

INTERNAL CONTROLS IN SMALL CITY GOVERNMENT

Internal Controls in Small City Government

by

M. Wade Cothran

Dissertation

Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Abstract

The flexible design multiple case study was performed to broaden the understanding of the possible rationale for city government officials' failing to implement effective internal controls related to the global business problem of occupational fraud. The leadership of an organization should assume a stewardship attitude to reduce fraud risk by designing, implementing, monitoring internal controls, and testing their effectiveness. Asset misappropriation from occupational fraud results in the loss of assets and potential business failure. The research questions explored the internal control procedures implemented to prevent and detect property theft. Additionally, the research questions addressed the strategies implemented to establish segregation of duties and testing of internal controls for effectiveness. The stewardship theory was utilized to understand the leader's responsibility to protect the assets. The fraud triangle theory was applied to evaluate if internal controls were designed to monitor each of the three components. Interviews of 25 participants involved with small city governments in the central United States were conducted, and coinciding city documents were reviewed. The researcher identified five themes as the result of coding the data collected. The findings included how the leadership failed to design internal controls to monitor the pressure and rationalization components of the fraud triangle theory, or test internal controls for effectiveness. The researcher also discovered the leaders' have a stewardship attitude to protect the assets from misappropriation. The study was conducted to improve business practices based on Biblical precepts of exhibiting exceptional stewardship over God-given authority.

Key words: stewardship theory, fraud triangle theory, asset misappropriation, occupational fraud, testing internal controls

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Approvals

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Edward M. Moore, PhD, Director of Doctoral Programs	Date

Dedication

This work is dedicated to Jesus Christ, my Lord, and Savior. Hopefully this work will inspire others to accept Jesus as their Savior and promote stewardship to protect the employer's assets.

Acknowledgments

This project was completed through Jesus, who was my Shepherd during my doctoral studies. I want to give special appreciation to my family members: My wife, Alison, offered encouragement and exceptionally completed additional household management during my doctoral studies. My four children, Chelsey, Canon, Cray, and Carlyn, who during my doctoral studies performed many tasks to accomplish family unity. My parents, Morris and the late Lena Cothran, and my brother, Ron, who worked on the family farm to provide the resources needed for tuition expenses in the early stages of my education path.

Liberty University's leadership and faculty for providing a Christ-based doctoral program allowing students to integrate Biblical precepts into their research. I am grateful for the guidance and feedback provided by my dissertation chair, Dr. Melissa Washington and second chair Dr. David Bosch. Additionally, I thank Dr. Nicole Lowes and Dr. Edward Moore, who have offered scholarly assistance as the research progressed.

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Section 1: Foundation of the Study

Background of the Problem

Business organizations of all sizes face the global problem of occupational fraud. Occupational fraud is described as an employee or group of employees stealing from their employer (Nawawi & Salin, 2018a). The United States and other countries around the world are facing the growth of occupational fraud occurrences. The latest report to the Nations on Occupational Fraud and Abuse estimate that organizations lose five percent of gross revenues to fraud (Vousinas, 2019). The average loss of a fraud incident is over \$150,000, contributing to 30% to 50% of business failures (Moore, 2018). Asset misappropriation is a type of occupational fraud where a staff member or group of staff steals company assets, including cash, inventory, purchases on credit cards for personal items, and equipment (Nawawi & Salin, 2018a). Asset misappropriation is the most common type of occupational fraud and is the easiest to discover (Moore, 2018).

Small cities are not subject to the internal controls requirements of the Sarbanes-Oxley Act of 2002 (SOX) that are designed to reduce fraud risk (Moore, 2018). Small organizations, including city governments with less than one hundred employees, lack the resources for strong internal controls, including segregation of duties (Hilliard & Neidermeyer, 2018). Strong internal controls are expensive to implement, limiting small organizations' ability to protect the stakeholders' assets (Moore, 2018). Many city governments have a small number of staff members limiting the ability for segregation of duties.

The fraud triangle theory resulted from Donald Cressey's study in which he conducted interviews of prisoners in prisons starting in 1949 (Cressey, 1953). The triangle theory has three criteria: opportunity, pressure, and rationalizations (Cressey, 1986). The opportunity to commit

fraud exists when a trusted staff member perceives a way to commit fraud with a low risk of getting caught. Staff members in a financial trust position have many opportunities to commit fraud (Cressey, 1986). Employers can reduce fraud risk by implementing internal control procedures to reduce the opportunity. An example of some control on opportunity is a pre-employment background check. A potential embezzler perceives the opportunity to misappropriate the organization's assets when the theft can go undetected and low or no chances of being caught in the crime (Moore, 2018). Staff members who commit occupational crime are knowledgeable about the business processes and workflows, have earned the respect of the company's leadership, and have been delegated authority to manage company assets (Lenz & Graycar, 2016). Weak internal controls provide the opportunity for a staff member to commit fraud.

Strong internal controls are designed to prevent a single person from stealing the company's assets (Kapardis & Papastergiou, 2016). However, internal controls may not prevent fraud due to collusion between employees who have access to separate accounting functions. Managers who can override internal controls create the opportunity to commit fraud (Kapardis & Papastergiou, 2016). Weak internal controls are the major contributing factor to occupational fraud, and it is estimated that one-third of the companies that fell victim to embezzlement had internal control deficiencies (Moore, 2018).

Problem Statement

The general business problem addressed is city government officials' failure to implement effective internal controls to reduce fraud risk resulting in potential loss of city assets. According to Ross (2016), local governments experience financial losses of up to \$53 million due to embezzlement. City government leadership must evaluate current internal controls to ensure the

procedures are implemented to reduce fraud risk (Ross, 2016). From 2014 to 2016, an employee in the solid waste management authority in the city of North Hempstead embezzled \$98,862 in city funds (Genn, 2016). The city's internal controls failed to prevent the opportunity component outlined in the fraud triangle theory (Zahari et al., 2020). Purcell (2016) stated that research reviewed from 84 local government investigative reports found a prevalence of cash embezzlement and payroll fraud. City council members must be cognizant of the fraud risk associated with internal control deficiencies (Purcell, 2016). Blouin and Saccento (2017) stated that according to the ACFE Report, over 15% of fraud cases occur in government organizations. Identifying internal control deficiencies is vital to the organization's financial well-being (Blouin & Saccento, 2017). Many city officials have relaxed internal control measures during the economic downturn resulting in a higher fraud risk (Kim & Matkin, 2020).

Purpose Statement

The purpose of this flexible design multiple case study is to expand the understanding of the reasons behind city government officials' possible failure to implement effective internal controls to reduce potential loss of city assets. The researcher desired to gain an understand the driving factors behind why city officials do not have internal control procedures in place to reduce fraud. The study explored the city leadership's internal control procedures designed to minimize the risk associated with the opportunity component of the fraud triangle theory. The target population was explored through an in-depth study of internal controls and its effect on assets in city governments in the central United States. The implementation for positive social change would be to provide leadership with an understanding of internal control procedures that would reduce the potential loss of city assets.

Research Questions

The research questions for this study are designed to explore the effectiveness of a small city's internal control procedures to reduce fraud risk and the potential theft of assets. The research questions are designed to explore the theoretical implementations of the opportunity component of the fraud triangle theory, including the effectiveness of the internal controls to reduce an employee's opportunity to misappropriate the city's assets. The mayor and city council members of small governments have limited financial resources, resulting in internal control deficiencies that are expensive to implement. The leadership of cities has an obligation to the citizens of the community to protect the public assets. The research questions are also designed to explore the leader's responsibilities within the stewardship theory.

RQ1: What internal control procedures have city leadership implemented to prevent theft of property by staff members?

RQ2: What internal control procedures have the city leaders implemented to detect the theft of funds?

RQ3: What strategies have been implemented to establish segregation of duties required for cash management internal controls to prevent diversion of funds?

RQ4: What steps have city officials used to review the municipality's internal controls' effectiveness to avoid the theft of the city's assets?

Nature of the Study

The nature of the study begins with the paradigm, which provided a philosophical standpoint that guided the researcher's actions (Creswell & Poth, 2018). The positivism paradigm was selected for the researcher to discover and describe the potential internal control deficiencies and the potential loss of the city's assets. This study was conducted with a flexible design using

qualitative methods, specifically, a multiple case study design. A flexible qualitative research design allowed the researcher to research the problem and explore the effectiveness of a small city leadership's internal control procedures to reduce fraud risk and the potential loss of city assets. This multiple case study of the target population explored through an in-depth study of internal controls and its effect on assets in city governments in the central United States.

Discussion of Research Paradigms

The positivism paradigm guided the study to explore the problem and understand why some city's leaders have failed to implement internal controls to reduce fraud risk and the potential loss of city assets. Positivism is the dominant research paradigm for business management research and studies of an organization (Brannick & Coghlan, 2007). Researchers using this method will desire to be a realist to discover and describe the problem's origin (Brannick & Coghlan, 2007). This positivist researcher aims to have factual findings to discover the internal control deficiencies resulting in the potential loss of the city's assets. Positivist approaches with entrepreneurship research findings and recommendations are related to the explanation of the problem. The limitation of positivism is a struggle to provide a comprehensive description of small businesses and growth (Braidford et al., 2017). This research topic's focus is the city's leader's protection of city assets with internal controls, which are not limited by positivism.

Other paradigms that a researcher can select to describe their worldview includes post-positivism, constructivism, and pragmatism. Post-positivism is described as a single objective that a researcher seeks to discover, but with the assumption that a complete understanding will never be accomplished (Creswell & Poth, 2018). This paradigm does not align with this researcher's faith-based worldview. The constructivism paradigm provides a worldview that the

individual defines reality and the researcher, in turn, attempts to understand this view of reality (Creswell & Poth, 2018). This paradigm was rejected because the individual is elevated as their own god. Pragmatism does not focus on reality but uses available tools to understand the problem (Creswell & Poth, 2018). This paradigm was rejected because it does not align with Biblical precepts concerning reality.

Discussion of Design

This study was conducted with a flexible design using qualitative methods; specifically, a multiple case study design was used. In recent years, qualitative research has become a more prominent way to conduct scientific research in business (Creswell, 2016). Qualitative research is an in-depth method that provides enhanced evidence from multiple data sources to investigate the problem (Creswell, 2016). New theories have been built using qualitative research methodology (Creswell, 2016). The method allows the researcher to describe how the change processes are developed over time. Detailed insights into the organizational management structure, motivations, and perspectives result from applying the qualitative research method (Creswell, 2016). A flexible qualitative research design enabled the researcher to explore the effectiveness of a small city's internal control procedures to reduce fraud risk and the potential theft of assets.

The other research design methods include fixed design and mixed-methods design. The fixed design methods use quantitative methods to test the research data. This method is used for studies where various statistical testing methods can be applied, such as correlation. The data to be collected from this study are not appropriate for quantitative testing. The mixed-method design is a hybrid method using both qualitative and quantitative methods. The mixed-method design was not selected because the data to be selected could not be tested with quantitative

statistical methods. The research purpose is to discover why the city's leaders are failing to protect the city assets with internal control procedures and not a statistical measure of the number of cities with internal control deficiencies.

Discussion of Method

This research project was a multiple case study of small city governments in the central United States. A case study design researcher selects cases and performs the study to explore and attempt to discover the problem's roots (Creswell, 2016). The length of the study could vary from a short time to an extended time. Case study research entailed compiling and evaluating multiple qualitative data sources (Creswell, 2016). Data tables were utilized to develop a detailed description of the multiple cases (Creswell, 2016). A multiple case study design research is appropriate when the researcher desires to provide a thorough and in-depth understanding of the cases, and the cases have clear boundaries (Creswell & Poth, 2018). A multiple case study researcher can analyze data using a combination of procedures to examine the data (Yin, 2018).

The multiple case study design facilitated the researcher's ability to collect data from the review of the internal control documents. The researcher also reviewed financial records to observe if there are red flags concerning fraud. The research plan includes interviews with staff members and elected officials to collect data concerning the city government's internal controls assessment.

The other flexible research methods include narrative, phenomenology, grounded theory, and ethnography. The narrative research method tells a story about an individual's experience. The purpose of the research project is to discover why some city leadership fails to implement internal control procedures and not tell a story of cities with internal control deficiencies. A narrative design research project is not appropriate for the current study. A phenomenological

study describes the interpretation of an experience by several people. This research project's purpose is to explore the reasons behind deficient internal controls and not describe how a staff member experienced the phenomenon, resulting in a phenomenon research design being inappropriate for the current study. A grounded theory study aims to generate a discovery or theory of the process and not provide a description. This research project's purpose is not to develop other theories concerning internal controls or the three theories in the conceptual framework. A grounded theory design research project is not appropriate for this research project. This research project's purpose is to explore and discover the reasons why some city's leadership fail to implement internal control procedures that reduce fraud risk and the potential loss of city assets.

Discussion of Triangulation

Triangulation provides a broader picture of the focus group selected in a multiple case study design research and enhances the validity, reliability, and confirmability of the data (Natow, 2019). Triangulation of multiple source data enhanced the data sources' collaboration and provide additional information not available by a single data source (Ross, 2019).

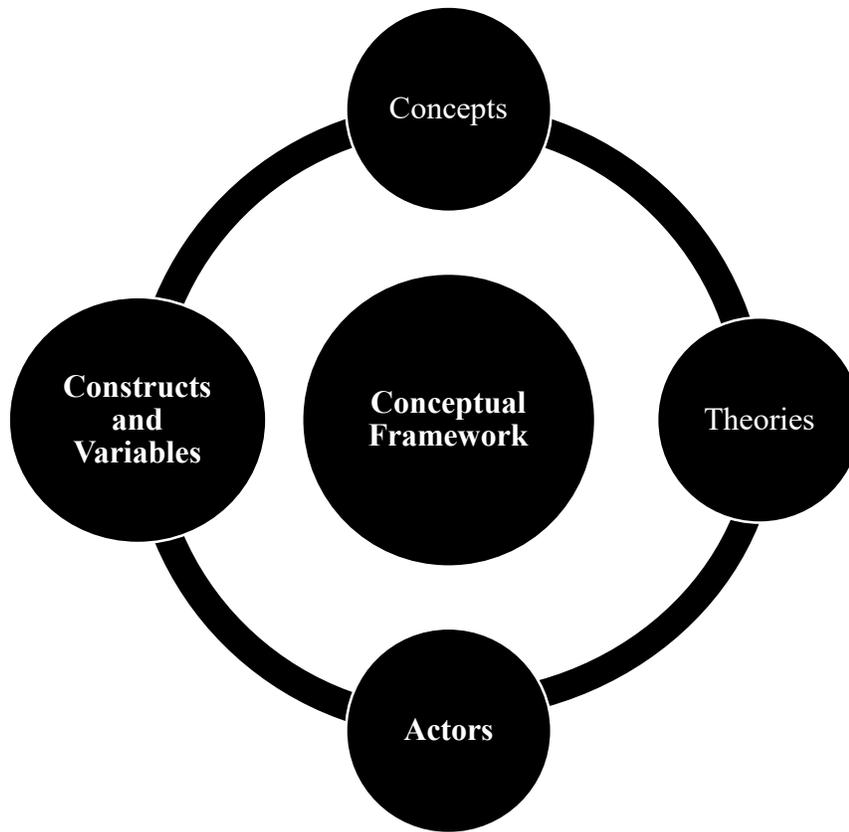
Triangulation of multiple source data enhanced collaboration of the data sources and provide additional information not available by a single data source. This multiple case study involved structured interviews with the sample city's accounting staff, mayors, and council members. The researcher also reviewed the city's financial records and written internal control procedures. The data from the multiple sources was compared to discover if the cities' leadership has failed to implement internal control procedures, reducing fraud risk and the potential loss of city assets.

Summary of the Nature of the Study

This flexible design research study used qualitative methods specifically, a multiple case study design guided by the positivism paradigm. This multiple case research study allowed the researcher to understand why city's leadership sometimes fails to implement internal control procedures to reduce fraud risk and the potential loss of city assets. This multiple case study's focus group of selected small cities in the central United States provided adequate data for the researcher to apply qualitative testing to discover the cause outlined in the problem statement. Data were collected with multiple sources for each city in the focus group to accomplish triangulation.

Conceptual Framework

The conceptual framework of the research project has the internal control concepts that should be implemented by the city's leadership to reduce fraud risk and the potential loss of city assets. The three theories used in the study have an impact of the city's leader's role of implementing internal control procedures. The actors in the research project are the small city's leadership, accounting staff, and the remaining city employees. The city has restraints limiting the leadership's ability to for internal control implementation to reduce fraud risk and the potential loss of city assets. The conceptual framework allowed the researcher to explore each city's internal control procedures in the multiple case study design project.

Figure 1*Conceptual Framework****Concepts***

Segregation of duties is an internal control measure that assigns different staff members to a single process in the accounting workflows (Omar et al., 2016). Leadership often do not follow sound segregation of duty policies by assigning a single employee to perform multiple job functions within the workflows (Youngblood, 2016). An example of lack of segregation of duties that creates an opportunity for fraud is the receiving department of the business operations (Youngblood, 2016). A single employee could be assigned to receive all the merchandise, inventory counts, and update the inventory control software system (Youngblood, 2016). The

leaders of small organizations often assign accounting staff to perform dual responsibilities in the accounting workflows to reduce staffing operating expenses (Youngblood, 2016). An example of a higher fraud risk due to segregation of duties deficiency is when the same staff member issues a purchase request, executes the purchase orders, processes payment of the account payables (A/P), and signs the checks. The researcher reviewed the city government leadership's internal controls procedures for accomplish segregation of duties.

Check writing authority must be assigned to staff members to pay all the company's bills and obligations during the ordinary business course. Therefore, proper internal control procedures requiring a two-person authorization for all cash transactions will reduce fraud risk (Zakaria et al., 2016). The researcher attempted to understand the check writing procedures implemented by city government leadership for each small city in the study. The city's leadership must establish internal control procedures concerning check storage. Check inventory should be stored in a safe or a secure room with access control. The city's leadership must implement fraud prevention internal controls, including safeguarding check stock (Lachney, 2018).

The city's accounting staff must be assigned bank access in order to process checks. The city's leadership must design internal controls for bank processing including the access to the city's online banking services. Banks have established various online access control procedures including two staff person procedure. The city's leaders should require two staff members authorization to wire funds from the city's bank account. The firm's leadership should understand how its staff members conduct banking operations and identify weaknesses in the internal controls (Negurita & Ionescu, 2016).

Reconciliation of Bank Statements is an internal control procedure that should occur monthly. A staff member who does not process checks or sign checks; initiate or approve electronic payments should be assigned the duty of bank reconciliation to foster adequate internal controls. An internal fraudster usually works alone and will steal from the company and conceal the crime due to internal control deficiencies (Negurita & Ionescu, 2016). The city leaders should take steps to ensure the bank accounts are reconciled each month, review the reconciliation reports, and review the bank statements as a method of discovering any potential loss of the city's assets.

Theories

The agency theory was developed and introduced by Jensen and Meckling (1976). The agency theory is concerned with aligning the owners' and the managers' interests for the benefit of both parties (Madhani, 2017). However, the theory recognizes that managers often are guided by self-interest and would be willing to misappropriate the owner's assets for self-benefit (Madhani, 2017). A company's owners are responsible for implementing and developing internal control measures to reduce fraud risk by asset misappropriation by the management and support staff (Madhani, 2017). The mayors and city council members must develop internal control procedures to prevent the potential loss of city assets by staff members who have self-interest and not the interest of the city's assets. The city leaderships should implement employee hiring procedures such as criminal history background checks for accounting staff members.

The fraud triangle theory has three components; pressure, opportunity, and rationalization; a theory developed by Donald Cressey after interviewing prison inmates in the late 1940s and early 1950s (Cressey, 1953). A staff member who is motivated by the fraud components with intent can motivate an employee to commit fraud (Zahari et al., 2020). The

success of internal controls as a fraud deterrent will depend upon the opportunities that a perpetrator possesses to override or circumvent the internal controls (Zahari et al., 2020). The small city government's leaders should implement internal control procedures to reduce a staff member's opportunity to commit fraud and misappropriate the city's assets.

Donaldson and Davis (1991) introduced the stewardship theory as an alternative to the agency theory. An organization's leader who manages under this theory desires to be a good steward of their employer's assets (Donaldson & Davis, 1991). The stewardship theory proposes that executives are more interested in their long-term success than their self-interest (Mugarura, 2016). Mugarura (2016) stated that the board of directors and top management should have a stewardship attitude when making business decisions. A stewardship relationship between the board of directors and the organization's top managers promotes internal controls to protect its assets (Mugarura, 2016). The small city's mayors and council members must be stewards of the city assets by implementing internal control procedures to reduce fraud risk and the potential loss of the city's assets.

Actors

The small city mayors must assume many responsibilities, including oversight of the city's accounting department. This person is responsible for protecting the city's assets, which includes implementing adequate internal controls. This multiple case study involved interviewing the small city mayors to discover their role in implementing internal controls to reduce fraud and the potential loss of city assets.

The city council members have a responsibility to oversee and review the city operations, including the budget and financial statements. The city council members should review the financial information, including the city's internal controls to reduce fraud risk and potential loss

of city assets. This multiple case study included interviews of city council members from each of the cities to discover their roles concerning internal controls.

The city's accounting staff is responsible for processing and recording the city's accounting functions. The team should be required to work within the restraints of internal control procedures that reduced fraud risk and the potential loss of city assets. The multiple case study attempted to understand how each city's internal control procedures reduces fraud risk and the potential loss of city assets.

City employees have many responsibilities, including the procurement of supplies and repairs. Adequate internal controls are required to assure staff members use city funds for approved purposes and do not misappropriate assets. This multiple case study attempted to discover how the internal control procedures reduce fraud risk and the potential loss of city assets from actions by the city's employees.

Constructs

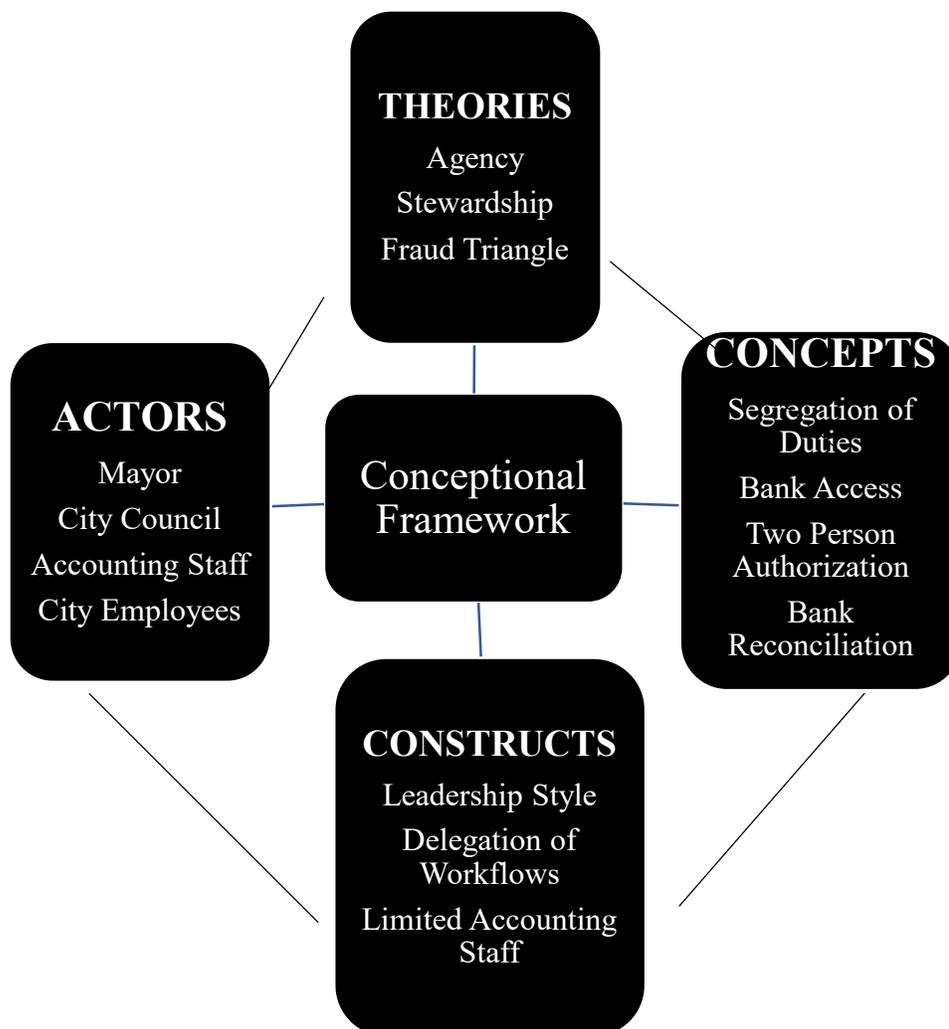
The leadership style of the mayor has a significant impact on the implementation of adequate internal controls. The leadership style also influenced the enforcement and monitoring of the internal control procedures. The mayor's view of the responsibility concerning the stewardship theory contributed to the actions to protect the city's assets by implementing internal control procedures that reduced fraud risk and safeguarded against the potential misappropriation of city assets.

The city's leadership must delegate the accounting staff the workflows required to provide for all accounting functions. The accounting staff members are responsible for the city's financial operations to assure bills are paid on time and recorded. The city accounting staff are also responsible for depositing city funds and recording the data in the accounting software. This

multiple case study included a review of the workflows to allow the researcher to understand if the internal controls are adequate to reduce fraud risk and the potential loss of city assets. Small cities often have a limited number of accounting staff members and limited segregation of duties, and the small office size provides a challenge for implementation of internal control procedures by the city's leadership. This multiple case study was designed to discover if the city's leadership has implemented segregation of duties that provide adequate internal controls to reduce fraud risk and the potential loss of the city's assets.

Figure 2

Conceptual Framework Relationships



Relationship Between Concepts, Theories, Actors, and Constructs

The interaction and workflows of accounting data and action between the elements of the research framework are interwoven working together in a circular pattern. The mayor and city council should implement the internal controls that allow seamless workflows flows while against the potential loss of the city's assets. The city leader's implementation of internal control procedures was influenced by their prospective of the agency theory, the fraud theory, and the stewardship theory. The actors of the city government applied the concepts, theories, constructs, and variables while performing the workflows of the organization.

Summary of the Research Framework

The researcher used the conceptional framework to design the research procedures to explore why city leadership fail to implement internal control procedures to reduce fraud risk and the potential loss of city assets. The concepts are based on internal control procedures to reduce fraud risk. The researcher attempted to discover how the city's leadership are influenced by the three theories of the research project. The actors of the research project each have a role in implementing, reviewing, or working under the internal control procedures implemented by the city's leaders.

Definition of Terms

Embezzlement: The United States Department of Justice defines embezzlement based on the Supreme Court ruling in Moore vs. the United States. Embezzlement is defined as the "fraudulent appropriation of property by a person to whom such property has been entrusted" (Ross, 2019; U.S. Department of Justice, 2021). The elements that must be present for a conviction of embezzlement are a trust relationship with the employer, the property was under the care of the defendant, the dealings of the property constituted a fraudulent conversion, and

the defendant acted with intent to deprive the owner's use of the property (Admussen, 2019; Ross, 2019; U.S. Department of Justice, 2021).

Internal Control Deficiency: An internal control deficiency occurs when the design of the control procedure fails to prevent, detect, or correct a misstatement on a timely basis (AICPA, 2009; Lee & Smith, 2018).

Internal Controls: Internal controls are a set of procedures required by an organization in the routine workflows to safeguard assets, reduce errors, and promote operations conducted in an approved manner (Suarez, 2017).

Misappropriation of Assets: Misappropriation of assets is the misuse or theft of the employer's property (Johansson & Carey, 2016).

Occupational Fraud: Occupational fraud is manipulating one's occupation for personal enrichment by exploiting or misappropriating the employer's assets (Suh et al., 2018).

Segregation of Duties: Segregation of duties is an internal control measure that assigns different staff members to a single accounting workflow process (Omar et al., 2016).

Steward: A steward is employed as a strategic manager for their employer to add value to the company guided by the owner's business objectives (Liff & Anderson, 2020).

Stewardship: Stewardship is the obligation to be a steward of responsibilities entrusted to one's care resulting in alignment with the owner's objective (Bruni-Bossio, 2018).

Trusted Employee: A trusted employee is a person who is in a trust or fiduciary work relationship with an organization, possession or control over the employer's property, and the employer expects the trusted employee to do what is best for the organization (Elifoglu et al., 2018; U.S. Department of Justice, 2021).

