

2023

## **Obstacles and Enablers for Employing Internal Control Practices Faced by Nonprofit Leaders**

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# Walden University

College of Management and Human Potential

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Tammy Holloway

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Walden University  
2023

Abstract

Obstacles and Enablers for Employing Internal Control Practices

Faced by Nonprofit Leaders

by

Tammy Holloway

MPhil, Walden University, 2020

MA, Keller Graduate School of Management, 2013

BS, DeVry University, 2010

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Management

Walden University

August 2023

## Abstract

Fraud has had disturbing effects which can hurt many nonprofits. Having weak practices can increase risk and invite perpetrators. Small nonprofit organizations are especially at risk. The research problem is that many small nonprofits do not employ strong practices within their organization, which leaves them open to fraud. The purpose of this qualitative case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States face when employing proper internal control practices to protect the organization from fraud. Agency theory framed this study when examining agency problems that leaders face when employing practices. The overarching research question pertained to the perceptions of leaders of small nonprofit organizations regarding the use of internal control practices that protect the organization from occupational fraud. A qualitative exploratory case study approach was used to gather information from leaders of nonprofits. A sample of 10 leaders participated in the study. Data were collected through interviews by phone, email, and in-person and analyzed using hand coding and NVivo to uncover themes. Study results provide a better understanding of how small nonprofit leaders can strengthen the organization by using proper practices. Overall, leaders of nonprofits expressed the need for a solid board of directors, having regular meetings, good accounting practices, training, background checks, having skilled volunteers, and set policies and procedures. The implications for positive social change are through proper practices that can help lead to increased financial integrity and an increase in contributions from donors.

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## Dedication

To my husband, Nathan, I would like to thank you for always standing by my side with encouraging words that helped me press on. Your support gave me the will to keep going all the way to the finish line.

To my son, Eian, I love you and hope this inspires you on your journey into becoming the best you can be.

To my parents, in the loving memory of my father, Gerald Longhway, who always believed in me no matter what. To my mother, Dorothy Longhway, thank you for your love and support throughout my life.

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## Chapter 1: Introduction to the Study

According to the Association of Fraud Examiners, an estimated 9% of annual revenues in a typical organization, including nonprofits, are lost due to occupational fraud (ACFE, 2018). Risks such as occupational fraud are a significant, widespread problem most nonprofit leaders face and are likely due to weak internal control practices (Applegate, 2019). Internal control practices are procedures implemented within an organization to protect the business's integrity and help reduce occupational fraud.

The Sarbanes-Oxley Act of 2002 (SOX) imposes requirements on publicly traded companies. The act administers penalties for lack of compliance (ACFE, 2018). Section 404 of the SOX Act further requires monitoring internal control practices regarding financial statements and accounting by requiring documentation and testing of controls, which can be costly. Publicly traded companies are required to follow specific procedures of the SOX Act. These include implementing an audit committee, following a code of ethics, and ensuring proper internal controls are in place to help regulate and protect itself from fraud (Werner & Gehrke, 2019). This act protects publicly traded organizations in these ways. According to the Government Accountability Office, since nonprofits are not publicly traded, they are not subject to the compliance requirements from the SOX Act (GAO, 2019).

In 2018, a median loss of \$90,000 per occupational fraud instance in nonprofits was reported (ACFE, 2018). Any loss could devastate the organization for small and newer nonprofits since there is little or no room for error, nor can nonprofits afford such a financial loss. There is a continuous need for healthy internal control practices to help

mitigate occupational fraud in nonprofits. The consequences of weak internal control practices result in an environment susceptible to fraud.

In this study, I explored the obstacles and enablers nonprofit leaders face when employing proper internal control practices within small nonprofits to adequately protect the organization from occupational fraud. Putting a spotlight on fraud in small nonprofits is necessary to raise awareness of the potential risks (Woodward, 2019). The results of my study may provide a better understanding of how small nonprofit leaders can strengthen the organization by using proper internal control practices. Proper internal control practices can help lead to increased financial integrity and an increase in contributions from donors. (Harris et al., 2017). Denman (2019) explained how the presence of internal control practices correlates with a reduction in loss from fraud. In this chapter, I cover the background, problem, purpose, and nature of the study to better understand the need for this research. This chapter includes the research question, framework, definition of terms, assumptions, limitations, delimitations, the study's significance, and a review of the literature.

### **Background of the Study**

Nonprofits rely on the public and other entities to provide income to fulfill the mission of the organization. With the formation of a nonprofit, the use of some funding is necessary to run the organization. Nonprofit leaders must allocate funding to run the organization and still be able to fulfill their mission. In 2018, a median loss of \$90,000 per occupational fraud instance in nonprofits was reported (ACFE, 2018). Weak internal controls are one reason for fraud risk (Applegate, 2019; Kummer et al., 2015). Inadequate

internal control practices could poorly impact the reputation, future funding, and ability to advance the nonprofit organization' 's mission (Archambeault & Webber, 2018).

An average of 9% of annual revenues in a typical organization, including nonprofits, are lost due to occupational fraud, according to the Association of Certified Fraud Examiners (ACFE, 2018). The Report to the Nations is a document put out by the ACFE periodically. The report is provided to the public to show information such as loss due to fraud. The report on nonprofits includes occupational fraud that breaks down into 3 categories, which include the following: asset misappropriation, asset misappropriation with corruption, and financial statement fraud, which could include a lack of reporting funds. One reason for this loss of annual revenues in nonprofits is weak internal control practices. Part of a nonprofit leader's duties should always include internal control practices to ensure success and sustainability in the organization to fulfill the mission (Tracey et al., 2018). An important rule to follow in nonprofits is to follow a *separation of duties*. Separation of duties is defined to handle money by having a different person collect money, deposit money, and write checks (Kramer, 2018). Causes that create an environment for occupational fraud in smaller nonprofits have unique features for each case. Effective internal control practices were identified as effective mitigation strategies for fraud risk (Patterson et al., 2018).

Nonprofit leaders' abilities to put together a successful financial plan can help mitigate occupational fraud. These inefficiencies include internal control practices that ensure the continuation of services to the community (Stewart, 2017). One limited area of research that can contribute to nonprofits is financial accounting supervision (Owen,



2004). The results of this study may provide a better understanding of occupational fraud in smaller organizations. The results may help increase financial integrity and more robust internal control practices, which can help increase donors' contributions by strengthening the organization (Harris et al., 2017). According to Bryant and Davis (2012), agency theory is a popular framework used to help investigate internal control practices and the role of the organization's leaders. Agency theory helps analyze an agency problem and helps detect, correct, deter, and manage agency problems such as occupational fraud (Panda & Leepsa, 2017). Agency theory can also help to understand why some financial issues develop (Brown et al., 2009). For this research, agency theory provided the lens for gathering information from nonprofit leaders about their experience using internal control practices.

### **Problem Statement**

Occupational fraud can occur in any organization, including nonprofits, and is potentially devastating to smaller nonprofits. The ACFE disclosed that approximately 50% of all occupational fraud cases in 2018 were due to weak internal control practices (ACFE, 2018). Fraud can be particularly devastating to small businesses due to a lack of resources to prevent it. In 2018, a median loss of \$90,000 per occupational fraud instance in nonprofits was reported (ACFE, 2018). Weak internal control practices can harm the reputation, future funding, and ability to advance the nonprofit organization's mission (Archambeault & Webber, 2018). Relevant research found that occupational fraud occurred in nonprofits frequently due to weak internal control practices, which is crucial

in preventing and detecting error and fraud (Kamaruddin & Ramli, 2018; Kummer et al., 2015).

The general management problem is that nonprofits lose an estimated 9% of annual revenues due to occupational fraud (ACFE, 2018). Lenience on the part of a nonprofit's leadership to function without proper internal control practices is detrimental to the communities that created the organization and society (Palmer, 2013). The specific management problem is that some leaders of small nonprofit organizations may not employ proper internal control practices that protect the organization from occupational fraud. Improper internal control practices can devastate small nonprofits because of the limited resources available to help prevent occupational fraud (ACFE, 2018). I found no studies that specifically addressed internal control practices in small nonprofits within the eastern United States.

### **Purpose of the Study**

The purpose of this qualitative case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States face when employing proper internal control practices to protect the organization from occupational fraud. Proper internal control practices have been proven to significantly decrease occupational fraud in organizations (ACFE, 2018). Because of some nonprofits' typical environment, weak internal control practices are generally present, and research on fraud in nonprofit organizations is relatively hard to find (Archambeault & Webber, 2018). Nonprofit leaders rely on volunteers to help fulfill the mission and board governance. Small nonprofits are at an even greater risk because of the lack of available

resources and building a volunteer base. With the cuts in federal funding and reduced support from foundations, nonprofit leaders must be aware of occupational fraud risk and take care when handling financial donations (ACFE, 2018; De Armond & Zach, 2017; Felix et al., 2017).

### **Research Questions**

- RQ1: What are the perceptions of leaders of small nonprofit organizations regarding the use of internal control practices that protect the organization from occupational fraud?
- RQ2: What obstacles do leaders of small nonprofit organizations face when employing proper internal control practices to protect the organization from occupational fraud adequately?
- RQ3: What are the enablers that leaders of small nonprofit organizations face when employing proper internal control practices to adequately protect the organization from occupational fraud?

### **Conceptual Framework**

Internal control practices are an essential aspect of any business. For nonprofits, proper internal control practices can increase financial integrity, bringing more contributions from donors (Harris et al., 2017). Internal control practices are even more critical for small, growing nonprofits trying to establish a solid foundation in the community. Small nonprofits are typically unincorporated, have limited external oversight, and generally use available volunteers to manage the organization's financial functions (Tsay & Turpen, 2011).

Agency theory provided the lens for the conceptual framework. Bosse and Phillips (2016) concluded that the concepts are components of the theory. The concepts of agency theory involve the principal/agent relationship within a business or organization. Positive accounting theory, or agency theory, was developed in 1972 and was founded in the research simultaneously and individually by Ross and Mitnick (Mitnick, 2013). Mitnick's institutional theory of agency uses an explanation about the principal-agent relationship and responsibility of leaders in organizations (Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theory provided the lens for this study because it helps expose agency problems such as weak internal control practices (Panda & Leepsa, 2017). A primary example of agency theory is the assumption that management will not focus on the best interest of the company without adequate oversight (Tripathi, 2019). For this study, the agents are the nonprofit leader and the board of directors. The agents are working for the principal or donor community. Studying the use of internal control practices by small nonprofit leaders through the lens of agency theory can help organizations become less vulnerable to fraudulent activities.

Internal controls are an integrated framework created in 2013 by the COSO, comprising 5 principles. The principles are control environment and activities, risk assessment, communication, and monitoring activities (ACFE, 2018; D'Aquila, 2013; McNally, 2013). To mitigate the risk of occupational fraud, accounting in businesses contributes to the control aspect when implementing a working system and involves the development of policies and procedures, which is a possible theme that will emerge in the study (Gregory, 2017). These policies include internal control practices.

When addressing the research question, it is essential to understand the processes involved in developing internal control practices to explore the obstacles and enablers that leaders of small nonprofit organizations face when employing proper internal control practices to adequately protect the organization from occupational fraud. Occupational fraud is in every area in the business world, including nonprofits. Foundations of fraud come from Cressey (1973) and Sutherland (1940). They contended that a violation of trust is the most common characteristic of fraudulent acts in organizations (Cressey, 1973; Sutherland, 1940). Occupational fraud relates to the study due to the contributing factor of the obstacles and enablers nonprofit leaders face when employing internal control practices to help reduce fraudulent acts within the organization. Themes such as trust and how the board manages the organization will potentially emerge (Gregory, 2017).

### **Nature of the Study**

The research method selected was qualitative due to the nature of the study. Other methods helpful in gathering research are quantitative and mixed methods. Each method is suitable for research and has characteristics to help researchers decide which best fits the study area. The qualitative method was helpful when seeking information that could not be measured. Qualitative research gives participants the chance to share their stories through interviews, observation, and the ability to examine documents (Miles et al., 2014). Quantitative research provided statistical data, trends, and relationships. Still, it does not include the experience or behaviors used with qualitative studies. Some research situations require the need for both methods. The mixed method uses both qualitative and

quantitative methods. The mixed method can help strengthen a research topic by integrating one method into the other. I chose only qualitative for this research due to limited research about internal controls in small nonprofits. The qualitative method allowed me to focus on this limited research and help to expand the topic even further for the future of small nonprofits. There was no need for a quantitative method in this case. Still, it could be considered for the future development of the topic.

The next step was selecting a design that fit the research for data collection. I considered several designs, but a case study design was the best fit. I selected an exploratory case study design for this qualitative research. Case study methodology is used to gain detailed knowledge of a person, program, or situation to expose a visible picture through observations, interviews, direct quotes, testing, and outlines. (Range, 2019; Yin, 2018). A case study is unique and more informative than other designs. It allows hearing participants to bring new light to the research investigation (Aczel, 2015). An exploratory case study helps provide a cost-efficient way of collecting data for the research (Cronin, 2014).

Other qualitative designs considered for this research included phenomenology and narrative inquiry. Phenomenology refers to a mental state and views a life event of an individual (Ungvarsky, 2019). Phenomenology research is appropriate when exploring participants' experiences concerning a specific event (Giorgi, 2006; Husserl, 1999; Moustakas, 1994). Narrative research is a methodology used to understand how individuals develop meaning in their lives by constructing narratives (Clandinin, & Connelly, 2000; Riessman, 1993). This methodology is acceptable when the researcher

needs to gather life stories. Life stories can come from photographs, journals, conversations, interviews, and other forms used by researchers as tools and analyzed to help conclude an individual's life experiences (Gilstein, 2018). The case study approach was the best fit for gathering the information that could help answer the research question about internal controls.

Interviews are an excellent way to gather data about internal control practices, one of the data collection methods for this study. Other data included documentation that supports the information gathered. Documentation included IRS tax forms and other financial information from the nonprofit websites, GuideStar.com. Planning and designing the interviews helped break down the data for analysis (Rowley, 2012). Participants consisted of 20 nonprofit leaders, or until data saturation occurs, from small nonprofit organizations in the eastern United States. I conducted interviews to learn the obstacles and enablers nonprofit leaders face to properly employ internal control practices to protect the organization from occupational fraud. I collected the information by asking open-ended questions that focus on the critical elements of the study. I recorded the interviews and took journal notes as an additional way to gather as much information as possible.

The agency problem in this study is the possible presence of weak internal control practices, leading to occupational fraud. Agency theory helps mitigate an agency problem (Panda & Leepsa, 2017). Case study and agency theory work together to help conclude how nonprofit leaders deal with obstacles and enablers when employing proper internal control practices.

I gathered information from nonprofit leaders about the obstacles and enablers they face when employing internal control practices and recognize key factors of possible agency problems. I gathered data from the eastern United States for the research. Once I interviewed the participants, I analyzed the data through hand-coding to uncover themes from the study with NVivo v12 computer software and Yin's 5-step process. The gathered information may help nonprofit leaders about what implementation strategies can help strengthen internal control practices within the organization and highlight the importance of proper internal control practices to reduce occupational fraud. If nonprofits experience lower fraud rates, nonprofit leaders are more likely to stay active, which is beneficial to the community they serve and fulfill their mission.

### **Definitions**

*Agency theory:* Agency theory is a principal-agent problem where one party has more information than another (Jordan, 2018). Agency theory occurs when one party (principal) hires another party (agent), where the principal assumes the agent will bring value as an outcome.

*Enabler:* a person who encourages or enables behavior in someone else (languages.oup.com, 2022). For example: In the event of enablers in nonprofits, it would be someone encouraging compliance with the organizational leader's guidelines which affects the stability of internal controls.

*Fraud diamond:* Made up of 4 points to include all points of the fraud triangle with an additional point of capability, which means the perpetrator needs the ability to commit fraud (Wolfe & Hermanson, 2004).



*The fraud triangle* is made up of 3 points: pressure, opportunity, and rationalization, explaining why people commit fraud (Mohn, 2020).

*Internal control practices*: A process set out by the leaders and boards of directors to help control and monitor the business environment to reduce the risk of fraud (Hartmann, 2011).

*Obstacle*: a thing that blocks one's way or prevents or hinders progress (languages.oup.com, 2022).

*Occupational fraud (also known as internal fraud)*: The intentional misuse of an organization's assets or resources by employees or volunteers for their gain (ACFE, 2018).

### **Assumptions**

The assumptions are that nonprofit leader participants are from small organizations from the United States' eastern region. Participants will be open about viable questions asked in the study without bias. Other assumptions applicable are research supporting the study and that participants tell the truth and provide detailed information. I mitigated the impact of bias through methodological approaches by using bracketing in collaboration with a reflective journal to take notes. The interview questions were clearly stated and understood by participants. Each participant provided answers to the questions within a specific time frame. Participants knew they were providing this information to assist in the study as a voluntary act.

### **Scope and Delimitations**

The study's scope was to gather information about the obstacles and enablers nonprofit leaders face concerning internal control practices. The selection of participants included a small sample size of 20 participants or until data saturation occurs. The targeted population was directors of nonprofits that have been in control of a nonprofit for at least 2 years. The nonprofits income of \$1,000,000 or less from donations, grants, and fundraising allocations.

My study was restricted to the functionality of internal controls within small nonprofit organizations based on the obstacles and enablers involved. Delimitations for this study included a small sample size consisting of 20 nonprofit leaders, the geographic location in the eastern United States, and the use of only small nonprofits. Other delimitations included researchers' choices, such as population and eligibility criteria for the specific sample size (Marshall & Rossman, 2016). Selection of leaders with 2 years' experience from various nonprofits from the eastern United States and included organizations making \$1,000,000 or less in donor support. Participants were interviewed from various nonprofits in different fields and with the same amount of experience. However, some nonprofit leaders came from similar organizations and have a wide range of experience.

Populations excluded were any nonprofit leader outside of the eastern United States, leaders with less than 2 years' experience in the nonprofit field, and organizations making over \$1,000,000. Future studies can use external factors to investigate the organization instead of internal factors. External factors to help investigate nonprofit

organizations are donors, community supporters, and supporting government agencies. Research on internal controls for nonprofits is still necessary to further validate the current findings. The research findings may be transferable to similar cases. This is left to the reader based on a rich description of the participants, methodology, and results.

### **Limitations**

This study's limitations included sample size, participants' honesty, inability to gather information, and constraints to the perspectives of the participants about the interview questions. The sample size to achieve the research data was assumed to be 20 participants or until data saturation occurs. If participants do not fulfill the need to answer interview questions, data collection may not be complete. Honesty is necessary to have valid research data. Interviews are analyzed, and the information may be interpreted differently by the researcher. There is also a chance of bias, even if the researcher uses caution when gathering and analyzing data from participants, because the researcher is an instrument in the data collection and analysis. Other limitations can be from participants and how they answer the interview questions. Participants may not answer the questions as intended by the researcher. Some aspects of the study may be out of the researcher's control and perceived as weaknesses in the research (Yin, 2018). Another limitation may be the inability to assume representativeness of the sample. Participants who agree to be part of this study may not be representative of the sample. I may not be able to maximize on a variety of nonprofits and have leaders with similar amounts of experience while employing purposive sampling.

### **Significance of the Study**

The importance of this study is that it contributes to the literature on the use of internal control practices in small nonprofits. Exploring the obstacles and enablers faced by leaders to protect the organization from occupational fraud may lead to information that can help the nonprofit community employ proper internal control practices to help reduce the risk of occupational fraud. Many researchers expressed the need for understanding internal control practices in nonprofits because empirical evidence is minimal (Gregory, 2017; Maguire, 2013). The information gathered from this qualitative case study can help expose possible agency problems within small nonprofits and build on the literature about using internal control practices in nonprofits. Detecting agency problems can better guide leaders in the right direction to protect the organization from occupational fraud.

### **Significance to Practice**

This study's results may provide crucial information about how to help reduce occupational fraud in small nonprofits. Reducing fraud could increase financial integrity and more robust internal control practices in small nonprofits (Harris et al., 2017). Insights from this study may help nonprofit leaders avoid occupational fraud and increase integrity for their organization, which may help increase contributions from donors by strengthening the organization.

