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Small Nonprofit Fraud: Risk Mitigation Strategies

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Abstract

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MS, University of Hartford, 1994

BA, Providence College, 1985

Doctoral Study Submitted in Partial Fulfillment

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Abstract

Fraud is a significant worldwide issue for organizations of every size and industry. Small nonprofit organizations are particularly vulnerable to financial and reputational loss due to a fraud incident, which can be devastating. Grounded in the Committee of Sponsoring Organization of the Treadway Commission framework, the purpose of this qualitative single case study was to explore fraud risk mitigation strategies employed by management in a small nonprofit organization in Florida. Three managers in a small nonprofit organization in Florida, participated in face-to-face semistructured interviews to share their fraud risk mitigation strategies. The data collection process also included inspection of business documents, including the board of director minutes, audited financial statements, policy and program documents, and training records. Thematic analysis was used to analyze the data. The three key emergent themes were establishing an ethical culture and tone at the top, board of director and management monitoring, and implementation of internal controls. The implications for positive social change include the potential for reducing fraud incidents that will result in a decrease in the financial and reputational loss in small nonprofit organizations.

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Section 1: Foundation of the Study

In 2018, the estimated global loss related to employee fraud was $4 trillion (Association of Certified Fraud Examiners, 2018). Involvement in a fraud can threaten a nonprofit organization's survival (Archambeault & Webber, 2018). Fraud can take place due to a lack of appropriate internal controls (Rodgers, Soderbom, & Guiral, 2015). Nonprofit organizations are often small in size and do not have the relevant expertise to prevent fraud (Kummer, Singh, & Best, 2015). Such organizations are more vulnerable to fraud and, consequently, require effective fraud strategies (Kummer et al., 2015). It is beneficial and cost-effective for small nonprofit managers to identify and implement fraud risk mitigation strategies to minimize fraud incidents and related financial loss.

Background of the Problem

As many as 30% of small business failures can be attributed to employee theft and dishonesty (Omar, Nawawi, & Salin, 2016). Small nonprofit organizations typically lack strategies to mitigate fraud risk. A fraud loss of $100,000 can cause small business failure, and fraud of this size is not unusual (Tysiac, 2012).

A high incident of fraud occurs within small organizations due to lack of antifraud controls. Implementation of precautionary fraud prevention measures is crucial (Aris, Arif, Othman, & Zain, 2015). Small businesses are significantly more likely than their larger counterparts to neglect instituting basic antifraud controls, which could save them from financial losses (Tysiac, 2012). Antifraud experts say formal controls can help small businesses prevent and detect instances of fraud, which, left undiscovered, could lead to costly losses and possibly bankruptcy (Tysiac, 2012). Small businesses are highly susceptible to fraud because they often lack the resources necessary to establish formal systems of internal control which aid in the prevention and detection of fraud.

Significant guidance exists regarding fraud risk mitigation. Small organizations often do not implement internal controls to mitigate fraud. It is important to understand the fraud risk mitigation strategies small business management has implemented. Small organizations may utilize the data obtained to implement antifraud controls, which may aid with fraud risk mitigation and related potential loss. Internal control policies and procedures can save organizations a substantial amount of money if used for establishing detective and preventative controls compared to the costs associated with fraud (Teplitsky & Harris, 2015).

Problem Statement

Fraud imposes a significant economic cost on organizations and society (Free & Murphy, 2015). It is estimated smaller nonprofit organizations lose about $40 billion annually to acts of fraud (Ulmer & Noe, 2013). The general business problem that I addressed in this study was that some small nonprofit organizations are negatively affected by fraud, which results in financial loss. The specific business problem that I addressed in this study was that managers in some small nonprofit organizations in Collier County, Florida lack the strategies to successfully mitigate fraud risk.

Purpose Statement

The purpose of this qualitative single case study was to explore the strategies managers in some small nonprofit organization in Collier County, Florida, implement to successfully mitigate fraud risk. The target population for the study was a small nonprofit organization in Collier County, Florida. Small nonprofit organization managers may implement fraud risk mitigation strategies to minimize fraud loss and the negative affect on owners, managers, employees, and communities as a result of this study.

Nature of the Study

I used a qualitative methodology for this study. A qualitative method was appropriate for this study because this method facilitates the researcher's ability to gather the data necessary to answer the research question regarding strategies small nonprofit managers implement to mitigate fraud risk. Qualitative researchers have proven the qualitative study to be ideal for in-depth and holistic investigation (Sharma & Choudhury, 2014). A quantitative methodology was not appropriate for this study because information regarding management risk mitigation strategies must be gathered through individual discussions, not numerical data for examining relationships or differences among variables. Quantitative datum consists of numbers. The researcher is unable to obtain deep insights or individual reaction with quantitative data (Razali, Anwar, Rahman, & Ismail, 2016). The overall purpose and central premise of mixed methods studies is the use of quantitative and qualitative approaches in combination (Molina-Azorin, 2016). The mixed method was not suitable for this study because the quantitative method component is not appropriate for the study.

Three qualitative research design options were considered for the study: phenomenology, grounded theory, and case study. The phenomenological design was not appropriate for this study due to the fact that the design requires the researcher to focus on personal experiences, the social world, and their meanings (Schwarts & Baek, 2016).

Phenomenology is defined as the study of how individuals become conscious and experience life or the study of our experience (Schwartz & Baek, 2016). Soltanifar and Ansari (2016) cited the grounded theory is a general methodology of analysis linked with data collection which uses a systematically applied set of methods to generate an inductive theory about a substantive area. The grounded theory was not suitable for this study because of fundamental basis of the method that is utilized by a researcher seeking to explain a process for which a theory is not available (Soltanifar & Ansari, 2016). Grounded theory researchers focus on examining relationships between concepts (Soltanifar & Ansari, 2016).

I used a single case study design for this study. Case study research is appropriate when a researcher is asking a *what, why, or how* question about a contemporary event over which the researcher has no control (Yin, 2014). A researcher using a single case study design focuses on an issue or concern and then selects one case to examine this issue (Yin, 2014). The case study design aligned with the study based on the research focus and research question. A quantitative design may not have generated appropriate or necessary results relating to the research question because a quantitative study would produce numeric data and not aid with the answers to the *what, why* or *how* question. A case study design was appropriate for this study based on the specific characteristics of the qualitative approach and the purpose for my study.

Research Question

The research question is: What strategies do managers in some small nonprofit organizations in Collier County, Florida implement to successfully mitigate fraud risk?

Interview Questions

1. What key strategies have you implemented to mitigate fraud risk?
2. How do you set expectations regarding ethical behavior and integrity in order to mitigate fraud risk?
3. How do you assess the effectiveness of the strategies for mitigating fraud risk?
4. How do you design and implement your fraud mitigation strategies?
5. Can you explain if and how you utilize the COSO Framework to design and implement your fraud mitigation strategies?
6. What methods and processes have you implemented for employees to report fraudulent behavior?
7. What practices have you employed to identify the existence of fraud?
8. What additional information would you like to add that we have not already discussed about the strategies your organization developed to mitigate fraud risk?

Conceptual Framework

I used the Committee of Sponsoring Organizations (COSO) Framework in this study. The COSO Framework is by far the most widely accepted and used framework as the standard for complying with regulated and legislated internal control, risk management, and reporting requirements (Mohd-Sanusi, Motjaba-Nia, Roosle, Sari, & Harjitok, 2017). Since 1992, The COSO framework has helped organizations design, operate, and evaluate the effectiveness of their systems of internal control over financial reporting and achieve reasonable assurance their risk of material misstatement has been reduced to an acceptable level (Pett, Blomster, & Wallace, 2015). Management within an organization may utilize the COSO Framework for strategic guidance regarding the design, implementation and analysis of an internal control system. In an effective internal control system, the COSO Framework's five components including Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring work together, providing reasonable assurance to management and the board of directors regarding strategy for fraud risk mitigation (Rae, Sands, & Subramaniam, 2017). Any evaluation of an organization's strategies to mitigate fraud risk should include consideration of the guidance contained in the COSO Framework including fraud risk specifications. According to the COSO Framework, management's fraud risk mitigation strategy should include the development of a strong control environment, the existence of a fraud risk assessment, implementation and testing of antifraud controls, and communication throughout the organization regarding the specifics of the antifraud program (Pett et al., 2015).

Operational Definitions

Internal control: Internal controls can be described as policies and procedures established to provide reasonable assurance the specific entity objectives will be achieved (Zakaria, Nawawi, & Salin, 2016).

Nonprofit organization: Nonprofit organizations are defined as organizations that impose the non-distribution of profits to their members (Kummer et al., 2015).

Small business: The U.S. Small Business Administration (2016) defines a small business by two characteristics: an organization with fewer than 500 employees and less than $7.5 million in annual receipts.

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions address constraints the researcher is aware of that may affect the study, but which the researcher will not attempt to control (Baron, 2016). I identified several assumptions in this study. I assumed managers of a small nonprofit organization would be willing to share their fraud risk mitigation strategies. I assumed participants would be honest during the interview process. I also assumed study contributors possessed a basic understanding and familiarity with internal control and fraud risk mitigation strategy.

Limitations

Limitations are unanticipated constraints in data interpretation (Sampson, 2016). There may have been a potential weakness in the study due to the contributing population as well as the specific control environment of the participating entity. Employment of a single case study limited the focus to one organization in a specific geography. Each company has unique internal control requirements and may implement different control activities. Therefore, the study had a limitation due to the fact the target company may not represent the entire small nonprofit population.

Delimitations

Delimitations are anticipated constraints in the interpretation of the findings of the research and they indicate the boundaries associated with the methods of the research (Sampson, 2016). The study focused on fraud risk mitigation strategies at a small nonprofit organization. Documentation of information regarding existing internal control design are included in the study results. There was no consideration of internal control effectiveness via testing. Additionally, there was no attention devoted to large nonprofit organizations. Study results may not be applicable to the aforementioned companies.

Significance of the Study

Organizations implement internal controls as an essential strategy to prevent and detect financial fraud (Park, Matkin, & Marlowe, 2017). An examination of existing fraud risk mitigation strategies in a small nonprofit organization may provide guidance, insight, and value to nonprofit managers who lack strategies to mitigate fraud risk. Findings from research related to fraud risk mitigation strategies may be valuable to the owners and managers of small nonprofit organizations as well as the associated Board of Directors and related auditors. The knowledge obtained could enable small nonprofit managers to focus on reducing fraud risk by implementing antifraud strategies.

Small nonprofit Boards of Directors will obtain with insight regarding fraud risk mitigation strategies via this study. The data attained may aid Boards of Directors with their requisite oversight duties for analyzing management’s strategies. External auditors may utilize the study information to conduct fraud risk assessments for small nonprofit clients.

Information regarding the strategies small nonprofit managers have implemented to effectively mitigate fraud risk may help other similar companies to design and implement improved strategies. Positive social change may result from small nonprofit fraud risk mitigation. Significant financial loss or bankruptcy within nonprofit organizations may adversely affect owners, managers, employees, customers, families, and communities.

A Review of the Professional and Academic Literature

The purpose of the qualitative single case study was to identify the strategies small nonprofit managers implement to mitigate fraud risk. In conducting a literature review, I focused on an examination of professional and academic literature related to the COSO Framework, internal control, fraud theories and fraud risk management aligned with the documented research question: What strategies do managers in some small nonprofit organizations in Collier County, Florida, implement to mitigate fraud risk?

I obtained information via searches of numerous databases including the Walden University Library, ProQuest, Emerald Management, EBSCO Primary, ABI/Inform Complete, OneSource and, industry publications. Key search terms included *occupational fraud, fraud prevention/detection, internal control, COSO Framework, Sarbanes-Oxley Act, fraud triangle theory, fraud diamond theory, nonprofit fraud, nonprofit risk management, fraud risk, fraud risk assessment, and fraud risk mitigation strategy.* The literature review includes 81 sources, of which 79 (98%) are peer-reviewed, and 69 (85%) were published between 2016 and 2020 (last 5 years).