Assumptions, Limitations, Delimitations

This flexible design multiple case study required the researcher to consider the assumptions, limitations, and delimitations related to the study's design. An underlying assumption by the researcher was that the study will generate knowledge. The research study was limited by data accuracy and the interviewee's truthfulness, the integrity of the researcher collecting the data, and investigator bias (Parker & Northcott, 2016). Delimitations are the boundaries that a researcher puts on a qualitative research study due to time, location, and context (Haddad, 2018).

Assumptions

A research study requires the underlining assumptions to be critically understood by the researcher (Wolgermuth et al., 2017). The ontological assumption of a research project was concerned with what can be known about the study's research problem (Hojjer, 2008). The research positivism paradigm results in the assumption to discover the absolute truth creating the problem (Hojjer, 2008). The research assumption concerning the culture was that the focus group in the qualitative study will represent the population (Hojjer, 2008).

A multiple case study requires the researcher to make assumptions concerning the data to be collected. Study assumptions must be made with multiple city cases concerning the interviews and financial data collected and analyzed. One assumption the researcher made was that the research participants replied truthfully to the research questions. The researcher should attempt to influence the participants to reply honestly by building rapport and trust before the interview session (Qu & Dumay, 2011). The second assumption made by the researcher was that the city's annual audited financial report and the independent auditor's report are accurate. The independent auditor has a professional obligation and responsibility to provide objective and

reliable audit reports, but reporting clients' misconducts could jeopardize their income, creating a conflict of interest (Roszkowska, 2020). The third assumption the researcher made was that the participants in each of the focus cities do not collaborate to conceal material fraud inside the organization. Internal controls are limited in preventing or detecting material fraud when two or more staff members circumvent the control procedures to commit occupational fraud (COSO, 2013).

Limitations

The researcher's first limitation concerning this study was conscious or unconscious bias that could compromise the reliability of the data (de Villiers et al., 2019). The researcher must focus on collecting data from participants directly involved in the focus case to improve the reliability of the data (de Villiers et al., 2019). The second limitation of a research study was the inability to generalize when the focus group was small compared to the population (Parker & Northcott, 2016). The researcher conducted this qualitative study to enable generalization by obtaining accurate data from the sample population (Creswell & Poth, 2018). The researcher saturated each category by interviewing and gathering data until no new themes were discovered (Creswell, 2016). A third limitation of a research study was whether the environment of the focus group represents the population (Parker & Northcott, 2016). This limitation was mitigated by collecting extensive data about each case (Creswell & Poth, 2018). This multiple case study also faced a fourth limitation collecting accurate data from the city's staff members when they fear repercussions from the discovery of internal controls deficiencies are exposed during the interviews (Stein, 2019). The researcher was responsible to protect those who participate in the study from any harm (Yin, 2018). A fifth limitation this research project could face was the staff members' fear of providing their co-workers conflicting information (Creswell, 2016; Park et al.,

2017). The confidentiality of each participant was accomplished by masking their names when collecting and storing data which diminished this limitation (Creswell & Poth, 2018).

Delimitations

This research study faced delimitations on this qualitative research study due to time, location, and context. The research focus group was small city governments in the Central United States. Small cities were selected because of the high numbers of occupational fraud cases reported by the news media and the high dollar amount of asset misappropriation against small city governments. A city that becomes a victim of occupational fraud delegates control over assets to a trusted employee without adequate internal controls to prevent the opportunity to misappropriate the city's assets. Many small city governments have a limited staff size, reducing the city's leadership's ability to establish adequate internal controls procedures such as segregation of duties. Many small city governments have enterprise funds for city-run utilities, which generates a large dollar amount of city revenue. Small city governments also have fees, fines, and other revenue sources generating city revenue. The study's parameter of collecting data from small city governments provides a vulnerable group for occupational fraud.

Significance of the Study

Reduction of Gaps in the Literature

This multiple case study reduced the gap in the literature by studying small city government leadership's potential failures to implement internal control to reduce fraud risk and the potential misappropriation of the city's assets. A search of the literature did not discover that this target population has been studied. The study also combined the fraud triangle theory, the agency theory, and the stewardship theory for the conceptual framework. The city's leadership discernment of the fraud triangle theory three concepts was influenced the emphasis placed on

protecting the city's assets by implementing internal controls. The literature search did not discover a research study on internal controls that included integrating the three theories in the conceptual framework of this study: agency theory, stewardship theory, and the fraud triangle theory.

Implications for Biblical Integration

This study has many Biblical implementations, including the Stewardship Theory in the conceptual framework. The Bible precepts teach that where much is given, much is expected. For an employee to commit occupational fraud, the employer must delegate the employee's oversight authority and control of financial resources as a trusted employee. The employer expects the staff member to be a steward of the assets and resources that have been assigned. The employer expects company growth and not misappropriation of the company's assets. Jesus discussed the Christian perspective of an employee in the talent parable. Their master commended the two servants who double their master's assets. The master criticized the third servant who buried the talent.

Organizations require internal controls for the protection of assets. Protecting the organization's assets from misappropriation with internal controls is expensive to implement and maintain. The Biblical principle that the love of money is the root of all evil is often a motivating factor that creates the fraud triangle's pressure component. Sin creates the additional expense of implementing and the continuation of internal controls to an organization.

Benefit to Business Practice and Relationship to Cognate

Internal controls are an integral part of accounting workflows when an employer has delegated a trusted employee to manage the company's assets. Many organizations have been victims of occupational fraud, causing a loss of the company's or government agency's assets.

Internal controls are one of the leading topics in the accounting cognate and one in which accountants should have a high level of understanding and proficiency. This study did benefit business practices by exploring why leaders fail to implement internal control procedures that protect the city's assets. The study's outcome and recommendations should influence each city's leadership to prioritize implementing effective internal controls.

Summary of the Significance of the Study

The study explored why the city's leaders fail to implement internal control procedures to reduce fraud risk and the potential loss of city assets. The framework included the conflicting views of the stewardship theory and the agency theory. City leaders who desire to be stewards of the city assets have a positive attitude toward implementing effective internal controls and monitoring the city's staff's workflow procedures to ensure the control procedures are followed. City leaders who manage under the agency theory was driven by self-interest in their role for the city government. The city leadership sets the tone at the top concerning the stewardship theory with the attitude of being a servant to the population who elected them or alternatively, the leadership could follow the agency theory seeking self-interest. The leader's stewardship attitude served as a model for each city's staff to follow.

A Review of the Professional Literature and Academic Literature

Many small cities have been victims of occupational fraud because the leadership failed to implement adequate internal controls to reduce fraud risk and the potential misappropriation of assets. The researcher showed the connection between the existing knowledge concerning the research topic and findings of this study. The researcher designed the study to add new knowledge concerning the specific population to fill a gap in the literature. The researcher provided a comprehensive critical analysis and synthesis of the literature related to the theory

and conceptual framework of the research topic. The researcher explained the topics and subtopics related to the research topic in detail. The researcher provided a discussion to illustrate both sides of the research subject to provide a broad perspective of the topic. The researcher incorporated existing literature to develop this multiple case study to test the sample population. The review of literature analyzed gaps that this research study filled. The literature review discussed topics interrelated to the business practices related to the problem statement. A detailed discussion of the background of the problem was provided. The researcher discussed the concepts and theories of the study to provide detail of how they relate to the population and this multiple case study. The researcher discussed related studies in the literature review.

The researcher reviewed professional and academic literature retrieved primarily from the Liberty Online Library and published within 5 years. The researcher cited 49 sources in the literature review, 43 that were published after 2015. A small number of fundamental primary sources were used that exceeded the 5-year publication timeline which provided the readers with underlying information concerning the research topic from an authoritative source. The researcher explained the research problem, theories, and conceptual framework in the literature review.

Business Practices

The leadership of an organization has the responsibility to design effective business workflows and implement internal controls to protect the organization's assets. Efficient accounting workflows are the responsibility of the leadership to structure within an organization. Asatiani and Penttinen (2019) conducted a qualitative multiple case study to explore the accounting workflow management of accounting firms. The results indicated that accounting workflows were designed by the leadership of Viacom and Officecom differentiated by the

leadership style but were effective in accomplishing the desired workflows with internal control restraints. Asatiani and Penttinen (2019) discussed that Viacom's leadership allowed employees to work under a flexible, output approach, allowing them to set priorities and organize their responsibilities to accomplish the expected results and output on schedule. The leadership at Officecom structured the workflows based on task management (Asatiani & Penttinen, 2019). The role of each actor in an organization related to workflow design should be analyzed to assure compliance of internal controls, specifically segregation of duties (Kim et al., 2020). Internal controls are essential to the workflow design whether the leaders desire a flexible work structure or task management structure.

The structure of accounting workflows plays an essential part in the quality of the internal control processes. Balasubramanian et al. (2018) outlined that accounting workflows must be structured to consider the deadline requirements of the organization while producing accurate work quality on the most demanding workdays. On-time completion with a high volume of transactions is significant for a business to operate successfully (Xu et al., 2017). Johnson et al. (2014) researched how leaders structured internal controls by examining a sample of 74 cases of occupational fraud in public sector entities. Johnson et al. (2014) designed the case study to isolate internal control weakness patterns. The researcher's findings revealed that the three most common internal control weaknesses were lack of leadership oversight or independent body review, lack of internal controls for employees to access cash and other assets, and weaknesses for recording transactions and records. Organizational leaders often pay attention to the design and implementation of the workflow internal controls but fail to monitor the staff's compliance with the policies (Du et al., 2020). Failing to monitor the internal controls could create

deficiencies cited in the independent audit resulting in lower bond ratings and higher independent audit fees (Nwoye, 2018).

Growing businesses have increasing accounting workloads resulting in additional staff organizational challenges. Chen et al. (2020) conducted a qualitative case study to explore business workflows and how higher salaries impact the leadership's design and internal controls. The result of the study indicated that organizations face workflow challenges due to the amount of data generated and the rising salaries of the accounting department (Chen et al., 2020). Needleman (2019) also discovered in the findings of the case study research that organizations have accounting workflows ranging from simple to complex depending upon the number of transactions processed by the staff and the level of detail required. Chen et al. (2020) also stated in their findings that accounting workflows are essential to an organization to provide accurate financial reporting for stakeholders and cost accounting information for inside management. The COSO (2013) framework authors also stated in the commission's findings that internal control systems must meet the changing demands of the workflows and the regulatory agency with oversight of the organization. The workflows include data entry of accounting records such as vouchers, accounts payable, accounts receivable, payroll, cost of goods sold, work in progress, calculation of financial data, and the presentation of the financial reports (Chen et al., 2020). The accounting chart provided by Du et al. (2020) included management's planning of the workflows, controls, and evaluation of the staff accounting outputs. The chart included in the Chen et al. (2020) study displayed the workflows for procurement to assure vendors are paid timely and account receivable workflows to ensure customers' monthly billing is correct.

The business culture has many organizational structures, from large corporations to small family-owned businesses, which the leadership must consider when designing and implementing

accounting workflow structures. Needleman's (2019) qualitative case study discovered that business leaders should analyze and improve the accounting workflows to gain efficiency and identify the internal controls required to protect the stakeholder's assets. The COSO (2013) framework outlined by the authors that internal control procedures can be applied at any structural level in the organization, and any level of accounting workflows. Needleman (2019) findings indicated that improving workflows is not instantaneous and requires human resources, and additional expenses to conduct a workflow study. Needleman (2019) also desired to discover solutions to improve accounting workflows while maintaining efficient internal controls. Organizational leaders and staff members should work together to improve accounting workflows resulting in more accuracy and reduced processing time.

The leadership of small cities should identify fraud risks related to the three components of the fraud triangle when designing internal controls. Youngblood (2016) discussed the three components of the fraud triangle in detail in a qualitative multiple case study. Youngblood (2016) outlined that the leaders of small city governments are facing a higher risk of occupational fraud due to the economic pressures on employers and staff members. The middle-class workers are under economic pressure due to their earnings not keeping up with cost-of-living increases (Youngblood, 2016). Reinstein and Taylor (2017) stated in their findings that internal controls are often designed to reduce the fraud triangle theory's opportunity component and identify the employee's pressure component of the fraud triangle. The staff members who are under economic pressures result in one of the components of the fraud triangle (Youngblood, 2016). Youngblood (2016) stated that the economic pressures coupled with a trusted employee's opportunity to commit fraud increase fraud risk and the potential misappropriation of assets by a trusted staff member. Reinstein and Taylor (2017) also discussed in their findings the red flags

concerning the pressure component of the fraud triangle. Enron and Health South are examples of companies that required upper management to meet the organization's financial targets resulted in the pressure component of the fraud triangle (Reinstein & Taylor, 2017). Leaders must monitor the trusted staff's pressure and rationalization components of the fraud triangle to assess fraud risk and the level of internal controls required to reduce the opportunity component of the fraud triangle.

An organization's leaders should design internal controls to reduce fraud risk and help prevent misappropriation of the organization's assets by staff members. Chen et al. (2020) discussed in their case study findings six internal control components required for adequate internal controls: control environment, control activities, risk assessment, monitoring, information, and communication. Chen et al. (2020) also highlighted the cornerstone of a company's internal controls is the control environment. The authors of the COSO (2013) framework stated that the control environment is the basis of carrying out internal controls through a set of standards, processes, and structures. Chen et al. (2020) also stated in their findings that the internal control environment includes the company's culture, risk appetite, and strategy concerning the leadership's internal control policies. The authors of the COSO framework also outlined that the control environment is the basis of carrying out internal controls through a set of standards, processes, and structures (COSO, 2013). Chen et al. (2020) further discussed the risk assessment is setting risk targets and identifying risk. Leaders must initially identify fraud risk when implementing internal controls but must monitor fraud risk on a continual basis.

Leaders must apply the COSO conceptual framework discussed to design the internal controls and structure continual monitoring for compliance or revisions. Chen et al. (2020)

discussed in their findings the impact of COSO framework components concerning risk assessment. The authors of the COSO (2013) framework defined risk as the likelihood that an event will adversely affect the leadership's objectives for the organization. Chen et al. (2020) discussed that control activities are the procedures designed and implemented by the company's leadership to reduce fraud risk and the potential misappropriation of the company's assets. The authors of the COSO (2013) framework described the following examples of control activities: segregation of duties, authorizations and approvals, verifications, reconciliations, and reviews of business performance. Chen et al. (2020) stated in their findings that the information and communication concerning the internal control component should be made with internal and external parties.

The authors of the COSO (2013) framework discussed how communication and information are disseminated from senior management to the staff members and then back to management from the staff members. Management should understand the recommendations of the COSO framework to communicate the importance of internal controls to the staff and to take the control activities seriously (COSO, 2013). Chen et al. (2020) also discussed in their findings that monitoring internal controls is an ongoing process of assessing the design and effectiveness of the internal controls. The COSO framework provides leaders valuable information to design internal controls to reduce fraud risk.

Internal controls are essential to reduce fraud risk and the potential misappropriation of the organization's assets, but internal controls come with a price. The authors of the COSO (2013) framework discussed how the organization's leadership must establish their risk appetite, which will allow the company to evaluate and manage the potential risk to the company's objectives. Chen et al. (2020) outlined that companies' leaders must align the internal controls

from flexible to strict workflow constraints depending upon their willingness to accept fraud risk and the potential loss of the organization's assets.

Helms (2018) discussed in the case study findings that an organization should establish internal control procedures for each cash disbursement method. Helms (2018) outlined how the organization's leadership must delegate authority to a trusted employee to process vendor payment and authorize each transaction. Chen et al. (2020) stated in their findings that internal control procedures provide risk management for cash transactions, record keeping, and safeguarding from misappropriation. Leadership should strive to reduce fraud risk in the organization to protect the company from asset misappropriation, which could result in business failure. However, internal controls increase operating expenses, and the leadership must evaluate the risk-benefit to their small organizations depending upon the level of fraud risk they are willing to assume.

Many companies communicate a desire for staff to report suspected fraud and set up a whistleblower hotline. Kral (2018) conducted a qualitative case study concerning the topic of an organization's whistleblower hotline. Kral (2018) outlined that a whistleblower hotline has been an internal control component used by many companies' leadership for over 20 years as part of the organization's fraud detection program. The authors of the COSO (2013) framework outlined how leadership should prioritize internal controls from the top of the organization's board of directors and management. The COSO (2013) authors discussed in the framework how the implementation of an effective whistleblower hotline will provide an example to the staff concerning the level of priority the board of directors' view internal controls. Kral (2018) outlined how company's leadership must provide training, awareness, and trust in the program. Kral (2018) also discussed how the audit committee members were required to establish

procedures for receipt, retention, and treatment of complaints regarding internal controls, accounting, other auditing issues on a confidential and anonymous basis. Many companies encourage staff members to report suspected fraud by using the whistleblower hotline.

Leadership should periodically discuss the whistleblower hotline with their employees and promote reporting suspected fraud. In the case study's findings, Kral (2018) stated that tips provided on the whistleblower outline had been the leading method to detect occupational fraud. Unfortunately, many company leaders implement the internal control procedures but fail to promote and monitor the hotline activity to maximize the tool's value (Kral, 2018).

The COSO (2013) framework authors discussed that the last integrated component of the COSO framework is monitoring activities (COSO, 2013). The authors of the framework stated that monitoring activities are ongoing, separate activities or combining the two to ascertain the present and functioning controls (COSO, 2013). Leadership must monitor the whistleblower hotline to assure the staff uses the tool without fear of retaliation (COSO, 2013). The internal control procedures are evaluated, and deficiencies are communicated to directors and management (COSO, 2013). The oversight and governing body of an organization must monitor internal controls with a high priority to ensure all the integrated components of the COSO framework are maintained.

The organization's leadership should consider the internal control components outlined in the COSO framework while designing and implementing control procedures for their organization concerning the fraud hotline. Kral (2018) outlined how the company's leadership must provide ongoing training and awareness to keep the hotline working effectively. A whistleblower training program should be in place for new employees and periodic refresher training for tenured employees (Kral, 2018). Executive leadership and managers should train the

team members how to correctly use the whistleblower hotline during the staff meetings, written communication, and supervisor interactions (Kral, 2018).

Kuang et al. (2021) indicated in the findings of their qualitative case study that fraud is often discovered after a whistleblower uncovers the asset misappropriation. The loss of assets is an item to be disclosed in the city's financial report but is only one side of the whistleblower topic (Kuang et al., 2021). Internal control deficiencies will also be identified due to a whistleblower allegation of misappropriation of the company's assets (Kuang et al., 2021).

Kuang et al. (2021) also stated in their findings that the independent auditors would have specific information concerning the internal control deficiency, which will allow a more thorough audit.

Kuang et al. (2021) also discussed that information would allow the auditor to use vouching to test if the internal control procedures failed to reduce fraud risk and the misappropriation of the organization's assets. The city leaders should be transparent to report any substantiated fraud allocation in the notes of their financial statement.

Leadership should ensure that internal controls are designed based upon the COSO framework. COSO (2013) framework identifies five integrated components that the leaders should use to design the internal controls. In the case study report, Kral (2018) discussed that the organization should also invite customers, vendors, and other stakeholders to use the whistleblower hotline. The organization's leadership should provide assurances that the tipster will not face retaliation and the person will remain anonymous (Kral, 2018). The authors of the COSO (2013) framework recognizes that limitations exist even though internal controls should provide reasonable assurance of achieving the objectives set up by the leadership. The suitability of objectives of internal control is the first limitation (COSO, 2013). Leadership must also understand that the COSO frameworks warns that internal controls cannot prevent every fraud

attempt (COSO, 2013). Leadership who desires to protect the organization's assets should take the needed steps to develop a whistleblower program that protects the staff member who reports the suspected fraud.

A contradictory side of reporting fraud is the frequency of organizational retaliation against the whistleblower. Stein (2019) conducted a qualitative multiple case study to discover the frequency in which whistleblowers face retaliation from their employers. Stein (2019) outlined how whistleblowers are frequently hated and scorned by other staff members. Whistleblowers often become targets of harassment, intimidation, investigation, persecution, and prosecution (Stein, 2019). Eisenstadt and Pacella (2018) stated in the findings of their case study that all applicants with a whistleblower past have difficulty finding meaningful jobs. The whistleblower is a substantial threat and hated because they appear to stand up against colleagues and the organization (Stein, 2019).

Whistleblowers often face a two-fold problem, one with their current employer, a second in the job market when they seek subsequent employment (Eisenstadt & Pacella, 2018). The tipster has a false perception and cannot work in their field of expertise due to formal or informal blacklisting and a negative whistleblower reputation in a specific industry (Eisenstadt & Pacella, 2018). The whistleblower will add to the hatred received due to the view from others that he is standing up for good (Stein, 2019). Whistleblowers are often mistreated and face retaliation by management, including being overlooked for a promotion they were qualified to receive.

Whistleblowers often find themselves identified as the problem by the organization's leaders and not the team player who saved the company's assets. In the qualitative case study, Stein reported that the whistleblower would often become viewed as the problem in the organization (Stein, 2019). Whistleblowing is seen as an act of disloyalty to the organization

even though the tipster is standing up for a good ethical approach (Stein, 2019). Eisenstadt and Pacella (2018) indicated in their qualitative case study that an example of a tipster who faced adverse consequences is Sharron Watkins, a former vice president of Enron Corporation, who discovered and reported accounting irregularities. The Enron executives retaliated by treating Watkins as a pariah, moving the office location, refusing to assign meaningful work, and ignoring the reported accounting irregularity concerns (Eisenstadt & Pacella, 2018). Watkins acknowledged that she was labeled as a troublemaker, resulting in difficulty to find employment, and further stated that most whistleblowers end up out of the industry (Eisenstadt & Pacella, 2018). Based on the reports in the literature and past personal experience, a staff member who suspects fraud and desires to advance with their current employer should not report fraud.

Leaders should be aware of the frequency of fraud and the number of assets lost to fraud each year, as discussed in many publications, including a report by the Association of Certified Fraud Examiners. The 10th edition of the Association of Certified Fraud Examiners report on fraud and abuse was published in 2018 (Denman, 2019). Denman (2019) conducted a qualitative case study that examined the contents of this report. Denman (2019) outlined the publication insights into how companies can reduce fraud risk and detect fraud. The information provided in Denman's study findings is consistent with the COSO framework. Leadership faces many challenges in designing, implementing, and operating effective internal control systems (COSO, 2013). Leadership is also required to apply sound business judgment, designing, implementing, and monitoring internal controls (COSO, 2013). The COSO framework is a reference document that the board of directors, management, and external stakeholders can use to structure internal control procedures without being excessively prescriptive (COSO, 2013). The COSO framework allows a company to apply internal controls regardless of the organization's size, legal structure,

or industry (COSO, 2013). Leadership needs to better understand the prevalence of occupational fraud by reviewing the 10th addition of the fraud report and understanding the COSO internal control framework.

A trusted employee often commits fraud over a lengthy timeframe. The medium duration of fraud schemes was 16 months (Denman, 2019). Denman (2019) outlined how the median loss per case studied was \$130,000, and 22% of the cases resulted in over a \$1,000,000 loss to the company. Denman (2019) examined significant findings of the 10th edition of the Association of Certified Fraud Examiners report to enable the author to make practical suggestions on how to deter and detect fraud, focusing on internal control activities. Denman (2019) also discussed how an organization's leadership must establish strong anti-fraud policies and the need for a fraud risk assessment before internal control implementation. The authors of the COSO (2013) framework defined internal controls as processes implemented by the entity's leadership to provide reasonable assurance regarding the organization's staff's ability to achieve objectives related to operations, reporting, and compliance. Internal control procedures are ongoing tasks and activities affected by staff members and not just policies and procedures (COSO, 2013).

Denman (2019) discussed fraud risk management and its framework. The author of the study also discussed six common red flags displayed by the person committing occupational fraud (Denman, 2019). The six common red flags displayed by fraudsters include: living beyond their means, financial difficulties, unusually close relationships with vendors, control issues, divorce/family issues, and a wheeler-dealer attitude (Denman, 2019). The six common red flags correlate with the level of power of the position of the fraudster, the amount of fraud, and the length of the fraud (Denman, 2019). The higher position of the fraudster in the organization results in a more prolonged fraud and a higher dollar amount of the fraud (Denman, 2019). The

higher losses are likely contributed to a staff member with a higher position in an organization would have fewer staff members questioning their decisions (Denman, 2019). The higher-level staff members would have been delegated more trust in managing the company's assets (Denman, 2019). Occupational fraud cases committed by an employee with less than one year of tenure result in a \$40,000 medium loss (Denman, 2019). In contrast, companies that are victims of fraud committed by an employee with over 10 years tenure result in a medium loss of \$241,000 (Denman, 2019). Leaders should review the fraud cases such as the ones discussed by Denman to gain knowledge about fraud, the fraud red flags, and learn from other organization's mistakes.

The leadership of many organizations fail to design, implement, and monitor internal control procedures to protect the entity's assets. Denman (2019) outlined how internal control deficiencies were responsible for nearly 50% of the fraud cases in the study. Additionally, the lack of internal controls was cited in 30% of the fraud cases (Denman, 2019). The COSO (2013) framework is a principal-based approach that allows a company's leadership flexibility and judgment in designing, implementing, and conducting internal controls. Internal control procedures can be applied at any structural level in the organization and with any level of accounting workflows (COSO, 2013). Internal controls help protect the organization's assets but also helps keep the staff of a small city government in maintaining compliance with other requirements and regulations.

Smaller organizations often have limited financial resources to design, implement, and monitor internal controls. Denman (2019) suggested that smaller companies and companies with lower gross margins have more material weaknesses in internal controls. Material weaknesses of internal controls have a significant impact on an organization's return on assets. Internal controls

have been discovered to help stakeholders make more informed decisions and enhance an organization's internal operations (Denman, 2019). The authors of the COSO (2013) framework discussed how internal controls must be flexible, allowing the leadership options to design and implement the procedures applied to the entire organization or a division or one part of the workflow. Correct application of the COSO framework provides greater confidence in the directors' oversight of internal controls (COSO, 2013).

Application of the framework also provides greater confidence in the entity's ability to identify, analyze, and respond to fraud risk (COSO, 2013). Denman (2019) outlined that management's job is to ensure the entity's assets are protected against misappropriation by implementing adequate internal controls. Each control procedure should be monitored by management to assure they are working as intended, providing fraud detection, fraud prevention, and fraud correction depending on the intent of the specific internal control (Denman, 2019). Organizational leaders must design internal controls to reduce fraud over the broad spectrum of the accounting workflows.

Internal controls procedures are living documents and must strengthen and change as the organization grows and workflows are adjusted. Denman (2019) also discussed the loss of an organization's assets by fraud. Maulidi and Ansell (2021) outlined that 88% of the occupational fraud against government organizations was misappropriated assets. Most of the organizations that are victims of occupational fraud might try to recover the losses from the fraudster after the misappropriation of assets has been detected (Denman, 2019). Denman (2019) discovered that none of the losses were recovered in 53% of the occupational fraud cases, and in 32% of the cases the company recovered part of the losses. In only 15% of the cases, the organization could

recover all the losses (Denman, 2019). The organization's leaders will also have to evaluate the cost/benefit of hiring legal services or assign staff members to collect the lost assets by fraud.

Leadership should set the tone of ethical standards at the top of the organization by developing and training the staff with high ethical standards. Denman (2019) outlined that the ethical standard will then be coupled with internal controls. The organization's leadership should develop, implement, and monitor an anti-fraud policy program which can be a stand-alone policy or included with a broader code of ethics policy (Denman, 2019). The primary topics covered in the policy include defining fraud source and scope of the policy, reporting fraud, consequences, investigating authority, and communicating the policy (Denman, 2019).

The authors of the COSO (2013) framework reported that the goal of internal controls is to provide reasonable assurances to the leadership and stakeholders, not an absolute assurance. Denman (2019) indicated that the leadership could communicate the anti-fraud policy by posting posters in prominent locations within the organization, training seminars, and individual meetings. Ethics and internal control procedures require ongoing training for the procedures to be effective. However, the leadership will have difficulty convincing the staff to adhere to internal controls if they do not manage the staff with integrity.

