

Impact of Budget Size, Leadership CPA Licensure, and Nepotism Potentiality on Internal
Controls within the Churches of Christ

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Impact of Budget Size, Leadership CPA Licensure, and Nepotism Potentiality on Internal Controls within the Churches of Christ

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Abstract

Internal controls are the first line of defense against accounting fraud and provide churches protections commonly seen in for-profit businesses. The strength of internal control policies and practices significantly determines this fraud vulnerability and has a causal link to the likelihood of future losses. No external entity enforces an autonomous church's internal control policy, so local leaders must drive the implementation of internal controls of the individual churches. This non-experimental, quantitative, correlational study of Churches of Christ was conducted to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality on the degree of internal control implementation. An online survey was distributed to 2,757 Church of Christ church business administrators in seven states. The data collection resulted in a final sample of 122 ($N=122$) surveys. The two methods used for statistical analysis in this study were one-way ANOVAs and a normal correlation test. The findings provided statistical support that churches with small budget sizes had fewer internal controls in place than churches with large budget sizes, and churches with no CPA leaders had fewer internal controls in place than churches with either a CPA elder or a CPA deacon/treasurer. While a weak and negative correlation was detected, statistical support did not exist for the relationship between nepotism potentiality and the degree of internal control implementation. The Churches of Christ had been a largely overlooked population in previous studies. Recommendations for practice included, but were not limited to, incorporating an audit, finance, and contribution counting committee into church internal controls, as well as utilizing a CPA to develop and maintain these systems. Recommendations for future research included, but were not limited to, an examination of the impact of social loafing in church leadership scenarios and a repetition study using the interview method for data collection.

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My entire purpose in life is to honor God and try to be a little more like Jesus Christ every day. I pray that I have honored the goodness of my Lord with this work, and I sincerely hope that the findings of this research can be used to help churches all over the world by better enabling them to fulfill their mission of spreading the Gospel to others.

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Chapter 1: Introduction

Churches are not immune to financial fraud (Pedneault & Peterson Kramer, 2015). Church operations are similar to secular business operations in many ways, and both can suffer harm when internal controls are inadequate (Bruce, 2007; Seat, 2015). Cornell, Johnson, and Hutchinson (2012) found that 13.4% of churches were victimized through fraud in the last five years, confirming the previous estimates of 15% from Vargo (1995). Gannaway (2013) estimated that most organizations lose 5% of revenue annually to fraud. Nine percent of pastors work for a church that has experienced embezzlement (Lifeway Research, 2017). Christians gave \$700 billion to church organizations in 2015, and an estimated \$50 billion of that was lost due to crime (Johnson, Zurlo, Hickman, & Crossing, 2015). Johnson, Zurlo, and Hickman (2015) projected a 67% rise in financial crimes against churches, with 6% of donations lost to fraud and embezzlement in 2015 rising to 10% in 2025. From 2008 to 2013, religious and nonprofit organizations were the second most frequently embezzled industry and the source of nearly one-eighth of all reported embezzlement incidents (Marquet, 2014). The strength of internal control policies and practices significantly determines this fraud vulnerability and has a causal link to the likelihood of future financial losses (Dietz & Snyder, 2007; Holtfreter, 2008; Leach, 2012; Thornhill, Troy, & Domino, 2016).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) defined internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance” (p. 3). Internal controls are utilized in churches to (a) protect assets from being wasted or used inefficiently, (b) assure accounting records are correct and trustworthy, (c) motivate compliance with

organizational rules, and (d) ascertain the level of operational efficiencies (Duncan, Flesher, & Stocks, 1999). Internal controls are the first line of defense against accounting fraud and provide churches protections commonly seen in for-profit businesses (Bardhan, Lin, & Wu, 2015; Seat, 2015).

Church leaders can only limit the fraud opportunity—having little or no ability to control personal financial pressures or rationalization of perpetrators—and setting internal controls in place limits fraud opportunity (Boyle, Boyle, & Mahoney, 2015; Dorminey, Fleming, Kranacher, & Riley, 2012; Leach, 2012). Duncan (2001) asserted that failure to implement a reasonable internal control system is a ministerial dereliction of duty because it directly tempts church leaders and members to steal. Spiritual leaders are often tempted to abuse their authority while performing their duties (MacIlvaine, Stewart, & Barfoot, 2016), and internal control policies limit the opportunity to engage in questionable financial activities (Wooten, Coker, & Elmore, 2003). Consistent with the theological foundation of most churches, Jesus Christ provided a strong warning against tempting others to sin in Luke 17:1-2. Nonprofit organizations experience much less government regulation and outside oversight than their for-profit counterparts (Thornhill et al., 2016). Elson and Tarpley (2015), Frogameni (2008), Moll (2008), Montague (2013), and Smith (2015) suggested that church frauds are obscured because churches are exempt from filing tax returns with the IRS, which—if required—would disclose financial information to the public. Even some religious groups known for having highly structured ecclesiastical practices and a hierarchy of outside leadership, such as the Catholic Church, have limited internal control requirements for each church (Frogameni, 2008).

The degree of church autonomy, or self-governance, has been the subject of previous research and is important in understanding why the present study was needed. A fully

autonomous church is a sovereign, decentralized church location whose internal leadership self-governs actions and policies without any outside influence or control exerted by a higher church body (Duncan et al., 1999; MacIlvaine et al., 2016). The Church of Christ—in plural form, Churches of Christ—is a Protestant religious group consisting of fully autonomous, self-governing churches, with no outside hierarchal decision-making body (Beck, 2014). In contrast to autonomous churches, fully episcopal churches—such as the United Methodist Church or Catholic Church—lack autonomy and employ a top-down, centralized leadership structure where bishops dictate actions and policies to highly supervised subordinate churches to create uniformity (Duncan et al., 1999).

Churches with more autonomy have lower internal control implementation rates than more centrally organized denominations, due to the lack of outside oversight (Duncan et al., 1999). Kistler (2008) did not reach the same conclusion and found only minor differences in internal control levels among various denominations. Duncan et al. (1999) used the Southern Baptist denomination for his autonomous leadership structure comparison group, even though this group has a national constitution, formal leadership bureaucracy, and is not considered fully autonomous by other researchers (Hamilton, 2007; Heier, 2016; Vinson, 2012). Kistler (2008) merged autonomous churches with other denominations with low response rates in the data, weakening the validity of his conclusions. Booth (1993) and Duncan et al. (1999) suggested that additional internal control research should be conducted using other previously unstudied denominations. Other than the financial stewardship work of Bruce (2007) and the church finance work of Lifeway Research (2017), no other scholarly research specifically addressing financial matters within Churches of Christ has occurred.

Booth (1993) specifically suggested future research of church accounting practices in

mainstream church groups with membership size as a variable. The composition of the leadership team and employees, along with the size of the church, heavily influences internal control implementation (Duncan et al., 1999). The level of internal controls present in fully autonomous Churches of Christ is the subject of the present research. In contrast to episcopal churches, autonomous church internal control policy is not enforced by an external source, so the internal control policies and procedures of the individual churches must drive implementation. One financial-oriented variable and two leadership-oriented variables that may influence internal control levels were assessed in the present research. In the literature, both financial and nonfinancial measures have been utilized to assess internal control deficiencies and fraud risk (Brazel, Jones, & Zimbelman, 2009; Dellaportas, 2013).

The first issue of church size and internal controls was examined by modifying the membership size approach employed by Duncan et al. (1999) to instead concentrate on the availability of financial resources. Larger autonomous churches with more members should have greater financial resources to implement internal controls (Duncan, 2001). In addition to financial considerations, the second issue of accounting expertise of church leaders was examined. The willingness of church leaders with financial expertise and formal accounting licensure—such as the Certified Public Accountant (CPA) license—to utilize their skill sets to improve church operations strengthens internal control implementation and monitoring (Duncan, 2001; West & Zech, 2008). The third issue considered was the personal relationships within the church organizations. Church leaders that have family members in cash handling positions within the church may hinder internal control implementation because of nepotism (Collin & Ahlberg, 2012; Liu, Eubanks, & Chater, 2015; Pérez-González, 2006). Collin and Ahlberg (2012) found that board members were more passive in monitoring, instructing, and advising

agents when family relationships were present, and level of passivity was positively related to the closeness of the relationship. Churches cannot be expected to flourish in their mission if members or employees perceive that personal favoritism or nepotism dictates accounting procedures (Padgett, Padgett, & Morris, 2015).

In the present quantitative correlational study, the relationship between the levels of internal controls present in autonomous Churches of Christ and the annual budget sizes of those churches was investigated. Whether active CPA licensure of leaders or nepotism potentiality between church leaders and office employees influences the levels of internal controls in these churches was also investigated. Research was utilized from the areas of agency theory, internal controls, accounting fraud, church leadership, nonprofit accounting, nepotism, and kin density. The following background provides additional context for the present study.

Background

Even though a general lack of proper internal controls has been found to be pervasive in a variety of church organizations, church leaders are overconfident in the adequacy of the present financial techniques utilized (Cornell et al., 2012). Donors need to know that the funds given to church organizations are safe and are used for the charitable or religious purposes originally promised (Fleckenstein & Bowes, 2000; Thornhill et al., 2016). Donors consider internal controls before making contributions (Petrovits, Shakespeare, & Shih, 2011), and they demand proper oversight and accountability of donated funds (Bourassa & Stang, 2015; Gallagher, 2009; Thornhill et al., 2016). Many church leaders purposefully conceal or fail to report church fraud cases because of a fear that the negative publicity will damage the organizational image and reduce donations (Dellaportas, 2013; Flesher & Duncan, 1999; Marquet, 2011; Seat, 2015; Smietana, 2005). This fear is merited, as Petrovits et al. (2011) measured an average decline of

3.8% in nonprofit donations in the year after internal control problems were made public. Bruce (2007) and Gibelman, Gelman, and Pollack (1997) also found that members would divert donations to other entities if church leadership poorly handled donations or did not properly account for spending.

The assumption that the church is comprised of exceptionally moral people who can be trusted without a need for internal controls is a major contributing factor to widespread apathy regarding church internal control problems (Cornell et al., 2012; Duncan & Stocks, 2003; Flesher & Duncan, 1999; Kistler, 2008; Kramer, 2015; Thornhill et al., 2016; Vargo, 1995). Nearly 20% of church fraud perpetrators have prior criminal records that can be discovered with simple background checks, but these records are often missed because of the *blind trust* issue (Marquet, 2011). Blind trust occurs when someone with custody of assets is not monitored or supervised by anyone else (Marquet, 2011; Vargo, 1995). The blind trust problem is compounded by the *better-than-average* psychological effect, where people tend to find those they are close to as more socially desirable and worthy than other people in general (Pedregon, Farley, David, Wood, & Clark, 2012). Nepotism could cause donors to reasonably doubt whether internal controls would be enforced properly (Padgett et al., 2015).

Most church leaders, employees, and administrators have little financial training, but are expected to properly and honestly handle large amounts of cash (Duncan & Stocks, 2003; Elson, O'Callaghan, & Walker, 2007; Flesher and Duncan, 1999; Irwin & Roller, 2000; Kistler, 2008; Seat, 2015). In previous research, more than 63% of church leaders indicated that they had no formal training in business or accounting, yet only 3% of church leaders had no administrative financial responsibilities (Duncan & Stocks, 2003). Cash is consistently sought out in church frauds (Busby, Martin, & Van Drunen, 2015; Gallagher, 2009; Vargo, 1995). Marquet (2014)

found that 68.2% of embezzlers were employed as bookkeepers or finance personnel within organizations, which is alarming considering who handles church funds. Churches rarely pay board members, and boards may have difficulty finding an accounting professional willing to volunteer their services. Organizations lacking board members with accounting expertise have internal control weaknesses more frequently than organizations with accounting expertise on the board (Bai, 2012; Zhang, Zhou, & Zhou, 2007). Companies that lack financial expertise on their audit committees also have greater misappropriation of assets (Mustafa & Youssef, 2010). Guo, Huang, Zhang, and Zhou (2016) found that half of the businesses with internal control problems had a deficiency in accounting expertise or disgruntled or unmotivated employees with poor pay and benefits. Specifically, Bai (2012) found the presence of CPAs on nonprofit leadership boards improved internal controls and increased donations to the nonprofits.

In addition to internal controls, employee training and strong leadership oversight also reduce the occurrence of financial mismanagement (Enofe & Amaria, 2011; Jordan, Thompson, & Malley, 1991). Fraud schemes are often possible not because leaders are ignorant of financial matters, but because their time and focus are usually spent on serving members and other charitable causes (Flesher & Duncan, 1999; Gannaway, 2013; Hofmann, 2015; Seat, 2015). Compounding the time problem for many small church organizations is the inability to segregate duties due to limited staffing or volunteers, rendering many financial safeguards ineffective (Flesher & Duncan, 1999; Thornhill et al., 2016). Kistler (2008) found relatively weak segregation of duties to be common in churches, and Wooten et al. (2003) found that 91% of churches violate the basic internal control principle of segregation of duties. Particularly within autonomous churches, there is a lack of corporate governance and a presence of leaders who frequently override the few internal controls in place (Booth, 1993; Enofe & Amaria, 2011).

There are no guidelines specifically written to address the needs of fully autonomous churches. Most churches are exempt from annual reporting of income and expenses to the federal government, further limiting outsider scrutiny (Hofmann, 2015; Morefield & Ramaswamy, 2011). The IRS is prohibited from fully auditing a church unless there is special permission granted from a high-ranking Treasury official who has received written evidence of egregious tax law violations and has failed at attempts to settle the tax issue with a pre-audit meeting (Hofmann, 2015). Lifeway Research (2017) found that 20% of churches had not had a complete financial audit within the last 5 years. An entity typically has better internal controls when its leaders share a set of ethical principles and values and associated behavioral and social norms (Campbell, Li, Yu, & Zhang, 2016). Churches should be an ideal environment for execution of internal control policies if the leaders are given guidelines that support their organizational mission. The implementation of internal controls should not be viewed as only a defensive measure. Petrovits et al. (2011) found that improving internal controls not only reduced nonprofit financial risks, but also attracted more donations. No matter how safe from financial fraud the leaders may believe their church to be, blind trust can never be accepted in lieu of internal controls (Floch & Olson, 2003; Pedneault & Peterson Kramer, 2015). The need for scrutiny and monitoring of agents is an integral part of agency theory (Jensen & Meckling, 1976), which served as a foundation for the present research.

There is a paucity of research on nonprofit internal controls (Petrovits et al., 2011; Thornhill et al., 2016). Research addressing the internal controls of specific church denominations is scarce. The Church of Christ is a Protestant religious group consisting of fully autonomous, self-governing churches, with no outside hierarchal decision-making body (Beck, 2014). Each church within the Churches of Christ is led by a plurality of male leaders called

elders, which are selected by church members and serve as the spiritual and general leadership board for each autonomous church (Beck, 2014). Each church typically has another group of male leaders called deacons, who are selected by the members and approved by the elders (MacIlvaine et al., 2016). Deacons serve as leaders over a specific work or task within each autonomous church (MacIlvaine et al., 2016). The working dynamic between the elders and deacons varies in each church, so churches may have (a) the dominant financial expert as an elder who directs a nonexpert deacon of finance or nondeacon treasurer, or (b) the dominant financial expert as a deacon or nondeacon treasurer who reports to an elder of finance, or (c) a partnership where both elder and deacon or nondeacon treasurer are financial experts and share responsibilities relatively equally (Bruce, 2007; Yeakley, 2008). Depending on the working dynamics within each church, the elders, deacons, or nondeacon treasurers who are the primary financial experts may supervise the church business administrator (CBA) or serve as the CBA for their respective churches. The CBA for each church is the person with primary responsibility for conducting the accounting, budgeting, business, and financial affairs of a church (Dimos, 2016). The CBAs were the recipients of the surveys for the present study.

Other than the financial stewardship work of Bruce (2007) and the church finance work of Lifeway Research (2017), no other scholarly research specifically addressing financial matters within Churches of Christ had occurred until the present study. With approximately 12,300 total churches spread throughout every state and territory of the United States (Royster, 2015), a membership base estimated at 1,352,465 people (West, 2016), and 1,519,695 estimated adherents (Royster, 2015), additional research on this group was necessary to fully understand the accounting and internal controls practices in place.

Statement of the Problem

Preventing fraud before it happens is more cost-effective than detecting, investigating, and recovering from fraud after it occurs (McMahon, Pence, Bressler, & Bressler, 2016; Murphy & Dacin, 2011; Tysiac, 2012; West & Zech, 2008). Unfortunately, lackluster financial controls providing little fraud protection are a common occurrence in many churches, leaving the money entrusted to religious organizations for charitable usage vulnerable to potential fraudsters (Duncan et al., 1999; Enofe & Amaria, 2011; Kistler, 2008; Kutz, 2007; LaShaw, 2007; Pavlo, 2013; Thornhill et al., 2016). Although church internal control systems have previously been studied (Duncan et al., 1999; Kistler, 2008; LaShaw, 2007), research confirming the presence, cause, and predictors of internal control problems within fully autonomous Churches of Christ had not been conducted until the present study took place.

The problem is the lack of guidelines on internal control procedures to mitigate financial risk to the Churches of Christ. By assessing if internal control weaknesses were present, the leaders of these churches could be made aware of their church's vulnerability to fraudulent activities and inappropriate usage of donated funds. Church leaders have a responsibility to be aware of the warning signs of fraud (Shapiro, 2011) and establish internal controls to minimize fraud risk (Dellaportas, 2013; Hopwood, Leiner, & Young, 2012). Sixteen percent of Churches of Christ have experienced embezzlement, and 16% of Churches of Christ have never had a complete audit of their finances (Lifeway Research, 2017). Research was necessary to investigate if and how leaders were executing internal control responsibilities in Churches of Christ and to determine what best practices could be implemented to mitigate financial risks to these churches.

Purpose of the Study

The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. This cross-sectional research study of internal control issues of Churches of Christ in the United States was conducted via emailed surveys sent to 2,757 CBAs located in states with at least 50,000 members statewide in different developmental stages with their internal control systems. Surveys were structured to minimize the likelihood of subjective interpretation of the data. Survey questions covered demographics, internal controls and accounting practices, annual budget size, leadership CPA licensure, and potentially nepotistic family relationships by using primarily yes/no questions to assess actions.

Theoretical/Conceptual Framework Overview

Agency exists when principals—typically shareholders, owners, or donors—use contracts for services to delegate authority to agents—usually management or employees (Bosse & Phillips, 2016; Jensen & Meckling, 1976; Riahi-Belkaoui, 2004). Proponents of agency theory argue that egocentric agents acting on behalf of principals will seek out opportunistic gains for themselves because of a divergence of self-interests unless effective preventative controls exist to stop them (Fama & Jensen, 1983; Hewson, 2010; Mihret, 2014). When boards of directors establish or enforce a series of internal controls, this reassures principals that the agents are being held responsible and managing resources well (Duncan, 2001; Mihret, 2014; Miller, 2002). In the case of churches, the members are the donor principals. The church employees are the agents acting on behalf of the members, but these agents are held responsible by the eldership board.

Mihret (2014) called for additional empirical research on agency theory by analyzing the impact of organizational size and board member characteristics. Basu (2015) called for research on accounting by nonpublic organizations and individuals. Even though agency theory originated in for-profit businesses, both Carman (2011) and Viader and Espina (2014) found that agency theory was driving operating practices by more nonprofit principals than any other theory. The present study utilized agency theory in the context of internal controls for churches. Conceptually, internal controls were operationalized using the COSO (2013) definition.

Research Questions

The following questions are addressed in this quantitative correlational study:

RQ1. To what extent, if any, is there a relationship between the levels of internal controls in Churches of Christ and the size of their annual budgets?

RQ2. To what extent does an elder or finance deacon/nondeacon treasurer holding an active CPA license influence or not influence the levels of internal controls in Churches of Christ?

RQ3. To what extent, if any, does nepotism potentiality among or between the elders, finance deacons/nondeacon treasurers, and church office employees influence the levels of internal controls in Churches of Christ?

Hypotheses

H1₀. The annual church budget size of a Church of Christ has no impact on the degree of internal control practices in place.

H1_a. A Church of Christ with a larger annual church budget size has a greater degree of internal control practices in place than Churches of Christ with smaller budget sizes.

H2₀. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has no

impact on the degree of internal control practices in place in Churches of Christ.

H2_a. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has a positive impact on the degree of internal control practices in place in Churches of Christ.

H3_o. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employee has no impact on the degree of internal control practices in place in Churches of Christ.

H3_a. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employees has a negative impact on the degree of internal control practices in place in Churches of Christ.

Nature of the Study

The non-experimental, quantitative, correlational research design of the present study was a cross-sectional study of internal control issues of Churches of Christ conducted via emailed surveys. A cross-sectional study has data collection from a representative subset of a population at a single point in time (Leedy & Ormrod, 2013). Non-experimental research designs may lack the random assignment of participants to conditions (Creswell, 2013). Surveys were simultaneously sent to CBAs in multiple churches in different developmental stages with their internal control systems, which improved the feasibility of the present study. The surveys were structured to minimize the likelihood of subjective interpretation of the data. The survey questions covered demographics, internal controls and accounting practices, annual budget size, leadership CPA licensure, and potentially nepotistic family relationships using primarily yes/no questions to assess actions.

Church internal control systems were assessed using an updated version of a widely published questionnaire originally operationalized by Duncan et al. (1999). The original internal

control assessment instrument developed by Duncan et al. (1999) was based on the 1992 internal control framework of COSO and the work of Vargo (1995). Hankerson (2016) also used this 1992-based framework for his dissertation research on church internal controls, but strongly suggested that future researchers update the instrument to comply with the new 2013 internal control framework of COSO. The present research used the Duncan et al. (1999) internal control instrument updated to align with the newest 2013 COSO internal control framework guidelines. Duncan granted permission to use the updated internal control instrument in the present study.

While the membership size of the church could have been a suitable independent variable for the present research, the money those members donate to the churches as part of the church annual budget was determined to be a more direct assessment of the impact of resources on internal control implementation. The CPA license has broad name recognition in the United States (AICPA, 2017) and is the accounting license most commonly associated with financial expertise (Iyer, Bamber, & Griffin, 2013), so leadership possession of the CPA license was used in the present study to assess financial expertise. Nepotism was assessed using the kin density formula developed by Spranger, Colarelli, Dimotakis, Jacob, and Arvey (2012). Colarelli granted permission to use the kin density formula in the present study.

The Churches of Christ that are the subject of this study are autonomous and self-governing in their leadership structure, as there is no outside hierarchal decision-making body for this religious group (Beck, 2014). The inclusion criteria for the CBA and corresponding church were (a) the CBA must have been 18 years of age or older and represented (b) an autonomous Church of Christ church (c) listed in the Royster (2015) database with (d) an active eldership board that is (e) located within the United States in a state with at least 50,000 members of the Church of Christ in the state. Churches without leadership boards were specifically excluded

since the present research was built upon agency theory. There were seven states with sufficient members to meet the inclusion criteria (Royster, 2015). In order from largest member populations to smallest, the qualifying states were (1) Texas, (2) Tennessee, (3) Alabama, (4) Arkansas, (5) Oklahoma, (6) Florida, and (7) California. Geographically limiting the population improves the feasibility of a study (Cozby & Bates, 2014).

Duncan et al. (1999) previously determined church membership size to be small with 300 or fewer members and large with 300 or more members. However, for the present research, churches were placed into three size categories (small, medium, or large) based on a stratification of the responding churches' self-reported annual budget sizes. Two one-way, fixed-effects, ANOVA tests were used to analyze each of the first two research questions because there were three groups in RQ1 and RQ2. The three groups for RQ1 were (a) small, (b) medium, and (c) large church budgets. The three groups for RQ2 were (a) churches with no CPA leaders, (b) churches with either a CPA elder or CPA deacon/nondeacon treasurer, and (c) churches with both a CPA elder and a CPA deacon/nondeacon treasurer. Necessary sample sizes were determined using G*Power 3 (Faul, Erdfelder, Lang, & Buchner, 2007). Using three groups, a medium effect size of 0.25, alpha of 0.05, and a power level of 0.8, a sample of 159 total churches was needed to reach the minimum sample size necessary for RQ1 and RQ2. The third research question had two even groups, so a one-tailed bivariate normal correlation test was used for RQ3. RQ3 is a comparison of the churches' kin density scores to the churches' internal control assessment scores. Using a power level of 0.8, an alpha level of 0.05, and a medium effect size of 0.2 resulted in an estimated total sample size needed of 153 CBAs. Therefore, the minimum sample size necessary for the aforementioned statistical analyses was 159 CBAs of Churches of Christ.

The database maintained by Royster (2015) has contact information and membership demographics for most Churches of Christ in the United States, and the convenience sampling method was utilized to determine which CBAs receive the surveys. Utilizing convenience sampling through sending surveys to all 1,706 churches with email addresses in the Royster database expedited research without compromising validity. The Royster database also had 578 churches listed with a website, but no email address. An internet search of these 578 church websites yielded another 167 church email addresses. An additional 567 church email addresses were also acquired after contacting Royster directly about any potential updates to the 2015 database since its original release. Finally, the church relations office of a local university affiliated with the Churches of Christ shared 481 church email addresses. After combining all data sources and deleting 164 duplicate email addresses, a final total of 2,757 usable email addresses was reached. By sending surveys to a total of 2,757 out of 6,633 churches in the population, the validity of the research and the chances of equal representation from churches of various membership sizes during survey sampling was improved. The CBA of all 2,757 churches with email addresses were notified via email of the opportunity to participate in the research. Using emailed surveys saved postage and printing costs, and eliminated travel time associated with conducting interviews.

A primary strength of this research was the accessibility of the population data for sending out surveys due to the Royster (2015) database. This research was also conducted within a narrow time frame, which reduced the likelihood of history threats (Trochim & Donnelly, 2006). While all confounding variables could not practically be controlled in this research (Leedy & Ormrod, 2013), the significant demographic information collected permitted easier identification of possible confounds. Quantitative methods yielded data that was easy to

process (Bordens & Abbott, 2010).

Qualitative data often consists of written records and subjective observations that cannot be measured as easily as quantitative numerical data (Bordens & Abbott, 2010). Subjective data manipulation and bias would have been a much greater issue if a qualitative design plan had been implemented (Leedy & Ormrod, 2013). The decreased likelihood of subjectivity is a strength of the quantitative method (Creswell, 2013).

ANOVA tests were conducted to determine if there were mediating or interaction effects between any of the independent variables. Mediators are interventions necessary to evaluate if there is a causal pathway between cause and effect, and clarify the relationship between study variables (Bauman, Sallis, Dzewaltowski, & Owen, 2002; Fairchild & MacKinnon, 2008). Mediating variables are typically already present in the natural context of the study variables (Creswell, 2013). In addition, standard correlation tests between independent variables and the dependent variable were conducted to measure the influence of the variables on internal control implementation.

Significance of the Study

The present study was significant because the information gathered can be used to develop a set of internal control guidelines specific to Churches of Christ. Eldershops could benefit from knowing if their churches are vulnerable to dangerous financial risks based upon answers to a few questions. A secondary goal of the present research study was to enable church leaders or potential donors to predict levels of internal control implementation—and indirectly, fraud vulnerability—based on church demographics, church annual budget size, leadership CPA licensure, and potentially nepotistic hiring practices. The present research also sought to enable leaders to understand and address the effects of CPA licensure and nepotism potentiality within

the organization on internal control implementation. For example, since substantially positive impacts on internal controls from having a CPA as an elder were discovered, this could encourage current church leaders to consider appointing these accounting experts to their leadership boards. If nepotism potentiality had been found to be a major negative influence on internal controls, steps could be taken to mitigate those effects. Indirectly, churches would be better financially equipped to fulfill their spiritual missions if their resources were subjected to less financial risks due to improved internal controls. Broadly speaking, the information gained from the present study could be of interest to leaders of other autonomous church organizations or nonprofits.

Definitions of Key Terms

Annual budget. The calendar-year amount of expected expenses for operations, ministries, and capital maintenance of a single church location (Duncan et al., 1999).

Autonomous church. Sovereign, decentralized church location whose internal leadership self-governs actions and policies without any outside influence or control exerted by a higher church body (Duncan et al., 1999).

Blind trust. Circumstance when someone with custody of assets is not monitored or supervised by anyone else (Marquet, 2011; Vargo, 1995).

Certified Public Accountant (CPA). Accountant licensed by a state board of accountancy to offer accounting services to the public, and who previously passed the Uniform CPA Examination, finished 150 semester hours of college, had one year of professional accounting experience, and fulfilled all continuing education requirements (AICPA, 2017).

Church. Single physical location where a group of Christians periodically congregate for religious worship or spiritual activities (Royster, 2015).

Church business administrator (CBA). Individual with primary responsibility for conducting the accounting, budgeting, business, and financial affairs of a church (Dimos, 2016).

Church of Christ. Unofficial brotherhood of autonomous churches with modern origins in the 19th century American Restoration Movement, characterized by the practice of acapella singing and weekly communion, the emphasis of core beliefs and moral sanctification, the absence of a formal, extrabiblical creed, and the lack of main headquarters with authority to prescribe practices (Beck, 2014; Casey, 2002; Royster, 2015; Yeakley, 2008).

Coefficient of relatedness, r . The probability that two individuals share genetic alleles due to common ancestry, or a measurement of the degree of biological relationship between two individuals (Collin & Ahlberg, 2012; Spranger et al., 2012).

Deacons. Plurality of male leaders meeting the qualifications of 1 Timothy 3:8-13 who are selected by the members of a Church of Christ church and approved by the elders to serve as leaders over a specific work within each autonomous church (MacIlvaine et al., 2016).

Elders. Plurality of male leaders meeting the qualifications of 1 Timothy 3:1-7 and Titus 1:5-9 who are selected by the members of a Church of Christ church to serve as the spiritual and general leadership board for each autonomous church (Beck, 2014).

Collectively, the individual elders on the leadership board are referred to as the eldership.

Episcopal church. Church location that lacks autonomy and employs a top-down,

centralized leadership structure where bishops dictate actions and policies to highly supervised subordinate churches to create uniformity (Duncan et al., 1999).

Kin density. Measure of group-level relatedness or genetic overlap that takes into account the proportion and degree of relatedness of family members within a group of individuals within an organization (Spranger et al., 2012).

Members. Individuals who are affiliated with one particular Church of Christ through the religious practice of baptism at that church or approval by local elders after recognition of a previous baptism at another church (Yeakley, 2008).

Membership size. The number of individuals who are affiliated with one particular Church of Christ church and formally recognized by the eldership as members (Duncan et al., 1999; Yeakley, 2008).

Nepotism. Unfair favoritism shown towards relatives in supervision or hiring, often to the detriment of others who are capable or qualified (Collin & Ahlberg, 2012; Mhatre, Riggio, & Riggio, 2012).

Nepotism potentiality. Degree of vulnerability that an organization may have to nepotistic practices (Collin & Ahlberg, 2012; Spranger et al., 2012).

Nondeacon treasurer. Unpaid individual who is neither a deacon nor subject to Biblical qualifications for office, but is selected by the elders to serve as leader of accounting or finance activities within an autonomous church (Duncan et al., 1999).

