to experience almost double the median loss due to fraud from lack of training and understanding of the oversight function. They are not likely to have fraud measures in place like their large counterparts (ACFE, 2018; Kummer et al., 2015; McNeal & Michelman, 2006). Although all study participants indicated the inclusion of training within the organizations, the extent and variation in method and degree existed. In some instances, due to the small setting and tenure of employees, many of the executive directors indicated they had not yet had to train anyone because the employees who reported to them predated their arrival.

The small size of the nonprofit organization permitted the inclusion of hands-on training and many times occurred between the new hire and their predecessor. Training included general
discussions on internal controls, review of policies and procedures, and review of training guides, with more specific training on the preparation and completion of bank deposits, recording of deposits, and completion of specialized forms for recording cash. Training typically occurred over a period of 1 to 4 weeks. VP 2 stated an overlap with the predecessor for one week and consisted of shadowing and reviewing policies and procedures, along with follow up by the Executive Director. In ORG 7, OM 7 received training from the previous Board Treasurer. OM 7 likened the training as a mentoring relationship with access and the ability to ask questions at any time.

ORG 3 was the most limited in the depth of training. P 3 recalled the extent of training in cash handling as “maybe 30-45 minute interaction with the people at the bank, but not really any formal training.” In addition, board training for upcoming fundraising events consisted of a dinner where board members and volunteers are divided into their responsibility areas for the upcoming event and informed of their role and what it entails.

In ORG 8, concerns were expressed from a board perspective on lack of understanding the types of training needed by employees. S 8 identified skills gaps in employees as they transition within the organization and take on new roles and duties. This lack of understanding the resources available to provide training for staff in the preparation and reporting of financial information was addressed by S 8 and occurred when tasks were added to roles that were not initially intended to include financial components. This creates frustrations by staff who may be in positions where they are not sure what they are supposed to be doing, not sure of the questions to ask, and frustrations by board members who question whether or not they are receiving the right product (S 8). Identifying educational options available for staff in smaller nonprofit settings, which provides understanding of basic accounting principles to fulfill their duties, is
desired (S 8).

**Analysis**

The theme training focused on internal control and fraud theories. To ensure understanding of internal controls over cash contributions by those involved with its management, training was performed (RQ 3). Couple funding dependency and maintaining public trust with the fact that most nonprofit organizations have few employees with limited training, and the ability to provide reasonable assurance of internal controls becomes a struggle (Huang et al., 2017; Iyer & Watkins, 2008; Yang & Brennan, 2016; Young, 2014). Despite the connection of training to ethics and internal controls, participants varied in the level of seriousness and extent of training provided to employees for cash handling.

Training was also identified in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions (RQ 4). Even with recognition that training contributes to ensuring nonprofits are operating ethically with good internal controls in place, participants expressed concerns over the availability of resources for staff performing financial duties (ACFE, 2016; Albrecht et al., 2018; Azam, 2018). Participants indicated frustrations by staff who were not sure what they are supposed to be doing, not sure of questions to ask, and frustrations by board members who may question the financial report provided to them. Figure 16 below represents a word cloud created in NVivo® 12 using the words coded to the theme of training.
Figure 16. Words associated with the coding theme of training.

**Theme 11 – Trust**

Trust is exhibited throughout nonprofit organizations in daily operations supervised by management and oversight by board members. Violations of trust are the most common underlying characteristic of crimes committed in organizations (Cressey, 1973; Sutherland 1940). Trust along with lack of proper governance is a recipe ripe for increased vulnerability and exposure to fraud (Archambeault et al., 2015; Greenlee et al., 2007; Kummer et al., 2015; Marks Paneth, 2015). Participants identified trust when discussing risks in cash management, cash embezzlement, and organizational climate.

Trust in cash management was described by BD 1 as employee expectations to follow policy and procedures that have been set forth for internal controls and in the hiring process. BD 1 described the expectation for the procedures is for entrusting other employees within the
organization, along with checks and double checks. BD 1 highlighted the importance of hiring and trusting the people in control.