The small city's leaders must conduct a fraud risk assessment to provide needed information to design adequate internal controls to reduce fraud risk. Denman (2019) discussed how the company's leadership must conduct a fraud risk assessment to discover the company's fraud vulnerabilities to provide the needed information to design internal controls. The leaders must design the internal controls with the operation objectives pertaining to operating the organization effectively and efficiently (Denman, 2019). The authors of the COSO (2013) framework reported that operation objectives include safeguarding the company's assets to

reduce the risk of asset misappropriation. In the case study findings, Denman (2019) also reported that the risk assessment should identify potential fraud schemes and risks, the likelihood of the fraud risk discovered, and the risk assessment should evaluate the departments and staff members most likely to commit fraud. The risk assessment also includes evaluating existing internal controls' effectiveness to prevent misappropriation of the organization's assets (Denman, 2019). Leadership must be involved with the fraud risk assessment to develop and build internal control procedures to reduce fraud risk.

A small city's council members should actively protect the entity's assets with internal controls overseen by the audit committee. Weickgenannt et al. (2021) conducted a qualitative multiple case study concerning governments monitoring internal controls thru internal auditors. Weickgenannt et al. (2021) reported in their case study that public companies' audit committees allocate more time to monitor activities, control the environment, and devote less time to communication and information concerning internal controls. The authors of the COSO (2013) framework outline how leaders must understand a limitation of internal controls is that human judgment is needed for decision-making. Weickgenannt et al. (2021) reported that the audit committee is responsible for overseeing many issues including fraud risk, management integrity, and financial reporting. Therefore, internal control oversight is considered a vital role of the audit committee (Weickgenannt et al., 2021).

The board of directors should also understand how simple errors and human failure can reduce internal control effectiveness (COSO, 2013). The framework allows an entity to apply internal controls differently, such as having less formal and less structured internal controls in a smaller company (COSO, 2013). The company's size and regulatory industry standards are also positively associated with the overall oversight of internal controls by the audit committee

(Weickgenannt et al., 2021). The leaders of an organization must consider fraud risk and structure internal controls to reduce fraud risk and potential loss of the organization's assets.

Leadership should understand that the design of internal controls includes the internal control framework. The authors of the COSO (2013) framework outlined how internal controls should consist of operation objectives, reporting objectives, and compliance objectives. Weickgenannt et al. (2021) outlined how the age of the CFO could also be related to the limitations of internal controls. The authors of the COSO (2013) framework discussed management's ability to override internal controls, the collusion of management, personnel, or third parties, and events beyond the organization's control would create internal control weaknesses. Older, more experienced leaders may be more reluctant to override internal controls than younger, more aggressive leaders (Weickgenannt, et al., 2021). Weickgenannt et al. (2021) outlined how the agency theory is related to the audit committee providing independent monitoring of the entity's management to assure the organization's assets and interests are protected. When the audit committee applies the agency theory, the committee's actions will not become ceremonial with only the appearance of legitimacy (Weickgenannt et al., 2021). The audit committee must take its role of protecting the city's assets seriously and actively monitor internal controls and fraud risk.

The audit committee has the oversight responsibility for internal audits and independent audits, but the researcher is anticipating that small city leaders do not employ internal auditors. Gebrayel et al. (2018) reported in their research study findings that frequent audit committee meetings and the presence of internal auditors have a positive effect on monitoring the organization's fraud risk. Internal auditors reduce the organization's fraud risk due to monitoring the accounting workflows (Gebrayel et al., 2018). The COSO (2013) framework provides a

structure to identify and analyze risk, appropriate responses, and continuous focus on anti-fraud risk. The framework provided the opportunity to identify and eliminate ineffective or redundant internal controls that fail to reduce fraud risk and achieve the entity's goals. Gebrayel et al. (2018) outlined how the internal audit function reduced fraud risk by assessing and monitoring internal controls. Financially literate audit committee members can assist the oversight board in making better decisions by evaluating internal controls (Gebrayel et al., 2018). An influential audit committee protects the stakeholder's interest with diligent oversight efforts of the city's internal controls and risk management.

The Problem

Occupational fraud is a prevailing problem with more staff members misappropriating assets than most business leaders would predict. The chamber of commerce estimated that 75% of employees steal from their employers (CPA Practice Advisor, 2017). Cash is the most common asset stolen, with an average theft of \$20,000 (CPA Practice Advisor, 2017). Leadership should prioritize designing, implementing, and monitoring internal controls to reduce fraud risk and protect the organization's assets.

Leadership designs most internal controls to prevent the opportunity component of the fraud triangle theory. Cressey (1953) conducted a qualitative multiple case study to discover why white-collar professionals stole from their employer. Cressey (1953) identified three elements that must be present for a staff member to commit occupational fraud. The three elements of the fraud triangle theory are opportunity, pressure, and rationalization (Cressey, 1953). Cressey (1953) stated in the theory that all three elements must be present for a staff member to commit fraud. Reinstein and Taylor (2017) reported in their qualitative study that internal controls are often designed to reduce the fraud triangle theory's opportunity component and identify the

employee's pressure component of the fraud triangle. In the case study's findings, Denman (2019) stated that 85% of the fraudsters displayed at least one behavior red flag, while in 50% of the occupational fraud cases, multiple red flags were displayed. Reinstein and Taylor (2017) described the red flags concerning the pressure component of the fraud triangle within companies such as Enron and Health South to meet the financial targets for upper management to earn incentive bonuses. The red flags for the opportunity component of the fraud triangle include the lack of segregation of duties, management override of internal controls, and impaired auditor independence (Reinstein & Taylor, 2017). The leaders should monitor the staff and workflows for red flags to protect the company's assets when designing internal controls.

Reducing the fraud risk associated with the rationalization component of the fraud triangle involves the moral development of the accounting staff over time. Reinstein and Taylor (2017) outlined how many leaders do not allow the Biblical precepts to become part of the business culture. Internal control deficiencies often exist in the staff development of moral responsibilities to an organization concerning ethical standards (Reinstein & Taylor, 2017). Reinstein and Taylor (2017) outlined how accountants score below other professionals on the Defining Issues Test, an instrument to measure moral development. In their case study report, Chambers and Sullivan (2018) reported that accountants have high sensing, thinking, and judges (STJ) scores on the Myers-Briggs personality test, which indicated that accountants are susceptible to rationalizing fraud and other unethical practices. Leadership should assume that each accounting staff member could commit occupational fraud when the person has the pressure, rationalization, and opportunity to commit fraud (Chambers & Sullivan, 2018). Ko et al. (2018) stated in their qualitative research findings that clear moral standards result when an ethical leader communicates and reinforces the organization's ethical standards. Reinstein and

Taylor (2017) discussed how organizations must strive to exhibit high moral standards concerning internal controls and not depend upon ethics classes. Ethics education and continuing professional development classes are not reducing fraud risk and the misappropriation of employer's assets, as evidence by the increasing number of occupational fraud instances (Reinstein & Taylor). A list of ethical standards does not replace the sinful nature of humanity that leads to occupational fraud.

Leadership should evaluate trusted employees for the pressure component of the fraud triangle. Reinstein and Taylor (2017) outlined how the leaders of government entities face a higher risk of occupational fraud due to the economic pressures on employers and staff members. The economic gains are being received by the wealthiest 5% of the population, and the middle-class workers are under economic pressure due to their earnings not keeping up with cost-of-living increases (Reinstein & Taylor, 2017). The economic pressures coupled with a trusted employee's opportunity to commit fraud increases fraud risk and the potential misappropriation of assets by a trusted staff member (Reinstein & Taylor, 2017). Cressey (1986) stated that the embezzler also conceals the pressure element of the fraud triangle to maintain the trusted position. The embezzler will not disclose the problem, causing the pressure element to avoid compromising their trusted status with the company (Cressey, 1986). Leadership should become coaching managers to build a communication trust with staff members to reduce the likelihood of a staff member concealing stress that could lead to fraud.

Occupational fraud is very costly for an organization. Reinstein and Taylor (2017) outlined how occupational fraud is estimated to cost an establishment approximately 5% of an organization's annual revenue. Handy et al. (2019) reported that leadership's thorough review of internal controls could help answer the questions concerning why undesirable conduct occurred,

and it is essential to remedy any internal control deficiencies and reduce fraud risk. Reinstein and Taylor (2017) also discussed that a survey of trusted staff members who commit occupational fraud reports that 82% of the perpetrators did not have a criminal record or were terminated by a past employer for committing occupational fraud.

The leaders did not evaluate the perpetrators as unethical, and most were not previously convicted or fired of occupational fraud (Reinstein & Taylor, 2017). Handy et al. (2019) outlined that leadership often fails in designing, implementing, monitoring, and enforcing internal control policies and procedures because their employees do not have a criminal past. Reinstein and Taylor (2017) stated that staff members who commit occupational fraud are not inherently wrong or corrupt. Nevertheless, they commit fraud due to their economic situation, rationalization of the crime, and the sufficient opportunity due to their trust position delegated to control the employer's assets (Reinstein & Taylor, 2017). The mayors and city council members of small cities must understand that the trusted employee could justify the misappropriation of city assets due to the ownership structure, creating a higher fraud risk.

The city's leaders must take an essential role in designing, implementing, monitoring, and maintaining internal controls, one of the mayors' and city council members' fundamental responsibilities. The authors of the COSO (2013) framework reemphasized top management's responsibility to establish adequate internal controls. Chen et al. (2018) discovered that the age of the CEO is a significant factor concerning the effectiveness of the organization's internal controls. Internal control deficiencies decrease when the CEO is advanced in age (Chen et al., 2018). Older CEOs also have more conservative career objectives, which results in a reduced number of internal control deficiencies (Chen et al., 2018). More experienced chief executive

officers often have a better understanding of fraud risk and adequate internal controls gained by years of experience.

The leaders should continuously assess fraud risk and monitor internal controls with various analytical tools due to the negative consequences of discovering and reporting internal deficiencies. Park et al. (2016) discovered in their qualitative multiple case study that the negative consequences of internal control deficiencies include lower bond ratings by the bond rating agencies. Internal control deficiencies of a government organization increased borrowing cost by 10-18 basis points (Park et al., 2016). Internal control deficiencies signal to the external stakeholder the quality of the leader's financial management ability. Stakeholders interpret internal control deficiencies as weaknesses in the leadership's ability to protect the organization's assets from misappropriation (Park et al., 2016). Helms (2018) outlined an exercise that an organization's leadership can implement to identify the material weakness of internal controls by conducting a "what if" analysis. An example is to examine the segregation of duties between bookkeeping, authorization, access, and independent reconciliation functions (Helms, 2018). The leaders must take proactive steps to reduce fraud risk due to the many negative consequences of occupational fraud.

Small city mayors and council members may not immediately see the results of the cost/benefit analysis of internal control implementation. Youngblood (2016) outlined that a small business manager must often choose between plowing back into the business to accomplish growth or use the growth funds to implement internal controls to protect assets. Zakaria et al. (2016) stated that internal controls have inherent limitations, including the cost/benefit ratio. Many cost conscience government officials could see internal controls as a nonvalue added expense rather than adding value to the organization due to protecting the city's assets.

The leadership of many small city governments must make employee staffing decisions based on budget restrictions, resulting in a small number of accounting staff members.

Youngblood (2016) outlined how budget restrictions force the small organization leaders to make staffing assignments based on risk unfamiliarity of potential asset misappropriation and trust of an employee with long tenure. Small organizations are often staffed with long-tenured employees (Youngblood, 2016). Kim et al. (2020) discussed how segregation of duties continues to be a primary focus for designing adequate internal controls.

Segregation of duties has a critical role in preventing occupational fraud and is also essential for accounting stewardship (Kim et al., 2020). Youngblood (2016) stated that the leadership assigns a more significant amount of responsibility to the trusted employee. Trusted employees are the staff member who commits occupational fraud by misappropriating the employer's assets in which the leadership has authorized them to manage (Youngblood, 2016). A leader who desires to protect the city's assets does not authorize custodial authority of the organization's assets to a staff member he assesses that would commit fraud. Leaders are failing to evaluate the fraud risk of trusted employees, increasing occupational fraud cases.

Small city government's leadership often lacks the available resources to implement internal controls to reduce fraud risk. Youngblood (2016) outlined how a large organization has an adequate cash flow that allows the leaders to implement effective internal controls in the daily accounting workflows. Larger companies have adequate cash flow to pay for staff to accomplish segregation of duties, conduct new hire financial background checks, implement a fraud prevention reward system, and provide fraud prevention training classes (Youngblood, 2016). Elder and Yebba (2017) discussed in their qualitative study that the Roslyn School district fraud resulted in multi-year embezzlement of \$11 million in school district tax funds. This loss is an

example of the failure of the oversight board to perform their role of monitoring internal controls seriously (Elder & Yebba, 2017).

A small organization such as a school district should take proactive steps to design adequate internal controls (Elder & Yebba, 2017). However, there is often a conflict between the number of internal control procedures and the associated expense (Elder & Yebba, 2017). School districts have been victims of occupational fraud with significant losses of assets, and the literature would indicate a lack of oversight concerning internal controls (Elder & Yebba, 2017). Youngblood (2016) outlined how a large organization has adequate cash flow allowing the leaders to implement effective internal controls in the daily accounting workflows. A small organization should take proactive steps to design adequate internal controls, but there is often a conflict between the number of internal control procedures and the associated expense.

The board of directors of many organizations devotes most of their time dealing with operational issues rather than internal controls to protect the entity's assets. Elder and Yebba (2017) outlined how the Roslyn school district's volunteer board of director's primary concern was education quality and the district's reputation, rather than administrative functions such as the oversight of internal controls. The state of New York signed into law a Five-Point Plan which mandated the adoption of improvements of the school district's board of directors training and oversight (Elder & Yebba, 2017). The plan also required presenting the audited financial statements directly to the board (Elder & Yebba, 2017). The Five-Point Plan required each board to establish an audit committee and six hours of training concerning the board's responsibility for financial reporting oversight (Elder & Yebba, 2017). Youngblood (2016) discovered that many company leaders choose to place minimum effort and expenses toward internal controls. However, many small companies will face bankruptcy due to not implementing adequate internal

controls to protect the organization's assets (Youngblood, 2016). However, a company that does not experience a significant loss of assets from occupational fraud will save money by not implementing internal controls (Youngblood, 2016). The primary objective of school board members is to provide operational guidance for the school district. However, the board members also have a responsibility to protect the district's assets with internal controls and monitoring.

Concepts

Segregation of duties is a core internal control procedure to reduce fraud risk by a fraudster acting alone. Segregation of duties is practiced in many organizations with an adequate number of staff members. In their qualitative multiple case study, Kim et al. (2020) stated that a 13-year review of Sarbanes-Oxley (SOX) discloses that 39.6% of the manager-only filers had ineffective internal controls, with segregation of duties cited as one of the contributing problems 70% of the time. Youngblood (2016) outlined that leadership often must assign a single employee to perform multiple job functions within the workflows. An example of lack of segregation of duties that creates an opportunity for fraud is the receiving segment of the business operations (Youngblood, 2016). A single employee could be assigned to receive all the merchandise, inventory counts and update the inventory control software system (Youngblood, 2016). Kim et al. (2020) stated that segregation of duties also has a role in the organization theory, where vertical segregation of duties develops with increased staff size and organizational hierarchies.

Segregation of duties is a critical internal control procedure that accountants understand as a fundamental internal control. Kim et al. (2020) outlined how segregation of duties reduces the motivation of staff collusion to commit occupational fraud. The researchers designed a graph-theoretic study of the accounting workflows and trusted staff member status into the

organization's hierarchical structure (Kim et al., 2020). The study also involved the segregation of duty structural properties for the accounting workflows to identify conflicts of interest, testing the segregation of duties to reduce fraud risk, and lastly, the study involved a practical approach to integer linear programming (Kim et al., 2020).

Kim et al. (2020) outlined the formulation of new segregation of duties designed to consider financial resource restraints in the design of internal controls (Kim et al., 2020). Helms (2018) found that leadership should design workflows and internal controls to segregate duties between bookkeeping, access to assets, authorization of transactions, and reconciliation. Youngblood (2016) outlined that the leaders of small organizations often assign accounting staff to perform dual responsibilities in the accounting workflows to reduce staffing operating expenses. Kim et al. (2020) discovered that workflow tasks, the normal segregation of duties, are designed to limit the number of staff members involved with each task. This practice places a staff member doing a single task rather than multiple tasks in the workflows (Kim et al., 2020). Each employee should be assigned only one task in the workflows to accomplish adequate segregation of duties. However, leaders consider the cost/benefit to accomplish segregation of duties.

Occupational fraud is an international problem occurring in tightly controlled socialist countries due to poor oversight of internal controls by the organization's leaders. Nawawi and Salin (2018a) conducted a qualitative multiple case study concerning Chinese staff members occupational fraud. Nawawi and Salin (2018a) indicated that Chinese businesses had lost billions of dollars from bank fraud. Bank fraud and other employee wrongdoings are reported every year, and poor corporate governance over internal controls is a contributing factor (Nawawi & Salin, 2018b). Internal control deficiencies fail to detect and prevent fraud in areas such as poor cash

security (Nawawi & Salin, 2018b). Cash and bank-related internal controls can be abused by a trusted employee who knows the company's workflows in detail (Nawawi & Salin, 2018b).

Helms (2018) outlined that the access to assets is restricted to authorized personnel and enforced by restriction of access by lock and key.

The CPA Practice advisor (2017) outlined methods for leadership to safeguard the organization's assets, including locking up all check stock to protect cash assets. The organization's computers that access online banking should have strong passwords (CPA Practice Advisor, 2017). An RSA authorization code should be used to access the bank (CPA Practice Advisor, 2017). The online banking system should also have strong password protection (CPA Practice Advisor, 2017). Cash and checks held in the office before depositing to the bank should be stored in a safe (CPA Practice Advisor, 2017). Organizations with numerous cash transactions should take extensive steps to prevent misappropriation of cash, including closed-circuit TV to monitor staff's cash handling. Helms (2018) discussed how the department manager's authorization of transactions should be authorized, and the purchasing department should issue the purchase order.

An independent personnel member should take a physical inventory of the assets annually (Helms, 2018). Nawawi and Salin (2018a) discussed in their findings that a staff member who knew the cash management workflows collected the money and adjusted the relative's bill payment. Internal controls must be established to safeguard the customer payment processing from receipt to bank deposit (Nawawi & Salin, 2018b). A tenured staff member knows the company's workflows and has the inside knowledge required to misappropriate the assets and conceal the crime.

The significance of an organization's internal controls must be communicated from the top by the board of directors with their words and actions. Doxey (2019) conducted a qualitative case study concerning internal cash controls. The governing body of an organization should have documentation in their minutes for banking resolutions and delegation of authority to conduct banking transactions for the entity (Doxey, 2019). The organization should have procedures for opening, maintaining, and closing bank accounts (Doxey, 2019). Helms (2018) outlined how the organization has many payment options, including paper checks, automatic ACHs initiated by the vendor, wires, online banking, electronic file transactions (EFT) for payroll.

The organization's leadership should evaluate the workflows of each type of transaction to design, implement, and monitor internal controls (Helms, 2018). Doxey (2019) discussed in the case study findings that the procedures should cover approvals, signature authority, transaction dollar limits, and documentation standards. The accounting staff should log receipts and make daily bank deposits as dictated by sound business practices (Doxey, 2019). Customers should be encouraged to remit payments directly to depository accounts or other automated payment systems established by the entity's bank (Doxey, 2019). Organizations should transition to electronic payments from customers whenever possible to limit staff member's opportunities to misappropriate assets.

Many leaders allowed staff members to work remotely to reduce the spread of the coronavirus, which created internal control deficiencies since the internal controls were not designed for employees to work from home. Wiesenfeld (2020) discovered that COVID-19 had created additional motivation and opportunities in many small organizations for staff members to commit occupational fraud. COVID-19 has forced many organizations to work remotely, and many companies structured their information systems to work from the office (Wiesenfeld,

2020). Internal control procedures such as generating a check register for all issued checks should be followed by staff members (Helms, 2018).

Many company's accounting records became disorganized during the pandemic resulting in an opportunity for misappropriation of cash and inventory (Wiesenfeld, 2020). Helms (2018) outlined how the accounts payable general ledger and the accounts payable sub-ledger should be reconciled, and any differences are resolved. A sequentially numbered purchase order is issued and distributed to the vendor, receiving department, and accounts payable should be produced to assist in electronic filing (Helms, 2018). The voucher package is forwarded to the cashier for payment processing and then to the staff members authorized to sign and approve the payments (Helms, 2018). Leaders must take appropriate action to redesign internal controls to protect the organization's assets when working remotely.

Leadership should take an active role in monitoring the bank reconciliation internal controls to reduce the fraud risk concerning cash assets. Wiesenfeld (2020) outlined in the case study findings that bank reconciliation can detect possible fraud and posting errors. Many small organizations lack personnel for the segregation of duties required to execute bank reconciliation that will meet the effective internal control procedures (Wiesenfeld, 2020). Thorps et al. (2019) discussed in their findings that the person reconciling the accounts should either download the bank statements directly or receive unopened bank statements. Leadership should design the bank reconciliation procedures to prevent, detect, and correct any material misstatement of the financial report or misappropriation of the organization's assets (Thorps et al., 2019). Leadership should limit the number of staff members who have access to the online banking system and control each staff member's transaction authority (Thorps et al., 2019).

Some auditors believe that internal control procedures such as bank reconciliation are the only controls that should be considered for accessing fraud risk (Thorps et al., 2019). Girsch-Bock (2018) outlined how an organization's leadership should design internal control procedures to assure bank accounts are reconciled on a timely basis. Automated bank reconciliation built into the accounting software improves bank reconciliation procedures (Girsch-Bock, 2018). Importing bank statements and transactions into the accounting software also improves bank reconciliation procedures (Girsch-Bock, 2018). Wiesenfeld (2020) recommended that small organizations consider outsourcing bank reconciliation to an accounting firm when the staff size is too small to segregate duties concerning bank reconciliation. Leadership should assign bank reconciliation to a staff member who does not sign or process checks. Bank reconciliation should be completed timely at the first of each month.

Theories

The conceptual framework of the research project included the agency theory, the stewardship theory, and the fraud triangle theory. The agency theory and the stewardship theory have conflicting views of the motivation and relationships between the owners, management, and staff members. The fraud triangle is considered a foundational theory of why staff members misappropriate their employers' assets. The researcher outlined each theory and provided some insight into the conflicting motivation between the agency theory and the stewardship theory.

The agency theory of management discipline is relevant to small city governments due to the relationship between the principal and agent contracts. Peng et al. (2016) discussed in their qualitative multiple case study that the authors of the agency theory describe the management of an organization as the agent and the owner as the principal. Jensen and Meckling (1976) discovered that the agent is often more knowledgeable about the business operations and could

be motivated to make decisions based on self-interest and not the principal's best interest. Peng et al. (2016) discussed how the agent's actions could behave in a manner that maximizes the benefit to the agent at the cost of the principal. Jensen and Meckling (1976) outlined how the agency theory asserts that the agent will continue to maximize self-interest to the point of diminishing returns unless the owners establish corporate governance and internal controls to restrain the manager's actions. The city leaders must implement internal control procedures to control and restrain the actions of the city staff members from reducing fraud risk and the potential loss of city assets. According to the agency theory, the agent's performance evaluation requires the principal to enhance monitoring capacities (Jensen & Meckling 1976; Peng et al., 2016).

Reed (2019) stated that the agency theory's broader perspective suggests that governmental organization management consists of various power struggles. A governmental structure is created by a small number of principals who are the ultimate rulers and the agent who is the staff member to enforce the will of the rulers upon the citizens (Reed, 2019). The agents' incentives should be congruent with the owner's long-term goals. However, in a small city government structure, the city's mayor and city council members could manage the city's affairs more like an owner and not as a citizen.

Agency theory involves the ongoing struggle with self-interest and the interest of the employer. Murali et al. (2019) asserted that the level of risk-taking at each level of an organization and how the resulting reward or loss will be divided between owners and managers are part of the agency theory. Solomon et al. (2021) outlined how the higher the risk of a business transaction, the greater return is expected. Managers who are not stakeholders in the company are more risk-averse than shareholders (Solomon et al., 2021). Shareholders diversify their capital, but managers working for a single company cannot diversify their human capital

(Solomon et al., 2021). Many companies attempt to unite a manager's self-interest with the company's interest by creating a performance-based incentive program (Solomon et al., 2021). The human nature of self-interest to have more money and property is the root of the agency theory and the resulting conflict between the principal and the agent.

The Biblical principle of stewardship requires the owner to take care of all the assets provided by Jesus. Donaldson and Davis (1991) outlined that the stewardship theory of managerial governance presumes that managers work to serve the organization's best interest rather than self-interest. James et al. (2017) discussed in their qualitative case study findings that a managerial governance leader must coach team members to act in the organization's best interest. The leadership must model a stewardship attitude throughout the organization (James et al., 2017). The leaders managing under the stewardship theory will have behaviors and attitudes showing the organization's best interest (Donaldson & Davis, 1991; James et al., 2017).

The study explored the stewardship premises between family-owned and managed businesses compared to nonfamily-managed businesses (James et al., 2017). Family-owned and managed businesses tend to have a stewardship attitude, while nonfamily businesses tend to manage under the agency theory (James et al., 2017). Family businesses are often the only income source of the owner and often all the family assets are invested in the business.

A company that fully embraces the stewardship theory creates a more ethical atmosphere for the team to improve the company, influencing the design of the internal controls. The leaders managing under the stewardship theory will have behaviors and attitudes showing the organization's best interest (Donaldson & Davis, 1991; James et al., 2017). Cressey and Moore (1983) connected the fraud theory with the stewardship theory concerning corporate code of conduct. The analysis of 119 corporations' code of conduct discovered that the corporation's top

executives showed minimal concerns of their stewardship responsibility (Cressey & Moore, 1983). This study aimed to understand what the corporate leaders were attempting to achieve when implementing their company's code of conduct (Cressey & Moore, 1983). The second item the study attempted to discover is what the company's leadership meant when requesting employees to conduct the company's business ethically (Cressey & Moore, 1983). The third area of the research was aimed to discover if the corporate leaders were concern with their responsibility to protect the company against misappropriation of assets (Cressey & Moore, 1983). Cressey and Moore (1983) outlined how ethical behavior will not improve by a single action of preaching or modeling ethical behavior by the company's leadership. Parrado and Reynaers (2018) outlined how the stewardship theory strives for cooperation, collectivistic, and pro-organizational behavior between stewards and owners. The owners (principals) and stewards (agents) make business decisions collectively based on the promotion of the organization and not self-interest (Parrado & Reynaers, 2018). Many companies' middle managers are under pressure to produce corporate earnings even if the code of conduct or a related internal control is breached.

The stewardship theory and the agency theory are conflicting theories of business management strategy. Solomon et al. (2021) outlined how the agency theory addressed the inherent problems many companies face concerning the conflict between the company's best interest and the manager's self-interest. A company's stakeholders attempt to entice managers to perform at their peak ability by tying their best interest to the manager's incentive pay based on performance (Solomon et al., 2021). The agency theory centers around the relationship between the agent and the principal conflicting motivation concerning which party receives the financial benefit for the work produced (Solomon et al., 2021). On the other hand, the stewardship theory

strives for each team member to contribute to the organization and then receive back pay for their contribution to the improvement of the company (Parrado & Reynaers, 2018). The stewardship theory aligns with the Biblical principle of gaining wealth with the assets God has provided.

In contrast, the agency theory aligns with the world view of gaining riches at the expense of others. Parrado and Reynaers (2018) outlined how the agency theory and the stewardship theory have conflicting views of the manager's motivation. The agency theory perceives managers as opportunistic and self-serving, pursuing short-term goals to increase their compensation (Parrado & Reynaers, 2018). The agents are seldom concerned with the principal's goals, reduce the company's innovation, and limit the enhancement of the principal (Parrado & Reynaers, 2018). The agency theory is based on a contractual agreement between the principal and agent, with the terms of the agreement attempting to align both parties' long-term goals and perspectives (Parrado & Reynaers, 2018). The stewardship theory, by contrast, depends upon relational terms and not contractual agreements (Parrado & Reynaers, 2018). Creating more effective long-term joint value for both the owners and stewards is the advantage of the stewardship theory over the agency theory (Parrado & Reynaers, 2018). When an organization operates under the stewardship theory, both parties should gain more long-term wealth.

The fraud triangle theory is one of the most widely accepted theories concerning occupational fraud. The fraud triangle theory is vital to this study related to the design, implementation, and monitoring of internal controls by the city's leaders. Cressey (1953) developed the fraud triangle theory by conducting a qualitative multiple case study from 1949 to 1951 of prison inmates convicted of occupational fraud. Cressey (1953) identified three elements: opportunity, pressure, and rationalization that must be present for a staff member to

commit occupational fraud. The study also discovered that a staff member who commits occupational fraud has a long tenure with their employer and is delegated a trust position by the entity's leadership (Cressey, 1953). Handy et al. (2019) outlined how leadership must consider designing internal controls procedures to help evaluate the three components of the fraud triangle to reduce fraud risk. Reinstein and Taylor (2017) discussed in their findings that the person who commits fraud disengages their moral responsibility to their employer to avoid self-censorship of their actions. Leadership should design internal controls to identify employees who display the elements of the fraud triangle theory.