Summary

Preventing fraud before it happens is more cost-effective than detecting, investigating, and recovering from fraud after it occurs (McMahon et al., 2016; Tysiac, 2012). Internal control problems are prevalent in churches today (Duncan et al., 1999), leaving the money entrusted to

religious organizations for charitable usage vulnerable to potential fraudsters (Thornhill et al., 2016). Although church internal control systems have previously been studied (Duncan et al., 1999), confirming the presence and cause of internal control problems within the fully autonomous Churches of Christ had not been considered until the present study. Internal control implementation trends within the Churches of Christ were studied to determine if widespread weaknesses existed, and if so, why they existed and how they could be corrected. The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. The resulting information could be used to improve internal controls and better equip churches to fulfill their spiritual missions by reducing the financial risks to their limited resources. In the next chapter, the literature review of the present study is discussed.

Chapter 2: Literature Review

Internal controls are the first line of defense against accounting fraud and provide churches protections commonly seen in for-profit businesses (Bardhan et al., 2015; Seat, 2015). The strength of internal controls policies and practices significantly determines this fraud vulnerability and has a causal link to the likelihood of future financial losses (Dietz & Snyder, 2007; Holtfreter, 2008; Leach, 2012; Thornhill et al., 2016). No external entity enforces an autonomous church's internal control policy, so local leaders must drive the implementation of internal control policies and procedures of the individual churches. In the literature, both financial and nonfinancial measures have been utilized to assess internal control deficiencies and corresponding fraud risk (Brazel et al., 2009; Dellaportas, 2013).

One financial-oriented variable and two leadership-oriented variables that may influence internal control levels were assessed in the present research. The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. This cross-sectional research study of internal control issues of Churches of Christ in the United States was conducted via emailed surveys sent to CBAs located in states with at least 50,000 members statewide in different developmental stages with their internal control systems. Survey questions covered demographics, internal controls and accounting practices, annual budget size, leadership CPA licensure, and potentially nepotistic family relationships by using primarily yes/no questions to assess actions. The following literature review provides additional context for the present study. Research was utilized from the areas of agency theory, internal controls, accounting fraud, church leadership, nonprofit accounting, nepotism, and kin density. Studies conducted without a

corresponding theoretical or conceptual underpinning would only be marginally more meaningful than an anecdotal observation (Gelso, 2006). Figure 1 is a diagram of the conceptual model of the constructs to be discussed in the literature review.

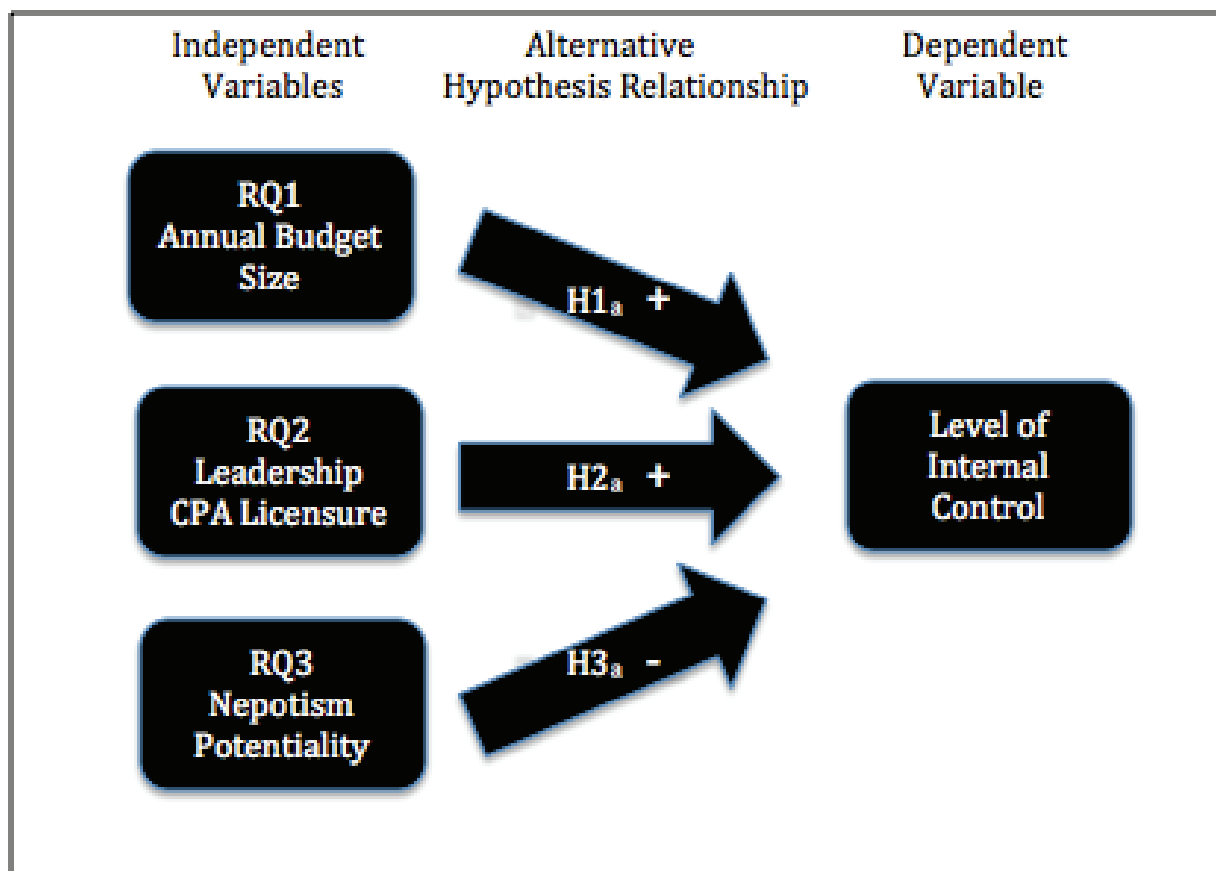


Figure 1. Conceptual model diagram

Documentation and Literature Search

The literature search strategy to locate current, seminal, and relevant information for the present study included multiple sources such as libraries and online databases. The vast majority of the reviewed literature originated in the online libraries of Northcentral University and a local university, while a minority of the reviewed literature originated in the online library of Google Scholar. These online libraries have databases maintained by Business Source Complete, EBSCOhost, Gale Academic OneFile, Google Scholar, JSTOR, LexisNexis Academic, NCU

Dissertations, ProQuest, SAGE Journals, ScienceDirect, SpringerLink, and Wiley Online Library. Search terms used to find the articles included, but was not limited to, *accounting guidelines, accounting theory, agency theory, AICPA, ANOVA, audit committees, auditing, autonomous, background checks, bias, board member, budgeting, cash larceny, Christianity, church accounting, church business administrators, church leadership, church membership, Church of Christ, church polity, clergy, coefficient of relatedness, collusion, complacency, contribution counting, corporate governance, COSO, CPA, cronyism, deacons, denominational structure, donations, donors, elders, embezzlement, employee supervision, ethics, family firms, FASB, favoritism, financial crime, financial expertise, financial reporting, financial stewardship, Foreign Corrupt Practices Act, forensic accounting, fraud, fraud risk, fraud triangle, fraud vulnerability, governmental accounting, hierarchy, independence, internal auditing, internal controls, kin density, member expectations, minister, nepotism, nonprofit accounting, nonprofit management, opportunity, organizational culture, organizational size, pastor, pressure, privately-held business, psychology, quantitative research design, rationalization, research methods, Restoration Movement, Sarbanes-Oxley Act, segregation of duties, statistical analysis, tax-exempt status, tone at the top, transparency, treasurers, trust, and white-collar crime.*

Physical copies of books on church accounting and finance, nepotism, religion, research design, and research methodology were obtained from a local university library or purchased online. A preponderance of the sources in the literature review originated from scholarly, peer-reviewed journal articles or books.

Theoretical/Conceptual Framework

The literature review begins with a discussion of agency theory, the theoretical foundation of internal controls. After a discussion of agency theory, additional information is

provided regarding COSO, the fraud triangle, and internal control issues specific to churches. Following this, the independent variables of the present study are examined. Finally, a brief justification for use of the control variables and ethical considerations is mentioned.

Agency theory. The present study utilized agency theory in the context of internal controls for churches. While the components of agency theory have been used to justify internal controls in practice for thousands of years (Rost, Inauen, Osterloh, & Frey, 2010), agency theory primarily became a popular topic within research circles after the release of the seminal work of Jensen and Meckling (1976). Agency exists when principals—usually shareholders, owners, or donors—use contracts for services to delegate authority to agents—usually management or employees (Bosse & Phillips, 2016; Jensen & Meckling, 1976; Riahi-Belkaoui, 2004). Principals need assurance that manager agents properly use assets, issue financial reports accurate to the letter and spirit of the law, and perform job duties well enough to meet organizational goals set forth by the principals (Wilson, Wells, Little, & Ross, 2014). The need for scrutiny and monitoring of agents is an integral part of agency theory (Jensen & Meckling, 1976).

According to agency theory, egocentric agents acting on behalf of principals will seek out opportunistic gains for themselves because of a divergence of self-interests unless effective preventative controls exist to stop them (Fama & Jensen, 1983; Hewson, 2010; Mihret, 2014). The costs of the preventative controls are known as agency costs. When boards of directors establish or enforce a series of internal controls, this reassures principals that the agents are being held responsible and managing resources well (Duncan, 2001; Mihret, 2014; Miller, 2002). Donor principals that are well informed about a particular type of charity will examine trust, accountability, and transparency of leaders before making donations or volunteering to help

(Bourassa & Stang, 2015). Improving trust, enhancing accountability, and providing transparency will have a significantly positive impact on donation amounts and volunteer access (Bourassa & Stang, 2015).

Agency theory assumes the individual pursuits of agents drive actions within an entity, and contracts dictate the relationships between agent and principals (Carman, 2011; Hewson, 2010; Mihret, 2014). When agents or principals selfishly keep information from or communicate poorly with the other party, the imbalance of information is known as the *adverse selection problem* (Cuevas-Rodriguez, Gomez-Mejia, & Wiseman, 2012; Mihret, 2014; Riahi-Belkaoui, 2004). For example, agency conflicts can arise from adverse selection when principal board members hold back criticism while monitoring relatives or hire an unqualified person to perform job duties better suited for someone else (Lohe & Calabrò, 2017). Conversely, agency conflicts are reduced when employees are privy to insider information from the board or make decisions that align with principal interests (Liu et al., 2015). The adverse selection problem is aggravated by divergent motivators or abuses of manager discretion originating from flaws in the employment contract—known as the *moral hazard problem*—and can lead to negative actions by the agent (Fama & Jensen, 1983; O'Brien, Minjock, Colarelli, & Yang, 2017; Riahi-Belkaoui, 2004). The moral hazard problem could be observed if an unmonitored agent circumvented time-consuming internal controls, such as a purchase order system, to expedite acquiring new equipment. However, perceptions of fairness can provide a mediating relationship between the principal and agent through reciprocal behaviors and proper motivators (Bosse & Phillips, 2016; Miller & Sardais, 2011). A balance of intrinsic and extrinsic motivation is necessary for mitigating agency problems (Christ, Emett, Summers, and Wood, 2012; Hewson, 2010; Pepper & Gore, 2015).

Hewson (2010) asserted that agency theory only applies in scenarios where agents have the intention to do purposeful acts, have the power to act on that intention, and have the ability to reason and intelligently augment actions with reflection. An agent working as a secretary in a church office with unsupervised access to cash could easily meet the standards of Hewson (2010) because proper segregation of duties is rare in most churches (Kistler, 2008; Wooten et al., 2003). Even well-intentioned individuals can benefit from increased control monitoring (Enofe & Amaria, 2011). In an experimental study of 127 Swedish nonprofits, Bengtsson and Engström (2014) found nonprofits temporarily placed under additional audit monitoring had increased outreach, spent less money on administrative expenses, and had fewer accounting irregularities versus the control group that only had to turn in routine reports. Iyer and Watkins (2008) found that organizations with external or internal auditors were more likely to consistently maintain internal controls. Campbell, Lambright, and Bronstein (2012) surveyed 48 individual nonprofit funders and 109 nonprofit providers in New York and found that agency problems largely originated from the adverse selection problem, but both groups mutually desired to improve operations and give better feedback to one another. Principals should communicate to agents that the ultimate purpose of internal control is to enable the mission of the organization to be pursued.

Christ et al. (2012), Falk and Kosfeld (2006), Hunton, Mauldin, and Wheeler (2008), Liu, Wright, and Wu (2015), and Schnedler and Vadovic (2011) found that internal controls could negatively impact employee performance because of employee perceptions of mistrust and freedom restriction, and the researchers cautioned that controls—in some cases—can be more costly than simply trusting people. Schnedler and Vadovic (2011) and Christ et al. (2012) posited that internal controls employed by principals to mitigate agency problems had a negative

effect on agent performance and motivation, but only in circumstances where the agents saw the controls as unnecessary or illegitimate. Liu, X. et al. (2015) found that the reason for using internal controls for monitoring activities had to be clearly and honestly presented to employees or more unethical behavior would result. Herda, Bowlin, and Reed (2013) and Irvine (2005) found that accounting and budgeting practices tied to a religious purpose were used as a benchmark for the completion of sacred goals of the church, and posited that establishing proper internal controls and accounting practices can be complementary to the ministry efforts of churches. For example, when resources are protected from theft, churches can more readily assist the needy as encouraged in Proverbs 3:27-28. Church leaders need to value accountability positively, or resistance to accounting controls is more likely to occur (Abraham, 2007).

Some researchers have criticized agency theory for not addressing how agents can be entrusted to implement or follow controls that limit their self-interests (Enofe & Amaria, 2011; Mihret, 2014). Proponents of stewardship theory or limited self-interest disagree with the assumption of goal conflict between the principal and the agent (Bosse & Phillips, 2016; Cuevas-Rodriguez et al., 2012; Mihret, 2014; Van Puyvelde, Caers, Du Bois, & Jegers, 2013). After studying 74 Belgian nonprofit schools, Van Puyvelde et al. (2013) proposed merging agency theory and stewardship theory as a new governance framework for nonprofits, citing the benefit of improved employee retention. Mihret (2014) called for additional empirical research on agency theory by analyzing the impact of organizational size and board member characteristics on agency costs. Basu (2015) called for research on accounting controls by nonpublic organizations and individuals. Even though agency theory originated in for-profit businesses, both Carman (2011) and Viader and Espina (2014) found that agency theory was driving operating practices by more nonprofit principals than any other theory. The present research

utilized agency theory in the context of internal controls for churches.

Accounting matters—especially internal controls—are constantly changing based on the current needs of the owner principals in the agency arena (Wilson et al., 2014). However, the United States government has also had a notable impact on pushing internal control implementation to organizations. The rising frequency of accounting fraud in the 1970s and 1980s ultimately led to two notable pieces of legislation: the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act (SOX) of 2002 (Ehrlich & Williams, 2016; Tipgos, 2002). The FCPA requires publically traded companies to devise and maintain an adequate system of internal accounting control, and SOX requires these companies to establish management responsibility over internal controls, annually assess the effectiveness of internal controls, and have an independent auditor attest that the assessments are accurate. FCPA did not clearly define *adequate*, and the 1980s to early 2000s had an unfortunate number of fraudulent financial reporting scandals when companies capitalized on FCPA’s vague wording (Frazer, 2016). COSO was formed in 1985 to develop recommendations to reduce these fraud occurrences and improve internal controls. By the time SOX was passed in 2002, the public had demanded that internal controls and financial reporting be improved in the United States (Frazer, 2016). Both the FCPA and SOX are outside the scope of the present study because they are only mandatory for publically traded companies. Both FCPA and SOX are discussed at length in the literature, but these merited mentioning because of their impact of spotlighting internal controls to the general public. However, COSO is a private-sector committee and merits additional discussion.

COSO. COSO is a private-sector committee sponsored by the American Accounting Association, American Institute of Certified Public Accountants (AICPA), Financial Executives

International, Institute of Internal Auditors, and the Institute of Management Accountants (McNally, 2013). The 1987, 1992, and 2013 reports of COSO provide the theoretical foundation necessary for understanding most internal control and agency issues (McNally, 2013; Wilson et al., 2014). The extensive frameworks in the COSO reports provided the first comprehensive definition of internal control, emphasized the need for management to set the ethical tone at the top, and guided management and principal owners in identifying and addressing financial risks in operations and reporting (Wilson et al., 2014). COSO defines internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance” (COSO, 2013, p. 3). Applied to the present study of churches, internal controls are utilized to (a) protect assets from being wasted or used inefficiently, (b) assure accounting records are correct and trustworthy, (c) motivate compliance with organizational rules, and (d) ascertain the level of operational efficiencies (Duncan et al., 1999; Frazer, 2016).

COSO released an updated version of the 1992 internal control framework in 2013 called *Internal Control – Integrated Framework* to address the changes in the modern business environment since 1992 (COSO, 2013). The updated 2013 COSO internal control framework emphasizes a principles-based approach and increased reliance on the judgment of principals and agents (COSO, 2013; Jokipii, 2010). The new framework became effective on December 15, 2014 (Lawson, Muriel, & Sanders, 2017) and is the leading global framework for creating, implementing, operating, and assessing internal controls (D’Aquila, 2013). The updated 2013 framework retained the same core definition and components of internal control from the 1992 framework but included 17 guiding principles for developing systems for practice in five areas: control environment, communication and information, monitoring activities, fraud risk

assessments, and control activities (COSO, 2013; Laxman, Randles, & Nair, 2014).

The control environment component is practically applied by maintaining an ethical tone at the top, documenting fraud mitigation and investigation policy, maintaining some degree of internal auditing, and documenting hiring standards (COSO, 2013). The communication and information component is practically applied by promoting fraud awareness to everyone in the organization and relevant third parties or stakeholders. The monitoring activities component is practically applied by continuously improving anti-fraud controls and monitoring technology. The fraud risk assessments component is practically applied by continuously evaluating residual fraud risk and developing responses to those risks. The control activities component is practically applied by linking control activities to identified risks, assessing the design of current controls, ensuring management directives are controlled, and using supporting technology to improve controls. The 2013 update explicitly states that reliable financial reporting is an objective of internal control and must be applied to both for-profit and nonprofit organizations (COSO, 2013; D'Aquila, 2013; D'Aquila & Houmes, 2014).

Globalization of business, regulatory changes, and—particularly—technology updates drove the decision to update the COSO framework in 2013 (Prawitt & Tysiac, 2013; Rittenberg, 2013). Information technology controls must now be purposefully evaluated as part of enterprise-wide controls (D'Aquila, 2013; Prawitt & Tysiac, 2013; Rittenberg, 2013). Evaluations of board member competence and independence are now explicitly required (D'Aquila, 2013; Rittenberg, 2013). Appropriate assessments of employee certifications, training, and hiring practices are implied as functions to be incorporated into risk assessment (Pett, Blomster, & Wallace, 2015). Evaluations of risks from outsourced operations such as accounting, technology, human resources, payroll, and tax compliance must now be evaluated

(COSO, 2013; Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). Internal controls must serve as a foundation for dealing with fraud and meeting company objectives in financial matters and nonfinancial matters (Rittenberg, 2013; Rose, Sarjoo, & Bennett, 2015). In the literature, both financial and nonfinancial measures have been utilized to assess internal control deficiencies and fraud risk (Brazel et al., 2009; Dellaportas, 2013).

Lawson et al. (2017) surveyed 39 accountants working in publically-traded companies to evaluate the transition from the 1992 COSO framework to the 2013 COSO framework. The accountants surveyed believed the 2013 framework to be an improvement over the 1992 version, appreciated the clarity, direction, and flexibility of the new framework, cited technology changes as the primary implementation hurdle, and agreed that applying the framework to non-financial areas was a good idea. SOX requires that companies evaluate internal controls using a suitable framework, and the 2013 COSO framework is recommended by the SEC (Lawson et al., 2017). The COSO framework provides the building blocks for tying internal control structures back to agency theory in a practical way (Jokipii, 2010). Within internal control literature, the fraud triangle is often used to tie internal controls to fraud vulnerability, and is the next topic of discussion.

Fraud triangle. The fraud triangle has served as the conceptual model for fraud research since the work of Cressey (1953) and has ubiquitous presence in modern internal control literature and risk assessment guidelines (Dorminey et al., 2012; Kramer, 2015). Cressey developed the fraud triangle after discovering the presence of three elements during nearly all of the almost 200 convicted embezzler interviews he conducted (Cressey, 1953). Fraud usually occurs when these three components of the fraud triangle are present: (a) perceived opportunity that fraud can be committed without being detected, (b) rationalization that the fraud is

justifiable or excusable, and (c) perceived unshareable pressure or incentive to commit the fraud (Cressey, 1953; Hartwell, Lightle, & Domigan, 2011). Organization leaders can only limit the fraud opportunity—having little or no ability to control personal financial pressures or rationalization of perpetrators—and setting internal controls in place limits fraud opportunity (Boyle et al., 2015; Dorminey et al., 2012; Kramer, 2015; Leach, 2012). Internal controls are the only true protection against asset misappropriation or theft because no amount of integrity will stop someone from committing fraud if financial pressure reaches a certain point (Atwood, Raiborn, & Butler, 2015; Buckhoff, Kelly, & Parham, 2009). Internal controls and physical safeguards are also useless if unenforced, circumvented, deficient, or absent (Atwood et al., 2015; Thornhill et al., 2016).

Dellaportas (2013) studied motivation and opportunity factors of 10 accountants serving prison sentences for fraud to determine which component of the fraud triangle had the greatest influence on the decision to commit fraud. After conducting a series of interviews with the inmates, the researcher found that opportunity was a much better predictor of deviant behavior than motivation and that opportunity was the most important component of the fraud triangle for management to consider. The leaders of many victimized nonprofits are reluctant to take legal action against fraud perpetrators because of the negative publicity, often choosing instead to conceal the problem quietly through a termination to keep the peace (Dellaportas, 2013; Dietz & Snyder, 2007; Pedneault & Peterson Kramer, 2015). The opportunity to commit fraud against nonprofits is also enhanced because of a widespread cultural belief that catching white-collar criminals is not as important as catching violent criminals, that getting caught is unlikely and, if caught, that punishment will be merciful (Dellaportas, 2013). Dellaportas suggested additional research on the dimensions of opportunity and the conditions that make people susceptible to

commit fraud.

Contrary to Dellaportas (2013), Reinstein and Taylor (2017) suggested that fraud rationalization is easily controllable through the use of fences, which are formal or informal community behavior rules tied to reputational norms and ethical virtues intended to shield people from temptation. Reinstein and Taylor discussed examples of fences such as prohibiting men from being alone with unrelated women at work, giving bakery customers extra food in case some is subpar, requiring auditors to be independent in fact and appearance, and discouraging casino workers from wearing clothing with pockets. By shaming individuals who break these norms and consistently encouraging socially good behaviors, rationalization is not given an environment where it can thrive. The research of Reinstein and Taylor extends internal controls to the atmosphere of the workplace, reinforcing the importance of the tone of the top and workplace culture.

McGuire, Omer, and Sharp (2012) and Puspasari and Suwardi (2016) studied the impacts of morality and religiosity on the necessity for internal controls, and found that internal controls were necessary for employees with lower morality but not as helpful with highly religious or moral employees. McGuire et al. (2012) gathered religiosity data from a Gallup database of over 610,000 interviews from 236 unique metropolitan statistical areas for the United States and used regression analysis to compare this to financial reporting irregularities gathered from a host of auditing databases and analytics companies. Firms headquartered in areas with strong religious social norms generally had fewer financial reporting issues or abnormal accruals (McGuire et al., 2012). Firms with less external monitoring were also impacted by religion more than firms with high levels of outside oversight (McGuire et al., 2012). McGuire et al. (2012) posit that religious social norms can reduce agency costs in all environments, but help the most where monitoring by

external stakeholders is low.

Puspasari and Suwardi (2016) used a 2x2 factorial experiment to determine the influence of morality and internal controls on 57 graduate students' propensity to commit accounting fraud in local governments. In cases where internal controls were missing, the highly moral participants generally did not commit accounting fraud while the amoral participants tended to take advantage of lax controls and committed accounting fraud. In cases where internal controls were present, there was not a significant difference between the groups in rates of accounting fraud. Puspasari and Suwardi (2016) also noted that individuals with high morality were more concerned about broader ramifications of their actions to society versus the individuals with low morality who were more concerned with fulfilling personal interests no matter the societal cost. Given that moral reasoning is difficult to assess, Puspasari and Suwardi (2016) posited that internal controls are necessary to protect organizations from people with low moral reasoning or those who have a decline in moral reasoning, even if the controls are seen as unnecessary by those with high moral reasoning. Trustworthy people do not generally have a problem with following internal controls (Pedneault & Peterson Kramer, 2015).

The establishment of internal controls is not meant to convey that employees cannot be trusted, but instead, convey that organizational resources deserve protection from loss so organizational missions can be fulfilled. An atmosphere of trust is healthy for employee morale, but leaders must maintain professional skepticism by being objective enough to maintain a questioning mind without being too harsh, accusatory, disrespectful, or credulous (Kapp & Heslop, 2011). An entity typically has better internal controls when its leaders share a set of ethical principles and values and associated behavioral and social norms (Campbell et al., 2016). Churches should be an ideal environment for execution of internal control policies if the leaders

are given guidelines that support their organizational mission.

Nonprofit board member complacency is a well-documented problem (Fama & Jensen, 1983; Liu, C. et al., 2015). Similarly, churches can suffer from more financial problems than for-profit businesses because volunteer board members (a) are not financially rewarded for church success, (b) are less motivated to demand better agent performance, (c) are generally unsure how to measure poorly-defined nonfinancial goals, and (d) are doubtful that church employees or members would behave opportunistically to the detriment of the church (Ben-Ner, Ren, & Paulson, 2011). While working at a spiritually focused business does increase employee work commitment and decrease self-interests, blind trust of these people is not an acceptable substitute for internal controls (Enofe, Amaria, & Hope, 2012; Floch & Olson, 2003; Pedneault & Peterson Kramer, 2015). As blind trust increases, quality of internal controls decreases and fraud risk increases (Koerber & Neck, 2006; Pedneault & Peterson Kramer, 2015). As the level of blind trust decreases, quality of internal controls increases and fraud risk decreases (Pedneault & Peterson Kramer, 2015). Both McGuire et al. (2012) and Cornell, Johnson, and Schwartz (2013) suggested that religious beliefs can serve as an additional control in conjunction with external monitoring or other controls, and this may partially explain the reason for the lackluster enforcement of internal controls in churches. Miller (2002) had previously found that nonprofit board members were more open to blindly trusting agents than board members in for-profit businesses. McGuire et al. (2012) carefully did not suggest that religion is a substitute for proper internal controls. Nonprofit organizations and churches are particularly at risk for fraud upon consideration of a host of factors and internal control issues discussed in the literature.

Internal controls in nonprofits and churches. There is a paucity of research on nonprofit internal controls (Petrovits et al., 2011; Thornhill et al., 2016). Nonprofit organizations

are particularly vulnerable to fraud because of the lack of leadership diligence in setting up and maintaining internal controls (Buckhoff et al., 2009). Less than half of frauds perpetrated against nonprofit organizations are discovered, with employee frauds particularly unlikely to be detected (Buckhoff et al., 2009). Victimized nonprofits rarely recover any of the stolen funds, and these losses often jeopardize the continued existence of an entity (Pedneault & Peterson Kramer, 2015). The implementation of internal controls should not be viewed as only a defensive measure. Improving internal controls not only reduces nonprofit financial risks, but also attracts more donations (Petrovits et al., 2011) and improves operational performance (Feng, Li, McVay, & Skaife, 2015), all of which can provide reassurance that organizational missions will be fulfilled in the future.

Within the literature, a consistent theme emerges regarding the areas where improvements are most needed in nonprofit internal controls. These important and effective internal controls for nonprofit organizations are (a) establishing and enforcing segregation of duties, (b) maintaining adequate documentation, (c) limiting access to assets and records, (d) utilizing electronic controls, (e) regularly conducting surprise independent audits, (f) instilling the perception of detection in the minds of management and employees, (g) eliminating blind trust as an internal control, (h) conducting thorough background checks of employees, (i) educating and training employees on controls, (j) creating open accountability by prosecuting fraudsters, and (k) sharing ideas with other industry leaders (Booth, 1993; Bruce, 2007; Buckhoff et al., 2009; Cornell et al., 2012; Duncan, 2001; Duncan & Stocks, 2003; Duncan et al., 1999; Elson et al., 2007; Enofe & Amaria, 2011; Kistler, 2008; Lifeway Research, 2017; Marquet, 2014; Pedneault & Peterson Kramer, 2015; Seat, 2015; Thornhill et al., 2016; Ventura & Daniel, 2010; West & Zech, 2008; Wooten et al., 2003).

Employee training and strong leadership oversight reduce the occurrence of financial mismanagement (Enofe & Amaria, 2011; Jordan, Thompson, & Malley, 1991). Fraud schemes are often possible not because leaders are ignorant of financial matters, but because their time and focus are often spent on serving members and other charitable causes (Flesher & Duncan, 1999; Gannaway, 2013; Hofmann, 2015; Seat, 2015). Compounding the time problem for many small church organizations is the inability to segregate duties due to limited staffing or volunteers, rendering many financial safeguards ineffective (Flesher & Duncan, 1999; Thornhill et al., 2016). Kistler (2008) found relatively weak segregation of duties to be common in churches, and Wooten et al. (2003) and Cornell et al. (2013) found that 91% of churches violated the basic internal control principle of segregation of duties. Particularly within autonomous churches, there is a lack of corporate governance and a presence of leaders who frequently override the few internal controls in place (Booth, 1993; Enofe & Amaria, 2011). Spiritual leaders are often tempted to abuse their authority while performing their duties (MacIlvaine et al., 2016), and internal control policies limit the opportunity to engage in questionable financial activities (Wooten et al., 2003). Consistent with the theological foundation of most churches, Jesus Christ provided a strong warning against tempting others to sin in Luke 17:1-2.

Even though a general lack of proper internal controls has been found to be pervasive in a variety of church organizations, church leaders are overconfident in the adequacy of the present financial techniques utilized (Cornell et al., 2012). Donors need to know that the funds given to church organizations are safe and are used for the charitable or religious purposes originally promised (Fleckenstein & Bowes, 2000; Thornhill et al., 2016). Donors consider internal controls before making contributions (Petrovits et al., 2011), and they demand proper oversight and accountability of donated funds (Bourassa & Stang, 2015; Gallagher, 2009; Thornhill et al.,

2016). Many church leaders purposefully conceal or fail to report church fraud cases because of a fear that the negative publicity will damage the organizational image and reduce donations (Dellaportas, 2013; Flesher & Duncan, 1999; Marquet, 2011; Seat, 2015; Smietana, 2005). This fear is merited, as Petrovits et al. (2011) measured an average decline of 3.8% in nonprofit donations in the year after internal control problems were made public. Bruce (2007) and Gibelman et al. (1997) also found that members would divert donations to other entities if church leadership poorly handled donations or did not properly account for spending.