P 3 further extended trust in cash management to the selection of board members. Citing a handpicked board, P 3 indicated the trust placed in the Treasurer and was quick to state that there is always a fear that someone will take money. When cash embezzlement occurs within the organization, trust is breached. In those instances, participants viewed the importance of rebuilding trust with donors. ED 1 recognized when cash embezzlement occurs, communicating transparency in how you investigated, how you acted, and restitution going forward are all important components of trust in the organization. The rebuilding of trust was particularly important to participants as all were significantly funded by public support and a breach of trust in donor funds could affect sustainability of the organization. CEO 2 recognized the importance of initially establishing relationships with donors and if distrust were to occur, it would have a “significant impact on resources.”

Management and board members viewed trust as an active part of the organization’s climate. It was viewed by ED 1 in staff accountability which included “following the internal controls to the letter, making sure that everyone is honest.” Trust was also a factor appearing in annual performance evaluations, along with integrity and honesty. T 4 highlighted the impact culture can have on employees choosing to be part of the environment and expressed “people would be offended if they thought that one of their colleagues was somehow stealing from this organization. So hopefully that is a powerful part of the culture here that works for us.”

Despite the heavy emphasis on trust, T 6 cautioned that it makes for an environment that would “be an excellent area for somebody who wanted to divert funds.”
Analysis

The theme trust focused on internal control theory. Trust was identified to ensure understanding of internal controls over cash contributions by those involved with its management (RQ 3). Trust was an important component of the daily processes in cash handling and management of funds. Participants identified reliance on policies and procedures for internal controls and the ability to trust the employees executing them.

Oversight was acknowledged by participants as an important component for management and board members. The execution of oversight was vital, particularly in nonprofit organizations with trusting environments who may not view fraud prevention as an issue until they experience fraud or perform risk assessments to reveal their vulnerability (Archambeault et al., 2015; Greenlee et al., 2007; Kummer et al., 2015; Marks Paneth, 2015). With significant reliance on public funds, participants are heavily reliant on donors. If breach of trust occurred the future viability of the organization could be jeopardized, accountability impacted, and delivery of services to beneficiaries questioned (Harris et al., 2017; Hilton, 2016; Omar et al., 2016). Figure 17 below represents a word cloud created in NVivo® 12 using the words coded to the theme of trust.
Summary of the findings.

The foundation of the study in Section 1 identified the problem that many nonprofit organizations have experienced financial scandals which have questioned the fiduciary responsibilities of those managing the nonprofits and their regulatory oversight. Specifically, this problem is smaller nonprofit organizations are likely to have an increased risk for fraud, particularly cash embezzlement. In order to understand this problem, the researcher conducted a total of 24 interviews from 8 selected nonprofits and gathered data from policies and procedures and publicly available sources. The researcher sought to gain understanding of the perceptions of nonprofit employees and board governance on the internal controls over contributions.
With scarce research into this area, the data collected and analyzed is representative of the vulnerability of small nonprofits in their cash handling and lack of effective internal control policies and procedures. Outside of the procedures used by nonprofits in handling of cash, there were differences in the perceptions of expectations for employees, management, and board roles. Themes identified in the analysis of data collected and application to research questions are included in Figures 18-21 below.

Figure 18. Theme identification for research question 1.
Figure 19. Theme identification for research question 2.

Figure 20. Theme identification for research question 3.
Research question 1 addressed the generation of cash management guidelines by the nonprofit organization to prevent the misappropriation of cash contributions and was expected to be addressed with initial governance themes of accountability, transparency, ethical business conduct, resource monitoring, and development of policies and procedures (Gregory, 2107; Malla, 2010; Stewart & Diebold, 2017). Completion of data analysis, as indicated in Figure 18 above, concluded themes of board governance, separation of duties, development of policies and procedures, and efficiency.

Research question 2 addressed how nonprofit management and board of directors differ in perceptions on key governance aspects related to cash contributions and was expected to be addressed with initial agency themes of control, delegation, duty of care and obedience, and financial integrity (Bernstein et al., 2016; Brown, 2005; Mead & Pollack, 2016). Completion of data analysis, as indicated in Figure 19 above, concluded themes of board governance and resource availability.

Figure 21. Theme identification for research question 4.
Research question 3 which addressed how the nonprofit organization assures understanding of internal controls over cash contributions by those directly involved with its management was expected to be addressed with initial internal control themes of development of policies and processes, strong executive leadership, and reporting quality, and management’s tone (Gregory, 2017; Schneider, 2018; Schroeder & Shepardson, 2016). Completion of data analysis, as indicated in Figure 20 above, concluded with themes of communication, separation of duties, development of policies and procedures, training, and trust.