Leaders responsible for designing internal controls to prevent fraud must develop an understanding of the fraud triangle. In a multiple case study, Cressey (1953) discovered that all three elements of the fraud triangle theory must be present for a staff member to commit fraud. A staff member pressured by one or two elements will not commit occupational fraud (Cressey, 1953). Cressey (1953) described the opportunity as the staff member's ability in a trust position to misappropriate their employer's assets and conceal the crime. The pressure element is the motivation of needing the assets for personal needs or gains (Cressey, 1953). The rationalization component of the fraud triangle theory justifies the misappropriation of the company's assets (Cressey, 1953).

Reinstein and Taylor reported that business professionals would seek to justify their unethical behavior before committing occupational fraud. Cressey (1953) discovered that the prisoners would rationalize that the missed promotion or salary raise should be theirs. Asset misappropriation is a method of receiving what should be rightfully their income (Cressey, 1953). Reinstein and Taylor outlined that one means of occupational fraud justification is accomplished with the attitude that everyone in business commits occupational fraud. The assets

are not stolen from a person, rather the fraudster misappropriates assets from a company is a common justification (Reinstein & Taylor). Leaders should be aware and monitor all three components of the fraud triangle when assessing staff members for delegation of authority as a trusted employee.

Leadership must observe their trusted employees for the pressure component of the fraud triangle. Cressey (1986) discussed that staff members must have a motivating factor that leads them to commit occupational fraud. Cressey (1986) discussed the fraud triangle's motivation element compared to the previous criminal theory to explain why people misappropriate their employee's assets. The general criminology theory of theft was that the motivation to steal was based on poverty and lack of employment (Cressey, 1986). Carre et al. (2020) outlined how the fraud triangle theory is also influenced by personality traits that correlate with the opportunity to commit fraud.

Cressey (1986) indicated that occupational fraud falls under the white-collar crime and is committed by employed staff members earning above-average salaries. A staff member who commits occupational fraud justifies their behaviors by somehow thinking their actions are all right and not hurting anyone (Cressey, 1986). People have a different approval rating of misappropriated assets from a small company than a large company or government (Cressey, 1986). Over 50% of the population surveyed disapproved of stealing from a small company compared to 31% disapproval of a government entity (Cressey, 1986). Staff members who commit occupational fraud will self-justify their fraudulent actions (Cressey, 1986). The self-justification used by a fraudster could be that their wages are below market value, and the staff member who committed fraud is reclaiming their underpaid salary.

Leadership must assign trusted employees with varying personality traits fiduciary authority of the organization's assets. Cressey (1986) specified that businesses and government entities require thousands of managers and staff members, and many are in positions of trust. Companies and government entities often lack internal controls, which allows the trusted staff member to conduct required workflows for the company's financial management, resulting in the opportunity for the staff member to misappropriate the employee's assets (Cressey, 1986).

Carre et al. (2020) indicated that some personality traits could identify fraud opportunities more quickly than other personality traits based on the qualitative study's findings. The three traits in the Carre et al.'s (2020) study are narcissism, psychopathy, and Machiavellianism. The study's findings indicate that staff members low in Machiavellianism may be less strategic than staff members high in Machiavellianism (Carre et al., 2020). The staff members high in Machiavellianism will parallel their thought process with the fraud triangle theory by rationalizing the misappropriation of the company's assets in their mind when the opportunity to commit occupational fraud is identified (Carre et al., 2020).

Cressey (1986) detailed how the fraud triangle theory included the generalization that the embezzler justifies the misappropriation of assets while maintaining a self-image of a trusted employee for the company (Cressey, 1986). While researching to develop the fraud triangle, Cressey's interviews revealed that the embezzlers tricked or convinced themselves that the crime was all right (Cressey, 1986). A staff member with a personality trait having a large amount of self-interest could display the justification and rationalization components of the fraud triangle.

Constructs

Leadership sets the ethical standards and the work ethic for the staff members by design, by example based on their actions, or by the absence of structure and controls. Ko et al. (2018)

outlined that an organizational setting, internal control procedures, leadership elements, and ethical standards influence employees' behaviors. Ethical leadership is described as a demonstration from management regarding the appropriate conduct through interactions with staff members, interpersonal relationships, two-way communications with staff members, reinforcement of policy, and ethical decision-making (Ko et al., 2018). The leadership style must strive to build the staff's commitment to the advancement of the organization and not each staff member's self-interest (Ko et al., 2018).

Johnstone (2018) outlined how leadership fail to create new challenges for their employees, the employees will have excess idle time, leading to an opportunity to commit fraud. The commitment to the organization includes protecting the company's assets from potential misappropriation and reducing fraud risk (Ko et al., 2018). Without proper communication from upper management, staff members will gravitate toward opportunism, described as self-interest seeking with deceitfulness (Ko et al., 2018). Many employees are not provided professional development, and the employee skillset does not expand (Johnstone, 2018). Chambers and Sullivan (2018) detailed that a company's leadership should display high moral values when designing workflows to be a change metric for improving the ethical standards of the staff processing workflows. Ethical leadership promotes staff member's moral reasoning and ethical conduct while suppressing the staff member's unethical behavior (Ko et al., 2018). Employees are willing to maintain long-term work relationships with ethical leaders that show staff members' concern and fairness (Ko et al., 2018).

The contrasting attitude that develops when the leadership style is unethical results in opportunistic behaviors such as cheating, shirking, and withholding helpful action (Ko et al., 2018). Opportunistic behavior results in adverse outcomes for the organization (Ko et al., 2018).

Ethical leadership attempts to suppress employee opportunism (Ko et al., 2018). Ethical leadership is required to provide clear guidelines for rules and goals required to facilitate goal congruence and tools to monitor employees' behavior (Ko et al., 2018). Ethical leadership and internal controls restrain employees' opportunistic behavior (Ko et al., 2018). Leadership needs to demonstrate the ethical standards expected from each employee and hold staff members accountable to the company's objectives for integrity.

The leaders must evaluate each employee's hard skills and ethical standards before assigning a workflow responsibility that could include custodial control of assets. Johnstone (2018) outlined how delegation of workflows must be efficiently designed and implemented by the organization's leadership for internal controls and productivity. Many governmental organizations fail at workflow design by utilizing excessive layers of approval (Johnstone, 2018). Leadership also fails to assign sufficient delegation of authority for efficient workflows (Johnstone, 2018). Charisma, procedural fairness by a transformational leader can motivate employees to cooperate (Ko et al., 2018).

The leadership should map the core accounting processes to create efficient workflows and provide the information required to design internal controls (Johnstone, 2018). Techniques that can be used to diagram workflows include value stream mapping and swim lane diagrams (Johnstone, 2018). The goal of the diagram is to assure that internal controls are designed to reduce fraud risk and reduce nonvalue added labor expenses to the workflows (Johnstone, 2018). Disconnected organizational workflows result in island thinking, meaning that the organization's business workflows are like independent islands (Johnstone, 2018). The leadership must design the company's workflows to create an effective and efficient work environment while evaluating each staff member's integrity concerning the trusted employee status.

Leadership must delegate fiduciary responsibility for the control of the organization's assets to a trusted employee. Chambers and Sullivan (2018) outlined how leadership must delegate authority to staff members to execute the company's operational and accounting workflows and control authority over assets, including bank accounts. Leadership should develop an attitude of trust but verify each staff member's workflow assignments (Chambers & Sullivan, 2018). Ethical leadership impacts the staff member's ethical and prosocial behavior by providing clear direction and reinforcement through discipline and ethical behavior in the place of employment (Ko et al., 2018).

The leadership should assess the staff member's transparency over business decisions (Chambers & Sullivan, 2018). Staff members' salaries should be evaluated for fairness over the organization to reduce the chances that an employee will rationalize a fraud action by misappropriating the organization's assets to make up for the comparatively lower salary (Chambers & Sullivan, 2018). The Ko et al.'s (2018) research study suggests that employees have higher job satisfaction with ethical leadership, resulting in a more positive workplace attitude. The staff members who have higher job satisfaction are less likely to engage in opportunistic behavior that could harm the organization (Ko et al., 2018). Leadership displaying high ethical standards is more likely to have staff members who work with integrity than leaders who display dishonesty and no moral character.

Many organizations handle a large amount of cash with a limited number of accounting staff assigned to multiple accounting workflows. Bakarich and Baranek (2020) discovered that many entities have a limited accounting staff size to reduce labor expenses. The independent audit findings often cite many companies with material weakness of segregation of duties. (Bakarich & Baranek, 2020). Many companies are often repeat offenders for having material

weaknesses in the segregation of duties (Bakarich & Baranek, 2020). Companies with deficiencies in the segregation of duties are often slow to remedy the problem (Bakarich & Baranek, 2020).

Johnstone (2018) outlined how many employees are not provided professional development, and the employee skillset does not expand. Companies are often required to hire and train additional staff to accomplish the segregation of duties (Bakarich & Baranek, 2020). Workflow adjustments will also be required to redistribute the work duties of each employee after additional staff is hired and trained to accomplish segregation of duties (Bakarich & Baranek, 2020). Leadership should evaluate each staff member's honesty before assigning authority over workflows (Chambers & Sullivan, 2018). Companies with limited financial resources may not have sufficient operating margins to pay additional staff to accomplish the segregation of duties (Bakarich & Baranek, 2020). Small organizations with limited financial resources struggle to employ adequate staff to accomplish segregation of duties, resulting in poor internal controls and increased fraud risk.

Related Studies

Internal control studies explore different internal control aspects, including the relationship between internal controls and occupational fraud. Nawawi and Salin's (2018b) qualitative multiple case study design attempted to discover the relationship between internal controls and occupational fraud. The case study was designed to discover the expenditure workflows of the target population and identification of employee options regarding occupational fraud (Nawawi & Salin, 2018a). The author of the study explains how occupational fraud by one staff member could result in business failure for the company (Nawawi & Salin, 2018a). A qualitative multiple case study by Westhausen (2017) discovered that occupational

fraud occurred when internal controls were weak or missing. Small companies often do not have adequate funds to implement internal controls or absorb the loss when occupational fraud occurs (Nawawi & Salin, 2018b). A severe loss from occupational fraud could result in business failures for many organizations.

Internal controls often fail when the leadership neglects to monitor fraud risk and internal controls by staffing internal auditors. Nawawi and Salin (2018b) discovered that fraud usually occurs when a company does not have a delegated unit to monitor internal controls. Nawawi and Salin (2018b) also discussed how employees have limited insight into occupational fraud activities and assume the current internal control procedures are adequate to prevent and detect fraud activities. Maulidi and Ansell (2020) stated in the case study findings that leadership must understand that one size fits all approach to internal controls is ineffective.

Maulidi and Ansell (2020) also discovered that leadership is often naïve concerning their trusted staff members becoming a fraud risk. Staff members use most of their workday focusing on daily accounting procedures and do not focus on improving internal controls (Nawawi & Salin, 2018b). Stagnant internal control procedures will provide an opportunity for a staff member to discover a loophole and commit occupational fraud (Nawawi & Salin, 2018b). Nawawi and Salin (2018b) discussed in the study's findings how internal controls reduced the opportunity to commit fraud and explored the fraud triangle theory's pressure and rational components. Nawawi and Salin (2018a) reported that low pay and a poor work environment fuel the rational and pressure component of the fraud triangle. Companies should evaluate all three components of the fraud triangle when designing internal controls and reduce fraud risk with excellent compensation packages and a pleasant work environment.

Occupational fraud is an ongoing problem adversely affecting businesses of all sizes and in every industry. A qualitative multiple case study by Nigrini (2019) researched occupational fraud schemes by reviewing the number patterns of actual fraud schemes in the case study. Kumar et al. (2018) reported in the case study that long-term trusted employees can identify the leadership's lack of internal control culture and look for the opportunity to misappropriate assets. Nigrini (2019) focused on three broad classifications of fraud schemes: asset misappropriation, corruption, and financial statement fraud.

The researcher discussed how fraudsters use round numbers in their fraud schemes (Nigrini, 2019). An example of round numbers in an embezzlement scheme is the Harriette Walters fraud which lasted for 18 years (Nigrini, 2019). Mrs. Walters processed 15% property tax refunds in multiples of \$1000 in a work environment where round numbers were infrequent. Rita Crundwell was the comptroller of the City of Dixon and made transfers to a secret bank account (Nigrini, 2019). Ross (2016) chose Dixon, Illinois for a qualitative single case study of frauds exceeding \$50,000 loss of city assets. Eighty percent of the Crundwell's transfers were in multiples of \$500 or \$1,000 (Nigrini, 2019). The examples provided in the study show how occupational fraud is fueled by greed and the love of money (Nigrini, 2019). Fraud is a sin that will become out of control and steal, kill, and destroy the person's career and result in many years in prison when the crime is uncovered.

Numerous publications in media and scholarly publications discuss the seriousness and frequency of misappropriation of city assets by a trusted employee. Ross's (2016) qualitative single case study explored municipal government financial management and deficient internal controls. As described as a single case study, Ross's purpose of the study was to fill the gap in the literature concerning the conceptual framework, which included the fraud triangle theory,

the bureaucratic management theory, and the organizational theory (Ross, 2016). The study's single case government entity with a known multi-year occupational fraud exceeding \$50,000 (Ross, 2016). Dixon, Illinois is an example of the leadership delegating workflows to one staff member to perform multiple accounting tasks (Fish, 2019).

Rita Crundwell, the comptroller, and treasurer of the city, performed most of the accounting workflows, including custody of the checks, signing checks, customer invoices, bank records, bank reconciliation, and picking up the mail (Fish, 2019). Nigrini (2019) reported that this occupational fraud case involved Rita Crundwell, the comptroller of the City of Dixon who made cash transfers to a secret bank account. Ross (2016) asked three research questions; how internal controls can be used to reduce fraud risk or detect fraud in municipal government embezzlement of at least \$50,000. The second question is the effect on the municipal government resulting from fraud of at least \$50,000.

The last question is, why did a municipal government's leaders fail to implement adequate internal control procedures to detect fraud or reduce fraud risk (Ross, 2016). Ross (2016) reported that internal controls reduce fraud risk and the potential misappropriation of the city's assets. Nwoye (2018) reported that a city's operating cost could increase when the material weakness of internal controls is disclosed outside the organization. Ross (2016) outlined how the Dixon city government leadership consisted of a small number of part-time commissioners that each carried out separated and unmonitored activities. Ross (2016) recommended that municipal governments design, implement, and monitor adequate internal controls described under the American Institute of Certified Public Accountants. The literature review supports Mr. Ross's recommendations concerning the importance of the city's leadership's design, implementation, and monitoring of adequate internal controls.

Every organization must evaluate each internal control's cost-benefit due to either limited resources or the desire to maximize stakeholder's value. Hout (2017) reported how an accountant discovered a fraudulent action by a waiter at a chain restaurant. Lee, the new accounting manager for the restaurant chain, observed that the manager often loaned the team leader's ID to the wait staff to expedite orders that required POS input changes (Hout, 2017). Lee identified that internal controls were not followed to prevent fraud by the waiter (Hout, 2017). The waiter also demonstrated the pressure, rationalization, and opportunity to commit occupational fraud (Hout, 2017). Lee evaluated the sales and collection internal controls for this location but understood that management selects some but not all internal controls based on the cost-benefit rule (Hout, 2017).

Nwoye (2018) stated in a qualitative case study research findings that many small business leaders do not feel that the internal control advantages outweigh the cost to implement, maintain and monitor the control procedures. Staff members and customers often discover the internal control deficiencies and use the internal control weakness as an opportunity to misappropriate the company's assets (Nwoye, 2018). Internal control procedures are expensive to implement, maintain, and monitor, but the potential loss of the organization's assets must also be considered in the feasibility evaluation.

Many organization leaders are opposed to internal control implementation due to the additional operating cost and workflow restraints placed on employees, which is an opposing view from most of the literature. A qualitative multiple case study by Nwoye (2018) outlined how small business owners are against the implementation of internal controls. Many small business leaders do not feel that the internal control advantages outweigh the cost to implement, maintain and monitor the control procedures (Nwoye, 2018). Many leaders have a negative view

of internal controls improving business performance (Nwoye, 2018). The cost for the internal controls can include the cost of goods sold, staff wages, interest rates, and lenders unwilling to extend additional loans (Nwoye, 2018).

Hout (2017) conducted a qualitative multiple case study concerning the cost-benefit of internal control. Hout (2017) affirmed the leadership's desire to reduce operating expenses in a multiple case study findings when he discussed that management selects some but not all internal controls based on the cost-benefit rule. Small organizations with weak internal controls could also face higher audit costs (Nwoye, 2018). Companies often discover the cost-benefit advantage of implementing internal controls after a complete financial analysis study (Nwoye, 2018). An organization's supply chain partners such as lenders expect the company's leadership to implement, monitor, and maintain internal control procedures to reduce the chances of loan default due to misappropriation of the entity's assets by fraud.

Anticipated and Discovered Themes

One of the anticipated themes was that many small cities have limited accounting staff members who must assign each staff member multiple functions in the accounting workflows. Fish (2019) outlined that many fraud cases of organizations should have designed separation of duties and internal controls that could have reduced fraud risk and misappropriation the city's assets. Small organizations struggle with segregation of duties, recruiting qualified staff members, and retaining qualified accounting employees (Fish, 2019). Fish (2019) also stated that proper segregation of duties should be established separating human resources, payroll processing, and payroll accounting which is difficult to segregate in a small organization. Segregation of duties should also be established in accounts payable concerning the staff issuing the checks and reconciling the bank accounts (Fish, 2019).

Small city governments with a limited staff size may allow the same staff member to issue the check and reconcile the bank (Fish, 2019). Dixon, Illinois is an example of one staff member performing multiple accounting workflows (Ross, 2016). The anticipated themes include one staff member performing multiple tasks like the accounting workflows performed by Rita Crundwell, the comptroller and treasurer of the city of Dixon. She performed most of the City of Dixon's accounting workflows, including custody of the checks, signing checks, customer invoices, bank records, bank reconciliation, and picking up the mail (Nigrini, 2019; Ross, 2016). Mrs. Crundwell was able to control the accounting workflows and conceal the misappropriation of assets for 22 years (Fish, 2019; Nigrini, 2019; Ross, 2016). Fish also discussed in the study findings how the board of directors could assume some of the reconciliation responsibilities to enhance segregation of duties (Fish, 2019). The study's findings revealed a significant lack of segregation of duties in the small organization (Fish, 2019). The anticipated discovery was that a small city lacks staff members to establish effective separation of duties, resulting in a risk for occupational fraud and potential loss of the small city's assets.

An anticipated theme was that city leaders delegate control of city assets to trusted employees, believe the staff member is trustworthy, and fail to protect the city's asset from occupational fraud by implementing internal controls. Chambers and Sullivan (2018) discovered that the person who commits fraud is the person the leaders and staff members least expect. The leaders and staff members of the organization feel betrayed by the fraudster, whom they assessed as being trustworthy (Chambers & Sullivan, 2018). The fraudster is often likable, dependable, and has good relationships with colleagues (Chambers & Sullivan, 2018). The leadership, managers, and internal auditors should monitor staff for fraud red flags (Chambers & Sullivan, 2018). The leaders in the organization must understand the fraud red flags and evaluate if fraud

opportunities exist (Chambers & Sullivan, 2018). The level of the leadership's understanding of the three components of the fraud triangle and identifying occupational fraud red flags is anticipated to influence the prioritization of internal control design, implementation, and monitoring.

Another anticipated theme was that city leaders have a limited budget for designing, implementing, and monitoring internal controls. A qualitative multiple case study by Kim and Matkin (2020) used a 19-year panel of county records from the state of New York to attempt to discover whether financial conditions affect the likelihood of internal control deficiencies. The findings of the study report that decreased financial conditions increase the severity of internal control deficiencies (Kim & Matkin, 2020). The study discovered that cash flow shortages significantly increased the likelihood and severity of internal control deficiencies (Kim & Matkin, 2020). This study outlined how some governments respond to financial stress by reducing internal controls and delegating more discretion and flexibility to their trusted employees to improve efficiencies (Kim & Matkin, 2020). The anticipated theme of this multiple case study is that cities with low operating margins reduced internal control procedures to reduce expenses.

Summary of Literature Review

The literature review provided documentation of the problem of misappropriation of small city's assets by occupational fraud. Most assets lost by fraud are never recovered, and the loss is permanent to the small city. Many small city leaders have failed to design, implement, and monitor adequate internal controls to protect the city's assets. Designing effective internal controls requires the city's leaders to understand the organization's workflows by observing the

staff member's work assignments. Leadership has many resources to provide internal control design guidance, and the COSO framework is considered the business standard.

The city government leadership, including the mayor and city council, often spend most of their time with operational concerns, neglecting their roles to protect the city's assets. The city leadership's attitude toward internal controls is related to the agency theory and the stewardship theory of the conceptual framework. City leaders that manage under the agency theory tended to have a self-interest attitude when making business decisions which also become the staff's viewpoint. The leaders, management, and staff are more concerned with growing personal wealth than the organization. Leaders who operate under the stewardship theory grew the company, leading them to share more wealth with their staff. The fraud triangle theory is the third theory of the conceptual framework. The city's leaders should gain a working knowledge of the fraud triangle theory to provide an insight into why staff members commit occupational fraud. Understanding the fraud triangle theory allowed the leaders to detect fraud red flags. The literature also highlighted that occupational fraud is committed by a trusted employee who the leaders least expect to misappropriate the city's assets.

Summary of Section 1 and Transition

This multiple case study research project attempted to answer the research question of why the leadership of some small city governments in the central United States fails to implement internal controls to reduce fraud risk and the potential misappropriation of the city's assets by a trusted employee. The researcher discovered that each city in the focus group had accounting workflows that accomplish segregation of duties. The researcher explored the relationship between the leadership's attitude toward the stewardship theory and the agency theory of business management. The researcher investigated if a leader with a stewardship

management attitude results in more robust internal controls than a leader who manages under the agency theory. The trusted employee is a staff member whom the leadership has identified as a trustworthy person to manage or conduct the financial transactions for the company. The trusted employee has the fiduciary responsibility to act on behalf of their employer and control some of the small city's assets. Internal controls are implemented to reduce the opportunity component of the fraud triangle.

The fraud triangle's other two components are justification and pressure. The researcher designed the study to explore if these issues are addressed in the internal controls of the city governments. A city government's accounting staff does not have to meet the stringent internal control requirements of SOX that has been mandated for publicly traded companies. The government's conflicting regulation concerning internal control requirements places a higher level of compliance to protect the investor's stock portfolio than for public city assets of the citizens. The researcher also explored if the city leadership has restraints such as limited budgets reducing the ability to implement internal control procedures. The stewardship theory parallels the Biblical stewardship precept that teaches God owns everything, and humanity is delegated fiduciary responsibilities based on each person's level of talent. The Bible teaches that where much is given, much is expected. This researcher integrated the stewardship precept into the research design, including the leadership's responsibility to protect the city's assets.

The review of scholarly literature and news reports reveals the prevalence of occupational fraud against governmental organizations. The researcher of this qualitative multiple case study asked the leadership and staff members questions, reviewed internal control procedures, and reviewed each city's financial reports to discover why some city's leaders fail to implement effective internal controls. The researcher attempted to discover if each city in the focus group

has accounting workflows that accomplish segregation of duties. The study filled the literature gap with the small city focus group of this research design. The study also filled the gap in the literature concerning the combination of the three theories comprising the conceptual framework.

Section 2: The Project

Section 2 of the flexible design qualitative study outlined the steps involved with conducting the study. The parties involved in the study were delineated, including the role of the researcher, the participants of the multiple case study, the research method and design, the projected number of participants in the study, the sampling techniques for data collection, and how the data were analyzed. The researcher also discussed the study's reliability, validity, and how bracketing reduced bias.

Purpose Statement

The purpose of this flexible design multiple case study was to expand the understanding of the reasons behind city government officials' possible failure to implement effective internal controls to reduce the potential loss of city assets. The researcher desired to understand the driving factors behind why city officials do not have internal control procedures in place to reduce fraud risk. The study explored the city leadership's internal control procedures designed to minimize the risk associated with the opportunity component of the fraud triangle theory. The target population was explored through an in-depth study of internal controls and their effect on assets in city governments in the central United States. The implementation for positive social change would be to provide leadership with an understanding of internal control procedures to reduce the potential loss of city assets.

Role of the Researcher

The role of the researcher of this qualitative multiple case study was to structure the research in a manner that allowed the collection of sufficient data to understand why small city leaders often fail to design, implement, and monitor internal controls to protect the city's assets. Yin (2018) outlined that case studies are appropriate when the researcher desires to explain why

a phenomenon works. The study's findings were provided to the mayor and the city council members by the researcher while maintaining the confidentiality of the study participants. The researcher was responsible for interviewing participants from each city, gathering data, analyzing the data, and making recommendations based on the study's findings. Creswell (2016) outlined that the researcher reports how the participants describe experiencing the phenomena. The researcher collected data from each city's staff and elected officials by conducting interviews. The researcher also gathered the city's written internal controls and financial statements. The researcher disclosed and described any prior relationships with research participants.

The researcher designed the multiple case study to mitigate personal bias that would distort the outcome. Bias could result from the researcher's values, belief system, and anticipated outcome of the study (Leedy & Ormrod, 2019). The researcher transcribed and recorded the respondents' replies word for word. The researcher requested each respondent to review the interview transcription and the word for word documentation to assure the responses are fairly represented. The researcher mitigated personal bias by reducing the ability to collect data from only respondents who are supportive of the investigator's particular viewpoints. The researcher mitigated personal sampling bias by structuring the study to provide an equal chance for each person to be selected as a participant for the interviews. The researcher designed the interview questions to mitigate the ability to slant the data in one direction to prove a preconditioned bias.

Gal and Gal (2016) outlined how the wording of a question directly impacts the outcome when the researcher has a built-in bias. The questions were designed to prevent instrumental bias. Instrumental bias occurs when the researcher designs the interview questions to slant the data collected in one direction (Leedy & Ormrod, 2019). The researcher designed the data to be

collected to mitigate any predisposed conclusion expected from the study. A researcher cannot wholly mitigate bias due to human nature (Leedy & Ormrod, 2019).

The research questions helped the researcher understand why many city leaders fail to design adequate internal controls to reduce fraud risk. Interview questions were structured to address each of the research questions. The written documents and interviews conducted with the mayor, city council members, and staff triangulated the study. The design of the study also considered how the leaders delegate asset control to a trusted employee. The fraud triangle theory also influenced the design of the questions to discover if the leaders monitor the three components of the fraud triangle: opportunity, rationalization, and pressure. Cressey (1953) stated in the fraud triangle theory that all three elements must be present for a trusted employee to commit fraud. The design of the questions also attempted to discover if the leaders actively monitor fraud red flags of staff members who could be misappropriating the city's assets.

Bracketing was implemented to limit the researcher's personal and professional bias in every process of this multiple case study. Bracketing sets aside the researcher's past experiences to take a renewed perspective of the research topic (Creswell & Poth, 2018). Bracketing provided awareness of any presuppositions regarding implementing internal controls by the small city's leaders, including emotional anticipations of the study, internal control expectations based on professional experience, and internal control deficiencies expected based on an academic study of the literature. Bracketing was designed to allow the researcher to encounter the phenomenon as a first-time experience (Creswell & Poth, 2018). Bracketing was used in the data collection to ensure the voice of each city official, and employee was represented fairly and accurately. Bracketing lessened the researchers' potential bias of the phenomenon and provide an account of the experience of others (Creswell & Poth, 2018).

The data collected from each participant were analyzed to discover an emergence of themes. Themes in qualitative research are broad categories of information aggregated by codes for a common idea (Creswell & Poth, 2018). The findings provided each small city's participants a voice to provide their thoughts and themes based on the interview data.

The role of the researcher was to discover why city officials failed to implement effective internal controls to reduce fraud risk based on the findings of the research questions and procedures. The researcher implemented bracketing to assure the findings are free of researcher bias. The researcher collected data from different sources and interviewed city officials and staff members who have different workflow duties and roles in protecting the city's assets from misappropriation.