The literature review is organized by topics that examine relevant data associated with how small nonprofit managers may mitigate fraud risk. The review begins with an explanation of the types of occupational fraud as well as an examination of studies associated with occupational fraud in small business. The documentation follows with an overview of internal control, the COSO Framework, the fraud triangle and fraud diamond theories as well as the Sarbanes-Oxley Act. In addition, management fraud risk mitigation strategies are presented.

Understanding the use of the COSO Framework and consideration of the elements and concepts associated with internal control as well as fraud theories, concepts and strategies is essential to the consideration of a small nonprofit manager's ability to mitigate fraud risk. The components and concepts presented and documented in peer-reviewed literature summarize the key models and strategies for fraud risk mitigation. It is critical to examine the history and development of these concepts in order to understand previous research and findings regarding fraud and fraud risk mitigation in order to explore how small nonprofit organization mitigate fraud risk.

Occupational Fraud in Small Business

Small businesses are highly susceptible to occupational fraud due to lack of internal control. A fraud incident in a small nonprofit organization may result in significant financial loss, erosion of public trust and/or business failure. Small to midsize organizations have the greatest risk of having a fraud issue within the business (Peters & Maniam, 2016). Occupational fraud is a type of fraud committed against an organization by an employee or a group of employees in which the perpetrator attempts to gain from the intentional misuse or misappropriation of the organization's financial resources (Moore, 2018). Rampant fraud could easily force a company out of business (Patterson, Goodwin, & McGarry, 2018). One in seven businesses who experience fraud will never fully recover, according to the Association of Certified Fraud Examiners (ACFE) (Patterson et al., 2018). Thus, lack of internal control within these smaller organizations creates a higher risk of business failure due to a fraud incident.

Approximately one-sixth of all major embezzlements occur in the nonprofit industry (Harris, Petrovits, & Yetman, 2017). Smaller organizations, such as most nonprofits, suffer a disproportionately larger damages from their frauds (Snyder, Andersen, & Zuber, 2017). A study, conducted by the ACFE, released in 2018 revealed the median loss for nonprofit organizations due to a fraud incident was $75,000 (ACFE, 2018). In many nonprofit entities financial resources are extremely limited and a loss of $75,000 can be particularly devastating (ACFE, 2018). Therefore, it is critical small nonprofit managers have effective strategies to reduce fraud risk and prevent financial loss.

It is critical for small nonprofit managers to establish a fraud risk mitigation strategy in order to mitigate the financial as well as reputational risk associated with a fraud incident. Damage from fraud not only encompasses monetary losses but also damages employee morale, organizational reputation, and business relationships which can be particularly devastating in the case of nonprofits who depend on their reputation and the goodwill of donors to raise revenue (Snyder et al., 2017). A wide range of studies have found nonprofits may be higher risk for the occurrence of fraud than for-profit organizations because of the nature of their mission and their management structure (Snyder et al., 2017). Fraud can break trust and damage a nonprofit's reputation, possibly making it more difficult to raise funds or ultimately leading to its demise (Archambeault & Webber, 2018). Anecdotal evidence suggests the management structure of nonprofits may contribute to weaker internal controls and, in turn, a greater risk of fraud and financial misconduct (Snyder et al., 2017). It is important for small nonprofit managers to develop a fraud risk mitigation strategy in order to minimize financial loss but also to reduce reputational risk, which may have an equal effect on financial resources.

Types of Occupational Fraud

Small nonprofit managers must understand each type of fraud to develop fraud risk mitigation strategies. Occupational fraud is a type of financial fraud committed by an employee or group of employees (Moore, 2018). The Association of Certified Fraud Examiners Report (2018) classified fraud as asset misappropriation, corruption, and financial misstatement. Asset misappropriation and corruption represent fraud perpetrated by an individual or group of individuals against the organization, whereas financial statement falsification represent fraud perpetrated by the organization against its stakeholders (Harris et al., 2017). The implementation of fraud controls will help prevent fraud from occurring (McMahon, Pence, Bressler, & Bressler, 2016). If a small nonprofit manager recognizes the different types of fraud the manager will be better suited to develop an appropriate fraud risk mitigation strategy.

Asset Misappropriation. Asset misappropriation is one type of occupational fraud. Asset misappropriation occurs when a party misuses or steals a company's assets

(Bunn, Ethridge, & Crow, 2019). Moore (2018) stated asset misappropriation is a type of occupational fraud where an employee or group of employees takes money or other assets from their employer. The ACFE cited examples of occupational fraud including theft of cash on hand, theft of cash receipts, fraudulent disbursements, fictitious vendors, fictitious bank accounts, as well as theft and misuse of inventory supplies (Moore, 2018). Asset misappropriation is the most common type of occupational fraud (Moore, 2018). Therefore, small nonprofit managers should understand the definition and types of fraud incidents categorized as asset misappropriation to mitigate the risk of this type of fraud incident.

Financial Misstatement. Fraud in financial statements can be conceptualized as the deliberate misrepresentation of a company's financial conditions, carried out by distorting or intentionally omitting values or disclosure in the accounting statements to mislead the users of this information (Machado & Gartner, 2018). This classification of fraud includes false financial statements and/or manipulation of accounting documents and reports for the benefit of the perpetrator (Patterson et al., 2018). Occurrences show up as deliberately misstated financial records including income statements and balance sheets as well as extreme cost-cutting efforts designed to boost stock price, increase executive perks, such as incentives pay and bonuses, and reduce cost of goods sold (Patterson et al., 2018).

Corruption. Small nonprofit managers should understand the definition of corruption to mitigate the risk of occurrence of a corruption incident. Peterson et al. (2018) defined *corruption* as dishonest or fraudulent conduct by those who are empowered with authority to make business decisions and exploiting it for personal gain. Typical corruption fraud includes bribery and kickbacks or intentionally falsifying or inflating prices (Patterson et al., 2018). Corruption can be costly from the victim organization's perspective as it typically requires extensive investigation and often invites subsequent regulatory action once discovered (Patterson et al., 2018). Therefore, it is important for a small nonprofit manager to understand the description of corruption in order to minimize the risk as well as loss due to a fraud incident of this type.

Internal Control

Managers of all types of companies, including nonprofit organizations, have focused on internal control due to more recent regulatory requirements. The accounting scandals during the last several decades have led to a heightened awareness of the importance of accounting internal controls (Moore, 2018). More emphasis is being placed on internal control systems due to the increasing number of failures and fraud in small organizations (Mutnuru, 2016). A lack of adequate internal controls plays a bigger role in small business occupational fraud cases according to the ACFE (Moore, 2018).

Managers implement internal control to protect the company's assets and minimize fraud risk. The term *internal control* applies to the domain of accounting and its efforts to safeguard assets and ensure the accuracy of accounting records (Frazer, 2016). Internal controls provide reasonable, but not absolute, assurance specific entity objectives will be achieved (Frazer, 2016). Internal control initiatives are those control activities put in place by management, as supported by policies and procedures, to prevent and detect risks with the main intent to provide reasonable assurance regarding the attainment of relevant business objectives (Petersen et al., 2018).

Internal controls minimize risk. Mutnuru (2016) stated that internal control helps ensure policies, procedures and practices designed and approved by management and the board of directors are implemented and functioning as per the need. Internal controls refer to organizational rules and procedures used to safeguard assets and detect fraud, waste and abuse (Park et al., 2017). Organizations implement internal controls as an essential strategy to prevent and detect financial fraud, waste, abuse and to ensure their employees comply with laws, accounting standards, and organizational policies (Park et al., 2017). Small nonprofit managers should implement a fraud risk mitigation strategy which includes appropriate internal controls.

Small nonprofit managers should implement both preventative and detective controls in order to mitigate fraud risk. Internal control initiatives can be preventative and/or detective in nature and they are generally demarcated into five categories including segregation of duties, proper authorization, adequate document usage and design, safeguarding of assets, and independent checks (Petersen et al., 2018). Two general categories of control mechanisms to help a company minimize its potential fraud exposure are deterrence, also known as prevention, and detection (Patterson et al., 2018). Fraud prevention consists of all the procedures aimed at preventing fraud and limiting expose to fraud (Hazami-Ammar, 2018).

Proactive fraud prevention depends mainly on adequate controls (Simeunovic, Grubor, & Ristic, 2016). Fraud detection includes measures to discover fraud or misconduct which is going on or has occurred (Hazami-Ammar, 2018). Good internal control practices will detect and prevent any possible issues which may cause a misstatement of financial information (Kamaruddin & Ramli, 2018). Good internal controls can reduce the occurrence of fraud and, if fraud occurs, can help discover the incident (Snyder et al., 2017).

The benefits of observing internal control are unchallenged (Akwaa-Sekyi & Gene, 2016). The key reason for internal control in organizations is to attempt to prevent loss before it occurs (Frazer, 2016). Research indicates the presence of antifraud controls is associated with reduced fraud losses and shorter fraud duration (Association of Certified Fraud Examiners, 2018).

Most corporate governance literature underscores the indispensable role of internal control (Akwaa-Sekyi & Gene, 2016). When organizations' internal controls are deficient, they are at risk of a number of negative events such as the loss of financial resources, undetectable fraudulent activity, and embarrassing media attention (Park et al., 2017). Research findings show smaller nonprofit organizations frequently suffer fraud losses due to weak internal control systems (Ohalehi, 2019).

Fraud within organizations is mainly associated with the absence of internal controls rather than their weaknesses (Simeunovic et al., 2016). The moment organizations fail to implement appropriate safeguards to prevent and detect fraud, it then creates an opportunity for the employee to commit fraud (Azam, 2018). Research has revealed poor internal control is one of the most important factors associated with the occurrence of fraud (Mangala & Kumari, 2015).

Organizations and their internal control needs vary significantly by industry, size, purpose, management, philosophy, diversity and complexity of operations, local culture and operating environment, and legal regulatory requirements (Frazer, 2016). Internal control has become one of the important components of financial management practice in every organization because internal control functions in controlling all possible risks (Kamaruddin & Ramli, 2018). A potential fraudster, when considering whether and how to act, looks through the lens of an organization's antifraud efforts to determine the probability of success, both in terms of the act and its concealment, before deciding to act (Fleming, Hermanson, Kranacher, & Riley, Jr., 2016). The existence of internal control contributes to the strength of an anti-fraud program of an organization.

Small companies are highly susceptible to mistakes spawning from poor control procedures in their operations and, therefore, management personnel are faced with the challenges of devising measures to promote the attainment of financial reporting goals (Frazer, 2016). Small organizations need internal controls to provide higher levels of assurance they will achieve their objectives including those associated with financial reporting (Mutnuru, 2016). Mutnuru (2016) stated small organizations which implement internal control based on the COSO Framework can prevent loss of resources.

Nonprofit organizations are more vulnerable to fraud and, consequently, require effective fraud detection instruments (Kummer et al., 2015). It is vital for nonprofit organizations to have good internal control practices (Kamaruddin & Ramli, 2018). It can be concluded, internal control practices are crucial for nonprofit entities for preventing and detecting error or fraud in an organization (Kamaruddin & Ramli, 2018).

COSO Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) aims to provide thought leadership through the development of frameworks and guidance on internal control and fraud deterrence (Balakrishnan, Matsumura, & Ramamoorti, 2019). The COSO framework was developed as a foundation to establish a shared understanding among entities regarding internal control by conceptualizing an effective internal control system as well as offering a common language regarding internal control (Rae et al., 2017). The information in the COSO report describes the internal control framework as a multidirectional, iterative, and situational process (Rae et al., 2017).