Finally, research question 4 which focused on how the nonprofit organization perceives its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions was expected to be addressed with initial fraud themes of trust, reputation, and board governance (Cressey, 1973; Gregory, 2017, Sutherland, 1940). Completion of data analysis, as indicated in Figure 21 above, concluded with themes of board governance, communication, contributions, separation of duties, efficiency, fiduciary duty, leadership and training.

In summary, an overview of the study and presentation of the findings analyzing the data used to determine the perceptions of nonprofit employees and board governance on the internal controls over cash contributions have been provided. Recommendations for actions and further study, along with personal reflections and summary and study conclusions are discussed below.

**Applications to Professional Practice**

In this study the researcher explored the perception of nonprofit employees and board governance on the internal control of contributions. The study determined the strategies used by small nonprofit organizations located in the Commonwealth of Virginia to prevent cash embezzlement. This research contributed to the lack of qualitative studies which focus on the
understanding by nonprofits on controls for cash contributions. Gregory (2017) stated there is limited empirical evidence on fraud and use of internal controls in nonprofit settings. Similarly, Power and Gendron (2015) claimed that more qualitative studies should contribute to work performed by practitioners.

Many nonprofits have experienced financial scandals which have questioned the fiduciary responsibilities of those managing the organizations and their regulatory oversight (Petrovits et al., 2011). Financial scandals have led to damaged reputations, loss of public trust, financial hardships, and an inability to provide services to fulfill the nonprofit’s mission (Budde, 2018; Iyer & Watkins, 2008; Purdy & Lawless, 2012). This study provided additional research on nonprofit organizational governance and cash management strategies and contributed to the existing knowledge in nonprofit organizational management and accounting.

This study revealed the need for greater awareness and understanding of internal controls in nonprofit organizations (Connors, 2011; Maguire, 2013; Gregory, 2017). In addition, the study concluded the need for greater understanding of the roles and responsibilities by both management and board members regarding financial reporting, along with assessment of fraud risk. Further, the accounting profession needs to work with smaller nonprofits in identifying where internal control weaknesses exist in cash handling and to provide training and support for understanding financial reporting and assessing fraud risk.

The study concluded internal control policies of participants failed to separate custody, authorization, and recordkeeping responsibilities for cash transactions, and exhibited risk for fraud occurrence from the beginning of the process. Auditors repeatedly informed participants of the importance of separation of duties, however the small organizational setting posed challenges in creating strong internal control process for cash handling with limited resource
availability. Both ORG 4 and ORG 8 indicated not much effort or reflection had been placed on the internal controls over cash until they were contacted by the researcher for participation in the study. Further, ORG 8 did not have any policies written down for the handling of cash receipts until requested by the researcher.

In addition to understanding internal controls over contributions, board members and management indicated primary duties of oversight for cash handling. For board members this included oversight of internal controls, participation in audit, and financial functions. Oversight by the board was generally dependent upon the Treasurer’s ability to understand procedures in place and to communicate financial reports to the rest of the board. Participants expressed concerns that board of directors may not have the recordkeeping and financial competencies needed to perform their role satisfactorily and may not feel comfortable asking questions about processes and subsequent financial reports. Oversight by management consisted of making sure staff were following through with policies and procedures in place for cash handling and preparation of financial reporting which would be reviewed by the Board Treasurer and then shared with members at board meetings. Generally, participants recognized that the actions taken by the nonprofit board and management should be in alignment with the organization’s mission.

Nonprofits are likely to experience increased susceptibility for fraud when issues exist in understanding of both internal controls and roles played by management and board members in financial reporting. It is recommended in addition to completion of IRS Form 990, audits, and reviews, accounting firms should provide conferences, training and seminars for nonprofit boards, executive management, and employees tasked with cash handling. Providing role-specific seminars may stimulate brainstorming within the organization on how to improve
internal controls and enhance understanding of financial preparation and reporting processes. This research provided added awareness of the necessity for nonprofits to hire employees and elect board members who are qualified to serve in the capacities expected of them and to encourage regular training in their financial reporting and cash management duties.