### **Significance to Theory**

Results from the study may bring forward new insight into some of the problems within nonprofits. Results may also provide further evidence for future researchers

seeking information on occupational fraud, internal control practices, and nonprofits.

This research may help add to the knowledge of agency theory by helping expose agency problems within organizations.

### **Significance to Social Change**

In this study, I sought to provide positive social change through continuous research on the importance of internal control practices in nonprofits. Proper internal control practices can help them reduce occupational fraud and allocate the money to fulfill their mission. Adequate internal control practices help keep nonprofits in business, helping them achieve their mission for the greater good. Donors and communities may be more open to the nonprofit's message and services, increasing public trust. The increased confidence in nonprofit leaders can help build more interest from the community and help nonprofits leaders thrive and fulfill the mission.

### **Summary and Transition**

To summarize, weak internal control practices can be devastating and cause occupational fraud in an organization (Applegate, 2019). Although nonprofits are not required to follow internal control practice guidelines, they are still at risk for occupational fraud. The use of proper internal control practices helps create a trustworthy relationship with communities, strengthening the organization and increasing donor support (Harris et al., 2017). The ACFE (2018) reported a median loss of \$90,000 per occupational fraud instance in nonprofits. Some research indicated improper internal control practices due to a lack of funding and experienced volunteers.

A case study design helps uncover specific information about using internal control practices from leaders of small nonprofits. This research may help understand more about the decisions made concerning internal control practices to adequately protect the organization from occupational fraud. A commonly used framework for studying internal control practices and leadership is agency theory (Bryant & Davis, 2012). Through the lens of agency theory, I helped pinpoint agency problems that may be present about internal control practices when I conducted the research. This study's results may help nonprofit leaders gain critical information about proper internal control practices, which can help strengthen the organization. Having a more trustworthy environment within nonprofits by addressing proper internal control practices helps create positive social change. Chapter 2 covers the literature about internal control practices in detail.

## Chapter 2: Literature Review

The specific management problem is that some leaders of small nonprofit organizations may not employ proper internal control practices that protect the organization from occupational fraud (ACFE, 2018). The purpose of this qualitative case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States face when employing proper internal control practices to protect the organization from occupational fraud. In Chapter 2, I review the current and historical literature to frame the case study about obstacles and enablers leaders of nonprofit organizations face regarding internal control practices to protect the organization from occupational fraud adequately.

It is reported that 50% of fraud contributes to internal control weaknesses (ACFE, 2018). Donor confidence is important for nonprofits trying to fill a need within a community. Weak internal controls often lead to fraud, asset misappropriation, poor management, and loss of donor support (Applegate, 2019). Strong internal control practices are helpful to leaders trying to achieve the reliability of financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations (Kamaruddin & Ramli, 2018). My study results may provide a better understanding of the obstacles and enablers nonprofit leaders face relating to internal control practices in small nonprofits to avoid the risks associated with occupational fraud. The research may increase financial integrity and vital internal control practices in small nonprofits, increasing donors' contributions by strengthening the organization (Harris et al., 2017). I

further provide detailed research on the methodology, internal control practices, agency theory, and fraud, including occupational fraud, in Chapter 2.

### **Literature Search Strategy**

Scholarly research came from various resources. These resources include databases, search engines, and online libraries such as Walden University's library. I also used ProQuest, EBSCOhost, and Google Scholar. Walden University's library provided many results from searches performed throughout the study. Most of the peer-reviewed journals came from Walden University's library. I conducted some searches on Google Scholar to obtain names of articles used to search within the EBSCOhost in Walden University's online library. I used ProQuest to check for recent research within the topic of study. Searching literature for this review uncovered peer-reviewed journals to gain views from different researchers regarding topics discussed within this study. Some sources used for this literature review include the *Global Journal of Business Research*, *Nonprofit Management and Leadership Journal*, *Journal of Management Policy and Practice*, *Journal of Accounting & Finance*, and *Journal of Accounting and Public Policy*.

Key search words included *internal controls*, *occupational fraud*, *agency theory*, and *nonprofits* as the significant areas for this study to help gain insight into all that encompasses the research. Information about internal controls within nonprofits was a basic search performed periodically to collect the most recent data on the topic to date.



## **Conceptual Framework**

The economic and institutional theory of agency was developed in 1972 by Ross and Mitnick simultaneously and individually (Mitnick, 2013). For this research study, the concepts of the framework come from agency theory. Agency theory is a concept used to explain the important relationships between principals and their relative agents.

(Investopia.com, 2020). The concepts of agency theory encompass the principal/agent relationship and provide an easy way to identify agency problems, which is beneficial for this study because it exposes weak internal control practices and possible obstacles and enablers within the organization. For my study, I used the concept of relationships between leaders of the organization and supporting donors, and possible agency problems relating to weak internal control practices. Agency theory provided the lens to look at potential agency problems related to obstacles and enablers that nonprofit leaders face concerning internal control practices.

The agency theory concepts are suitable for understanding business types of relationships between agents and principals (Eisenhardt, 1989). The lens characterized in the framework is necessary to recognize how nonprofit leaders deal with obstacles and enablers regarding internal control practices to protect the organization from occupational fraud. Agency theory concepts help mitigate an agency problem (Panda & Leepsa, 2017). According to Bryant and Davis (2012), the agency theory concept of principal/agent relationships to help uncover agency problems and expose potential obstacles and enablers provides a popular framework for investigating internal control practices and leaders' roles.

For this research, the donor community will act as the organization's principal. The nonprofit leader and its board of directors were the agents. Typically, donors want the board of directors to resolve issues instead of other legal actions for any wrongdoing to the organization (Daniels, 2019). By providing the lens, the use of agency theory helped investigate potential agency problems related to obstacles and enablers that nonprofit leaders face concerning internal control practices.

In nonprofits, principal-agent relationships can cause uncertain outcomes in the organization's mission. These relationships show conflicting interests and missing or misunderstood information for the organization (Okolie, 2014). A look into agency problems and any obstacles and enablers within the organization help address the research questions in this study.

Auditors set up internal control practices to provide guidelines for businesses to follow. For-profit companies must use internal control practices from a legal standpoint to control specific areas within the industry. While nonprofits are not required to use these control guidelines, they are encouraged to adopt some form of controls within the organization. When business leaders implement the required internal control practices standards, they reduce risk factors within the company.

It is required for businesses, excluding nonprofit organizations, to comply with internal control practices (ACFE, 2018). Feng et al. (2014) and Petrovits et al. (2011) revealed that weak internal control practices disrupt donor and community support, which increases the chance of a dissolution of the organization. Feng et al. and Petrovits et al. continued that nonprofit leaders who implement internal control practices reduce risks

such as occupational fraud and provide accountability to supporters. Donors and the community expect nonprofits to be more accountable (Iyer & Watkins, 2008). Kummer et al. (2015) found that occupational fraud occurs in nonprofits significantly due to weak internal control practices and agreed that proper use of internal control practices would likely reduce fraudulent acts against the organization. Archambeault and Webber (2018) discovered that weak internal control practices could harm the reputation, future funding, and ability to advance the nonprofit organization's mission because of the agency problems that are present. Exposing obstacles and enablers is one way to avoid problems such as fulfilling the organization's mission.

The concepts of agency theory relate to the principal/agent relationship and provide an easy way to identify agency problems, which is beneficial for this study because it exposes weak internal control practices and possible obstacles and enablers within the organization. Eisenhardt (1989) researched that agency theory is suitable for understanding certain relationships between agents and principals. Concepts of agency theory can help define principals' and agents' behaviors within a contractual relationship (Van Slyke, 2005). For my study, I used the concept of relationships between leaders of the organization and supporting donors, and possible agency problems relating to weak internal control practices.

Eisenhardt (1989) further explained agency theory stating delegation of authority in the decision-making process is granted to the agent by the principal, and agents have the power to act on behalf of the principal if the agent has the principals' interests in mind. Researchers use the lens of agency theory in a nonprofit setting to view nonprofit

organizations seeking to understand the nonprofit leader's duties and the board of directors concerning internal control practices used to help reduce fraud (Brown, 2005).

### **Literature Review**

This study may add to the literature about implementing small nonprofits' internal control practices to reduce occupational fraud. This literature review includes research on internal control practices in for-profit and nonprofit organizations, fraud including occupational fraud, agency theory, and the methodology for the study.

### **Internal Control Practices**

The importance of proper internal control practices is to keep the organization in check. What that means is, leaders should have documented financials, security procedures, and basic guidelines that must be followed by employees or volunteers. Without the presence of proper internal control practices, an organization is vulnerable to attacks from perpetrators looking for weaknesses (ACFE, 2018). It is likely an invitation to perpetrators if it is discovered that an organization has weak controls. Good internal control practices help leaders achieve the 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).

Internal control practices differ for each business, including nonprofits, to conform to set guidelines within each organization. Unlike nonprofit organizations, for-profit businesses must follow COSO's internal control – integrated framework to comply with Section 404 of the SOX (ACFE, 2018). The integrated framework stated that internal controls are created by leaders, board members, and other personnel of an

organization to offer feasible assurance to achieving objectives within the following categories: Effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The 3 categories of COSO's internal control-integrated framework are directly related to 5 integrated components within the framework, which define internal control practices necessary for compliance. The 5 components are control environment, risk assessment, control procedures, information and communication, and monitoring. The first component is the control environment, which includes the code of conduct, ethics, expectations, structure, and retention of the organization's employees, impacting the practices overall (ACFE, 2018). The second component is risk assessment, which can be internal or external and includes management of potential risks that could harm the organization. Control procedures is the third component and ensures that policies and separation of duties are feasible or alternative measures if separation is not an option. The fourth component is information and communication, which provide clear messages to personnel and external parties about the ongoings of the organization. The final component is monitoring activities, which are evaluations to include each of the 5 components of the internal control framework (ACFE, 2018).

Internal control practices were deemed necessary enough to become policy in for-profit companies due to the level of internal control infractions and lack of accountability (Fama & Jensen, 1983; Jensen & Meckling, 1976). Some forms of internal control practices have been in use but undefined in public companies before COSO integrated framework in 1992 (ACFE, 2018). COSO is a nonprofit organization sponsored by 5

other nonprofits working in the best interest of public companies. COSO was formed in 1985 by leaders of a coalition of accounting organizations in the United States (Provasi & Riva, 2015). COSO's formation became necessary to examine reasons for fraudulent acts found in businesses' financial information and provide tips to managers on developing and maintaining internal control practices that can reduce risks, including fraud (McNally, 2013).

COSO created a framework of internal control practices in 1992 that were considered revolutionary, and it changed the way businesses reported to reduce infractions and increase accountability within the company (ACFE, 2018). COSO responded to top leaders' need for better ways to control their businesses and to ensure objectives relating to reporting, operations, and compliance are met within the organization (COSO.org, 2019). The 5 components of the framework that define proper internal control practices for businesses were added years later and include: control environment, risk assessment, control procedures, information and communication, and monitoring (COSO.org, 2019). ACFE discussed how COSO leaders took a step to improve internal control practices in 2013 by creating the Internal Control-Integrated Framework with the 5 components for businesses to follow and ensure compliance with Sec 404 of the SOX (ACFE, 2018). Internal control practices intend to help break down areas of risk for the business so that management can assess the company entirely.

COSO updated the framework for internal control practices in 2013 to include nonfinancial and internal reporting to enhance the framework, and to define internal control practices with 5 components to give businesses a better foundation to follow

(COSO.org, 2019). The update expanded the original framework to improve the current principles to help businesses become transparent and accountable. The Internal Control-Integrated Framework defines internal control practices for companies. In addition to the 5 components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring), there are 3 objectives: operations, reporting, and compliance (ACFE, 2018; D'Aquila, 2013; Lämsiluoto et al., 2016; McNally, 2013; Provasi & Riva, 2015). The COSO Framework's intended use is for management, accounting, and auditing professionals to develop internal control practices and accountability by organizations' leaders.

Internal control practices come from the framework created by COSO to be used by professionals to help regulate risk, environment, activities, communications, and monitoring within the business and is required in for-profit organizations (ACFE, 2018; D'Aquila, 2013; Lämsiluoto et al., 2016; McNally, 2013; Provasi & Riva, 2015). Internal control practices help regulate and monitor specific areas, including financial statements, to lower risk factors such as occupational fraud. Some examples of weak internal control practices are financials incorrectly accounted for, misappropriation of funds, little experience with financial accounting, and not reporting to the board of directors. Several studies define the importance of acceptable internal control practices to help mitigate occupational fraud. Albring et al. (2018) investigated unexpected auditing fees to help uncover weaknesses in internal control practices and understand if it would benefit businesses. The results of the study proved helpful in predicting upcoming weaknesses in

internal control practices. Albring et al. found that previous year unexpected business fees related to internal control deficiencies are associated with material weaknesses.

Another study by Chiu et al. (2019) built on audit procedures by providing additional evidence to auditors when reviewing public companies' internal control practices. Chiu et al. conducted an evaluation in their study called process mining that contained 4 analyses to evaluate the effectiveness of internal control practices using a real-life event log. The analyses identified variants, examined employee violations of segregation of duties, investigated employees involved in more than one potential control violation, and timestamp analysis that included weekend activities. Chiu et al. adoption of process mining could assist auditors in recognizing issues such as weak internal control practices.

Empirical evidence also showed a connection between media coverage of a company's CEO and weak internal control practices. Chou Yeh et al. (2019) discovered that companies with higher media exposure for the CEO had more weaknesses in internal control practices. This correlation exposed the importance of strong corporate governance to alleviate the CEO's media exposure for self-gain. Healthy internal control practices can mitigate a variety of problems within an organization, as seen in research. Acceptable internal control practices are not only important for public companies but also very beneficial to nonprofit organizations as well.

The SOX's initial enactment was in 2002 as a federal law with financial and auditing regulations for public companies (Act, S. O., 2002). The act helps protect shareholders, employees, and the public from accounting errors and occupational fraud.



The Securities and Exchange Commission (SEC) applies penalties to public companies for noncompliance with SOX regulations. The Public Accounting and Reform and Investor Protection Act and the Corporate and Auditing Accountability and Responsibility Act were other names for SOX made up of standards for auditing and governance of public companies in the U.S. (GAO, 2019; Petrovits et al., 2011). As a result of SOX, one of the requirements included creating a self-styled public institution called the Public Company Accounting Oversight Board to monitor and control public companies' audits and hire auditors to enforce laws against fraud (Coates & Srinivasan, 2014).

Lawmakers enacted SOX due to corporations' scandals early in the 21<sup>st</sup> century (Act, S. O., 2002). One scandal many are familiar with involved Enron Corporation. Enron was on the top of the list of most successful businesses in the U.S. back in 2000 when the fraudulent practices surfaced. Another similar scandal in 2002 was WorldCom's accounting occupational fraud practices by WorldCom's chief executive officer (CEO) and the chief financial officer (CFO). WorldCom received a \$750 million SEC fine. The CEO of WorldCom got 25 years in prison, and the CFO received a 5-year sentence (ACFE, 2018).

There are 11 sections in the SOX act. Section 302 and 404 are relevant to internal control practice compliance. Section 302 deals with corporate responsibility for financial reports, and section 404 relates to management assessment of internal controls. Under the SOX Act, public companies must adhere to regulations involving internal controls' effectiveness when reporting financial information (Act, S. O., 2002; Albring et al.,

2018). Nonprofit organizations are encouraged but are not required to follow these regulations under the SOX Act. Without the compliance requirement, nonprofit leaders and their board of directors can make loose choices on what to use as internal control practices. Weak internal control practices likely create risk problems and expose the organization to potential perpetrators, making the nonprofit more susceptible to occupational fraud (ACFE, 2018).

Businesses' internal control practices aim to strengthen the bond with outside investors and maintain transparency when reporting financial information. The regulations did not include nonprofit organizations in the requirement to apply SOX (Act, S. O., 2002). Still, there was an increase in the likelihood of adopting specific characteristics of sections 302 and 404 of the SOX (ACFE, 2018). Feng et al., (2014); and Petrovits et al., (2011) revealed that weak internal control practices disrupt donor and community support, which increases the chance of a dissolution of the organization. Nonprofit leaders who apply SOX regulations likely experience advantages that help understand better business practices, efficiency, occupational fraud reduction, and exposure to weak internal control practices (Gupta et al., 2018; Nezhina & Brudney, 2012).

COSO's framework gives managers an easy way to see possible gaps in SOX 404 compliance (ACFE, 2018). Some managers may have missed some documentation necessary for the internal control application from COSO's 1992 framework before massive corporation scandals. The assessments for these companies may have fallen short because of some missing principles. Corporate scandals led to the updated COSO

framework that detailed each of the 5 components of internal control practices within the framework (ACFE, 2018). With this update, management can have a higher success rate in locating issues in their internal control practices and preventing weaknesses.

Nonprofits do not have to comply with the regulations set out by COSO. Many nonprofits adopt certain aspects of rules to help strengthen internal controls within the organization. According to the Internal Revenue Service, nonprofits only need to file form 990 if reporting income under \$50,000 (IRS, 2016).

Why nonprofit organizations do not follow internal control practices is uncertain. It is possible that the contributor to the problem is the positive accounting theory of agency where the agent has certain obligations that need to be fulfilled for the principal, (Baker et al., 2019). Responsibilities such as full-time jobs and a lack of compensation for the help given may cause volunteers to lack total dedication to tasks and not follow the level of care necessary to fulfill their obligations in small nonprofits (Fleak et al., 2010; Flesher & Duncan, 1999; McNeal & Michelman, 2006; Millette & Gagné, 2008). Weak internal control practices may make small nonprofits vulnerable to fraud. In front of everything else, volunteers are the ones who look after the organization and, generally, the only ones to run the nonprofit (McNeal & Michelman, 2006).

Further research is necessary to discover possible unknown factors why nonprofit leaders lack proper internal control practices. Continued research could contribute to the small nonprofit community and promote positive social change. Although Archambeault and Webber (2018) addressed specific influences in their study conducted about internal control practices on small nonprofits, additional research is necessary because the data

collected was insufficient to meet saturation, which lowered the results' validity. West and Zech (2008) focused on individuals trained to do specific duties, attitudes about using internal controls, and the amount of responsibility as critical influences that inhibit or restrict internal control practices in small nonprofit organizations.

Nonprofit leaders who take a proactive role by implementing proper internal control practices at the organization's start-up show credibility, making contributors more likely to donate to the nonprofits that use acceptable methods (Turpen, 2015). To further comply with laws, regulations, and policies, Turpen further explained that the board of nonprofits is responsible for maintaining a system of internal controls to ensure its agents achieve effectiveness and efficiency. This responsibility includes reliable financial reports and accounting methods to be used by the agents of the organization. To reach a more uniform approach for nonprofits, Iyer and Watkins (2008) found that many adopt provisions outlined by the SOX act to govern and implement internal controls. Turpen (2015) stated that internal controls are an integral part of every activity within a nonprofit. Internal controls are essential in regulating the funds and financial reporting practices of these organizations. Adequate controls in nonprofits show a reduction in asset loss risk, and produce reliable financial statements (Kamaruddin & Ramli, 2018). A sound internal control structure would be created by the board to restrict agents, how they report, and what they need to say.

Two internal frameworks have been released for organizations to use as a guideline. The first framework is the COSO, released by the Treadway Commission in 1992 and updated in 2013 (ACFE, 2018). The COSO is the Committee of Sponsoring

Organizations, and the internal framework refers to the internal control integrated framework. Similarly, the Federal Government's standards for internal control were released from the Government Accountability Office in 1997 and referred to as the Green Book (GAO, 2019). The Green Book is based on the internal framework from the COSO updated in 2014. Janvrin et al. (2012) found that COSO updated its internal control framework, first developed in 1992 to incorporate new SOX act mandates and current issues relating to enterprise resource planning. The COSO and Green Book use nonprofits guidelines with the private sector's COSO, and the Green Book is used by federal agencies.

Johnson (2009) explained that the internal control framework categories have unique characteristics that enable an organization to maintain internal controls. Johnson defined the control environment aspect as the organizations' tone influencing the organization's consciousness. Johnson found that nonprofits suffer from a lack of resources, support, and experience in their managers' training. Dent (2014) found that this lack of critical skills makes nonprofits vulnerable to board dysfunction and management disengagement. Ghafoor et al. (2019) added the importance of oversight of leaders and board members to reduce the likelihood of fraud because the oversight specifically connects to the control environment component of the COSO framework.