Nonprofit organizations experience much less government regulation and outside oversight than their for-profit counterparts (Thornhill et al., 2016). Cornell et al. (2013), Elson and Tarpley (2015), Frogameni (2008), Hoffmann (2015), Moll (2008), Montague (2013), Morefield and Ramaswamy (2011), and Smith (2015) suggested that church frauds are obscured and shielded from outsider scrutiny because churches are exempt from filing annual reports of income and expenses to the federal government, which—if required—would disclose financial information to the public. The IRS is prohibited from fully auditing a church unless there is special permission granted from a high-ranking Treasury official who has received written evidence of egregious tax law violations and has failed at attempts to settle the tax issue with a pre-audit meeting (Hofmann, 2015). The church's exemption from income tax on donated funds and the tax deductibility of the donations to members comes at a significant cost of lost tax revenue for the government (Cornell et al., 2013). Churches have a fiduciary responsibility to taxpayers because these tax benefits come with the assumption that the church is utilizing funds for nonprofit purposes and the greater good of society, and not squandering the funds through reckless financial practices or embezzlement.

Cornell et al. (2013) found that 13.8% of churches were victimized through fraud in the

last five years, confirming the previous estimates of 15% from Vargo (1995). Gannaway (2013) estimated that most organizations lose 5% of revenue annually to fraud. Nine percent of pastors work for a church that has experienced embezzlement (Lifeway Research, 2017). Christians gave \$700 billion to church organizations in 2015, and an estimated \$50 billion of that was lost due to crime (Johnson, Zurlo, Hickman, & Crossing, 2015). Johnson, Zurlo, and Hickman (2015) projected a 67% rise in financial crimes against churches, with 6% of donations lost to fraud and embezzlement in 2015 rising to 10% in 2025. From 2008 to 2013, religious and nonprofit organizations were the second most frequently embezzled industry and the source of nearly one-eighth of all reported incidents (Marquet, 2014).

Common frauds perpetrated against religious organizations include diverting business cash for personal purchases, skimming cash receipts before they are recorded, processing unauthorized payroll amounts or checks, using business assets personally, or stealing office or cleaning supplies (Kramer, 2015; Pedneault & Peterson Kramer, 2015). Strong internal control mechanisms would reduce these instances of embezzlement and employee misconduct (Dietz & Snyder, 2007; West & Zech, 2008). Nonprofit organizations have fewer instances of fraud when leaders check employee references, boards review expenses, finance committees are active, managers get training in financial matters, and employees have mandatory vacations (Dietz & Snyder, 2007; Kramer, 2015; West & Zech, 2008). Churches with formal, written antifraud policies also experience less embezzlement than those who do not have written policies (West & Zech, 2008). As the frequency of internal audits and publication of financial data increases, an increase in detection and prevention of fraudulent behavior occurs (West & Zech, 2008). When closely monitored, internal controls improve (Bengtsson & Engström, 2014; Enofe & Amaria, 2011). If a person feels that they can commit fraud without being detected, the environment has

enhanced their opportunity to do so (Kapp & Heslop, 2011). The average church embezzlement lasts seven years before being detected (Marquet, 2011), so maintaining an environment that discourages misbehavior is especially important.

The degree of church autonomy, or self-governance, has been the subject of previous research and is important in understanding the need for the present study. A fully autonomous church is a sovereign, decentralized church location whose internal leadership self-governs actions and policies without any outside influence or control exerted by a higher church body (Duncan et al., 1999; MacIlvaine et al., 2016). The Churches of Christ are a Protestant religious group consisting of fully autonomous, self-governing churches, with no outside hierarchal decision-making body (Beck, 2014). In contrast to autonomous churches, fully episcopal churches—such as the United Methodist Church or Catholic Church—lack autonomy and employ a top-down, centralized leadership structure where bishops dictate actions and policies to highly supervised subordinate churches to create uniformity (Duncan et al., 1999). Even these highly structured religious groups known for a hierarchy of outside leadership, such as the Catholic Church, have limited internal control requirements for each church (Frogameni, 2008).

Particularly within autonomous churches, there is a lack of corporate governance and a presence of leaders who frequently override the few internal controls in place (Booth, 1993; Enofe & Amaria, 2011). When leaders frequently override controls, a culture develops where the illusional internal controls are treated as little more than a paperwork hassle (Atwood et al., 2015, Lightle, Baker, & Castellano, 2015). While pressure and rationalization cannot be directly controlled by management, the culture that management creates through policies and procedures, the tone at the top, and attitudes of leaders towards internal controls can influence employee decision making (Atwood et al., 2015; Lightle et al., 2015). Employees that are repeatedly

allowed to circumvent internal controls may fall victim to the slippery slope, which Hartwell et al. (2011) and Welsh, Ordóñez, Snyder, and Christian (2015) found caused unethical behaviors to start small and increase over time. Welsh et al. (2015) also noted that slippery slope conditions are best reduced through the use of prevention techniques. Culture may affect how easily employees rationalize bad behavior or how willing employees are to report fraud (Atwood et al., 2015). Bruce (2007), Duncan (2001), and Thornhill et al. (2016) posited that church leaders are responsible for ensuring that the financial interests of both the church members and ministers are proactively managed and consistently monitored. A chronological review of notable church internal control research by Booth (1993), Duncan et al. (1999), Duncan (2001), Duncan and Stocks (2003), Wooten et al. (2003), Bruce (2007), Elson et al. (2007), Kistler (2008), West and Zech (2008), Ventura and Daniel (2010), Enofe and Amaria (2011), Cornell et al. (2012), Marquet (2014), Seat (2015), Thornhill et al. (2016), and Lifeway Research (2017) is merited at this point in this literature review.

In his seminal work, Booth (1993) proposed a research framework specific to churches based on an abundance of previous research and observations. Cultural, religious, and social beliefs were found to limit the acceptance of accounting practices in religious organizations, and this was explained particularly well in the context of internal control procedures. Many church organization leaders were found to struggle to implement accounting procedures because of a perception that these practices interfere with the religious purpose of the organizations. Church accounting practices were largely dictated by religious beliefs, church employee and member support, and church financial resources, but Booth hypothesized that these things are not mutually exclusive to accounting. Future research of church accounting practices across and between mainstream church groups was suggested, with membership size, financial resources,

and other characteristics needed for comparison. While no widely accepted church-specific accounting theory is known to exist, Booth comes the closest to developing the skeleton of such a theory with this seminal work. There are very few subsequent research studies conducted in the field of church accounting and theory that do not reference Booth's work.

In the seminal research study of Duncan et al. (1999), church organizational structures and church size were examined to determine how these affect the implementation of basic internal controls in church organizations. Church organizational structures were divided into three categories: (a) congregational (autonomous churches with no external leadership), (b) episcopal (external leadership pushes all decisions out to individual churches), and (c) presbyterian (churches free to make decisions that can be overruled by higher external leadership). The authors stressed the problem of the general dearth of internal control research specific to churches and leaned on the research of Booth (1993) for developing a theoretical framework. The authors created decision-making exercise surveys and received responses from a stratified sample of 317 churches in three major U.S. church denominations (Baptist, Methodist, and Presbyterian) in the southeastern United States. The authors also collected data regarding the frequency of the implementation of 40 basic internal controls from these churches. The Baptist church was considered congregational; the Methodist church was considered episcopal; the Presbyterian church was considered presbyterian. Surveys were pretested before being mailed, and results cleared tests for nonresponse and systematic bias to maintain internal validity. Using an ANOVA testing model, significant internal control deficiencies were found to be common in congregations of all sizes, and internal control procedures were less formal and less common in smaller churches. Defining the size of the church based on weekly contributions versus membership size did not affect the outcomes. Denominations with autonomous

leadership structures were found to be significantly more likely to have missing internal controls versus hierarchical—centrally organized leadership—structured organizations. Future research with other aspects of accounting, different denominations, and locations was suggested. There are very few subsequent research studies conducted in the field of church internal controls that do not reference this work. Similar to Duncan, Hankerson (2016) also found that internal controls were stronger in churches with higher revenue.

Using data for 305 different churches sourced from Duncan et al. (1999), Duncan (2001) sought to determine which variables impacted church leaders' ability to detect strengths and weaknesses in internal controls of local churches. Duncan emphasized the general lack of research centered on church leaders' ability to assess internal controls. Church leaders were asked to evaluate control systems on a nine-point Likert scale covering four areas: (a) general internal controls, (b) cash receipts controls, (c) cash disbursement controls, and (d) reconciliation controls. Leaders of larger churches better understood control scenarios than leaders of smaller churches. Leaders within denominations with autonomous leadership structures were less likely to understand internal controls versus leaders within hierarchical structured denominations. Within the hierarchical realm, presbyterian (bottom-up) church leaders performed better than episcopal (top-down) church leaders. Years of church work experience and the number of business courses taken in college had no significant impact on leader ability to understand internal controls. Duncan affirmed the problem of blind trust that permeates the leadership approach of many church leaders. Duncan also asserted that failure to implement a reasonable internal control system is a ministerial dereliction of duty because it directly tempts church leaders and members to steal.

Duncan and Stocks (2003) sought to determine if the widespread problem of inadequate

church internal control was caused by a lack of church leader understanding or if the leaders were failing to implement policies that they knew should be in place. Data from 305 different church leaders was sourced from Duncan et al. (1999), and contemporaneous case evaluations were received from 50 experienced auditors in ten different CPA firms. The results from the two sets of data were compared using ANOVA testing to determine whether significant differences in the level of understanding of internal control systems existed between each group. Church leaders and CPAs were asked to evaluate control systems using the survey instrument from Duncan (2001). More than 63% of church leaders indicated that they had no formal training in business or accounting, yet only 3% of church leaders had no administrative financial responsibilities (Duncan & Stocks, 2003). Only 15% of churches received audits from external CPAs. Church leaders had a reasonable ability to recognize conspicuous strengths and weaknesses in internal control, but the auditors were much better at detecting subtle strengths and weaknesses. Duncan and Stocks suggested that lack of focus on secular financial matters, lack of formal training of church leaders, and emphasis on trust of church members contribute to the internal control implementation problem. Similar to Duncan, Hankerson (2016) found that CBAs generally demonstrated an understanding of internal controls, regardless of previous work experience.

Inspired by news of high-profile churches suffering from financial mismanagement, Wooten et al. (2003) explored the effectiveness of internal controls in religious organizations in a quasi-experimental quantitative study. The purpose of the research was to assess the status of internal control implementation in churches so suggestions could be made for improvement and more resources could go towards organizational mission. A matrix of accounting controls and management controls were developed into a set of questions to operationalize the research

construct. Wooten et al. hypothesized that large churches and churches audited by accounting firms would have better internal accounting standards. Descriptive statistical categories were developed into an internal accounting control and management matrix for usage by churches focusing on the four financial duties of (a) control environment, (b) control over receipts, (c) control over disbursements, and (d) financial reporting, and the four control goals of (e) keeping accurate accounting information, (f) safeguarding the assets, (g) complying with leaders' and contributors' desires, and (h) encouraging donor support. Questionnaire surveys were sent to 1,927 Southern Baptist churches with more than 100 members, and responses were received from leaders of 548 churches. Survey results were analyzed using ANOVA and the *F*-ratio. The hypotheses were confirmed, as larger churches were found to have much better internal controls—supporting Booth (1993) and Duncan et al. (1999)—and were more likely to be audited by an accounting firm. Most churches had adequate controls over cash receipts, but weak controls over disbursements and reporting. The findings provided compelling support for internal control theory, and Wooten et al. strongly suggested future researchers concentrate on developing an internal accounting and management control model specific to churches.

Ranglin (2014) sampled 130 CBAs using the survey instrument of Wooten et al. (2003) to determine if CBA experience or church membership size had a relationship with internal control implementation. Churches with less than 1,000 members were considered small churches. Churches with over 4,000 members were considered large. All other churches were considered medium. A positive relationship existed between church membership size and internal control implementation. Only 3.29% of the variations in internal control were attributed to church membership size, which was a much smaller effect than previously seen by Duncan et al. (1999) and Wooten et al. (2003). The high hurdle necessary to be considered anything other

than a small church (1,000+ members) may have skewed results.

Bruce (2007) conducted a global study of financial stewardship within the Churches of Christ, with an emphasis on Biblical principles of stewardship, qualifications of stewardship, and consequences of poor stewardship. Bruce received survey responses from 3,428 members of Churches of Christ in 34 countries, with approximately 90% of respondents living in the United States. The members indicated that most elderships did not have clear financial goals, members frequently donated directly to charitable causes instead of giving to the church, elders did not communicate well with the members, elders were not transparent in regards to the budgeting process and accounting matters, and members donated more to outside charities and less to churches when elders were not transparent. Bruce recommended that elders improve financial controls and hire accountants to self-audit their churches. Krishnan and Yu (2012) had similar findings and suggested that all firms regardless of size benefit from audits of internal controls. Lifeway Research (2017) found that 20% of churches had not had a complete financial audit within the last five years, indicating that audits are not always considered necessary by church leaders.

Elson et al. (2007) explored internal control theory in their quasi-experimental quantitative study on the adequacy of financial oversight and internal controls in a small group of local churches in Georgia. The purpose of the research was to provide insight into the current financial practices of churches and make suggestions for improvement. Financial adequacy metrics were operationalized using a construct developed around best practices for nonprofit boards of directors and financial managers. The study was conducted via questionnaire surveys focusing on (a) the board of directors, (b) the financial expertise of the board, (c) documented policies and procedures, (d) budget procedures, (e) cash receipts and disbursement controls, (f)

financial reporting, and (g) tax compliance. Responses were received from 60 ministers representing various denominations, with the largest number (53.3%) being from the Episcopal Church. Fiscal oversight and financial management were adequate within most of the churches, but Elson et al. noted that the highest responding denomination was one with a very formal top-down approach to corporate governance. The oversampled group may have skewed the financial oversight assessments to appear better than assessments possibly seen in a less organized or autonomous religious group. Elson et al. noted that many congregations did not have organized accounting policies and procedures, and accounting staff typically knew little about generally accepted accounting principles.

In the nationwide Protestant church research of Kistler (2008), the presence of experienced accounting personnel, leader attitude towards internal controls, and degree of segregation of duties had a causal relationship to the level of internal controls present. However, Ranglin (2014) found that only 5.3% of the variations in internal control were attributed to church size and experience of personnel. Kistler (2008), while agreeing with Booth's size theories (1993), disagreed with the structure assertions of Duncan et al. (1999), pointing out findings of the Duncan study that ran contrary to Duncan's theory—there were small hierarchal structured churches that had fewer internal controls than small autonomous churches. Enofe and Amaria (2011), Kistler (2008), and LaShaw (2007) found that denominational affiliation or organizational structure had little effect on internal control implementation, which is contrary to the findings of Duncan et al. (1999).

West and Zech (2008) sought to determine the effectiveness of the internal controls employed by U.S. Catholic dioceses by measuring the amount of embezzlement that had occurred in recent years. Preventing embezzlement through the safeguarding of assets was cited

as a bigger concern than financial reporting for not-for-profit entities since financial reporting often is not mandatory. The study was conducted via questionnaire surveys focusing on (a) finance council oversight, (b) risk factors, (c) financial reporting, and (d) controls and audit, and was sent to all 174 U.S. Catholic dioceses. Using multiple regression analysis from the 78 responses received, West and Zech found the size of the church budget surprisingly had no effect on the amount of fraud committed. The more involved the finance councils were, the less likely fraud was found to occur. Dioceses with formal, written antifraud policies also experienced less embezzlement than those who did not have written policies. As frequency of internal audits and submissions of financial data increased, an increase in detection and prevention of fraudulent behavior occurred. West and Zech sent their surveys to diocese headquarters, which is comparable to sending the survey to a district manager instead of to individual church leaders. Individual church data was aggregated with other churches within a given territory, possibly skewing the interpretation of their findings.

Ventura and Daniel (2010) surveyed 43 church pastors and 54 church members of various Christian denominations in California and Hawaii on matters of trust, church finances, transparency, giving, and internal controls. Approximately 95% of members indicated that their church leaders were highly honest, and 80% of members believed donated funds were spent wisely. Only 22% of churches provided financial statements more than once a year. An inverse relationship was found between member's level of trust in church leaders and amount of member attention devoted to financial matters. A similar inverse relationship was found between pastor's level of trust in church employees and amount of time devoted to monitoring and supervision of financial matters. Violations of the segregations of duties were found in 78% of the churches, consistent with the work of Duncan et al. (1999) and Wooten et al. (2003). Approximately 63%

of pastors believed that relying upon the honesty and consciences of church employees was better than relying on internal controls. Hartwell et al. (2011) later affirmed that many small business owners thought internal controls were unnecessary because employees were trustworthy. However, no matter how safe from financial fraud the leaders may believe their organization to be, blind trust can never be accepted in lieu of internal controls (Floch & Olson, 2003; Pedneault & Peterson Kramer, 2015).

Enofe and Amaria (2011) sought to determine the kind of relationship of that existed between church denomination, internal accounting control, adequate oversight, and financial fraud in their quasi-experimental research study. An internal control survey was sent to 75 randomly selected churches in Jacksonville, Florida. The corresponding data received from 66 of the churches were examined using chi-square analysis. Weak internal controls, lack of corporate governance, and frequent management override of controls were cited as major problems for the churches. The authors did not find a significant difference in financial mismanagement between the different groups surveyed but did find that internal controls, transparency, and oversight reduced the occurrence of financial mismanagement.

Cornell et al. (2012) sought to determine if church leaders believed their organizations were invincible to fraud, and if so, what could be done to change their mindset. A brief review of literature related to the fraud triangle and social psychology, along with discussions of true stories of churches victimized by fraud, provided context for the analysis. Surveys responses were compiled from 132 churches with differing memberships sizes, budget sizes, leadership structures, and number of employees. The surveys revealed that 13.4% of church leaders had been victimized by fraud in the last five years. However, only 3% of all of the church leaders surveyed felt “very vulnerable” or worse to fraud, while 24% of the church leaders surveyed said

they were not vulnerable to fraud at all. A general lack of proper internal controls was found to be pervasive, as previously seen in Enofe & Amaria (2011). Cornell et al. (2012) also noted an overconfidence of church leaders in the adequacy of current financial techniques utilized.

Marquet (2014) analyzed 554 embezzlement cases—546 cases had losses of over \$100,000 each—in the United States during the year 2013 with losses totaling nearly \$595 million to identify patterns with the perpetrators, schemes, victims, and consequences. Marquet also incorporated data previously analyzed from 2,144 embezzlement cases from 2008 to 2012. From 2008 to 2013, religious and nonprofit organizations were the second most frequently embezzled industry and the source of nearly one-eighth of all reported embezzlement incidents. Marquet found that 68.2% of embezzlers were employed as bookkeepers or finance personnel within organizations, which is alarming considering who handles church cash. The most frequent schemes were unauthorized check or payroll schemes (42%), cash receipts theft (21%), and unauthorized transfers (12%). The primary motivation for the embezzler for stealing was most often a lavish lifestyle (57%) or a gambling addiction (29%). Notably, the seven states selected for the present study also have differing levels of embezzlement according to Marquet, with California, Oklahoma, and Texas suffering some of the highest embezzlement rates in the nation, and Arkansas having one of the lowest embezzlement rates in the nation.

Seat (2015) examined some of the common frauds encountered with churches. Pastors of several large churches were interviewed, and a wide variety of actual fraud cases encountered during his multi-decade career were discussed. Seat (2015) emphasized that (a) churches are vulnerable to and often victimized by fraud; (b) trust is not a replacement for internal controls; (c) fraud can traumatize a congregation and cause donations to plummet; and (d) church leaders have to make time to understand, establish, and enforce internal controls. Unfortunately, Seat

(2015) discovered numerous cases where church employees and volunteers were the primary culprits of church fraud. From these cases, a series of stern warnings of fraud red flags for church leaders was developed. There are very few practitioners in church accounting who do not know and respect Seat's substantive contribution to practice.

Thornhill et al. (2016) studied the cash collections, cash disbursements, accounting record-keeping, and reconciliation and review procedures of 16 churches in Michigan, Indiana, and New York and found that internal controls over cash collections were much stronger than controls over cash disbursements, supporting the previous work of Wooten et al. (2003). Violations of the separation of duties was found in 91% of churches sampled by Wooten et al. (2003) and by 62% of churches sampled by Thornhill et al. (2016). Thornhill et al. (2016) had a much smaller sample size than Wooten et al. (2003), so it is not safe to assume that the situation improved from 2003 to 2016 (Thornhill et al., 2016).

Lifeway Research (2017) surveyed 1,000 Protestant church leaders from nine different denominations to gain an understanding of their church financial practices, including cash reserve strategies, embezzlement frequencies, and financial audit frequencies. Stratified random sampling was utilized for the telephone surveys, and sampling quotas were established based on church size. The findings were interpreted with 95% confidence that the margin of error did not exceed $\pm 3.2\%$. The nine church denominations studied were Baptist, Christian Church, Church of Christ, Holiness, Lutheran, Methodist, Pentecostal, Presbyterian, and Reformed churches. When asked if anyone had ever taken church funds for personal use from their church, nine percent of church leaders said that they worked for a church that had experienced such embezzlement. Shockingly, 20% of church leaders said their church had not had a complete financial audit within the last five years. Within this 20% group, half said their church had never

had a complete financial audit. The churches also had a diverse cash reserve strategies, with 26% having less than seven weeks of typical weekly contributions in savings but 23% having more than a year of typical weekly contributions in savings.

Lifeway Research (2017) found significant differences between the responses based on church leaders' education level, church geographical region, church denominational affiliation, and average weekly church member attendance. Churches with an average weekly attendance between 50 and 99 people or 250 or more people had higher embezzlement rates—10% and 12%, respectively—than the churches of other sizes. Church of Christ churches had the highest embezzlement rate (16%), while Baptist (7%) and Presbyterian (6%) churches had the lowest embezzlement rates. Audit rates varied based on geographical location, with 65% of churches in the northeastern United States reporting a complete financial audit within the last year versus the much lower rates in the southern United States and western United States. Churches with a lower average attendance were much more likely to have never had a complete financial audit versus larger churches in the same regions. Pentecostal churches and Church of Christ churches—17% and 16%, respectively—were the most likely to have never had a complete financial audit versus the Lutheran churches and Methodist churches—5% and 2%, respectively—which had audits much more frequently. There was a positive relationship between the level of college education received by the church leaders and the likelihood of getting a complete financial audit, indicating the value of leader knowledge in fraud prevention.

Out of all of the religious groups sampled by Lifeway Research (2017), the Church of Christ churches were the least likely to have less than seven weeks of typical weekly contributions in savings. Interestingly, 27% of all churches with an average weekly attendance of less than 50 people had more than a year of contributions in savings, while on only 15% of all

churches with an average weekly attendance of greater than 250 people had more than a year of contributions in savings. Churches with leaders who had no college degree were more likely to have less than seven weeks of typical weekly contributions in savings than the churches with leaders who had college degrees.

Churches with more autonomy have lower internal control implementation rates than more centrally organized denominations, due to the lack of outside oversight (Duncan et al., 1999). Kistler (2008) did not reach the same conclusion and found only minor differences in internal control levels among various denominations. Duncan et al. (1999) used the Southern Baptist denomination for his autonomous leadership structure comparison group, even though this group has a national constitution, formal leadership bureaucracy, and is not considered fully autonomous by other researchers (Hamilton, 2007; Heier, 2016; Vinson, 2012). Kistler (2008) merged autonomous churches with other denominations with low response rates in the data, weakening the validity of his conclusions. Booth (1993) and Duncan et al. (1999) suggested that additional internal control research should be conducted using other previously unstudied denominations. The Church of Christ is a good representation of a fully autonomous religious group that has been understudied (Beck, 2014; Royster, 2015). The three primary independent variables of the present study will now be discussed: budget size, leadership CPA licensure, and nepotism potentiality.

Budget Size and Internal Controls

The first issue of church size and internal controls was examined using the availability of financial resources approach employed by Duncan et al. (1999). Previous research has indicated that poor internal control is correlated with inadequate funding for internal controls (Ashbaugh-Skaife, Collins, & Kinney, 2007; Cornell et al., 2013; Doyle, Ge, & McVay, 2007; Ge &

McVay, 2005; Holtfreter, 2008; Seat, 2015). Larger autonomous churches with more members should have greater financial resources to implement internal controls (Duncan, 2001).

Internal controls are important to all organizations, and they are notably underutilized in privately-held businesses and small organizations with few employees (Frazer, 2016; Kapp & Heslop, 2011). Smaller companies are often easily victimized by their employees because these companies do not have the financial resources to afford sophisticated internal controls or adequate personnel to properly segregate duties (Cornell et al., 2013; Hartwell et al., 2011; Kapp & Heslop, 2011; Klein, 2015). If one employee is given access to and authority over accounting systems or cash, other compensating internal controls become more critical because of the lack of segregation of duties (Kapp & Heslop, 2011).

Organizations with 100 or fewer employees typically have fewer internal controls and fraud detection instruments in place, often use the wrong control instruments, discover frauds less often and more slowly, and are victimized more frequently than larger organizations (Apostolou & Apostolou, 2012; Kummer, Singh, & Best, 2015). Nonprofit organizations with internal control policies have a 1.724 higher probability of detecting fraud than organizations without policies (Kummer et al., 2015). Large churches are more likely to have a written code of conduct, require vacations for accounting staff, check references and conduct background checks, have a member of the board with financial expertise, issue financial statements regularly, and conduct unannounced audits (Cornell et al., 2013).

Numerous research studies have shown positive correlations between church size—both in terms of weekly donations and membership size—and internal control implementation (Cornell et al., 2013; Duncan et al., 1999; Flesher & Duncan, 1999; Hankerson, 2016; Wooten et al., 2003). Internal controls generally are weaker at smaller churches and stronger and more

formal at larger churches (Duncan et al., 1999; Hankerson, 2016; Thornhill et al., 2016), but over half of all churches still have significant internal control deficiencies (Flesher & Duncan, 1999; Thornhill et al., 2016; Wooten et al., 2003). Duncan et al. (1999), Duncan (2001), and Cornell et al. (2013) posited that larger churches have more internal controls in place because of the availability of resources to implement them.

However, not all scholars agree with these findings. Duncan et al. (1999) used an arbitrary cutoff of 300 members to distinguish between large and small churches. Kistler (2008) found this cutoff to be problematic and asserted that church size is more likely a confounding variable than an independent variable. Elson et al. (2007) and Berry (2001) also asserted that small churches have adequate internal controls, but Elson et al. (2007) oversampled the highly-structured Episcopal Church in their study and Berry (2001) did not conduct empirical research. LaShaw (2007) also found no relationship between church size and internal control implementation, but coverage of autonomous organizations was limited in the study. West and Zech (2008) did not find a relationship between the size of the church budget and the amounts of known fraud committed, but only the episcopally-managed Catholic Church was examined. Booth (1993) found that principals—donors or boards—in large or growing churches and/or wealthy churches pressured clergy agents to focus on spiritual matters, while principals in small or shrinking churches and/or poor churches allowed clergy to focus on secular accounting matters in an effort to protect resources. However, Booth (1993) did not distinguish between churches with autonomous leadership boards and churches with outside governing bodies.

Irwin and Roller (2000) surveyed 99 church leaders on management and leadership issues and found that leaders in larger churches were more confident in their church management abilities than leaders in smaller churches, but nearly all church leaders expressed a greater desire

for training on secular business matters. Similarly, Duncan (2001) found that leaders of larger churches better understood control scenarios than leaders of smaller churches, and autonomous denomination leaders poorly understood internal controls compared to leaders within hierarchically structured denominations.

Inspired by news of high-profile churches suffering from financial mismanagement, Wooten et al. (2003) explored the effectiveness of internal controls in religious organizations. Larger churches were found to have much better internal controls and were more likely to be audited by an accounting firm. Most churches had adequate controls over cash receipts, but weak controls over disbursements and reporting. Ranglin (2014) sampled 130 CBAs using the survey instrument of Wooten et al. (2003) to determine if church membership size had a relationship with internal control implementation. A positive relationship existed between church membership size and internal control implementation, but only 3.29% of the variations in internal control were attributed to church membership size.

Holtfreter (2008) analyzed surveys of 128 Certified Fraud Examiners regarding their most recent fraud investigations to determine if individual characteristics of perpetrators and victim organizations could predict losses. The nonprofit fraud perpetrators generally had similar characteristics to those seen in for-profit settings, with the notable exception that non-management employees and females were more likely to be the perpetrators in a nonprofit setting. Most of the nonprofit organizations in the sample were small (defined as less than 99 employees). Less than 50% of these small organizations used anonymous hotlines, internal audits, or external audits, and only 9% conducted background checks of employees. Larger nonprofits were found to have smaller losses, and Holtfreter attributed this to greater funding for internal controls.

Organizations with small budgets or declining resources are often forced by leaders to be frugal in every non-mission related area and may assign multiple job responsibilities to a single individual in the name of efficiency (Atwood et al., 2015; Leach, 2012; Thornhill et al., 2016). Ministers and church employees often have below-market pay and no benefits, but may worship with wealthy members who do not have to live frugally (Cornell et al., 2013). This difference could lead to pressure to live a lifestyle beyond their means and rationalization that more money is deserved no matter how acquired (Cornell et al., 2013). The church growth scenario has challenges, as well. While organizational growth is viewed as a positive goal, the increased availability of funds creates challenges because formerly sufficient internal controls become obsolete and leave assets vulnerable to fraudsters (Atwood et al., 2015). Delegating work to others or hiring new employees eventually becomes necessary and internal controls must be adapted to those changes. The question of how growth patterns impact the relationship between budget size and internal control implementation remains unanswered.

Leadership CPA Licensure and Internal Controls

The second issue of accounting expertise of church leaders was examined by considering the impact of leadership CPA licensure on internal control implementation. A sense of responsibility and willingness of church leaders with financial expertise and formal accounting licensure—such as the CPA license—to utilize their skill sets to improve church operations should strengthen internal control implementation and monitoring (Cornell et al., 2013; Duncan, 2001; McNeal & Michelman, 2006; West & Zech, 2008). Understanding internal controls is also necessary before implementing them, or there can be negative consequences and employee resistance (Duncan, 2001).

The education level of leaders is positively associated with financial forecasting accuracy

(Bamber, Jiang, & Wang, 2010), and CPAs are required to be highly educated in financial matters to get their licenses (AICPA, 2017). Floch and Olson (2003) suggest that finance directors should have accounting degrees and accounting experience, preferably in nonprofit accounting. Krishnan (2005) and Hoitash, Hoitash, and Bedard (2009) found that firms with stronger leadership boards and audit committees with financial experts experienced in accounting and supervision have fewer internal control weaknesses than firms with financial experts lacking accounting experience. As the average education level of an employee base increases, entities are less likely to report internal control weaknesses (Call, Campbell, Dhaliwal, & Moon, 2017). If higher quality employees utilize higher quality accounting techniques, church boards should take steps to ensure that both employees and their leaders are well-trained in accounting and internal control techniques.

There is generally no expectation that a CPA license will be held by at least one church board member. Interestingly, Section 407 of the Sarbanes-Oxley Act (SOX) requires any public company lacking a financial expert on its audit committee to explain why (Wilson, 2015). If there is an expectation of financial expertise at the public level (Dhaliwal, Naiker, & Navissi, 2010), it is reasonable to assume that churches could benefit from the same kind of financial expertise. Wilson (2015) found that small and large organizations typically define financial expertise as having certification such as a CPA or experience as a Chief Financial Officer.