The Bible discusses the four focal points in this study: fraud, governance, agency relationship, and internal controls. Ephesians 4:28 (ESV) states, “Let the thief no longer steal, but rather let him labor, doing honest work with his own hands, so that he may have something to share with anyone in need.” Study participants performed community work for individuals and animals which was dependent upon public goodwill, volunteers, and donations (Stephens & Flaherty, 2013). Further, agency relationship is addressed in 1 Timothy 5:8 (ESV) which states, “But is anyone does not provide for his relatives, and especially for members of his household, he has denied the faith and is worse than an unbeliever.” When honest work is performed by nonprofit organizations, they are better able to provide for those in need. Honest work exists when the nonprofit entity possesses both effective internal control policies and processes over cash receipts and understanding of agency relationships and board governance which oversees efficiency in operations.

Evidence of internal control procedures is discussed in 2 Kings 12:9-16 (NIV) which describes the rebuilding of the temple by King Joash through the collection of offerings made by those entering the temple. With offerings counted by both the royal secretary and the high priest, the Bible exemplifies an internal control procedure in the handling and verification of cash contributions. Along with internal control measures, the importance of governance is exemplified in Hebrews 13:7 (ESV) which states “Remember your leaders, those who spoke to you the word of God. Consider the outcome of their way of life and imitate their faith.” Those
in board governance should be aware of the work they are performing and in being cognizant to the alignment of their actions with the mission of the nonprofit organization. Board members actions should follow 1 Peter 5:3 (ESV), “Not domineering over those in your charge, but being examples of the flock.” Nonprofit organizations should be mindful to fulfill their fiduciary duty in being good stewards of the resources which have been provided by donors to the nonprofit. These fiduciary duties include developing and monitoring of internal controls, ensuring understanding by board members and management in the execution of those controls, and providing the resources and training necessary to secure and protect contributions.

**Recommendations for Action**

The researcher identified multiple ideas which could be introduced to small nonprofit organizations. These practices could be helpful to nonprofits of any size, and particularly helpful to those seeking to increase understanding of financial reporting and internal controls over cash contributions. The following practices should be considered for implementation by small nonprofit organizations:

- Educate employees tasked with cash handling responsibilities on the policies and procedures to be followed, with particular emphasis on understanding of the reasons behind inclusion of such processes
- Involve external accountants to assist nonprofit management and board members in understanding financial reports
- Encourage boards to take inventory of employee and board members skill sets and to extend efforts in training and education on expected roles in development of policies and procedures, cash handling, and financial reporting responsibilities
• Create a board member mentoring program for new board members to become familiarized with their responsibilities and expectations

• Require external accountants preparing IRS Form 990, audits, or reviews to present results on the completion of such reports in a face-to-face meeting with board members

• Encourage boards to perform random checks of supporting documentation underlying figures on financial reports prepared by management and staff

• Encourage boards to annually review all policies and procedures for cash handling and to include discussions with management on any identified/suggested changes, with recording of such actions in board minutes

• Work with external accountants to properly execute effective segregation of duties specific to nonprofit environment

The suggestions identified above provide opportunity for state boards of accountancy and state societies of Certified Public Accountants to deliver workshops and educational opportunities to nonprofit audiences. It also provides opportunities for those in academia to consider offering programs to meet the identified needs of nonprofits in their local communities. Grant funding to offset the costs for such educational venues should be investigated, as many small nonprofits may struggle to allocate the financial resources to attend such events.

Consideration of such recommendations is likely to increase efficiency and effectiveness for the entire nonprofit organization, including board and management roles. Strengthening of internal controls and the policies and procedures surrounding cash handling is likely to minimize the opportunity for cash embezzlement to occur. Further, greater assurance can be provided to
donors that added measures have been put in place to secure their contributions to the nonprofit organization.

**Recommendations for Further Study**

Research on future studies in nonprofit organizations and internal controls over contributions remains an area viable for further exploration. Expansion of a similar study into new geographic regions outside of Virginia may identify further understanding of how nonprofits develop policies and procedures for cash handling and maintenance, roles of management and board members, assurance by management in understanding internal controls over cash contributions, and perceptions of roles in assessing and determining guidelines to prevent misappropriations of cash contributions. The U.S. Census Bureau may assist future research projects in identifying geographical regions which may be different from this study in Virginia and the nonprofit study on cash fraud awareness performed by Gregory (2017) in the Pacific Northwest region of the United States.

In addition, future studies may consider replicating this study with a focus on small nonprofit organizations with revenues greater than $2 million. By exploring revenue segments greater than those used in the current study, understanding may be gathered as to revenue levels at which the nonprofits exhibit adequate knowledge of internal control policy and procedures, financial reporting competencies, and expectations of management and board of director roles.