The COSO Framework describes the components necessary for a well-designed system of internal control (Dickins & Fay, 2017). COSO was formed with the intent to identify factors leading to fraud and to develop guidance that would decrease the likelihood of fraud in companies (Lin, Cefaratti, Lee, & Huang, 2018). COSO declared its five interrelated components can help an organization reduce risk and ensure financial statement reliability (Mutnuru, 2016).

The Committee of Sponsoring Organizations has advocated strong internal controls as a deterrent to financial fraud (Mutnuru, 2016). Firms use the COSO framework as a benchmark for assessing the effectiveness of their internal controls given it helps companies prevent as well as detect issues in an internal control system (Rubino, Vitolla, & Garzoni, 2017). Accounting professionals consider the COSO framework authoritative accounting industry guidance for the design, implementation and analysis of an internal control system.

The concept and application of the COSO framework for internal control have in fact been widely adopted by accounting and financial professionals on a global basis (Ng & Kwok, 2017). The COSO framework is followed because this framework is identified by the Securities and Exchange Commission as being suitable for management to assess the effectiveness of a company's internal control (Chen, Dong, Han, & Zhou, 2017).

The accounting profession has consistently recognized the COSO Framework as the standard for establishing and maintaining effective internal controls (Lin et al., 2018). Wonglimpiyarat (2017) stated that the COSO framework provides integrated guidance to any business to establish an effective internal control system. The COSO internal control framework is an important model of guidance materials enterprises should follow when designing, building, and/or analyzing their systems and processes (Moeller, 2014)

Companies adopted the COSO Framework to guide their implementation of effective internal controls (Lin et al., 2018). Frazer (2016) cited the COSO framework states internal control encompasses the policies, rules, and procedures enacted by management to provide reasonable assurance that financial reporting is reliable, the operations are effective and efficient, and the activities comply with applicable laws and regulations. Good internal control practices will lead to the achievement of all three objectives as stated in the COSO framework which are reliability of financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations (Kamaruddin & Ramli, 2018).

According to the COSO Framework structure the five integrated components of internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring (Kondrashova, Lesina & Titov, 2019) See Figure 1. These five major components are part of a holistic framework, which includes a variety of activities and steps designed to ensure organizations do not provide opportunities for the manifestation of fraudulent behavior by employees (Frazer, 2016). Small nonprofit managers may use the COSO Framework as a structure for conducting a complete assessment of its control systems.

The COSO Framework states management must balance risk and control through an effective system of internal control (Rahman, Ghani, Hamzah & Aziz, 2017). Small nonprofit managers should take into account all of the principles contained in each of the five COSO Framework components in order to obtain reasonable assurance an adequate system of internal control to mitigate fraud risk has been developed and implemented. In an effective internal system of internal control, the five components of the COSO Framework function collectively to provide management with reasonable assurance regarding the achievement of the organization's fraud risk mitigation objectives.

Figure 1. COSO cube illustrating the five components of the COSO Framework. Adapted from "Leveraging the COSO Internal Control – Integrated Framework to Improve Confidence in Sustainability Performance Data," by R. Herz, B. Monterio, and J. Thomson, 2017, *Retrieved from https://www.imanet.org/,* p. 18.

According to Rae et al. (2017), the control environment sets the tone for the organization by influencing the control consciousness of its people. The control environment has a direct impact on each member of the organization and the strength of the whole internal control system (Le & Tran, 2018). These internal controls are universal throughout the company. The control environment has a pervasive influence on the overall system of internal control (Moeller, 2014). According to Frazer (2016) the control environment is the foundation for all of the other components of internal control because it provides discipline, structure, integrity, ethical values, employee competence, management's philosophy and operating style, and leadership provided by senior management and the board of directors.

An effective internal control system is ensured by a clear identification and evaluation of the control environment, which represents the overall control consciousness of an entity (Rubino et al., 2017). The control environment establishes the foundation of the internal control system by adding discipline and structure to the organization (Applegate, 2019). The COSO framework control environment and its supporting principles provide the basis on which management determines the design of the internal control system (Rubino et al., 2017). A good control environment may support a good internal control system which helps reduce the opportunity for misappropriation (Le & Tran, 2018).

Risk Assessment. Risk Assessment is the analysis of risks and potential impacts on the achievement of the entity's goals and objectives (Wonglimpiyarat, 2017). Risk assessment refers to how various risks, internally and externally, will be identified, assessed, and managed to ensure any unexpected events will not harm company activities (Zakaria & Nawawi, & Salin, 2016). Monitoring and assessing risk are an integral part of internal control (Snyder et al., 2017).

Failure to properly assess risk can result in financial loss, unnecessary harm and exposure, and ultimately increased reputational risk (Ries, 2016). A good fraud risk assessment will assist an organization in recognizing what makes it vulnerable to fraud (Kummer et al., 2015). Fraud risk assessment raises management's awareness of opportunities for fraud (Dorsey, 2015).

Nonprofit organizations must aggressively identify, assess, and address risks associated with various aspects of the organization (Rotkamp & Bahazhevska, 2016). The development of a risk assessment plan will strengthen the organization's position for long-term sustainability (Rotkamp & Bahazhevska, 2016). Nonprofit organizations should identify and implement policies and procedures to ensure financial assets are properly utilized and protected (Rotkamp & Bahazhevska, 2016).

A precondition of risk assessment is the establishment of objectives that link at different levels and are internally consistent (Frazer, 2016). Small nonprofit managers should record the organization's financial reporting objectives. Many smaller organizations do not have explicitly stated financial reporting objectives. Without management assessing the risks that an organization faces, putting the proper controls in place would almost be impossible (Nolan & Metrejean, 2013).

Fraud risk is a specific component of the overall risk assessment focused on fraud at the entity and transaction level according to the COSO framework (Rose, Sarjoo &

Bennett, 2015). COSO requires a strong internal control foundation which specifically addresses fraud risk related to the achievement of the entity's financial reporting objectives (Rose et al., 2015). According to the COSO framework the four specific areas of consideration of fraud risk should include fraudulent financial reporting, fraudulent nonfinancial reporting, misappropriation of assets, and illegal acts (Rose et al., 2015).

One of the risk assessment principles states the organization must consider the potential for fraud in assessing risks to the achievement of objectives (Wonglimpiyarat, 2017). The adequacy of anti-fraud controls is specifically assessed as part of the evaluation of control activities related to identified fraud risks (Dorsey, 2015). Nonprofit entities can understand where they are vulnerable by undertaking a critical assessment of fraud risks specific to their circumstances (Murphy, 2015). Nonprofit organizations must aggressively identify, assess, and address risks which will strengthen the organization's position for long-term sustainability (Rottkamp & Bahazhevska, 2016). Nonprofits who adopt a formal risk assessment based on COSO will align themselves with an authoritative professional standard for internal controls and fraud deterrence (Applegate, 2019). Fraudulent reporting can occur when an enterprise's financial reports are willfully prepared with misstatements or omissions.

Control Activities. Control activities are the policies and procedures management develop to help carry out its directives and reduce risks to an acceptably low level (Chen et al., 2017). These management directives ensure activities including approvals, authorizations, verifications, reconciliations, reviews of operating performance, safeguarding of assets, and segregation of duties are executed (Frazer, 2016). These practices minimize fraudulent activity. One of the control activity principles states as part of its overall control environment, an organization should select and develop control activities which contribute to the mitigation of internal control risks to the achievement of its objectives to acceptable levels (Chen et al., 2017).

Proper segregation of duties means that different employees are responsible for custody of assets, record keeping, approvals, and reviews (Hess & Cottrell, 2016). Segregation of duties is a critical control activity. Segregating duties mitigates risk by ensuring one individual will not have too much involvement or authority in a specific process.

Information and Communication. Information and communication are the system by which organizational objectives are managed for risk and this component is necessary for any entity to carry out internal control responsibilities to support the achievement of the entity's objectives (Rae et al., 2017). Specifically, information and communication concerning the company's internal control system including identification of procedures and accountabilities is critical to the strength of the control environment. Information and communication provide an information exchange system to assist systematic sharing and dissemination of information across the organization (Wonglimpiyarat, 2017). Pertinent information must be identified, captured as well as communicated in forms and timeframes which enable people to carry out their responsibilities and employees in the organization must understand their own role in the internal control system (Frazer, 2016). Small nonprofit managers should distribute information to individuals in all company levels.

Monitoring. Monitoring is a process of assessing the quality of the internal control system's performance over time and it includes regular management and supervisory activities as well as other actions that personnel undertake while performing their duties (Frazer, 2016). Small nonprofit managers should periodically review and/or test the effectiveness of internal controls. Monitoring requires the assessment of the adequacy and effectiveness of internal controls underlying the organization's activities (Wonglimpiyarat, 2017). Monitoring is an important procedure which evaluates how well the organizational activities, and particularly the control activities, have met the organization's objectives (Rae et al., 2017).

Fraud Triangle

Much of our current understanding of why perpetrators commit fraud is grounded in the fraud triangle (Raval, 2016). Examination of the history and elements of the fraud triangle is important in the discussion about fraud risk mitigation. The concept of the fraud triangle is of great significance to organizations as it provides insights into the prevention of fraud (Mishra & Singh, 2017).

Fraud can be explained by using the Fraud Triangle Theory (Omar et al., 2016). Employers may benefit from understanding the fraud triangle and its use for fraud prevention. Examining fraud from the context of the fraud triangle can be of significant help for organizations in preventing frauds (Mishra & Singh, 2017).

One of the most widely accepted theories of fraud is Dr. Donald Cressey's fraud triangle (Ohalehi, 2019). The fraud triangle is still the most widely accepted and applied framework to discuss a fraudster's decision making prior to committing fraud

(Steinmeier, 2016). Cressey's fraud triangle had been used by the literature and in accountants auditing practice to investigate the occurrence of accounting and corporate fraud (Machado & Gartner, 2018). Cressey's framework is widely accepted by accounting professionals, academics, and various regulatory agencies (Roden, Cox & Kim, 2016). The Association of Certified Fraud Examiners has made the fraud triangle the cornerstone of its organization (Huber, 2017).

Cressey's work is a seminal text explaining why employees who have been placed in positions where they have access to financial means use the access to victimize their employers (Homer, 2020). Cressey focused his research on the circumstances that lead individuals to engage in fraudulent and unethical activity (Ruankaew, 2016). Bakri, Mohamed and Said (2017) stated Cressy, over five months, interviewed criminals whose behavior met two criteria where persons must have been given a position of trust in good faith and then breached the trust. Cressey used interviews carried out with over 200 prisoners convicted of fraud (Machado & Gartner, 2018). According to Machado and Gartner (2018), Cressey formulated the following final hypothesis as a result of the research:

> Trusted persons become trusted violators when they conceive of themselves as having a financial problem that is non-sharable and are aware this problem can be secretly resolved by violation of the position of financial trust and are able to apply their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as users of the entrusted funds and properties.

Traditional fraud theory (See Figure 2.) as explored by Cressey explains the motivation for fraud as having three key elements: pressure, opportunity, and rationalization (Ng & Kwok, 2017). Cressey hypothesized, for an act of fraud to occur, each of the three criteria must be present (Raval, 2016). The AICPA issued the Statement on Auditing Standards 99 in October 2002 to provide additional guidance on the evaluation of fraud which includes fraud risk factors based on the fraud triangle model developed by Cressey (Wadell, 2016). One of the major components of SAS 99 was the fraud triangle (Huber, 2017).