Zhang et al. (2007) compared 208 companies with material internal control weaknesses reported in Form 10-K to 208 companies with no material internal control weaknesses reported in Form 10-K to investigate the relationships between audit committee quality, auditor independence, and internal control weakness. Audit committee quality was largely based on whether a financial expert was on the committee. Financial expertise was broadly defined as

experience as a CPA, auditor, CFO, controller, CAO, CEO, president, chairman of the board, or upper management in venture capital, banking, or money management. Companies with larger boards and companies with more financial expertise on audit committees were less likely to have internal control weaknesses. Companies with more independent auditors and companies with recent auditor changes were more likely to have internal control weaknesses.

Badolato, Donelson, and Ege (2014) examined 29,073 sets of 2001-2008 year-end financial data to determine how audit committee financial expertise and audit committee member status (defined as having multiple directorships and a degree from an elite institution) impacted earnings management. The companies with financial experts and high-status members on the audit committee were associated with lower levels of earnings management and fewer abnormal accruals. When financial expertise was not paired with high-status members, the levels of earnings management and abnormal accruals were higher than in the companies with both financial expertise and high-status audit committee members. In the context of the present study, one would expect the work experience and education requirements for CPA licensure and the diversity of clients many CPAs serve to enhance both financial expertise and status. If an elder or deacon in the church holds a CPA license, this should translate into a greater level of internal control implementation.

Cornell et al. (2013) conducted structured interviews with 129 CBAs of multiple denominations to determine how certain leadership positions or oversight impacted internal controls and fraud occurrence, and how internal control implementation impacted the number of reported frauds. The presence of a financial expert on the board of directors had the most significant positive impact on the level of internal controls. The level of internal controls did not impact the number of reported frauds, contrary to the literature, but this was attributed to better

prevention and detection techniques hindering the frauds.

Rich and Zhang (2014) examined data from 240 municipalities with at least 50,000 citizens to determine if financial expertise on municipal audit committees had an impact on internal control quality. Of the 240 municipalities surveyed, only 47 had an audit committee and only 21 of those 47 were fully independent with no full-time employees of the city. The municipalities with audit committees were less likely to have internal control problems than the municipalities without audit committees. However, there was no significant difference in municipal internal control quality between those cities with fully-independent audit committees and those with audit committees with insiders. Financial expertise on the audit committees had no impact on internal control quality unless the financial expert was also an insider, which indicated that in some cases financial expertise is an acceptable substitute for independence. In the context of the present study, one would expect to find that financial expertise is only useful to leaders in improving internal controls if the financial expert is an insider within the church. Burt (2016) later found that non-audit employees were more likely to share information about internal control weaknesses with internal auditors than with external auditors, supporting the findings of Rich and Zhang (2014).

Most church leaders, employees, and administrators have little financial training but are expected to properly and honestly handle large amounts of cash (Duncan & Stocks, 2003; Elson et al., 2007; Flesher and Duncan, 1999; Irwin & Roller, 2000; Kistler, 2008; Seat, 2015). Cash is consistently sought out in church frauds (Busby et al., 2015; Gallagher, 2009; Vargo, 1995). Marquet (2014) found that 68.2% of embezzlers were employed as bookkeepers or finance personnel within organizations, which is alarming considering who handles church funds. Churches rarely pay board members, and boards may have difficulty finding an accounting

professional willing to volunteer their services. Organizations lacking board members with accounting expertise have internal control weaknesses more frequently than organizations with accounting expertise on the board (Bai, 2012; Zhang et al., 2007). Companies that lack financial expertise on their audit committees also have greater misappropriation of assets (Mustafa & Youssef, 2010). Guo et al. (2016) found that half of the businesses with internal control problems had a deficiency in accounting expertise or disgruntled or unmotivated employees with poor pay and benefits. Specifically, Bai (2012) found the presence of CPAs on nonprofit leadership boards improved internal controls and increased donations to the nonprofits. Churches with strong leadership oversight are more likely to have better internal controls, and better internal controls are more likely to improve transparency and also lead to fewer fraud occurrences (Enofe & Amaria, 2011; Oberle, 2012). When church boards establish or enforce a series of internal controls, this reassures church members that the church is being responsible and managing resources well (Duncan, 2001; Mihret, 2014; Miller, 2002). Communication problems can hinder future member donations (Campbell et al., 2012), so improving the assessment of and reporting on church goal progress should become a priority for church leaders (Ben-Ner et al., 2011).

Bai (2012) studied over 250 nonprofit hospitals to determine if CPAs as board directors made an impact on financial or accounting matters. The presence of CPA board members was strongly and positively associated with internal control quality and unrestricted charitable donations and somewhat negatively associated with earnings management. Iyer et al. (2013) surveyed audit committee members of 167 companies to determine which characteristics were most often associated with financial expertise. Professional accounting certification, such as the CPA license, and prior audit committee experience were primary drivers of financial expertise,

while CEO or management experience did not lead to the designation of financial expert. Abernathy, Beyer, Masli, and Stefaniak (2014) collected data on the audit committee financial experts of 332 firms and found that audit committee chairs with CPA licenses or public accounting experience were significantly associated with timelier financial reporting than audit committee chairs with CFO experience alone. The findings of Bai (2012), Iyer et al. (2013), and Abernathy et al. (2014) suggest that CPA licensure is an important proxy for significant financial expertise.

Nepotism Potentiality and Internal Controls

The third issue considered was the personal relationships within the church organizations and their impact on internal control implementation. Nepotism is unfair favoritism shown towards relatives in supervision or hiring, often to the detriment of others who are capable or qualified (Collin & Ahlberg, 2012; Mhatre et al., 2012). Nepotism potentiality is the degree of vulnerability that an organization may have to nepotistic practices (Collin & Ahlberg, 2012; Spranger et al., 2012). Nepotism usually has a negative connotation (Bute, 2011; Muchinsky, 2012), and anti-nepotism policies are common within federal, state, and municipal governments and in many private entities (Gutman, 2012). Zarb (2005) and Arasli and Tumer (2008) classified nepotism as a form of corruption. Nepotism has had a presence in most organizations and has long been used as a justification for decisions made by organizational leaders (Jones, Stout, Harder, Levine, Levine, & Sanchez, 2008). A nepotistic organization has a culture where relatives are consistently regarded and favored over outsiders, and family obligations trump organizational obligations (Muchinsky, 2012; Pearce, 2015).

In animal behavior research, nepotism is a rational biological behavior characterized by the preferential treatment of or strong altruistic tendencies towards close blood relatives over

distant blood relatives or stranger (Bute, 2011; Park, Schaller, & Van Vugt, 2008). Non-genetically related people who have lived together in proximity for many years often express the same nepotistic tendencies with one another as actual blood relatives, showing that kinship can extend beyond bloodlines in certain circumstances (Park et al., 2008). The perceived impact of nepotism decreases as the closeness between relatives decreases (Masuda & Visio, 2012), and is granted and received less frequently as the degree of relatedness widens (Mulder, 2012). Individuals are more likely to advance, assist, and support relatives as genetic relatedness increases (Mhatre et al., 2012). Quasi-nepotistic practices or cronyism occurs when unfair favoritism is shown towards close friends, cliques, clans, or group members (Muchinsky, 2012). Friend obligations are not as strong as family obligations (Pearce, 2015), so these relationships were not considered in the present research.

Church leaders that have family members in cash handling positions within the church may hinder internal control implementation because of nepotism (Collin & Ahlberg, 2012; Liu, C. et al., 2015; Pérez-González, 2006). Collin and Ahlberg (2012) studied 68 small and medium-sized family firms and found that board members were more passive in monitoring, instructing, and advising agents when family relationships were present, and level of passivity was positively related to the genetic closeness of the relationship. Churches cannot be expected to flourish in their mission if members or employees perceive that personal favoritism or nepotism dictates accounting procedures related to the handling of donated funds (Padgett et al., 2015).

The precise impact of nepotism in organizations remains unclear (Firfiray, Cruz, Neacsu, & Gomez-Mejia, 2018), and there is a paucity of literature on nepotism in nonprofit organizations (Bute, 2011; Jones, 2012; Muchinsky, 2012). Perceptions of nepotism in the

nonprofit sector are not clear (Mhatre et al., 2012). Jones et al. (2008) called for additional empirical research on the impact of nepotism on organizations and suggested that universally condemning nepotism would be unfair without conclusive research on the matter. Nepotism and its effects have not been sufficiently empirically studied, and a significant void exists in the literature regarding the impact of nepotism on nonprofit organizations (Mhatre et al., 2012).

CPAs are required to maintain objectivity, be free from conflicts of interest, and maintain independence in appearance and fact when providing attest services (AICPA, 2016). The ethical requirement of independence in appearance and fact implies that actions must not only be right but also look right to others (AICPA, 2016). The hiring of office employees who are related to their leaders—even if these employees are well-qualified—is an example of how the appearance versus fact concern could easily be extended to organizational hiring practices. Nepotism and rumors of nepotism can negatively impact the image of the organization because these practices are generally perceived as unethical (Pérez-Gonzalez, 2006).

Nepotism can have a material impact on financial performance. Pérez-Gonzalez (2006) studied profitability and market-to-book ratios of 335 firms that had recently undergone CEO successions. There were 122 organizations where the successor CEO had a blood or marital relationship to the departing CEO, a founder, or a large shareholder, and 213 organizations where the successor CEO was an unrelated outsider. Within the 122 organizations that hired a related successor CEO, 68 of the incoming CEOs had attended selective universities, while 54 of the incoming CEOs had not attended selective universities. The researcher incorporated controls for pretransition profitability, business size, business industry, board ownership, and time trends. Profitability and market-to-book ratios were 25% lower, production costs were higher, and sales growth was lower in the 54 organizations with related CEOs that did not attend a selective

university when compared to the 213 organizations that hired unrelated CEOs and the 68 organizations that hired related CEOs who had attended selective universities. Based on these findings, hiring relatives may not necessarily be nepotistic or negatively impact financial performance if the relative is equally or better qualified than non-relative applicants. Nepotism was certainly pervasive in the sample, given that 45% of the organizations that hired relatives hired a person that was essentially unprepared for a CEO position. Similar to Pérez-Gonzalez (2006), Bustani Garcia (2014) and Liu, C. et al. (2015) found that organizations managed by a group of nonrelatives outperformed family-managed organizations within the same industry. Unfairness and inequity are necessary components of nepotism (Mhatre et al., 2012). While not all promotion of family members is nepotistic, it is nearly impossible for leaders to impartially and logically focus on the capability and eligibility of a close relative and not let that kinship affect decision making (Liu, C. et al., 2015; Mhatre et al., 2012).

People tend to believe only the information that supports their current beliefs and disregard information that contradicts these beliefs (Munro & Stansbury, 2009). Many nepotistic leaders exhibit both the *incumbency effect*, which is a bias towards maintaining the status quo even in the presence of better alternatives, and *homophily bias*, which is favoritism shown towards those who are similar to us (Liu, C. et al., 2015). Liu, C. et al. (2015) suggest that leaders should gather unflattering information about potential employees from nonrelatives and systemically analyze all potential employee performance to minimize the incumbency effect and homophily bias. Nepotism is harmful to employees and managers and hinders organizational performance (Pearce, 2015). Nepotism creates a perception that rewards are not based on performance, but on personal relationships (Darioly & Riggio, 2014; Pearce, 2015). Nepotism also increases cheating, reduces trust, decreases satisfaction, reduces commitment, encourages

sycophancy, and increases fear (Pearce, 2015).

The assumption that the church is comprised of exceptionally moral people who can be trusted without a need for internal controls is a major contributing factor to widespread apathy regarding church internal control problems (Cornell et al., 2012; Duncan & Stocks, 2003; Flesher & Duncan, 1999; Kistler, 2008; Kramer, 2015; Thornhill et al., 2016; Vargo, 1995). Nearly 20% of church fraud perpetrators have prior criminal records that can be discovered with simple background checks, but these records are often missed because of the blind trust issue (Marquet, 2011; Snyder & Dietz, 2006). Brody (2010) suggested that background checks should include criminal history searches, resume verification, media searches, credit checks, reference checks, driving record checks, and honesty or integrity testing. The blind trust problem is compounded by the better-than-average psychological effect, where people tend to find those they are close to as more socially desirable and worthy than other people in general (Pedregon et al., 2012). Nepotism could cause donors to reasonably doubt whether internal controls are enforced properly (Padgett et al., 2015).

Organizations with numerous family members working together tend to have higher levels of trust between individuals and prioritize trust over competence (Bute, 2011; Dickson, Nieminen, & Biermeier-Hanson, 2012). The formal policies and procedures of a professional organization are a challenge to enforce in a nepotistic organization because some people are already comfortable with one another (Arasli & Tumer, 2008). Arasli and Tumer (2008) surveyed 576 employees working in the banking industry in North Cyprus to assess the impact of nepotism, favoritism, and cronyism on job stress, job satisfaction, word of mouth, and intention to quit. While the results showed that nepotism, favoritism, and cronyism all significantly increased job stress in the workplace and decreased job satisfaction, nepotism had the greatest

impact and effect on employees. As job satisfaction improved, the likelihood of employees intending to quit decreased and the likelihood of employees praising their employer to others through positive word of mouth increased.

Bute (2011) surveyed 430 employees working in family organizations in multiple industries where the employees were not related to the leaders of the organization to determine the relationship of perceived nepotism to job satisfaction, negative word of mouth, and intention to quit. Cronbach's alpha reliability values were all above 0.85, which indicated high reliability for the results. As employee exposure to nepotism increased, job satisfaction levels decreased significantly. As job satisfaction declined, the likelihood of employees intending to quit increased and the likelihood of employees maligning their employer to others through negative word of mouth increased. Job satisfaction intervened in the relationship between some forms of perceived nepotism and intention to quit and negative word of mouth but was not effective in moderating the relationship when the nepotism originated in operations. Bute suggested that reducing nepotism might improve the financial performance of organizations by reducing turnover and improving morale.

Spranger et al. (2012) sampled 79 family employees and 299 non-family employees in 21 family-owned businesses to examine how kin density related to perceptions of nepotism and organizational justice. Kin density is a measure of group-level relatedness or genetic overlap that takes into account the proportion and degree of relatedness of family members within a group of individuals within an organization (Spranger et al.). Spranger et al. included spouses, in-laws, and adopted children as family. Kin density and family membership strongly correlated with nepotism perceptions. Family employees did not perceive the nepotism to be as unjust as the nonfamily employees. Perceptions of nepotism had a strong negative impact on non-family

employee's perception of justice. Nepotism may originate when comprehension or time constraints prevent the leader of an organization from hiring the most qualified individual for a position (Liu, C. et al., 2015). Spranger et al. (2012) suggested that nepotism may be necessary when staffing small organizations because of a lack of employee options, but this excuse of nepotistic practices should be invalidated as the organizations grow and gain the capability to properly vet outside candidates. Gilding (2005) found that nepotism decreased as company size and complexity increased.

In the context of the present study, a church board member may be more likely to overlook internal control deficiencies when a spouse is handling cash donations in isolation, but less likely to overlook this same deficiency if a distant cousin or a non-relative is handling the same money. Segregation of duties is one of the fundamental internal controls, and nepotism may cause related employees to violate this control. Even if a board member's relative is well-qualified for a cash handling position, principal donors and employee agents have greater negative perceptions of the relative's competence and success potential than when outsiders are hired (Padgett et al., 2015).

As the average education level of the employee base increases, entities are less likely to report internal control weaknesses (Call et al., 2017). If higher quality employees utilize higher quality accounting techniques, churches should take steps to ensure that any potential employee selected for an accounting or finance position is also the best qualified person. By carefully ensuring that nepotism is not a factor during the hiring and supervision process, elders can have some assurance that the right person has been selected. The close-knit family-focused culture of many churches may tempt church leaders to only seek job applicants from within their church, which can easily facilitate nepotism (Cornell et al., 2013).

Similar to actual nepotism, perceptions of nepotism—even false perceptions—can adversely impact organizational culture, structure, and performance (Mhatre et al., 2012). Pearce and Huang (2014) conducted longitudinal studies of three previously nepotistic organizations that had transitioned to merit-based systems and followed up with two additional laboratory studies of employees. The researchers found that once employees perceived that rewards were based on relationships instead of qualifications or merit, these perceptions did not change even after many years of a new system that eliminated actual nepotism and cronyism. These same employees were aware of the new merit-based system but indicated a belief that favoritism was still being followed behind closed doors. This finding shows that changing perceptions of nepotism is a difficult task. When nepotistic behavior is openly tolerated, employees may perceive that fairness, motivation, quality, justice, and honesty are not important to leaders and may subsequently be more willing to commit misdeeds or violate controls to advance their careers (Arasli & Tumer, 2008; Mhatre et al., 2012).

Bardhan et al. (2015) compared the leadership structures of 446 companies listed on the S&P 500 and found that firms controlled by family members were 1.88 times greater than non-family firms to report material weaknesses in their internal controls over financial reporting. Bardhan et al. also posited that family owners were more entrenched in their nepotistic behaviors and motivated to maintain weaker internal controls, replace formal controls with informal controls, discourage external intervention, and avoid outsider monitoring so private benefits could be extracted without negative repercussions.

In nepotistic organizations, family members who perform substandard work or behave in a manner that normally would merit a termination are usually given additional opportunities—not afforded to outsiders—to correct mistakes (Jones et al., 2008; Dickson et al., 2012).

Increasing the perception of detection is one of the best fraud prevention techniques, but this can be jeopardized if nepotism creates the illusion of immunity from punishment (Pedneault & Peterson Kramer, 2015). Accused fraudsters occasionally retaliate against their accusers with physical violence or other threats, which may also hinder leaders from investigating or reporting fraud (Perri, 2011). If the accused is a relative, this may place a church leader in an extraordinarily uncomfortable position because the relationship with the accused would be assumed to continue even if employment is terminated (Liu, C. et al., 2015). This situation is unlike the termination of a non-relative, where there would not be an expectation of a continued relationship (Dickson et al., 2012). O'Brien et al. (2017) used an experimental vignette and data from 161 online participants and found that as genetic relatedness to a business owner increased, intentions of stealing increased and expectations of being reported and the corresponding punishment severity decreased. O'Brien et al. suggested that nepotism is not a good business practice and extra precautions should be put in place before hiring any relatives.

Recipients of nepotism may not be treated favorably in all organizations, as greater benefits or entitlements received may be offset by higher performance expectations or harsher criticisms from supervisor relatives (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Muchinsky, 2012). In cases where a relative is the best candidate for a position, there should not be an expectation that the person cannot be considered just because of a personal relationship (Jones & Stout, 2015). Beneficiaries of nepotism may have lower self-esteem, increased self-doubt, increased feelings of incompetence, and lower self-evaluations (Mulder, 2012).

Nonbeneficiaries of nepotism may have decreased perceptions of fairness, decreased satisfaction, decreased performance, and decreased perceptions of beneficiaries' competence or dispositions (Bute, 2011; Mulder, 2012). Understanding the potential impact of nepotism in churches

necessitated the present study.

Control Variables and Ethical Considerations

The following demographic variables were operationalized in the present study in order to gain an understanding of the background of the participant churches: membership size, average weekly Sunday worship attendance, attendance growth trend, state of location, county of location, incorporation status, number of elders, number of deacons, number of nondeacon treasurers, number of office employees, audit committee presence, finance committee presence, contribution counting committee presence, accounting outsourcing used, and payroll outsourcing used. While all confounding variables cannot practically be controlled in most research (Leedy & Ormrod, 2013), the demographic information collected permitted easier identification of possible confounds.

Membership size. Membership size has been positively associated with internal control strength, and the seminal work of Duncan et al. (1999) and works of Elson et al. (2007) and Cornell et al. (2013) supported the use of membership size as a control variable.

Average weekly Sunday worship attendance. Average weekly Sunday worship attendance has been positively associated with internal control strength, and the seminal work of Duncan et al. (1999) and the work of Lifeway Research (2017) supported the use of average weekly Sunday worship attendance as a control variable.

Attendance growth trend. Organizational growth has been positively associated with internal control weakness as firm leaders struggle to cope with newly available resources and implement controls at a pace that keeps up with the expansion (Ashbaugh-Skaife et al., 2007; Booth, 1993; Doyle et al., 2007; Petrovits et al., 2011).

State of location. Nonprofit laws vary from state to state (Petrovits et al., 2011) and

geographical region has previously been used to access cultural differences within churches (Duncan et al., 1999; Lifeway Research, 2017). McGuire et al. (2012) previously found that firms headquartered in areas with strong religious social norms generally had fewer financial reporting issues or abnormal accruals, and this control variable may reveal if those impacts extend to internal controls.

County of location. Nonprofit laws vary from state to state (Petrovits et al., 2011) and geographical region has previously been used to access cultural differences within churches (Duncan et al., 1999; Lifeway Research, 2017). This variable was also used to check for duplicate responses.

Incorporation status. Nonprofit laws vary from state to state and incorporating generally subjects church organizations to a higher degree of outside scrutiny (Petrovits et al., 2011). The work of Elson et al. (2007) supported the use of incorporation status as a control variable.

Number of elders. Number of elders was needed to use the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships, or nepotism potentiality, on internal controls. The work of Cornell et al. (2013) supported the use of number of elders as a control variable, too.

Number of deacons. Number of deacons was needed to use the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships, or nepotism potentiality, on internal controls.

Number of nondeacon treasurers. Number of nondeacon treasurers was needed to use the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships, or nepotism potentiality, on internal controls.

Number of office employees. Number of office employees was needed to use the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships, or nepotism potentiality, on internal controls. The works of Elson et al. (2007) and Cornell et al. (2013) supported the use of number of office employees as a control variable, too.

Audit committee presence. Audit committee presence improves internal controls, and the seminal work of Duncan et al. (1999) supported the use of audit committee presence as a control variable.

Finance committee presence. Finance committee presence improves internal controls, and the seminal works of Duncan et al. (1999) and Wooten et al. (2003) supported the use of finance committee presence as a control variable.

Contribution counting committee presence. Contribution counting committee presence improves internal controls, and the seminal work of Duncan et al. (1999) supported the use of contribution counting committee presence as a control variable.

Accounting outsourcing used. Outsourcing accounting services improves internal controls in general, and the seminal works of Duncan et al. (1999) and Wooten et al. (2003) supported the use of accounting outsourcing used as a control variable.

Payroll outsourcing used. Outsourcing payroll services improves internal controls specific to employee salaries, and the seminal work of Duncan et al. (1999) supported the use of payroll outsourcing used as a control variable. The inclusion of these preceding control variables was necessary for developing a proper context of the study results and allowed for testing of interaction between independent variables.

Ethical considerations. According to John 8:32, the truth sets us free. Plagiarizing information misleads others into believing that an idea originated from one's own thinking and is

fundamentally dishonest (Committee on Science, Engineering, and Public Policy (U.S.) (CSEPP), 2009). Honesty is a primary requirement for creating reliable and relevant accounting information (Troy & Ruhupatty, 2014), and the same standard applies to accounting research. Luke 16:12 (English Standard Version) states, “And if you have not been trustworthy with someone else’s property, who will give you property of your own?” Creating a thorough literature review and understanding citation standards is necessary to be an informed and ethical researcher (CSEPP, 2009; Leedy & Ormrod, 2013). Synthesizing literature entails more than reading anything on a particular topic and blindly accepting all published findings as fact, but instead requires the ability to critique the sources of information before using them to support positions (Blaxter, Hughes, & Tight, 2010; Meltzoff, 1998). An ethical literature review contains a variety of sources on a given topic, including sources that may be contrary to the ideas of the author (Lee & Lings, 2008). If study results are contrary to original predictions, an ethical researcher will not introduce selectively biased or anecdotal supplementary literature to justify the unexpected results (Meltzoff, 1998). The present study may benefit the respondents with information that can improve church operations and lead to greater fulfillment of church mission.

Summary

In the present quantitative correlational study, the relationship between the levels of internal controls present in autonomous Churches of Christ and the annual budget sizes of those churches was investigated. Whether active CPA licensure of leaders or nepotism potentiality between church leaders and office employees influences the levels of internal controls in these churches was investigated.

The preceding literature review and operational definitions provided additional context for the present study and serve as a synthesis of prior research on the relevant constructs of the

present correlation study. Research was utilized from the areas of agency theory, COSO, the fraud triangle, nonprofit accounting, internal controls, church budget size, CPA licensure, nepotism potentiality, and kin density.

The first issue of church budget size and internal controls was examined using the availability of financial resources approach employed by Duncan et al. (1999). Previous research has indicated that poor internal control is correlated with inadequate funding for internal controls (Ashbaugh-Skaife, Collins, & Kinney, 2007; Cornell et al., 2013; Doyle, Ge, & McVay, 2007; Ge & McVay, 2005; Holtfreter, 2008; Seat, 2015). The present research supports the literature because larger autonomous churches with more members should have greater financial resources to implement internal controls (Duncan, 2001).

In addition to financial considerations, the second issue of accounting expertise of church leaders was examined by considering the impact of leadership CPA licensure on internal controls. A sense of responsibility and willingness of church leaders with financial expertise and formal accounting licensure—such as the CPA license—to utilize their skill sets to improve church operations should strengthen internal control implementation and monitoring (Cornell et al., 2013; Duncan, 2001; McNeal & Michelman, 2006; West & Zech, 2008). The findings of Bai (2012), Iyer et al. (2013), and Abernathy et al. (2014) suggested that CPA licensure was an important proxy for significant financial expertise, which the present research supported.

The third issue considered was the personal relationships within the church organizations and their impact on internal control implementation. Church leaders that have family members in cash handling positions within the church may hinder internal control implementation because of nepotism (Collin & Ahlberg, 2012; Liu, C. et al., 2015; Pérez-González, 2006). Collin and Ahlberg (2012) found that board members were more passive in monitoring, instructing, and

advising agents when family relationships were present, and level of passivity was positively related to the closeness of the relationship. Churches cannot be expected to flourish in their mission if members or employees perceive that personal favoritism or nepotism dictates accounting procedures (Padgett et al., 2015), which the present research supports. The preceding literature review provided necessary background information and justified the need for the present study. In the next chapter, the research methods of the present study are described.

Chapter 3: Research Method

This chapter details the research methodology that was used in the present quantitative study. The present non-experimental, quantitative, correlational research design was a cross-sectional study of internal control issues of Churches of Christ conducted via emailed surveys. Survey research has been widely utilized by many authors who have examined internal controls and church financial matters and survey research was utilized in the present non-experimental study. Duncan et al. (1999), Duncan and Stocks (2003), Elson et al. (2007), Enofe and Amaria (2011), Hankerson (2016), Kistler (2008), Ranglin (2014), West and Zech (2008), Wooten et al. (2003), and others have utilized quantitative research methods and administered national, regional, and local surveys to measure various internal control issues of churches. The present study expanded upon the previous nationally, regionally, and locally targeted internal control surveys by including Churches of Christ, which had been a largely overlooked population in previous studies.

Statement of the problem. Preventing fraud before it happens is more cost-effective than detecting, investigating, and recovering from fraud after it occurs (McMahon et al., 2016; Murphy & Dacin, 2011; Tysiac, 2012; West & Zech, 2008). Unfortunately, lackluster financial controls providing little fraud protection are a common occurrence in many churches, leaving the money entrusted to religious organizations for charitable usage vulnerable to potential fraudsters (Duncan et al., 1999; Enofe & Amaria, 2011; Kistler, 2008; Kutz, 2007; LaShaw, 2007; Pavlo, 2013; Thornhill et al., 2016). Although church internal control systems have previously been studied (Duncan et al., 1999; Kistler, 2008; LaShaw, 2007), research confirming the presence, cause, and predictors of internal control problems within fully autonomous Churches of Christ had not been conducted until the present study.

The problem is the lack of guidelines on internal control procedures to mitigate financial risk to the Churches of Christ. By assessing if internal control weaknesses were present, the leaders of these churches could be made aware of their church's vulnerability to fraudulent activities and inappropriate usage of donated funds. Church leaders have a responsibility to be aware of the warning signs of fraud (Shapiro, 2011) and establish internal controls to minimize fraud risk (Dellaportas, 2013; Hopwood et al., 2012). Sixteen percent of Churches of Christ have experienced embezzlement, and 16% of Churches of Christ have never had a complete audit of their finances (Lifeway Research, 2017). Research was necessary to investigate if and how leaders were executing internal control responsibilities in Churches of Christ and to determine what best practices could be implemented to mitigate financial risks to these churches.

Purpose of the study. The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. This cross-sectional research study of internal control issues of Churches of Christ in the United States was conducted via emailed surveys sent to CBAs located in states with at least 50,000 members statewide in different developmental stages with their internal control systems. Surveys were structured to minimize the likelihood of subjective interpretation of the data. Survey questions covered demographics, internal controls and accounting practices, annual budget size, leadership CPA licensure, and potentially nepotistic family relationships by using primarily yes/no questions to assess actions.

Research questions. The following research questions were addressed in this quantitative correlational study:

RQ1. To what extent, if any, is there a relationship between the levels of internal

controls in Churches of Christ and the size of their annual budgets?

RQ2. To what extent does an elder or finance deacon/nondeacon treasurer holding an active CPA license influence or not influence the levels of internal controls in Churches of Christ?

RQ3. To what extent, if any, does nepotism potentiality among or between the elders, finance deacons/nondeacon treasurers, and church office employees influence the levels of internal controls in Churches of Christ?

Hypotheses. Hypothesis 1 corresponds to Research Question 1 regarding annual budget size. Hypothesis 2 corresponds to Research Question 2 regarding leadership CPA licensure. Hypothesis 3 corresponds to Research Question 3 regarding nepotism potentiality.

H1₀. The annual church budget size of a Church of Christ has no impact on the degree of internal control practices in place.

H1_a. A Church of Christ with a larger annual church budget size has a greater degree of internal control practices in place than Churches of Christ with smaller budget sizes.

H2₀. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has no impact on the degree of internal control practices in place in Churches of Christ.

H2_a. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has a positive impact on the degree of internal control practices in place in Churches of Christ.

H3₀. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employee has no impact on the degree of internal control practices in place in Churches of Christ.

H3_a. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employees has a negative impact on the

degree of internal control practices in place in Churches of Christ.

The rest of this chapter details the research methodology and design used in the present quantitative study. Specifically, the research design, study population, study sample, materials and instruments, operational definition of variables, study procedures, data collection, data analysis, assumptions, limitations, delimitations, and ethical assurances are detailed.

Research Methodology and Design

Quantitative research methodology was a better fit to address the purpose of the present study than the qualitative or mixed-methods research methodologies. Quantitative researchers employ empiricism via the scientific method to discover and describe significant numerical changes in measurable relationships between variables that cannot be attributed to mere chance and generalize these findings to broader contexts (Kraska, 2010; Smith, 2014; Staller, 2010; Trochim & Donnelly, 2006). Quantitative researchers typically describe *what is*, whereas qualitative and mixed methods researchers typically describe *what should be* or *why it is* (Evans, 2002; Trochim & Donnelly, 2006).

Qualitative researchers typically rely on observation or experiential evidence and subjective interpretation of findings (Staller, 2010), and mixed methods researchers rely on a combination of quantitative and qualitative methods (Beattie, 2014; Creswell, 2013; Staller, 2010; Trochim & Donnelly, 2006). The qualitative and mixed methods approaches were not selected for the present study because of time constraints and feasibility challenges. Qualitative research also highlights the social construction of reality, the lived experiences of participants, and the ways people process meaning (Staller, 2010), which was not studied in the present research. Quantitative methods often yield data that is easy to process (Bordens & Abbott, 2010). Qualitative data often consists of written records and subjective observations that cannot

be measured as easily as numerical quantitative numerical data (Bordens & Abbott, 2010). Subjective data manipulation and bias would have been a much greater issue if a qualitative design plan had been implemented (Leedy & Ormrod, 2013). The decreased likelihood of subjectivity was a strength of the quantitative method (Creswell, 2013).