Research on new ways for nonprofits to overcome barriers through environmental and organizational factors influencing new policies is recommended (Dent, 2014; Johnson, 2009). Schwarzkopf et al. (2008) further agreed that the environmental factors affecting nonprofit governance change are vital to identify factors that influence internal

controls. The critical factors found by Schwarzkopf et al. are promoting integrity and ethical behavior; adequate participation and oversight by the board of directors; commitment to competence; assignment of authority and responsibility; and philosophy and operating style of management. Rubino and Filippo Vitolla (2014) further advanced this topic by researching the negative impact of inappropriate tone and inconsistent application of accounting practice by nonprofit leaders and the organization's board. An effective board and leadership are vital in fraud prevention (Ghafoor et al., 2019). The proper documenting, recording, and utilization of endowment funds link managers and board members utilizing reasonable environment control for nonprofits. Also, Rubino and Filippo Vitolla found that often in these situations, board members and management will inconsistently apply accounting policies for funds jeopardizing future donor funds.

As stated previously, it is possible that the contributor to the problem is the positive accounting theory of agency where the agent has certain obligations that need to be fulfilled for the principal (Baker et al., 2019). Responsibilities such as full-time jobs and a lack of compensation for the help given may cause volunteers to lack complete dedication to tasks and not follow the level of care necessary to fulfill their obligations in small nonprofits (Fleak et al., 2010; Flesher & Duncan, 1999; McNeal & Michelman, 2006; Millette & Gagné, 2008). These and other traits may make small nonprofits vulnerable to fraud. Many successful, well-known organizations worldwide have had the unfortunate experience of extensive fraud (Yallapragada et al., 2012). The concept of fraud is well known, yet the characteristics of fraud are commonly unrecognized (Cressey, 1973). Various explanations of fraud exist. Fraud is defined as an unlawful act

categorized by a violation of trust, deception, or disguise to obtain services, money, or property (Vousinas, 2019).

### **Fraud Models**

Fraud models are used to understand why people commit fraud and could be helpful in further research on the importance of internal control practices and why occupational fraud occurs in nonprofits. The model primarily used is Cressey's fraud triangle and includes 3 legs to explain why a person commits fraud (Cressey, 1973). Another model is the fraud diamond, which consists of the 3 legs of the fraud triangle with an additional leg called the occupational offender (Kassem & Higson, 2012; Wolfe & Hermanson, 2004).

A criminologist named Cressey (1973) created a broadly accepted model to define why people commit fraud. The fraud triangle model is likely the most extensively used when trying to explain why people commit fraud. Cressey focused his research on perpetrators embezzling, and he named those people violators of trust. Cressey's contribution to research on fraud has helped in developing new guidelines for fraud prevention. Internal control practices are an example of what is implemented due to fraud. COSO ensures updates to internal control practices as necessary to help businesses throughout the years (ACFE. 2018).

The fraud triangle makes up 3 areas or legs. If a person carries out the first leg, they must carry out the second and third legs before committing theft (Cressey, 1973). The first leg is superficial without disclosing financial need or the intention that leads a person to fraud. The second leg is the perceived opportunity. A perceived opportunity is

when the perpetrator must be willing to commit fraud without getting caught. The final leg of the fraud triangle stands for rationalization. For a person who wants to commit fraud, they must understand their illegal behavior in rationalization. The perpetrator can rationalize the situation in a way that they retain themselves as a trusted person.

Cressey's fraud triangle is the model experts rely upon to understand fraud and how to combat it. Aksoy and Kahyaoglu (2012) described the fraud triangle as 3 distinct parts: perceived pressure, perceived opportunity, and rationalization. Aghghaleh et al. (2014) found in their research that these 3 factors are the most common underlying factors in nearly every fraud occurrence. Ruankaew (2013) also stated that the fraud triangle's 3 factors play a significant role in the perpetrator of a fraudulent act committed. The fraud triangle has been the most widely used model in explaining the reasoning behind an individual's decision to commit fraud.

If the fraud triangle explains the individual's pressure, opportunity, and rationalization to commit fraud, understanding these factors should be equally important in detecting and preventing occupational fraud. Ruankaew (2013) stated that these factors are critical in comprehending, detecting, and preventing occupational fraud. As Ruankaew found in their research, the importance of understanding these factors helped to prevent fraud through the detection and analysis of how or why an individual may commit these acts. Hendi (2013) stated that understanding and learning these factors helps organizations design control systems that limit potential fraud. Hendi further said that utilizing fraud detection could show or outline anomalies in accounting, operations, and human resources, limiting the possibility of fraud. Ruggieri (2012) emphasized this



utilization of the fraud triangle in mitigating the risk of fraud. Understanding these factors is vital for organizations to minimize the risk associated with occupational fraud.

Ruankaew (2013) found that an individual is unlikely to commit fraud without Cressey's 3 fraud triangle factors. Without all 3 factors involved, an individual's likelihood of committing fraud is low. Mardiana (2015) realized that limiting 1 of the 3 factors reduces the risk of fraud in an organization. Pressure, opportunity, and rationalization are the critical factors needed in nearly all fraud cases, without which fraud rarely occurs, Mardiana stated. Ruankaew (2013) and Mardiana (2015) found that pressure from financial stress, unhealthy habits such as gambling, and unrealistic workplace goals can increase pressure to commit fraud. Opportunity increases when internal controls are lacking. Finally, Ruankaew stated that the perpetrator justifies deviant behavior to help rationalize the behavior. The use of the fraud triangle to help understand and prevent occupational fraud is vital to all organizations.

In a study by Kassem and Higson (2012), the contribution to providing knowledge to reduce occupational fraud has expanded comprehension by external auditors in identifying factors of pressure, rationalization, and opportunities that may exist in an organization. Kassem and Higson (2012) grew on Cressey's fraud triangle and developed the fraud Diamond model. This model includes the fraud triangle's ability to show how fraud in an organization typically happens from individuals higher in its leadership chain.

Cressey (1973) argued that the fraud triangle shows an increase in fraud occurrence. The fraud triangle works in some situations for researchers but not all.

Researchers must use more than one model since the fraud triangle may not be sufficient in all areas. Using more than one model should cover research areas that do not apply to the fraud triangle. The work done by Cressey is almost a century old, and much has changed over the years. Cressey's dated work prompted Wolfe and Hermanson to add another leg called the occupational offender (Wolfe & Hermanson, 2004). Instead of the fraud triangle, the theory was called the fraud diamond.

The fraud diamond defined the occupational offender as a person lacking a conscience, which cannot defeat temptation (Wolfe & Hermanson, 2004). Wolfe and Hermanson created the diamond theory by adding the fourth concept to the fraud triangle. All 3 of Cressey's components remained in the diamond. The diamond theory looks at all 3 legs of Cressey's fraud triangle. It includes an additional segment where the potential perpetrator must have the right personality traits and ability to penetrate the doorway of opportunity on more than one occasion (Wolfe & Hermanson, 2004).

Organizations rely on 3 standard methods to identify and combat fraud with various models existing in identifying fraud (ACFE, 2018). ACFE's 2018 report showed that organizations used individuals' tips to combat fraud, management review of finances or projects, and internal audits to identify fraudulent activity. Newman and Neier (2014) found that since the early 2000's tips have remained the number one reason organizations have discovered fraud within the organization. Nearly half of all tips come from other company employees. In contrast, only a little more than 20 percent came from customers or outside sources. Organizations have been overly relying on fraudulent activity to come to light using tips for too long, as Newman and Neier have found. Instead, a better

approach through policies or mitigation factors to limit the opportunity needs to be used by organizations to decrease fraud risk.

### ***Occupational Fraud***

Occupational fraud is a significant issue in nonprofit organizations. Occupational fraud breaks down into 3 categories. The ACFE nonprofit report categories are asset misappropriation, asset misappropriation with corruption, and financial statement fraud (ACFE, 2018). Ruankaew (2013) stated that occupational fraud affects numerous parts of an organization with devastating consequences (ACFE, 2018). Gottschalk (2012) researched the financial losses to organizations due to white-collar crimes such as occupational fraud. Peltier-Rivest and Lanoue (2015), Gottschalk (2012), and Hendi (2013) determined that the ethics of the individual and contextual factors play active roles in the commencing fraud scheme. Brody et al. (2012) showed how occupational fraud could erupt in violence within an organization.

Leaders must understand the many fraud dynamics, including Cressey's fraud triangle, to mitigate occupational fraud. Yallapragada et al. (2012) found that the increase of fraud links to increased communication technology and computers in organizations. Verschoor (2014) examined the global loss of fraud annually and found that, according to the Association of Certified Fraud Examiners (ACFE, 2018), organizations incur an estimated loss of \$3.7 trillion annually from occupational fraud. Verschoor further found that, on average, a loss of up to 5 percent of annual revenue is due to occupational fraud. As research in the literature has shown, occupational fraud is a significant global issue

faced by nearly every organization. This loss of revenue is even more devastating when factoring in the financial needs of nonprofit organizations.

Occupational fraud encompasses fraudulent acts committed by employees seeking personal gain (ACFE, 2018). An employee uses their role to inappropriately use the organization's assets, property, or other resources. Ruggieri (2012), Sulaiman and Bhatti (2013), and Yallapragada et al. (2012) demonstrated how several forms of occupational fraud are on the rise. Ruggieri (2012) found that occupational fraud is exceptionally costly to nonprofit organizations. Ruankaew (2013) stated that occupational fraud and the associated costs continue to be high even with renewed vigilance. Based on ACFE's 2020 global report, each case of occupational fraud in the U.S. incurred a median loss of around \$120,000. This result showed no change from the ACFE 2016 report that showed a median loss of \$120,000 per case in organizations in the U.S. Verschoor (2014) determined that the data from ACFE's report bases on reports from fraud examiners actual investigations into occupational fraud. As shown in the literature, the amount of loss due to occupational fraud in the U.S. is not improving.

Massive occupational fraud cases have contributed to the substantial cost of fraud since 2001, such as Enron and WorldCom. Yeoh (2015) found that many instances were due to fraudsters perpetrating a significant occupational fraud portion. Pamela et al., (2016) determined that this increase in fraud has resulted in social and economic costs. Yallapragada et al. (2012) showed how numerous occupational scams had influenced the corporate world since 2001, from Enron to WorldCom. These huge fraud cases just highlighted the increasing need for extra scrutiny for organizations. Enron and

WorldCom have been the most prominent fraud cases in history. Menard and Morris (2012) and Sulaiman and Bhatti (2013) researched how workplace deviance has a substantial economic impact on organizations. This deviance is due to employee theft or occupational fraud. These occupational fraud cases have had a significant contribution to overall occupational fraud over the last decade.

Button et al. (2012) found that leaders educated on the cost associated with occupational fraud are more likely motivated to help mitigate the loss due to occupational fraud. Button et al. researched how today's organizations are looking for new ways to reduce costs and minimize risk. Button found that one such way to meet these needs is for leaders to become educated on occupational fraud and reduce its impact on an organization.

According to Doig (2018), occupational fraud directly impacts an organization; therefore, leaders search for new and innovative ways to gain a competitive advantage. Doig stated that most organizations lack strategies or creative ideas to realize a competitive advantage. Button et al. (2012) asserted that investing in fraud control and prevention gives an organization a competitive advantage. Button researched 132 different fraud risk exercises from leaders worldwide to provide an average cost of fraud on an organization. Button et al. found the price of occupational fraud high and more significant than the cost to employ leadership training for fraud prevention. Button et al. also discovered that, on average, occupational fraud impacts 3 percent of annual profit and up to 9 percent in several cases. However, Button found that fraud prevention organizations can significantly reduce this cost of occupational fraud. Button et al. also

discovered that this could lead to a cost-effective method to reduce fraud through leadership awareness and training. Button et al. stated that, like any cost within an organization, leadership should view and approach occupational fraud in the way they handle all expenses, finding a cost-effective solution while gaining a competitive advantage.

The next step to combat occupational fraud in organizations is that leaders need the knowledge and skills necessary to understand the many fraud dynamics. Ruankaew (2013) found that leaders can reduce fraud risk by understanding the root cause of fraud. This knowledge helps leaders to minimize the risk associated with occupational fraud. Ruankaew also discussed how occupational fraud exists in businesses, criminology, and the psychological aspects of individuals. This research by Ruankaew demonstrated that occupational fraud exists by individuals who go beyond just business knowledge. Popoola et al. (2014) determined that while businesses cannot eliminate all fraud, proper training and expertise can reduce occupational fraud risk. Business leaders and organizations can use the existing knowledge of occupational fraud to combat occupational fraud.

The 2020 Report to the Nations outlined 3 distinctive classifications of theft or asset misappropriations, corruption, and fraudulent financial reporting as some examples of occupational fraud (ACFE, 2020). According to the 2020 report, asset misappropriation is the most common occupational fraud, making up approximately 88% of fraud cases against government organizations. Asset misappropriation generally involves theft within an organization or business (ACFE, 2020). It is when a perpetrator

takes certain assets without the organization's consent. Asset misappropriation has several sub-categories. Financial statement fraud is a sub-category of asset misappropriation but remains the least common of schemes at around 10% but is costlier than all other occupational fraud categories (ACFE, 2020). Additional sub-categories make up a smaller percentage of cases. They include corruption, noncash, billing, cash on hand, skimming, cash larceny, expense reimbursements, payroll, check and payment tampering, financial statement fraud, and register disbursements (ACFE, 2020).

You can find occupational fraud across a range of businesses, both for-profit and nonprofit, and across demographics as well. Smaller organizations are even more at risk due to the lack of resources to find and mitigate occupational fraud. Perpetrators find it easier to take advantage of small companies, which can cause devastating effects for the business and increase losses (ACFE, 2018). Sometimes an opportunity presents itself to perpetrators who take advantage of unsuspecting victims. The presence of weak internal control practices makes an organization more susceptible to fraudulent attacks. Potentially, opportunists see this as a chance to take advantage of nonprofits for personal gain. Without proper internal control practices, organizations are at a higher risk for occupational fraud.

For smaller nonprofits, the lack of donor funds could be devastating. Small nonprofits are likely newer and have fewer resources than larger organizations. Small nonprofits must work harder to build trust within a community and build donor support (ACFE, 2018). The leadership efforts to work hard and bring in support can leave other areas of the organization vulnerable to occupational fraud. If a nonprofit organization

experienced a fraudulent act and disclosed it to the public, it is unlikely to survive. Researchers analyzed 115 nonprofits with a published fraud case, and over one-fourth of those nonprofits did not survive at least 3 years beyond the fraud publication (Archambeault, & Webber, 2018). According to Archambeault and Webber, if organizations adopted certain aspects of SOX and followed the COSO integrated framework's guidelines, they took a step in the right direction to help reduce fraud. Unfortunately, many nonprofits are limited in trained employees, volunteers and lack funds to gain the necessary resources to build healthy internal control practices (Huang et al., 2017; Yang & Brennan, 2016; Young, 2014).

The ACFE Report to the Nations revealed how fraud takes place due to the trust placed with an employee, and small organizations are most at risk because it is typically one person that would be relied on for several job duties (ACFE, 2018). A story within the report discussed occupational fraud in a small nonprofit. Susan, who worked for a small nonprofit for 20 years, was trusted and accessed its financial portion. Marilyn, the nonprofit executive director, was unaware of the fraudulent activities until she reached out to the bank holding that nonprofit's account. She called the bank to discuss future projects for the organization. The banker informed Marilyn that the funds were low, and someone had written several checks to Susan. The information from the bank triggered an investigation and audit to uncover what was happening behind the scenes. The discovery after the investigation was alarming and disheartening for Marilyn and the organization. The scheme Susan pulled lasted over ten years, and she stole an estimated \$2.8 million.



This story's lesson portrayed the importance of healthy internal control practices to protect the organization (ACFE, 2018).

McDonnell and Rutherford (2018) covered fraud in nonprofits and placed occupational fraud into 2 2 categories: fraud conducted against the organization and deception. The act of occupational fraud impacts all involved in the organization, including supporters, clients, and the organization's reputation. This damage is one of the causes of donors pulling away. The organization may not be able to continue its sustainability if occupational fraud occurs. Trust from external sources will be difficult due to the inability to detect fraud (Huang et al., 2017).

The SOX's initial enactment was in 2002 as a federal law with financial and auditing regulations for public companies (Act, S. O., 2002). The act helps protect shareholders, employees, and the public from accounting errors and occupational fraud. The Securities and Exchange Commission (SEC) applies penalties to public companies for noncompliance with SOX regulations. Lawmakers enacted SOX due to scandals from corporations early in the 21<sup>st</sup> century. One scandal many are familiar with involved Enron Corporation. Enron was on the top of the list of most successful businesses in the U.S. back in 2000 when the fraudulent practices surfaced. Another similar scandal in 2002 was WorldCom's occupational fraud practices by WorldCom's chief executive officer (CEO) and the chief financial officer (CFO). WorldCom received a \$750 million SEC fine. WorldCom's CEO was sentenced to 25 years in prison and the CFO to 5 years (ACFE, 2018).

Cheung (2014) and Clinton et al. (2014) researched several results of SOX's enactment. Among these results is the increase in the monitoring of publicly traded companies' internal control systems and the company's accountability level. In addition to their work Coates and Srinivasan (2014) and Myllymäki (2013) found that sections 302 and 404 of the SOX Act require CEOs and CFOs to verify the success of internal controls within the company. This verification is for all public traded companies. Included in the 404 mandate is the requirement of auditors to verify the success of internal controls. These mandates have led to an overall increase in internal controls for organizations through increased monitoring and awareness. Organizations benefited when some nonprofit leaders adopted SOX mandates because it showed the internal control violations have lower levels (Turbide & Laurin, 2014; Yazawa, 2015). The adoption of SOX mandates has led to increased awareness in nonprofits and lower violations among other nonprofits.

Nonprofits did not require SOX standards to comply, but many nonprofit leaders adopted specific provisions (Act, S. O., 2002). Previous research showed the adoption of SOX requirements by nonprofits and findings on the effects experienced by nonprofits compared to the level of adoption (Turbide & Laurin, 2014). Approximately 25% of the nonprofit leaders studied recognized SOX's adoption and how it benefited the organization's internal controls and reduced fraud risk (Yazawa, 2015).

Opposition to using so many regulations argued that it is unnecessary to prevent excessive internal control violations and safeguard accountability (Coates & Srinivasan, 2014; Feng et al., 2014; Petrovits et al., 2011; Yazawa, 2015). Section 404 of SOX was a

directive for auditors to confirm internal controls (Act, S. O., 2002; Cheung, 2014). Many managers conveyed financial reporting improvements, but most did not believe the regulations of section 404 improved the firm's effectiveness (Alexander et al., 2013; Yazawa, 2015). Saat et al. (2013) proposed that small organizations had higher internal control violations than larger organizations. However, the complications observed in small nonprofits that resulted in higher internal control violations were financial and program characteristics (Saat et al., 2013).

SOX's effectiveness is still studied and debated in the political and academic world to discuss the relevance and success of SOX mandates. Mandate followers claim that regulations assure public confidence and increase accountability in these companies. Cheung (2014) found that SOX regulations' effectiveness increased overall success, benefiting nonprofit organizations' internal control use. However, Alexander et al. (2013) and Yazawa (2015) discovered that the SOX mandate's effects on the number of violations and accountability by nonprofit leaders are debatable. Under the SOX mandate, nonprofit organizations are not required but encouraged to follow the act's guidelines. The federal Single Audit Act of 1984 requires nonprofits receiving federal funding to comply, which implemented requirements to maintain internal control practices (Pridgen & Wang, 2012).

### **Agency Theory**

Panda and Leepsa (2017) studied agency theory's critical concepts from 75 articles over 47 years and discovered that agency theory is an applied theory and very practical. The use of agency theory concepts covers many different fields and is valuable

and prominent in every organization except for owner-managed companies (Panda & Leepsa, 2017). Daily and Dalton (2015) explained that nonprofits have a community or government-based control and do not have owners. The nonprofit leader is held accountable by board members, donors, businesses, the government, and the community. Donors expect nonprofit leaders to prove that the organization fulfills the mission and accounts for all funding (Harris et al., 2017). Applying agency theory concepts in a nonprofit organization's policies ensures that proper internal controls are in place and validates the leader's responsibilities to board members and the public. The principal-agent relationship can be applied to have the organization's donor community as the principal and the nonprofit board of directors as the agent (Greller, 2015). This application of principal-agent assumes the board of directors is making ethical decisions for the organization.