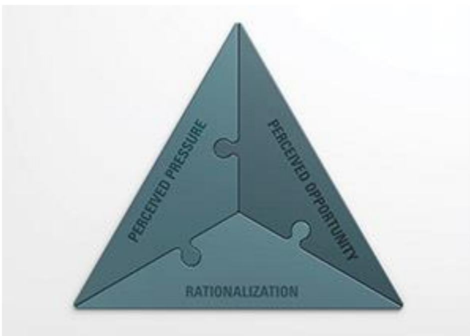

Figure 2. Visual presentation of the three elements of the fraud triangle. Adapted from "Corporate Social Responsibility Enhanced Control Systems Reducing the Likelihood of Fraud," by W. Rodgers, A. Soderborn, and A. Guiral, 2015, *Journal of Business Ethics*, *131*, p. 872.

Fraud is unlikely to exist in the absence of the three elements outlined in the fraud triangle theory, and the severity of fraud depends on the strength of each element (Ruankaew, 2016). Even if an employee has perceived pressures and can rationalize his/her actions; the fraud perpetrator must also perceive opportunity to commit fraud (Laufer, 2011). The Commission of the Treadway Committee examined the causes of fraud occurrence and confirmed Cressey's results that indicated that financial statement fraud happens because of several reasons including environmental, institutional, or individual forces and opportunities (Aghghaleh, Iskandar, & Mohamed, 2014).

Wadell (2016) stated the Statement of Auditing Standard (SAS) 99 integrated fraud risk factors with the fraud triangle theory, thus incorporating psychology and sociology into fraud guidance. The fraud triangle adopted in SAS 99 provides an adequate framework for explaining occupational fraud (Wadell, 2016). Auditing regulation has outlined numerous fraud-risk factors in SAS 99 where the risk factors are organized and referred to as three conditions generally present when fraud occurs which are directly aligned with and tied to the fraud triangle (Simha & Satyanarayan, 2016). The guidance includes examples of incentives and pressures, attitudes and rationalizations as well as opportunities to commit fraud in both categories of fraud - fraudulent financial reporting and misappropriation of assets.

Incentive/Pressure. Pressure, also known as incentive or motivation, refers to something which happens in the personal life of the fraudster and creates a stressful need, thus motivating the fraudster (Machado & Gartner, 2018). Every fraud perpetrator faces some type of pressure to commit unethical behavior (Ruankaew, 2016). Pressure can take many forms, including financial and employment pressure (Omar et al., 2016). This pressure when combined with the opportunity and rationalization elements creates the triangle necessary for a perpetrator to commit a fraudulent act.

Financial pressure has a major impact on an employee’s motivation and is considered the most common type of pressure (Ruankaew, 2016). For example, a perpetrator may feel pressure due to significant financial burden as a result of an addiction or medical bills due to an ill family member. Pressure reflects the necessity to commit wrongdoing (Schnatterly, Gangloff & Tuschke, 2018). Financial statement fraud may occur when a perpetrator feels pressure to manipulate financial results in order to maintain employment. AU-C 240 Appendix A provides examples of fraud risk factors relating to financial pressure or need including poor financial performance, excessive pressure to meet targets, rapid growth, and significant performance-based compensation (Roden et al., 2016).

Rationalization. Rationalization represents and individual's internal justification process for choosing a particular action or inaction (Brown, Hays, & Stuebs, 2016). Machado and Gartner (2018) cited rationalization is a cognitive process of self-justification. Rationalization relates to how an employee judges his or action sensibly (Omar et al., 2016). A perpetrator makes excuse as justification for their actions (Fitri, Syukur & Justisa, 2019).

An attitude or morally acceptable rationalization needs to occur before fraudulent behavior emerges (Ruankaew, 2016). Rationalization suggests the justification of unethical behavior is something other than criminal activity which allows a fraudster to view his or her illegal actions as acceptable (Ruankaew, 2016). Some individuals possess an attitude and a set of moral values which allow them to purposefully commit a fraudulent or otherwise dishonest act (Brown et al., 2016).

Rationalization is the process in which an employee mentally determines fraudulent behavior is the correct attitude, considering the company can absorb the consequences of this act or no shareholder or stakeholder will be materially affected by the execution of the fraud (Machado & Gartner, 2018). Rationalization refers to the believing by the perpetrator the dishonest and unethical behavior committed is something else rather than criminal activity (Abdullahi & Mansor, 2018).

Murphy and Free (2016) stated SAS 99 alludes to a broad concept of "attitude" by noting some individuals possess an attitude, character, or set of ethical values which allow them to knowingly and intentionally commit a dishonest act. SAS 99 AU Section 316, recognizes attitudes/rationalizations are most common to those employees with "behavior" indicating displeasure or dissatisfaction with the company or its treatment of the employee (Buchholz, 2012). A perpetrator makes excuses as justification for their actions (Fitri et al., 2019). AU-C 240 Appendix A provides examples of rationalization of fraudulent behavior including nonfinancial management's participation in selection of accounting principles, aggressive or unrealistic forecasts, and strained relationship with the current or predecessor auditor (Roden et al., 2016).

Opportunity. Internal control issues reflect a general opportunity to commit fraud (Donelson, Ege, & McInnis, 2017). Nawawi and Salin (2018) cited weak compliance to internal controls provides opportunities for fraud to occur, consistent with the fraud triangle theory. Cressey's fraud triangle theory concluded a fraudster has the opportunity to commit fraud, typically due to absent or ineffective controls (Roden et al., 2016).

All sources of fraud risk have one element in common – exploiting opportunity (Hess & Cotrell, 2016). In other words, the fraud perpetrator concludes an opportunity exists. Fraud mostly happens as a result of a weak internal control system in an organization (Rustiarini, Sutrisno, Nurkholis & Andayani, 2019).

Financial strain, rapid growth, and lack of resources and expertise create ample opportunity for motivated fraudsters to take advantage of small businesses (Hess & Cottrell, 2016). Opportunity presupposes fraudsters have the knowledge and chance to commit fraud (Machado & Gartner, 2018). The perpetrator believes the weak internal control cannot catch them (Fitri et al., 2019).

Opportunity often comes in the form of lack of internal control which allows the fraudster to gain access to commit fraud in an organization (Omar, Said & Johari, 2016). Auditing standard AU-C 240 Appendix A provides examples of opportunities to commit fraud, such as ineffective monitoring of managers by an ineffective board of directors, high turnover rates, and the domination of management by a single person (Roden et al., 2016). Reducing opportunity can limit the extent of fraud in an organization (McMahon et al., 2016). Formal controls decrease the likelihood of fraud (Schnatterly et al., 2018).

Fraud is unlikely to exist in the absence of the three elements mentioned in the fraud triangle theory (Ruankaew, 2016). For an individual to make unethical decisions, perceived pressure, and opportunity, and a way to rationalize the behaviors must exist (Ruankaew, 2016). The increased focus on internal controls by organizations as a mechanism to prevent unethical behavior is consistent with the fraud triangle, a widely recognized theory used to understand factors predictive of fraud and thereby as a means to identify ways to mitigate fraud (Liu, Wright, & Wu, 2015). In order to successfully and proactively address and manage fraud risk, small nonprofit managers should understand the conditions of fraud documented in fraud triangle theory and design controls to eliminate those origins.

Fraud Diamond

Personal factors may be added to the fraud triangle to turn it into a diamond (Lenz & Graycar, 2016). The fraud diamond is a newer viewpoint of the fraud phenomenon (Pamungkas, Ghozali, & Achmad, 2018). The fraud diamond theory has provided valuable framework, in addition to the fraud triangle theory, which can assist business leaders and practitioners to find solutions to minimize and/or prevent fraud (Ruankaew, 2016). The fraud diamond is an extension of Cressey's often cited fraud triangle (Lingau, Fuchs, & Dehne-Niemann, 2017).

The fraud diamond concept has been developed to analyze the phenomenon of fraud (Lingau et al., 2017). In 2004, Wolfe and Hermanson expanded the fraud triangle theory by including a fourth element of "capability" to form the fraud diamond theory which stated person characteristics and ability play an important role in explaining fraudulent behavior (Azam, 2018). The fraud diamond consists of four dimensions: incentives, opportunity, rationalization and capabilities necessary to commit the crime (Lingnau et al., 2017). Wolfe and Hermanson argued in their research, although perceived pressure or incentive might exist along with opportunity and a rationalization to commit fraud, fraud is unlikely to take place unless the fourth element is present: capacity (Ruankaew, 2016).

The fraud diamond theory explains the key to mitigating fraud is to focus on pressure and rationalization and also the combination from opportunity and capability (Pamungkas et al., 2018). The capability factor suggests a person's position or function within a company may give him or her the ability to create or exploit an opportunity for fraud not available to others (Ruankaew, 2016). Threats associated with capability include an authoritative position or function within the organization, intelligence to exploit the accounting and internal control systems' weaknesses, ego and confidence fraudulent behaviors will not be detected, and capability to effectively deal with stress due to the risk of getting caught (Ruankaew, 2016).

Capability is interpreted as the benefits of having necessary traits and abilities to be the right person to commit the fraud crime (Omar et al., 2016). Capability acts as a convertor of opportunity into reality (Azam, 2018). The persons who have the capability have the opportunity to turn the fraud crime into reality most likely due to the power the person holds (Omar et al., 2016). People whom carry out fraud must have the capability to realize opportunity and use it (Pamungkas et al., 2018).

The capability factor adds a further psychological component to the analysis (Lingnau et al., 2017). The further dimension added turns the triangle into a diamond by adding personal factors which pushes the analysis of occupational fraud to distinguish between person factors and organizational factors such as internal control (Lenz & Graycar, 2016). The fraud diamond theory suggests although opportunity exists, without capability, such as individual know-how, confidence, lying skills and manipulation of situation, an individual may not commit or is incapable of committing fraud (Omar et al., 2016).

Fraud theory is an important topic of study that will provide small businesses with a better understanding of the important factors involved as well as how to minimize or prevent this behavior (Ruankaew, 2016). Prior study proposes that opportunity must exist for fraud perpetration. Internal control deficiency presents an individual with opportunity to commit fraud. Printed authoritative guidance provides small business managers with a framework for the design and implementation of an effective internal control system to mitigate fraud risk and minimize opportunity. It is essential to study writings related to the history and development of the internal control framework and fraud theories in order to understand the internal controls small nonprofit managers should implement to mitigate fraud risk.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act has had a notable impact on the nonprofit sector over the last 15 years (Saxton & Neely, 2018). Sarbanes-Oxley inspired policies are being broadly implemented by nonprofits (Saxton & Neely, 2018). Implementation of Sarbanes-Oxley policies may yield important benefits to nonprofit organizations including strong governance which is integral in deterring unethical behavior and financial mismanagement (Saxton & Neely, 2018).

In response to a series of accounting scandals, such as Enron and WorldCom, the U.S. Congress enacted the Sarbanes-Oxley Act (the Act) of 2002 (Parveen, Heibatollah, & Haiyan, 2018). Congress passed the Act to prevent accounting fraud and to establish transparency in financial reporting (Ahluwalia, Ferrell, Ferrell, & Rittenburg, 2016). The Sarbanes-Oxley Act of 2002 was enacted to restore investor confidence through a number of mechanisms including enhanced disclosure on internal controls over financial reporting (Gupta, Sami, & Zhou, 2016). It is considered the most significant legislation to impact the accounting industry since the Securities Act of 1933 and 1934.

Named after Senator Paul Sarbanes and Representative Michael Oxley, SOX set new standards of accountability for public companies (Ahluwalia et al., 2016). The Sarbanes-Oxley Act applies to public companies, but it provided guidance for all entities regarding financial reporting and disclosure. There have been spillover effects for nonprofit organizations in the wake of the SOX legislation including heightened scrutiny on internal control and financial reporting (Garven, Beck, & Parsons, 2018).

The Sarbanes-Oxley Act is comprised of eleven titles. The different sections of SOX address many of the issues behind the accounting and financial reporting misconduct (Ahluwalia et al., 2016). The Sarbanes-Oxley Act requires corporations to create an audit committee, rotate partners every five years, refrain from conflicts of interest and disclose financial position to stakeholders, certify corporate financial statements, adopt whistleblower protection policies and follow retention and destruction guidelines (Branson, Buxton, & Canny, 2015).