Research Methodology

The researcher selected a flexible design multiple case study to explore why small city leadership often fails to reduce fraud risk and protect the loss of the city's assets from occupational fraud. Data were gathered from multiple sources within each of the cities selected as the research sample. The design of the questions to the participants considered the conceptual framework of the study concerning the concepts and theories discussed earlier in the dissertation report.

Discussion of Flexible Design

This study was conducted with a flexible design using qualitative methods; specifically, a multiple case study design was used. A flexible design is a more prominent way to conduct scientific research to discover why city leaders fail to implement adequate internal controls to reduce fraud risk and the potential loss of city assets. A flexible design study focused on a

phenomenon that has occurred or is currently occurring in a natural setting (Leedy & Ormrod, 2019).

This flexible design qualitative research study produced enhanced data support from multiple data sources, including city officials, employees, a review of the city's financial report, and written internal control procedures. Case study research requires detailed, in-depth data collection from multiple sources (Creswell & Poth, 2018). Detailed data were collected to understand each small city's management structure, motivations, and perspectives concerning internal controls by applying this qualitative research method. Researchers conducting a case study design gathered data from interviews and documents (Creswell & Poth, 2018).

The flexible design allowed the researcher to explore how the city's internal controls are influenced based on the city's leadership and staff's application of the fraud triangle theory to reduce fraud risk and identify fraud red flags. Denman (2019) described six common red flags displayed by fraudsters to influence the multiple qualitative case study design. The flexible design is also well suited to discover the leader's application of the agency theory or stewardship theory of management. The data were analyzed to discover the theme of the organizations' management perspective (Creswell & Poth, 2018). A flexible qualitative research design enabled the researcher to explore the effectiveness of a small city's internal control procedures when considering the leader's acceptance of responsibility to design, implement, and monitor internal controls. The flexible design research method allowed the researcher to understand the link between the research questions, the problem statements, concepts, and theories (Yin, 2018).

Discussion of Multiple Case Study

This research project was a multiple case study of small city governments in the central United States to understand why some city leaders fail to take the responsibility of protecting the

city's assets with internal controls. A multiple case study research design explained a situation in detail (Leedy & Ormrod, 2019). This multiple case study research entailed compiling and evaluating multiple qualitative data sources by conducting interviews of the small city's mayor, city council members, and staff. The case study design method of data collection includes interviews and appropriate written documents (Leedy & Ormrod, 2019).

Data tables utilized to develop a detailed description of the multiple causes, and themes of the findings were analyzed. Data tables are used to list various forms of data and information collected (Creswell, 2016). This multiple case study design research was appropriate for the researcher to provide an in-depth understanding of the small city government cases and provide boundaries for the study to investigate the problem. Case studies provide an in-depth investigation of the phenomenon in a real-world setting (Yin, 2018). This multiple case study was designed to discover why some city leaders fail to implement adequate internal controls. The researcher analyzed the data using a combination of procedures to examine the data.

Discussion of Method(s) for Triangulation

The researcher used methodological triangulation in the multiple case study research design. Heesen et al. (2019) outlined how methodological triangulation utilizes multiple methods to study the phenomenon. Methodological triangulation enriches the analysis and interpretation of the outcomes (Heesen et al., 2019). Heesen et al. (2019) discussed that methodological triangulation involves studying a single problem by employing multiple data collection method. The researcher accomplished methodological triangulation by conducting interviews with officials and staff members at various levels in the organization with different roles. The researcher also gathered documents from each city by requesting the city's financial statements and internal control policies. Triangulation provided a broader picture of the focus group selected

in this multiple case study design research and enhanced the validity, reliability, and confirmability of the data collected from each city in the study (Leedy & Ormrod, 2019).

Triangulation is gathering data from multiple sources with the expectation that they all converged to substantiate an assertion (Leedy & Ormrod, 2019).

The researcher looked for common themes in each source of data by applying data triangulation. Triangulation of multiple data sources from each city enhanced collaboration of the data sources and provided additional information not available by a single data source. Triangulation involves uniting two or more distinct data collections to discover whether they lead to a similar conclusion (Leedy & Ormrod, 2019). The researcher assembled numerous data types related to a research question to discover consistencies or inconsistencies among the data. The data from the multiple sources was compared to discover if and why the cities' leadership failed to implement internal control procedures required to reduce fraud risk and the potential loss of city assets. A researcher can make a more convincing case for the study's findings if the various forms of data lead to the same conclusion (Leedy & Ormrod, 2019).

Summary of Research Methodology

This flexible design, qualitative research study using a multiple case study provided a broad perspective to discover why some small city leaders fail to implement effective internal controls that reduce fraud risk and the potential misappropriation of the city's assets. The multiple case study provided an adequate sample size to apply qualitative methods of analyzing the data. To provide triangulation, the data were collected from multiple sources from each small city participating in the study. The qualitative flexible design study allowed the researcher to explore the problem statement within the boundaries of the conceptual framework.

Participants

The researcher first selected small cities from the central United States to be included in the study before conducting the interviews with participants. The researcher selected sample cities for the study from a list of small cities in the population frame. The researcher then selected participants from each city to interview. Yin (2018) described a participant as an individual from whom data are collected through interviews in a qualitative case study. The participants to be selected included city leaders responsible for designing, implementing, and monitoring of internal controls. The staff members selected to participate in the study were responsible for oversight or processing accounting workflows for the small cities. Yin (2018) outlined how data collected from interviews provide insights, explanations, and personal views from each participant to help answer the research questions. The researcher plans to interview the city mayor, council member(s), and accounting staff as participants for the multiple case study.

The researcher's strategy to gain access to the participants starts with gaining permission to conduct the research study from the small city's mayor. Leedy and Ormrod (2019) outlined that a researcher is required to present an informed consent form that describes the research proposal and obtain written permission to conduct the study. The researcher developed a rapport with the mayor by assuring the confidentiality of the data collected using a numbering system to identify each city in the study. Leedy and Ormrod (2019) discussed that a researcher that works directly with participants would need to build trust through direct interaction. However, a researcher must reduce the likelihood of collecting bias data by remaining somewhat detached from the participants (Leedy & Ormrod, 2019). The researcher also assured the mayor that the interviews did not require a burdensome amount of time for each staff member to complete.

Population and Sampling

This qualitative multiple case study was designed to understand why the leadership of small cities sometimes fails to design, implement, and monitor internal controls to protect the city assets from potential misappropriation. The research population was small cities in the central United States. The researcher conducted interviews with the city's mayor, city council member(s), and accounting staff member(s) to collect data to discover why some city leaders fail to protect the organization's assets from occupational fraud. The sample size of this study included 25 individuals from small cities in the central United States to help achieve data saturation. A researcher accomplished data saturation when interviews become redundant, with no additional themes discovered (Creswell & Poth, 2018).

The researcher selected a sample of 25 participants from small cities in the Central United States by utilizing purposeful sampling. Leedy and Ormrod (2019) described purposeful sampling as selecting units or people that serve a particular purpose. The individuals selected as participants from the sample units must provide insights into the research questions (Leedy & Ormrod, 2019). The researcher selected participants from each small city that served in leadership roles that are responsible for internal control oversight and staff members responsible to adhere to the internal control procedures.

Discussion of Population

The population for this multiple case study design was small cities in the central United States based on population. Blouin and Saccento (2017) stated that over 15% of fraud cases occur in government organizations based on the ACFE Report. Many city accounting staff are responsible for invoicing, collecting, and record transactions for city-owned utilities or services such as court fees. The city's leadership are responsible to design, implement and monitor

internal controls to reduce fraud risk and the potential misappropriation of city assets. The city leadership must delegate control of city assets to a trusted employee to accomplish accounting workflows. Youngblood (2016) stated that the leadership assigns the responsibility to control assets to the trusted employee. Only trusted employees that have been delegated control over assets commit occupational fraud (Youngblood, 2016).

The researcher reviewed the literature for guidance concerning the number of small cities to select for the sample. A researcher must select a sample size to represent the population (Leedy & Ormrod, 2019). Creswell and Poth (2018) outlined a guideline for the sample size in qualitative research to study a few sites or individuals and collect extensive data about each location or individual. The researcher expects to select 25 participants that are leaders or staff members of small cities in the central United States for the research study based on discussions in the literature.

Discussion of Sampling

The researcher designed the study to implement a purposeful sampling strategy. Most qualitative researchers utilize purposive sampling by choosing individuals or objects to produce the most data (Leedy & Ormrod, 2019). Creswell and Poth (2018) described purposeful sampling as an intentional sample that can provide the best information about the research problem being investigated. A researcher must determine the most valuable type of purposeful sampling to utilize (Creswell & Poth, 2018). Creswell (2016) outlined three components of purposeful sampling; deciding whom to select as a participant, the sampling strategy utilized, and the number of individuals in the sample. The researcher used purposeful sampling of city officials and staff members who are available for an interview and willing to participate.

The researcher designed a sampling frame that list all the items in the population of small

cities in the central United States that the researcher intends to study. The researcher used the sampling frame to select sample cities that represented the population. The sample frame should include the target population from which the researcher can select potential research participants (Chen et al., 2001). The sample cities were selected based on the geographic location of the central United States. The researcher selected cities that are ranked as small cities by population.

The researcher must make a critical decision concerning the sample size when designing the sampling strategy (Creswell & Poth, 2018). The sampling size was determined by the complexity of the phenomenon being studied, the qualitative study method, the quality of the data to be collected, and the available resources (Creswell, 2016). Leedy and Ormrod (2019) recommended a sample size from five to 25 that has experienced the phenomenon being studied in the qualitative research design. The sample size for this multiple case qualitative research design study was 25 to reach data saturation and triangulation of data.

Summary of Population and Sampling

The small cities in the central United States provided an adequate population for the researcher for the multiple case study. The sample population of cities should provide adequate information to allow the researcher to understand why leaders often fail to protect the city's assets with adequate internal controls. The researcher conducted interviews with participants in the sample cities to provide different viewpoints depending upon their role with the organization.

Data Collection and Organization

The researcher first requested permission from the Liberty University Internal Review Board to conduct this multiple case study. The researcher ask permission from multiple city mayors to conduct the study and interview the city's staff and council members. Leedy and Ormrod (2019) outlined that the researcher should present an informed consent form describing

the study and the role of the participants. The researcher gathered data with interviews and the collection of city documents. Creswell (2016) stated that the data collection strategy determined the data collection method, the recording method, how the data were stored, the security of the data, and attempt to identify potential ethical issues.

The researcher collected data by interviewing the city's mayor, council members, and staff members with face-to-face interviews. Leedy and Ormrod (2019) outlined that face-to-face interview provide an accurate opinion from participants. Face-to-face interviews builds a rapport by improving participant's cooperation (Leedy & Ormrod, 2019). The researcher generated a list of discussion questions in the interview guide to enhance a structured discussion with each participant. Leedy and Ormrod (2019) discussed that the interview guide is the key for a productive interview. The researcher requested the print data consisting of the annual audited financial statement and internal control procedures.

The data were organized and stored to maintain the confidentiality of each respondent and protect the city leaders. Microsoft Excel and Word were used to store data during the analytic stage. A researcher should organize data to promote assessment and interpretation (Leedy & Ormrod, 2019). A researcher should devote exhaustive time to methodically organizing the data (Leedy & Ormrod, 2019). The researcher also used NVivo to classify and understand the data. Creswell (2016) outlined that qualitative data analysis (QDA) software is useful for warehousing data, discovery of relevant evidence, coding, understanding themes, analyzing interviews, and designing concept maps.

Data Collection Plan

The researcher collected data in the form of interviews and city documents. Creswell (2016) listed interviews and documents as data collection types. The researcher collected data

using face to face interviews with participants. Creswell (2016) outlined the options for interviews that included face-to-face meetings. The researcher provided the interview transcription and the word-for-word transcript of the interview to each participant for review to ensure the report was accurate and fairly represents the reply to each question. The researcher used this procedure as a follow-up interview to learn more about the participants' views by member checking. Creswell (2016) described member checking as the researcher taking back to the respondents their themes and stories and then asking follow-up questions to assure the reports fairly represent what was said.

Instruments

The researcher used qualitative research tools to collect data from the city officials and staff. The researcher was the primary instrument used for data collection. Leedy and Ormrod (2019) discussed that qualitative researchers become the primary instrument because the bulk of the information collected is directly related to their involvement in the study. The researcher developed an interview guide (Appendix A) used to conduct the interviews. Leedy and Ormrod (2019) described the interview guide as a list of flexible questions to be used in a moderately unstructured interview session with the participants.

The first set of questions seek to understand what internal control procedures each city's leadership has implemented to prevent asset misappropriation by staff members. The second set of questions seek to understand what strategies have been implemented to establish segregation of duties required for internal controls to prevent misappropriation of assets. The third set of questions seek to understand what steps city officials have used to review the municipality's internal controls' effectiveness to avoid the misappropriation of the city's assets. The researcher gathered archived data from each small city. The data to be requested were the city's annual

audited financial statement and the city's written internal control policies.

The researcher reviewed the city's internal controls to understand if the city's leaders have written internal control policies designed to reduce fraud risk. If a small city does not have written internal control policies, the researcher noted this as a possible discovered theme. The researcher plans to review the audited financial statements to understand if the independent auditor reported material weaknesses for internal controls.

The research guide was structured to address each of the four research questions. Leedy and Ormrod (2019) discussed that the research questions should be related to the research problem. The first set of questions was designed to answer research questions one and two. Research question one is: what internal control procedures have city leadership implemented to prevent property theft by staff members? Research question two is: what internal control procedures have the city leaders implemented to detect the theft of funds? The second set of interview questions are designed to answer research question three. Research question three is: what strategies have been implemented to establish segregation of duties required for cash management internal controls to prevent diversion of funds? The third set of interview questions are designed to answer research question four. Research question four is: what steps have city officials used to review the municipality's internal controls' effectiveness to avoid the theft of the city's assets? Leedy and Ormrod (2019) discussed that the research questions should be designed to allow the participant to discuss the topic without hinting at the answer.

Data Organization Plan

The researcher organized the interview records and city documents to enhance data analytics for this multiple case study. Qualitative studies involve the researcher working through the entire collection of data during analytics and interpretation (Leedy & Ormrod 2019). Leedy

and Ormrod (2019) outlined that the data should be converted into forms that will be easy to organize, such as a spreadsheet or Word document. Organizing the data into computer software allowed the researcher to explore the information using keywords (Leedy & Ormrod, 2019). The researcher organized the interviews and city documents into a Word document and Excel spreadsheets. Leedy and Ormrod (2019) discussed how the researcher should organize data to find the information quickly. The data were organized in categories that were helpful during coding as described by Leedy and Ormrod (2019). The researcher organized the data using headings corresponding with the interview question topics and coding with discovered themes.

Leedy and Ormrod (2016) discussed how the data should be divided into meaningful units for coding. The researcher used NVivo to organize and interpret the data. Leedy and Ormrod (2019) outlined how research software such as NVivo provides data storage, segmenting, and organization of a large collection of field notes and interview transcripts. Files from excel or word can be imported into NVivo or an equivalent software (Leedy & Ormrod, 2019). Leedy and Ormrod (2019) also described that the time a researcher spent learning to run the software would result in time savings in completing the study. The researcher's organization plan allowed the data to be easily found and coded for the final reports. Well-organized data are easier to interpret and code (Leedy & Ormrod, 2016).

Summary of Data Collection and Organization

The researcher designed the data collection plan to gather data to gain an understanding of why some leaders fail to protect the city assets from potential misappropriation. The data collected allowed the researcher to gain an understanding to the answers for the research questions. Gathering information from multiple sources allowed the researcher to discover if the information converge to the same conclusion. The researcher used Microsoft Word, Excel, and

NVivo to store and organize the data. Well organized files allowed the researcher to discover how the data are answering the research questions and understand the root of the research problem.

Data Analysis

The researcher utilized qualitative analytics to study the data to understand why some small leaders fail to protect city assets from misappropriation. A qualitative researcher relies on deductive reasoning, starting with a premise and analyzing the data to gain understanding of how the information answers the research questions (Leedy & Ormrod, 2016). The researcher started analysis after the data organization plan was completed. Creswell and Poth (2018) outlined the data analysis spiral steps to include writing memos concerning emergent themes, coding the themes, interpretations, and representing the data. NVivo is a computer-assisted qualitative data analysis software that helped code and categorize large amounts of data (Yin, 2018).

The researcher read and noted the material to identify emergent ideas. Leedy and Ormrod (2019) described memos as notes written by the researcher while collecting data. Leedy and Ormrod (2019) listed reflective memos, methodological memos, and analytical memos as three types of notes used by qualitative researchers. Then the researcher provided discussion and classification codes for each emergent theme. Creswell and Poth (2018) described classifying codes into themes as the nucleus of qualitative design data analysis. The researcher conducted data interpretations during and after the information was collected. Yin (2018) outlined that a researcher must interpret the information during collection to assess if the multiple data sources contradicted themselves, which would require further evidence. The researcher collected data from multiple sources to triangulate the different collections to discover if the numerous sources converge to the same conclusion.

Emergent Ideas

The researcher analyzed the data to discover emergent ideas concerning the research questions and problem. Creswell and Poth (2018) discussed that a theme in qualitative research is a common idea discovered from data coding. A qualitative researcher used coding for themes during the analysis to understand the meaning of the data (Leedy & Ormrod, 2019). A researcher should work with the participants to discover common themes (Leedy & Ormrod, 2019). The researcher analyzed the data collected from multiple participants to discover emergent ideas of why leadership sometimes failed to protect the city assets from misappropriation with internal controls.

Coding Themes

The researcher analyzed the data and code themes. Creswell and Poth (2018) described coding the data into themes as the heart of qualitative data analysis. The coding steps involve describing, interpreting, and classifying the data (Creswell & Poth, 2018). Coding themes require the researcher to create detailed descriptions, develop themes, and interpret the data in their views and with the literature perspective (Creswell & Poth, 2018). Creswell and Poth (2018) discussed that detailed description is the researcher describing what they see. Creswell and Poth (2018) outlined the following steps to accomplish coding themes; initial codes named, expanding codes applied, final code categorized, and theme described. The researcher utilized the steps discussed by Creswell and Poth to code themes for this multiple case study.

Interpretations

The researcher must be able to interpret the data during collection and analysis. Yin (2018) discussed how the researcher must interpret the data during collection to identify conflicting information and if more sources are needed for evidence. Leedy and Ormrod (2019)

described interpretation of the data as paramount to extracting the meaning of the information gathered. Interpretation is a crucial step in analyzing the data to support the study's findings and answer the research question (Leedy & Ormrod, 2019). Leedy and Ormrod (2019) outlined how the researcher must interpret the data based on the research problems and questions. The researcher interpreted the data to explain why some city leaders fail to protect the organization's assets from potential misappropriation.

Data Representation

The researcher used a software application to represent the data visually. Leedy and Ormrod (2019) discussed that the researcher should use visual aids to summarize various parts of the data. Leedy and Ormrod (2019) recommended that the researcher use different fonts and sizes to depict the frequency and noteworthy words. Creswell and Poth (2018) discussed the challenge the researcher faces in deciding how to represent the data in matrices, tables, and narrative discussion. The researcher represented the data using charts and graphs created in Word, Excel, and NVivo. The researcher also described the data analysis using Microsoft Word.

Analysis for Triangulation

The researcher employed methodological triangulation and conducted interviews with officials and staff members at various levels in the organizational chart. An attribute of numerous meticulous qualitative studies is employing multiple forms of data to triangulate conclusions (Leedy & Ormrod, 2019). The researcher compared each participant's interview replies to discover if the data points to the same conclusion. The researcher should look for convergence triangulation of the data where the various data sources reveal the same conclusion (Leedy & Ormrod, 2019). Triangulation for this qualitative multiple case study was accomplished by conducting interviews with city officials and staff members with different roles in the city. A

researcher in a qualitative study utilizes triangulation to converge the data to substantiate an assertion (Leedy & Ormrod, 2019).

A qualitative researcher looks for common themes in each source of data by applying data triangulation (Leedy & Ormrod, 2019). A qualitative researcher unites two or more distinct data collections to discover whether they lead to a similar conclusion (Leedy & Ormrod, 2019). The data collected from multiple interview sources were compared to discover if and why the cities' leadership has failed to implement internal control procedures required to reduce fraud risk and the potential misappropriation of city assets. A researcher can make a more persuasive case for the study's conclusions if the diverse varieties of data lead to the same conclusion (Leedy & Ormrod, 2019).

Summary of Data Analysis

The researcher analyzed the data to discover emergent themes concerning the research problem and research questions. The researcher conducted coding to analyze the data into themes. The researcher interpreted the data to discover how the information was related to the research problem and how the documents answer the research questions. The multiple forms of data allowed the researcher to triangulate the documents to discover if the information converge to a common conclusion.

Reliability and Validity

The researcher designed the multiple case study to ensure the findings' reliability and validity. Leedy and Ormrod (2019) stated that validity and reliability allow a researcher to learn about the phenomenon and draw a significant conclusion. The researcher accurately gathered, summarized, analyzed, and stored the data to improve validity. Yin (2018) outlined that validation identified the appropriate research design to evaluate the phenomenon being studied.

The data and findings were organized to accomplish reliability for the study to be repeated by future researchers with the same results. Yin (2018) stated that reliability provided adequate instruction for another researcher to replicate the operations of the study resulting in the same conclusion. The researcher plans to use electronic recording devices and store the data in computer software to improve the reliability of the research design. Creswell and Poth (2018) described that reliability is enhanced by the researcher writing good field notes by using high-quality recording devices and digital filing.

The researcher must conduct the study to ensure the findings are accurate by qualitative research standards. Creswell and Poth (2018) described how a researcher should address if the findings are valid and by what standards. The researcher conducted the study to describe the findings accurately. Creswell and Poth (2018) outlined that a researcher should use validation to assess the accuracy of the findings as described by the participants and researcher.

Reliability

The researcher designed and documented the research procedures to assure the reliability of the multiple case study design. Yin (2018) described reliability in a case study design as the ability for future researchers to apply the same procedures with concurrent results. The goal of designing a reliable case study is to reduce errors and bias (Yin, 2018). The researcher documented each procedure of the multiple case study to increase reliability. Yin (2018) outlined the researcher's responsibility to document each procedure of the case study. The researcher conducted the work to allow future researchers to replicate the study. Yin (2018) described how the researcher should conduct the research procedures to meet auditing standards. The researcher prepared documentation that provided an audit trail to meet the reliability requirements.

The researcher designed and conducted the multiple case design procedures to ensure

trustworthiness of the findings. A creditable study is the result of designing and executing the procedures in a way that the findings are judged by other people as reasonably accurate and trustworthy (Leedy & Ormrod, 2019). Leedy and Ormrod (2019) outlined that a researcher's study is trustworthy when other people confirm that the researcher's design and procedures are appropriate for the research problem and question, the results are reasonably accurate, and the interpretations are plausible. Credibility was significant for assessing if the researcher's findings are probable from the participant's perspective and if the study can be applied by other researchers in a different setting (Leedy & Ormrod, 2019).

Yin (2018) described that trustworthiness is heightened by maintaining a chain of evidence. Leedy and Ormrod (2019) described that the conclusion of a study should be understood by other people and the study could be transferrable to other researchers in the future. Qualitative assessment strategies are judged to have dependability when different researchers consistently yield the same results (Leedy & Ormrod, 2019). The researcher provided detailed description of data collection and analysis. A researcher should adhere to the standard of confirmability by basing their conclusion on detailed data and analysis (Leedy & Ormrod, 2019).

Validity

The researcher developed a data collection and assessment strategy to yield accurate information for this multiple case study. Leedy and Ormrod (2019) described validity as the strategy utilized by the researcher to assure the information collected and assessed accurately described the phenomenon. Creswell (2016) stated that validity means accurate findings in qualitative design studies. The researcher collected multiple sources of data as an approach to design construct validity. Yin (2018) discussed that multiple data sources would allow a researcher to design the case study to assure validity. The researcher developed convergent

evidence through triangulation to strengthen construct validation. Yin (2018) outlined that data triangulation strengthens construct validation in a case study design. Yin (2018) outlined that internal validity was used to explain how and why one event resulted in another event.

The researcher provided the participant a summary of their interview to review and validate for accuracy. Leedy and Ormrod (2019) outlined that a researcher should conduct a respondent validation by asking the participant to review and reply concerning the accuracy of the conclusion. The researcher utilized triangulation by collecting multiple sources of data from the leaders and staff members of small cities to validate the study through the convergence of evidence. The researcher collected data until the information reached saturation for validation of the study. Leedy and Ormrod (2019) described saturation as the point when collecting further data reveals no additional information concerning the phenomenon.

Bracketing was implemented for data validation from collecting information as the voice of participants and not researcher bias. Leedy and Ormrod (2019) outlined how a researcher's previous experiences and opinions should be suspended through bracketing. Bracketing sets aside the researcher's past experiences to take a renewed perspective of the research topic (Creswell & Poth, 2018). Bracketing allowed the participant's voice to describe their experience working under the internal controls designed by each city's leadership.

The researcher collected data from multiple cities through interviews and data collection until the point of conceptual saturation. The researcher designed the research questions to gather information about each participant's role and perspectives concerning each city's internal controls. Creswell and Poth (2018) outlined that saturation is accomplished by designing focused interview questions to understand how each participant experienced the process and characterize the steps. The researcher interviewed and collected data from 25 participants to reach data

saturation. Creswell and Poth (2018) stated that the objective is to gather enough information to saturate the collected data, which involved between 20 and 60 interviews.

Bracketing

Bracketing was implemented to limit the researcher's personal and professional bias while conducting the multiple case study procedures. Creswell and Poth (2018) outlined that bracketing sets aside the researcher's prior encounters to take a reconditioned assessment of the research topic. Bracketing allows the researcher to confront the phenomenon as a first-time experience (Creswell & Poth, 2018). The researcher collected data from city officials and employees to assure their viewpoint was represented fairly and accurately.

Bracketing reduced the researchers' potential bias of the phenomenon and provided an account of the experience of others (Creswell & Poth, 2018). The researcher analyzed data collected from participants to discover an emergence of themes. Themes in qualitative research are extensive categories of evidence aggregated by codes for a common idea (Creswell & Poth, 2018). The findings provided each small city's participants a voice to present their viewpoints and themes during the interview.

Summary of Reliability and Validity

The researcher conducted the study to accomplish reliability and validity. The design of the study by the researcher conformed to the research guidelines gained from the literature. The researcher adhered to ethical research standards to assure the creditability of the findings. The design of the multiple case study was outlined to provide transferability for future researchers. The researcher utilized bracketing, triangulation, and saturation to assure validation of the findings.

Summary of Section 2 and Transition

The researcher outlined the design of this multiple case study in Section 2, The Project. The researcher restated the purpose statement for the research study. The role of the researcher and the responsibilities to conduct the procedures were outlined in Section 2. The researcher discussed how the qualitative multiple case study was appropriate to address the research problem and help understand the answers to the research questions. The researcher discussed that the population for this study was small cities in the central United States. Twenty-five participants were selected for interviews as the sample for the multiple case study. The researcher used an interview guide designed to address the four research questions. The data were arranged in Microsoft Excel, Word, and NVivo to expedite the researcher's ability to perform data analytics. The data were stored in a numbering sequence to maintain confidentiality for the city's leaders and staff members. The researcher analyzed the information for emergent ideas, and coding categorized the data based on the discovered themes. The researcher interpreted the data to understand the answers to the research questions and discover the issues creating the problem.

Section 3 applied the qualitative multiple case study design to gather data to provide the researcher an understanding of the research problem and answer the research questions. The study results may guide the leadership of small cities to protect assets from potential misappropriation by designing, implementing, and monitoring effective internal controls. In Section 3, the researcher collected, stored, coded, and analyzed data to discover themes from the information collected. The researcher utilized bracketing, triangulation, and saturation to assure validation of the findings. The researcher desired to fill a gap in the literature concerning the study's population of small city governments in the central United States as it related to the

research problem and research questions. Recommendations for further study was also outlined by the researcher.

Section 3: Application to Professional Practice and Implications for Change

Section 3 contains the overview, including the researcher's anticipated themes of the study prior to data collection. Also contained within Section 3 is the researcher's discussion concerning the study's findings, which included themes identified during data analysis. Likewise, the applications to professional practice and recommendations for the city administration to improve internal controls to protect the city's assets is included. The researcher provided recommendations for future case studies on internal controls are included in Section 3.