Further, additional research could explore nonprofits filing the IRS Form 990-EZ. This form is permitted for those nonprofit organizations with gross receipts less than $200,000 and total assets at the end of the tax year less than $500,000 (Internal Revenue Service, 2019). A comparison study exploring fraud risk assessment between small nonprofits filing the IRS Form
990 and IRS Form 990-EZ could provide knowledge of the vulnerability and susceptibility for fraud occurrence in comparison to filing status.

**Reflections**

As a graduate of a small liberal arts college, the researcher learned early on the value of helping the local community through volunteer service in nonprofit organizations. As a college educator for the past 18 years, the researcher understands the value of working with nonprofits to enhance students’ education by extending learning to outside the classroom. As Past Treasurer of a local nonprofit, the researcher has experienced firsthand the joy and excitement which can be gained in providing local and international communities with financial resources for projects that may not otherwise have been completed. All these experiences contributed to an interest in pursuing this study.

Prior to this study, the researcher had never given much thought to the processing of personal financial contributions to nonprofit organizations. If a contribution receipt was provided within a short period of time in donating, it was assumed the nonprofit organization had policies and procedures in place to maintain efficiency and effectiveness in operations. Further, the researcher suspected and assumed that policies and procedures were in place by the nonprofit organization to secure the donation and that it would be used as designated by the donor.

Upon completion of this study, the researcher has concluded that there is much to be improved upon in small nonprofit settings with limited human and financial resources. Small nonprofit organizations need greater understanding of the inclusions necessary for effective internal control processes over cash contributions. With almost half of participants experiencing cash embezzlement or unauthorized personal use of organizational funds, weaknesses in processes existed. In addition, a general lack of questions and associated understanding of
financial reports by board members raises concerns over the effective oversight within small nonprofit settings.

In Proverbs 3:21 (NLT), God highlights the importance of good planning and insight for it brings life, honor and respect. The absence of good is considered to be inconsiderate and unfair, and results in the destruction of trust. Nonprofits should take notice of actions within operations which will contribute to the overall trust among all stakeholder interests. Proverbs 3:27 (NLT) commands God’s people to not withhold good from those that deserve it. As nonprofit organizations fulfill needs in the community, God values the importance of planning in order to serve others. This aligns with the preparation and successful implementation of policies and procedures for cash handling so contributions may be utilized in alignment with the organization’s mission.

The researcher is very grateful to the 8 nonprofit organizations participating in the study. Professional networks were crucial to finding participants for inclusion in the study, particularly with sensitivity of the research topic. Despite concerns on the research topic, participants were very willing to answer the interview questions and to share experiences as a nonprofit employee or board member. The researcher was overwhelmed with the genuineness of participants’ responses, generosity of their time, and loyalty to better their local communities.

Summary and Study Conclusions

Exploration in understanding the development and implementation of internal controls over cash contributions remains an area ripe for future research. Research in popular business databases such as Business Source Complete, ABI/Inform Collection, and Accounting, Tax, and Banking Collection indicate this is the second known qualitative study, in addition to Gregory (2017), to explore internal controls over cash contributions in small nonprofit settings. In
addition, this study provided additional research on nonprofit organizational governance and
cash management strategies and contributed to the existing knowledge in nonprofit
organizational management and accounting (ACFE, 2018; Burde, 2018; Gartland, 2016;
Greenlee et al., 2007; Gregory, 2017; Iyer & Watkins, 2008; Kummer et al., 2015; McNeal &
Michelman, 2006; Mitchell & Berlan, 2018; Petrovits et al., 2011; Purdy & Lawless, 2012; Tsay
& Turpen, 2011).

Research Question 1: How does the nonprofit organization generate cash management
guidelines to prevent the misappropriation of cash contributions?

Themes of board governance, separation of duties, development of policies and
procedures, and efficiency were identified in response to research question 1. Board members
recognized the importance of having protocols in place for cash management and it was
generally viewed as a role to which great reliance was placed in the expertise of the Board
Treasurer. Gregory (2017) concluded a more minor role by board members in development of
policies with greater involvement by executive directors. In this study, expectation by and of the
board were to make sure the protocols were in place and that they remained current. In some
instances, reliance was placed on the external auditor for responsibilities in generating internal
controls for the nonprofit organization.