Specifically, SOX Section 404 requirements relate to internal controls over financial reporting, and, thus are focused primarily on internal controls that affect the output of the accounting and control system, the financial statements (Schroeder & Shepardson, 2016). Section 404 requires companies to assess, report and certify the effectiveness of their internal controls over financial reporting (Parveen et al., 2018). A company's top management is required to certify the fair and truthful presentation of the annual report as mandated by SOX Section 404 (Parveen et al., 2018). SOX section 404 emphasizes the importance of managerial responsibility and the effectiveness of the company's internal control structure (Ahluwalia et al., 2016). Section 404(b) further requires external auditors to audit these internal controls and express an opinion on their effectiveness alongside management's assessment and certification (Gupta et al., 2016).

The strengthening of internal controls has received more and more attention, including in private entities, since the enactment of the Sarbanes-Oxley Act (Chen et al., 2017). Although the Sarbanes-Oxley Act does not expressly apply to private companies, many of the requirements imposed by the legislation have become best business practices and are now considered industry standards (Frazer, 2016). Some nonprofit organizations have voluntarily initiated changes to comply with the Sarbanes-Oxley Act (Branson et al., 2015).

Overall, the nonprofit sector has collectively devoted considerable resources to implementing Sarbanes-Oxley related policies and reforms since the passage of the Sarbanes-Oxley Act in 2002 (Saxton & Neely, 2018). Over the past few years, more and more nonprofit organizations have adopted practices to be in conformity with the Sarbanes-Oxley Act (Branson et al., 2015). Nonprofit executives commonly cited three benefits of adopting Sarbanes-Oxley related practices – improved financial controls, enhanced board effectiveness, and reduced risk of accounting fraud (Saxton & Neeley, 2018).

Management Fraud Risk Mitigation Strategies

Nonprofit organizations can use many strategies and controls to prevent fraud (Murphy, 2015). In light of potential damages from fraud and the inherent risk nonprofit culture creates, prudent management accountants would advocate for strong internal controls to mitigate the risk (Snyder et al., 2017). Research of nonprofit fraud suggests the presence of internal controls influences losses and many incidents of fraud could be prevented through the application of well-known principles of internal control (Snyder et al., 2017).

Controls over the financial activities of nonprofit organizations are very important because these entities are managing public funds received from government, corporate and public donations (Masrek, Mohamed, Daud, Arshad, & Omar, 2014). Various types of fraud perpetrated against nonprofit organizations have become more and more ingenious, and therefore implementing good internal control systems could help an organization ensure the reliability of financial reporting, safeguard its assets (Masrek et al., 2014). Past fraud incidents have led to the full recognition of the strategic role of controls as a crucial element for any organization when considering fraud risk mitigation (Rubino et al., 2017). Various combating techniques are used by organizations to combat fraud such as effective implementation of internal control systems (Azam, 2018).

Most small businesses and organizations rely heavily on a system of internal controls in order to ensure the achievement of their objectives including the reliability of financial reporting (Mutnuru, 2016). Management can reduce fraud risk by maintaining an ethical environment and reducing temptations to commit fraud (Gonzalez & Hoffman, 2018). A commonly used method to reduce the perceived opportunity to commit fraud is the implementation of a strong internal control system (Gonzalez & Hoffman, 2018).

Incidents of fraud and theft within an organization or business can be reduced and prevented with multiple aspects of control (Peters & Maniam, 2016). An organization must ensure it has control practices in place to help prevent, or at least, identify a fraud issue very quickly to prevent larger impact to the organization (Peters & Maniam, 2016). Internal controls are always considered the top method of preventing and eliminating the opportunities for associates to create fraudulent details or commit an act of theft against the entity (Peters & Maniam, 2016).

Nonprofit entities can significantly improve their odds of preventing and detecting fraud if they implement strong controls and sound policies (Murphy, 2015). Nonprofit organizations should have clear, written policies and procedures, including specific anti-fraud policies (Murphy, 2015). Strong internal control, efficient corporate governance, zero-tolerance fraud policy, whistleblower policy, and surveillance equipment are examples of prominent management tools applicable to combat fraud (Mangala & Kumari, 2015).

A basic strategy to minimize the likelihood of fraud is clear and distinct separation of responsibilities (Patterson et al., 2018). A fundamental component of an effective internal control system is segregation of duties, meaning accounting responsibilities are divided among more than one person (Moore, 2018). Simple internal control procedures like segregation of duties can go a long way toward preventing employee theft and detecting schemes already in place (Hess & Cottrell, 2016).

Corporate governance plays a significant role in fraud prevention (Kapardis & Papastergiou, 2016). Corporate governance refers to policies and procedures undertaken by the Board of Directors and management in controlling and directing a business (Kapardis & Papastergiou, 2016). Good governance is crucial to reduce the likelihood of fraud occurrence (Kamaliah, Marjuni, Mohamed, Mohd-Sanusi, & Anugerah, 2018).

Effective corporate governance measures including the implementation of a code of conduct as well as an audit committee aid in the prevention of fraud (Kapardis & Papastergiou, 2016). Researchers have remarked audit committees help to deter management fraud and enhance the integrity of financial reporting (Kapardis & Papastergiou, 2016). Having a code of conduct and/or ethical guidelines, as well as compliance programs, are critical in the effective mitigation of fraud risk, corruption and ethical behavior (Kapardis & Papastergiou, 2016).

The most effective way to avoid or mitigate fraud, as well as address financial losses from fraud, is by developing a fraud prevention program (Kamaliah et al., 2018). An anti-fraud policy, also known as a fraud policy statement, outlines an organization's attitude toward and position on fraud, and sets out the responsibilities for its prevention and detection (Kamaliah et al., 2018).

An anti-fraud policy which includes a whistleblower policy, ethics policy, and fraud prevention programs, is an important document in every organization (Kamaliah et al., 2018). Having a formal code of conduct and providing fraud training to employees are cost effective ways to reduce the risk of occupational fraud (Moore, 2018). Previous studies indicate the existence of a fraud prevention program is an effective fraud detection and prevention strategy (Kamaliah et al., 2018).

Transition and Summary

Section 1 included the foundation of research associated with effective fraud risk mitigations strategies. In addition, Section 1 included the background of the problem as well as a statement of the purpose of the research which is to explore the strategies managers in some small nonprofit organization in Collier County, Florida implement to successfully mitigate fraud risk. The nature of the study, research question, and a description of the theoretical framework were included in Section 1. This section also included the assumptions, limitations, delimitations, and anticipated social change, as well as a review and synthesis of the academic literature related to the COSO Framework, fraud theories and internal control.

Section 2 will include a background of research methodologies and designs as they relate to the study. In addition, the study population and sampling, the role of the researcher as well as the data collection instruments, technique and organization will be outlined. Section 2 will conclude with a discussion of data analysis, reliability and validity techniques.

Section 3 will contain an overview of the study. This section includes a presentation of findings, the application of findings to professional practice as well as implications for social change. Recommendations for further research are also included in this section.

Section 2: The Project

Purpose Statement

The purpose of this qualitative single case study was to explore the strategies managers in some small nonprofit organization in Collier County, Florida implement to successfully mitigate fraud risk. The target population for the study was a small nonprofit organization in Collier County, Florida. Small nonprofit organization managers may implement fraud risk mitigation strategies to minimize fraud loss and the negative affect on owners, managers, employees, and communities as a result of this study.

Role of the Researcher

I was the primary data collection instrument for this study. I collected, organized and analyzed data. In addition, I summarized report results. In a qualitative single case study approach the investigator explores a bounded system, a case, through detailed, in-depth data collection and reports a case description and case-based themes (Merriam & Tisdell, 2016).

I have worked as a consultant to small businesses and nonprofit organizations aiding with fraud risk analysis as well as the development of fraud risk mitigation strategies. Qualitative inquiry provides a point of intersection between the personal and professional (Patton, 2015). I maintain a professional relationship with members of management of the nonprofit organization involved in the study.

Study participants were managers of a nonprofit organization at which the researcher has professional contacts. I provided a consent form to each participant for signature, explained the intent of the study as well as the confidentiality of any information provided. Ethical considerations include the protection of subjects from harm, the right to privacy, the notion of informed consent, and the issue of deception all need to be considered ahead of the study (Merriam & Tisdell, 2016). I did not utilize any participants whom are part of a protected class to ensure no ethical issues as identified in the Belmont Report (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979).

The human instrument, the researcher, has shortcomings and biases that can affect the study (Merriam & Tisdell, 2016). It is common practice for researchers to examine their biases about the topic of interest before embarking on a study (Merriam & Tisdell, 2016). I took measures to utilize a nonpersonal lens to review and analyze collected data in order to assist with potential bias mitigation.

I employed thorough note taking and open-ended interview questions. In addition, I only concentrated on the participant answers to interview questions as well as a review of company documents and contents of a personal journal. The value of qualitative interviews is the researcher asks open-ended questions and the interview data consists of verbatim quotations with sufficient context to be interpretable (Patton, 2015).

I employed a semistructured interview process. Merriam and Tisdell (2016) cited the semistructured interview guide include a mix of more and less structured interview questions which allows the researcher to react to the respondent. The rationale of the interview protocol was participants would unreservedly share their fraud risk mitigation strategies and the researcher would be able to respond with related follow-up questions. In a semistructured interview, the researcher is guided by a list of flexible questions and issues to be and usually specific data is required from all respondents (Merriam & Tisdell, 2016).

I employed the member checking technique. In member checking, the researcher provides participants with study findings or data to gain their feedback (Yin, 2016). Sharing work with participants will increase the credibility of the study and reinforce the collaborative and ethical relationships with participants (Yin, 2016).

Participants

I restricted data collection to a single nonprofit organization in Collier County, Florida. Members of management within one nonprofit organization in Collier County, Florida, with responsibility for fraud risk mitigation strategy were eligible to participate in the study. Selected participants were members of a nonprofit organization in Collier County, Florida, at which I have professional contacts and whom granted access. Often, the researcher's association with a site or group may be the main rationale for the study and the participant selection (Yin, 2016).

I contacted members of management in the nonprofit organization via telephone and conducted conversations with potential participants. Researchers need to show there are no implicit constraints on a participant's decision to participate and the decision is truly voluntary (Yin, 2016). An explanation of the nature and intent of the study was provided to each potential participant and a consent form was furnished electronically. I encouraged participants to inquire about the research study prior to consenting to participate in the study in order to establish comfortable interaction. The objective of the study needs to be presented in a straightforward manner, so participants can understand what they are agreeing to do and thereby are being truly informed (Yin, 2016). Participants were asked to complete a consent form upon agreement to contribute to the study. The researcher must maintain a good rapport with the participant to make the subject feel comfortable enough to answer the interview questions (Yin, 2016).

Once the consent form was completed, I agreed upon an interview time and location with the participants. I followed an interview protocol (see Appendix A) in order to ensure uniformity of research questions and interview procedures with each participant. I took notes during the interviews and interviews continued until the study reached data saturation. This format facilitated flexibility for follow-up questions and additional probing.

Research Method and Design

Research Method

The research method for this study was qualitative. The three research methods are (a) qualitative, (b) quantitative, and (c) mixed method. I chose a qualitative method for this study because of the purpose of the study which was to explore small nonprofit manager's fraud risk mitigation strategies. In a qualitative study the researcher aspires to gain an in-depth, contextual understanding of a phenomena (Patton, 2015).