Overview of the Study

Asset misappropriation by occupational fraud is an ongoing problem with many organizations, including small city governments. Small city governments often lack the resources for strong internal controls, including segregation of duties due to the small number of accounting staff members (Hilliard & Neidermeyer, 2018). Strong internal controls require many staff members to accomplish segregation of duties (Moore, 2018). The leadership of small city governments is ultimately responsible for safeguarding the city's assets from misappropriation and must evaluate and implement internal controls to segregate duties despite the limited budget. The researcher desired to understand why some city officials fail to protect their city's assets with internal controls.

The researcher reviewed the existing literature and discovered a gap in the literature concerning the target population of small cities in the central United States. Subsequently the researcher designed this study to understand the leadership's stewardship of protecting the city's assets. Also, the researcher desired to understand the leadership's aspiration for self-interest as described in the agency theory. For a team member to commit fraud, leadership must designate the individual as a trusted employee and delegate control of an asset(s). The three components of

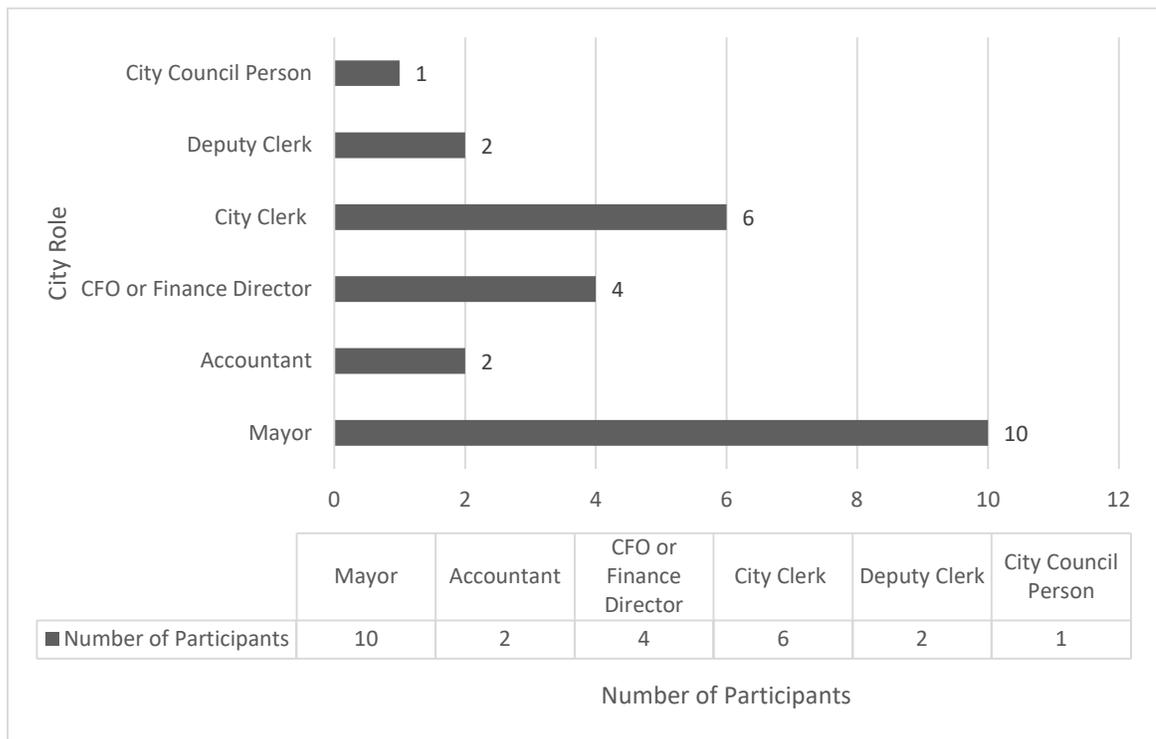
the fraud triangle theory must also be present for the staff member to misappropriate assets. The researcher desired to understand the internal controls designed by city officials to monitor the pressure and rationalization components of the fraud triangle theory.

Presentation of the Findings

The qualitative multiple case study was designed to gain an understanding of why some leaders fail to protect the city’s assets from potential misappropriation. The researcher interviewed 25 participants with different city roles. A list of the city roles was illustrated in Figure 3. There was a discussion of the themes that emerged during the research project in this section. The researcher visually represented the findings with graphs and narratives. Moreover, the researcher outlined the relationships between the findings, research questions, conceptual framework, anticipated themes, literature, and problem statement in Section 3.

Figure 3

Participant City Roles



Themes Discovered

The first theme discovered was city leaders and employees are stewards of the assets. One hundred percent (100%) of the participants indicated a stewardship attitude toward promoting the best interest of the city. The city mayors discussed their role as the highest elected city official to steward the city's assets. P7 expressed how the role as city mayor served as the highest elected official for the small city, and the citizens placed trust in the role as mayor to manage the city's business affairs and protect the assets. Many mayors assumed roles in the accounting and financial management, indicating a stewardship attitude. Stewardship is one of three elements of ethical leadership and is displayed when a leader acts as the house guardian (Dumay et al., 2019). Donaldson and Davis (1991) described how an organization's leader who manages under the stewardship theory desires to be a worthy steward of the employer's assets. The Bible outlined how the master is pleased by the servant's management, The master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness! (*New International Version*, 1706/ 1984 Matthew 25:21). The citizens of each city delegated trust to the mayor, city council members, and the city employees of the assets.

The four participants that served their city as CFO or finance director discussed how their role as the financial leader was responsible for protecting and promoting the city's best interest. P15 discussed how the role of the finance director was responsible for protecting the financial well-being of the city, including the assets. These four participants indicated that the city officials trust them to manage and protect the city assets. All four participants discussed their stewardship role was to promote the city's best interest and protect the assets.

Participants who serve as city clerks indicated the citizens entrusted them to handle the

daily financial operations. The six participants who serve as city clerks are officials responsible for the small city's financial operations. P6 discussed how the city clerk's role was to ensure all the workflows were completed under internal control procedures. P10 asserted that internal controls were followed to prevent an honest mistake or a dishonest action. Each of the 25 participants' discussions exhibited the protection of city assets as a high priority.

Theme 2 was the city leaders designed and implemented internal controls to prevent and detect asset misappropriation. One hundred percent (100%) of the participants indicated internal controls were implemented to protect the city's assets and detect asset misappropriation. The city leaders and staff members outlined how the design and implementation of internal controls to prevent asset misappropriation were based upon audit standards. P1 discussed how the mayor's role was involved in internal controls to prevent and detect asset misappropriation. The 10 city mayor participants reviewed accounting transactions to ensure the assets were protected. P18 discussed how the mayor, city council, and contract CPA reviewed the accounting documents as an internal control to protect the city's cash receipts.

The city leaders understand occupational fraud risk and have implemented internal controls to prevent and detect asset misappropriation discovered in theme 2. Cash is the most common asset stolen, with an average theft of \$20,000, with approximately 75% of employees committing occupational fraud against their employers (CPA Practice Advisor, 2017). An example of a city falling victim to occupational fraud is Casey, Iowa. Dorothy Dillinger, the city's clerk, misappropriated \$300,000 in cash assets over 30 years (Solsma et al., 2021). Some of the participants discussed a case of occupational fraud where their city or another government entity fell victim to fraud. P18 discussed how the predecessor was charged with theft of city property to pay for undocumented vacation time. The participants discussed segregation of

duties, two persons signing all checks, requiring purchase orders, and the department heads verifying receipt of goods and services as the primary internal controls to prevent and detect asset misappropriation.

The finding related to theme 2 included four participants who discussed how their internal controls discovered occupational fraud. P5 stated a previous employee was discovered purchasing merchandise with a credit card and selling the items at a pawn shop. P2 disclosed how a former staff member was discovered purchasing oil and cokes using the city's charge accounts. Four of the participants stated how the employees who were caught misappropriating assets were dismissed and prosecuted. The participant's replies indicated that all the participants were serious about protecting the assets with internal controls. The city officials also considered it their responsibility to establish the ethical standard in which asset misappropriation would not be tolerated. The internal control procedures to detect fraud included the department heads reviewing and signing off on vendor invoices, bank reconciliation, maintaining a fixed asset schedule, and reviewing the asset inventory to confirm assets remain in possession of the city staff members and officials.

Theme 3 was city leaders have internal controls to meet the segregation of duties for accounting processes. One hundred percent (100%) of the participants discussed that internal controls were designed for segregation of duties. The auditors confirmed that 20 cities had designed and implemented sufficient internal controls to protect assets. However, the auditors found deficiencies in two participating cities' internal controls for segregation of duties. The participants explained how segregation of duties reduced the risk of occupational fraud. Ohalehi (2019) asserted that a deficiency of segregation of duties contributes to asset misappropriation in small organizations. Segregation of duties is a primary focus for designing adequate internal

controls to prevent occupational fraud (Kim et al., 2020). All participants indicated a resounding responsibility to implement internal controls for segregation of duties to protect the city's assets and meet the requirements for the annual audit.

The 10 city mayor participants assumed a role in the accounting workflows to design internal controls for segregation of duties. Small cities often do not have adequate staff numbers to meet the segregation of duties without the elected officials assuming one of the accounting responsibilities. The Deputy Legislative Auditor, Counties, and Municipalities of one state in the central United States discussed how small city leaders with few staff members mitigated segregation of duties by assuming an accounting role. P7 discussed the accounting role assumed to meet segregation of duties because the city has only three in the office, and a small town cannot hire six people in the accounting office. P17 communicated that segregation of duties internal controls is a challenge for small cities with low budgets without the mayor assuming an accounting role. The 10 city mayor participants stated an intentional effort to design internal controls to protect the city's assets. However, auditors did find deficiencies in the design of two of the participating city's internal controls for segregation of duties.

The 10 city mayor participants assumed the responsibility of a CFO and performed an accounting function to meet the internal controls for segregation of duties. The accounting workflow duties included being a signatory of the account payable checks. P1 discussed the review of every accounting transaction, while P2 outlined reviewing each transaction processed by the city clerk to meet segregation of duty internal controls. All the participants concurred one staff member was never delegated the authority to perform all accounting processes.

Theme 4 was the city officials did not test the effectiveness of the city's internal controls to protect the city's assets. One hundred percent (100%) of the participants admitted there was no

test for the effectiveness of internal controls. Drogalas et al. (2017) discovered a positive relationship between the effectiveness of internal audits and fraud detection. CPAs and auditors struggle to detect internal control material weaknesses (Lisic et al., 2019). Four participants, who are CPAs or degree accountants, stated they reviewed the internal control policies but did not test the effectiveness of the internal controls in protecting the city's assets or detecting asset misappropriation. Testing internal controls involves assessing the design and operation of the internal controls (Feng, 2020). Leadership should design trials to discover if the staff or management can override internal control.

Management and staff members create the opportunity to commit occupational fraud by overriding internal controls (Wang & Fargher, 2017). P16, the recently hired city CFO, discussed reviewing current internal controls, but the future goal was to test the procedures' effectiveness in reducing fraud risk and detecting fraud. The participants discussed how the independent auditors would list deficiencies if the city's officials failed to implement effective internal controls. Following the 25 interviews the researcher reviewed the financial statements of each of the participating cities to discover if the audit findings listed by the auditors. Figure 10 lists the auditors' findings and outlined deficiencies discovered during each city's audit.

Theme 5 was the city officials have not designed or implemented internal controls to monitor the pressure and rationalization components of the fraud triangle theory. One hundred percent (100%) of the participants communicated the internal controls to monitor pressure and rationalization components of the fraud triangle had not been implemented. Accounting staff members have the potential to commit occupational fraud when the pressure, rationalization, and opportunity components to commit fraud are present (Chambers & Sullivan, 2018). A tenured city employee who understands the city's workflows and internal controls understands how to

override the controls and conceal occupational fraud. City leaders must consider the cost-benefit of internal controls to prevent the opportunity component of the fraud triangle theory.

Youngblood (2016) outlined a small business manager with limited resources must choose between internal controls to protect assets or other operating or capital expenditures. Zakaria et al. (2016) stated internal controls have intrinsic restraints, including the cost-benefit ratio. City leaders strengthen internal controls when all three components of the fraud triangle theory are monitored. Reinstein and Taylor (2017) affirmed how the economic pressures coupled with a trusted employee's opportunity to commit fraud increases fraud risk and potential asset misappropriation. Chambers and Sullivan (2018) reported that accountants are susceptible to rationalizing fraud and other unethical practices. The fraud triangle theory is well established and documented by Donald Cressey and subsequent researchers. The city participants have failed to monitor two of the three components of the fraud triangle theory with internal controls.

The 10 city mayor participants stated how they built trust relationships with their staff associates due to the small office size and failed to understand the significance of how the trusted employee is the staff member who potentially commits occupational fraud. P2 shared knowing the staff members personally due to the small office size. P2 also stated if the clerk were wearing a sizeable new diamond ring that would be a red flag for fraud. P16 disclosed that employees sometimes think they are underpaid, which rationalized the city owes them money. The city's leaders will often assign oversight responsibility of assets to a trusted employee to enable the entity to operate. Youngblood (2016) described how a trusted employee's status provided an opportunity for asset misappropriation. The participants indicated the city's internal controls are designed to prevent only the opportunity component of the fraud triangle theory.

None of the participants admitted that internal controls were implemented to assess the

pressure component of the fraud triangle theory. "But understand this: If the house owner had known at what time of night the thief was coming, he would have kept watch and would not have let the house be broken into" (*New International Version* 1831/1984 Luke 12:39). Leaders can examine if an employee is under pressure to commit fraud by designing internal controls to monitor the pressure component of the fraud triangle theory. Monetary transgressions on a financial background report should make the applicant less desirable (Kuhn, 2020). Kuhn (2020) reported how a staff member under financial stress results in the pressure component of the fraud triangle. P17 discussed how financial pressure could drive an otherwise honest person to steal. The leaders should preform annual financial background checks to discover if the staff member has increased debt or have accounts in collection.

Interpretation of the Themes

The interpretation of theme one was that the city officials are stewards of the city's assets. Each participant's indicted a responsibility to protect the cities assets and a commitment to stewardship. Till and Yount (2019) outlined how managers care for the entire organization when managing based on the stewardship theory. None of the participants indicated a self-interest in their role with the city as described in the agency theory. Till and Yount (2019) outlined how the agency theory assumes managers maximize self-interest driven by financial gains. The participants described their leadership roles as public servant, the city's highest elected official, and the citizens delegated the management of the city's assets as the result of winning the election. All the participants described their active role in monitoring or participating in the accounting workflows. Likewise, every participant discussed their stewardship role of protecting the city's assets very openly and was sincere in their desire to protect the assets from misappropriation.

The participants also confirmed respect for the audit process and the desire to meet all audit requirements as part of being a steward of protecting the city's assets. Till and Yount (2019) discussed the correlation between audit effectiveness and the reduction of occupational fraud. The participants discussed whether the annual audit was conducted by an independent audit firm or state auditors and the findings are illustrated in Figure 4. P3 specified that the state legislative audit was intense, lasting approximately three months. P12 described how the state legislative auditors conducted a fraud audit while the independent auditors conducted a GAAP audit. Each city's audited annual financial statement is a public record and is online for review.

The interpretation of theme two was the city leaders have established internal controls to prevent and detect asset misappropriation. One hundred percent (100%) of the participants indicated an understanding of occupational fraud risk and the need to protect the city's assets with internal controls. Eight percent (8%) of the participants discussed how their city was a victim of occupational fraud in the past, resulting in felony charges. P9 divulged that the city was a victim of a significant case of occupational fraud in 2016. P2 said the new city leadership had implemented internal controls to protect the city's assets. Four other participants discussed staff members who misappropriated small dollar amount items and were prosecuted and dismissed.

All participants discussed their internal controls to prevent asset misappropriation were an annual audit requirement. Internal controls for fixed assets must meet audit standards and pass the annual audit or face auditor findings for internal control deficiencies. P2 disclosed an auditor requested to inspect a radar gun on the city's asset list, and the staff had to show the auditor the gun. Eight percent (8%) of the participants discussed how budget to actual expenditures was a method of internal controls to prevent asset misappropriation. However, budget to actual comparisons is not considered an internal control.

An organization's leaders have the most responsibility to design internal controls to detect fraud (DeZoort & Harrison, 2018). Four participants reported the internal controls were responsible for detecting asset misappropriation. P2 stated an employee was buying cokes and oil for personal use, and the person was caught, fired, and prosecuted. P6 stated a staff member purchased merchandise on a purchasing card and then sold the items to a pawn shop. Two additional participants reported the city leaders implemented additional internal controls because of asset misappropriation by predecessors. P18 affirmed the city council and mayor divided the job responsibilities due to a prior fraud incident and hired a contract CPA to review transactions. The auditors reported in the findings that one city's bank reconciliation discovered an automated clearing house (ACH) not deposited correctly into the city's account.

The participants listed the following internal controls to detect fraud: segregation of duties, fulfillment internal controls, bank reconciliation, fixed asset inventory, and procurement internal controls. Eight percent (8%) of the participants discussed how the city council members would use expenditures exceeding budget as an internal control to detect fraud. However, expenditures can exceed budget due to many factors, including inflation and major unexpected repairs. Therefore, budget to actual comparisons is an inadequate internal control to detect asset misappropriation. The researcher's interpretation revealed 27% of the participating cities discovered occupational fraud. Two cities' leadership implemented more robust internal control to reduce fraud risk and the potential misappropriation of assets due to being a victim of occupational fraud resulting in felony charges.

The interpretation of theme three was all the participating city's leaders have designed internal controls for the segregation of duties of accounting processes. Leadership is responsible for effective and efficient internal controls related to the segregation of duties (Raucci et al.,

2020). Seventy-two percent (72%) of the participants were involved with cities with three or fewer accounting staff members. The participants discussed how the mayor assumed a role in the accounting processes to meet the segregation of duties internal controls. The participants discussed how segregation of duties was challenging due to the limited budget, without the mayor's role in the accounting workflows.

The 10 city mayor participants who performed the CFO duties reviewed the accounting workflows such as the bank reconciliations for segregation of duties. P18 shared the city leaders contracted a local CPA to accomplish segregation of duties. Even though 100% of the participants indicated segregation of duties was implemented to protect the city's assets, two cities received deficiencies in their audit findings due to segregation of duties weaknesses. P7, a city mayor, revealed segregation of duties with a small staff is a challenge but assumed the responsibility to sign checks and review the bank statement to meet segregation of duties internal controls. P23 expressed the deputy clerk posted the transactions, and the mayor reviewed the transactions. P15 reviews all accounting transactions after the administrative assistant completed the data entry. All participants indicated segregation of duties is a crucial internal control to protect the city's assets. Each participant also discussed how the auditors would state an audit finding if the city's leaders failed to design and implement internal controls for segregation of duties.

The interpretation of theme 4 was city officials have not implemented proper steps to review or test the effectiveness of the city's internal controls to protect the city's assets. None of the participants' replies indicated they routinely tested the internal controls. Two CPAs discussed how they reviewed the accounting processes but did not test the controls to see if they effectively prevented or detected asset misappropriation. P16 was recently hired as the city's CFO and stated

plans to test the internal controls in the future. Many participants described the annual audit as a review of the internal control procedures. Khoo et al. (2020) outlined how the leadership is responsible for assessing internal controls. The participants mutually indicated the city's leadership did not review the effectiveness of internal controls.

The interpretation of theme 5 was none of the leadership of participating cities has designed nor implemented internal controls to monitor the staff member's pressure and rationalization components of the fraud triangle theory. A staff member without economic pressure will not commit fraud (Youngblood, 2016). Also, a staff member who cannot rationalize occupational fraud against their employer will not misappropriate assets (Reinstein & Taylor, 2017). Only two participants replied that financial background checks were administered as a pre-employment screening procedure. Criminal and financial background checks would measure if a staff candidate potentially had the pressure component of the fraud triangle theory during the employee prescreening process. Occupational fraud risk increases when city leaders fail to implement internal controls to monitor staff members' rationalization and pressure to commit fraud.

The participants were unfamiliar with the three components required to commit fraud outlined in the fraud triangle theory. P16 voiced there is always a staff member who believes they are underpaid regardless of the documentation that their salary is at fair market value. A staff member who believes they are underpaid could potentially have the pressure and rationalization components to commit occupational fraud.

Solsma et al. (2021) outlined how the city clerk who embezzled \$300,000 was pressured to commit fraud because the annual salary was only \$24,000. Staff members desire enough compensation to pay family expenses. Solsma et al. (2021) described how the city clerk

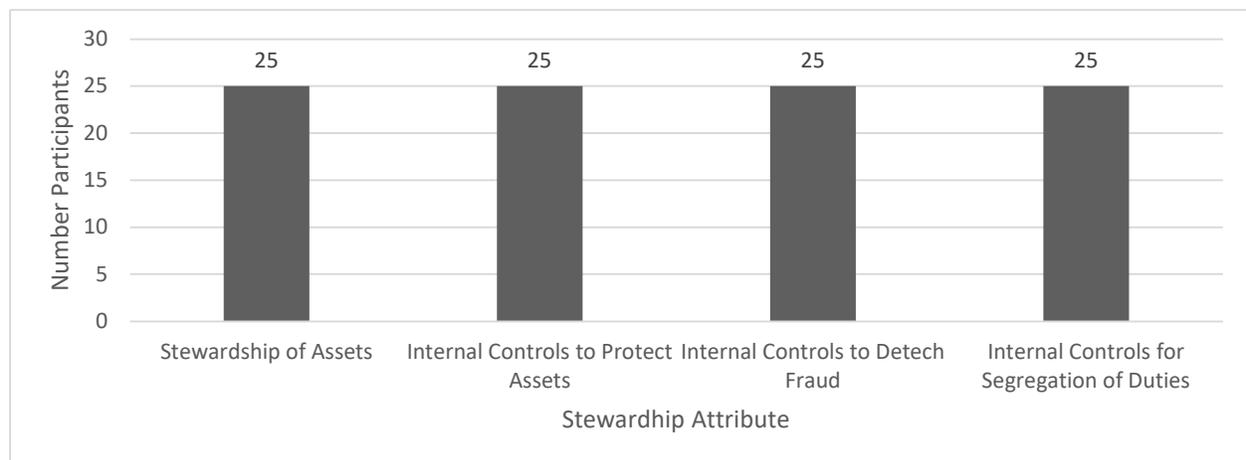
expressed the city leaders could not expect a staff member to raise two children on \$24,000 per year. An annual financial background check would reveal if a staff member had increased consumer debt resulting in pressure to commit occupational fraud.

Representation and Visualization of the Data

All participants' replies demonstrated stewardship regarding protecting the city assets with internal controls. Figure 4 displays the participants' replies were positive toward stewardship of the city's assets. Each participant also considered protecting the city's assets part of their job responsibilities. Leaders managing under the stewardship theory will have behaviors and attitudes showing the organization's best interest (Donaldson & Davis, 1991; James et al., 2017). All participants replied internal controls were in place to protect the city's assets from misappropriation. Each participant specified how their internal controls detected occupational fraud. Four participants described how the internal controls detected asset misappropriation. Each participant described the internal controls to accomplish segregation of duties. The 10 mayors assumed part of the accounting workflows varying from signing A/P checks to reviewing every transaction.

Figure 4

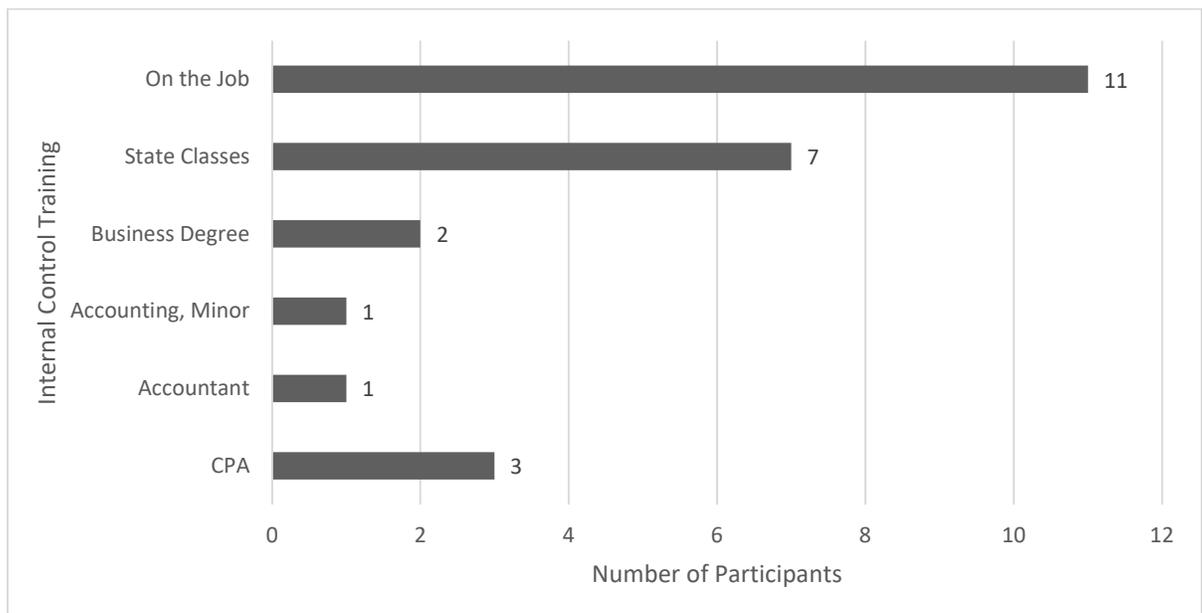
Stewardship of Assets



All participants were very knowledgeable about internal controls based on the replies to the interview questions. Kim et al. (2020) outlined how segregation of duties has a critical role in preventing occupational fraud and is also essential for accounting stewardship. Figure 5 lists the replies to the question describing the internal control training. The internal control education varied from the formal academic education required to become a CPA, a bachelor's degree in accounting, municipal league classes, and on-the-job training. The on-the-job training included instruction by the auditors during the annual audit. The state auditors perform testing for over two months during each city financial audit, during which time the auditors provide guidance to the city's officials and staff concerning internal controls.

Figure 5

Internal Control Training

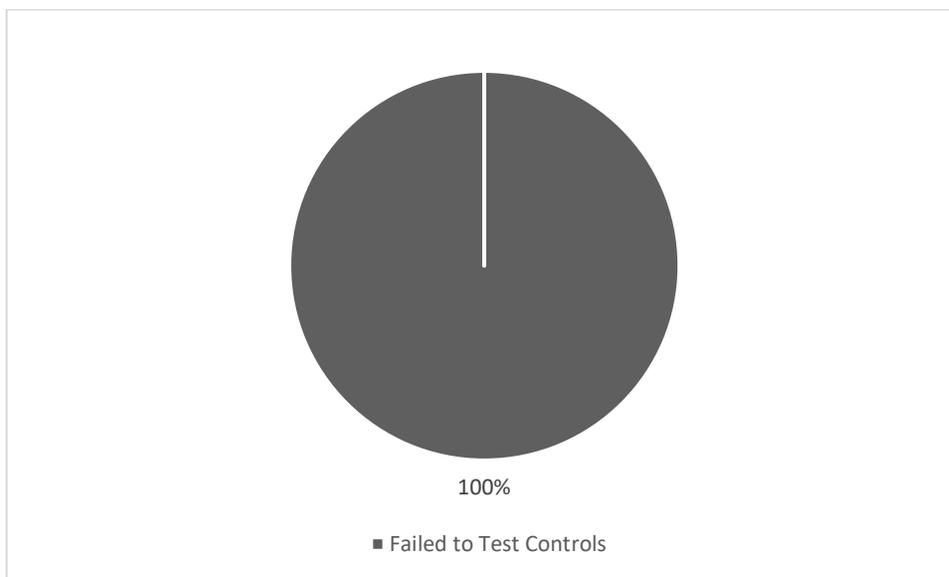


None of participants had a favorable reply on testing internal controls as seen on Figure 6. Accountants learn in academic education to utilize a level of professional skepticism while observing accounting workflows to discover fraud risk. An accountant should actively review the workflows and attempt to break the internal control during testing to assure the internal control is

trustworthy. Figure 6 illustrates that 100% of the participants failed to test internal controls. Kuang et al. (2021) discussed testing internal control procedures would identify if fraud risk and the risk for misappropriation of the organization's assets was reduced. A staff member who is under pressure and has rationalized occupational fraud will attempt to discover an opportunity to commit asset misappropriation. The leaders should constantly be testing the internal controls for effectiveness and management's ability to override the internal controls to protect the city's assets the city's assets from misappropriation.