All participants identified the inclusion of separation of duties in cash handling policies,
however small working environments permitted challenges when there were not enough staff on
hand to separate custody, authorization, and recordkeeping responsibilities. Responsibilities for
the development of guidelines were enhanced when management and board members had prior
experiences with cash handling and could identify weaknesses and areas for improvement,
similar to conclusions by Gregory (2017). External consultants with financial and accounting
expertise were also hired to assist with preparation of guidelines. Attention to efficiency in guidelines was identified during events generating cash, identifying fraudulent activity, and evaluating accounting procedures.

**Research Question 2: How does nonprofit management and board of directors differ in their perceptions on key governance aspects related to cash contributions?**

Themes of board governance and resource availability were identified in response to research question 2. The board governance subtheme on the establishment and amendment of protocols identified differences between executive management and board members. Executive management identified responsibility of the board in making sure protocols were in place and that they remained current. A different approach was taken by a board member who indicated the establishment of protocols should be in the hands of the organization’s external auditor, citing board members rarely pay attention to internal controls.

Resource availability was a struggle identified by smaller nonprofit organizations impacting their ability to maintain effective internal controls over cash contributions. Significant risks are involved when a lack of resource availability exists. Despite instances by executive management identifying difficulty in the separation of cash handling and citing the board’s awareness and comfort with the handling of such transactions, similar sentiments were not expressed by the board chairman who identified huge risks in the process.

**Research Question 3: How does the nonprofit organization ensure understanding of the internal controls over cash contributions by those directly involved with its management?**

Theme of communication, separation of duties, development of policies and procedures, training, and trust were identified in response to research question 3. Communication was viewed by management as a vital component for ensuring policies and procedures were in place
to manage cash and promote proper implementation by staff. This communication extended to the board when revisions to the policies and procedures were warranted.

Separation of duties was a consistent communication between external auditors and organization with a focus on inclusion in controls. For those organizations with policies and procedures for internal controls, the documents served in training and as a resource to which employees can refer for guidance. Recognition of trust as an important component of the daily processes in cash handling and management, participants identified the trust placed in the employee’s execution of such processes. The characteristic of trust aligns with conclusions by Gregory (2017) that employees need to feel valued and appreciated for their contributions in implementation responsibilities for internal controls processes.

**Research Question 4: How does the nonprofit organization perceive its role in assessing and determining cash management guidelines to prevent the misappropriation of cash contributions?**

Themes of board governance, communication, contributions, separation of duties, efficiency, fiduciary duty, leadership, and training were identified in response to research question 4. Participants recognized board governance to include the role to pass and approve protocols, with amendments as necessary. Board members recognized the importance of having protocols in place for cash management and relied heavily on input from the Broad Treasurer in assessing and determining protocols.

Guidelines for the prevention of cash misappropriation included participants’ use of computerized software and securitization of cash. Many of the guidelines used by participants included reconciliations of deposit tickets or bank documents to financial reports prepared in accounting software package for confirmation. Although weak, many nonprofits have assessed
cash management guidelines and have attempted to separate duties despite the challenges of operating in small working environments.

Participants recognized the need for efficiency in the processes in place during events generating cash. Emphasis was placed in having guidelines which permit efficiency in responding to donors upon receipt of contribution. In addition, participants highlighted how the maintenance of an accurate account of all transactions in the organization exhibits the fiduciary duty and care expected by both those within the organization and donors who support their efforts. This duty was exemplified by some participants in their recordkeeping and financial reporting responsibilities. Similarly, Gregory (2017) concluded duties of care by the organization in developing processes which are more rational and forward thinking versus crisis mode. Finally, cash management guidelines should be viewed by the organization as a tool for training employees. All participants indicated the inclusion of training to range from very general discussions on internal controls and review of guidelines to specific training on preparation and completion of bank deposits and specialized forms for recording cash.
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Appendix A: SEMI STRUCTURED INTERVIEW GUIDE

Introduction

Thank you for agreeing to meet with me today to discuss your perceptions of internal controls over cash contributions in nonprofit organizations. The interview will take approximately 1 hour to complete. Everything that you share with me today will be kept strictly confidential. Please answer the interview questions to the best of your ability. If at any point during the interview you feel uncomfortable, need to take a break, or wish to decline answering a question, you may do so. Before we begin, do I have your permission to record our conversation and to take notes? Do you have any questions before we begin our interview? (BEGIN DIGITAL RECORDER). This is interview (assigned participant ID number) on (state date) and he/she has agreed to the recording of this interview.¹