In this quantitative, correlational design, a cross-sectional study of internal control issues of Churches of Christ was conducted via emailed surveys. Correlational research designs are often utilized in empirical studies of new constructs within established topics (Fawcett, 2015). A cross-sectional study has data collection from a representative subset of a population at a single point in time (Leedy & Ormrod, 2013). Non-experimental research designs do not require the random assignment of participants to conditions (Creswell, 2013). Surveys were simultaneously sent to CBAs in multiple churches in different developmental stages with their internal control systems, which improved the feasibility of the present study. The survey questions covered demographics, internal controls and accounting practices, annual budget size, leadership CPA licensure, and potentially nepotistic family relationships. The usage of yes/no survey questions minimized the subjectivity that is prevalent in qualitative research questions (Leedy & Ormrod).

Survey research has been widely utilized by many authors who have examined internal controls and church financial matters, so it was also utilized in the present non-experimental study. Duncan et al. (1999), Duncan and Stocks (2003), Elson et al. (2007), Enofe and Amaria (2011), Hankerson (2016), Kistler (2008), Ranglin (2014), West and Zech (2008), Wooten et al. (2003), and others have utilized quantitative research methods and administered national, regional, and local surveys to measure various internal control issues of churches. The present study expanded upon the previous nationally, regionally, and locally targeted internal control surveys by including Churches of Christ, which had been a largely overlooked population in

previous studies. In the literature, both financial and nonfinancial measures have been utilized to assess internal control deficiencies and fraud risk (Brazel et al., 2009; Dellaportas, 2013).

In order to take advantage of the simple statistical approaches and generalization opportunities afforded by quantitative methods, the population sample and statistical tests to analyze data must be chosen deliberately (Cozby & Bates, 2014; Jackson, 2012). The narrow scope of the present research—autonomous Churches of Christ—was necessary to ensure feasibility and the timely completion of the present research. While external validity may be weakened somewhat by the scope, proximal similarity in the present research study on internal controls of Churches of Christ may be used to describe other autonomous religious groups or nonprofits, if a greater degree of generalization is desired.

Church internal control systems were assessed using an updated version of a widely published questionnaire originally operationalized by Duncan et al. (1999). In the present research, the Duncan et al. (1999) internal control instrument was updated to align with the newest 2013 COSO internal control framework guidelines. Duncan granted permission to use the updated internal control instrument in the present study. Predicted member donations to the churches as part of the church annual budget should be a direct assessment of the impact of resources on internal control implementation (Duncan et al., 1999; West & Zech, 2008), so the calendar-year amount of expected expenses for operations, ministries, and capital maintenance of a single church location was used to assess the impact of annual budget size on internal controls. Elson et al. (2007) measured the financial expertise of church board members in the context of assessing the adequacy of financial oversight and internal controls in churches. The CPA license has expansive name recognition in the United States (AICPA, 2017) and is the accounting license most commonly associated with financial expertise (Iyer et al., 2013), so the number of

church leaders with a CPA license was used in the present study to assess the impact of financial expertise on internal controls. Nepotism potentiality was assessed using the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships on internal controls. Colarelli—one of the researchers from the Spranger et al. study—granted permission to use the kin density formula in the present study. Participant demographic data was collected regarding church membership size, average weekly Sunday worship attendance, attendance growth trend, state of location, county of location, incorporation status, number of elders, number of deacons, number of nondeacon treasurers, number of office employees, church committee presence, and outsourced services.

Ethical issues were carefully considered before the present research started so the level of risk for study participants could be minimized. Informed consent was obtained from every participating CBA through the survey introduction shown before survey completion. Participants were assured that their participation was voluntary, their identity was anonymous, and their responses are confidential and will only be published in aggregate form.

Population and Sample

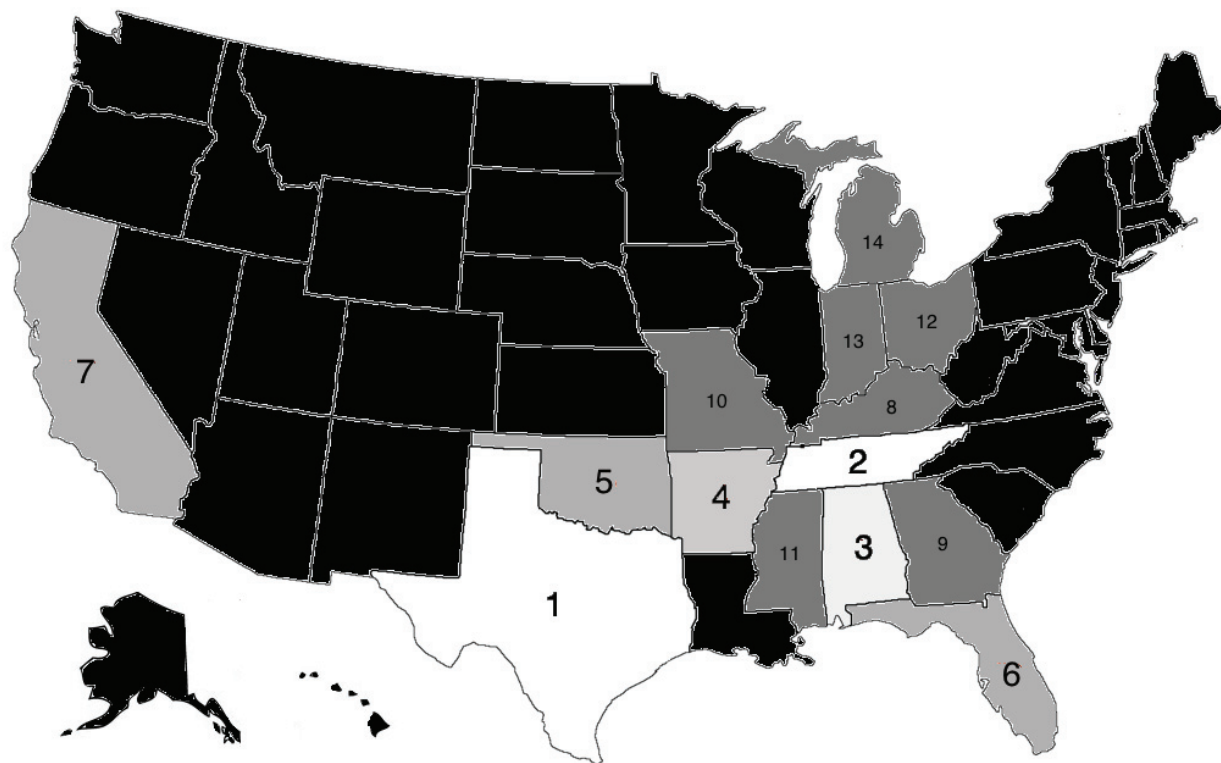
The Church of Christ is an unofficial brotherhood of autonomous churches with modern origins in the 19th century American Restoration Movement, characterized by the practice of acapella singing and weekly communion, the emphasis of core beliefs and moral sanctification, the absence of a formal, extrabiblical creed, and the lack of main headquarters with authority to prescribe practices (Beck, 2014; Casey, 2002; Royster, 2015; Yeakley, 2008). The Churches of Christ that are the subject of the present study are autonomous and self-governing in their leadership structure, as there is no outside hierarchal decision-making body for this religious group (Beck, 2014).

Each church within the Churches of Christ is led by a plurality of male leaders called elders, which are selected by church members and serve as the spiritual and general leadership board for each autonomous church (Beck, 2014). Each church typically has another group of male leaders called deacons, who are selected by the members and approved by the elders (MacIlvaine et al., 2016). Deacons serve as leaders over a specific work or task within each autonomous church (MacIlvaine et al., 2016). The working dynamic between the elders and deacons varies in each church, so churches may have (a) the dominant financial expert as an elder who directs a nonexpert deacon of finance or nondeacon treasurer, or (b) the dominant financial expert as a deacon or nondeacon treasurer who reports to an elder of finance, or (c) a partnership where both elder and deacon or nondeacon treasurer are financial experts and share responsibilities relatively equally (Bruce, 2007; Yeakley, 2008). Depending on the working dynamics within each church, the elders, deacons, or nondeacon treasurers who are the primary financial experts may supervise the CBA or serve as the CBA for their respective churches. The CBA for each church is the person with primary responsibility for conducting the accounting, budgeting, business, and financial affairs of a church (Dimos, 2016). The CBAs were the recipients of the surveys for the present study.

Other than the financial stewardship work of Bruce (2007) and the church finance work of Lifeway Research (2017), no other scholarly research specifically addressing financial matters within Churches of Christ had occurred until the present study. The Churches of Christ consist of approximately 12,300 total churches spread throughout every state and territory of the United States (Royster, 2015), a membership base estimated at 1,352,465 people (West, 2016), and 1,519,695 estimated adherents (Royster, 2015). Only the Southern Baptist Convention, United Methodist Church, and Catholic Church have more churches in the United States than the

Churches of Christ, and Churches of Christ geographically are the most evenly distributed religious group in the United States (Yeakley, 2008).

A primary strength of this research was the accessibility of the population data for sending out surveys due to the Royster (2015) database. Probability sampling was the most appropriate sampling technique because each subject of the population had a known chance of being selected to participate as part of the sample (Jackson, 2012). The inclusion criteria for the CBA and corresponding church were (a) the CBA must have been 18 years of age or older and represented (b) an autonomous Church of Christ church (c) listed in the Royster (2015) database with (d) an active eldership board that was (e) located within the United States in a state with at least 50,000 members of the Church of Christ in the state. Churches without leadership boards were specifically excluded since the present research was built upon agency theory. There were seven states with sufficient members to meet the inclusion criteria. In order of member populations, largest to smallest, the qualifying states are (1) Texas, (2) Tennessee, (3) Alabama, (4) Arkansas, (5) Oklahoma, (6) Florida, and (7) California. Geographically limiting the population improves the feasibility of a study (Cozby & Bates, 2014). These seven states combined are home to 6,633 Church of Christ churches, which was the population surveyed. The seven states selected also have experienced differing levels of embezzlement, with California, Oklahoma, and Texas suffering some of the highest embezzlement rates in the nation, and Arkansas having one of the lowest embezzlement rates in the nation (Marquet, 2014). The geographical limitation of the present study and the minimum 50,000 member cutoff were carefully chosen after examining the dispersion of members of Churches of Christ throughout the United States in the Royster (2015) database, as shown in Figure 2.



Population Rank	State	Number of Members and Churches (rounded to nearest thousand)	Chart Color
1	Texas	263,000 members; 1,978 churches	White
2	Tennessee	163,000 members, 1,422 churches	White
3	Alabama	86,000 members; 854 churches	Gray (7% opacity)
4	Arkansas	66,000 members; 706 churches	Gray (30% opacity)
5	Oklahoma	56,000 members; 566 churches	Gray (50% opacity)
6	Florida	54,000 members; 498 churches	Gray (50% opacity)
7	California	53,000 members; 609 churches	Gray (50% opacity)
8 – 14	Various	20,000 – 43,000 members each	Dark Gray
15 – 50	Various	Less than 20,000 members each	Black

Figure 2. Church of Christ church member dispersion. States with 20,000 or more members are ranked from highest to lowest. The present study will only include the highest seven states which meet the 50,000+ member inclusion criterion. States with members between 20,000 and 49,999 that would be sampled as part of the contingency plan for an insufficient response rate are also shown.

Since both of the first two research questions had multiple groups, the most appropriate test to analyze the data for RQ1 and RQ2 was two one-way, fixed-effects, ANOVA tests (Jackson, 2012). The sample size necessary to conduct these ANOVA tests was determined

using an a priori power analysis. RQ1 and RQ2 both had three groups. Duncan et al. (1999) previously determined church membership size to be small with 300 or fewer members and large with 300 or more members. However, the present research placed the churches into three size categories (small, medium, or large) based on a stratification of the responding churches' self-reported annual budget sizes. The three groups for RQ1 were (a) small, (b) medium, and (c) large church budgets. The three groups for RQ2 were (a) churches with no CPA leaders, (b) churches with either a CPA elder or CPA deacon/nondeacon treasurer, and (c) churches with both a CPA elder and a CPA deacon/nondeacon treasurer. Necessary sample sizes were determined using G*Power 3 (Faul et al., 2007). Using three groups, a power level of 0.8, an alpha level of 0.05, and a medium effect size of 0.25 results in an estimated total sample size needed of 159 CBAs. If power is increased to 0.95, the required sample size needed for RQ1 and RQ2 rose to 252 CBAs. The third research question had two even groups, so a one-tailed bivariate normal correlation test was used. RQ3 was a comparison of the churches' kin density scores to the churches' internal control assessment scores. Using a power level of 0.8, an alpha level of 0.05, and a medium effect size of 0.2 resulted in an estimated total sample size needed of 153 CBAs. If power is increased to 0.95, the required sample size needed for RQ3 rose to 266 CBAs. Therefore, the minimum sample size necessary for the aforementioned statistical analyses was 159 CBAs, but at least 266 CBAs were preferred.

If all 6,633 Church of Christ churches in the aforementioned seven states had met the inclusion criteria and were surveyed, a response rate of 4.0% would have yielded the preferred amount of data, and a response rate of 2.4% would have yielded the necessary amount of data. If only 25% of the 6,633 Church of Christ churches—1,658 churches—met the inclusion criteria and had their CBAs complete the surveys, a response rate of 16.1% would have yielded the

preferred amount of data, and a response rate of 9.6% would have yielded the necessary amount of data. Hankerson (2016) sent surveys to 500 CBAs in his study of church internal controls and received responses from 119 CBAs, which is a response rate of 23.8%. For the present study, a conservative estimated response rate of 15% was assumed. Therefore, sending out 2,757 surveys and achieving a response rate of 9.7% ensured the preferred sample size of 266 Church of Christ CBAs was available for analysis.

The database maintained by Royster (2015) served as the sampling frame. The Royster (2015) database contains email addresses for 1,706 of the 6,636 Church of Christ churches in the seven states that met the inclusion criteria. As a matter of convenience, all 1,706 of these churches received the surveys. To improve validity, an additional 1,051 churches that did not have email addresses listed in the Royster database were selected to receive the surveys. The contact information for these 1,051 churches was sourced from three areas. First, the Royster database had 578 churches listed with a website, but no email address. An internet search of these 578 church websites yielded another 167 church email addresses. Second, an additional 567 church email addresses were acquired after contacting Royster directly about any potential updates to the 2015 database since its original release. Third, the church relations office of a local university affiliated with the Churches of Christ shared 481 church email addresses. After combining all data sources and deleting 164 duplicate email addresses, a final total of 2,757 usable email addresses was reached. As shown in Table 1, the survey pool was geographically diverse and representative of the population distribution previously shown in Figure 2.

Table 1
Survey Pool Demographics: Geographical Location of CBAs' Churches

Alabama	Arkansas	California	Florida	Oklahoma	Tennessee	Texas	Total
324	223	331	273	200	619	787	2,757
11.8%	8.1%	12.0%	9.9%	7.3%	22.4%	28.5%	

By sending surveys to a total of 2,757 out of 6,633 churches in the population, the validity of the research and the chances of equal representation from churches of various membership sizes during survey sampling was improved. The CBA of all 2,757 churches with email addresses were notified via email of the opportunity to participate in the research. Using emailed surveys saved postage and printing costs, and eliminated travel time associated with conducting interviews.

Materials/Instrumentation

The following information is a description of the instruments for measuring the four primary constructs of the present study. Following the descriptions of the instruments is an overview of the statistical tests employed in the present study.

Quantitative survey questions of current internal control practices. Questions regarding current accounting and internal control practices were used to measure the level of protection from financial risk provided by internal control systems within each Church of Christ church (Appendix A). Church internal control systems were assessed using an updated version of a widely published questionnaire originally operationalized by Duncan et al. (1999). The original internal control assessment instrument developed by Duncan et al. (1999) was based on the 1992 internal control framework of COSO and the work of Vargo (1995), and has extensive support in the literature as a measurement of nonprofit internal controls (Duncan, 2001; Duncan & Stocks, 2003, Hankerson, 2016; Othman & Ali, 2014). Hankerson (2016) used the Duncan et al. (1999) instrument for his dissertation research on church internal controls, but strongly suggested that future researchers update the Duncan et al. (1999) instrument to comply with the new 2013 internal control framework of COSO. In the present research, the Duncan et al. (1999) internal control instrument was updated to align with the newest 2013 COSO internal control

framework guidelines but maintained the spirit of the original instrument as much as possible. The internal control questions address general controls, cash receipts controls, cash disbursement controls, and reconciliation practices (Duncan et al., 1999).

Internal controls – general. (Except for the exception noted on Q5, answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Q1. Are facilities locked when not in use?

Q2. Is access to church accounting records and sensitive member information (whether stored electronically or on paper) restricted through computer security measures (if electronic) or physical safeguards (if paper)?

Q3. Is an audit committee operational?

Q4. Is there an elder or deacon who actively participates in the accounting affairs of the church?

Q5. Are the accounting records and the underlying internal controls audited annually? If yes, who performs the audit? (a) An independent external CPA, (b) a CPA who is a member of this church, or (c) a person or group of persons within this church. (An answer of (a) assigned a value of 1. Answers of (b) or (c) assigned a value of 0.5. Answers of no to the primary question assigned a value of 0.)

Q6. Is there adequate segregation of duties between the authorization, recording, and custody of assets? For example: the financial secretary's (or treasurer's) activities involve keeping the records of cash contributions and preparing the support for disbursements, but not also depositing the contributions or writing the disbursement checks.

Q7. Are all ministers prohibited from counting money, signing checks, and accessing accounting systems?

Q8. Does the church have an insurance policy that covers losses from theft by employees or volunteers OR are all employees and volunteers who have access to cash bonded? Select “yes” if the answer to either or both questions is yes.

Q9. Does the church have current accounting policies and procedures in writing?

Q10. Are background and reference checks performed on potential employees or volunteers who may have access to cash or accounting information?

Q11. Are employees with access to cash or financial transactions properly trained and supervised?

Q12. Are volunteers with access to cash or financial transactions properly trained and supervised? If no volunteers have access to cash or financial transactions, select “yes.”

Internal controls – cash receipts. (Answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Q13. Do members have access to offering envelopes or online giving options for contributions?

Q14. Are the collection, handling, and counting of contributions always conducted by at least two people in a secure area?

Q15. Do checks that are written to the church receive a restrictive endorsement such as “for deposit only” as soon as they are collected?

Q16. Does the contribution counting team prepare and sign a summary sheet detailing the amount of cash, checks, and coins received?

Q17. Are bank deposits secured in a tamper-proof bag before being transported to the bank?

Q18. Is all cash received deposited in the bank within 24 hours? Select “no” if cash is ever taken out of the contribution to pay for expenses directly.

Q19. Is cash safeguarded in a safe or immovable lock box when maintained at the church?

Q20. Does someone not involved in the contribution counting, depositing, or accounting entry process reconcile the summary contribution count sheet, deposit slip, and bank deposit receipt?

Q21. Are incoming-mail and in-office contributions handled by people who are not responsible for the accounting records?

Q22. Are contributions for restricted purposes or designated to specific funds properly identified and recorded in the accounting records?

Q23. Are contribution records itemizing contributions of \$250 or more sent to donors at least annually?

Q24. Are the church budget and financial statements made available to members?

Internal controls – cash disbursements. (Except for the exceptions noted on Q28 and Q32, answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Q25. Are pre-numbered purchase orders or check requests requiring leadership approval used for all disbursements that do not have standing authorization for payment?

Q26. Are invoices for goods and services approved by an authorized person or committee who validates items were received (or services were provided) and the amount is correct before payment is made?

Q27. Is blank check stock safeguarded in a locked or secured area at all times?

Q28. Does the person who prepares checks for disbursement have access to a signature stamp or digital signature of the person who signs the checks? If signature stamps are not used, select “no.” (Answers of Yes assigned a value of 0. Any other answer assigned a value of 1.)

Q29. Are all payments (except for items paid from petty cash) made by serially numbered checks?

Q30. Are at least two signatures required on all checks?

Q31. Do the elders approve and monitor all employee pay rates, changes, and bonuses?

Q32. Is the person who signs the payroll checks the same person who prepares the payroll checks? (Answers of Yes assigned a value of 0. Any other answer assigned a value of 1.)

Q33. Are supporting documents and invoices marked “paid” when checks are issued or archived in a manner so they cannot be paid again?

Q34. Are all voided checks marked “void” and retained?

Q35. Is the petty cash fund used only for minor cash disbursements supported by vouchers or receipts and reconciled at least annually by someone other than its custodian? If no petty cash fund is used, select “yes.”

Q36. Is church procurement or credit card usage controlled with transactions reviewed and documented to ensure appropriate usage and accurate entry into accounting records? If no church credit card is used, select “yes.”

Q37. Are wire transfers, electronic funds transfers, or transfers between bank accounts authorized or reviewed by a church leader?

Internal controls – reconciliation practices. (Answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Q38. Are all funds and bank account balances reconciled each month by a person who is not involved in writing checks?

Q39. Are accounting book balances current, balanced, reconciled with financial reports, and closed on a regular basis?

Q40. Are valuables (marketable securities, notes, valuable documents, deeds, etc.) protected in a bank safe deposit box?

Q41. Is an updated inventory of securities, valuables, equipment, fixed assets, buildings, and other major noncash assets maintained?

Q42. Are regular insurance reviews made to determine if coverage is adequate and up-to-date?

Q43. Is church-owned vehicle mileage tracked and usage restricted to ministry purposes? If no church-owned vehicles are used, select “yes.”

Q44. Are budgeted expenditures periodically compared to actual expenditures to ensure that funds are being spent as authorized?

Q45. Are required government payroll tax filings periodically inspected for accuracy and completion?

Quantitative survey question of annual budget size. One single question regarding annual budget size was used to measure the impact of the budget on internal control systems within each Church of Christ church (Appendix B). Predicted member donations to the churches as part of the church annual budget should be a direct assessment of the impact of resources on internal control implementation, so the calendar-year amount of expected expenses for operations, ministries, and capital maintenance of a single church location was used to assess the impact of annual budget size on internal controls (Booth, 1993; Duncan et al., 1999; Flesher & Duncan, 1999; West & Zech, 2008; Wooten et al., 2003). Annual budget size was measured by a single question:

In dollars, what is the annual budget size of your church, with annual budget size being understood as the calendar-year amount of expected expenses for operations, ministries, and capital maintenance of your church location?

Quantitative survey questions of leadership CPA licensure. Questions regarding leadership CPA licensure were used to measure the impact of financial expertise on internal control systems within each Church of Christ church (Appendix C). Elson et al. (2007) measured the financial expertise of church board members in the context of assessing the adequacy of financial oversight and internal controls in churches. The CPA license has expansive name recognition in the United States (AICPA, 2017) and is the accounting license most commonly associated with financial expertise (Iyer et al., 2013), so the number of leaders with a CPA license was used in the present study to assess the impact of financial expertise on internal controls.

Q1. Do any of your elders have an active CPA license? (Answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Q2. Do any of your deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets have an active CPA license? (Answers of Yes assigned a value of 1. Any other answer assigned a value of 0.)

Quantitative survey question of nepotism potentiality. Questions regarding nepotism potentiality were used to measure the impact of family relationships on internal control systems within each Church of Christ church (Appendix D). Nepotism potentiality was assessed using the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships on internal controls. Previous researchers have utilized similar kinship assessments as a proxy for nepotism (Collin & Ahlberg, 2012; Neyer & Lang, 2003). The usage of follow-up questions in this part of the survey is possible because the surveys are computerized (Fowler, 2014), and appropriate because the follow-up questions yield richer data for analysis (Fowler, 2014; Trochim & Donnelly, 2006). The six questions that every respondent answered will be presented first, followed by the follow-up questions that were used on each nonzero response to the initial six questions.

Q1. How many of your church's elders are related to other elders? Only count each relationship once. For example, if two brothers are both elders, your answer would be 1. (Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q1.)

Q2. How many of your church's elders are related to any deacon or nondeacon treasurer that handles cash, supervises church finance or accounting, accesses church accounting

systems, or authorizes or conducts the purchase or sale of significant church assets?

(Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q2.)

Q3. How many of your church's elders are related to any church employee that handles cash, works in church finance or accounting, assesses church accounting systems, or authorizes or conducts the purchase or sales of significant church assets? (Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q3.)

Q4. How many of your church's deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets are related to any other deacon or nondeacon treasurer that handles cash, supervises church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? Only count each relationship once. For example, if two brothers are both deacons, your answer would be 1. (Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q4.)

Q5. How many of your church's deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets are related to any church employee that handles cash, works in church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? (Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q5.)

Q6. How many of your church's employees that handle cash, work in church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets are related to any other church employee that handles cash, works in church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? Only count each relationship once. For example, if two brothers are both office employees, your answer would be 1. (Answers of 0 assigned a value of 0. Answers of 1 or more are each assigned an initial value of 1 that is then multiplied by another value produced upon answering the relationship factor follow-up question. The number of relationship follow-up questions that populate corresponds with the response selected for Q6.)

Follow-up question(s) for each nonzero response to Q1-Q6. Which of the following categories describes the level of relatedness between these two people? For purposes of this question, make no distinction between blood relatives and adopted children. They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law &

child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness. (Answers of Category A are not yet assigned a value, and instead receive the follow-up question on descendants in common. Answers of Category B assigned a value of 0.5. Answers of Category C are not yet assigned a value, and instead receive the follow-up question on descendants in common. Answers of Category D assigned a value of 0.25. Answers of Category E are not yet assigned a value, and instead receive the follow-up question on descendants in common. Answers of Category F assigned a value of 0.125. Answers of Category G assigned a value of 0.0625.)

Follow-up question(s) for each response of Category A, C, or E. How many descendants do these two people have in common? For purposes of this question, make no distinction between blood relatives and adopted children. For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. (Answers of 0 are assigned a value of 0. Nonzero answers are incorporated into the formula for coefficient of relatedness for nongenealogical individuals (r_{ab}), with the resulting solution becoming the value assigned.)

Operational Definitions of Variables

Internal control practices, annual budget size, leadership CPA licensure, nepotism potentiality, membership size, average weekly Sunday worship attendance, attendance growth trend, state of location, county of location, incorporation status, number of elders, number of

deacons, number of nondeacon treasurers, number of office employees, church committee presence, and outsourced services were the relevant constructs operationalized in the present study. The dependent variable assessed in all three research questions (RQ1, RQ2, & RQ3) and all three corresponding hypotheses (H1, H2, & H3) was the degree of internal control practices in place within the churches. The independent variables assessed were the annual budget sizes (RQ1 & H1), leadership CPA licensure (RQ2 & H2), and nepotism potentiality (RQ3 & H3).

Internal control practices. Internal control practices were discrete variables and were assessed based on the responses to 45 questions related to general controls, cash receipts controls, cash disbursement controls, and reconciliation practices. Except where exceptions were noted on Q5, Q28, and Q32, answers of Yes were assigned a value of 1. Any other answer was assigned a value of 0. The participant's answers to the 45 internal control questions then became part of an additive scale with potential total scores ranging from 0 to 45. The total internal control practices score was measured on a ratio scale.

Annual budget size. Annual budget size was a continuous variable and was assessed based on the response to one single question:

In dollars, what is the annual budget size of your church, with annual budget size being understood as the calendar-year amount of expected expenses for operations, ministries, and capital maintenance of your church location?

Participants replied to this question with a single response in dollars, and the churches were placed into three size categories (small, medium, or large) based on a stratification of the responding church budget sizes. Annual budget size was measured on a ratio scale.

Leadership CPA licensure. Leadership CPA licensure was a discrete variable and was assessed based on the responses to two questions related to elder, deacon, and nondeacon

treasurer CPA licensure. Answers of Yes were assigned a value of 1. Any other answer was assigned a value of 0. The participant's answers to the two CPA licensure questions then became part of an additive scale with potential total scores ranging from 0 to 2. The total leadership CPA licensure score was measured on an interval scale.

Nepotism potentiality. Nepotism potentiality was a continuous variable and was assessed using the Spranger et al. (2012) formula for kin density. Nepotism potentiality was based on the responses to six primary questions and their corresponding follow-up questions (from any non-zero responses to the first six questions) related to elder, deacon, nondeacon treasurer, and church employee family relationships. The six questions that every respondent answered were presented first, followed by the follow-up question(s) that were presented after each nonzero response to the initial six questions. Answers of nonzero on any of the six primary questions were assigned an initial value of 1 that was then multiplied by the value produced upon answering the relationship factor follow-up question. There were seven possible answers on the relationship factor follow-up question. Four of the possible answers—categories B, D, F, or G—of the relationship factor follow-up question were assigned values of 0.5, 0.25, 0.125, or 0.0625, respectively. Three of the possible answers—categories A, C, or E—of the relationship factor follow-up question generated an additional follow-up question regarding descendants in common. Answers of zero to the question regarding descendants in common were assigned a value of zero. Nonzero answers to the question regarding descendants in common were incorporated into the formula for coefficient of relatedness for nongenealogical individuals (r_{ab}): $r_{ab} = \sum r_{ab} / d_{ab}$ where r_{ab} represents the coefficient r for each shared genetically related individual of two non-related individuals, and d_{ab} represents the average number of shared dyadic pairs, or $(2n + 1)2$ (Spranger et al., 2012). The coefficient of relatedness is the

probability that two individuals share genetic alleles due to common ancestry, or a measurement of the degree of biological relationship between two individuals (Collin & Ahlberg, 2012; Spranger et al., 2012). In this case, n equals the total number of genealogical shared relatives of the two individuals, and r equals genetic relatedness from the coefficient of relationship (Collin & Ahlberg, 2012). For instance, a child shares half of his genes with a parent, so r would be 0.5 for this relationship. Other common relationship r factors can be seen in Table 2.

Table 2
Common Relatedness Coefficients, r

Relationship to an Individual	Coefficient of Relatedness, r
Parent & Child; Full Siblings	0.5
Grandparent & Grandchild; Half-Siblings; Aunt/Uncle & Niece/Nephew	0.25
Spouses with Three Children Together	0.2143 (rounded)
Spouses with Two Children Together	0.2
Spouses with One Child Together	0.1667 (rounded)
Parent-in-Law & Child-in-Law with Three Descendants in Common	0.1607 (rounded)
Parent-in-Law & Child-in-Law with Two Descendants in Common	0.15
First Cousins; Great-Grandparent & Great-Grandchild; Great-Aunt/Uncle & Great-Niece/Nephew; Parent-in-Law & Child-in-Law with One Descendant in Common	0.125
Other more distant relatives	0.0625
Spouses with No Children Together; Parent-in-Law & Child-in-Law with No Descendants in Common	0.0

Note. Adapted from *Blood is thicker than water: Kinship orientation across adulthood* by F. J. Neyer and F. R. Lang, 2003, p. 314.
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In the case of a husband and wife who share one child, r_{ab} would be calculated as 0.167, or $(0.5 + 0.5) / ((2*1)+1)*2$. In the case of a father and his son-in-law with one grandchild/child connection, r_{ab} would be calculated as 0.125, or $(0.5 + 0.25) / ((2*1)+1)*2$. In the case of a father and his son-in-law with five grandchild/child connections, r_{ab} would be calculated as 0.17, or $(0.5 + 0.25)*5 / ((2*5)+1)*2$. The solution to the coefficient of relatedness for nongenealogical individuals (r_{ab}) formula served as the value incorporated into the kin density (KD) formula, which will be explained next.