Many researchers such as Sinclair et al. (2013), Fama and Jensen (1983), and Panda and Leepsa (2017) have examined agency theory to understand the relationship between the principal and agent, which can work well in several situations. Panda and Leepsa found that the principal would assign tasks to the agent assuming the agent would work for the benefit of the organization, but the agents were found to be working for the benefit of themselves. Panda and Leepsa explained that exposing this agency problem helped organizational leaders see where the weaknesses were within. The agency theory lens can help examine the obstacles and enablers nonprofit leaders face regarding internal control practices. The terms *principal* and *agent* are not specific to personnel.

Fama and Jensen (1983) studied ownership and control within for-profit and nonprofit organizations by looking at the principal/agent relationships within these organizations. Fama and Jensen used an equation to measure a company's value and worth versus the market value of the stream of manager's expenses of non-budgetary benefits to show how agency theory works on the principal-agent relationship. These differences in the use of agency theory concepts have provided a tool for researchers in many fields to use as a lens when looking into agency problems. Generalizing principal and agent allows the study of an accounting issue without deciding who assigns the principal-agent. The principal-agent relationship implies that the donor community will act as the organization's principal for this research. The nonprofit leader and board of directors are the agent.

The behaviors of nonprofit leaders are one major roadblock to implementing adequate internal controls. Nonprofit leaders are less likely to receive penalties for unsuitable internal control practices, which means less responsibility, unlike for-profit organizations that must comply (ACFE, 2018). Jensen and Meckling (1976) found that fewer existing penalties for leaders due to poor accounting, reporting, and compliance, leaders tend to have a lower level of accountability given their inherent asymmetric payoff. Bosse and Phillips (2016) found that agency theory's lens draws attention to nonprofit leaders' behaviors that collectively create a loss for the organization. The exposure of this behavior is intended to persuade leaders and board members to increase state and federal compliance guidelines, which helps reduce occupational fraud and improve the organization's integrity (ACFE, 2018).

Agency problems can become complex and undefined in the absence of a clearly defined principal in the organization. To eliminate problems that can arise from principal-agent relationships in an organization, leaders of nonprofit organizations should implement internal control practices that address agency problems, as seen in agency theory. Van Puyvelde et al. (2012) found that some agency relationships have an inherent conflict between the principal and the agent. One principal-agent relationship is the possible cooperative behavior between the nonprofit leaders and the board of directors acting as the agent and the donor community as the principal. The community makes donations to the organization and expects the nonprofit to allocate funds appropriately (Mead & Pollack, 2016). The donors acting as principal assume the nonprofit leader and its board (agent) fulfill the purpose by utilizing the funds as expected.

Agency theory is a relationship between principals and the agents of the organization. However, a conflict of interest can exist between these parties. Bosse and Phillips (2016), L'Huillier (2014), and Rashid (2015) found that this conflict arises when both parties attempt to maximize profits from the organization. A conflict occurs when both the principal and the agent report different amounts of information to exploit self-gain instead of concentrating on the organization's interest. This conflict of interest has caused an increase in agency costs. An increase in expenses due to a conflict of interest can be devastating to nonprofits since they rely on donor support.

The principal (donor community) must ensure the agent (leader and board of directors) is using proper internal control practices to help create a trustworthy relationship with communities to help strengthen the organization and increases donor

support (Harris et al., 2017). The assumption of working for the organization makes it necessary for the agent to act by implementing internal control practices (Van Slyke, 2005). Researchers studied the articulation relevance of incentives and found an essential balance in minimizing spending, including agency costs if an organization wants to lower costs and maximize residual income (Bosse & Phillips, 2016; Namazi, 2013; and Van Puyvelde et al., 2012). Implementing proper internal control practices can help balance the spending to help lower costs to maximize income for the organization. In a nonprofit, donor support is crucial in the success of the mission. Funding is necessary to provide a need within the community. Bosse and Phillips explained that proper internal control practices offer the organization a way to reduce occupational fraud, balance spending, and provide integrity.

The agency theory lens seeks to increase leaders' incentives and affect the organizational system evaluation, behavior, and control monitoring of the leaders. This corporate role arises because leaders need to resolve information irregularity problems found in principal control measures. Cordery (2013), Zhuang et al. (2014) found that agency theory directly relates to these control measures as observable performance outcomes. The behavioral role of agency theory explains the assumption that an agent performs in the best interest and not the principal leading to a work-averse behavior. A governing board is often used to monitor top executives and describe the governance practices that the organization wishes to follow to help solve these agency problems (ACFE, 2018).

Essen et al. (2013) found that one way to align an agent's interest within an organization is with compensation packages such as stock-based or pay-based incentives. Ma and Wang (2014) found a direct correlation between a manager's risk behavior and compensation packages, such as stock options. This relationship also led to a high level of violations in nonprofit leadership. As Blazovich (2013) documented, risk propensity does not change in nonprofit leaders based on compensation packages due to the organization's performance or position. These mixed findings show the need for further research on nonprofit leaders to determine the best means of lowering internal control violations and increase risk behavior practices. In typical nonprofits, leaders use contracts to achieve the alignment of principal goals and agent goals. Leaders believe that behavior contracts such as salary are better to keep goals aligned in nonprofit leaders than outcome contracts such as bonuses (Eke & Monoji, 2016). Nonprofit agent influence is still not agreed upon in the academic community, demonstrating the further need for research on nonprofit leaders and internal control practices within organizations (Blazovich, 2013; Ma & Wang, 2014). This study aims to further research proper internal control practices in small nonprofits through a qualitative case study.

Fama and Jensen (1983), Hou et al. (2014), and Jensen and Meckling (1976) found that some leaders lower accountability to maximize profits and suggested that such behavior leads to higher levels of internal control violations. This behavior has also led to the contention that individuals are self-interested and risk-averse because leaders maximize profits over liability. The reduction in accountability makes getting an efficient contract to guide the principal-agent relationship vital in ensuring low internal control



practice violations and influencing agents' behavior. Such actions lead to higher risk levels and more opportunities for fraudulent attacks, as Hou et al. explained.

When there is alignment on actions and outcomes between the principal and the agent, self-interest conflicts decrease (Eisenhardt, 1989). Setting apart and distributing agency theory's role develops from the idea that it is possible to get a contract that may maximize the utility of the agent and the principal and lead to the distribution of company resources and risk-sharing. Namazi (2013) highlighted the usefulness of internal control practices to convey the information needed for control and efficient risk-sharing between agent and principal. These internal control practices enable agency theory to become a sound basis for managerial accounting systems. Mirrlees and Raimondo (2013) agreed with Namazi and found evidence that the principal and agent can obtain a level of control in aligning objectives between the two. The alignment obtained is one of equilibrium, which is what Mirrlees and Raimondo found.

Addressing concepts of agency theory in nonprofits brings about a unique set of challenges for organizations. The relationships between nonprofit leaders' accountability and expectations of donors and their board of directors are among them. Baapogmah et al. (2015) and Cordery et al. (2013) researched the potential of agency theory's lens to resolve agency problems like the accountability of internal controls and donors' expectations. Their research found a relationship between nonprofit leaders' responsibility and the hope of board members who govern nonprofit leaders. Notable areas of a leadership role include finance, operations, disclosure, transparency of financial transactions, use of funds, and oversight of managerial decisions. Proper

internal controls can help nonprofit leaders with proficiency in all areas of their role of responsibilities.

Schubert (2014) found that the development of agency theory occurred similarly to positivist and principal-agent approaches. Positivist and principal-agent studies found that self-interest is a common occurrence that causes problems between agent and principal. Eisenhardt (1989) explained the difference between positivist and principal-agent. She said the positivist focuses on the organizational environment and technology that deals with the monitoring and contractual relationship. In contrast, the principal-agent focuses on the risk-sharing and nature of optimal contracts. Nonprofits can cause concern with the agent's quality of preferences since these organizations rely primarily on volunteers. Eisenhardt further explained that the central area of interest with the positivist approach is that information costs, capital markets, and the nature of internal control practices in nonprofits are uncertain. Therefore, it is difficult to achieve a positivist approach.

Turbide and Laurin (2014); and Van Puyvelde et al. (2012) suggested that combining agency theory with additional practices, such as stakeholder and stewardship theories, can resolve problems with consistency in efficiency and accountability definitions in nonprofits. Research indicated that the lens of agency theory does not explore the nonprofit environment's complexity and suggests combining other approaches such as stewardship theory or stakeholder theory (Greller, 2015; Van Puyvelde et al., 2012). Sinclair et al. (2013), Tremblay-Boire and Prakash (2015), and Wellens and Jegers (2014) lead the research in advancing the use of stakeholder theory in

defining and understanding accountability to stakeholders. Stakeholders in nonprofits are those affected by the organization's activities, making it difficult to align the principal and agent in such organizations. However, Sinclair et al. found that by focusing on all stakeholders, the organization can create value that leads to an excellent performance by the agent.

Harrison and Wicks (2013), O'Brien and Tooley (2013), and Wellens and Jegers (2014) argued that stakeholder theory falls short in explaining the conflict in the interest and goals of various stakeholders. Agency theory concepts help resolve these problems. An example given is that while some stakeholders may sell shares with little affecting the stakeholders' overall interests, employees cannot seek new employment within a reasonable time to replace an essential source of goods and services.

O'Brien and Tooley (2013), Turbide and Laurin (2014), and Ungvarsky (2017) defined stewardship theory in that the agent is a steward of the resources provided to them to make decisions that promote the organization's accountability and governance. O'Brien and Tooley found that possible bias exists for agents in this role to develop effective internal controls methods and provide goods for those most in need versus for maximum profit. Similarly, Van Puyvelde et al. (2012) argued that agents would seek only the principal's best interest even if their interest diverged from the agent's. Agents accomplish personal outcomes of achievement while keeping the goals of the agent and principal aligned. Namazi (2013), Ross (2013), and Van Puyvelde et al. (2012) found that the interest of agents and principals differ for stewardship theory and agency theory because agency theory has a higher interest similarity between principal and agent as

opposed to stewardship theory which results in lower internal controls and inefficiencies in operations. Sinclair et al. (2013) explained that stewardship theory does not explain the conflict between principal and agent in nonprofits as adequately as agency theory; however, both approaches help understand agents' roles and responsibilities. After researching different views, agency theory was the best fit as the lens for this study.

Sinclair et al. (2013) agreed that the nonprofit leader's relationship between accountability and internal control is from agency theory. Nonprofit leaders are less likely to receive penalties for unsuitable internal control practices; therefore, less responsibility, unlike for-profit organizations that must comply with the SOX act (Act, S. O., 2002). Some nonprofits adopt specific regulations of the SOX act, but it is not required. This limitation of laws for nonprofit organizations can leave these nonprofits vulnerable to fraud attacks from outside or inside the organization (Gupta et al., 2018; Nezhina & Brudney, 2012).

Exposing agency problems can be useful to increase the responsibilities of the nonprofit leader. Application of agency theory concepts can help uncover agency problems resulting from principal-agent relationship contracts, potentially helping control a nonprofit leader (L'Huillier, 2014). Agency theory concepts expose agency problems within the organization if they exist. Uncovering problems can help identify the potential risk of occupational fraud.

Gerald and Weber (2014) researched ways to improve internal control practices in organizations and focused on risk management by applying agency theory concepts to help uncover the possibility of fraud. Gerald and Weber applied agency theory and found

that the approach helped provide a profound understanding of fraudulent acts. The agency theory application was practical and helped expose irregular patterns of a potential perpetrator expressing unethical behaviors. Gerald and Weber recommended using agency theory concepts on fraud to help inform future studies and validate the approach's value. The addition to the validation of agency theory as an approach to uncover fraud risk continues to be an essential field of study. Researchers have used agency theory in many ways and continue to find agency problems to address (Daily & Dalton, 2015; Gerald & Weber, 2014; Panda & Leepsa, 2017). In the nonprofit sector, organizations may suffer from loss of funding and trust from the community, which hinders fulfillment of their mission. Exposure to agency problems can provide the tools needed to repair and grow into the organization's intended mission.

### **Methodology**

The qualitative methodology selected for this research is an exploratory case study design. The purpose of this qualitative case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern U.S. face when employing proper internal control practices to protect the organization from occupational fraud. 5 different qualitative studies include narrative, grounded, ethnography, phenomenology, and case study. Case study designs center around real-life environments. Case study designs can be beneficial in nonprofit settings because the design can be used to understand the obstacles and enablers that nonprofit leaders face concerning internal control practices. Case study designs are useful when studying nonprofits because it clarifies boundaries between the researched phenomenon and the environment (Aczel,

2015; Yin, 2018). I used this study's methodology to explore how nonprofit leaders deal with obstacles and enablers relating to internal control practices to reduce occupational fraud risk.

There is a limited amount of research on internal control practices in small nonprofit organizations. Researchers used different designs and methods to uncover agency problems with varying results (Applegate, 2019; Kramer, 2018; Tracey et al., 2018; Woodward, 2019). Applegate (2019) conducted a survey to determine the use of internal controls in nonprofit organizations and found that most had weak internal controls, which is one reason for fraud risk. Kramer (2018) did a question-and-answer survey to help gather information about ways to handle finances within an organization and explained the importance of separation of duties. Kramer defined separation of duties to handle money by having a different person collect money, deposit money, and write checks. Tracey et al. (2018) used a case study design to research the success of a business based on the internal control practices set by leaders of that organization and explained that part of a nonprofit leader's duties should always include internal control practices to ensure success and sustainability in the organization to fulfill the mission. Woodward (2019) gathered information about the risk of fraud in nonprofits through interviews and expressed the urgency of putting the spotlight on fraud in small nonprofits to raise awareness of potential risks.

### **Summary and Conclusions**

The literature review offered in this chapter adds to the research topic. It explains how leaders of small nonprofits deal with obstacles and enablers concerning internal

control practices to help reduce occupational fraud within the organization. I used the lens of agency theory to explore the obstacles and enablers nonprofit leaders face regarding internal control practices within nonprofit organizations. The search strategies used for this study helped the researcher gather scholarly material for analysis. The research on historical data provided critical elements to building on the research question. I explain key terms in chapter 2, such as agency theory, occupational fraud, and internal control practices, explaining the importance of proper internal control practices. A review of the literature follows a summary of the framework.

Exposing obstacles and enablers within organizations may help to put light on the effectiveness of internal controls. The gap in the literature is the need for further research of internal controls in small nonprofits. To date, there are no requirements for nonprofit leaders to comply with regulations regarding internal control processes. These organizational leaders must rely on recommended compliance regulations (ACFE, 2020). Nonprofit leaders must understand the importance of adequately implementing healthy internal control practices to protect the organization from occupational fraud. Small nonprofits are vulnerable to attacks from potential predators looking to take advantage of organizations with weak internal control practices.

Nonprofits count on donor support to fulfill the mission of helping the community in some way. Donors expect nonprofit leaders and board members to run the organization efficiently and effectively. Many nonprofits adopted certain internal control practices from the Sarbanes Oxley Act of 2002, which helps increase their internal control practices' integrity overall. Using agency theory as the lens for the research helped

understand responsibilities and relationships between board members and nonprofit leaders to address agency problems regarding internal control practices (Bernstein et al., 2016). I cover the research method in detail in chapter 3 and explain why I use one method over others for this study.



### Chapter 3: Research Method

The purpose of this qualitative exploratory case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States encounter when employing proper internal control practices to help protect the organization from occupational fraud. In this chapter, I reflect on my intent to collect, analyze, and triangulate data and documents. I provide a thorough explanation of the methodology behind addressing the research question in this study in Chapter 3. I also offer a detailed description of the research method used to gather information for the study. The method includes research design and rationale, this study's nature, and a case study definition. A detailed explanation of the researcher's role provides insight into the data collection process to gather valid research from participants that fit the research question. I give a thorough explanation of the methodology used to assist researchers in duplicating the study, including participant selection, data gathering, and analysis of the data. Finally, I outline ethical processes and trust to validate the research further.

#### **Research Design and Rationale**

The overarching research question is: What are the perceptions of leaders of small nonprofit organizations regarding the use of internal control practices that protect the organization from occupational fraud? Out of the 3 possible methods, I selected a qualitative approach to address the research questions. Power and Gendron (2015) stated that research collected should contribute more evidence in accounting and auditing using a qualitative approach.

Researchers use a quantitative approach to measure the relationship between variables or statistically describe a situation (Bentahar & Cameron, 2015; Farrelly, 2013; Norris et al., 2015). The mixed-method approach allows researchers to use qualitative and quantitative methods to gather data (Bentahar & Cameron, 2015). Researchers use the qualitative method to discover how people process their phenomenon experiences (Booth et al., 2008). The qualitative approach is helpful for researchers studying an issue through the lens of those who have experience with the phenomenon and understand why or how it exists (Yin, 2018). The qualitative approach was the best fit to help address the research questions in my study.

The qualitative method allows researchers a way to select a design suited for their studies. Some designs include narrative inquiry, phenomenology, ethnography, and case study. A narrative inquiry seemed reasonable for this study to a point. Still, it would be a considerably long process to gather life stories from 20 participants. The narrative inquiry is well suited for participants' life experiences because it allows the researcher to read participants' stories to find individual experiences (Josselson, 2006). Since this study does not focus on the individuals' life stories, a narrative inquiry was inappropriate.

Phenomenology design focuses on participants with a shared experience of a situation or experience (Giorgi, 2006; Husserl, 1989; Moustakas, 1994). The use of this design allows me to conduct interviews. The questions would focus more on asking participants about their experience with the phenomenon (internal control practices) and what generally influences their experiences of the phenomenon. With this approach, the researcher could also gather documents and observe if necessary. Researchers use

phenomenology to uncover meaning related to concepts of a group of individuals' lived experiences and is appropriate when exploring participants' experience concerning a specific event (Giorgi, 2006; Husserl, 1989; Moustakas, 1994). This design was incompatible because it did not combine available data with interview responses.

Researchers use ethnography to understand and examine daily social life as it happens. By applying this design, researchers can view how individuals feel based on their community over time (Samnani & Singh, 2013). Samnani and Singh (2013) further stated that the ethnography design is practical when seeking out patterns, behaviors, languages, and beliefs of a group that shares cultures. Seeking these things out is not feasible due to the sample size and geographic region.

Grounded theory design generates a theory. According to Gambetti et al. (2012), with this design, researchers question participants about processes to help form a theoretical model that explains a phenomenon. Researchers gather historical data to obtain participants. This design helps build on what other researchers have gathered about a phenomenon. I did not select a grounded theory design because it was not the best fit for the research but possibly useful for future research in this area of study.

Researchers use a case study methodology to gain detailed knowledge of a person, program, or situation to expose a visible picture through different data gathering methods (Range, 2019). The case study methodology is appropriate when seeking in-depth information about an issue. The case study method was acceptable for this study because it is necessary to gather information about a topic through interviews and documented financial information to validate the research. Case studies work well for

investigations. An exploratory case study design is proper for this research when looking into agency problems like the obstacles and enablers nonprofit leaders face regarding internal control practices. I can use a case study to help gather an in-depth understanding of an issue. The primary distinctions in case study designs are single-case or multi-case studies depending on the data collection (Yin, 2018). Yin (2018) explained that there are many situations where a single case study is helpful for research designs. The single-case study design is in line with a single experiment. The multi-case study is a cross-examination of multiple single-case studies presented and compared to each case study (Yin, 2018). This research is qualitative with an exploratory case study design through the lens of agency theory.

The qualitative method is flexible and enables researchers to explain strong indications of the empirical information to understand a phenomenon (Aborisade, 2013). The interview process includes a series of questions about the obstacles and enablers that nonprofit leaders deal with relating to internal control practices. I used a case study design to gather information from participants through interviews and documents.