Figure 6

Failed to Test Internal Controls

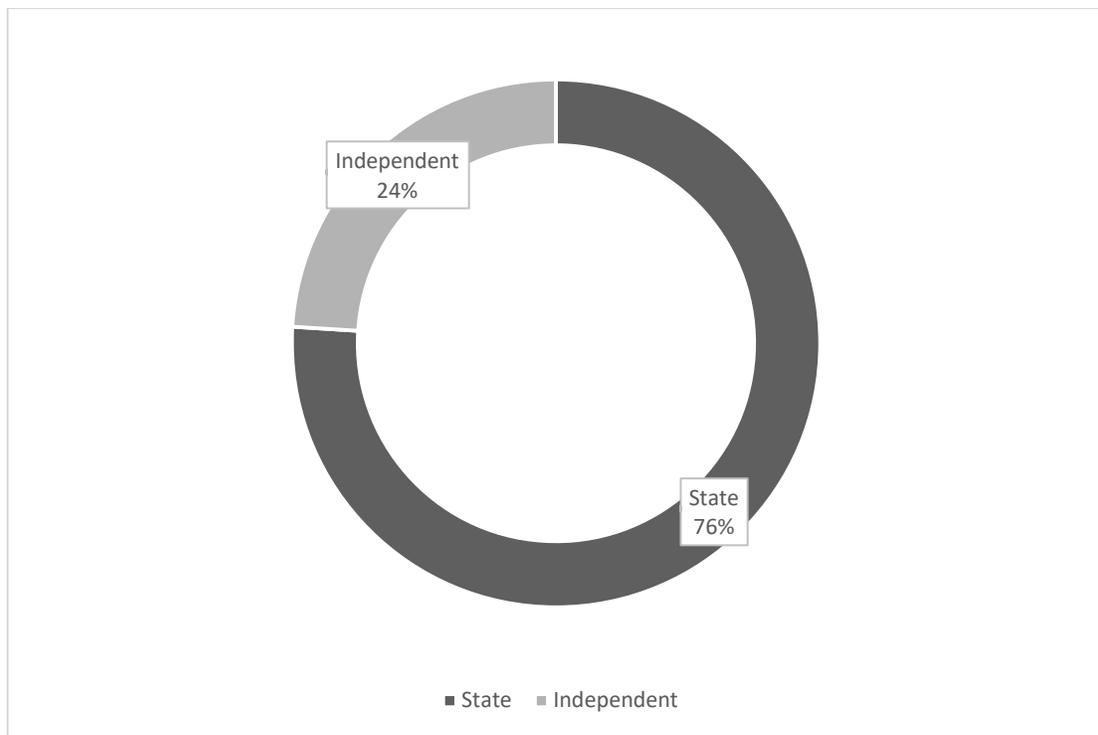


An annual audit is required for each city's comprehensive financial statements. Figure 7 provides the percentage of participating cities audits conducted by state auditors and the percentage conducted by a for fee independent auditor. The participants indicated that meeting audit requirements and protecting the city's assets from misappropriation were coupled. Failing to monitor the internal controls could create deficiencies cited in the audit findings (Nwoye, 2018). The participants involved with city's that the leadership engaged state auditors described

the audit as intense and lengthy. The participants described the duration of the independent audit as a few weeks. P12 described how the independent auditors conducted an audit of GAAP requirements compared to the state auditors who conducted the audit to test for asset misappropriation. This participant, who was a former auditor, described the independent auditors as working as quickly as possible to earn the fee and move to the next client.

Figure 7

Percent Annual Audit by State vs. Independent

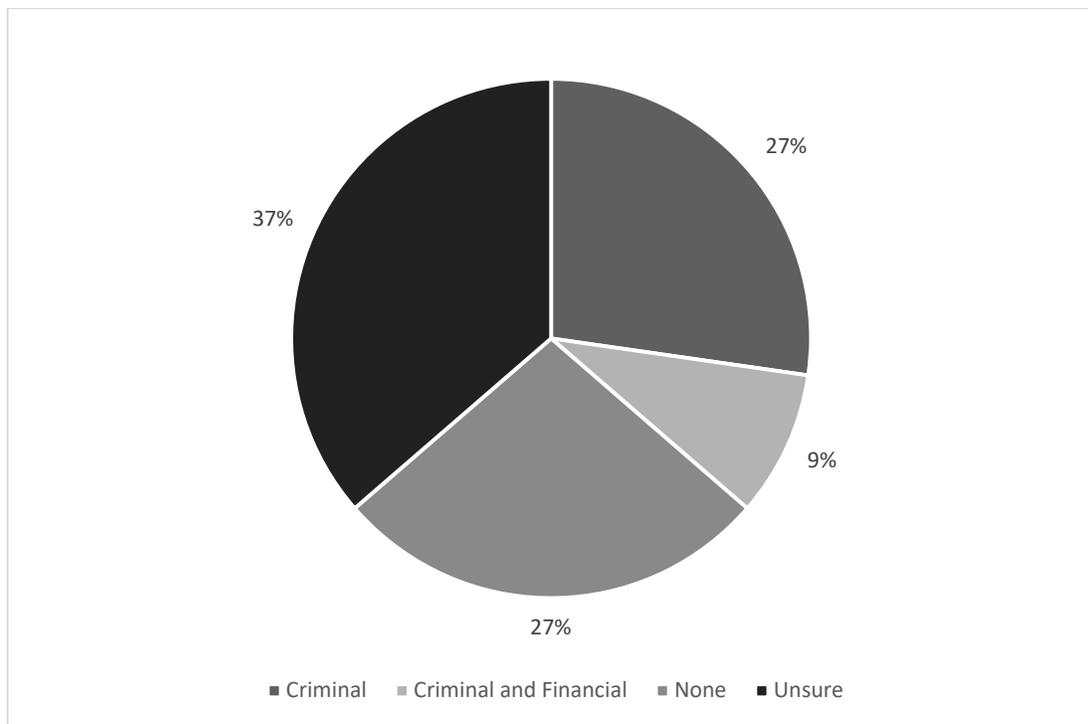


One internal control procedure that leadership can use to monitor the pressure component of the fraud triangle theory is pre-employment financial background checks. Criminal and financial background checks are required for the pre-employment screening in various industries. Figure 8 outlines the participant's replies concerning pre-employment criminal and financial background checks. Only two participants replied passing a financial background check was an employment requirement. Hiring a new staff member who is experiencing financial difficulties

could create pressure to misappropriate assets to meet obligations. Youngblood (2016) outlined the staff members who are under economic pressures result in one of the components of the fraud triangle was stated in Youngblood's findings. A reoccurring spontaneous detail from participants was very low employee turnover, and they would be familiar with most applicants if there were a vacancy.

Figure 8

New Hire Background Checks

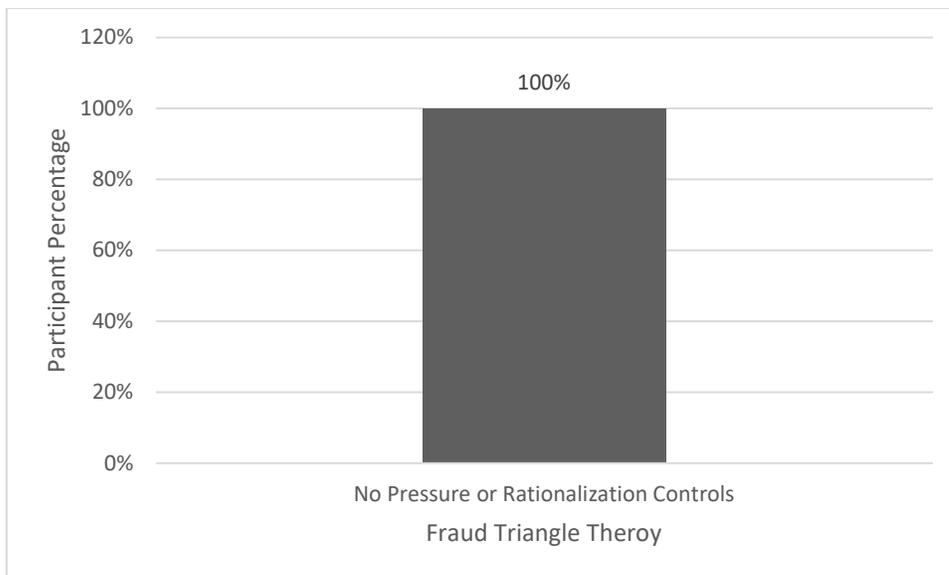


All participants indicated unfamiliarity with the three components of the fraud triangle theory. Figure 9 illustrates none of the participants employed internal controls to monitor or test the rationalization or pressure components of the fraud triangle theory. Cressey (1953) outlined how the rationalization component of the fraud triangle theory justifies the misappropriation of the company's assets. The mayor participants indicated they had built a professional relationship with their employees, which served as a monitoring procedure to assess the pressure and

rationalization components of the fraud triangle theory. P16 discussed rationalization occurs if a staff member believes they are underpaid. P17 described an earlier incident when a county employee's wife became critically ill, which forced him to commit occupational fraud to meet the medical obligations. This participant stated financial pressure could force an otherwise honest person to embezzle.

Figure 9

Pressure/Rationalization Internal Controls



The researcher reviewed the auditor's findings for each participant's city comprehensive financial statement. Figure 10 provides a visualization of the audit findings in four broad categories. All participants demonstrated a stewardship attitude to protect the city's assets and meet audit requirements. Despite a positive attitude, the auditors did discover internal control deficiencies. The participants discussed budgetary restraints limited the staff size, restricting the city's leaders from adequately segregating duties. The researcher discovered during the interview with P9 that their city was the victim of a substantial occupational fraud prior to 2016, mainly losing cash. P9 stated the state auditors identified five methods the fraudster utilized to steal the

money. Youngblood (2016) outlined how leaders do not follow sound segregation of duty policies by assigning a single employee to perform multiple job functions within the workflows. The state auditors described how the city's leadership assigned one trusted staff member multiple accounting tasks without proper segregation of duties.

The researcher reviewed each of the city's documents and discovered the findings reported by the auditors in the city's annual financial report. The auditors described a \$17,034 disbursement without proper authorization in one of the city's audit findings. The auditors outlined how one city's officials failed to ensure bank reconciliations were adequately prepared. Girsch-Bock (2018) outlined how bank accounts should be reconciled on a timely basis as an internal control procedure. The auditors for one participating city found the balance remaining in the bank account was not reconciled. The auditors also discussed the receipt numbers were not in sequence for cases not yet adjudicated in the district court. The audit findings also discussed receipts and disbursements listings were not correctly reconciled to total bank deposits and disbursements in the district court accounts. The auditors in another city described in the findings that bank reconciliations were not reviewed and approved, and the police citation book was not reconciled.

The researcher discovered how one city's former clerk compensated herself \$2,262 for accrued leave balances without adequate supporting documentation and authorization. Moreover, the auditors described how a fixed asset schedule was established but did not include additions and a control total. The audit findings included prenumbered receipts were not issued for all funds received, receipt numbers were not always listed on the deposit slips, and all receipt books were not maintained as required. Kral (2018) also discussed how the leaders were required to establish internal control procedures for receipts. Prenumbered documents allow the receipts to

be reconciled to the cash deposits.

The researcher discovered one city's auditors reported a city official or employee made improper credit card charges. The audit findings also included the fixed assets were not reconciled. The auditors discussed an unauthorized withdrawal from the city bank account and the staff recovered the funds when the bank statement was reconciled. Wiesenfeld (2020) outlined in the case study findings that bank reconciliation can detect posting errors. During routine workflows, the city's staff and officials used bank reconciliation to discover this issue.

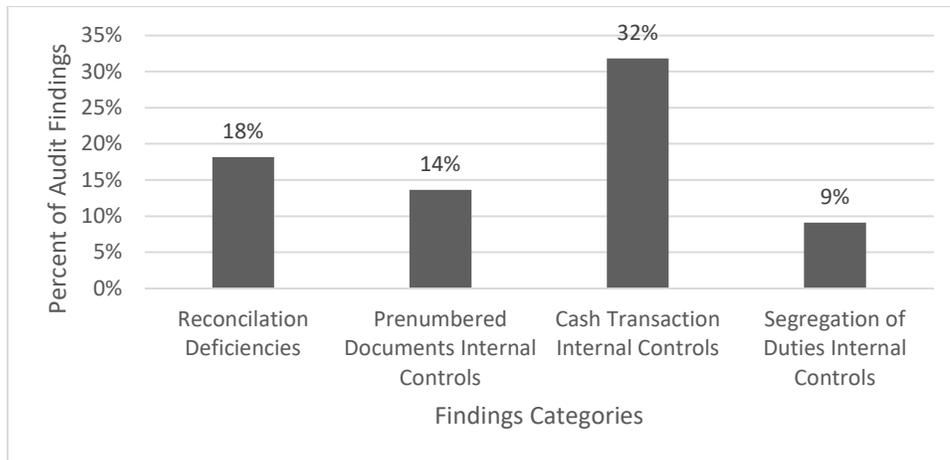
The auditors of one participating city reported a point-of-sale software had been altered, funds were diverted to another bank account, and \$6,157 was reported lost to the city. The auditors reported the bank accounts were not reconciled monthly and that receipts were not always deposited on a timely basis. The auditors stated two disbursements totaling \$37,483 were in noncompliance with internal controls. The diversion of funds attributed to the point-of-sale device is under criminal investigation. Wiesenfeld (2020) outlined in the case study findings that bank reconciliation can detect possible fraud and posting errors. The city's leaders and staff should have discovered the cash handling discrepancies during bank and receipt reconciliation.

During analysis of the city's documents, the researcher discovered segregation of duties internal control deficiencies cited by the auditors of two cities. Kim et al. (2020) outlined how segregation of duties has a critical role in preventing occupational fraud and is also essential for accounting stewardship. The auditors of the first city stated the proper safeguarding of assets and financial accounting duties related to initiating, receipting, depositing, and recording transactions should be distributed among appropriate employees. The city officials did not segregate these duties to sufficiently reduce the risks of fraud relating to initiating, receipting, depositing, disbursing, and recording transactions. The auditors cited a second participating city for

segregation of duties deficiencies. The auditors reported in the findings the city's officials need to ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions should be distributed among appropriate employees. The city's management had not segregated these duties to sufficiently reduce fraud risks.

The researcher discovered during the interview with P9 the city was the victim of a substantial fraud case discovered in 2016. The researcher analyzed the city's documents from the 2016 state legislative audit. The researcher discovered the auditors' findings stated the city's leadership did not have internal controls which properly segregated the duties of individuals who had custody of assets, record keeping of activities, and authorization of transactions, which allowed fraud. Kim et al. (2020) outlined how segregation of duties reduces the motivation of staff collusion to commit occupational fraud. The city's officials did not design sufficient internal controls over the processing of inter-fund transactions, journals, and adjusting entries.

The city's officials had engaged with an independent audit firm to conduct the annual financial audit prior to discovering the asset misappropriation. Then the city's leadership engaged with the state legislative auditors to conduct an audit to uncover the severity of the asset misappropriation. The city citizens consequently elected new leadership, and the city now utilizes the state auditors. Needleman's (2019) qualitative case study discovered that leaders should analyze and improve the accounting workflows to identify the internal controls required to protect the stakeholder's assets. By reviewing the current city's documents, the researcher discovered the city's officials have more robust internal controls and segregation of duties.

Figure 10*Percent of Cities with Audit Findings****Relationship of the Findings***

The research questions are as follows:

RQ1: What internal control procedures have city leadership implemented to prevent theft of property by staff members?

RQ2: What internal control procedures have the city leaders implemented to detect the theft of funds?

RQ3: What strategies have been implemented to establish segregation of duties required for cash management internal controls to prevent diversion of funds?

RQ4: What steps have city officials used to review the municipality's internal controls' effectiveness to avoid the theft of the city's assets?

Theme 2 was the city leaders have designed and implemented internal controls to detect and prevent assets. The second theme provided the researcher an understanding of RQ1, what internal control misappropriation. procedures have city leadership implemented to prevent theft of property by staff members? All participants discussed internal control procedures that protected the city's assets, including segregation of duties, asset reconciliation, inventory,

accounts payable internal controls, accounts receivable internal controls, and bank reconciliation. All participants are involved with city governments which require an annual audit. The participants discussed the internal controls to protect the city's assets were required to meet auditing standards. Each participants' discussion demonstrated a responsibility to protect the city's assets with internal controls. Ghani et al. (2021) discussed how the study's findings indirectly correlate with asset misappropriation incidences and the implementation of strong internal controls. The researcher concluded each interview with a perception the participants understood the positive relationship between internal controls and protecting the city's assets.

The second research question asked: RQ2, what internal control procedures have the city leaders implemented to detect the theft of funds? Hamdani and Albar (2016) reported how internal control deficiencies in detecting fraud contributed to asset misappropriation. The researcher discovered all participants used internal controls to detect fraud and meet auditing standards. The primary internal controls to detect fraud were bank reconciliation, accounts payable, accounts receivable, segregation of duties, and fixed asset internal controls. All participants reported similar internal controls due to annual auditing standards and the desire not to have any deficiencies listed by the auditors in the findings. P2 stated the internal controls to detect fraud are designed based on audit standards. Seventy-six percent (76%) of the participants used the state audit guide to design internal controls to detect fraud and pass the annual state audit.

The third research question asked: RQ3, what strategies have been implemented to establish segregation of duties required for cash management internal controls to prevent diversion of funds? The researcher discovered all participants indicated segregation of duties as a vital internal control to protect the city's assets and meet auditing standards. Segregation of

duties internal controls reduces the opportunity for an employee to commit occupational fraud (Kim et al., 2020). The participants discussed meeting the segregation of duties internal controls by using different staffing arrangements, including the mayors assuming accounting responsibilities. P18 stated the mayor and city council contracted with a local CPA to meet segregation of duties requirements for the annual audit and protect the city's assets. P2 reviewed each transaction, and the city council reviewed the transactions in the monthly board meeting. P7 discussed the mayor's role as the CFO for the city. All participants desired to protect the city's assets and worked to overcome budgetary restraints related to segregation of duties. However, even with a positive attitude communicated by all participants concerning internal controls and segregation of duties, the auditors reported two cities had deficiencies in the segregation of duties required to protect the city's assets in their audit findings.

The fourth research question asked: RQ4, what steps have city officials used to review the municipality's internal controls' effectiveness to avoid the theft of the city's assets? The effectiveness of the internal controls is measured by the perceived strength to reduce fraud risk and the potential misappropriation of the assets (Koomson et al., 2020). Two CPAs replied they monitored the internal controls but did not conduct a test for effectiveness or if the staff members were overriding the controls. The remaining 23 participants communicated the internal controls were not tested for effectiveness or if management had the ability to override the controls. Ghani et al. (2021) described that overriding internal controls by staff members creates the opportunity to commit occupational fraud for most asset misappropriation schemes. The city leader's failure to monitor if the staff is overriding the internal controls increases fraud risk. None of the participants stated that the city's administration employed an internal auditor to review and test internal controls.

The Conceptual Framework

The researcher discovered themes related to the research design's theories, concepts, actors, and constructs (see Figure 2). Theme 1 was the city leadership and employees are stewards of the assets. Kim et al. (2020) described how internal controls to protect assets are essential for accounting stewardship. None of the participants' indicated an agency theory of managing the city. All participants presented an interest in serving the city's citizens and not self-interest. All participants regarded their role with the city as public servants. P21 responded that the role with the city included protecting assets from misappropriation. P17 acknowledged that the fiduciary responsibility to the citizens was very serious; the 21,000 population placed their trust in the city council and mayor.

The researcher gathered data to understand the internal controls designed by the city's leaders to protect against the three components of the fraud triangle. The fifth theme discovered was the city officials have not designed or implemented formal internal controls to monitor the staff member's pressure or rationalization of the fraud triangle theory. The researcher concluded the city's leaders designed internal controls to reduce the fraud risk concerning the opportunity component of the fraud triangle theory. All the city leaders failed to design internal controls to reduce the fraud risk associated with the rationalization and pressure component of the fraud triangle theory.

None of the participants discussed how a person who commits occupational fraud justifies their wrongdoing. Schnatterly et al. (2018) stated rationalization is the ability for a person to justify their fraudulent actions morally, while pressure manifests the necessity to misappropriate the assets. P7 discussed how the city leaders protected the cash and there was no reason to believe that anyone has pressure for fraud. The participants relied on internal controls

to prevent the opportunity component of the fraud triangle theory as their only internal controls to prevent asset misappropriation.

Leaders must delegate control of the city's assets to a trusted employee for business operations to be accomplished. A trusted employee controlling the city's assets is an element of occupational fraud. The participants believed the small staff and professional relationship reduce fraud risk. P17 stated it is easier to steal from a stranger than a family member. None of the participants indicated an understanding of the role of the trusted employee involved in occupational fraud. Building trust relationships with staff must be scrutinized with internal controls to monitor the pressure and rationalization components of the fraud triangle theory.

The researcher interviewed actors who served as mayor, accountant, CFO/finance director, city clerk, deputy clerk, and city council member. The researcher desired to understand the participants' responsibilities to implement and abide by the internal controls designed by the city's leaders. The researcher also desired to understand the training or education each participant had received on the topic of internal controls. In their study, Lu and Cao (2018) discussed how the effectiveness of internal controls has a direct relationship with the leader's qualification on the topic of internal controls. Three of the participants were CPAs, and another participant held a bachelor's degree in accounting. Other participants stated they improved their internal control knowledge by attending municipal league classes, on-the-job training, and discussions with the auditors during the annual audit. P1 outlined how internal control training was acquired with a business degree and attending classes as time allowed with the municipal league. The municipal league is a great resource and will reply to internal control questions if additional clarification is required. All participants were perceived as eager to improve their internal controls skillset.

Each actor demonstrated and discussed a responsibility to protect the city's assets and

meet the audit standards. All participants were very open with their conversation and considered themselves public servants entrusted to protect the city's assets. One hundred percent (100%) of the participants discussed the importance of segregation of duties, and many discussed the challenges to meet segregation of duties with small accounting staff. The 10 mayor participants representing small cities assumed some of the responsibilities required to meet internal controls for the segregation of duties. This group of participants described their role in the accounting workflows as the role of a CFO. The participants also strongly desired to meet all the annual audit requirements to avoid a finding for segregation of duties.

The researcher better understood the constructs discussed in leadership style, the delegation of workflows, and limited accounting staff numbers. Theme 1 was the city leadership and employees are stewards of the assets. The city's leaders established the ethical standards of protecting the city's assets and meeting audit standards. Ghani et al. (2021) outlined how the leadership's positive ethical culture reduced fraud occurrences. Theme 3 was the participants reported internal controls were implemented for the construct of segregation of duties. The 10 city mayor participants shared how they were responsible for an accounting workflow to accomplish segregation of duties. P25, a city mayor, discussed reviewing accounts payable checks, signing every check, and reviewing the bank statements every month. The construct of limited accounting staff numbers was discussed by 72% of participants, but the mayors assumed an accounting role to establish segregation of duties.

The researcher designed the study with the following concepts: segregation of duties, bank access, two-person authorization, and bank reconciliation. Theme 3 was the city leaders have implemented internal controls to meet the segregation of duties for accounting processes which addressed this concept. All participants understood the significance of internal controls for

segregation of duties, bank access, two-person authorization, and bank reconciliation. One hundred percent (100%) of the participants reported that two staff members signed checks. Nawawi and Salin (2018b) discussed the importance of preventing fraudulent activities with sufficient internal controls. P4 stated we have two persons who handle each cash transaction. One hundred percent (100%) of the participants described how one person reconciled the bank statements and another person reviewed them. P21 stated the city's leadership contracted a person to review the bank statements.

All the city leaders of the participating cities have implemented bank access internal controls to meet audit standards as evident by no findings concerning bank access in the audit. P2 outlined how the internal controls were designed based on the state legislative audit guidance requirements. All the city mayor participants reviewed the bank statements and signed account payable checks. The city leaders have internal controls established for each concept, requiring a processor and reviewer.

Anticipated Themes

The first anticipated theme by the researcher was the small city's limited accounting staff would create challenges for segregation of duties. However, the participants communicated how the workflows are designed to create segregation of duties by the mayor assuming one of the accounting workflows. The leadership of one small city contracted an outside accountant to review the accounting transactions. The small staff sizes are also related to the second anticipated theme of the limited budget for internal control expenditures. The city leaders mitigated this anticipated theme by taking an active part in the accounting workflows.

The third anticipated theme was the city's leaders would delegate asset control to trusted employees. P14 discussed how the staff was trusted resulting in a greater risk of asset

misappropriation. This anticipated theme was related to theme 5, the city officials have not designed and implemented internal controls to monitor the staff member's pressure and rationalization of the fraud triangle theory. The literature review documented how occupational fraud is committed by a trusted employee who the leaders have delegated fiduciary responsibilities (Reinstein & Taylor, 2017). The participants understood that a staff member who is not trusted would never steal from a city because asset control would not be authorized to the person of questionable trustworthiness. Many participants commented that each employee was known by the leadership and trusted due to the small staff size.

The Literature

The researcher deliberated over the relationship of aspects found in the literature as it relates to this multiple case study design. The researcher gained an understanding from the participant interviews and the city's documents concerning the topics discussed in the literature review. The information gathered and the themes discovered were consistent with the sources cited in the literature review. The literature review included an outline of business practices, concepts, theories, constructs, related studies, and anticipated themes. The researcher disclosed how the findings were related to each of the areas during the discussion of the findings.

The current study will help contribute to the gap in the literature by delineating why individuals fail to protect assets from misappropriation. The study's design was unique in that the participants were officials and staff members of small cities in the central United States. The researcher also discovered how the study contributed to the literature concerning the conceptual framework of the stewardship theory, agency theory, and the fraud triangle theory.

The literature outlined the stewardship theory related to theme one which the participants were stewards of the city's assets. An organization's leader who oversees under this theory

aspires to be a worthy steward of their employer's assets (Donaldson & Davis, 1991). The authors of the stewardship theory proposed that executives are more interested in the long-term success of the employer rather than their self-interest (Mugarura, 2016). The participants indicated a stewardship attitude to protect the city's assets over self-interest outlined in the agency theory.

Theme 2 was the participants reported internal controls were implemented to protect the city's assets and detect fraud which was consistent with the information reported in the literature review. Effective internal controls are designed to prevent a single person from assets misappropriation (Kapardis & Papastergiou, 2016). Internal control deficiencies are a contributing component to occupational fraud (Moore, 2018). Ross (2016) stated that cities' leadership must implement internal controls to reduce fraud risk. The participants indicated the leaders had implemented internal controls to reduce asset misappropriation and detect fraud.

The literature review concerning the concept of internal controls was consistent with theme 3. The participants expressed the segregation of duties were designed and implemented into the workflows. Segregation of duties is an internal control measure that delegates separate staff members to a single process in the accounting workflows (Omar et al., 2016). Often the leadership will not follow reliable segregation of duty policies by assigning an individual employee to complete multiple job functions within the workflows (Youngblood, 2016). The participants discussed how the city's mayor assumed an accounting workflow function when the city was unable to employ enough staff members to design segregation of duties. The participants communicated the workflows and design of the controls to establish segregation of duties.

Theme 4 was the leadership does not test the effectiveness of internal controls. Kim et al. (2020) outlined how the segregation of duty structural properties for the accounting workflows include testing the internal controls to reduce fraud risk. The leadership must test internal controls for effectiveness and determine if management or employees can override the controls. Wang and Fargher (2017) recognized how management and staff members initiate the opportunity to commit occupational fraud by overriding internal controls.

Theme 5 was the city leaders have not implemented internal controls to monitor the pressure and rationalization components of the fraud triangle theory. Reinstein and Taylor (2017) stated in their findings that internal controls are often designed to diminish the fraud triangle theory's opportunity component and discover the employee's pressure component of the fraud triangle theory. The staff members who are facing economic uncertainty results in the pressure component of the fraud triangle (Youngblood, 2016). Cressey (1953) described how the rationalization component of the fraud triangle theory justifies the misappropriation of the company's assets. Reducing staff member's rationalization component of the fraud triangle theory reduces the risk of asset misappropriation by staff members.

The researcher divided the literature review into the following sections: business practices, the problem, concepts, theories, constructs, related studies, and anticipated and discovered themes. This was designed to be a multiple case study, while the related studies outlined in the literature review varied from a case study to a multiple case study design. This study was designed to collect data from each area of the listed topics. The researcher has discovered themes and recommendations to enhance the literature concerning internal controls that protect an organization's assets. The researcher analyzed the data and did not identify any deficiencies in the literature review.