If respondents answered with a value of two or higher on any of the initial questions Q1-Q6, duplicates of the follow-up question populated to correspond with the initial response. Answers of No on any of the six primary questions were assigned a value of 0 and prevented the related follow-up question from being displayed. All response values from Q1-Q6 were aggregated and incorporated as r_n into the kin density (KD) formula: $KD = r_n NP$ where KD equals kin density score, r_n equals the average relatedness of all possible familial dyads, N equals the total number of genealogical and non-genealogical relatives within the church, and P equals the proportion of relatives within a group of elders, deacons, nondeacon treasurers, and employees (Spranger et al., 2012). For example, a father and his three children would have an r_n of 0.5, calculated as $((0.5 + 0.5 + 0.5 + 0.5 + 0.5 + 0.5)/6)$. N and P were obtained from church demographic questions. Continuing this same example, a church with ten total leaders and staff, four of which are relatives (a father and three children), would have r_n of 0.5, N of 4, and P of $4/10$, or 0.4, yielding a KD of $0.5*4*0.4$, or 0.8. The kin density score (KD) was used as a proxy for nepotism potentiality. Each church's nepotism potentiality score was part of a ratio scale with total nepotism potentiality scores ranging from 0 to 1. The total nepotism potentiality score was measured on a ratio scale.

The remaining constructs served primarily as demographic variables and were operationalized in the present study to gain an understanding of the background of the participant churches (Appendix E). While all confounding variables cannot practically be controlled in most research (Leedy & Ormrod, 2013), the demographic information collected permitted easier identification of possible confounds.

Membership size. Membership size was a discrete variable and was operationalized as the self-reported number of individuals who are formally recognized as members by the eldership of one particular Church of Christ church (Duncan et al., 1999; Yeakley, 2008). Membership size was measured on a ratio scale.

Average weekly Sunday worship attendance. Average weekly Sunday worship attendance was a discrete variable and was operationalized as the self-reported number of individuals who typically attend the primary religious worship service on Sundays at one particular Church of Christ church. Average weekly Sunday worship attendance was measured on a ratio scale.

Attendance growth trend. Attendance growth trend was a discrete variable and was operationalized as the self-reported church attendance growth pattern over the past two years. Participants selected either “Attendance Decreasing,” “Attendance Stable,” or “Attendance Increasing.” Attendance growth trend was measured on a nominal scale.

State of location. State of location was a discrete variable and was operationalized as the self-reported state where the church was physically located. Participants selected either “Alabama,” “Arkansas,” “California,” “Florida,” “Oklahoma,” “Tennessee,” or “Texas.” State of location was measured on a nominal scale.

County of location. County of location was a discrete variable and was operationalized

as the self-reported county where the church was physically located. Participants selected their county from a drop-down list of counties, based on their previously-indicated state of location. County of location was measured on a nominal scale.

Incorporation status. Incorporation status was a discrete variable and was operationalized as the self-reported status of the church’s organizational legal structure. Participants selected either “Yes” or “No” as one of two possible variables. Incorporation status was measured on a nominal scale.

Number of elders. Number of elders was a discrete variable and was operationalized as the self-reported number of men who serve on the spiritual and general leadership board—called the eldership—for one particular Church of Christ church. The number of elders was measured on a ratio scale. Participants who selected “0” or “1” on this question were not permitted to complete the remaining questions of the survey.

Number of deacons. Number of deacons was a discrete variable and was operationalized as the self-reported number of men approved by a local eldership to serve as leaders over a specific work for one particular Church of Christ church. The number of deacons was measured on a ratio scale.

Number of nondeacon treasurers. Number of nondeacon treasurers was a discrete variable and was operationalized as the self-reported number of unpaid individuals who are neither deacons nor subject to Biblical qualifications for office, but are selected by a local eldership to serve as leaders over accounting or finance activities for one particular Church of Christ church. Nondeacon treasurers that are paid for their services were considered office employees for purposes of the present study. The number of nondeacon treasurers was measured on a ratio scale.

Number of office employees. Number of office employees was a discrete variable and was operationalized as the self-reported number of individuals who are paid employees of one particular Church of Christ church in primarily secular positions such as accountants, bookkeepers, financial secretaries, or treasurers. The number of office employees was measured on a ratio scale.

Audit committee presence. Audit committee presence was a discrete variable and was operationalized as the self-reported status of a present and functioning internal audit committee within the churches. Participants selected either “Yes” or “No” as one of two possible variables. Audit committee presence was measured on a nominal scale.

Finance committee presence. Finance committee presence was a discrete variable and was operationalized as the self-reported status of a present and functioning finance committee within the churches. Participants selected either “Yes” or “No” as one of two possible variables. Finance committee presence was measured on a nominal scale.

Contribution counting committee presence. Contribution counting committee presence was a discrete variable and was operationalized as the self-reported status of a present and functioning contribution counting committee within the churches. Participants selected either “Yes” or “No” as one of two possible variables. Contribution counting committee presence was measured on a nominal scale.

Accounting outsourcing used. Accounting outsourcing used was a discrete variable and was operationalized as the self-reported usage of an external accounting firm to maintain accounting records and prepare financial statements for the church. Participants selected either “Yes” or “No” as one of two possible variables. Accounting outsourcing used was measured on a nominal scale.

Payroll outsourcing used. Payroll outsourcing used was a discrete variable and was operationalized as the self-reported usage of an external payroll service to maintain payroll records, prepare payroll tax forms, and submit government payroll tax filings for the church. Participants selected either “Yes” or “No” as one of two possible variables. Payroll outsourcing used was measured on a nominal scale.

Study Procedures

Advancing collective knowledge of a society depends on trustworthy scientific researchers who have diligently gathered data, conducted appropriate analyses, respected idea originators, and shared findings correctly (CSEPP, 2009). Ethical issues are important for the accounting industry at large (Lauck, 2016), but they are also crucial in research and academic settings (Mingers and Walsham, 2010). Northcentral University Institutional Review Board (IRB) approval was obtained before any research started. IRBs assess ethical implications of research and ensure the safety and rights of participants (Trochim & Donnelly, 2006). IRBs must approve any proposed research involving people before data collection begins, review ongoing research, and approve changes in ongoing research (CSEPP, 2009; Leedy & Ormrod, 2013).

The present non-experimental, quantitative, correlational research design was a cross-sectional study of internal control issues of Churches of Christ conducted via emailed surveys sent to 2,757 Church of Christ CBAs. Ethical issues were carefully considered before the present research started, so the level of risk for study participants could be minimized. Informed consent was obtained from every participating CBA through the survey introduction shown before survey completion. Participants were assured that their participation was voluntary, their identity was anonymous, and their responses were confidential and would only be published in

aggregate form. Previous research of Martinson, Anderson, and de Vries (2005) showed that 27.5% of scientists admitted having inadequate record keeping procedures, so secure record keeping was a priority with the present research. Participants were assured that all electronic forms of data collected would be securely stored on encrypted computers for seven years, and all paper documents would be securely housed in a locked office in a guarded building with electronic security locks for seven years. After seven years, all forms of paper and electronic data will be shredded or erased permanently.

Data Collection and Analysis

The Internet was the primary source of data collection for the present study. Computer-based surveys are appropriate when working with a large sample size or when using questions with built-in follow-ups (Fowler, 2014). The 1,706 CBAs who met the inclusion criteria with email addresses in the Royster (2015) database were notified via email of the opportunity to participate in the research. To improve validity, an additional 1,051 churches that did not have email addresses listed in the Royster database were selected to receive the surveys. The contact information for these 1,051 churches was sourced from three areas. First, the Royster database had 578 churches listed with a website, but no email address. An internet search of these 578 church websites yielded another 167 church email addresses. Second, an additional 567 church email addresses were acquired after contacting Royster directly about any potential updates to the 2015 database since its original release. Third, the church relations office of a local university affiliated with the Churches of Christ shared 481 church email addresses. After combining all data sources and deleting 164 duplicate email addresses, a final total of 2,757 usable email addresses was reached. Using emailed surveys eliminated postage and printing costs, and eliminated travel time associated with conducting interviews. A prerecruitment email

was sent using blind copy to all 2,757 CBAs three days before the actual survey email was sent. Surveys were developed and blind copy emailed to participants using the polling website Survey Monkey®. Responses were collected and aggregated through the polling website. The estimated total sample size needed for RQ1 and RQ2 was 159 CBAs, and the estimated total sample size needed for RQ3 was 153 CBAs.

As previously explained in the Materials/Instrumentation section, the quantitative survey questions of internal control practices and leadership CPA licensure had answers of Yes assigned a value of 1, while any other answer was assigned a value of 0 (with the exceptions of Q5, Q28, and Q32 on the internal control practices questions). The participant's answers to the 45 internal control questions became part of an additive scale with potential total scores ranging from 0 to 45. The participant's answers to the two CPA licensure questions became part of an additive scale with potential total scores ranging from 0 to 2. Churches were placed into three groups (no CPA elder and no CPA deacon/treasurer, either CPA elder or CPA deacon/treasurer, or both CPA elder and CPA deacon/treasurer) based on responses. The single question on annual budget sizes had answers in dollars, and the churches were placed into three size categories (small, medium, or large) based on a stratification of the responding church budget sizes. The quantitative survey questions on nepotistic practices were answered by a series of six primary questions. Answers of Yes on any of the six primary questions were assigned an initial value of 1 that was then multiplied by the value produced upon answering the relationship factor follow-up question. The five possible answers of the relationship factor follow-up question were assigned values of 0.0625, 0.125, 0.25, 0.5, or the output of the coefficient of relatedness for nongenealogical individuals (r_{ab}), which was created after one additional follow-up question on descendants in common. Answers of No on any of the six primary questions were assigned a

value of 0 and prevented the related follow-up question from being displayed. All response values from Q1-Q6 were aggregated and incorporated into the kin density (KD) formula, which generated a kin density (KD) score. The kin density score (KD) was then used as a proxy for nepotism potentiality. Each church's nepotism potentiality score became part of a ratio scale with total nepotism potentiality scores ranging from 0 to 1. The total nepotism potentiality score was measured on a ratio scale.

Since both of the first two research questions had multiple groups, the most appropriate test to analyze the data for RQ1 and RQ2 was two one-way, fixed-effects, ANOVA tests (Faul et al., 2007; Jackson, 2012). The third research question had two even groups, so a one-tailed bivariate normal correlation test was used. These ANOVAs and correlation test were used to assess the relationship between internal controls (the dependent variable) and annual budget size, leadership CPA licensure, and nepotism potentiality (the independent variables).

Assumptions

There were four broad assumptions to be considered for the present study. First, it was assumed that only CBAs completed the surveys. There was an assumption that participants would not falsely claim to be CBAs when someone else fills that role within their church. Second, it was assumed that CBA participants were honest and accurate with their responses. There was an assumption that participants who may not have immediately known answers to survey questions searched for correct information rather than fabricate or guess their responses. Third, it was assumed that the statistical analyses performed on the participant survey responses resulted in information that was a legitimate representation of the greater population of Churches of Christ. The geographic diversity of the sample should have mitigated any significant cultural differences that may have been present within the larger population. In order for the sample to

fairly represent the study population, every effort was made to ensure that a sufficient number of potential participants receive the surveys. Fourth, it was assumed that all participants fully understood the voluntary nature of the present research, gave informed consent, and completed the surveys without any coercion from or fear of the researcher.

Limitations

Any non-experimental research design dealing with real-world people is subject to limitations, such as validity threats (Wampold, 2005). The focus of the present research was on one religious denomination—the Churches of Christ—limiting generalization to other religious groups. Creswell (2013) cautioned researchers to establish external validity of their research before making inferences about other people, other locations, or at other times. Trochim and Donnelly (2006) encouraged researchers to anticipate outside challenges to study findings and to conduct studies with as many people in as many locations and as many times as possible to mitigate this threat. Given the demographic uniqueness of the Churches of Christ, external generalization to other denominations was not a major goal of the present research. However, to reduce external validity threats, internal control survey questionnaires were sent to many different church leaders across multiple states in the United States. CBAs from a variety of Churches of Christ had an opportunity to participate in the research.

Interaction of testing and assessment could be a threat to construct validity, as participants reading through the survey may have found the questions a source of helpful information and implemented changes simply because of receiving the questionnaire (Trochim & Donnelly, 2006). Carefully wording research survey questions is necessary, as participants may attempt to adjust their behavior and select responses based on what they guess is the best or most socially desirable answer instead of reporting their true circumstances (Trochim & Donnelly,

2006). The present research was conducted within a narrow time frame, which reduced the likelihood of history threats (Trochim & Donnelly, 2006). While all confounding variables cannot practically be controlled in most research (Leedy & Ormrod, 2013), the significant demographic information collected in the present study permitted easier identification of possible confounds.

There was a contingency plan if fewer than 159 CBAs responded to the survey questionnaires and statistical calculations were not possible. If necessary, the surveys would have been sent to Churches of Christ in states that were under the 50,000 statewide member cutoff inclusion criterion, such as Kentucky, Georgia, Missouri, Mississippi, Ohio, Indiana, or Michigan. Another database of Church of Christ contact information other than the Royster (2015) database could also have been used. However, neither of these contingency plans were necessary to complete the present study.

Delimitations

There were a few delimitations to be considered for the present study. The present research was based on agency theory and the conceptual framework of internal controls. Churches of Christ lacking eldership boards were excluded from the survey because of their missing leadership structure. However, it is possible that excluding these groups may have forfeited useful information about how internal controls are handled in the absence of well-defined leadership roles. Other autonomous religious groups with some similar characteristics as the Churches of Christ were also excluded. The narrow scope of the present research—autonomous Churches of Christ—was necessary to ensure feasibility and the timely completion of the present research. While external validity may have been weakened somewhat by the scope, proximal similarity in the present research study on internal controls of Churches of

Christ may be used to describe other autonomous religious groups or nonprofits, if a greater degree of generalization is desired.

There are numerous internal control assessment instruments that have been published in the literature. By choosing to base the present internal control assessment tool on the work of Duncan et al. (1999), other internal control assessment tools from other authors such as Vargo (1995) were excluded. The internal control assessment tool of Duncan et al. (1999) was originally operationalized for assessing churches, and the tool was also one of the most concise of its kind. The present research has a quantitative design, so there were not any open-ended questions or opportunities for observation that may have been used in a qualitative design. While the quantitative design chosen was thoroughly grounded in the literature, there are possibly some accounting and leadership circumstances that could have been better understood or explained using a qualitative approach.

One delimitation inherent with academic research was the exclusion of most nonscholarly sources during the review of the literature and study development. By primarily researching scholarly journals and peer-reviewed publications and books, there may have been relevant information from trade magazines, newspapers, or other nonprofit publications that was omitted from the present research.

Ethical Assurances

Advancing collective knowledge of a society depends on trustworthy scientific researchers who have diligently gathered data, conducted appropriate analyses, respected idea originators, and shared findings correctly (CSEPP (U.S.), 2009). Ethical issues were considered throughout the present research study. Northcentral University Institutional Review Board (IRB) approval was obtained before any research started.

The present doctoral research findings could benefit numerous church organizations (Booth, 1993; Duncan, Flesher, & Stocks, 1999), with minimal or no risk of harm for participating CBAs. According to Cozby and Bates (2014), minimal risk means that chance of harm is no more significant than danger experienced in everyday life or routine psychological or physical tests. Risk should not be a significant issue, as long as data confidentiality is maintained. The information collected from the churches will only be published in aggregate form after thoroughly disguising church identities. CBAs that participated will not specifically be identified in any published research. Individual church demographics collected during the research will not be tied back to any single church location.

Informed consent was also obtained from every CBA. Informed consent occurs when potential research participants have all of the relevant information on procedures and risks necessary to decide if their participation will occur (American Psychological Association [APA], 2010; Cozby & Bates, 2014; Trochim & Donnelly, 2006). The consent form included (1) the purpose of the research, (2) the survey method being used, (3) a discussion of research benefits, (4) a discussion of the minimal risks, (5) the confidentiality procedures, (6) assurance of voluntary participation, (7) research withdrawal procedures, (8) compensation and incentives, and (9) researcher contact information if questions arose (APA, 2010; Cozby & Bates, 2014).

To maintain data integrity and security of the survey responses, responses were only accessible via an encrypted network on a password-protected computer in a restricted access building. Data accuracy was maintained by establishing read-only versions of the electronic survey responses before statistical calculations started. Researchers must report the findings of research in transparent and truthful ways, and ethical researchers will strive to make all study outcomes and implications available for peer review and critique (Bordens & Abbott, 2010;

Smith, 2014). Rather than only seeking data that confirmed the hypotheses, equal objective consideration was given to all relevant data (Creswell, 2013; Lauck, 2016; Martinson et al., 2005).

Summary

The purpose of the present non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. The lack of guidelines on internal control procedures to mitigate financial risk to the Churches of Christ was concerning. The present research provided understanding regarding if or how leaders were executing internal control responsibilities in Churches of Christ and the best practices that could be implemented to mitigate any financial risks to these churches.

Chapter 4: Findings

The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. An online survey was distributed to 2,757 Church of Christ CBAs in Alabama, Arkansas, California, Florida, Oklahoma, Tennessee, and Texas. Of the 2,757 email invitations sent, 358 bounced back because of invalid email addresses and 183 were stopped by spam filters. This yielded a final total of 2,216 CBA recipients. Of the 132 responses received, 10 were incomplete. Therefore, the data collection resulted in a final sample of 122 ($N=122$) surveys, which was a response rate of 5.5%. Since both of the first two research questions had multiple groups, the most appropriate test to analyze the data for RQ1 and RQ2 was two one-way, fixed-effects, ANOVA tests (Faul et al., 2007; Jackson, 2012). The third research question had two even groups, so a one-tailed bivariate normal correlation test was used. These ANOVAs and correlation test were used to assess the relationship between internal controls (the dependent variable) and annual budget size, leadership CPA licensure, and nepotism potentiality (the independent variables). The remaining demographic data collected was used in the present study to gain an understanding of the background of the churches of the CBA participants.

The remainder of this chapter is organized into four sections. The first section is a discussion of the validity and reliability of the data collected. The second section is an overview of the descriptive statistics of the present study. The third section is the results of the study listed in order by research question and hypothesis, with a discussion of the statistical tests used. The final section is the evaluation of findings within the context of the conceptual framework developed in the literature review.

Validity and Reliability of the Data

The original internal control assessment instrument developed by Duncan et al. (1999) has extensive support in the literature as a measurement of nonprofit internal controls (Duncan, 2001; Duncan & Stocks, 2003, Hankerson, 2016; Othman & Ali, 2014). Internal consistency and scale reliability for the dependent variable (internal control score) in the present study was assessed using Cronbach's alpha. Cronbach's alpha provides the average of all possible split-half reliability coefficients and is a commonly accepted indicator of reliability (Cozby & Bates, 2014). The reliability statistics indicated an overall Cronbach's alpha of 0.787. The Cronbach's alpha ranged from 0.774 to 0.790 after individually testing the impact of deleting each of the 45 internal control questions from the survey instrument—further indicating internal consistency. Most researchers in the literature consider a reliability coefficient of 0.70 or higher as an acceptable indicator of reliability (Cozby & Bates, 2014; Trochim & Donnelly, 2006). The reliability statistics of the present study support the evidence of scale soundness provided in the literature. Validity of the data is best interpreted by examining instances of statistical significance at the 0.05 or 0.01 level (Jackson, 2012), which will be discussed in the “Results” section. However, a post hoc power analysis (such as Table 3 and Table 4) can reveal the odds of the data showing an effect when there is an effect (Trochim & Donnelly, 2006).

Table 3

Comparison of A Priori and Post Hoc Power Analysis (RQ1 & RQ2)

Parameters	A Priori RQ1 & RQ2	Post Hoc RQ1	Post Hoc RQ2
Power Level (odds of observing effect)	0.8	0.926	0.853
Alpha Level (odds of Type I error)	0.05	0.05	0.05
Effect Size (strength of association)	0.25 (medium)	0.353 (approaching large)	0.304 (medium-large)
Sample Size (number of participants)	159	118	122

Table 4
Comparison of A Priori and Post Hoc Power Analysis (RQ3)

Parameters	A Priori RQ3	Post Hoc RQ3
Power Level (odds of observing effect)	0.8	0.592
Alpha Level (odds of Type I error)	0.05	0.05
Effect Size (strength of association)	0.2 (medium)	0.173 (approaching medium)
Sample Size (number of participants)	153	117

Descriptive Statistics

While all 122 CBAs completed the independent variable questions on internal control, some CBAs answered with *Unsure* on some dependent variable and demographic questions. In total, four CBAs answered *Unsure* on the budget question, five CBAs answered *Unsure* on some portion of the nepotism questions, and 29 CBAs did not answer at least one demographic question (only seven CBAs skipped more than one of the 15 demographic questions). The final sample ($N=122$) consisted of Church of Christ CBAs in Alabama (10), Arkansas (14), California (4), Florida (12), Oklahoma (7), Tennessee (43), and Texas (30), as well as two CBAs who did not specify a state. The 122 churches of the respondent CBAs had a variety of membership sizes, as 19 churches had 100 or fewer members, but nine churches had 1,000 or more members. The mean membership size of the churches was 391.37 ($SD=350.54$). The annual budget sizes of these churches ranged from 11 churches with annual budgets of \$100,000 or less to four churches with annual budgets exceeding \$2,000,000. The mean budget size of the churches was \$663,111 ($SD=\$598,273$). The size of the elderships of these churches was also diverse, as 37 churches only had two or three elders, but 22 churches had 10 or more elders. The mean eldership size of the churches was 6.09 ($SD=4.63$). The mean total internal control score for all

of the churches was 32.004 ($SD=5.488$). The following tables show the percentage of CBAs who indicated that a particular control was in place in their church, in order from highest to lowest within each of the four subcategories of internal control (general, cash receipts, cash disbursements, and reconciliation practices).

Table 5
Number of Churches with General Controls in Place

Survey Question	Control Activity	Number with Control	Percent with Control	Standard Deviation
Q1	Unused facilities are locked	120	98	0.1275
Q2	Sensitive information secured	117	96	0.1991
Q4	Participant financial leader	116	95	0.2171
Q12	Volunteers financially trained	106	87	0.3390
Q11	Employees financially trained	103	84	0.3641
Q7	Minister prohibited from finances	94	77	0.4223
Q8	Theft insurance or staff bonded	73	60	0.4923
Q6	Incompatible duties segregated	68	56	0.4987
Q9	Written accounting policies	51	42	0.4953
Q10	Background/reference checks	46	38	0.4866
Q5b	Annual audit of accounting by insider	43	35	0.2874
Q3	Audit committee operational	30	25	0.4324
Q5a	Annual audit of accounting by outsider	5	4	0.2874

Note. On Q5, regarding annual audits of accounting records and internal controls, participants who answered *Yes* had to also indicate if the audit was conducted by an independent outsider (a) or by an insider from the church (b).

As seen in Table 5, nearly all CBAs indicated that their church facilities were locked when unoccupied, which is consistent with the findings of Duncan et al. (1999) and Hankerson (2016). Only 25% of CBAs indicated that their church had a functioning audit committee, which is higher than the 22% rate of the nondenominational group studied by Hankerson and higher than the 10.7% rate of the most autonomous group studied by Duncan et al. Only five out of the 122 Church of Christ CBAs in the present study indicated that an annual audit of accounting practices and internal controls was conducted by an external CPA. If the annual

audits conducted by insiders are combined with the audits conducted by outsiders, the result (39%) is close to the 36% rate of the most autonomous group studied by Duncan et al. but lower than the 60% rate of the lowest scoring group studied by Hankerson. Therefore, 61% of CBAs surveyed in the present study indicated that their church was not having an annual audit conducted by anyone. Also noteworthy was the mere 38% of CBA respondents who indicated that background or reference checks were required of employees or volunteers who had access to cash or accounting information.

Table 6
Number of Churches with Cash Receipts Controls in Place

Survey Question	Control Activity	Number with Control	Percent with Control	Standard Deviation
Q22	Restricted donations honored	115	94	0.2335
Q24	Budget available to members	114	93	0.2486
Q14	Group counting of contribution	109	89	0.3098
Q23	Annual contribution receipts sent	103	84	0.3641
Q18	Cash deposited within 24 hours	98	80	0.3992
Q16	Collection summary reports used	96	79	0.4112
Q15	Restrictive endorsement of checks	85	70	0.4616
Q19	Cash on hand stored in safe	81	66	0.4743
Q17	Tamper-proof deposit bags	62	51	0.5020
Q20	Contribution deposit reconciled	61	50	0.5021
Q21	Mail handler is not bookkeeper	56	46	0.5004
Q13	Envelope or online giving options	54	44	0.4987

As seen in Table 6, many CBAs had in place numerous controls over tracking member contributions and honoring their restricted donations, which is consistent with the most autonomous group studied by Duncan et al. (1999) and the nondenominational group studied by Hankerson (2016). While 98.7% of the CBAs from the most autonomous group in Duncan et al. reported depositing all cash within 24 hours, only 80% of CBAs in the present study claimed to deposit cash in a timely fashion. Hankerson previously found that 100% of nondenominational

churches kept cash in a safe, while only 66% of CBAs in the present study reported using a safe for church cash on hand. Also noteworthy is the mere 46% of CBA respondents in the present study who indicated that the bookkeeper was not the mail handler. While only 50% of CBAs in the present study indicated that someone not involved with the contribution counting or depositing process reconciled the contribution count to the bank deposit slip, this percentage was a notable improvement over the 10.7% rate reported by the most autonomous group studied by Duncan et al. and the 22% rate reported by the nondenominational group studied by Hankerson.

Table 7

Number of Churches with Cash Disbursements Controls in Place

Survey Question	Control Activity	Number with Control	Percent with Control	Standard Deviation
Q28	Signature stamps not used for checks	117	96	0.1991
Q31	Leaders monitor employee pay rates	116	95	0.2171
Q36	Credit card usage controlled/reviewed	112	92	0.2754
Q29	Serially numbered checks utilized	108	89	0.3200
Q27	Blank checks locked away securely	108	89	0.3200
Q33	Paid invoices marked and archived	107	88	0.3297
Q35	Petty cash independently reconciled	105	86	0.3477
Q34	Voided checks marked and retained	101	83	0.3791
Q26	Leader validates invoices before paid	101	83	0.3791
Q37	Bank transfers authorized or reviewed	96	79	0.4112
Q32	Payroll preparer is not paycheck signer	67	55	0.4996
Q25	Purchase orders and approvals used	52	43	0.4966
Q30	Two signatures required on checks	35	29	0.4542

As seen in Table 7, most CBAs reported high implementation rates of controls over cash disbursements, with 10 of the 13 controls utilized at more than three-fourths of responding CBAs' churches. The two controls with inadequate implementation rates (purchase order usage and two signature requirement on checks) in the present study were consistent with the poorly implemented cash disbursement controls of the most autonomous group studied by Duncan et al.

(1999) and the nondenominational group studied by Hankerson (2016). While 100% of the CBAs from the most autonomous group in Duncan et al. reported using serially numbered checks and marked and retained voided checks, only about four-fifths of CBAs in the present study followed these controls. Also noteworthy is the mere 29% of CBA respondents in the present study who indicated that two signatures were required on checks, which is slightly lower than the 41.3% reported by CBAs of the most autonomous group in the Duncan et al. study and the 56% reported by CBAs of the nondenominational group studied by Hankerson.

Table 8

Number of Churches with Reconciliation Practices Controls in Place

Survey Question	Control Activity	Number with Control	Percent with Control	Standard Deviation
Q44	Budgeted vs actual spending compared	112	92	0.2754
Q42	Insurance reviewed for adequacy	112	92	0.2754
Q39	Book balances reconciled to financials	110	90	0.2990
Q45	Payroll tax filings inspected and verified	98	80	0.3992
Q43	Church vehicle usage supervised	95	78	0.4168
Q40	Valuables in bank safe deposit box	66	54	0.5004
Q41	Asset listing current and complete	57	47	0.5010
Q38	Checking not reconciled by check writer	45	37	0.4845

As seen in Table 8, most CBAs reported high implementation rates of controls over reconciliation practices, with 5 of the 8 controls utilized at more than three-fourths of responding CBAs' churches. The two reconciliation practices controls with the lowest implementation rates in the present study (asset listing current, at 47%, and checking account not reconciled by check writer, at 37%) had higher implementation rates than previously reported (38.7% and 24%, respectively) by the most autonomous group studied by Duncan et al. (1999). Budgeted expenditures being compared to actual expenditures was the most frequently implemented reconciliation practice control in the present study (92%), the Duncan et al. study (97.3%), and

the Hankerson (2016) study (100%). Frequency tables for the other sample demographic characteristics are provided in Appendix F. The following correlation matrix (Table 9) is designed to examine any relationships between demographic characteristics and the variables described in the literature review and the “Evaluation of Findings” section.

Table 9
Pearson r Correlation Matrix

Variable	Variables							
	1	2	3	4	5	6	7	8
1. # of Elders	-							
2. # of Deacons	.56***	-						
3. # of Treasurers	.08	.23***	-					
4. # of Office Staff	.31***	.31***	-.02	-				
5. # of Members	.78***	.73***	.11	.38***	-			
6. # Sunday Att.	.82***	.73***	.14	.35***	.94***	-		
7. Growth Pattern	.01	.12	-.04	-.03	.09	.12	-	
8. Incorporation	.23**	.16**	.05	.22**	.29***	.26***	-.02	-
9. Audit Comm.	.16**	.01	.01	.07	.09	.05	.17**	.04
10. Finance Comm.	.28***	.29***	.13	.21**	.33***	.28***	.16**	.07
11. Counting Comm.	.12	.11	.06	.16**	.12	.11	.04	.14
12. Outsourced Acc.	.12	-.08	-.03	.00	.02	.01	.06	-.10
13. Outsourced Payroll	.24***	.12	-.08	.24***	.26***	.22***	-.02	.26***
14. I/C: General	.25***	.20**	.02	.22***	.22**	.25***	.21**	.10
15. I/C: Receipts	.30***	.28***	.06	.21***	.26**	.28***	-.01	.28**
16. I/C: Disbursements	.11	.05	-.11	.13	.10	.09	.11	.02
17. I/C: Reconciliations	.13	.12	-.07	.17**	.15	.13	.06	.02
18. I/C Total Score	.27***	.23***	-.03	.25***	.25***	.27***	.13	.15
19. Budget Size Cat.	.62***	.62***	.15	.46***	.78***	.80***	-.02	.36***
20. CPA Elder	.34***	.46***	.15**	.18**	.42***	.41**	.05	.09
21. CPA Deacon	.31***	.39***	.17**	.24***	.44***	.43***	.01	.19**
22. CPA Total Score	.42***	.55***	.21***	.27***	.56***	.54***	.04	.19**
23. Kin Density Score	-.17**	-.20**	-.10	-.11	-.21**	-.24***	-.01	-.25***

Note. *** $p < 0.01$. ** $p < 0.05$.