For this case study design, I selected 20 participants from small nonprofits in the eastern United States using an online search of a nonprofit database called GuideStar ([guidestar.org](http://guidestar.org)). In this study, I explored the obstacles and enablers that small nonprofit leaders face when using internal control practices to adequately protect the organization from occupational fraud. Extensive research shows a higher risk of occupational fraud without internal control practices within an organization (ACFE, 2018; Kummer et al., 2015). Researchers use case study designs to conduct interviews, which helped themes

emerge from the collected data (Range, 2019; Yin, 2018). Face-to-face interviews using the online platform Zoom to conduct the interviews and transcribe the information may help address the research questions. In conducting interviews, I deduced data that focuses on the critical elements of the study. I created a series of questions to discover emerging themes. I triangulated the data with documentation from public records through a nonprofit reporting connection called GuideStar.org that provides 990 tax forms of nonprofit organizations (guidestar.org).

### **Role of the Researcher**

The researcher's role in the data collection of case studies is conducting interviews, gathering documents, and analyzing the data. The researcher must be present during data collection to help address the research questions and find emerging common themes (Yin, 2018). Data interpretation is necessary once collected during the study. Interpreting data helps support the research and ensures enlightening confirmation (Rapport et al., 2015). Nura (2014) explained that confirmation is a way for other researchers to validate further studies into an area and a suitable record-keeping method. Examples of confirmation from this study may be from data collected through IRS 990 forms, accessible nonprofit information online through GuideStar, and statistical data reported through the Association of Certified Fraud Examiners (ACFE).

A history of nonprofit involvement, including financial management and leadership, helped shape the research questions. I used the knowledge in the selection of questions to ask nonprofit leaders in an interview. The study's primary research instrument is me utilizing face-to-face interviews using Zoom for participants to address

the research questions. I mitigated the possible impact of researcher bias by documenting all areas of the research process through bracketing and the use of a reflective journal when gathering data and during the process of analyzing the information. All questions remained the same for each participant to ensure consistency, as well. Ethical issues could involve community relationships within unknown nonprofits. Some nonprofits work together to achieve community goals, which could connect nonprofits I was involved with. I worked with several nonprofits in this area, so I continued seeking out nonprofits that did not connect me in any way. Other ethical issues were personal relationships with volunteers who worked at more than one nonprofit. The nonprofits I selected were not any I have been involved with to help remove the chance of researcher bias.

I used bracketing to assist in removing biased opinions in my study. Researchers use bracketing to eliminate doubt and any suspicion of bias to allow an open mind when interviewing participants (Groenewald, 2004). I used bracketing in collaboration with a reflective journal to take notes on important matters that need to be addressed and maintain a bias-free environment.

### **Methodology**

In my study, I employed a qualitative method with a case study design to ask nonprofit leaders about the obstacles and enablers they face relating to internal control practices to adequately protect organizations from occupational fraud. One way to investigate internal control practices is called agency theory. According to Bryant and Davis (2012), agency theory is a popular framework used to help investigate internal

control practices and the role of the organization's leaders. Agency theory helps analyze an agency problem and helps detect, correct, deter, and manage agency problems such as occupational fraud (Panda & Leepsa, 2017). Agency theory can provide the lens to help investigate internal control practices and leaders' role in the organization (Bryant & Davis, 2012).

Interviews were conducted with 20 leaders in small nonprofits, or until data saturation occurs, to collect data in this case study methodology. Data saturation refers to the completion of collection of all necessary information to fulfill the researcher's validity of the study where no new information or themes emerge from the data collected (Morse, 1994). Lambert and Lambert (2012) explained that interviews are the best method to be used when necessary to gain detailed information to describe experiences with an issue. This study provides positive social change by creating a more trustworthy environment for nonprofits by addressing the importance of internal control practices. These practices help reduce occupational fraud and allow organizations to fulfill their mission.

### **Participant Selection Logic**

Yin (2018) explained that participants provide data collected by the researcher in a case study design. The nonprobability purposive sampling for this study will include 20 leaders from small nonprofit organizations. I based the nonprofit choice on organizations that filed IRS Form 990, located in the eastern United States. I identified participants and collected financial data through a nonprofit reporting connection called GuideStar.org (guidestar.org). Guidestar provided copies of the organization's tax forms and other

relevant public record information. The search criteria included organizations making \$1,000,000 or less, with nonprofit leaders having at least 2 years of experience working in the field as a leader in an organization. A selection included up to 20 recently formed nonprofits. Once individuals were selected, an email included in Appendix B was sent to nonprofit leaders as an initial contact requesting participation.

Participants replied to the email with their decision to agree or not agree to participate. There was a one-week window for participants to respond. If I did not receive a reply in 1 week, I assumed no study participation. I asked individuals if they would like to be a part of a study benefiting nonprofits in the email. I informed them about the data collection method through face-to-face interviews utilizing the Zoom online video platform. Once a response was received from individuals wanting to participate, the timeframe was arranged with a response email for each participant to see what worked best around their schedules. To ensure saturation, I conducted interviews with nonprofit leaders until there was no new information provided by participants from the 20 selected nonprofits. Once data saturation was reached, I notified the remaining nonprofit leaders that have not been interviewed so they understood I gathered enough of the necessary information for the research.

### **Instrumentation**

Documentation was used from public records accessible through GuideStar.com. GuideStar is a nonprofit reporting website that provides IRS form 990, demographics for the nonprofits, and other vital public record data. Other data that was collected included financial reports from GuideStar.com. IRS form 990 is a form required for reporting



income for a nonprofit. The demographics information from GuideStar helped in my research to narrow the search to nonprofits making \$1,000,000 or less within the eastern United States. Interviews and documentation from GuideStar were collected and analyzed to help in triangulating the data.

For this qualitative study, the main instrument was me. In a qualitative approach, the researcher is considered a key data collection instrument (Leedy & Ormrod, 2016; Lincoln & Guba, 2013). Denzin (2014) stated that the researcher is the main instrument because of their vision, hearing, and data interpretation in the field. Since the main instrument for collecting the data was me, it was essential to provide a comfortable atmosphere for participants. The atmosphere should allow rapport, transparency, and interpersonal links while conducting interviews (Pezalla et al., 2012). The collection method included interviews to gather information about the obstacles and enablers leaders face when employing internal control practices. The interviews included in data collection for a qualitative study can be semi-structured, face to face, or through transcripts (Sidorova et al., 2016).

In my study, I asked open-ended questions for participants to answer. The purpose of the open-ended questions was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern U.S. face when employing proper internal control practices to adequately protect the organization from occupational fraud. This interview process allows the researcher to gather explanations and personal input with an informal approach that is not intimidating to the participants (Yin, 2018). The overarching question presented for the research was the following: What are the

perceptions of leaders of small nonprofit organizations regarding the use of internal control practices that protect the organization from occupational fraud?

Questions for the interviews to help answer the research questions are in Appendix A. The questions relate to the research questions because they focus on the area of study on the perceptions of small nonprofit leaders as they relate to employing proper internal controls which help protect the organization from fraud. The interview questions also relate to the sub-questions about the obstacles and enablers affecting internal controls.

### **Expert Review**

An expert review can help examine the validity of the data collected (Eldridge et al., 2016; Samaan et al., 2015). I conducted an expert review to ensure the selection of research question can generate a good outcome in the data collection from participants (Eldridge et al., 2016; Samaan et al., 2015). I used 2 experts in the field of my design or the topic of the study. The first review was from an expert in qualitative research. The second review was from an expert in small nonprofit management, which gave a perspective of what I need for this study. I sent my interview protocol, my research question, and my purpose statement for the experts to review and comment on the following:

- If the interview questions are clear
- If the questions can address the research question
- If the questions are appropriate for my design

There were 4 questions for this expert review:

1. Based upon the purpose of the study and research question, are the interview questions likely to generate information to answer the research question?
2. Are the participants likely to find any of the questions in the interview (the nature of the question or specific wording) objectionable? If so, why? What changes would you recommend?
3. Were any of the questions in the interview difficult to comprehend? If so, why? What changes would you recommend?
4. Feel free to provide any additional thoughts about the interview questions, which were not covered in questions 1 through 3 above.

Expert 1 agreed that the study would generate information to answer the research question. Expert one did not see anything that may be deemed objectionable in the study. Expert one did not see any problems with the participants comprehending the interview questions and further stated that the information is on the correct path to gain the answers necessary to the research questions within the study. Expert 2 suggested changing the research question to an overarching question with 2 sub-questions, which were changed. Expert 2 also recommended some changes to the interview questions. I made some changes as recommended.

### **Procedures for Recruitment, Participation, and Data Collection**

Qualitative data collection using interviews may be semi-structured (Conrad & Tucker, 2019). Semi-structured interviews provide a deeper understanding of the study topic (Cataldi, 2018). The use of semi-structured interviews helps researchers uncover hidden characteristics of the behaviors within an organization or of participants because

the semi-structured interviews provide a flexible, intelligible, and accessible approach in collecting the data (Muhammad, 2018). For this case study, I used semi-structured interviews to help provide a better understanding of the research (See appendix A). I aim to recruit 20 leaders from small nonprofits in the eastern U.S. or until data saturation occurs. Data saturation refers to completing the collection of research data from participants where no new information is emerging (Etikan et al., 2016). I sent out emails to select small nonprofit leaders asking for their study participation. The email is in appendix B. If they decided to participate, I sent an informed consent via email with procedures about the study and how to notify me of their consent (see Appendix C). Permission from the participants consisted of a reply email with their full name, organization, consent to participate, and availability. Upon receiving the informed consent email, I began scheduling interviews with each participant based on their availability. I based the selection on the following:

- Selected 20 nonprofit leaders, or until data saturation occurs, based on at least 2 years of experience with a small nonprofit to ensure I meet the required number of participants for the research's validity and reliability
- Used the Guide Star database to locate small nonprofits in the eastern U.S. to select possible candidates for the study participants
- Established criteria with a minimum of 2 years in nonprofit leadership
- Nonprofit with \$1,000,000 or less in gross income based on findings from Guidestar or form 990 from the IRS

- Selection will include the first 20 recently formed nonprofits that meet all other requirements
- Email organizations' leader to ask for participation in the study (see Appendix B)

The selection process ensures that individuals and organizations meet the criteria outlined in the participation logic listed above. The requirements were selected based on recommendations using a case study methodology. For the minimum 2-year requirement, all leaders selected will have some excellent experience in the field. I continued to gather participants until I received sufficient data saturation.

I gathered data from interviews based on the questions (see Appendix A). To ensure privacy, I conducted interviews using Zoom between myself and the participants. Zoom was an easily accessible online platform that some participants used for free. Other video platforms can come with a cost depending on the length of time spent in each interview. Zoom was a secure platform that was safe to create meetings, collaborate with others, transcribe, and provide high-quality video join-up for all groups or individuals. The Zoom platform provided a way to transcribe the interviews. Zoom is also an easy way to meet and record the interviews with participants. I proofread the interviews upon completion.

Other data that was collected included public record documents that support the information gathered. Documentation included demographics about the nonprofit, IRS form 990, and financial reports from a nonprofit website called GuideStar.com. IRS form 990 is a form required for reporting income for a nonprofit.

Maintaining privacy and confidentiality enables participants to answer honestly and clearly. Interview questions were the same for each participant, but the responses were very different. I only identified the personal identification numbers (PINS) from the interview transcripts to avoid names and other personal information about the participants. I used PINS to organize participants by giving them identifiers within a number assigned to each person.

I set up interviews through email communication. The interviews lasted approximately 30 minutes. After each interview, I informed participants how to exit the platform and check their email within a week. I asked the participants to review the transcripts. Once participants looked over the transcripts, I asked participants to return transcripts within 1 week after they looked over the transcript. I considered any unreturned transcripts as accepted.

Qualitative methods in research can be advantageous in the data collection process. One advantage of data collection in qualitative research is allowing the researcher to perform in-depth face-to-face interviews to explore a phenomenon (Saldana, 2015; Stake, 2010; Yin, 2018). Stake (2010) and Yin (2018) further explained that another advantage when conducting face-to-face interviews is gathering knowledge of the phenomenon from experienced participants in the field. A disadvantage in the data collection process includes scheduling conflicts for interviews (Yin, 2018). Here is a step-by-step account of how I conducted my study:

- Emailed request to participate to nonprofit leaders obtained from GuideStar

- Gathered 20 participants that agree to participate
- Set a scheduled time for each participant
- Conducted the interview
- Sent the transcript to the participant to check for discrepancies
- Conducted data analysis of the interviews

### **Data Analysis Plan**

Data analysis consisted of interpreting data after the interviews have taken place. Once I interviewed the participants and transcribed the interviews, the data was analyzed through Yin's 5-step approach, followed by hand-coding to help uncover themes from the study with NVivo v12 computer software. NVivo v12 is a valuable, computer-assisted software used to organize, store, and retrieve data to help researchers manage the coding and categorizing of large amounts of information. Trotter (2012) explained that qualitative software like NVivo is helpful to researchers when coding and finding themes from the transcripts to address the research questions. Gregory (2017) explained that themes are essential for researchers in the data analysis process. For this research, I used NVivo v12 on the transcriptions by organizing and finding common themes. I exported the data into NVivo v12 software after analyzing the transcripts using Yin's 5-step approach as recommended by Yin (2018). Yin's 5-step approach includes:

1. Compiling the data
2. Disassembling the data
3. Reassembling the data
4. Interpreting the meaning of the data

## 5. Concluding the data

With the use of Yin's 5-step approach, data compilation helped me develop grouping. Data breakdown helped me eliminate irrelevant themes within the interview transcripts. Recompiling the data helped me pull out the main themes. Interpretation of the meaning of data seeks patterns against the transcripts. Finally, the conclusion of the data included a summary of the description of experiences.

In addition to the coded transcripts, I gathered public record documents from GuideStar.com to assist in triangulating the data. Having additional sources of data helps validate the research. Guidestar.com is a website that provides public record information about nonprofits. The data included financial documents, such as IRS form 990, demographics, and other vital information. The transcripts from the interviews and the documents from GuideStar paired well in collecting data for this study. Documents helped provide information necessary for the study such as nonprofits making \$1,000,000 or less a year, the number of years the nonprofit has been in existence, if the income increases, decreases or levels out through the years, and the different types of internal controls these organizations used. This information was compared with the interview transcripts for validation about internal controls within the organization.

The data analysis process allows the researcher a way to comprehend the information received from the participant (Sutton & Austin, 2015). To assist in finding emerging themes and to help with the data analysis process, I used NVivo to look for common words, phrases, and similar communication between interview transcripts from each participant. I looked for common themes in connection with the addressed research



questions to gather pertinent data. Transcripts and financial data were analyzed to uncover findings related to this research.

Coding is ordering data through an analytical process. I placed related material in NVivo v12 for a word count. Based on the word count, words were put into nodes within NVivo to expose codes and themes. The use of an additional method of coding emerging themes helped to avoid bias. Thematic coding pulled from the interview data provided a critical role in my research. The data analysis part of the qualitative research study helped the researcher collect the data by sorting and discarding unnecessary results to better grasp the remaining quality of data (Nguyen & Wood, 2019). The demographics information from GuideStar helped narrow the search to nonprofits making \$1,000,000 or less within the eastern U.S. Interviews and documentation from GuideStar were collected and analyzed to help in triangulating the data.

### **Issues of Trustworthiness**

Trustworthiness issues include credibility of the internal data represented, transferability of the external data represented, dependability, confirmability of the data defined, and ethical procedures used to access participants or data. For qualitative studies, trustworthiness validates the quality of the research results.

### **Credibility**

The credibility of the topic is associated with the truthfulness of the results and approach. As with conducting any research, the questions are vital in establishing a credible study (Diamond et al., 2014). The questions were open and broad to prevent leading participants down a predetermined path. Skulmoski et al. (2007) stated that it is

good to have the correct skilled and experienced participants in the field. I am implementing requirements to meet each participant's expertise to strengthen and address the study's credibility.

Instrument testing in a study is a vital way of increasing the overall credibility of the study. An expert review helped examine the validity of the research questions (Eldridge et al., 2016; Samaan et al., 2015). I used software and Yin's 5-step approach for developing themes from participants. After conducting interviews, I emailed participants their transcript, which gave participants a chance to seek out discrepancies and help establish the credibility of the study.

### **Transferability**

Credibility and transferability are often subjective in qualitative studies (Glenn, 2009). Transferability refers to the researcher's ability to demonstrate how my findings work in other situations (Saldana, 2015). Transferability foundations include applying research findings to other groups or settings (Elo et al., 2014). The research findings are transferable to similar cases. One example of transferability is it can be applied as a quantitative study. The demographics from GuideStar helped narrow the search to nonprofits making \$1,000,000 or less within the eastern U.S. Interviews and documentation from GuideStar were collected and analyzed to help in triangulating the data. Demographics including nonprofit type, size of the organization, and location are also examples of applications of the study that can be further examined.

**Dependability**

Dependability means that the findings of the study are reliable (Elo et al., 2014). The reliability of research findings is crucial to a study (Kaczynski et al., 2014). Reliability shows how much of the research could be duplicated by other researchers, where the findings would be the same (Kihn & Ihantola, 2015). Researchers use an audit trail to achieve reliability (Anney, 2014). Anney explained that an audit trail consists of the researcher's choices throughout the study process and includes an illustration of the rationale of methodology, data context, and interpretive judgment about the developing themes from obtained results. Walden University provides a review of material to help researchers avoid a lack of consistency. An audit trail and a reflective journal was kept throughout my study. I used an exploratory case study design to ensure the trustworthiness of my study.

**Confirmability**

Confirmability refers to the ability of other researchers to confirm your results. I have procedures outlined for data gathering, analysis, participant selection, and conclusion. Outlined procedures illustrate how researchers can increase their research's validity and reliability (Miles et al., 2014). To ensure this, I must realize that I am the facilitator and not a participant. Having this outline can minimize the impact of bias from the research during the data collection process. When outlining the procedures, I took steps in the data interpretation to show that the researcher did not alter the results. The steps show that I correctly demonstrated the responses of the participants in the research findings.

Kihn and Ihantola (2015) explained that confirmability applies to the idea that interpretations in the research conclusions bind to the data so that others quickly follow. Studies such as this one can contain bias from the researcher, as discussed by Donohoe and Needham (2009). For my study, I kept my selection of participants to 20 experts in the field. This selection logic adds to the overall validity of the research by collecting data from several experts until data saturation is met. The selection logic also ensures viable data from participants that have been in the field for at least 2 years. My coding will also have detailed descriptions throughout the process, and I kept a reflective journal on thoughts throughout the process. I identified any bias I may have had through bracketing, such as personal experience, assumptions, and any vested interests that could have influenced the study (Chan et al., 2013). Audit trails are a way to keep track of research to ensure the study moves forward as it is intended (Anney, 2014). I ensured I continued an audit trail throughout the research process to help stay on track and move forward as intended. With the use of audit trails, Kaczynski et al. (2014) stated that assessing the process and export of research is completed to determine the study's reliability.

### **Ethical Procedures**

Participant solicitation and data collection is based on Walden University's approval. The approval number for this study is 09-09-22-0512439. It expires on September 8, 2023. In addition to participant selection, public record documents were used from GuideStar.com which will include IRS form 990 which is accessible online, demographics about the nonprofit, and financial reports. Even though the records from

GuideStar are public, the participants were informed of the use of these online documents from an ethical standpoint. Access to the 990 form is on the organization's information link on GuideStar.com. Upon completion of reviewing the form, I closed out the website to ensure it was no longer available on my password protected computer. I sent an approved consent form (see Appendix C) to participants that outlined the study and included the following: the nature of the study, time frame for the study, how each participant's input will remain confidential, the function each participant will perform in the study, their right to withdraw from the study at any time, and my responsibility and role as the researcher. All participants were volunteer based, with no pay or persuasion used to recruit participants to the study. I informed all participants by email about all areas listed in the outline to accept or reject the opportunity to participate to avoid ethical issues. Participants replied to the email with their decision to agree to participate or not.

There was a one-week window for participants to respond to the email. If I did not receive a reply in one week, I assumed no study participation. If they decided to participate, I sent an informed consent via email with procedures about the study and how to notify me of their consent. The informed consent contained information about how the participants were selected, how I got consent for use in data collection of the information they provide, how participants were identified in the study, and how confidentiality was maintained throughout the process (see Appendix C). Permission from the participants was a reply email with their full name, organization, consent to participate, and availability. Upon receiving the informed consent email, I began scheduling interviews with each participant based on their availability.