The purpose of this qualitative single case study was to determine what strategies managers implement to successfully mitigate fraud risk. A qualitative study explicitly attends to and accounts for real-world contextual conditions (Yin, 2016). Yin (2016) cited one feature of qualitative research is it represents the views and perspectives of the participants in the study. Qualitative research helps the researcher understand how people manage in their real-world settings (Yin, 2016). A qualitative study was appropriate for this study because it facilitated achievement of the research purpose by gathering qualitative data from the manager's perspective regarding the organization's current risk mitigation strategies.

Quantitative data consists of numbers and classes whereas qualitative data consists of words and descriptions (Razali et al., 2016). A researcher analyzes quantitative data by statistics whereas qualitative data is analyzed using coding and categorization (Razali et al., 2016). Quantitative research was not appropriate for this study due to the nature of the data and analysis techniques required for this study. The previously described characteristics of qualitative studies were more suitable versus a quantitative study.

A researcher presents both statistics and stories in a mixed method study (Patton, 2015). In a mixed method study the researcher reports how many people fall into categories of interest and provides stories to elucidate what the numbers mean (Patton, 2015). The mixed method conceptual approach involves measuring what can be measured statistically and exploring additional meanings through interviews (Patton, 2015). A mixed method approach to this study was inappropriate due to the inclusion of quantitative and statistical components inconsistent with the research purpose.

Research Design

I used a single case study design for this study. A single case study design was appropriate for this study because of the employment of a qualitative methodology. "How" and "why" questions are likely to favor using a case study (Yin, 2014). I was seeking to obtain data regarding how nonprofit managers mitigate fraud risk. A case study design aided me in understanding the methods nonprofit managers employ to mitigate risk. I achieved data saturation by continuing to collect data until participants were not providing any additional information.

I considered an ethnographical and phenomenological design for this study. In a phenomenological study the researcher focuses on understanding the meaning people attach to their lived experiences (Mottern, 2013). The phenomenological design was not suitable for this study because the study objective was to obtain facts regarding successful fraud risk mitigation strategies nonprofit managers have employed, not their opinions.

Ethnography is about telling a story about what happens in a particular setting (Cordoba-Pachon & Loureiro-Koechlin, 2014). The ethnography design was not appropriate for this study because the plan for this study is to identify strategies and not witness contributor interaction. Ethnological researchers immerse themselves in the field/organization in order to understand the social behavior exhibited by the organization's staff (Brown, 2014). Social behavior was not the focus of this study. Therefore, an ethnography design was not suitable for this study.

Data and emerging findings must feel saturated (Merriam & Tisdell, 2016). I continued to gather data until I was no longer obtaining additional data. Merriam and Tisdell (2016) stated saturation occurs when the researcher begins to hear the same things over and over again, and no new information surfaces from collected data.

I collected and coded data until data saturation was achieved. The process of making notations next to bits of potentially relevant data for answering the research questions is called coding (Merriam & Tisdell, 2016). The purpose of coding data is to represent the meanings of the original data (Yin, 2016). As the researcher moves toward the end of data collection, he looks for additional evidence in support of the established codes (Merriam & Tisdell, 2016). When nothing new is coming forth, the researcher has reached a point of saturation (Merriam & Tisdell, 2016).

Population and Sampling

The study population consisted of management in a single nonprofit organization in Collier County, Florida. The population was representative of the nonprofit industry in Collier County, Florida. Study population may be defined by geographic location, age, sex, with additional definitions of attributes and variables such as occupation, religion and ethnic group (Banerjee & Chaudhury, 2010).

I used the purposeful sampling method for the study. Purposeful sampling allows the researcher to generalize research findings (Visser, Biljon, & Herselman, 2017). I selected three members of management in a single nonprofit organization to participate in the study. The sample size is based in expected reasonable coverage of the phenomenon given the purpose of the study (Merriam & Tisdell, 2016).

Successful completion of quality qualitative research typically requires experienced participants suitable for answering the research questions meaningfully (Maramwidze-Merrison, 2016). Three members of management in a single nonprofit organization participated in the study. The estimated number of study participants was suitable for the study based on the size of the management group of the identified nonprofit organization and anticipated achievement of suitable coverage.

Data saturation occurs when continued data collection and analysis does not need to continue because incoming data will no longer contribute, but only confirm past-shaped understanding (Soltanifar & Ansari, 2016). I achieved data saturation in the study by gathering sufficient data from participants via open-ended and follow-up questions. Questioning and follow-up continued until participants were no longer providing additional data. Merriam and Tisdell (2016) stated interview sampling are terminated at a point of saturation when no new information is forthcoming from the sampling units.

Ethical Research

Many qualitative research and evaluation studies are highly structured, planned and approved by a supervising authority like an institutional review board (IRB) (Patton, 2015). I adhered to the ethical standards established by the university's Institutional Review Board (IRB). I conducted the study after obtaining Walden University IRB approval (approval # 01-15-20-0419794).

Professional organizations across multiple fields require informed consent (Leach, Kalinowski, Onwuegbuzie, Leach, & Benedict, 2015). The informed consent process mandates the researcher to obtain a signed consent form from all persons who may be a part of the study. The consent process alerts participants regarding the nature of the case study and formally solicits their volunteerism in participating in the study (Yin, 2014). The consent form should include the purpose of the study, participant involvement requirements, potential risks and benefits, alternative procedures, compensation, and researcher's contact information (Leach et al., 2015). I presented and explained the informed consent form and obtained an electronically signed informed consent form from each participant.

A subject can withdraw from the study at any point with no penalty or other negative action (Leach et al., 2014). Withdrawal is a fundamental right of participants and the participants must be made aware of this right (Alahmad, Jumah, & Dierickx, 2015). The informed consent form states participants have a right to withdrawal of consent any time (Alahmad et al., 2015). Participants were informed participation in the study was voluntary and they may withdraw from the study at any time by notifying the researcher either by telephone, e-mail, or in-person. Participants did not receive any incentive or compensation for study participation.

Alahmad et al. (2015) cited respecting privacy and confidentiality are extremely important ethical principles of research. My intent was to ensure no harm came to participants due to their participation in the study. To maintain confidentiality, I will preserve the data in a locked file cabinet located in a home office for 5 years after study completion. I will sustain control over the gathered data via the aforementioned reference process.

Confidentiality requires reports conceal names, locations, and other identifying information so the people who participated will be protected from harm or punitive action (Patton, 2015). In order to keep contributor names confidential, I assigned each participant a number. Research data will be stored on a password protected USB drive.

Data Collection Instruments

I was the primary data collection instrument for the study. In all forms of qualitative research, the researcher is the primary instrument for data collection and analysis (Merriam & Tisdell, 2016). Three managers participated in the semistructured interview process. Interviewing can be used to collect data from a number of people representing a broad range of ideas (Merriam & Tisdell, 2016). I conducted semistructured interviews. The semistructured interview is a less structured format that includes open-ended questions (Merriam & Tisdell, 2016). In a semistructured interview either all of the questions are more flexibly worded, or the interview is a mix of more flexible questions and less structured questions (Merriam & Tisdell, 2016). This format allows the researcher to respond to the situation at hand (Merriam & Tisdell, 2016).

I documented the interview protocol and interview questions in Appendix A and Appendix B, respectively. I conducted individual interviews in a library conference room off the organization's premises. I collected and documented data from participant interviews via field notes. Fieldwork notes should focus on documenting words verbatim and the researcher should avoid using paraphrasing (Yin, 2016). A researcher may audio record interview data in order to ensure everything said is preserved for analysis (Merriam & Tisdell, 2016). I recorded participant's interviews with an audio-recording device. In addition, I reviewed company documents including Board of Director minutes, company policy manual and audited financial statements.

I utilized a reflective journal in order to minimize the risk of bias. Researchers may use a personal journal which may be used to reveal insights into their research and mitigate bias (Yin, 2016). Upon completion of each interview, interview notes were reviewed, and additional thoughts were journalized.

It is important for a researcher to strengthen the validity of a study (Yin, 2016). I enhanced the data reliability and validity collection process through the use of member checking and data triangulation. In order to combat threats to validity a researcher may conduct respondent validation by obtaining feedback from participants regarding collected data (Yin, 2016).

Data Collection Technique

I obtained study participants after receipt of approval from Walden University IRB. Three members of management in a single nonprofit organization participated in the study. I collected data via semistructured interviews. Interviews include open-ended questions and probes yield in-depth responses about people's experiences, perceptions, opinions, feelings, and knowledge (Patton, 2015).

There are several advantages to utilizing a semistructured interview. Structured interviews are limited in their ability to appreciate trends and contextual conditions (Yin, 2016). The researcher tries to get participants to use their own words, not terminology, in a semistructured interview versus single word answers sought in structured interviews (Yin, 2016). A semistructured interview process was most appropriate for this study due to the advantages outlined above and the purpose of the study.

Yin (2016) defined member checking as the procedure whereby a study's findings or draft materials are shared with the study's participants. Member checking is a common strategy for ensuring internal validity (Merriam & Tisdell, 2016). The "checking" permits the participants to correct or otherwise improve the accuracy of the study (Yin, 2016). I provided study participants with a draft of study findings in order to enhance data validity. The plan to minimize bias risk included employment of data triangulation. Data triangulation strengthens a study through the use of a variety of data sources in a study (Patton, 2015).

Data Organization Technique

Data organization included the use of an electronic data filing system for aid in data retrieval and analysis. It is important to create an inventory of the entire data set (Merriam & Tisdell, 2016). Data support documents included a) consent form, b) interview protocol and questions, c) interview transcripts and analysis, and d) copy of each cited article. I will store the study data on a portable, password protected external storage device.

I conducted the interviews. Participants were labeled as 1, 2 and 3 in order to keep their identity's confidential. Merriam and Tisdell (2016) cited the data set should be organized and labeled according to a scheme that makes sense to the researcher as well as enables access to any piece of data at any time. In addition, I will preserve the data in a locked file cabinet located in a home office for 5 years after study completion. Subsequently I will permanently delete the data from the electronic storage device in order to protect participant confidentiality.

Data Analysis

Data analysis is the process of making sense of the data (Merriam & Tisdell, 2016). I used data triangulation to analyze collected data. Data analysis is the process used to answer the research question (Merriam & Tisdell, 2016). Answers to the research question are the findings of the study (Merriam & Tisdell, 2016). Qualitative data analysis involves identifying themes, categories, patterns or answers to the research question (Merriam & Tisdell, 2016).

According to Yin (2014) the four methods of triangulation include a) data triangulation, b) investigator triangulation, c) theory triangulation, and d) methodological triangulation. I used methodological triangulation in order to aid readers with an understanding of the data. I coded the data and identified themes through the use of NVivo software.

Reliability and Validity

Several strategies can be used to enhance the validity and reliability of qualitative studies (Merriam & Tisdell, 2016). Yin (2014) defined reliability as the demonstration that the operations of a study such as the data collection procedures can be repeated with the same results. A valid study is one that has properly interpreted its data, so that the conclusions accurately reflect and represent the real world that was studied (Yin, 2016).

Reliability

Reliability is the extent to which research findings can be replicated (Merriam & Tisdell, 2016). A researcher seeks to determine whether study results are consistent with the data collected (Merriam & Tisdell, 2016). In doing so the researcher considers the dependability of the results. Merriam and Tisdell (2016) cited a researcher wish outsiders to concur, given the data collected, the results make sense – they are consistent and dependable. If findings are consistent with the data presented, the study can be considered dependable (Merriam & Tisdell, 2016).

Dependability. I used member checking to ensure reliability. Member checks involve taking tentative interpretations back to people from whom they were derived and asking if they are plausible (Merriam & Tisdell, 2016). Member checking is the single most important way of ruling out the possibility of misinterpreting the meaning of what participants say (Merriam & Tisdell, 2016). I provided a summary of the participant interviews to those individuals for review and evaluation of the findings, interpretations, and recommendations of the study to make sure responses had not been misconstrued.