Table 9
Pearson *r* Correlation Matrix (continued)

Variable	Variables						
	9	10	11	12	13	14	15
9. Audit Comm.	-						
10. Finance Comm.	-.43***	-					
11. Counting Comm.	.19**	.21**	-				
12. Outsourced Acc.	.24***	.13	-.11	-			
13. Outsourced Payroll	.12	.16**	.01	.30***	-		
14. I/C: General	.39***	.33***	.22***	.18**	.17**	-	
15. I/C: Receipts	.13	.20**	.29***	.07	.17**	.45***	-
16. I/C: Disbursements	.26***	.30***	.12	.00	.18**	.50***	.34***
17. I/C: Reconciliations	.37***	.21**	.16**	.24***	.23***	.44***	.30***
18. I/C Total Score	.37***	.36***	.27***	.16**	.25***	.80***	.72***
19. Budget Size Cat.	-.02	.23***	.10	.04	.29***	.28***	.40***
20. CPA Elder	-.04	.06	.08	-.11	.01	.18**	.25***
21. CPA Deacon	.07	.21**	.06	.01	.16**	.20**	.19**
22. CPA Total Score	.03	.19**	.09	-.06	.12	.24***	.28***
23. Kin Density Score	-.11	-.12	.00	-.00	-.08	-.19**	-.15

Note. *** $p < 0.01$. ** $p < 0.05$.

Variable	Variables						
	16	17	18	19	20	21	22
16. I/C: Disbursements	-						
17. I/C: Reconciliations	.50***	-					
18. I/C Total Score	.78***	.71***	-				
19. Budget Size Cat.	.14	.13	.33***	-			
20. CPA Elder	-.05	.05	.15**	.35***	-		
21. CPA Deacon	.10	.20**	.23***	.37***	.19**	-	
22. CPA Total Score	.04	-.17**	.25***	.46***	.71***	.83***	-
23. Kin Density Score	-.09	-.06	-.17**	-.26***	-.09	-.09	-.12

Note. *** $p < 0.01$. ** $p < 0.05$.

The Pearson product-moment correlations were all positive and significant between the internal control total score (the dependent variable) and every variable included except for number of treasurers, growth pattern, and incorporation status. The control variables included in

the statistical models were based on the results of the Pearson product-moment correlations. Any significant correlation detected between a control variable and independent or dependent variable meant the control variable was included in stepwise regression analyses. While predicting the cause of the internal control score (dependent variable) was not a primary goal of the present study, analyses were conducted to determine if such predictors existed.

The general controls subcategory of internal control was significantly predicted by audit committee presence ($R^2 = .158$, $F(1, 87)=16.309$; $p < .001$) and the combination of audit committee presence and CPA total score ($R^2 = .209$, $F(2, 86)=11.342$; $p < .001$). The cash receipts subcategory of internal control was significantly predicted by contribution counting committee presence ($R^2 = .159$, $F(1, 87)=16.421$; $p < .001$), the combination of contribution counting committee presence and budget size category ($R^2 = .253$, $F(2, 86)=14.554$; $p < .001$), and the combination of contribution counting committee presence, budget size category, and incorporation status ($R^2 = .289$, $F(3, 85)=11.499$; $p < .001$). The cash disbursements subcategory of internal control was significantly predicted by finance committee presence ($R^2 = .104$, $F(1, 87)=10.096$; $p = .002$) and the combination of finance committee presence and number of treasurers ($R^2 = .149$, $F(2, 86)=7.531$; $p = .001$). The reconciliation practices subcategory of internal control was significantly predicted by audit committee presence ($R^2 = .108$, $F(1, 87)=10.556$; $p = .002$). The total internal control score was most significantly predicted by the combination of contribution counting committee presence, audit committee presence, finance committee presence, and budget size category ($R^2 = .304$, $F(1, 84)=9.186$; $p < .001$). Removing the finance committee and leaving the other three from this model changed the outcome very little ($R^2 = .288$, $F(1, 105)=14.133$; $p < .001$).

Results

In the following section, the results of the study are listed in order by research question and hypothesis. There will also be a discussion of the statistical tests performed on IBM SPSS version 25 to analyze data for the present study. The dependent variable assessed in all three research questions (RQ1, RQ2, & RQ3) and all three corresponding hypotheses (H1, H2, & H3) is the degree of internal control practices in place within the churches.

Since both of the first two research questions have multiple groups, two one-way, fixed-effects ANOVA tests were used to analyze the data. The third research question has two even groups, so a one-tailed bivariate normal correlation test was used. These ANOVAs and correlation test were used to assess the relationship between internal controls (the dependent variable) and annual budget size, leadership CPA licensure, and nepotism potentiality (the independent variables). ANOVA and correlation tests are both commonly used in inferential statistical calculations involving data that is parametric, randomly sampled, independently observed, normally distributed, and homogenous in population error variance (Bordens & Abbott, 2010; Jackson, 2012; Trochim & Donnelly, 2006). However, ANOVA tests may also be conducted on groups with unequal sample sizes—such as the present study—without compromising the procedures (Jackson, 2012). The first two research questions on budget size and CPA licensure were normally distributed, based on the results of a Q-Q plot. Post hoc tests are necessary on an ANOVA to determine which pairs of groups differ significantly from one another (Jackson, 2012). Post hoc tests were conducted on RQ1 and RQ2. Tukey's honestly significant difference (HSD) post hoc tests were performed following the ANOVA for RQ1 and RQ2. Tukey's HSD is a conservative test when sample sizes are not equal, and Tukey's HSD

allows pairwise comparisons without compromising alpha (Bordens & Abbott, 2010; Jackson, 2012).

An examination of the Q-Q plots for the third research question on nepotism potentiality indicated that the data was not normally distributed. Nonnormal distributions of data are common in business research, and logarithmic transformations can bring lognormally distributed data closer to a normal distribution (Diwakar, 2017). The logarithmically transformed data can be difficult to interpret, but the normality obtained through the transformation enables proper hypothesis testing (Diwakar, 2017). A logarithmic transformation was applied to normalize the data for the third research question for analysis. Post hoc tests were also conducted on RQ3.

RQ1. To what extent, if any, is there a relationship between the levels of internal controls in Churches of Christ and the size of their annual budgets?

H1₀. The annual church budget size of a Church of Christ has no impact on the degree of internal control practices in place.

H1_a. A Church of Christ with a larger annual church budget size has a greater degree of internal control practices in place than Churches of Christ with smaller budget sizes.

Churches were placed into three size categories (small, medium, or large) based on a stratification of the responding CBAs' churches' self-reported annual budget sizes. The three groups for RQ1 were (a) small, (b) medium, and (c) large church budgets. The highest mean internal control score was for churches with large budgets ($M=34.275$; $SD=5.8287$), followed by churches with medium budgets ($M=32.385$; $SD=4.1556$), and churches with small budgets ($M=30.103$; $SD=4.5454$). Hypothesis 1 was tested using an ANOVA to measure the difference in the mean level of internal controls in place between the three groups. With a $p < 0.05$, the null

hypothesis was rejected as the difference in internal control score was significant between the budget size groups (Table 10).

Table 10
Hypothesis 1 ANOVA Results

ANOVA Budget Size Stratification					
	Sum of Squares	df	Mean Square	<i>F</i>	Significance
Between Groups	344.527	2	172.263	7.161	0.001***
Within Groups	2766.296	115	24.055		
Total	3110.822	117			

Note. *** $p < 0.01$.

Post hoc analysis revealed the significant difference at the 0.01 level was between small church budgets and large church budgets (Table 11).

Table 11
Hypothesis 1 ANOVA Post Hoc Results: Total Internal Controls

Multiple Comparisons Dependent Variable: Internal Control Score					
	(I) Group Code	(J) Group Code	(I-J) Mean Difference	Standard Error	Significance
Tukey	Small Budget	2	-2.2821	1.1107	0.104
HSD	≤ \$273,176	3	-4.1724	1.1037	0.001***
	Medium Budget	1	2.2821	1.1107	0.104
	\$273,177 – 709,975	3	-1.8904	1.1037	0.205
	Large Budget	1	4.1724	1.1037	0.001***
	≥ \$709,976	2	1.8904	1.1037	0.205

Note. ***The mean difference is significant at the 0.01 level.

Additional post hoc analysis was conducted to determine if breaking the total internal control score dependent variable down into the four internal control subscores of the dependent variable would provide additional insight into the source of the significant difference. The highest mean internal control subscore for general controls was for churches with large budgets

($M=8.525$; $SD=1.9934$), followed by churches with medium budgets ($M=7.692$; $SD=1.5586$), and churches with small budgets ($M=7.256$; $SD=1.8844$). The highest mean internal control subscore for cash receipts controls was for churches with large budgets ($M=9.40$; $SD=1.985$), followed by churches with medium budgets ($M=8.67$; $SD=1.439$), and churches with small budgets ($M=7.54$; $SD=1.862$). The highest mean internal control subscore for cash disbursements controls was for churches with medium budgets ($M=10.33$; $SD=1.782$), followed by churches with large budgets ($M=10.28$; $SD=1.840$), and churches with small budgets ($M=9.69$; $SD=1.657$). The highest mean internal control subscore for reconciliation practices controls was for churches with large budgets ($M=6.08$; $SD=1.670$), followed by churches with medium budgets ($M=5.69$; $SD=1.239$), and churches with small budgets ($M=5.62$; $SD=1.330$). An ANOVA was used to measure the difference in the mean level of internal control subcategories in place between the three groups (Table 12).

Table 12
Hypothesis 1 ANOVA Post Hoc Results

		ANOVA Budget Size Stratification				
		Sum of Squares	df	Mean	F	Significance
General Controls	Between	32.892	2	16.446	4.948	0.009***
	Within	382.219	115	3.324		
	Total	415.110	117			
Cash Receipts Controls	Between	69.329	2	34.665	10.953	0.000***
	Within	363.959	115	3.165		
	Total	433.288	117			
Cash Disbursements Controls	Between	9.830	2	4.915	1.584	0.210
	Within	356.949	115	3.104		
	Total	366.780	117			
Reconciliation Practices Controls	Between	4.805	2	2.403	1.179	0.311
	Within	234.313	115	2.038		
	Total	239.119	117			

Note. *** $p < 0.01$.

The additional post hoc analysis revealed that two of the three significant differences at the 0.01 level in internal control subscores (general and cash receipts) were between churches with small budgets and churches with large budgets, and one of the three significant differences at the 0.05 level (cash receipts) was between churches with small budgets and churches with medium budgets (Table 13).

Table 13
Hypothesis 1 ANOVA Post Hoc Results: Subscores

Multiple Comparisons					
Dependent Variable: Internal Control Score					
	(I) Group Code	(J) Group Code	(I-J) Mean Difference	Standard Error	Significance
Tukey	Small Budget	2	-0.4359	0.4128	0.543
HSD	≤ \$273,176	3	-1.2686	0.4103	0.007***
General	Medium Budget	1	0.4359	0.4128	0.543
Controls	\$273,177–709,975	3	-0.8327	0.4103	0.110
	Large Budget	1	1.2686	0.4103	0.007***
	≥ \$709,976	2	0.8327	0.4103	0.110
	Small Budget	2	-1.128	0.403	0.016**
Cash	≤ \$273,176	3	-1.862	0.400	0.000***
Receipts	Medium Budget	1	1.128	0.403	0.016**
Controls	\$273,177–709,975	3	-0.733	0.400	0.164
	Large Budget	1	1.862	0.400	0.000***
	≥ \$709,976	2	0.733	0.400	0.164
	Small Budget	2	-0.641	0.399	0.247
Cash	≤ \$273,176	3	-0.583	0.396	0.309
Disburs.	Medium Budget	1	0.641	0.399	0.247
Controls	\$273,177–709,975	3	0.058	0.396	0.988
	Large Budget	1	0.583	0.396	0.309
	≥ \$709,976	2	-0.058	0.396	0.988
	Small Budget	2	-0.077	0.323	0.969
Reconcil.	≤ \$273,176	3	-0.460	0.321	0.329
Practices	Medium Budget	1	0.077	0.323	0.969
Controls	\$273,177–709,975	3	-0.383	0.321	0.461
	Large Budget	1	0.460	0.321	0.329
	≥ \$709,976	2	0.383	0.321	0.461

Note. ***The mean difference is significant at the 0.01 level. **The mean difference is significant at the 0.05 level.
*The mean difference is significant at the 0.10 level.

A Pearson product-moment correlation revealed the total internal control score was significantly predicted by budget size category ($R^2 = .110$, $F(1, 116)=14.400$; $p < .001$).

RQ2. To what extent does an elder or finance deacon/nondeacon treasurer holding an active CPA license influence or not influence the levels of internal controls in Churches of Christ?

H2₀. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has no impact on the degree of internal control practices in place in Churches of Christ.

H2_a. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has a positive impact on the degree of internal control practices in place in Churches of Christ.

Churches were placed into three categories based on the responding CBAs' churches' self-reported leadership CPA licensure. The three groups for RQ2 were (a) churches with no CPA leaders, (b) churches with either a CPA elder or CPA deacon/nondeacon treasurer, and (c) churches with both a CPA elder and a CPA deacon/nondeacon treasurer. The highest mean internal control score was for churches with either a CPA elder or CPA deacon ($M=34.051$; $SD=5.2073$), followed by churches with both a CPA elder and CPA deacon ($M=33.318$; $SD=5.0362$), and churches with no CPA leaders ($M=30.694$; $SD=5.3783$). Hypothesis 2 was tested using an ANOVA to measure the difference in the mean level of internal controls in place between the three groups. With a $p < 0.05$, the null hypothesis was rejected as the difference in internal control score was significant between the CPA leader groups (Table 14).

Table 14
Hypothesis 2 ANOVA Results

ANOVA Leadership CPA Licensure					
	Sum of Squares	df	Mean Square	F	Significance
Between Groups	305.936	2	152.968	5.454	0.005***
Within Groups	3337.812	119	28.049		
Total	3643.748	121			

Note. *** $p < 0.01$.

Post hoc analysis revealed a significant difference at the 0.01 level between churches with no CPA leaders and churches with either a CPA elder or CPA deacon (Table 15).

Table 15
Hypothesis 2 ANOVA Post Hoc Results: Total Internal Controls

Multiple Comparisons Dependent Variable: Internal Control Score					
	(I) Group Code	(J) Group Code	(I-J) Mean Difference	Standard Error	Significance
Tukey	No CPA	1	-3.3568	1.0530	0.005***
HSD	Leaders	2	-2.6237	1.7145	0.280
	Either CPA Elder or CPA Deacon	0	3.3568	1.0530	0.005***
		2	0.7331	1.8081	0.913
	Both CPA Elder and CPA Deacon	0	2.6237	1.7145	0.280
		1	-0.7331	1.8081	0.913

Note. ***The mean difference is significant at the 0.01 level.

Additional post hoc analysis was conducted to determine if breaking the total internal control score dependent variable down into the four internal control subscores of the dependent variable would provide additional insight into the source of the significant difference. The highest mean internal control subscore for general controls was for churches with either a CPA elder or CPA deacon ($M=8.487$; $SD=1.6563$), followed by churches with both a CPA elder and CPA deacon ($M=8.227$; $SD=2.0538$), and churches with no CPA leaders ($M=7.347$; $SD=1.9240$). The highest mean internal control subscore for cash receipts controls was for churches with both

a CPA elder and CPA deacon ($M=9.27$; $SD=1.679$), followed by churches with either a CPA elder or CPA deacon ($M=9.18$; $SD=1.918$), and churches with no CPA leaders ($M=7.97$; $SD=1.950$). The highest mean internal control subscore for cash disbursements controls was for churches with either a CPA elder or CPA deacon ($M=10.09$; $SD=1.805$), followed by churches with both a CPA elder and CPA deacon ($M=10.09$; $SD=1.758$), and churches with no CPA leaders ($M=9.96$; $SD=1.902$). The highest mean internal control subscore for reconciliation practices controls was for churches with either a CPA elder or CPA deacon ($M=6.21$; $SD=1.542$), followed by churches with both a CPA elder and CPA deacon ($M=5.73$; $SD=1.618$), and churches with no CPA leaders ($M=5.42$; $SD=1.461$). An ANOVA was used to measure the difference in the mean level of internal control subcategories in place between the three groups (Table 16).

Table 16
Hypothesis 2 ANOVA Post Hoc Results

		ANOVA Leadership CPA Licensure				
		Sum of Squares	df	Mean	F	Significance
General Controls	Between	35.175	2	17.588	5.114	0.007***
	Within	409.245	119	3.439		
	Total	444.420	121			
Cash Receipts Controls	Between	44.556	2	22.278	6.055	0.003***
	Within	437.870	119	3.680		
	Total	482.426	121			
Cash Disbursements Controls	Between	1.267	2	0.634	0.183	0.833
	Within	411.528	119	3.458		
	Total	412.795	121			
Reconciliation Practices Controls	Between	15.738	2	7.869	3.494	0.034**
	Within	268.041	119	2.252		
	Total	283.779	121			

Note. *** $p < 0.01$. ** $p < 0.05$.

The additional post hoc analysis revealed that three of the four significant differences (at the 0.01 and 0.05 levels) in internal control subscores (general, cash receipts, and reconciliation practices) were between churches with no CPA leaders and churches with either a CPA elder or CPA deacon. One of the four significant differences (cash receipts) was between churches with no CPA leaders and churches with both a CPA elder and CPA deacon, although the difference was only significant at the 0.1 level (Table 17).

Table 17

Hypothesis 2 ANOVA Post Hoc Results: Subscores

Multiple Comparisons						
Dependent Variable: Internal Control Score						
	(I) Group Code	(J) Group Code	(I-J) Mean Difference	Standard Error	Significance	
Tukey	No CPA	1	-1.1400	0.3687	0.007***	
	Leaders	2	-0.8801	0.6003	0.311	
HSD	General Controls	CPA Elder	0	1.1400	0.3687	0.007***
		or CPA Deacon	2	0.2599	0.6331	0.911
	and CPA Deacon	CPA Elder	0	0.8801	0.6003	0.311
		and CPA Deacon	1	-0.2599	0.6331	0.911
Cash Receipts Controls	No CPA	1	-1.207	0.381	0.006***	
	Leaders	2	-1.301	0.621	0.095*	
	CPA Elder	0	1.207	0.381	0.006***	
	or CPA Deacon	2	-0.093	0.655	0.989	
and CPA Deacon	CPA Elder	0	1.301	0.621	0.095*	
	and CPA Deacon	1	0.093	0.655	0.989	
	Cash Disburs. Controls	No CPA	1	-0.221	0.370	0.821
		Leaders	2	-0.133	0.602	0.974
or CPA Deacon	CPA Elder	0	0.221	0.370	0.821	
	or CPA Deacon	2	0.089	0.635	0.989	
	and CPA Deacon	CPA Elder	0	0.133	0.602	0.974
		and CPA Deacon	1	-0.089	0.635	0.989
Reconcil. Practices Controls	No CPA	1	-0.788	0.298	0.025**	
	Leaders	2	-0.311	0.486	0.799	
	CPA Elder	0	0.788	0.298	0.025**	
	or CPA Deacon	2	0.478	0.512	0.621	
and CPA Deacon	CPA Elder	0	0.311	0.486	0.799	
	and CPA Deacon	1	-0.478	0.512	0.621	

Note. ***The mean difference is significant at the 0.01 level. **The mean difference is significant at the 0.05 level.

*The mean difference is significant at the 0.10 level.

A Pearson product-moment correlation revealed the total internal control score was significantly predicted by CPA total score ($R^2 = .062$, $F(1, 120)=7.908$; $p = .006$).

RQ3. To what extent, if any, does nepotism potentiality among or between the elders, finance deacons/nondeacon treasurers, and church office employees influence the levels of internal controls in Churches of Christ?

H3₀. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employee has no impact on the degree of internal control practices in place in Churches of Christ.

H3_a. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employees has a negative impact on the degree of internal control practices in place in Churches of Christ.

The third research question had two even groups, so a one-tailed bivariate normal correlation test was used for RQ3. RQ3 is a comparison of the churches' kin density scores to the churches' internal control assessment scores, based on the self-reported information provided by responding CBAs. The mean kin density score for all churches was 0.1164 ($SD=0.2757$). Of the 117 CBAs who completed the kin density assessment, 49 (41.9%) reported the presence of family relationships qualifying for inclusion in the kin density (nepotism potentiality) assessment and 68 (58.1%) reported the presence of no qualifying family relationships. Hypothesis 3 was tested using a one-tailed bivariate normal correlation test to measure the relationship between the kin density scores of the CBAs' churches and the level of internal controls in place in these churches. An examination of the Q-Q plots for RQ3 on nepotism potentiality revealed the data was not normally distributed. A logarithmic transformation was applied to normalize the data

for RQ3 for analysis. With a $p = 0.062$, the null hypothesis was not rejected as the relationship between internal control score and kin density was not significant (Table 18 and Table 19).

Table 18
Hypothesis 3 Correlation Results

Model Summary					
Kin Density (post-logarithmic transformation)					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	
1 Kin Density	0.173	0.03	0.022	5.0631	

Table 19
Hypothesis 3 Correlation Regression Results

Coefficients						
Kin Density (post-logarithmic transformation)						
Model		Unstandardized Coefficients		Standardized Coefficients	<i>t</i>	Significance
		B	Standard Error	Beta		
1	(Constant)	32.555	0.523		62.265	0.000
	Kin Density	-4.867	2.581	-0.173	-1.886	0.062*

Note. * $p < 0.1$

Based on these results, the regression line should be $Y' = -4.867(X) + 32.555$. Post hoc analysis with the logarithmically transformed data using an ANOVA also indicated the presence of a relationship between the variables, but only at the 0.1 level. The level of significance remained the same for both the regression and ANOVA tests (Table 20).

Table 20
Hypothesis 3 ANOVA Post Hoc Results

ANOVA					
Nepotism Potentiality					
	Sum of Squares	df	Mean Square	<i>F</i>	Significance
Between Groups	91.191	1	91.191	3.557	0.062*
Within Groups	2948.001	115	25.635		
Total	3039.192	116			

Note. * $p < 0.1$.

Evaluation of Findings

The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. One-way, fixed-effects ANOVA tests were used to analyze both the relationship between church annual budget size and internal control implementation (RQ1) and the relationship between leadership CPA licensure and internal control implementation (RQ2). A one-tailed bivariate normal correlation test was used to analyze the relationship between nepotism potentiality and internal control implementation (RQ3). The internal control score was the dependent variable, and annual budget size, leadership CPA licensure, and nepotism potentiality were the independent variables. The following section contains a brief evaluation of the findings for each of the three aforementioned statistical tests.

Annual budget size. Hypothesis 1 (H1₀) was rejected, as support existed for the alternative hypothesis. Annual budget size and church internal control score were positively correlated ($r=0.33$) and significant at the 0.01 level. Specifically, the findings showed that churches with small budget sizes had fewer general internal controls in place than churches with large budget sizes. Churches with small budget sizes also had fewer cash receipts controls than either churches with medium or large budget sizes. These findings are consistent with previous research (Booth, 1993; Cornell et al., 2013; Duncan, 2001; Duncan et al., 1999; Wooten et al., 2003) and should concern church leaders because cash receipts theft is the second most frequent scheme perpetrated against churches (Marquet, 2014). In the present study, there were no significant differences between churches of any budget size with cash disbursement or reconciliation practice controls, nor were there any differences between churches with medium

or large budgets in any subcategory of internal controls. West and Zech (2008) previously found that church budget size had no impact on the amount of fraud perpetrated, so the results of the present study indicated that churches with small budgets may be especially vulnerable to fraud because of their lack of internal controls.

Leadership CPA licensure. Hypothesis 2 (H_{20}) was rejected, as support existed for the alternative hypothesis. CPA total score and church internal control score were positively correlated ($r=0.25$) and significant at the 0.01 level. The findings showed that churches with no CPA leaders had fewer internal controls in place than churches with either a CPA elder or a CPA deacon/treasurer. Specifically, the findings showed that churches with no CPA leaders had fewer general, cash receipts, and reconciliation practices controls in place than churches with either a CPA elder or CPA deacon/treasurer. Churches with no CPA leaders also had fewer cash receipts controls than churches with both a CPA elder and CPA deacon/treasurer, although this relationship was only significant at the 0.1 level. All of these findings were consistent with previous research (Bai, 2012; Cornell et al., 2013; Hoitash et al., 2009; McNeal & Michelman, 2006; Zhang et al., 2007), which suggests that having a CPA as an elder or deacon/treasurer encourages better internal controls. There were no significant differences in internal control score between churches with either a CPA elder or CPA deacon/treasurer and churches with both a CPA elder and CPA deacon/treasurer. However, surprisingly, in three of the four subcategories of internal control (general, cash disbursements, and reconciliation practices), the mean internal control score for churches with both a CPA elder and CPA deacon/treasurer was lower than the mean internal control score for churches with only a CPA elder or CPA deacon/treasurer. This unexpected decrease in mean internal control subscores will be discussed further in the next chapter.

Nepotism potentiality. Hypothesis 3 (H3₀) was not rejected, as support did not exist for the alternative hypothesis. After logarithmically transforming the data, kin density score and church internal control score were weakly and negatively correlated ($r=-0.173$), but not significant at the 0.05 level. The findings showed no significant relationship between the internal control score and kin density score at the 0.05 level. However, the relationship was approaching significance at the 0.05 level and was significant at the 0.1 level ($p=0.062$). Bardhan et al. (2015) had previously found a negative correlation between family member control of firms and internal control implementation. A similar negative relationship was found in the present study, but the relationship was not significant at the 0.05 level. Exploring the impact of nepotism in nonprofit organizations is largely uncharted territory (Bute, 2011; Jones, 2012; Muchinsky, 2012), so this component of the present study was exploratory in nature. A greater understanding of the potential impact of nepotistic relationships on internal controls in churches is still needed, but the present study introduced a new population to the literature on nepotism.

Duncan et al. (1999), Duncan and Stocks (2003), Elson et al. (2007), Enofe and Amaria (2011), Hankerson (2016), Kistler (2008), Ranglin (2014), West and Zech (2008), Wooten et al. (2003), and others have utilized quantitative research methods and administered national, regional, and local surveys to measure various internal control issues of churches. The present study expanded upon the previous nationally, regionally, and locally targeted internal control surveys by including Churches of Christ, which had been a largely overlooked population in previous studies. All three of the aforementioned constructs studied (budget size, leadership CPA licensure, and nepotism potentiality) may have incrementally added to the existing

literature on church internal controls, but the application of these constructs within the context of the fully autonomous Churches of Christ was unique.

Summary

This non-experimental, quantitative, correlational study of Churches of Christ was conducted to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. An online survey was distributed to 2,757 Church of Christ CBAs in Alabama, Arkansas, California, Florida, Oklahoma, Tennessee, and Texas. Of the 2,757 email invitations sent, 541 invitations did not reach a recipient. This yielded a final total of 2,216 CBA recipients. Of the 132 responses received, 10 were incomplete. Therefore, the data collection resulted in a final sample of 122 ($N=122$) surveys, which was a response rate of 5.5%. Demographic data collected was used to gain an understanding of the background of the churches of the CBA participants, and aided with the interpretation of the results of the ANOVAs and correlation tests. Two null hypotheses were rejected (H1 and H2) and one null hypothesis was not rejected (H3). Hypothesis 1 ($H1_0$) was rejected, as support existed for the alternative hypothesis. The findings showed that churches with small budget sizes had fewer internal controls in place than churches with large budget sizes. Hypothesis 2 ($H2_0$) was rejected, as support existed for the alternative hypothesis. The findings showed that churches with no CPA leaders had fewer internal controls in place than churches with either a CPA elder or a CPA deacon/treasurer. Hypothesis 3 ($H3_0$) was not rejected, as support did not exist for the alternative hypothesis. After logarithmically transforming the data, the kin density score (a proxy for nepotism potentiality) and church internal control score were weakly and negatively correlated ($r=-0.173$), but not significant at the 0.05 level. The present study will conclude in the following chapter.

Chapter 5: Implications, Recommendations, and Conclusions

Preventing fraud before it happens is more cost-effective than detecting, investigating, and recovering from fraud after it occurs (McMahon et al., 2016; Murphy & Dacin, 2011; Tysiac, 2012; West & Zech, 2008). Lackluster financial controls providing little fraud protection are a common occurrence in many churches, leaving the money entrusted to religious organizations for charitable usage vulnerable to potential fraudsters (Duncan et al., 1999; Enofe & Amaria, 2011; Kistler, 2008; Kutz, 2007; LaShaw, 2007; Pavlo, 2013; Thornhill et al., 2016). Although church internal control systems have previously been studied (Duncan et al., 1999; Kistler, 2008; LaShaw, 2007), research confirming the presence, cause, and predictors of internal control problems within fully autonomous Churches of Christ had not been conducted until the present study took place.

The specific problem addressed by this study was the lack of guidelines on internal control procedures to mitigate financial risk to the Churches of Christ. By assessing if internal control weaknesses were present, the leaders of these churches could be made aware of their church's vulnerability to fraudulent activities and inappropriate usage of donated funds. Research was necessary to investigate if and how church leaders were executing internal control responsibilities in Churches of Christ and to determine what best practices could be implemented to mitigate financial risks to these churches. The purpose of this non-experimental, quantitative, correlational study of Churches of Christ was to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. The present study expanded upon the previous nationally, regionally, and locally targeted internal control surveys by including Churches of Christ, which had been a largely overlooked population in previous studies.

An online survey was distributed to 2,757 Church of Christ CBAs in Alabama, Arkansas, California, Florida, Oklahoma, Tennessee, and Texas. Of the 132 responses received, 10 were incomplete. Therefore, the data collection resulted in a final sample of 122 ($N=122$) surveys. The data for RQ1 and RQ2 was analyzed using two one-way, fixed-effects, ANOVA tests. The third research question had two even groups, so a one-tailed bivariate normal correlation test was used. These ANOVAs and correlation test were used to assess the relationship between internal controls (the dependent variable) and annual budget size, leadership CPA licensure, and nepotism potentiality (the independent variables). The remaining demographic data collected was used in the present study to gain an understanding of the background of the churches of the CBA participants.

Church internal control systems were assessed in the present study using an updated version of a widely published questionnaire originally operationalized by Duncan et al. (1999). The calendar-year amount of expected expenses for operations, ministries, and capital maintenance of a single church location was used to assess the impact of annual budget size on internal controls. The number of church leaders with a CPA license was used to assess the impact of financial expertise on internal controls. Nepotism potentiality was measured using the kin density formula developed by Spranger et al. (2012) to assess the impact of family relationships on internal controls. Participant demographic data was collected regarding church membership size, average weekly Sunday worship attendance, attendance growth trend, state of location, county of location, incorporation status, number of elders, number of deacons, number of nondeacon treasurers, number of office employees, church committee presence, and outsourced services.

Hypothesis 1 (H1₀) was rejected, as the findings showed that churches with small budget sizes had fewer internal controls in place than churches with large budget sizes. Hypothesis 2 (H2₀) was rejected, as the findings showed that churches with no CPA leaders had fewer internal controls in place than churches with either a CPA elder or a CPA deacon/treasurer. Hypothesis 3 (H3₀) was not rejected, as the kin density score (a proxy for nepotism potentiality) and church internal control score were weakly and negatively correlated ($r=-0.173$), but not significant at the 0.05 level. Ethical issues were carefully considered before the present research started so the level of risk for study participants could be minimized. Informed consent was obtained from every participating CBA through the survey introduction shown before survey completion. Participants were assured that their participation was voluntary, their identity was anonymous, and their responses were confidential and would only be published in aggregate form.