### **Confidentiality**

As the researcher, I followed the ethical protocol to adhere to Walden University guidelines and ensure my study met ethical standards. Data storage was local to avoid any breach of confidentiality during this process. There was no information from the study that can identify the participants personally due to the lack of need to disclose that data, including the storage method to protect the participant's privacy (Greaney et al., 2012). Once the study was complete, the data was removed from a local computer and placed on a drive.

I only identified the personal identification numbers (PINS) from the interview transcripts to avoid names and other personal information about the participants. I used PINS to organize participants by giving them identifiers within a number assigned to each person. This method helped participants remain confidential using personal identification numbers (PINS) for connection purposes. A person or the organization was replaced with a personal identification number to avoid tracking back to real identities (Lin, 2016). I used personal identification numbers (PINS) to create aliases for each participant. PINS helped the confidentiality of the participants and the organization of the data collected from interviews. PINS ensured data on Zoom did not include the names of participants or the nonprofit they served. Any information, including emails and transcripts located on the internet and any Zoom recordings online, was deleted. I stored data from my computer on a USB drive that I encrypted, password-protected, and locked in a safe for no less than 5 years. After 5 years, I will reformat the USB drive to remove all data on that drive.

### **Summary**

To summarize chapter 3, the purpose of this qualitative case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern U.S. face when employing proper internal control practices to protect the organization from occupational fraud. The research questions addressed a phenomenon about nonprofit leaders' experiences using internal control practices to adequately protect the organization from occupational fraud.

In design and rationale, I discuss using the case study design to gather information through interview transcripts and public record documents to help support data collected. The researcher's role covers addressing the research questions through an ethical process, as explained in detail in this chapter. The methodology in this chapter can help other researchers that are trying to build on the same study.

I contacted the study participants by email and asked them to provide information about the obstacles and enablers leaders face when employing internal control practices to adequately protect the organization from occupational fraud. I selected a case study design because it brings out small nonprofit leaders' backgrounds with internal control practices. I present the results of the study in detail in chapter 4.

## Chapter 4: Results

I present the findings of this study in this chapter. The purpose of this qualitative exploratory case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States face when employing proper internal control practices to protect the organization from occupational fraud adequately. I answered the research questions with the data collected about the perception of nonprofit leader's use of internal control practices. I also answered what obstacles were in the way of implementing proper internal control practices, and what enablers aided in developing proper controls to reduce or mitigate fraud.

In this chapter, I will talk about an expert review that assisted in ensuring the research questions would result in a viable outcome when collecting the data. I present the research findings next and discuss the parameters of the study, the identification process of the participants, and I follow up with findings with demographics of the study. Data collection and data analysis provide information about the process by utilizing Yin's 5-step approach to ensure the entire data collection process was thorough. My study is qualitative, and I conducted interviews with participants to gather necessary data. I triangulated the data through documentation from Guidestar.com, found in IRS form 990 about internal control practices in place for each organization. Themes that came from the coded transcripts are uncovered and detailed as well. Additionally, this chapter defines trustworthiness, which includes credibility, transferability, dependability, and confirmability. The end of the chapter shows the results of the study, and a summary.



### **Expert Review**

An expert review can help examine the validity of the data collected (Eldridge et al., 2016; Samaan et al., 2015). An expert review was conducted to ensure the selection of research questions generate a good outcome in the data collection from participants (Eldridge et al., 2016; Samaan et al., 2015). The first review was from an expert in qualitative research. The second review was from an expert in small nonprofit management and gave a perspective of what I need for this study. I sent my interview protocol, my research question, and my purpose statement for the experts to review and comment on the following 4 questions for this expert review:

1. Based upon the purpose of the study and research questions, are the interview questions likely to generate information to answer the research question?
2. Are the participants likely to find any of the questions in the interview (the nature of the question or specific wording) objectionable? If so, why? What changes would you recommend?
3. Were any of the questions in the interview difficult to comprehend? If so, why? What changes would you recommend?
4. Feel free to provide any additional thoughts about the interview questions, which were not covered in questions 1 through 3, above.

Expert 1 agreed that the study would generate information to answer the research question. Expert 1 did not see anything that may be deemed objectionable in the study. Expert 1 did not see any problems with the participants comprehending the interview questions and further stated that the information is on the correct path to gain the answers

necessary to the research questions within the study. Expert 2 suggested changing the research question to an overarching question with 2 sub-questions, which were changed. Expert 2 also recommended some changes to the interview questions. I made some changes as recommended.

### **Research Setting**

Data were collected from leaders of nonprofits leaders with at least 2 years' experience working in a nonprofit with an income of \$1,000,000 or less and located within the Eastern United States. Interviews were conducted with qualified participants. I received additional approval from IRB to add collection methods of face-to-face, in-person, interviews to help gain more participants. I then travelled to locations discovered on Guidestar to ask for participation in my study. The additional collection method helped in reaching saturation in a timely manner. The face-to-face interviews were conducted in a private location of the participant's choice to ensure anonymity.

### **Demographics**

The targeted population was directors of nonprofits that have been in control of a nonprofit for at least 2 years. Another requirement for the study was that the nonprofit had an income of \$1,000,000 or less from donations, grants, contracts, and fundraising allocations. The sample for the study was originally 20, but saturation was met at ten participants. Due to the lack of response from contacts by email, I received additional IRB approval on October 11, 2022 to do face-to-face interviews in person so I could walk into organizations and ask for participants. I received a much better response rate by selecting participants this way. The participants qualified for the study and signed

consent forms to be interviewed in a private location within the organization.

Identification was not provided by participants to ensure privacy. PINS were used as identification for the participants. I used PINS in this way: INT (# of participant interviewed). An example of the use of PINS for the first interview conducted was Int 1. I did this for each participant throughout the interviews.

Demographics were found through GuideStar.com prior to requesting participation in the study. Demographics needed for the study included the type of nonprofit, which allowed me to pick from different industries, so my study did not have multiple organizations in the same field. Another area that helped in finding leaders was the income of the nonprofit. I was able to see if the organization met the requirement of \$1,000,000 or less in income. The IRS 990 form was directly accessible from Guidestar.com and had income from nonprofit and year filed. I was able to make sure leaders were with the organization for at least 2 years by opening 2 filings of form 990. Other demographics available on GuideStar.com were type of nonprofit and location. Demographics such as race, gender, and disability status were not given to Guidestar.com by the leaders of the organizations I selected, but these demographics were not necessary for the study.

Of the organizations selected, 3 are in the field of crisis intervention and had incomes of between \$500,000 and \$1,000,000. A ministry made between \$400,000 and \$500,000. An animal care-based nonprofit had an income of between \$300,000 and \$400,000. Another organization selected provides homes for those in need and made between \$200,000 and \$300,000, while 2 others focus on food insecurities with incomes

of between \$100,000 and \$300,000. From the last of the organizations selected1 provides books with an income of between \$100,000 and \$200,000, and one aids veterans and had an income under \$100,000. All the organizations were located within the Eastern United States. Below is Table 1 that breaks down each nonprofit by type, income, # years leader has been present, and location:

**Table 1**

*Demographics*

Participant	Nonprofit type	Income of nonprofit	# Years as leader
Int 9	Crisis intervention	912,000	2
Int 5	Crisis intervention	825,000	3
Int 2	Crisis intervention	519,000	3
Int 1	Ministries	415,000	4
Int 8	Animal care	301,000	2
Int 6	Housing	238,000	2
Int 3	Food insecurity	208,000	2
Int 7	Food insecurity	151,000	4
Int 4	Library	101,000	2
Int 10	Veteran assistance	89,000	4

### **Data Collection**

I gathered data from small nonprofit leaders with at least 2 years' experience, income of \$1,000,000 or less, and located in the eastern United States. In this study, 10 leaders were selected instead of the anticipated 20 leaders due to the saturation point. Face-to-face interviews were conducted on 4 participants in a private location within their nonprofit. Phone interviews were conducted on 4 participants, and 2 participants answered interview questions through email.

All interviews were recorded along with journaling pertinent information relating to the study. All 10 participants mentioned some form of internal control practices for their organization and were aware of the importance of these controls I transcribed the interview responses and allowed time for participants to check transcriptions for discrepancies. Once all participants accepted the transcriptions, I began coding in NVivo12 and hand coded for additional validity. I was also utilizing Yin's 5-step approach to act as a checklist to ensure I covered all necessary steps in the data collection and data analysis process.

A variation in the data collection plan in Chapter 3 is how I originally planned to do all interviews in the Zoom platform. I found that participants I visited were willing to talk to me immediately. This allowed me to gather the data right away. They were comfortable with recording the interview on my computer. An unusual circumstance was the lack of response online through emails to potential participants. I did not anticipate issues of collection online. I decided to submit a request to IRB for additional approval to go out in the public and find nonprofit organizations in my area of study to participate.

Once I received approval, I began collecting data through in-person, face-to-face interviews. In total, face-to-face interviews were conducted on 4 participants in a private location within their nonprofit. Phone interviews were conducted on 4 participants, and 2 participants answered interview questions through email.

I gathered public record documents from GuideStar.com to assist in triangulating the data. Having additional sources of data helps validate the research. Guidestar.com is a website that provides public record information about nonprofits. The data included financial documents, such as IRS form 990, demographics, and other vital information. The transcripts from the interviews and the documents from GuideStar paired well in collecting data for this study. Documents helped provide information necessary for the study such as nonprofits making \$1,000,000 or less, who the leader of the organization was, the location, and the number of years the nonprofit has been in existence. This information was used in locating leaders with the organizations that fit the requirements of the study. IRS form 990 also provided the documentation about internal controls in use for the organization.

### **Data Analysis**

I used both Nvivo12 software and hand coding of the interview responses to add to the validity of the study results and to help uncover themes aligning with the research questions. After transcribing the interviews into Microsoft Word documents, I used Yin's 5-step approach to help stay on track with the analysis process. Yin's 5-step approach includes:

1. Compiling the data

2. Disassembling the data
3. Reassembling the data
4. Interpreting the meaning of the data
5. Concluding the data

With the use of Yin's 5-step approach, data compilation helped me develop grouping. Data breakdown helped me eliminate irrelevant themes within the interview transcripts. Recompiling the data helped me pull out the main themes. Interpretation of the meaning of data sought patterns against the transcripts. Finally, the conclusion of the data is a summary of the description of experiences.

I grouped together each of the interview questions for all participants. Each interview question was coded in NVivo12, and hand coded to expose themes. Irrelevant themes were removed to uncover themes pertaining to the research questions. I used NVivo12 and hand coding, which exposed different results for each type of coding. I found relevant codes and noted them in reference to the participant's responses in relation to the research questions. I analyzed the main themes and unexpected themes to enhance their connection to the research questions. Finally, I put themes in order of importance to the research questions based on percentages.

The data analysis process allows the researcher a way to comprehend the information received from the participant (Sutton & Austin, 2015). To assist in finding emerging themes and to help with the data analysis process, I used NVivo12 to create nodes and look for common words, phrases, and similar communication between interview transcripts from each participant regarding internal control practices. I looked

for common themes to address the research questions and to gather pertinent data. Transcripts were analyzed by hand coding to uncover any themes not discovered in NVivo12 related to this research. Coding is ordering data through an analytical process. I placed related material in NVivo12 to discover nodes within the data. Based on the nodes, themes and patterns were exposed. The use of an additional method of coding emerging themes helped to increase validity. Hand coding was used as an additional method to uncover any themes that may have been overlooked in NVivo12. Thematic coding pulled from the interview data provided a critical role in my research. The literature review provided in Chapter 2 was monitored throughout the data analysis to correlate with previous findings or themes and provide a thorough response for the research questions.

The first set of themes and codes were discovered using NVivo12. This presented a set of unexpected themes shown in the following tree map (see Appendix D). Tree maps are used as a visual tool to see where themes emerged by the size of the nodes. Each rectangle represents a node. The larger the rectangle the more frequent the coding in each node. I included a word frequency query with a brief description of each theme uncovered from coding in NVivo and additional hand coding (see Table 1). Internal controls were discussed with each of the participants to define exactly what I was looking for in the research. All participants admitted having a solid foundation of controls. The following tree map and theme chart are based on responses about internal control practices in each organization.



I hand coded the data after coding in NVivo12 and it presented different results. I found some of the same themes through hand coding as with NVivo12. Hand coding was used to uncover any additional themes not discovered through NVivo12. Interview answers from participants were combined to include all ten participant's answers under each question. This allowed exposure of themes for each individual interview question response. By breaking them down this way, it was easier to answer the research questions. The data were then analyzed against the research questions to uncover main themes and to answer the research questions.

Main themes relating to internal control practices that emerged from the data after coding were board of directors, meetings, policies, procedures, accounting, training, background checks, and volunteers. Gregory, (2017) explained to mitigate the risk of fraud, accounting in businesses contributes to the control aspect when implementing a working system and involves the development of policies and procedures, which is a possible theme that will emerge in the study and includes internal control practices. The themes are presented in the tree map (see Appendix D), as well as a table (see Table 2) to show a brief description about the theme and the frequency. I also included a word cloud (see Fig. 2) of the most frequently used words.

Table 2. *Themes Descriptions and #Referenced*

Themes Related to Internal Controls	Description	# Referenced
Board of directors	Handle specific areas of the organization	55
	Made up of non-biased members	
	Recruit members with accounting experience	
	Need members that regularly attend	
	Having members from different industries	
Meetings	Held monthly	28
Policies and procedures	Held quarterly	24
	Having them in place	
Accounting practices	Required for volunteers to know	24
	Regularly updated	
	Discussed monthly	
	Make budgets	
Training	Help departments know spending limits	23
	Voted on Training manuals	
	Related books available	
Background checks	Collaborating with other nonprofits	23
	For new volunteers	
Skilled volunteers	Law enforcement could help cover costs	18
	Given specific responsibilities	



### **Triangulation of Data**

The IRS 990 form was accessed through Guidestar.com and used to compare interview responses with internal controls reported to the IRS. Schedule O in the IRS 990 form sometimes provides details about the internal control practices in place for the organization. Section VII of form 990 lists the board of directors. For my study, I looked for information about the board of directors, meetings, policies and procedures, accounting practices, training, background checks, and skilled volunteers for the organization. According to the IRS, any person filing a 990 are required to complete Schedule O. The 990 form was used for my study since it is a legal, public record document reported to the IRS. Each of the leaders admitted having some form of internal control practices in place. This was consistent with the reported internal control practices in IRS form 990.

The themes that emerged from the data related to internal control practices were used to compare with IRS form 990 to triangulate the data. Having a board of directors was the first theme and it was referenced 55 times in the data. A board of directors was listed on IRS form 990 under section VII for all ten organizations in my study. The second theme addressing internal controls is meetings. Holding meetings was referenced 28 times and was admitted by 70 percent of the participants as having monthly or quarterly meetings. This is inconsistent with the data on the IRS form 990. The form shows hours reported weekly for each of the organizations. A minimum of 1 hour a week and a maximum of 40 hours a week was reported on board member attendance. The inconsistency is likely due to the lack of reported information in the interviews with

participants. Policies and procedures was the third theme and was referenced 24 times in the data. All participants agreed they were an important part of the organization. In IRS form 990, policies and procedures were referenced in some cases. One organization listed in Schedule O: “Board members review policies and procedures and compliance with same.”

The fourth theme relating to internal controls are the organization’s accounting practices. Accounting practices was referenced 24 times in the data. The general outcome from IRS form 990 is that the organizations were complying by filing the form and reporting the income. Part IX of IRS form 990 shows an accounting expense. In some cases, Schedule O has details regarding the review of the IRS form: “The organization reviews the Form 990 with the Executive Director, Finance Director and Board Members during the Board Meetings”. The last 3 themes were training, background checks, and skilled volunteers. Training, background checks, and skilled volunteers were not listed on IRS form 990 since these would likely be placed within an organizations policies and procedures. Having a board of directors that meet on a regular basis proved to be a strong internal control practice for organizations. Board meetings were reported on every IRS form 990.

### **Evidence of Trustworthiness**

Trustworthiness issues include credibility of the internal data represented, transferability of the external data represented, dependability, confirmability of the data defined, and ethical procedures used to access participants or data. For qualitative studies, trustworthiness validates the quality of the research results.

## **Credibility**

The credibility of the topic is associated with the truthfulness of the results and approach. As with conducting any research, the questions are vital in establishing a credible study (Diamond et al., 2014). The questions were open and broad to prevent leading participants down a predetermined path. Skulmoski et al. (2007) stated that it is good to have the correct skilled and experienced participants in the field. I implemented requirements to meet each participant's expertise to strengthen and address the study's credibility. Instrument testing in a study is a vital way of increasing the overall credibility of the study. An expert review helped examine the validity of the research questions (Eldridge et al., 2016; Samaan et al., 2015). I used NVivo12 software and Yin's 5-step approach for developing themes from participants. After conducting interviews, I emailed participants their transcript, which gave participants a chance to seek out discrepancies and help establish the credibility of the study.

## **Transferability**

Credibility and transferability are often subjective in qualitative studies (Glenn, 2009). Transferability refers to the researcher's ability to demonstrate how the findings work in other situations (Saldana, 2015). I provided a thick, rich description of the methodology, participants, and results so the reader can determine the transferability of the results to other populations. The demographics from GuideStar helped narrow the search to nonprofits making \$1,000,000 or less within the eastern U.S. A list of nonprofits was collected from GuideStar.com to help find the demographics for the study. Demographics including nonprofit type, size of the organization, and location are

examples of applications of the study that can be further examined. Guidestar.com provided IRS form 990, which also included reported internal controls in place.

### **Dependability**

Dependability means that the findings of the study are reliable (Elo et al., 2014). The reliability of research findings is crucial to a study (Kaczynski et al., 2014). Reliability shows how much of the research could be duplicated by other researchers, where the findings would be the same (Kihn & Ihantola, 2015). Researchers use an audit trail to achieve reliability (Anney, 2014). Anney (2014) explained that an audit trail consists of the researcher's choices throughout the study process and includes an illustration of the rationale of methodology, data context, and interpretive judgment about the developing themes from obtained results. Walden University provides a review of material to help researchers avoid a lack of consistency. An audit trail and a reflective journal was kept throughout my study. I used an exploratory case study design to ensure the trustworthiness of my study.

### **Confirmability**

Confirmability refers to the ability of other researchers to confirm your results. I have procedures outlined for data gathering, analysis, participant selection, and conclusion. Outlined procedures illustrate how researchers can increase their research's validity and reliability (Miles et al., 2014). To ensure this, I realized that I was the facilitator and not a participant. Having this outline minimized the impact of bias from the research during the data collection process. When outlining the procedures, I took steps in the data interpretation to show that I did not alter the results. The steps show that

I correctly demonstrate the responses of the participants in the research findings. Kihn and Ihantola (2015) explained that confirmability applies to the idea that interpretations in the research conclusions bind to the data so that others quickly follow. Studies such as this one can contain bias from the researcher, as discussed by Donohoe and Needham (2009).