In addition, I utilized triangulation to reduce bias and ensure the integrity of participant responses. Triangulation involves validity checking through the use of more than one source or method of data collection (Ngulube & Ngulube, 2015). I examined company documentation to confirm participant answers.

Validity

It is important to minimize the risk of misinterpretation of participant input. One method of strengthening study credibility deals with the validity of the study and its findings (Yin, 2016). Internal validity deals with the question of how research findings match reality (Merriam & Tisdell, 2016). I validated the results of my interview findings by soliciting feedback from the interview participants.

Credibility. I utilized member checking and triangulation to maintain study credibility. Credibility refers to assurance the researcher has properly collected and interpreted the data, so that the findings and conclusions accurately reflect and represent the studied world (Yin, 2016). Credibility is associated with the ideas of consensus, truth, and separating belief from fact (Nordhagen, Calverley, Foulds, O'Keefe & Wang, 2014). Common strategies for ensuring internal validity are member checks and participant transcript review (Merriam & Tisdell, 2016). Member checking involves soliciting feedback on preliminary or emerging findings from interviewees (Merriam & Tisdell, 2016). I utilized member checking and participant transcript review in order to ensure data credibility. Upon interview completion, participants were furnished with a summary of findings, so they could review and confirm the interpretations and conclusions.

I also used data triangulation to ensure data credibility. Data triangulation helps to strengthen the validity of a case study because multiple sources of evidence essentially provide multiple measures of the same phenomenon (Yin, 2014). A triangulation researcher searches continually for alternative interpretations until he/she determines that the interpretations make sense and represent a faithful account (Modell, 2015). I compared interview data with relevant company documents in order to ensure credibility.

Triangulation may involve different sources of qualitative data including interviews, documents and observation (Ngulube & Ngulube, 2015). In methodological triangulation the aim is to check an answer, not to gain further information (Ngulube & Ngulube, 2015). I collected data via interviews and collection of documentation including Board of Director's minutes, audited financial statements, policy and program documents, and training records.

Transferability. Transferability involves posing a study's implications at a conceptual level higher than that of the specific findings in the initial study (Yin, 2016).

The researcher needs to provide sufficient descriptive data to make transferability possible (Merriam & Tisdell, 2016). The use of a *rich, thick description* is the most commonly mentioned strategy to enhance the possibility of study results transferring to another setting (Merriam & Tisdell, 2016). A *thick description* refers to a highly descriptive, detailed presentation of the setting and the findings of a study (Merriam & Tisdell, 2016). I documented details and findings in the presentation of study results in order to demonstrate the possibility of transferability of results to other organizations. I followed an interview protocol and I provided a detailed description of the research, data collection and analysis process. The aforementioned may ensure transferability.

Confirmability. Confirmability is the neutrality or the degree findings are consistent and could be repeated (Connelly, 2016). Qualitative researchers keep detailed notes of all their decisions and their analysis as it progresses (Connelly, 2016). According to Connelly (2016) a researcher may conduct member-checking with study participants or similar individuals. I took detailed notes during participant interviews and employed member-checking in order to confirm study data. I also employed triangulation in order to compare interview data with company documents. I ensured confirmability by using member-checking and triangulation.

Data Saturation. Data saturation occurs when continued data collection produces no new information or insights into the studied phenomenon (Merriam & Tisdell, 2016). Data and emerging findings must feel saturated which means the researcher begins to see or hear the same things over and over again, and no new information surfaces as more data is collected (Merriam & Tisdell, 2016). A common strategy for ensuring validity is adequate engagement in data collection such that the data and emerging findings become saturated (Merriam & Tisdell, 2016). I collected data from participants until participant responses become repetitive.

Transition and Summary

Section 1 of this study included an introduction to the problem and study purpose description. In addition, this section contained a description of available research methods and an explanation why the qualitative single case design is favorable for this study. Section 1 included elements of the study including unverified assumptions, limitations of the study which are out of the researcher's control, and delimitations – items excluded from this study. This section also included a presentation of the significance of this study and its implication for social change. Section 1 concluded with a presentation of a professional and academic literature review.

Section 2 included a description of the study research design and research method selection as well as the basis for selecting the research method. The section also included a description of the research population and participant selection criteria. Additional subjects in this section included data collection and organization techniques, data analysis, as well as data reliability and validity.

Section 3 will include a presentation of research study findings. Topics in this section will also include data analysis and an explanation of the potential business application of the study. The study will conclude with recommendations for future research.

Section 3: Application to Professional Practice and Implications for Change

Introduction

The purpose of this qualitative single case study was to explore the strategies that managers in a small nonprofit organization in Collier County, Florida implement to successfully mitigate fraud risk. Three managers in a small nonprofit organization participated in face-to-face semistructured interviews regarding fraud risk mitigation strategies utilized in their organization. I used methodological triangulation including the examination of company documents to support the validity and reliability of participant responses. My document review included Board of Director minutes, audited financial statements, policy and program documents as well as training records. I also employed member checking to validate my findings with the participants.

Three major themes surfaced from the data analysis. The identified themes regarding fraud risk mitigation strategies included establishment of a culture of ethics and integrity as well as Board of Director and management oversight. In addition, effective internal controls including segregation of duties, whistleblower policy as well as restricted use of cash were identified as effective fraud risk mitigation strategies.

Section 3 includes the presentation of study findings. This section also includes the applicability to professional practice, implications for social change, recommendations for action as well as recommendation for further research. In addition, I include my study reflections and a study conclusion.

Presentation of the Findings

The study research question was, “What strategies do managers in some small nonprofit organizations in Collier County, Florida implement to successfully mitigate fraud risk?” I conducted face-to-face semistructured interviews with three managers in a small nonprofit organization to understand their strategies for effectively mitigating fraud risk. To enhance data accuracy, I employed member checking in which participants validated the documented interview findings. I transcribed the interview data and utilized NVivo software to identify codes and common themes for data analysis. I confirmed the validity and reliability of study results through the use of methodological triangulation by comparing emergent themes with company documents and published literature.

Three themes emerged from the data analysis including (a) creating a culture and tone of ethics and integrity is important for fraud risk mitigation, (b) Board of Director and management oversight help to minimize fraud risk, and (c) effective internal controls aid with fraud risk mitigation. Study results related to the conceptual framework. In addition, research study findings aligned with studies presented in the literature review.

Theme 1: Establishment of an Ethical Culture and Tone at the Top Mitigates Fraud Risk

Data from participant interviews disclosed the establishment of an ethical culture and tone at the top as an effective fraud risk mitigation strategy. All three participants discussed the importance of an ethical culture and tone as an effective technique for mitigating fraud risk. The culture and tone theme were mentioned 36 times during the participant interviews. Tone and culture tie to the study’s identified Conceptual

Framework. Table 1 shows the frequency in which culture and tone were mentioned during the interviews and the percentage of interview questions which included a reference to culture and tone. Participants mentioned tone and culture in 50% or more of the questions they answered.

If upper management appears concerned with ethics and integrity this communicates a positive tone to employees (Wang & Fargher, 2017). Tone and culture specifically tie to the control environment component of the COSO Framework. Corporate governance and ethical culture significantly predict sound internal controls (Nalukenge, Nkundabanyanga & Ntayi, 2018). Participant 2 stated, "I really think our tone and culture are a key to mitigating fraud risk." Applegate (2019) cited nonprofit organizations should create a robust COSO control environment to help deter fraud and emphasize the importance of ethical behavior and adherence to internal controls.

Participant 3 noted, "We set an appropriate tone. Our culture is important – it's good." Tone at the top is a crucial determinant of ethical practices within business organizations (Sridharan & Hadley, 2018). All three participants mentioned the implementation of a high- performance culture program which included training and reinforcement of integrity and ethical values. In organizational settings, the ethical tone set by upper management expresses management's attitudes toward integrity and corporate ethics (Wang & Fargher, 2017).

An organization's ethical culture and leadership can affect an employees' ability to rationalize fraud (Wang & Fargher, 2017). Rationalization is one of the three conditions outlined in the fraud triangle theory which is documented in the literature review section of this study. Participant 1 stated, “I feel as though we are creating a culture of honesty and integrity with our hiring and training strategies. We feel we are setting the appropriate expectations with our staff.” Employees can be expected to attain high ethical standards only when expectations of an organization are communicated strongly through a corporate culture which respects ethical standards and fosters ethical actions (Wang & Fargher, 2017).

Table 1

Number of Times Tone & Culture Discussed

Questions where participants discussed tone and culture	Times mentioned	Percentage of responses
P1: Interview Questions 1, 2, 5, 6	13	50%
P2: Interview Questions 2, 3, 4, 5, 8	10	63%
P3: Interview Questions 1, 2, 3, 4	13	50%

Theme 2: Board of Director and Management Oversight Mitigate Fraud Risk

Data from participant interviews indicated Board of Director and management oversight and monitoring as an effective fraud risk mitigation strategy. All three participants mentioned Board of Director and management oversight as an effective method of mitigating fraud risk. Participants mentioned the Board of Director and management oversight theme 24 times during the participant interviews. Table 2 shows the frequency in which Board of Director and management oversight were mentioned during the interviews and the percentage of interview questions which included a reference to oversight.

An oversight function helps in reducing the likelihood of fraud (Ghafoor et al., 2019). Management and Board of Director oversight specifically tie to the control environment component of the COSO Framework. An effective Board of Directors is vital in fraud prevention (Ghafoor et al., 2019). Participant 1 stated, “We have a lot of Board of Director and manager oversight.” Active Board and management monitoring and oversight reduces fraud occurrence (Ghafoor et al., 2019).

An actively involved Board of Directors provides a helpful source of monitoring activities of managers (Archambeault & Webber, 2018). Participant 2 mentioned, “Our Board of Directors provides lots of oversight.” In addition, Participant 3 cited, “We have a lot of oversight – Board of Director oversight and management oversight.”

Having an effective internal control system can strengthen the process, structure and value of the organization in enhancing the oversight and supervision, thus decreasing and prohibiting the misconduct and malpractices such as fraud and misappropriation of assets (Zakaria, Nawawi, & Salin, 2016). All three participants explained management and Board of Director review of monthly financial statements. Participants discussed management participation in the budgeting process and subsequent review and approval by the Board of Directors. Management authorization and approval of invoices was mentioned as well as Board of Director approval of all capital expenditures. In addition, Participant 1 and Participant 2 cited Board of Director check signing authority.

Table 2

Number of Times Oversight & Monitoring Discussed

Questions where participants discussed oversight & monitoring	Times mentioned	Percentage of responses
P1: Interview Questions 1, 4, 5, 6, 7	7	63%
P2: Interview Questions 1, 3, 4, 5, 7, 8	11	75%
P3: Interview Questions 3, 4, 5	6	38%

Theme 3: Effective Internal Controls Mitigate Fraud Risk

Data from participant interviews showed implementation of internal controls as an effective fraud risk mitigation strategy. All three participants mentioned internal controls as an effective method of mitigating fraud risk. The internal control theme was mentioned 39 times during the participant interviews. Table 3 shows the frequency in which internal controls were mentioned during the interviews and the percentage of interview questions which included a reference to internal controls. Participants mentioned internal controls in 75% or more of the questions they answered.

The ultimate benefit of an internal control system is it serves as a reasonable assurance mechanism for the organization to achieve the best performance including reducing occupational fraud loss (Zakaria, Nawawi, & Salin, 2016). Internal controls relate to the overall concepts outlined in the COSO Framework and also specifically tie to the control activities component of the Framework. Participant 2 stated, “We have internal controls in place and we make sure our staff understands it is important for them to perform these activities. We always reinforce this to our staff."