The Problem

The specific business problem addressed was city government officials' potential failure to implement adequate internal controls to reduce fraud risk in the central United States, resulting in the potential loss of city assets. Ross (2016) reported local governments experience financial losses of up to \$53 million due to embezzlement. Blouin and Saccento (2017) discussed that over 15% of fraud cases occur in government organizations based on the ACFE Report. The small cities in the central United States have risk for asset misappropriation as the researcher discovered in the review of literature.

While conducting one of the participant interviews, the researcher discovered that the participant's city of employment was the victim of occupational fraud with losses of over \$1.5 million in 2016. The participant stated the fraudster misappropriated mostly cash using five different strategies. In the 2016 city's financial audit findings, the auditors discussed the city's official's failure to protect the assets from fraud due to the lack of segregation of duties allowing one person to perform multiple duties within the accounting workflows. The city's leadership engaged with an independent auditor during the time of the loss. The city was required to do a single audit as the result of receiving over \$750 million in federal grants. The city's officials currently engage with the State Legislative Audit to conduct the annual audit.

Another participant outlined how a former city official was charged with felony theft of property due to an undocumented vacation accrual payment. Four of the participants discussed asset misappropriation that resulted in staff members being dismissed and prosecuted. The participants indicated the risk for asset misappropriation was significant. The researcher did confirm the problem of asset misappropriation does adversely affect small city governments.

Summary of the Findings

The participants' replies to the researcher demonstrated a stewardship attitude to protect the city's assets by implementing internal controls. Some of the participants discussed how their city had become a victim of occupational fraud in the past. The mayor participants discussed how it was their responsibility as the chief elected official to protect the city's assets. The mayors demonstrated this commitment by assuming a role in the accounting workflows to meet internal control audit standards concerning segregation of duties. The necessity of the city's officials to perform some accounting workflows to accomplish segregation of duties was discovered. One of the city's officials contracted a CPA to complete the segregation of duties.

The researcher encountered the participants in leadership roles trusted the city's employees and delegated fiduciary responsibilities to trusted city employees. The city's leaders do not have internal controls to monitor the pressure and rationalization components of the fraud triangle theory. The researcher also exposed the leadership was not testing the effectiveness of internal controls. Specifically, the city leaders are not testing to discover if staff members are overriding the internal controls.

Application to Professional Practice

The leadership of small city governments is responsible for implementing internal control policies to reduce fraud risk and the potential misappropriation of assets. The findings of this study can be used to improve general business practices. In the following section, the researcher discussed the supporting materials to provide information for improving general business practices to protect an organization's assets with internal controls. The leaders of all organizations, including small cities, should implement the stewardship theory to protect the city assets and not be driven by self-interest.

Improving General Business Practice

Leaders of an organization must establish purposeful security attitudes to ensure fraud risk is reduced and the assets are protected from misappropriation. The study's research findings may improve business practices by providing leadership insight on implementing the stewardship theory to protect the entity's assets. James et al. (2017) discussed that a leader must model a stewardship attitude throughout the organization to effectively coach team members to act in the organization's best interest. The study's findings provide leaders with examples of how a stewardship attitude was demonstrated to protect the assets. Mugarura (2016) stated that leaders of an organization should have a stewardship attitude when making business decisions to promote internal controls to protect its assets. A Biblical steward leader's role is not lording over those entrusted to you but being examples to the flock (*New International Version*, 2265/1984, 1 Peter 5:3). Conversely, the way of the guilty is devious, but the conduct of the innocent is upright (*New International Version*, 1110/1984, Proverbs 21:8). The leader's stewardship attitude demonstrates to the staff interest in the advancement of the organization and not self-interest.

The leader must also demonstrate an active role in monitoring the actions of the staff members by testing internal controls. This research study can be used for leaders to understand how business practices could potentially be improved by testing internal controls. To reduce fraud risk and potential asset misappropriation, testing and monitoring the internal controls for effectiveness must be completed. Kim et al. (2020) discussed how the leaders must test the internal controls to reduce fraud risk. The leadership also improves business practices by testing internal controls. Wang and Fargher (2017) acclaimed how management and staff members originate the opportunity to perpetuate occupational fraud by overriding internal controls. Fraud

risk and the potential asset misappropriation increase due to the capacity to override internal controls.

Organization leaders improve general business practices when they design, implement, and monitor internal controls to reduce fraud risk related to the three components of the fraud triangle theory. Business leaders could use the research study to understand how business practices are enhanced when internal controls are designed to monitor all three components of the fraud triangle theory. In the fraud triangle theory, Cressey (1953) stated that opportunity, pressure, and rationalization must all be present for a staff member to commit occupational fraud. Leaders can also use the research study to understand how economic pressure forces a staff member to commit occupational fraud and should be monitored with internal controls. The research study can potentially provide leaders an understanding of improving business practices by employing staff members who are not under the pressure or rationalization to commit occupational fraud. Conversely, Dion (2019) discussed how leaders who develop a culture of dishonesty reinforce staff members' rationalization to commit fraud. The objective of internal controls related to the components of the fraud triangle theory is to identify staff members under pressure or rationalization to commit occupational fraud before an employee discovers the opportunity. Whoever walks in integrity walks securely, but whoever takes crooked paths will be found out (*New International Version*, 1088/1984, Proverbs 10:9). Employees identified as fraud risk related to pressure and rationalization components of the fraud triangle theory can be assigned duties without asset control.

General business practices are improved when leaders design segregation of duties internal controls. The study's research findings may provide business leaders with insight into how to design internal controls for segregation of duties when the accounting staff is negligible.

A leader can understand how to assume an accounting role to promote segregation of duties from the information provided in the research study. Kim et al. (2020) discussed how segregation of duties continues to be a primary focus for designing adequate internal controls, is critical in preventing occupational fraud, and is also essential for accounting stewardship. The research study also provides business leaders with a strategy of reviewing transactions posted by staff members to improve business practices related to the separation of duties.

Organizations that fall victim to occupational fraud seldom recover the misappropriated assets. Denman (2019) discovered that occupational fraud losses were not recovered in 53% of the occupational fraud cases, and in 32% of the cases, the company recovered only part of the losses. The organization recovered all the losses in only 15% of the cases (Denman, 2019). The researcher discussed in the findings how one participant's employer was a victim of fraud resulting in the loss of assets of over \$1.5 million in mostly cash. The study's findings may provide business leaders with a better understanding of why this organization fell victim to fraud and how to design internal controls for segregation of duties to reduce potential asset misappropriation. Business practices are improved when leaders design internal controls to protect their assets from potential misappropriation.

Potential Application Strategies

The organization's leadership must continuously evaluate fraud risk to ensure the assets are protected from misappropriation. Leaders with stewardship of the organization's assets must establish a dedicated model of placing the employer's advancement over self-interest. Joshua stated, "But as for me and my household, we would serve the Lord" (*New International Version*, 369/1984, Joshua 24:15). The Bible irrefutably describes how the Israelites followed the Lord during Joshua's life, but the next generation fell away and was self-serving. Similarly, a leader of

the organization should guide the staff to serve the best interest of the employer and not self-interest. Leaders can use the study's findings to understand how the stewardship theory promotes the employer's best interest over self-interest. In turn, the expansion of the proprietor should share part of the improved profitability with the employees by providing salary increases or career opportunities. The fraud triangle theory's rationalization and pressure components decrease when a staff member is compensated and feels valued.

The entity's leaders should develop a strategic plan to ensure segregation of duties, including assuming a part of the accounting workflows when the number of accounting staff members is too low to segregate duties. Business leaders can use the study's findings to understand how to assume an accounting role to provide segregation of duties. Adequately designed internal controls also improve business practices concerning the delegation of asset control to a trusted employee. An organization's leadership must evaluate the level of separation of duties and the ability of the staff to override the current internal controls. Kapardis and Papastergiou (2016) discussed how a trusted employee who can override internal controls creates the opportunity to commit fraud. The organization's leaders are responsible for designing and monitoring the internal controls for segregation of duties.

The leaders should monitor each accounting staff member for occupational fraud risk related to the fraud triangle theory. Nawawi and Salin (2018b) discussed in the study's findings how internal controls are designed to reduce the opportunity component of the fraud triangle theory. The study's findings can be used for leaders to understand that internal controls to evaluate the staff for all three components of the fraud triangle theory should be designed and implemented. Leaders must realize that the long-tenured accountant who has mastered the

workflows and accounting software has the most significant opportunities to commit fraud and conceal the crime.

Lenz and Graycar (2016) discovered that staff members who commit occupational crimes are knowledgeable about the business processes and workflows and have been delegated authority to manage company assets. The tenured staff member is often a trusted employee who has been authorized asset fiduciary responsibilities. Leaders should review the entity's workflows, segregation of duties, and asset controls to ensure internal controls are designed to reduce fraud risk and opportunities to misappropriate assets. All employees, including the trusted or senior employees, must be required to follow internal controls, and should not be allowed to override the controls.

Leaders are obligated to design internal controls to monitor each staff member's pressure component of the fraud triangle theory. A business leader can use the study's findings to discover that most participants indicated that financial background checks were not conducted as part of pre-employment screening. The initial task required concerning the pressure component of the fraud triangle theory is to conduct a financial background history assessment and a criminal history background investigation during the pre-employment screening and before offering a position to an accountant. An accountant who has household financial problems potentially exhibits the pressure component of the fraud triangle.

Kuhn (2020) described how a staff member under monetary stress results in the pressure component of the fraud triangle. In the current culture, a financial and criminal background check should reoccur annually to evaluate if a current employee is experiencing financial pressure. Other pressure components a leader should monitor include a gambling problem, drug

or alcohol addiction, marital problems, and purchasing goods and services that exceed the staff member's salary.

The leaders should evaluate the rationalization component of the fraud triangle. The findings of this study provide leaders with the framework to monitor the rationalization component of the fraud triangle theory. Cressey (1953) defined the rationalization component of the fraud triangle theory as an employee's justification for committing occupational fraud. Vousinas (2019) outlined how a fraudster will justify asset misappropriation because they are entitled to the money or deserve additional earnings after a long tenure with their employers. A staff member who is not promoted to an open position in the organization could potentially justify asset misappropriation to replace the lower salary because they deserve the money (Vousinas, 2019). Another rationalization component a leader must be cognizant is salary differentiation. The staff member will justify asset misappropriation due to being underpaid and deserving a higher salary (Kimball, 2018). Leaders must closely monitor staff salaries, ensuring a competitive salary based on skillset, education, and market value.

The organization's leadership should test internal controls for effectiveness and ensure management is not overriding the controls. Business leaders can use the study's findings to discover that internal control testing is often neglected, and testing procedures should be implemented to protect the organization's assets from misappropriation. Overriding internal controls is involved with most asset misappropriation schemes (Ghani et al., 2021). A test of internal controls should be conducted for each stage of the workflows. An example of an accounts payable control test is for the leaders to review accounts payable transactions to assure the vendor has supplied the goods or service to the company and the payment was remitted to the company that supplied the service. An example of an accounts receivable internal controls test is

for the leaders to test the cash receipts to ensure cash is handled correctly with segregation of duties. The leaders should test bank reconciliation internal controls to ensure one staff member reconciles the bank statements and a second person reviews and approves the reconciliation. The testing of internal controls is imperative for the company assets to remain secure.

Summary of Application to Professional Practice

Many organizations fall victim to asset misappropriation by occupational fraud resulting in loss of assets and potential business failure. The findings of this study can improve general business practices. Business leaders should take an active role to ensure internal controls are designed to monitor all three components of the fraud triangle theory. The leaders of small businesses must also assume an accounting role to promote segregation of duties. A positive stewardship attitude provides a foundation to design internal controls to reduce fraud risk and the potential misappropriation of the city's assets. Also, the leaders must take an active role in testing the effectiveness of the internal controls and assure the staff members cannot override the controls.

Recommendations for Further Study

The researcher discovered five themes by analyzing the data, resulting in further study recommendations. The first recommendation for further study is to find the frequency of organizations failing to design and implement internal controls to monitor the pressure and rationalization component of the fraud triangle theory. A researcher can use the findings of this study to discover that organizations often fail to design internal controls to monitor the pressure and rationalization components of the fraud triangle theory. When leaders develop internal controls to protect against only the opportunity component of the fraud triangle theory, two-thirds of fraud triangle theory components are not monitored by internal controls. Internal

controls that address all three components of the fraud triangle theory would substantially reduce occupational fraud risk.

The researcher recommends a further study to compare the frequency and severity of occupational fraud occurrences between cities that engage independent auditors compared to state legislative auditors. A researcher could use the study's findings to understand how the state auditors test for asset misappropriation more in-depth than independent auditors. The recommendation is to discover if the state's in-depth legislative audit results in fewer incidents of occupational fraud than an independent auditor whose primary focus is to audit financial reporting. The researcher recommends a multiple case study selecting governmental entities that were victims of occupational fraud to discover the incidences that occurred in governmental organizations that engaged with state auditors compared to independent auditors.

The third recommended study is for further research on the correlation between the testing of internal controls by the leadership and the frequency and severity of occupational fraud loss of assets. The researcher recommends a quantitative study to measure the correlation between internal controls testing and the number of occupational fraud incidences. The study could discover if the leaders' testing of internal controls reduces fraud risk and the potential loss of employer's assets. The leadership of small entities must take the responsibility to test the internal controls because many small businesses and government entities do not employ an internal auditor. The effectiveness of internal controls cannot be measured without testing by leadership.

Another possible research focus is to study the relationship between the stewardship theory and the rationalization component of the fraud triangle theory. Leaders who manage under the stewardship theory strive for the staff to place the employer's interest over self-interest. The

staff member who rationalizes occupational fraud places self-interest over the employer's best interest by misappropriating assets. A staff member's rationalization for committing fraud should be reduced if they become part of the employer's team under the stewardship theory. The researcher recommends a study to discover if organizations that manage under the stewardship theory successfully promote the employer's interest resulting in a reduction in staff members' rationalization of committing occupational fraud.

Reflections

The researcher achieved personal and professional goals and better comprehended the Biblical perspective concerning a leader's stewardship responsibilities of protecting the employer's assets. Biblical precepts encourage acquiring wisdom from the Lord to achieve business management expertise. In the Bible, the Lord meticulously defines how a Christian leader should guard against property theft. Leaders must take a stewardship responsibility to protect their employer's assets. A stewardship attitude will influence the leaders to proactively design, implement, and monitor the internal controls to reduce fraud risk. The researcher recognized the critical responsibility to monitor each staff member for the three components of the fraud triangle theory.

Personal & Professional Growth

The researcher has experienced personal growth by expanding business knowledge and applying Biblical precepts to business by completing this multiple case research study. A Christian's responsibility is to steward the employer's assets. As described by the agency management theory, many business leaders' management objectives are influenced by self-interest to increase personal wealth. The researcher understood the significant responsibility of the leaders to place the strategic business plan and advancement of the employer above self-

interest. A leader influenced by the stewardship theory will protect the organization's assets by designing, implementing, and monitoring internal controls to reduce fraud risk and the potential misappropriation of their employer's assets. The researcher appreciated each trusted staff member's responsibility to manage the employer's business operations because of the foundation of the stewardship theory.

This researcher gained an advanced aptitude concerning internal controls related to the agency theory, the stewardship theory, and the fraud triangle theory. With a comprehensive understanding, the researcher views the leader's role in evaluating the pressure component of the fraud triangle theory when evaluating candidates for an open accounting position. The researcher has an excellent perspective of the leader's responsibility to monitor current staff members for potential fraud related to the pressure and rationalization components of the fraud triangle theory. The researcher plans to expand career opportunities by developing a professional presentation concerning the implementation of internal controls to monitor the pressure and rationalization components of the fraud triangle theory.

The researcher recognized the ability to test and monitor internal controls, including management's ability to override internal controls. The participants viewed the responsibility to test the internal controls as an audit function. However, an independent audit predominantly ensures GAAP is followed and is not an assessment for occupational fraud. The researcher valued the usefulness of internal control testing conducted by the leaders.

Biblical Perspective

Occupational fraud is often the result of a staff member's love of worldly pleasures and merchandise. "For the love of money is the root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs" (*New*

International Version, 2195/1984, 1 Timothy 6:10). The two components of the fraud triangle theory impacted by the love of money are rationalization and pressure. Staff members will justify misappropriating their employers' assets by convincing themselves that the theft is justified for various reasons. Many may yield to the pressure component of the fraud triangle theory due to their desire to live a lavish lifestyle above their level of income. An employee may use rationalization to justify the theft and not feel guilty when committing occupational fraud. However, a Christian, whom the Holy Spirit leads, would feel overwhelming guilt. "Food gained by fraud tastes sweet to a man, but he ends up with a mouth full of gravel" (*New International Version*, 1108/ 1984, Proverbs 20:17). By following Biblical precepts, employees should find satisfaction in honest gain.

Occupational fraud is committed by a trusted employee who oversees the organization's assets delegated by the leadership. Youngblood (2016) described how the trusted employees are the staff member who commits occupational fraud by misappropriating the employer's assets, which the leadership has empowered them to administer. "The Lord detests lying lips, but he delights in men who are truthful" (*New International Version*, 1092/1984, Proverbs 12:22). Christians who are trustworthy with their employer's assets delight the Lord. Many leaders have removed Biblical precepts from the business culture, reducing the Christian influence, which results in unchallenged occupational fraud. Sandelands (2017) described the current business culture as selfish, cruel, and a self-serving drive to wealth. "Woe to you, teachers of the law and Pharisees, hypocrites! You clean the outside of the cup and dish, but inside they are full of greed and self-indulgence" (*New International Version*, 1702/1984, Matthew 23:25). Christians should be sensitive to the guidance of the Holy Spirit and work toward being more Christ-like and not full of self-interest when working for their employer.

The Bible provides instructions not to steal or deal falsely. "Do not steal. Do not lie. Do not deceive one another" (*New International Version*, 196/1984, Leviticus 19:11). Business leaders should adopt a Biblical standard to reduce fraud risk. "Do not trust in extortion or take pride in stolen goods; though your riches increase, do not set your heart on them" (*New International Version*, 970/1984, Psalms 62:10). When leaders are dishonest about a minor issue, they will be false with more important business deals and cannot be trusted. When the leadership is unethical, staff members may follow this practice and be dishonest with co-workers and customers. The dishonesty could result in the misappropriation of the organization's assets.

An employer's desire should be to work to please both God and their employer. "Obey them not only to win their favor when their eye is on you but as slaves of Christ, doing the will of God from your heart" (*New International Version*, 2141/1984, Ephesians 6:6). A segment of the problem leading to occupational fraud rest upon the established employer's business culture designed without Biblical ethical standards. An employer cannot ask questions during the interview concerning matters of faith. It is not easy to discern the beliefs and values of the individual until they are a team member. Many employers view Christians as nontolerant, inflexible, and poor selections for their corporate environment. Lim (2019) described how colleagues could regard a Christian with a deviant tone as a "different kind." Often the business culture shuns any discussion of faith in the workplace. The world view of today's business culture places demonic attributes over Biblical precepts. Limiting Christians from serving God in the workplace creates a business culture of self-serving interest and not God serving.

American business leaders have two options concerning ethical standards at the executive level as in any arena. One is to allow the light of Jesus to shine in their business, while the other is to allow the darkness of the demonic forces to steal, kill, and destroy. Many Americans believe

that Christianity should not be displayed in the workplace (Charoensap-Kelly et al., 2020). While many employers limit conversations about Biblical precepts and commands, a Christian must have the ability to serve God by identifying and calling out occupational fraud without committing professional suicide. Paul wrote about "be strong in the Lord's mighty power" (*New International Version*, 2141/1984, Ephesians 6:10). The prayer of a Christian employee is to fearlessly protect the employer's assets by being a member of a trustworthy team.

Summary of Reflections

A Christian business leader should establish intentional, purposeful stewardship of the company's assets. The leader is responsible for the technical issues of designing, implementing, and monitoring internal controls. Madhani (2017) described how a company's leadership is accountable for implementing and developing internal controls to reduce fraud risk and potential asset misappropriation. The leadership is also responsible for improving the team members' technical standards by exhibiting Christian attributes in business management. Leaders who assume the responsibilities of protecting their assets under the stewardship theory will also improve team morale for the amelioration of the organization. The exceptional leaders will exhibit the interest of the organization and not self-interest.

Section 3 Summary

The researcher described an overview of the study in Section 3. Then a presentation of the findings was discussed by the researcher, who provided a basis for the recommendations for application to improve business practices. The recommendations provide methods to improve business practices to protect the stakeholders' assets. The researcher provided reflections in this section that discussed personal and professional growth. The researcher also conversed best management practices based on Biblical precepts.

Summary and Study Conclusions

A multiple case study was performed to expand the understanding of the reasons behind city government officials' possible failure to implement effective internal controls to reduce the potential loss of city assets. The multiple case study involved interviewing 25 participants who were city officials or employees of small cities in the central United States. The researcher also collected documents from the small cities to triangulate the data discovered during the interviews. Themes were identified by the researcher by coding and analyzing the data.

The researcher outlined the extent and expense of assets misappropriation by occupational fraud. The recommendation by the researchers provided improvements for business practices to reduce fraud risk and asset misappropriation. Business leaders should design internal controls to protect and monitor all three components of the fraud triangle theory. The leadership must proactively test internal control's effectiveness and staff members' ability to override the controls. Leaders must display to their subordinates a stewardship attitude to protect the entity's assets. The stewardship attitude should be promoted to all team members. Biblical stewardship provides the best guidance for leaders to reduce the risk of potential asset misappropriation.

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Appendices

Appendix A: Interview Guide

- The researcher opened each interview with an introduction and thank the individual for participating in the study.
- The researcher discussed the topic, goals, and objectives of the study.
- The researcher disclosed to the participant that the interview was be recorded.
- The researcher assured the participant the data collected remained confidential.
- The researcher invited the participant to ask any questions they have before beginning the interview.

Questions for Participants

The first set of questions will seek to understand what internal control procedures each city's leadership has implemented to detect and prevent asset misappropriation by staff members.

1. Please explain the leadership's responsibility to design, implement, and monitor internal controls to prevent and detect asset misappropriation.
2. What are the internal control procedures established by the city's leaders to prevent the misappropriation of the city's assets?
3. What are the internal control procedures established by the city's leaders to detect the misappropriation of the city's assets?
4. Please explain the internal control training and education you may have earned during college or professional development.

The second set of questions will seek to understand the strategies implemented to establish segregation of duties required for cash management internal controls to prevent asset misappropriation.

1. What are the internal control procedures designed to assure segregation of duties for accounting workflows, including an outline of the accounting staff by the number of employees and their duties?
2. Please explain the procedures established by the city's leaders to receive, deposit, and record payment of services.
3. Please discuss the procedures established by the city's leadership to pay vendor invoices.
4. Please outline the procedures established by the city's leadership to reconcile each bank account.

The third set of questions will seek to understand what steps city officials have used to review how effective the municipality's internal controls have been in preventing the misappropriation of the city's assets.

1. Please discuss the leadership's review and testing of the internal control procedures.
2. Please describe the city council's oversight of internal controls, the internal audit, and the independent audit.
3. How do the city's leaders perform financial and criminal background checks during the screening process when hiring new accounting staff members?
4. How does the city's leadership monitor accounting staff members for opportunity, pressure, and rationalization in regards to committing occupational fraud?

Appendix B: Recruitment Email

As a graduate student in the School of Business at Liberty University, I am conducting research as part of the requirements for a doctoral degree. The purpose of my research is to expand the understanding of the reasons behind city government officials' possible failure to implement effective internal controls that could reduce potential loss of city assets. I am writing to invite eligible participants to join my study.

Participants must be 18 years of age or older and either an elected official of a small city government in the central United States or an accounting staff member of a small city in the central United States. Participants, if willing, will be asked to participate in an interview that consists of twelve open-ended questions, review the interview transcript and summary for accuracy, and provide copies of the city's comprehensive, annual financial statement and internal control procedures. It should take approximately 30 minutes to complete the interview and transcript review and 5 minutes to provide the requested documentation. Names and other identifying information will be requested as part of this study, but the information will remain confidential.

To participate, please contact me at xxx-xxx-xxxx or, by email, at xxxxxx@liberty.edu to schedule an interview.

A consent document is attached to this email. The consent document contains additional information about my research. If you choose to participate, you will need to sign the consent document and email it to me prior to the interview.

Sincerely,

M. Wade Cothran, CPA
xxx-xxx-xxxx, xxxxxx@liberty.edu

Appendix C: Informed Consent Form**Consent**

Title of the Project: Internal Controls in Small City Government

Principal Investigator: M. Wade Cothran, CPA, Doctoral Candidate, Liberty University

Invitation to be Part of a Research Study

You are invited to participate in a research study. To participate, you must be 18 years of age or older and either an elected official of a small city government in the central United States or a member of the accounting staff for a small city in the central United States. Taking part in this research project is voluntary.

Please take time to read this entire form and ask questions before deciding whether to take part in this research.

What is the study about and why is it being done?

The purpose of the study is to expand the understanding of the reasons behind city government officials' possible failure to implement effective internal controls that could reduce potential loss of city assets. The study will explore city leadership's internal control procedures designed at minimizing the risk associated with the opportunity component of the fraud triangle theory.

What will happen if you take part in this study?

If you agree to be in this study, I will ask you to do the following things:

1. Participate in an interview involving 12 open-ended questions related to the city's internal control procedures. The estimated time to complete the interview is less than 30 minutes. The interview will be audio- and video-recorded and conducted through Zoom.
2. Read, review, and reply to the accuracy of the word-by-word transcript and read and reply to the accuracy of the researcher summary of the interview. This should require less than 30 minutes.
3. Provide the researcher with a copy of the city's comprehensive annual financial statements and a copy of the internal control procedures. The third task should require no more than 5 minutes.

How could you or others benefit from this study?

Participants should not expect to receive a direct benefit from taking part in this study.

Benefits to society include potentially lowering small cities' government fraud risk and potential misappropriation of assets.

What risks might you experience from being in this study?

The risks involved in this study are minimal, which means they are equal to the risks you would encounter in everyday life.

How will personal information be protected?

The records of this study will be kept private. Published reports will not include any information that will make it possible to identify a subject. Research records will be stored securely, and only the researcher will have access to the records.

- Participant responses will be kept confidential through the use of number codes to identify the city and each participant. Interviews will be conducted in a location where others will not easily overhear the conversation.
- Data will be stored on a password-locked computer and may be used in future presentations. After 3 years, all electronic records will be deleted.
- Interviews will be recorded and transcribed. Recordings will be stored on a password locked computer for 3 years and then erased. Only the researcher will have access to these recordings.

Is study participation voluntary?

Participation in this study is voluntary. Your decision whether or not to participate will not affect your current or future relations with Liberty University. If you decide to participate, you are free to not answer any question or withdraw at any time without affecting those relationships.

What should you do if you decide to withdraw from the study?

If you choose to withdraw from the study, please contact the researcher at the email address/phone number included in the next paragraph. Should you choose to withdraw, data collected from you will be destroyed immediately and will not be included in this study.

Whom do you contact if you have questions or concerns about the study?

The researcher conducting this study is M. Wade Cothran. You may ask any questions you have now. If you have questions later, **you are encouraged** to contact him at xxx-xxx-xxx or xxxxxx@liberty.edu. You may also contact the researcher's faculty sponsor, Dr. Melissa M. Washington, at xxxxxxxxxxxx@liberty.edu.

Whom do you contact if you have questions about your rights as a research participant?

If you have any questions or concerns regarding this study and would like to talk to someone other than the researcher, **you are encouraged** to contact the Institutional Review Board, 1971 University Blvd., Green Hall Ste. 2845, Lynchburg, VA 24515 or email at irb@liberty.edu.

Disclaimer: The Institutional Review Board (IRB) is tasked with ensuring that human subjects research will be conducted in an ethical manner as defined and required by federal regulations. The topics covered and viewpoints expressed or alluded to by student and faculty researchers are those of the researchers and do not necessarily reflect the official policies or positions of Liberty University.

Your Consent

By signing this document, you are agreeing to be in this study. Make sure you understand what the study is about before you sign. You will be given a copy of this document for your records.

The researcher will keep a copy with the study records. If you have any questions about the study after you sign this document, you can contact the study team using the information provided above.

I have read and understood the above information. I have asked questions and have received answers. I consent to participate in the study.

The researcher has my permission to audio- and video-record me as part of my participation in this study.

Printed Subject Name

Signature & Date