Background and Demographics:
- Position in the organization²
- What is the length of time in that position and in the organization?²
- What is your education?²
- What did you do before working here?²

Questions – For all participants:
1. Please describe your primary functions or duties and level of responsibility of those duties in the organization.²
2. What is your perception of the role that management plays in the supervision of cash receipts transactions?²
3. What is your perception of the role that the board of director(s) plays in the oversight of cash assets in the organization?²
4. If you suspected that cash theft had occurred in the organization, what is your procedure for reporting it?²
5. If donors were made aware that cash embezzlement had occurred, what would be the effect on your organization?²

Questions – For staff performing cash handling duties:
1. How long have you performed the cash receipts duties in this organization? (Ask if there has been any prior experience with handling cash in other companies/organizations)?²
2. Please describe the ways your organization receives cash.²
3. Please describe the training you received regarding processing cash received in the organization.²
4. Describe for me the daily processes for receiving and depositing cash donations in your organization.²
5. What written processes or procedures are available to you as a reference? (Can you share any cash processes with me?)²

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Questions – For management overseeing staff:

1. Please describe your prior experience in managing an accounting/finance department. 
2. Please describe your method of providing training to staff performing cash receipt duties. 
3. What written processes or procedures are available to staff in performing cash receipt transactions? 
4. How are employees who handle cash transactions evaluated as to the performance of that duty? 
5. What strategies do you consider when developing policies or processes for cash transactions in the organization? 
6. Please describe how the IRS Form 990 is prepared and communicated to the organization. 
7. In this type of organization, what are the risks that you assess regarding cash management? 

Questions – For members of the board of directors:

1. How prepared did you feel when you accepted the position on the board of directors as it pertains to financial oversight? 
2. Please describe the organization’s board of directors and committee structure. 
3. Please describe your role in performing financial oversight in the organization. 
4. What strategies does the board consider when identifying risks in cash management and developing policies for the organization? 
5. Please describe the board’s role in reviewing the annual audit and communicating the results of the audit. 
6. Please describe how the IRS Form 990 is prepared and communicated to the board of directors. (Follow up: Can you describe what the term ‘significant diversion of funds’ as it relates to the IRS 990) 
7. In this type of organization, what are the risks that you assess regarding cash management? 


Closing Statement

(END DIGITAL RECORDING) Is there anything else you would like to share with me that we have not discussed which you think would be helpful in this study? Thank you for your willingness to participate in this research study. Your responses will be transcribed into a Microsoft® Word document and emailed to you for review. If you have any further questions about this study, please feel free to contact me at hcaldwell1@liberty.edu.
Appendix B: INSTITUTIONAL REVIEW BOARD APPROVAL

LIBERTY UNIVERSITY
INSTITUTIONAL REVIEW BOARD

April 24, 2019

Holly A. Caldwell
IRB Approval 3769.042419: Perception of Nonprofit Employees and Board Governance on the Internal Control of Contributions: A Qualitative Study

Dear Holly A. Caldwell,

We are pleased to inform you that your study has been approved by the Liberty University IRB. This approval is extended to you for one year from the date provided above with your protocol number. If data collection proceeds past one year or if you make changes in the methodology as it pertains to human subjects, you must submit an appropriate update form to the IRB. The forms for these cases were attached to your approval email.

Your study falls under the expedited review category (45 CFR 46.110), which is applicable to specific, minimal risk studies and minor changes to approved studies for the following reason(s):

7. Research on individual or group characteristics or behavior (including, but not limited to, research on perception, cognition, motivation, identity, language, communication, cultural beliefs or practices, and social behavior) or research employing survey, interview, oral history, focus group, program evaluation, human factors evaluation, or quality assurance methodologies. (NOTE: Some research in this category may be exempt from the HHS regulations for the protection of human subjects, 45 CFR 46.101(b)(2) and (b)(3). This listing refers only to research that is not exempt.)

Thank you for your cooperation with the IRB, and we wish you well with your research project.

Sincerely,

G. Michele Baker, MA, CIP
Administrative Chair of Institutional Research

Research Ethics Office