### **Study Results**

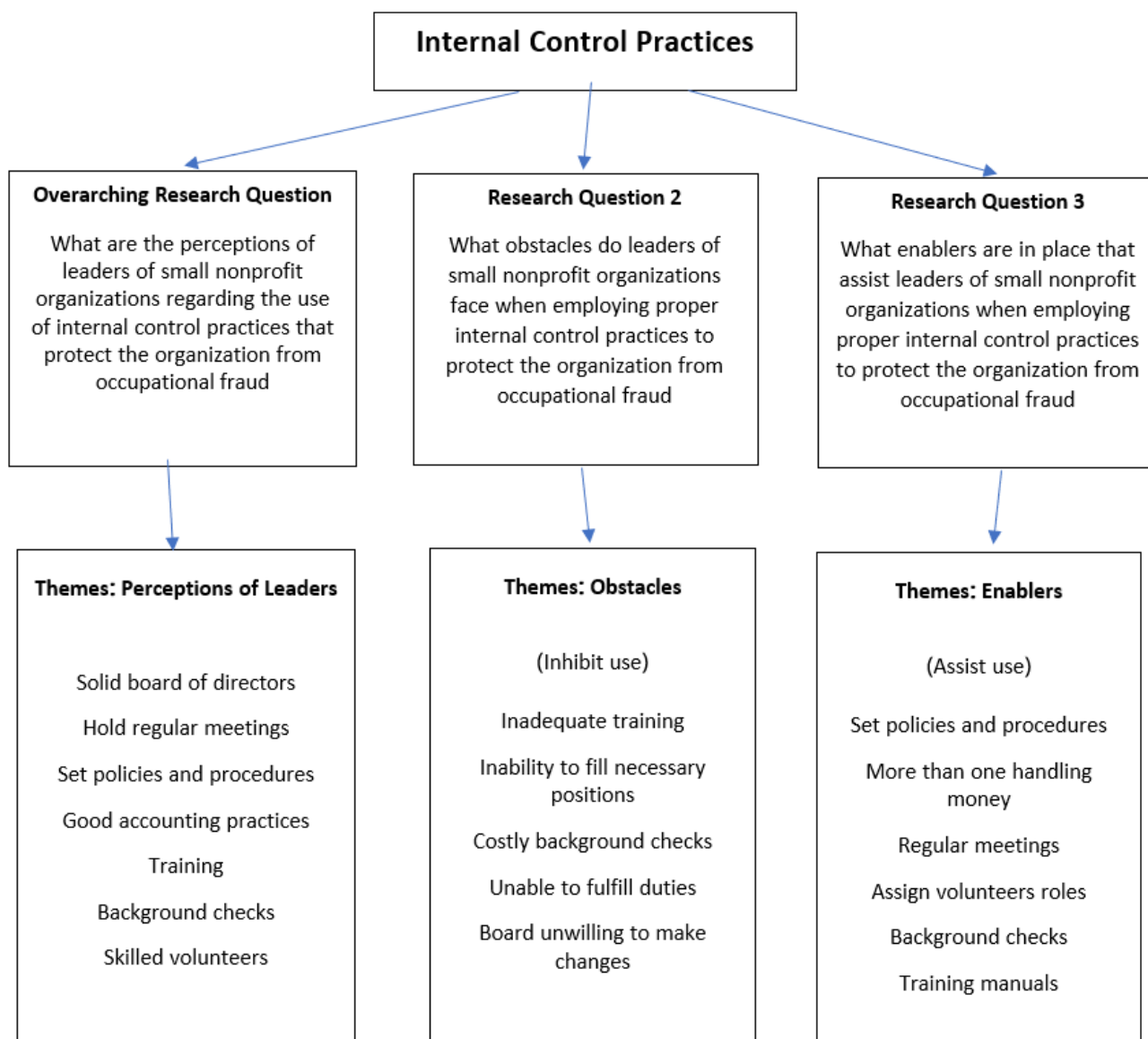
The purpose of this qualitative exploratory case study was to understand the obstacles and enablers leaders of small nonprofit organizations in the eastern U.S. face when trying to employ proper internal control practices within their organization. The results of my study exposed information relating to the obstacles leaders face when trying to employ internal control practices, and the obstacles that get in the way of trying to employ these controls. The results are based on the answers to the questions from the interviews. I discussed how the interview questions related to the 3 research questions by detailing themes uncovered throughout the analysis. I also provided quotes from participant transcripts. Main themes uncovered about perceptions, obstacles, and enablers relating to internal controls were board of directors, meetings, policies, procedures, accounting, training, background checks, and skilled volunteers. Table 3 shows the themes addressing the research questions and how they were endorsed by the participants. In the following flowchart (see Figure 2), each theme is aligned with the research questions and how they relate to the study.



Table 3. *Themes Endorsed by Participants*

Research Questions	Themes	# Participants Endorsed	% Endorsed by Participants
<b>Obstacles</b>			
	Inadequate training	9	90%
	Unable to fill necessary positions	7	70%
	Costly background checks	4	40%
	Unable to fulfill duties	4	40%
	Board unwilling to make improvements	4	40%
<b>Enablers</b>			
	Set policies and procedures	10	100%
	More than one handling money	7	70%
	Regular meetings	7	70%
	Assign volunteers roles	7	70%
	Background checks	4	40%
	Follow rules or face removal	3	30%
	Training Manuals	3	30%

Figure 2. *Research Study Explored with Final Codes and Significant Themes*



*Note.* In this figure, I demonstrate themes that aligned with the research questions and how they relate to the use of proper internal controls within small nonprofit organizations.

In figure 2, the main research question regarding nonprofit leader's perceptions lists what leaders felt should be in place to consider having proper internal control practices. Chiu et al. (2019) covered internal control effectiveness for leaders. Leaders expressed the need for a solid board of directors, regular meetings to go over important aspects of the organization including internal control practices, having set policies and procedures, good accounting practices, training for volunteers and staff, background checks, and skilled volunteers. The second research question answered what obstacles get in the way when leaders of nonprofit organizations try to implement proper internal control practices. Inhibitors of employing proper internal control practices include inadequate training, inability to fill necessary positions, costly background checks, unable to fulfill duties, and the board of directors unwilling to make changes. The last question exposed enablers that are present in their organization to help leaders employ proper internal control practices. Controls assisting leaders include set policies, procedures, multiple money handlers, regular meetings, assigning roles to volunteers, background checks, and training manuals. IRS form 990 documentation showed that internal control practices were reported by each organization.

### **Perceptions of Leaders when Implementing Proper Internal Controls**

All the participants in the study revealed they have a basic understanding of some form of internal control practices that are necessary for their organization. Internal control practices varied for each nonprofit but still resulted in an adequate protection from fraud in place. Internal control practices were reported by each organization according to the IRS form 990. Each 990 form showed all organizations had board

members, regular meetings, and accounting practices. One discrepancy was that all organizations showed regular meetings on form 990. During the interview process, only 70 percent admitted to regular meetings. Leaders are reporting more internal control practices on form 990 than complying within the organization.

Every participant commented on the importance of implementing internal control practices in their organization. There were several references coded relating to the perceptions of leaders about the use of internal control practices and broken down into themes. Several main themes were uncovered about proper internal control practices. The themes were 1) having a solid board of directors, 2) holding regular meetings, 3) having set policies and procedures in place, 4) good accounting practices, 5) training, 6) conducting background checks, and 7) skilled volunteers.

The perceptions of leaders regarding the use of internal control practices were sufficient based on the answers from the interview. One organization's leader stated their board was "made up of non-biased board members, serving only to better the organization". Another leader said, "policies and procedures are in place and act as a fluid document". Having a fluid document means that it is always open to improvements. The perceptions of leaders about the use of proper internal control practices are described in more detail to further answer the first research question. Due to the requirements from the IRS regarding board members when establishing a nonprofit organization, it is the main theme described first.

Coded data about the board of directors was referenced 55 times and showed evidence of providing the support necessary for the protection of the organization. All of

the participants felt it was crucial to their organization to have a strong board of directors. A strong board may consist of non-biased members with experience in accounting, business, or similar. When collecting data, 70% of the participants admitted holding meetings monthly. Meetings were discussed in detail to uncover how meetings assist in governing the organization. According to Int 4, "Sometimes at meetings, you know, you can get a lot of people asking questions, maybe don't understand why we might be spending money at certain areas."

The themes, policies, and procedures surfaced because it contains the necessary information to implement proper internal control practices within the organization. It is no surprise that 100% of the participants expressed the importance of policies and procedures within their organization. For instance, Int 2 stated "Policies and procedures are in place. Guidelines are very important in our organization. I have been in the corporate side of things where it is required to follow certain policies and procedures, so I have that background which I apply to the nonprofit as well." For my study, accounting practices can be defined as money handling, cash, budgets, financial records, or check writing. One of the main areas that was discussed with participants was cash handling, and 70% of participants said they have more than one person handling money in the organization. Cash is collected in a variety of ways. In nonprofits, fundraisers come in many different forms. Some collect cash in a can, some leave a jar at a location, some hold regular events, and some receive donations in the mail. Many of these fundraisers create an opportunity for perpetrators if not handled properly. Having 2 or more volunteers responsible for a cash post decreases the chance of being victimized from

potential threats. Int 7 said, “We have a group of volunteers that handle the money that comes into the organization so there are about 4 people that verify the funds for us. It helps keep everyone honest.”

Another main theme that surfaced about the perceptions of leaders was training. Training protocols for the organization were endorsed by 40% of participants. In 5 explained, “We train new hires and volunteers. They must pass a background check. We have certain rules to follow to be able to maintain working there.” This main theme arose as one of the ways leaders could effectively check new people coming into the organization. Some of the issues discussed were about the costs involved with trying to conduct background checks. Background checks were endorsed by 40% of participants. As explained by Int 9, “We try to do background checks on volunteers, but it is costly.” Another participant went on to explain how their organization was able to receive assistance from law enforcement. Int 2 stated, “The sheriff’s office and police department help with background checks to offset the cost for the organization.” Nonprofit leaders may benefit from asking law enforcement to cover costs for background checks.

The last area regarding perceptions of leaders is about volunteers. Some participants admitted that it can be a challenge to find volunteers, especially now. Finding skilled volunteers presents an even bigger challenge. Only 20% of the participants mentioned bringing in skilled volunteers. Int 3 said, “Most of us have worked in various jobs our entire lives handling finances for organizations or companies.” Int 4 elaborated, “some volunteers come in, may have come from large companies and they saw a much stricter financial budget, how money was spent.” Volunteers are necessary to run a

nonprofit organization. They are the life blood that keep it going. All the participants admitted training in their guidelines. Some of the volunteers that come into these organizations lack skills necessary to fulfill the mission, so leaders must train or assign someone to train these volunteers.

### **Obstacles of Implementing Proper Internal Control Practices**

When participants were asked about obstacles they face when trying to employ internal control practices, participants shared input about what they were faced with. There were 5 sub-themes relating to obstacles faced by leaders. Participants discussed obstacles such as inadequate training, unable to fill necessary positions such as accounting experts, lack of funds to cover things like background checks, unable to fulfill duties, and board members unwilling to make changes for the better of the organization's future when trying to employ proper internal control practices to adequately protect the organization from fraud.

**Inadequate training.** Inadequate training for volunteers and staff was admitted by 90% of participants. Int 3 admitted having no skills prior to running the organization but received help from within to help provide proper training for the job. Int 3 stated, "Again not any training or anything like that but would like to know what standard practices of larger organizations or even what IRS standards is are just to see what may be better to add to the organization."

**Inability to fill necessary positions such as accounting experts.** The inability to fill necessary positions like accounting experts was admitted by 70% of the participants. Int 10 stated, "Finding volunteers to replace others, when necessary, especially financial

experts.” When a nonprofit is established, it would be beneficial to have a set of board members with different necessary skills that give the organization the strength it needs to implement proper internal control practices. Unfortunately, this is not always possible. Upon start-up of a need in the community, nonprofit leaders are faced with finding adequate board members and volunteers to help run the organization.

**Costly background checks.** Background checks were not in the interview questions, but 40% of the participants willingly discussed these and how they were costly. Int 2 said “Having to pay for things like background checks” is an obstacle for their organization. Cutting costs is vital to nonprofit organizations. Small nonprofits suffer most due to the limited amount of funds to fulfill the mission intended, let alone paying for background checks, administrative, and other non-mission related costs.

**Unable to fulfill duties.** Some of the issues faced by leaders is the ability to keep volunteers. This creates more work due to the need to train new volunteers after each turnover. Another problem is when organizations lose volunteers that have a leadership role. Participants explained that it was difficult for some to fulfill duties for different reasons. Lack of duties fulfilled was endorsed by 40% of the participants. Int 6 said. “If we lose any of our project leaders, we have to find a replacement.”

**Board unwilling to make improvements.** Resistance from their board was mentioned by 40% of participants. Int1 stated, “When board members become friends or affiliations of the organization, this can create discomfort in fulfilling duties that may offend the leader of the organization.” Int 5 said, “The board likes to keep things the way they are and not open to change which I think can hurt the organization in the long run.



This place is growing, and more and more people need help so I feel it would be beneficial to at least look into potential problems that might exist.” The board of directors should have a solid foundation to provide the necessary governing the organization deserves to fulfill its mission and assist the community.

### **Enablers of Implementing Proper Internal Control Practices**

Interview responses given by participants exposed sub-themes about what leaders felt were helpful in employing proper internal control practices. Leaders explained it is good to ensure policies and procedures are set. Set policies and procedures was endorsed by all participants. Having multiple people handle money, holding regular meetings, and giving roles to volunteers to ensure specific duties are carried out efficiently was endorsed by 70% of the participants. Background checks on new volunteers should be required according to 40% of the participants. Providing training manuals and ensuring they are used was endorsed by 30% of the participants. The perceptions of leaders and the enablers recommended to maintain proper internal control practices align in some areas. The only enabler that did not align with the perceptions of leaders was to have a solid board of directors. Coding the data about the board of directors, participants discussed board members as an important part of the organization to implement proper internal control practices. Since the board and the organization’s leader are the ones that set up the internal control practices, both roles are equally important to ensure an environment free from perpetrators. Each of the organization’s IRS form 990 listed having a board of directors, which helped validate the reports from leaders in the interviews.

## Summary

In this chapter, I discuss analysis of interview questions given to participants and how they relate to the research questions. I pulled out the main themes and provided information from the participants about each of the 6 themes. The data was collected from nonprofit leaders with at least 2 years' experience working in a nonprofit organization. The nonprofit had an income of \$1,000,000 or less and was in the Eastern U.S. Participants were asked questions related to the use of internal control practices within their organization, and the obstacles and enablers they face when trying to implement controls. The participants were also asked how they feel about the use of internal controls in other nonprofits. The answers to the interview questions were used to answer the 3 research questions about internal control practices in small nonprofits and how leaders perceive these controls. The analysis showed the use of adequate internal control practices were present in each of the nonprofits, according to the participants answers and documentation from IRS form 990. Answers to the use of internal control practices in other nonprofits showed weak internal control practices were present. Leaders exposed weaknesses to other nonprofits, but not of their own. This could indicate a need for study of leaders in previous nonprofits. It may not have been a comfortable area to discuss for my study. In chapter 5, I cover an interpretation of the findings, limitations of the study, recommendations for future research and applying it within small nonprofits. I also cover implications such as significance to practice, theory, and social change, followed by the conclusion.

## Chapter 5: Discussion, Conclusions, and Recommendations

The purpose of this qualitative exploratory case study was to explore the obstacles and enablers that leaders of small nonprofit organizations in the eastern United States face when employing proper internal control practices to protect the organization from occupational fraud adequately. I collected data for my study related to managers' perceptions about proper internal control practices in small nonprofits to reduce fraud within the organization. IRS form 990 documents were used to show triangulation with internal control practices in each organization. Research from my study may assist in building strategies in the reduction of fraud and the increase in awareness about the use of proper internal control practices. An increase in research consisting of proper internal controls practices for small nonprofit leaders may provide a better understanding of addressing the problems associated with implementing proper internal control practices, not just locally, but within any organization. This last chapter includes interpretation of the findings, limitations of the study, recommendations, implications, and a concluding summary.

### **Interpretation of the Findings**

To explore the gap in the literature and to answer the research questions, I used the interview questions about internal controls. I triangulated the data through documentation from Guidestar.com, found in IRS form 990 about internal control practices in place for each organization. The overarching question guiding my study was “What are the perceptions of leaders of small nonprofit organizations regarding the obstacles and enablers they face in employing internal control practices that protect the

organization from fraud?” 2 additional research questions also guided the study to ensure input from leaders regarding obstacles and enablers specifically. The second research question was “What obstacles do leaders of small nonprofit organizations face when employing internal control practices that protect the organization from fraud?” The third research question was “What enablers are present when employing internal control practices that protect the organization from fraud?” I created the research questions to prompt the participants to give an ample amount of data relating to internal controls within their organization. I also explored what obstacles get in the way of trying to implement proper controls and ways to overcome those obstacles. The enablers presented that allow for implementation of proper internal control practices exposed what leaders feel is important in the process of building a low-risk organization.

The 3 research questions were analyzed for perceptions of leaders, obstacles, and enablers. The analysis of the results resulted in 7 main themes:

- 1) Having a solid board of directors
- 2) Holding regular meetings
- 3) Having set policies and procedures in place
- 4) Good accounting practices
- 5) Training
- 6) Conducting background checks
- 7) Skilled volunteers

When analyzing the second research question about obstacles faced by leaders, I uncovered 5 sub-themes relating to obstacles that may hamper leaders trying to employ proper internal control practices:

- 1) Inadequate training
- 2) Unable to fill necessary positions
- 3) Costly background checks
- 4) Unable to fulfill duties
- 5) Board members unwilling to make changes

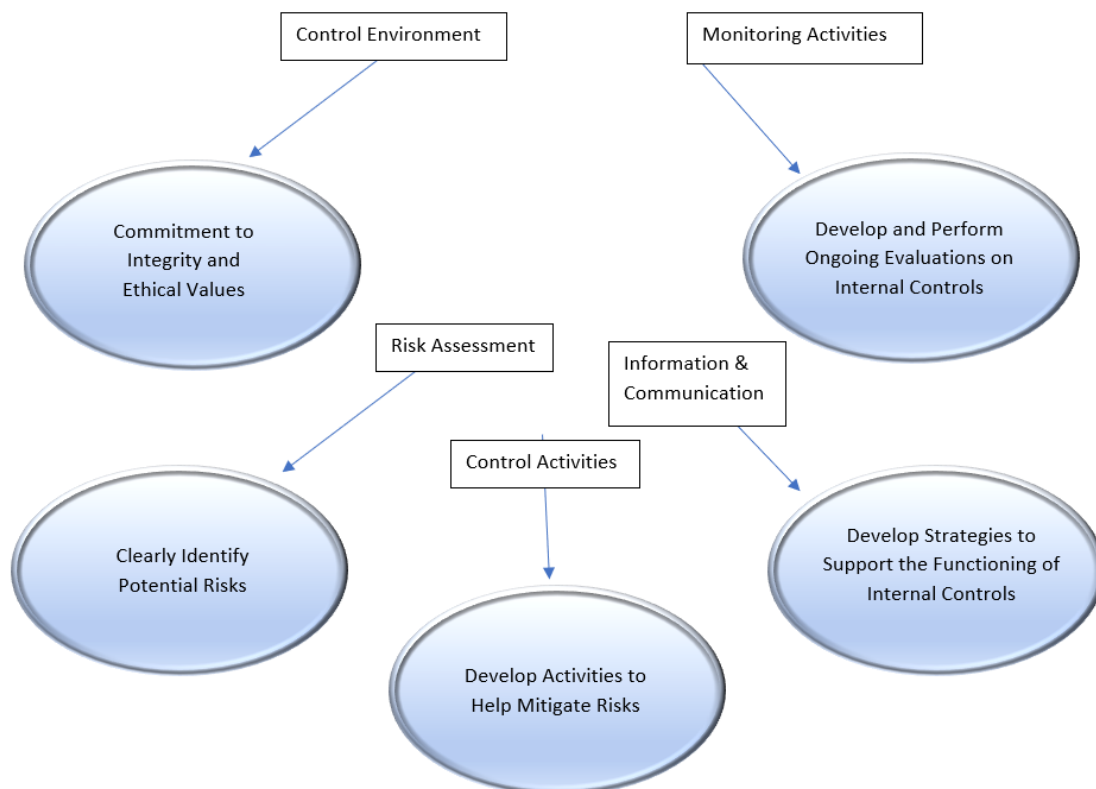
When analyzing the third research question regarding enablers that assist leaders, I uncovered 7 sub-themes that may help leaders trying to employ proper internal control practices:

- 1) Set policies and procedures
- 2) Multiple money handlers
- 3) Regular meetings
- 4) Assign roles to volunteers
- 5) Background checks
- 6) Enforce rules on volunteers
- 7) Training manuals

An assumption in Chapter 2 is how my study may add to the literature about implementing proper internal control practices in small nonprofits to reduce the risk of fraud. Good internal control practices help leaders achieve the 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). The research questions focused on COSO's integrated framework that covers internal control practices. I found obstacles and enablers nonprofit leaders face in my study that adds to the literature about employing proper internal control practices within the organization.