Fraud prevention controls reduce the opportunity for fraud to occur and deter individuals from committing fraud because it is likely to be detected (Murphy, 2015). Participant 1 mentioned, "We have control processes for receipt of goods and cash disbursements." If internal controls are inadequate there will be opportunities for employees to commit fraud (Zakaria, Nawawi, & Salin, 2016). Opportunity is one of the three conditions outlined in the fraud triangle theory which is documented in the literature review section of this study. In the fraud triangle theory Cressey observed, with a perceived opportunity to steal with little fear of detection an otherwise upstanding and professional individual may commit fraud (Dorminey, Fleming, Kranacher, & Riley, 2012). Internal controls mitigate fraud risk. Lack of internal control provides opportunity to perpetrate fraud. A well-built internal control system is needed to lower the opportunity for someone to commit fraud (Fitri et al., 2019).

Internal control measures to mitigate fraud risk include segregation of duties and limitations on access to cash (Archambeault & Webber, 2018). All three participants specifically discussed the restricted use of cash and segregation of duties as internal controls for fraud risk mitigation. The existence of a whistleblower policy was also mentioned by each participant.

Fraud can result from the high levels of cash usually handled and the lack of scrutiny within nonprofit organizations (Ohalehi, 2019). Participant 1 cited, "Our staff does not handle cash at all." Participant 2 said, "The restricted use of cash helps keep people honest." Nonprofit employees or volunteers who have nonsharable financial need and a perceived opportunity will likely indulge in fraudulent behavior by rationalizing their actions (Ohalehi, 2019). Unrestricted or uncontrolled use of cash provides individuals with an opportunity to perpetrate fraud.

Segregation of duties is critical for effective internal control which reduces risk (Rahman et al., 2017). Participants provided several examples of segregation of duties in the cash disbursements, cash receipts as well as purchasing and receiving processes. Controls in the monthly inventory count process were also mentioned. Participant 2 stated, "I think our separation of duties is important. We have our processes that include separation of duties so something that was wrong would be caught." Participant 1 said "I think the separation of duties in our processes would help to identify fraud." Applegate (2019) stated best practices suggest a nonprofit organization should establish a segregation of duties policy to prevent comingling of certain incompatible accounting functions.

Whistleblowers help to foster open and honest society (Peltier-Rivest, 2018). Participant 3 stated "We have an employee manual that includes a Whistleblower program." Participant 1 said "We have a Whistleblower Policy in our employee handbook that our staff is aware of. This way they have a way to report anything they think is going on that shouldn't be." Reporting and monitoring mechanisms such as a whistleblower program deter fraud by reducing employees' perceived opportunities to perpetrate fraud (Peltier-Rivest, 2018).

Table 3

Number of Times Internal Control Discussed

Questions where participants discussed internal control	Times mentioned	Percentage of responses
P1: Interview Questions 1, 4, 5, 6, 7, 8	10	75%
P2: Interview Questions 1, 2, 4, 5, 6, 7, 8	19	88%
P3: Interview Questions 1, 2, 3, 4, 5, 6, 7	10	88%

Applications to Professional Practice

All organizations are vulnerable to the threat of fraud including a risk of financial improprieties at charities where the mission is to do good and employees often pride themselves on their strong ethical values (Harris et al., 2017). The ACFE Report to the Nations (2018) cited internal control weaknesses were responsible for nearly half of the fraud incidents in their study. The findings in this study include strategies small nonprofit managers employ to mitigate fraud risk including specific internal controls. This research may be useful for other small nonprofit organizations to implement strategies and internal controls to minimize fraud risk.

The study findings included several actionable recommendations small nonprofit organizations may implement to mitigate fraud. Study findings included three specific fraud risk mitigation strategies. Strategies included establishment of an ethical tone and culture as well as Board of Director and management oversight and monitoring. In addition, effective internal controls including restricted use of cash, whistleblower policy and segregation of duties were presented as fraud risk mitigation strategies. Denman (2019) stated the presence of control is correlated with lower fraud loss. Use of the findings and recommendations regarding implementation of specific internal controls outlined in the study findings may help small nonprofit organizations avoid fraud incidents. Thus, minimizing financial as well as reputational loss which may have a significant negative impact on the organization.

Implications for Social Change

Small business owners, managers, and advisors are strongly encouraged to have knowledge of how fraud can affect their organization in order to prevent or detect fraud and avoid the devastating effect it can have on the small business's viability (Kramer, 2015). Study findings may contribute to social change by reducing fraud incidents in small nonprofit organizations. Archambeault and Webber (2018) cited nothing threatens trust for nonprofits as much as having a public scandal involving unethical behavior by the organization or its managers. Information regarding the strategies small nonprofit managers have implemented to effectively mitigate fraud risk may aid management in similar organizations with the design and implementation of improved strategies. Public disclosure of significant small business fraud can irreparably damage an organizations brand name as well as result in declining revenue, and in extreme cases, lead to collapse of the business (Rahman, et al., 2017). Positive social change may ensue from small nonprofit fraud risk mitigation due to a reduction in fraud incidents which would result in minimized financial and reputational loss as well as potential reduction in small business failure.

Fraud is very damaging to any business but losing money to fraud in the nonprofit sector can be more damaging as it undermines morale, tarnishes the organizations' reputation, and erodes public confidence in such organizations (Ohalehi, 2019). Significant financial loss or bankruptcy within nonprofit organizations may adversely affect owners, managers, employees, customers, families, and communities. A nonprofit organization's reputation is so important staining it with a scandal can ultimately lead to the organization's demise (Archambeault & Webber, 2018). Loss and negative consequence may be minimized if small nonprofit organizations implement the fraud risk mitigation strategies cited in this study.

Recommendations for Action

The findings of this study disclosed effective fraud risk mitigation strategies employed by management of a small nonprofit organization. Managers of small nonprofit organizations may consider this study's findings and recommendations in order to reduce fraud risk in their organization. I recommend the implementation of three overall strategies to mitigate fraud risk based on study findings.

Managers should set an appropriate tone as well as develop a culture of integrity and set expectations regarding ethical behavior. The aforementioned may be accomplished via management behavior, implementation of a whistleblower policy, implementation of a code of ethics, and anti-fraud training. Management should set an example regarding ethical behavior and reinforce expectations through policies and training.

The second recommendation is management and Board of Director review and oversight. The aforementioned should review and authorize transactions including purchases, disbursements, and budgets as well as monthly financial statements. The third recommendation is implementation of effective internal controls including restricted use of cash. This proposal is based on the high fraud risk associated with the use/existence of cash on premises. Managers should seek to limit and/or eliminate the use of cash whenever possible. This may be accomplished by restricting the acceptance of cash and instead requiring payment via credit/debit card. In addition, small nonprofit managers may consider the implementation of a whistleblower policy and segregation of critical duties whenever possible.

Implementation of the recommended strategies may minimize fraud risk and reduce financial loss associated with fraud incidents in small nonprofit organizations. I will provide the study findings to managers in small nonprofit organizations via professional publications. In addition, I plan to present study findings at conferences and training sessions. Managers of small nonprofit organizations may increase their understanding and knowledge regarding effective fraud risk mitigation strategies which may aid in reduction of financial loss due to a fraud incident.

Recommendations for Further Research

The purpose of this qualitative single case study was to explore the fraud risk mitigation strategies used by managers in a small nonprofit organization. The findings in this study resulted from interviews and review of business documents in a single organization. The study population was limited. In addition, each company has somewhat unique internal control requirements and may implement different control activities. The study may be limited due to the fact the participating company strategies may not represent the entire small nonprofit population.

Recommendations for future research include additional qualitative study in other small nonprofit organizations. This research may include expansion of the population to other geographical areas. Examination and study of the implementation of certain internal controls may also be considered.

Specifically, control environment activities may be studied. Some of the emergent themes in this study related to fraud risk mitigation within the control environment in an organization. It may be valuable to study control environment controls in other small nonprofit organizations. Additional research may help to confirm the importance of focus on strength of controls at the control environment level in a small nonprofit organization versus less practical process controls in order to mitigate fraud risk.

Reflections

The effects of a fraud incident on a small nonprofit organization are often significant. The organizations will typically suffer reputational damage and financial loss. A fraud incident affects not only the organization but also its employees and the community in which it operates.

I chose to research fraud risk mitigation strategies in a small nonprofit organization for professional reasons. Throughout my professional career I have worked with numerous small nonprofit organizations and witnessed the unique challenges these groups face regarding fraud risk. My hope was to identify proven practical fraud risk mitigation strategies in order to provide this information to similar organizations. Adoption of these strategies may help nonprofit organizations avoid fraud incidents and the associated reputational and financial loss.

My previous consulting work in the nonprofit sector as well as with internal controls presented possible personal biases regarding the appropriate fraud risk mitigation strategies for small nonprofit organizations. I had to set aside any preconceived ideas about the internal controls I believed to be necessary or best for fraud risk mitigation. Reservation of my personal bias and ideas was necessary in order to allow the findings of the study to reveal the actual effective fraud risk mitigation strategies implemented by management.

The DBA doctoral study process provided an opportunity for me to develop valuable research skills. I have gained an understanding of the research process as well as an appreciation for data gathering, coding and qualitative analysis. I would like to expand upon my initial study and research fraud risk mitigation strategies other small nonprofit managers have effectively implemented. In addition, I plan to continue writing and presenting findings with the hope that it will help organizations avoid costly, damaging fraud incidents.

Conclusion

The purpose of this qualitative single case study was to gain an understanding of the fraud risk mitigation strategies used by management within a small nonprofit organization. Study findings revealed three strategies to minimize fraud risk including creation of an ethical tone and culture within the organization, Board of Director and management oversight and effective internal control including segregation of duties, implementation of a whistleblower policy and restricted cash use. Small nonprofit organizations face unique challenges associated with fraud risk mitigation often due to lack of resources and expertise. This study and the associated recommendations may provide valuable information and practical solutions for small nonprofit organizations regarding implementation of internal controls. The information and solutions may enable these groups to cost effectively minimize fraud risk and reduce the probability of financial and reputational loss or more severe consequence such as business failure due to a fraud incident.

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Appendix A: Interview Protocol

Interview Protocol

I will interview three managers in a small nonprofit organization located in Collier County, Florida who are responsible for establishing effective fraud risk mitigation strategies. I will use a semistructured face-to-face interview process.

I will ask the same open-ended questions using the following protocol:

1. I will introduce myself to each participant as a doctoral student at Walden University and will explain the purpose of my study and the interview.
2. I will inform each participant that personally identifiable information will not be disclosed in the study and I will destroy all data after 5 years.
3. I will explain to each participant the interview will be audio-recorded and will last approximately 45 minutes.
4. I will ask each participant if he or she has any questions prior to commencement of the interview.
5. I will turn on the audio recording device.
6. I will ask each participant the same interview questions (see Appendix B) in the same order.
7. I will observe participant's non-verbal communication such as tone of voice and body language.
8. I will compose reflective notes during the interview process.
9. I will conclude the interview and stop the audio recording.

10. I will explain the member checking process to each participant, and I will outline the following:

    - Participants will receive an e-mail within 15 business days of the interview including my interpretation of the data collected
    - Participants will have an opportunity to validate the accuracy of the information.
    - Participants will have 10 days to review and confirm the findings or add any additional information by e-mail.

11. I will provide each participant my contact information in case of any questions or concerns.

12. I will thank the interviewee for participating in the study.

Appendix B: Interview Questions

Interview Questions

1. What key strategies have you implemented to mitigate fraud risk?
2. How do you set expectations regarding ethical behavior and integrity in order to mitigate fraud risk?
3. How do you assess the effectiveness of the strategies for mitigating fraud risk?
4. How do you design and implement your fraud mitigation strategies?
5. Can you explain if and how you utilize the COSO Framework to design and implement your fraud mitigation strategies?
6. What methods and processes have you implemented for employees to report fraudulent behavior?
7. What practices have you employed to identify the existence of fraud?
8. What additional information would you like to add that we have not already discussed about the strategies your organization developed to mitigate fraud risk?