Companies that are for-profit must follow COSO's internal control – integrated framework to comply with Section 404 of the SOX (ACFE, 2018). COSO's internal control – integrated framework principles provide pertinent information that can be used by small nonprofit leaders to build a set of proper internal control practices for their organization. The integrated framework is a set of principles including control environment, risk assessment, control activities, information & communication, and monitoring activities. The following is a representation of COSO's internal control – integrated framework principles (see Figure 3):

**Figure 3***COSO Internal Control - Integrated Framework Principles**Note:*

Components of COSO's Internal Control – Integrated Framework principles are based on areas of risk in businesses and are broken down in the figure to show control environment, monitoring activities, risk assessment, control activities, and information & communication.

Components of the framework are broken down to show what each includes that covers the areas of risk to the business. From the results of the study, leaders of small nonprofits could benefit from implementing the internal control practices set by

COSO. Although it is not required, it is recommended that nonprofit organizations set up policies and procedures based on the components of the framework.

1. The first component is the control environment, which includes the code of conduct, ethics, expectations, structure, and retention of the organization's employees, impacting the practices overall (ACFE, 2018).
2. The second component is risk assessment, which can be internal or external and includes management of potential risks that could harm the organization (ACFE, 2018).
3. Control activities is the third component and ensures that policies and separation of duties are feasible or alternative measures if separation is not an option (ACFE, 2018).
4. The fourth component is information and communication, which provide clear messages to personnel and external parties about the ongoings of the organization (ACFE, 2018).
5. The final component is monitoring activities, which are evaluations to include each of the 5 components of the internal control framework (ACFE, 2018).

### **Obstacles**

I used the agency theory lens to expose agency problems to help address them. Agency theory helps analyze agency problems to help detect, correct, deter, and manage problems such as fraud (Panda & Leepsa, 2017). Each research question uncovered the importance of proper internal control practices to guide the organization in the protections necessary against fraud. Without the presence of proper internal control



practices, an organization is vulnerable to attacks from perpetrators looking for weaknesses (ACFE, 2018). Implementing proper internal control practices like having set policies and procedures are shown to have significant impact on small nonprofit organizations. It is important to develop policies and procedures to reduce the risk of fraud (Gregory, 2017).

Several obstacles surfaced affecting the ability to implement proper internal control practices. There was a large percentage (90%) mentioned by participants about inadequate training. Another obstacle was that 70% of participants were unable to fill necessary positions that would help reduce risk within the organization. Responsibilities such as full-time jobs and a lack of compensation for the help given may cause volunteers to lack total dedication to tasks and not follow the level of care necessary to fulfill their obligations in small nonprofits (Fleak et al., 2010; Flesher & Duncan, 1999; McNeal & Michelman, 2006; Millette & Gagné, 2008). The last 3 obstacles, which were each endorsed by 40% of participants, were costly background checks, unfulfilled duties, and the board not willing to make changes. Unfortunately, many nonprofits are limited in trained employees, volunteers and lack funds to gain the necessary resources to build healthy internal control practices (Huang et al., 2017; Yang & Brennan, 2016; Young, 2014).

Based on my results, leaders felt strongest about training as a reason for weaknesses in internal control practices. Untrained personnel may not understand what is necessary to keep the organization's risk down. The inability to find volunteers or staff to run the organization may pose a challenge when trying to keep the organization safe from

perpetrators. Personnel trained to do specific duties, attitudes about using internal controls, and the amount of responsibility are critical influences that inhibit or restrict internal control practices in small nonprofits (West & Zech, 2008).

### **Enablers**

Every participant expressed the need for set policies and procedures as enablers in implementing proper internal control practices within the organization, and 70% agreed it was best to have more than one person handling financial transactions. Kamaruddin and Ramli (2018) felt that strong internal control practices are helpful to leaders trying to achieve the reliability of financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations. Seventy percent of the participants that responded about other enablers that surfaced were holding regular meetings and assigning roles to volunteers. An effective board and leadership are vital in fraud prevention (Ghafoor et al., 2019). Of the participants, 40% felt it was important to do background checks on personnel. Only 30% of participants felt the need for personnel to follow rules or be dismissed and require training manuals. Nonprofit leaders who take a proactive role by implementing proper internal control practices at the organization's start-up show credibility, making contributors more likely to donate to the nonprofits that use acceptable methods (Turpen, 2015).

### **Limitations of the Study**

In Chapter 1, my study's limitations include sample size, participants' honesty, inability to gather information, and constraints to the perspectives of the participants about the interview questions. The sample size to achieve the research data was assumed

to be 20 participants or until data saturation occurred. My study reached saturation at 10 participants instead of the anticipated 20 participants. Some of the interview questions were left blank by the participants or they chose not to answer. The unanswered questions did not impact the study because they were not based on the main research questions being answered. Honesty is necessary to have valid research data. As the researcher, I made sure participants were comfortable and engaging in conversation in the interviews. One potential limitation of this study was the various data collection methods used. Interviews were completed via email, telephone, as well as face-to-face to accommodate the participants wishes. As I discovered when using NVivo and coding by hand, some of the themes were different. The differences were minor but did expose additional themes which were helpful in analyzing the data. Some themes aligned to uncover results that may not have been exposed without additional coding methods.

There was also a chance of bias as a limitation. Even though the researcher used caution when gathering and analyzing data from participants, the researcher was an instrument in the data collection. I was conscious of the possibility of bias throughout the research, so I made sure I did not know the participants, and I gave multiple options to participants for answering interview questions like email responses, by phone, or face-to-face. Other limitations can be from participants and how they answered the interview questions. They may have interpreted the questions differently than intended. Some aspects of the study were out of the researcher's control and perceived as weaknesses in the research (Yin, 2018).

Another limitation may be the inability to assume representativeness of the sample. Participants who agreed to be part of this study may not have been representative of the sample. After collecting data from the study, I was only able to gain most participants from one state, instead of a variety of participants from the Eastern United States. The participants did have various levels of experience, but this did not seem to impact the study. There were varying levels of income for each of the nonprofit organizations as well. Larger organizations are more likely to already have proper internal control practices in place. Participants in this study came primarily from smaller nonprofits. I triangulated the data through documentation from Guidestar.com, found in IRS form 990 about internal control practices in place for each organization to help with validity of the collected data.

### **Recommendations**

The focus of my study was on internal control practices and how or if they are used in small nonprofits within the Eastern United States. I also explored the obstacles and enablers nonprofit leaders face when trying to implement internal control practices within the organization. Based on my research, recommendations for additional research became apparent.

Future research is recommended to explore this topic with a Delphi approach. This study had a range of open-ended questions that left participants open to answer in a variety of ways. Some of the questions in this study were left unanswered. With the Delphi method, participants may be more willing to answer all questions. An extension of the population of the study is recommended. Participant selection could be extended to all

those who have either volunteered or worked in nonprofits. I found there were some volunteers that had just as much knowledge about internal controls within their organization as the leaders themselves did. This gives the researcher a bigger pool of participants to collect data from. The last recommendation to researchers building on this study would be to expand on the research area. The use of a mixed method or quantitative method could open more opportunities for the study.

There is one main recommendation that covers a wide area of data collected about the enablers present when trying to implement internal control practices within an organization, and that is to have a solid set of policies and procedures. Good policies and procedures can include enablers within one set of guidelines. By recommending the implementation of policies and procedures for nonprofit leaders, I am including multiple money handlers, holding regular meetings, assigning roles to volunteers, conducting background checks, and having a training manual available. Nonprofit leaders and board members of nonprofits could benefit from knowledge gained from this study about the use of proper internal control practices as seen in COSO's Internal Control - Integrated Framework Principles (ACFE, 2018). The information is readily available to anyone on the internet, but it is not required that nonprofits have guidelines set. It can only be encouraged to have new nonprofits set certain policies and procedures to help protect the organization from fraud. The knowledge of weak internal control practices may attract possible perpetrators to these nonprofits. My study exposed similar reasons for the importance of adopting strong internal control practices.

With the completion of my study, there is still further research necessary to discover possible unknown factors why nonprofit leaders lack proper internal control practices. Research on proper internal control practices in small nonprofits should be ongoing to continue to strengthen this area for the good of the organization and for the communities involved. Continued research could contribute to the small nonprofit community and promote positive social change. Although Archambeault and Webber (2018) addressed specific influences in their study conducted about internal control practices on small nonprofits, additional research is necessary because the data collected was insufficient to meet saturation, which lowered the results' validity. West and Zech (2008) focused on individuals trained to do specific duties, attitudes about using internal controls, and the amount of responsibility as critical influences that inhibit or restrict internal control practices in small nonprofit organizations. My study resulted in leaders stating they had some form of internal control practices in place. When asked about internal controls in other organizations, it was discovered that some leaders mentioned weaknesses they thought were present. Future research could be conducted on nonprofit leaders from past organizations to see if they expose weaknesses from that viewpoint. It was an assumption that nonprofit leaders may not have exposed weaknesses in their nonprofit.

Nonprofit leaders who take a proactive role by implementing proper internal control practices at the organization's start-up show credibility, making contributors more likely to donate to the nonprofits that use acceptable methods (Turpen, 2015). To further comply with laws, regulations, and policies, Turpen further explained that the board of

nonprofits is responsible for maintaining a system of internal controls to ensure its agents achieve effectiveness and efficiency. This responsibility includes reliable financial reports and accounting methods to be used by the agents of the organization. Public companies are required to follow specific procedures of the SOX Act, which include implementing an audit committee, following a code of ethics, and ensuring proper internal controls are in place to help regulate and protect itself from fraud (Werner & Gehrke, 2019). Results of my study show the importance of having policies and procedures in place to have adequate internal controls for the organization. Leaders may seek to incorporate the other enablers into the policies and procedures such as multiple money handlers, regular meetings, assignment of roles, doing background checks, facing dismissal if rules not followed, and providing training manuals. By including all the enablers into one set of guidelines may help leaders when trying to sustain healthy internal control practices in their nonprofit. The adoption of some of COSO's framework (see Figure 4) may also be another way for leaders to strengthen controls already in place.

### **Implications**

The importance of this study contributes to the literature on the use of proper internal control practices in small nonprofits. Exploring the obstacles and enablers faced by leaders to protect the organization from occupational fraud may lead to information that can help the nonprofit community employ proper internal control practices to help reduce the risk of occupational fraud. The information from my study provides valuable information about what proper internal control practices are being used in these small nonprofit organizations. The practices that came from the themes were setting policies

and procedures, providing training for all, doing background checks, and having a non-biased board of directors with a skill set. Many researchers expressed the need for understanding internal control practices in nonprofits because empirical evidence is minimal (Gregory, 2017; Maguire, 2013). The information gathered from this qualitative case study can help expose possible agency problems within small nonprofits and build on the literature about using internal control practices in nonprofits. Detecting agency problems can better guide leaders in the right direction to protect the organization from occupational fraud. Nonprofit leaders are encouraged to adopt COSO's framework to detect the agency problems and expose weaknesses.

### **Significance to Practice**

Results of my study showed a significant correlation to the past research about the importance of proper internal control practices in business, including small nonprofit organizations. Setting proper internal control practices and sticking to them on a regular basis is recommended for nonprofit leaders and board members. As stated in the literature review, without the presence of proper internal control practices, an organization is vulnerable to attacks from perpetrators looking for weaknesses (ACFE, 2018). Proper internal control practices help leaders achieve the 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).

This study's results may provide crucial information about the obstacles and enablers nonprofit leaders face when trying to employ proper internal control practices to help reduce fraud in the organization. Reducing fraud could increase financial integrity



and more robust internal control practices in small nonprofits (Harris et al., 2017).

Insights from this study may help nonprofit leaders help avoid fraud and increase integrity for their organization, which may help increase contributions from donors by strengthening the organization with a solid set of policies and procedures that leaders and board members enforce regularly. Having set policies and procedures that includes all enablers when trying to implement proper internal control practices is recommended.

### **Significance to Theory**

Use of the agency theory lens helps expose agency problems such as weak internal control practices (Panda & Leepsa, 2017). Results from the study may bring forward new insight into some of the agency problems within nonprofits. Results showed further evidence for future researchers seeking information on internal control practices in small nonprofits. This research may help add to the knowledge of agency theory by helping expose agency problems within organizations. Agency theory is a principal/agent relationship and is the assumption that management (agent) will not focus on the best interest of the company (principal) without adequate oversight (Tripathi, 2019). For this study, the agents are the nonprofit leaders and the board of directors, and the principal is the donor community. The lens of agency theory helped expose agency problems, which included inadequate training, the inability to fill necessary positions, costly background checks, unable to fulfill duties, and board members not willing to make changes. The knowledge of these obstacles may be useful for nonprofit leaders as issues to look for when trying to implement proper internal control practices within their organization.

### **Significance to Social Change**

In this study, I sought to provide positive social change through continuous research on the importance of proper internal control practices in nonprofits. Proper internal control practices can help nonprofit leaders reduce fraud and allocate the money to fulfill their mission. Adequate internal control practices help keep nonprofits in business, helping them achieve their mission for the greater good. Donors and communities may be more open to the nonprofit's message and services, increasing public trust. The increased confidence in nonprofit leaders can help build more interest from the community and help nonprofits leaders thrive and fulfill their mission. Leaders agreed that proper internal control practices are crucial to the integrity of the organization. All leaders admitted the importance of adopting proper internal control practices in nonprofits to protect organizations from fraud.

### **Conclusion**

In conclusion, my study explored proper internal control practices in small nonprofits. Nonprofit leaders shared their information about obstacles and enablers they face when trying to employ proper internal control practices. The obstacles include inadequate training, the inability to fill necessary positions, costly background checks, unable to fulfill duties, and board members not willing to make changes. The enablers are having set policies and procedures, multiple money handlers, regular meetings, assignment of roles, doing background checks, facing dismissal if rules not followed, and providing training manuals. The results of my study may be used to inform nonprofit leaders about the importance of implementing proper internal control practices within

their organization to help reduce or mitigate attacks from perpetrators. Stronger controls would benefit the organization and likely gain even more trust from the community. The increased integrity of the nonprofit would likely elicit even more donors and would enable leaders to fulfill the mission of the organization.

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## Appendix A: Interview Questions

I appreciate your agreement to participate in my study about the obstacles and enablers you may face when employing proper internal control practices to protect the organization from occupational fraud adequately. The approximate time for the interview will be 1 hour. Your interview and what is shared in this interview will be kept confidential. Please take your time and answer the questions in the interview as best you can. If you have any problems or need a break during this interview, or if you do not feel comfortable with any of the questions, you do not have to answer them. Prior to getting started, do I have your permission to record this interview? (RECORD). This is participant #(PINS) on (Date) and the participant has given consent to record this conversation.

What are your internal control practices?

What obstacles do you face when trying to implement these controls?

What enablers are present that help them to implement the control?

Are there other internal control practices you wish you could implement?

Why have you not implemented them?

What professional development, preparation, or training have you had for internal control practices as recommended, but not required, by IRS?

What is your level of internal control practices in your organization?

How do you feel about the use of internal control practices in other small nonprofit organizations?

How do you describe the support about the use of or implementation of proper internal control practices that you have received as you began working in a nonprofit?

What kind of support have you found to be helpful? What was not as helpful?

What kind of support would be an advantage for you now?

In what ways are you able to keep the organization free from the threat of fraud?

In what ways do you collaborate with other organizations about internal control practices?

How often do you collaborate with them?

Who do you collaborate with most often?

How often do you use information learned from collaborating with other organizations?

What have you found to be the advantages or disadvantages of collaborating with other organizations?

In what ways do you think collaborating with other organizations about internal control practices would be beneficial? Why or why not?

How often do you work with your board of directors to review internal control practices?

(END RECORDING) Please feel free to add more input beyond these questions if you feel it may help my study. I appreciate your participation in this research study. The responses you provided will be emailed to you for review. You may contact me for questions about this study at [tammy.holloway2@waldenu.edu](mailto:tammy.holloway2@waldenu.edu).

## Appendix B: Participation Request Email

Dear (Participant),

Hello. My name is Tammy Holloway. I am a student at Walden University in the doctoral program. My studies include internal control practices in small nonprofits. I located your organization by searching Guidestar and found you meet the research guidelines for eligibility. The guidelines include:

- Nonprofit leader within a small nonprofit for at least 2 years
- Located within the eastern United States

Please consider giving a limited amount of your valuable time to an important research study. If you are interested in participating, please respond with your full name, organization, and availability and I will email you a consent form to confirm your participation. The consent email will provide additional information about the study.

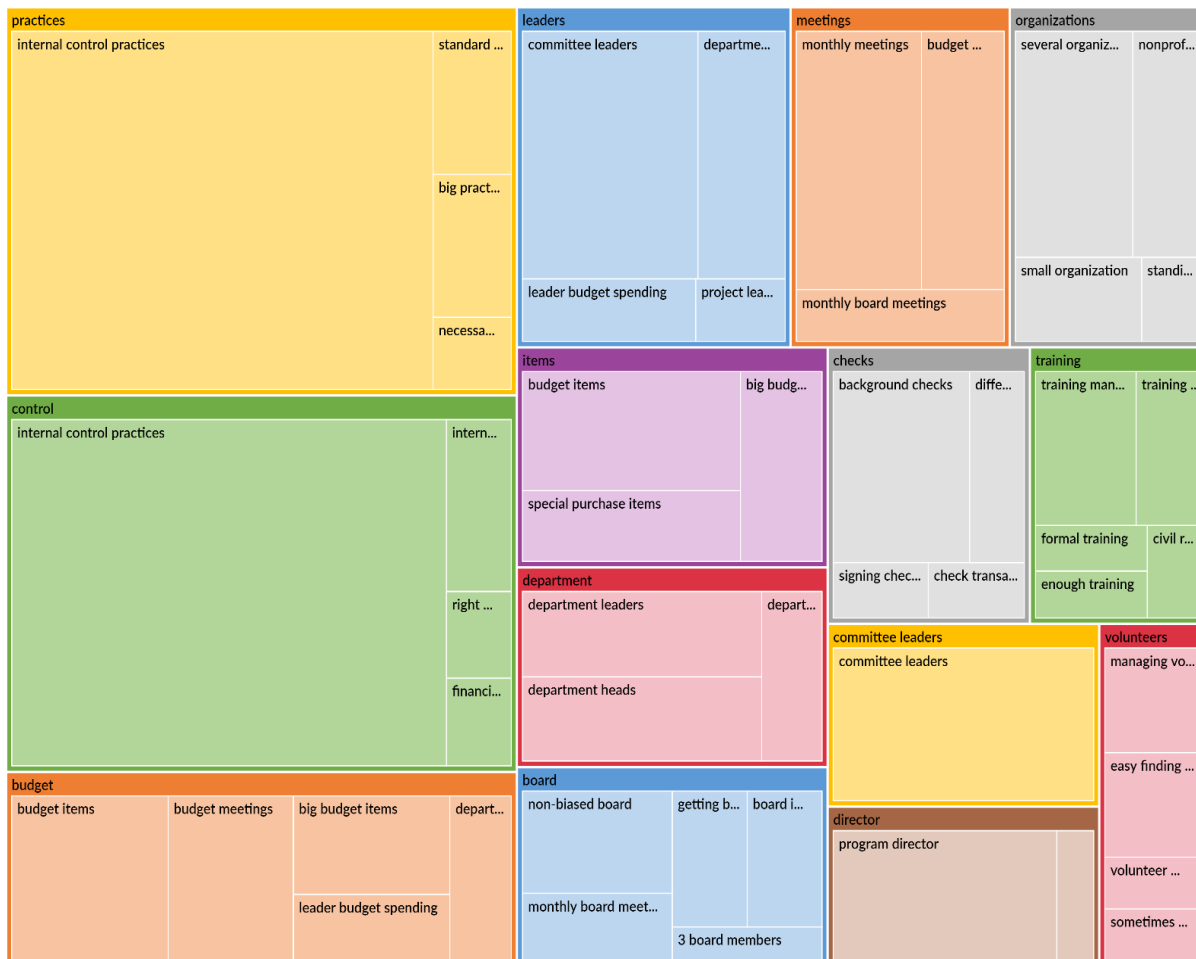
Thank you for your time.

Regards,

Tammy Holloway



Appendix D: NVivo Tree Map of Coded Themes



*Note.* Nodes in the tree map above exposed several possible themes to help break down the necessary components for small nonprofits to have proper internal control practices.