Any non-experimental research design dealing with real-world people is subject to limitations, such as validity threats (Wampold, 2005). The focus of the present research was on one religious denomination—the Churches of Christ—limiting generalization to other religious groups. Given the demographic uniqueness of the Churches of Christ, external generalization to other denominations was not a major goal of the present study. However, to reduce external validity threats, internal control survey questionnaires were sent to many different CBAs in seven states in the United States. Thousands of Church of Christ CBAs had an opportunity to participate in the research. The narrow scope of the present research—autonomous Churches of Christ—was necessary to ensure feasibility and the timely completion of the present study. While external generalizability may have been weakened somewhat by the scope, proximal similarity in the present research study on internal controls of Churches of Christ may possibly be used to describe other autonomous religious groups or nonprofits, if a greater degree of

generalization is desired. Conclusion validity was addressed by using reliable measures and achieving a sample size sufficiently large enough to run statistical testing. Evidence of internal consistency and scale reliability for the dependent variable (internal control score) was indicated by the overall Cronbach's alpha of 0.787. Although the survey response rate was lower than initially expected in the a priori power analysis, the post hoc power analysis revealed that a sufficient number of CBAs had completed the surveys to permit statistical analysis.

Interaction of testing and assessment may have been a threat to construct validity, as participants reading through the survey may have found the questions a source of helpful information and implemented changes simply because they received the questionnaire. CBA participants may have adjusted their behavior and selected responses based on what they guessed was the best or most socially desirable answer instead of reporting their true circumstances. While all confounding variables cannot practically be controlled in most research (Leedy & Ormrod, 2013), the significant demographic information collected in the present study permitted the identification of possible confounds. Construct validity was maintained by utilizing assessments, conceptualizations, definitions, measures, operationalizations, procedures, and techniques previously established in the literature.

This chapter has three sections: implications, recommendations, and conclusions. The implications section includes a discussion of the research findings for each research question and corresponding hypothesis based on a logical interpretation of the data. The recommendations section contains suggested practical applications for the findings and suggested future research opportunities created by the present study. The conclusion section contains the summary and primary takeaways of the present study.

Implications

The research questions in the present quantitative study were designed to explore the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation in Churches of Christ. Each of the sets of research questions and hypotheses was investigated using online survey responses from CBAs that were subsequently examined to determine if statistically significant relationships existed between any variables. Additional analysis was conducted to determine if the independent variables were significant predictors of the dependent variable (internal control score). The present study supports and contributes to the literature through the empirical data that suggested church budget size and leadership CPA licensure both significantly and positively impact internal control. However, church internal control scores were not significantly impacted by nepotism potentiality assessed using the kin density formula. A summary of the conclusions reached for each null hypothesis can be found in Table 21. Additional discussion of each hypothesis follows the table.

Table 21
Summary Conclusions for Null Hypotheses

Null Hypothesis	Statement	Conclusion
H1 ₀	The annual church budget size of a Church of Christ has no impact on the degree of internal control practices in place.	Rejected Null Hypothesis
H2 ₀	The CPA licensure of an elder, finance deacon, or nondeacon treasurer has no impact on the degree of internal control practices in place in Churches of Christ.	Rejected Null Hypothesis
H3 ₀	The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employee has no impact on the degree of internal control practices in place in Churches of Christ.	Failed to Reject Null Hypothesis

Previous researchers have suggested a correlation between church budget size and internal control implementation (Booth, 1993; Cornell et al., 2013; Duncan, 2001; Duncan et al., 1999; Ranglin, 2014; Wooten et al., 2003; Yasmin, Haniffa, & Hudaib, 2014). Previous researchers have suggested that having a CPA as a financial leader encourages better internal controls (Bai, 2012; Cornell et al., 2013; Hoitash et al., 2009; McNeal & Michelman, 2006; Zhang et al., 2007). Exploring the impact of nepotism in nonprofit organizations is largely uncharted territory (Bute, 2011; Jones, 2012; Muchinsky, 2012), so this component of the present study was exploratory in nature. The following implications provide conclusions from the study as well as potential limitations which may have affected the interpretation of the results.

RQ1. To what extent, if any, is there a relationship between the levels of internal controls in Churches of Christ and the size of their annual budgets?

H1₀. The annual church budget size of a Church of Christ has no impact on the degree of internal control practices in place.

H1_a. A Church of Christ with a larger annual church budget size has a greater degree of internal control practices in place than Churches of Christ with smaller budget sizes.

Consistent with previous literature (Booth, 1993; Cornell et al., 2013; Duncan, 2001; Duncan et al., 1999; Wooten et al., 2003), the results of the present study indicated that annual budget size and church internal control score were positively correlated ($r=0.33$) and significant at the 0.01 level. The R^2 of 0.11 indicated that approximately 11% of the variation in the internal control scores was explained by the budget size stratification category. Ranglin (2014) previously found a significant ($p=0.038$) positive linear relationship between church size and internal control usage. Hankerson (2016) observed a correlation approaching significance

($p=0.057$) between annual revenues and internal control scores. While the strength of the correlations differed across studies, the directions of the correlations were consistently positive. These variations could originate from the diversity of denominational structures sampled in the other studies.

Specifically, the findings of the present study showed that churches with small budget sizes had fewer general internal controls in place than churches with large budget sizes. Churches in the small budget size category likely have limited affordable options when dealing with items addressed by the general controls subcategory, such as getting annual audits, conducting background checks, acquiring financial training, and hiring enough personnel for proper segregation of duties. These general items are possibly more financially feasible only when a large budget size is obtained, which explains the lack of a significant difference between churches with small budgets and churches with medium budgets on the general controls subcategory. However, the lack of a significant difference of general internal control scores between churches with medium budgets and churches with large budgets is not as easy to interpret. Quality of controls was not addressed in the present study. Perhaps the CBAs at churches with medium budgets are only able to selectively utilize some of the costlier controls or possibly employ less rigorous versions of these controls, but responded to survey questions in a similar way as the CBAs at churches with large budgets.

Churches with small budget sizes also had fewer cash receipts controls than either churches with medium or large budget sizes. These findings should especially concern church leaders in smaller churches because cash receipts theft is the second most frequent scheme perpetrated against churches (Marquet, 2014). Churches in the small budget size category likely have limited affordable options when dealing with items addressed by the cash receipts controls

subcategory, such as using a contribution counting committee, preparing financial statements, and hiring enough personnel or utilizing enough volunteers for proper segregation of duties. These cash receipts items are possibly more financially feasible only when a medium budget size is obtained, which explains the lack of a significant difference between churches with medium budgets and churches with large budgets on the cash receipts controls subcategory.

In the present study, there were no significant differences between churches of any budget size with cash disbursement or reconciliation practice controls, nor were there any differences between churches with medium or large budgets in any subcategory of internal controls. A majority of the cash disbursement and reconciliation practices subcategory items addressed approval processes and oversight, such as getting approval for disbursements, monitoring expenses, reconciling financial data, and getting multiple signatures on checks. These disbursement and reconciliation items are financially feasible for most church budgets because they require very few financial resources to set up, which explains the lack of a significant difference on cash disbursement and reconciliation practices internal control subscores between churches of any budget size. West and Zech (2008) previously found that church budget size had no impact on the amount of fraud perpetrated, so the results of the present study indicated that churches with small budgets may be especially vulnerable to fraud because of their lack of internal controls. The value of an audit committee, contribution counting committee, and finance committee in conjunction with budget size was also apparent in the present study. Previous researchers (Badolato et al., 2014; Hoitash et al., 2009; Krishnan, 2005; Zhang et al., 2007) had emphasized the importance of having an audit committee in place to improve internal control implementation. Based on an R^2 of 0.304, approximately 30.4% of the variation in the total internal control scores was explained by the combination of contribution

counting committee presence, audit committee presence, finance committee presence, and budget size category.

RQ2. To what extent does an elder or finance deacon/nondeacon treasurer holding an active CPA license influence or not influence the levels of internal controls in Churches of Christ?

H2o. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has no impact on the degree of internal control practices in place in Churches of Christ.

H2a. The CPA licensure of an elder, finance deacon, or nondeacon treasurer has a positive impact on the degree of internal control practices in place in Churches of Christ.

Consistent with previous literature (Bai, 2012; Cornell et al, 2013; Hoitash et al., 2009; McNeal & Michelman, 2006; Zhang et al., 2007), the results of the present study indicated that the presence of a CPA leader—in this study, in the role of an elder or deacon/treasurer—and total church internal control score were positively correlated ($r=0.25$) and significant at the 0.01 level. The R^2 of 0.062 indicated that approximately 6.2% of the variation in the internal control scores was explained by the CPA total score (leader presence). CPA leader presence and the subcategory general internal controls score were positively correlated ($r=0.24$) and significant at the 0.01 level. CPA leader presence and the subcategory cash receipts control score were positively correlated ($r=0.28$) and significant at the 0.01 level. Surprisingly, CPA leader presence and the subcategory reconciliation practices control score were negatively correlated ($r=-0.17$) and significant at the 0.05 level. There was not a significant correlation between CPA leader presence and the subcategory cash disbursements control score. Hoitash et al. (2009) previously had found fewer internal control weaknesses in firms with audit committee members who were financial experts. Cornell et al. (2013) previously found a significant and positive

correlation between church leadership board financial expertise and internal control implementation. While the strength of the correlations between CPA presence and internal control differ across studies, the directions of the correlations have generally been positive. The unexpected negative correlation between CPA leader presence and the subcategory reconciliation practices control score may possibly be explained by the CPA leaders who establish greater controls for the early phases of transactions not seeing the need to reconcile those same transactions after completion. Other variations from the literature could originate from the diversity of denominational structures sampled and organizational types in the other studies.

Post hoc analysis revealed that churches with no CPA leaders had fewer general, cash receipts, and reconciliation practices controls in place than churches with either a CPA elder or CPA deacon/treasurer. Churches with no CPA leaders also had fewer cash receipts controls than churches with both a CPA elder and CPA deacon/treasurer, although this relationship was only significant at the 0.1 level. Churches with no CPA leaders did not significantly differ from churches with both a CPA elder and CPA deacon/treasurer in general controls, cash disbursements controls, or reconciliation practices controls. There were also no significant differences in internal control score or any of the internal control subcategory scores between churches with either a CPA elder or CPA deacon/treasurer and churches with both a CPA elder and CPA deacon/treasurer. This lack of significant differences between the groups with CPAs possibly indicates that one CPA leader may ensure the establishment of numerous internal controls, but the addition of another CPA leader has a diminishing returns effect and fails to lead to many more internal controls.

Surprisingly, in three of the four subcategories of internal control (general, cash disbursements, and reconciliation practices), the mean internal control score for churches with

both a CPA elder and CPA deacon/treasurer was lower than the mean internal control score for churches with only a CPA elder or CPA deacon/treasurer. Only in the cash receipts subcategory of internal control was the mean score for churches with both a CPA elder and CPA deacon/treasurer higher than the mean score for churches with either a CPA elder or CPA deacon/treasurer. Hoitash et al. (2009) previously found that firms that had only one financial expert on the audit committee had fewer internal control weaknesses than firms with multiple financial experts on the audit committee. Hoitash et al. suggested this behavior may originate from companies with known internal control issues trying to appoint more experts to address known problems. While church leaders are often appointed because of their spiritual qualifications, it is plausible for the assertion of Hoitash et al. to apply to churches in the present study. Perhaps a better explanation is that multiple CPAs do not sense the same individual urgency to establish internal controls because the responsibility is spread across multiple people. When leadership groups suppress individual motivation, the phenomenon is called social loafing (Vveinhardt & Banikonyte, 2017). The results of the present study revealed that there were no significant differences in three of the four subcategories of internal control between churches with no CPA leaders and churches with both a CPA elder and CPA deacon/treasurer, providing additional evidence that having multiple financial experts on the same board may lead to social loafing strong enough to negate the benefits of financial expertise on the board entirely.

RQ3. To what extent, if any, does nepotism potentiality among or between the elders, finance deacons/nondeacon treasurers, and church office employees influence the levels of internal controls in Churches of Christ?

H3₀. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employee has no impact on the degree of internal control practices in place in Churches of Christ.

H3_a. The presence of potentially nepotistic relationships among or between elders, finance deacons, nondeacon treasurers, or church office employees has a negative impact on the degree of internal control practices in place in Churches of Christ.

Of the 117 CBAs who completed the kin density assessment, 49 (41.9%) reported the presence of family relationships qualifying for inclusion in the kin density (nepotism potentiality) assessment and 68 (58.1%) reported the presence of no qualifying family relationships. A one-tailed bivariate normal correlation test was used to measure the relationship between the kin density scores of the CBAs' churches and the level of internal controls in place in these churches. An examination of the Q-Q plots revealed the data was not normally distributed. A logarithmic transformation was applied to normalize the data for analysis. After logarithmically transforming the data, kin density score and church internal control score were weakly and negatively correlated ($r=-0.173$), but not significant at the 0.05 level ($p=0.062$). However, the relationship was approaching significance at the 0.05 level and was significant at the 0.1 level ($p=0.062$). Bardhan et al. (2015) had previously found a negative correlation between family member control of firms and internal control implementation. A similar negative relationship was found in the present study, but the relationship was not significant at the 0.05 level. Exploring the impact of nepotism in nonprofit organizations is largely uncharted territory (Bute, 2011; Jones, 2012; Muchinsky, 2012), so this component of the present study was exploratory in nature. A greater understanding of the potential impact of nepotistic relationships on internal controls in churches is still needed, but the present study introduced a new population

to the literature on nepotism. The R^2 of 0.03 indicated that approximately 3% of the variation in the internal control scores was explained by the kin density score. Specific recommendations for practice and research are presented in the following sections.

Recommendations for Practice

There are some fundamental internal control practices that all church leaders should consider for implementation. However, church leaders must recognize that each church is likely in a different development phase of its internal control system. Leaders must resist the temptation to compare churches to each other or assess their success solely on that comparison. What works for one congregation may not be financially feasible or socially acceptable at another church. Church leaders must instead follow as many fundamental internal control principles as possible, and strive to improve those fundamentals as resources become available and setup becomes feasible. Church leaders who do not know how to establish an internal control system should consider benchmarking the internal accounting control and management matrix of Wooten et al. (2003), which focused on the four financial duties of (a) control environment, (b) control over receipts, (c) control over disbursements, and (d) financial reporting, and the four control goals of (e) keeping accurate accounting information, (f) safeguarding the assets, (g) complying with leaders' and contributors' desires, and (h) encouraging donor support. Once established at a basic level, church leaders could adapt the internal control system to meet the needs of their church.

Church leaders must reject the notion that blind trust is an acceptable substitute for internal control. Micah 7:5 provides a warning against blindly trusting even spouses, friends, and neighbors. Both 2 Chronicles 24:11 and 2 Corinthians 8:16-24 are Biblical examples of the need for multiple people to count and handle church money. Church leaders have a fiduciary

responsibility to continuously question procedures and remain abreast of internal controls using trend analysis, error searches, employee feedback, external audits, and tips from members (Busby et al., 2015; Enofe & Amaria, 2011; Shapiro, 2011). No internal control mechanisms will be effective all of the time (Demski, 2003). Good internal control systems are constantly updated to address evolving accounting issues discovered during regular reviews (Oberle, 2012). Board members need to be bold and truthful when implementing and enforcing internal controls (Jensen, 2010). If left unchecked, internal controls will suffer breakdowns over time because of changing organizational dynamics, work processes, and business environments (Atwood et al., 2015). Sir Francis Bacon said, “He that will not apply new remedies must expect new evils” (Atwood et al., 2015). If one internal control fails, there should be other controls in place to offset that risk (Atwood et al., 2015). There are fundamental internal control practices that all church leaders should consider for implementation, which is discussed next.

General controls. One of the least expensive controls to implement is the adoption of a written accounting policy. Only 42% of the CBAs surveyed in the present study indicated that a written accounting policy was in place at their church. The accounting policy should be included within a written code of conduct and should state that fraud will not be tolerated and will be prosecuted (Kapp & Heslop, 2011; Pedneault & Peterson Kramer, 2015). Since Churches of Christ are autonomous in their leadership structure and have no central headquarters available to dictate accounting policy, there is an increased need for individual church leaders to seek outside reviews of accounting practices. There was a positive and significant ($p < 0.01$) correlation between audit committee presence and internal control score in the present study. The presence of an audit committee accounted for 15.8% of the variation in the general controls subcategory score. Zarb (2005) previously suggested that audit committees should be mandatory. Only 25%

of CBAs in the present study indicated that their church had a functioning audit committee, indicating a clear need for this control to be more frequently implemented in Churches of Christ. Only five out of the 122 CBAs (4%) indicated that an annual audit of accounting practices and internal controls was conducted by an external CPA. Only 43 out of the 122 CBAs (35%) indicated that an annual audit was conducted by insiders. Therefore, 61% of CBAs surveyed in the present study indicated that their church had no annual audit conducted at all. Church leaders should periodically seek out accounting and internal control audits if routine audits are not financially possible. Regular audits should be conducted if they are financially possible. CBAs should seek guidance from any CPAs who are members of the church.

Shockingly, 62% of CBA respondents indicated that background or reference checks were not required of employees or volunteers who had access to cash or accounting information. While the addition of this simple internal control could be accomplished with little cost, churches with limited resources should prioritize getting these background checks for those with the greatest exposure to cash. Nearly 20% of church fraud perpetrators have prior criminal records that can be discovered with simple background checks, but these records are often missed because of the blind trust issue (Marquet, 2011; Snyder & Dietz, 2006). Brody (2010) suggested that background checks should include criminal history searches, resume verification, media searches, credit checks, reference checks, driving record checks, and honesty or integrity testing. Simply calling previous employers would be a no-cost option for church leaders who cannot afford a full background check.

While only 44% of CBAs indicated a lack of segregation of duties in their churches, there is still a need for improvement in this area. No single individual should have purchase authorization, recordkeeping, and custody of assets (Pedneault & Peterson Kramer, 2015). Office

employees should never be allowed to make adjusting journal entries without authorization from a leader (Kapp & Heslop, 2011). Churches lacking the budget to hire multiple people to handle these incompatible duties should seek volunteers to assist in that role. In the present study, churches in the smallest budget category and churches with no CPA leaders had the lowest mean general internal control score. Church leaders in these churches need to particularly be mindful of their general internal control procedures and seek ways to improve them.

Cash receipts controls. While many CBAs had in place numerous controls over tracking member contributions and honoring their restricted donations, the segregation of duties was still an area needing improvement. Only 46% of CBA respondents indicated that the bookkeeper was not the mail handler. Only 50% of CBAs indicated that someone not involved with the contribution counting or depositing process reconciled the contribution count to the bank deposit slip. The mail opener should not also be the person who records receipts in the accounting systems (Hartwell et al., 2011; Kramer, 2015). Similar to the recommendation for general controls, many of the improvements needed in cash receipts controls primarily require changes in behavior and little financial resource allocation. Only 80% of CBAs in the present study claimed to deposit cash in a timely fashion. Addressing this issue would not cost anything. Only 66% of CBAs in the present study reported using a safe for church cash on hand. A small safe could easily be purchased for less than \$100. The presence of a contribution counting committee accounted for 15.9% of the variation in the cash receipts subcategory score, so this committee needs to be in place in all congregations. Fortunately, 94 out of 122 CBAs (77%) indicated the presence of a contribution counting committee.

In the present study, churches in the smallest budget category and churches with no CPA leaders had the lowest mean cash receipts internal control score. Church leaders in these

churches need to particularly be mindful of their cash receipts internal control procedures and seek ways to improve them. As previously stated, CBAs should seek guidance from any CPAs who are members of the church.

Cash disbursements controls. Most of the improvements suggested for cash disbursements involve behavior changes and require little or no funds to implement. While most CBAs reported high implementation rates of controls over cash disbursements, with 10 of the 13 controls utilized at more than three-fourths of responding CBAs' churches, the segregation of duties was still an area needing improvement. The two disbursement controls with very low implementation rates (purchase order usage and two signature requirement on checks) in the present study were consistent with the poorly implemented cash disbursement controls of previous studies (Duncan et al., 1999; Hankerson, 2016). Two signatures should be required on checks for large purchases, and independent reviews of purchases should occur regularly (Pedneault & Peterson Kramer, 2015). Church leaders should restrict signature authority to someone other than the person who prepares the checks (Kapp & Heslop, 2011; Pedneault & Peterson Kramer, 2015). The presence of a finance committee accounted for 10.4% of the variation in the cash disbursements subcategory score of internal control, so this committee should be considered for implementation in all churches.

Reconciliation practices controls. Most CBAs reported high implementation rates of controls over reconciliation practices, with 5 of the 8 controls utilized at more than three-fourths of responding CBAs' churches. The two reconciliation practices controls with the lowest implementation rates in the present study (asset listing current, at 47%, and checking account not reconciled by check writer, at 37%) had higher implementation rates than previously seen in Duncan et al. (1999). Physical inventory and assets should be counted periodically to verify

existence and quality (Pedneault & Peterson Kramer, 2015). Simple behavior changes and basic training of additional volunteers could permit implementation of these controls. Budgeted expenditures being compared to actual expenditures was the most frequently implemented reconciliation practice control in the present study (92%), which supports previous findings (Duncan et al., 1999; Hankerson, 2016) and speaks to the financial stewardship of church leaders in the present study. Particularly within the reconciliation practices subcategory of internal controls, there is a need for independent verification of accounting information.

Bank statements should be mailed to someone other than the individual who prepares checks and reconciliations should be completed by a leader with no cash handling or recordkeeping responsibilities (Pedneault & Peterson Kramer, 2015). Independent reviews of accounting and payroll reports should occur regularly (Pedneault & Peterson Kramer, 2015). Church leaders should reconcile payroll reports to salary contracts to make sure that no office employees are concealing inflated paychecks through increased tax withholdings (Kapp & Heslop, 2011; Pedneault & Peterson Kramer, 2015).

The presence of an audit committee accounted for 10.8% of the variation in the reconciliation practices subcategory score, further indicating the importance of an audit committee. In the present study, churches with no CPA leaders had the lowest mean reconciliation practices internal control score. Church leaders in these churches need to particularly be mindful of their reconciliation practices and seek ways to improve them. Once again, CBAs should seek guidance from any CPAs who are members of the church. The present study has relevance to both practitioners and future researchers. The following section discusses topics with future research potential.

Recommendations for Future Research

The results of this study revealed several areas with future research potential. Future researchers may want to compare church member perceptions of internal controls in place to the actual internal controls implemented. Similarly, researchers may want to consider an examination of which internal controls are considered most important by church members and church leaders. A quantitative longitudinal study could be conducted to determine if the addition or subtraction of a CPA leader results in a significant change in internal control implementation. A similar longitudinal study could be conducted to determine if a significant increase or decrease in the budget size of a church results in a significant change in internal control implementation.

A limitation of the present study is that the specific quantity of CPAs within a leadership category was not asked as part of the survey, so a church with one CPA elder and another church with five CPA elders would both have the same score on the CPA elder presence question. Since multiple elders or multiple deacons at the same church having a CPA license is likely uncommon, the CPA presence questions were left in the yes/no format. Future researchers may wish to revise the survey instrument to account for the exact quantity of CPAs within each leadership role. A greater understanding of the potential impact of nepotistic relationships on internal controls in churches is still needed. Future researchers should consider employing the kin density assessment, but instead gather the data using in-person interviews. The complicated nature of the kin density instrument may have hindered response rates, so conducting face-to-face interviews might yield participants more willing or able to answer the questions. Also, a number of CBAs indicated the presence of a spousal relationship with no children between leaders and employees. The kin density formula treats these relationships like those of strangers. Few people would argue that nepotism could not be a factor in a case where an elder's spouse is

the financial secretary. An alternative relationship instrument that counts these childless relationships as kin might yield richer data than that seen in the present study.

Future researchers could also investigate the unexpected relationships discovered during the present study, such as the negative correlation between CPA leader presence and the score for the internal controls subcategory of reconciliation practices. In the present study, three of the four subcategories of internal control had lower mean scores in churches with multiple CPA leaders than in churches with only one category of CPA leadership. Research should be conducted to determine if social loafing occurs when multiple CPAs are part of the leadership team.

Future researchers may want to consider the relationships between additional variables that were not utilized in the present study (such as debt level, financial statement information, technology implementation, budget transparency, leadership roles, or the presence of unrelated business income) and internal control score. Using research questions similar to the ones from the present study with additional autonomous religious groups or nonprofits could be used to improve generalizability of the study findings.

Conclusions

This non-experimental, quantitative, correlational study of Churches of Christ was conducted to examine the relationships between the annual budget size, leadership CPA licensure, and nepotism potentiality and the degree of internal control implementation. An online survey was distributed to Church of Christ CBAs in multiple states to assess these relationships. The findings provided statistical support that churches with small budget sizes had fewer internal controls in place than churches with large budget sizes, and churches with no CPA leaders had fewer internal controls in place than churches with either a CPA elder or a CPA

deacon/treasurer. While a weak and negative correlation was detected, statistical support did not exist for the relationship between nepotism potentiality and the degree of internal control implementation.

The present study expanded upon the previous nationally, regionally, and locally targeted internal control surveys by including Churches of Christ, which had been a largely overlooked population in previous studies. All three of the aforementioned constructs studied (budget size, leadership CPA licensure, and nepotism potentiality) may have incrementally added to the existing literature on church internal controls, but the application of these constructs within the context of the fully autonomous Churches of Christ was unique. Recommendations for practice included, but were not limited to, incorporating an audit committee, finance committee, and contribution counting committee into the broader set of church internal controls, as well as utilizing a CPA to assist with the development and maintenance of these internal control systems. Recommendations for future research included, but were not limited to, an assessment of member perceptions of internal controls, a study of the impact of multiple CPAs as leaders, an examination of potential impact of social loafing in church leadership scenarios, a repetition study using the interview method for data collection, and an introduction of additional variables into the constructs of the present study.

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Appendices

Appendix A: Current Internal Control Practices Questions

The following questions are about the current internal control practices of your church. Please answer to the best of your ability. Please select “Yes” or “No” based on your understanding of current practices already being followed, not based on what you think should be in practice. If you do not know the answer, please select “Unsure.”

Internal controls – general

Q1. Are facilities locked when not in use? Yes / No / Unsure

Q2. Is access to church accounting records and sensitive member information (whether stored electronically or on paper) restricted through computer security measures (if electronic) or physical safeguards (if paper)? Yes / No / Unsure

Q3. Is an audit committee operational? Yes / No / Unsure

Q4. Is there an elder or deacon who actively participates in the accounting affairs of the church? Yes / No / Unsure

Q5. Are the accounting records and the underlying internal controls audited annually? Yes / No / Unsure If yes, who performs the audit? (a) An independent external CPA, (b) a CPA who is a member of this church, or (c) a person or group of persons within this church.

Q6. Is there adequate segregation of duties between the authorization, recording, and custody of assets? For example: the financial secretary’s (or treasurer’s) activities involve keeping the records of cash contributions and preparing the support for disbursements, but not also depositing the contributions or writing the disbursement checks. Yes / No / Unsure

Q7. Are all ministers prohibited from counting money, signing checks, and accessing accounting systems? Yes / No / Unsure

Q8. Does the church have an insurance policy that covers losses from theft by employees or volunteers OR are all employees and volunteers who have access to cash bonded?

Select “yes” if the answer to either or both questions is yes. Yes / No / Unsure

Q9. Does the church have current accounting policies and procedures in writing?

Yes / No / Unsure

Q10. Are background and reference checks performed on potential employees or volunteers who may have access to cash or accounting information? Yes / No / Unsure

Q11. Are employees with access to cash or financial transactions properly trained and supervised? Yes / No / Unsure

Q12. Are volunteers with access to cash or financial transactions properly trained and supervised? If no volunteers have access to cash or financial transactions, select “yes.”

Yes / No / Unsure

Internal controls – cash receipts

Q13. Do members have access to offering envelopes or online giving options for contributions? Yes / No / Unsure

Q14. Are the collection, handling, and counting of contributions always conducted by at least two people in a secure area? Yes / No / Unsure

Q15. Do checks that are written to the church receive a restrictive endorsement such as “for deposit only” as soon as they are collected? Yes / No / Unsure

Q16. Does the contribution counting team prepare and sign a summary sheet detailing the amount of cash, checks, and coins received? Yes / No / Unsure

Q17. Are bank deposits secured in a tamper-proof bag before being transported to the bank? Yes / No / Unsure

Q18. Is all cash received deposited in the bank within 24 hours? Select “no” if cash is ever taken out of the contribution to pay for expenses directly. Yes / No / Unsure

Q19. Is cash safeguarded in a safe or immovable lock box when maintained at the church? Yes / No / Unsure

Q20. Does someone not involved in the contribution counting, depositing, or accounting entry process reconcile the summary contribution count sheet, deposit slip, and bank deposit receipt? Yes / No / Unsure

Q21. Are incoming-mail and in-office contributions handled by people who are not responsible for the accounting records? Yes / No / Unsure

Q22. Are contributions for restricted purposes or designated to specific funds properly identified and recorded in the accounting records? Yes / No / Unsure

Q23. Are contribution records itemizing contributions of \$250 or more sent to donors at least annually? Yes / No / Unsure

Q24. Are the church budget and financial statements made available to members?
Yes / No / Unsure

Internal controls – cash disbursements

Q25. Are pre-numbered purchase orders or check requests requiring leadership approval used for all disbursements that do not have standing authorization for payment? Yes / No / Unsure

Q26. Are invoices for goods and services approved by an authorized person or committee who validates items were received (or services were provided) and the amount is correct before payment is made? Yes / No / Unsure

Q27. Is blank check stock safeguarded in a locked or secured area at all times? Yes / No / Unsure

Q28. Does the person who prepares checks for disbursement have access to a signature stamp or digital signature of the person who signs the checks? If signature stamps are not used, select “no.” Yes / No / Unsure

Q29. Are all payments (except for items paid from petty cash) made by serially numbered checks? Yes / No / Unsure

Q30. Are at least two signatures required on all checks? Yes / No / Unsure

Q31. Do the elders approve and monitor all employee pay rates, changes, and bonuses? Yes / No / Unsure

Q32. Is the person who signs the payroll checks the same person who prepares the payroll checks? Yes / No / Unsure

Q33. Are supporting documents and invoices marked “paid” when checks are issued or archived in a manner so they cannot be paid again? Yes / No / Unsure

Q34. Are all voided checks marked “void” and retained? Yes / No / Unsure

Q35. Is the petty cash fund used only for minor cash disbursements supported by vouchers or receipts and reconciled at least annually by someone other than its custodian? If no petty cash fund is used, select “yes.” Yes / No / Unsure

Q36. Is church procurement or credit card usage controlled with transactions reviewed and documented to ensure appropriate usage and accurate entry into accounting records?

If no church credit card is used, select “yes.” Yes / No / Unsure

Q37. Are wire transfers, electronic funds transfers, or transfers between bank accounts authorized or reviewed by a church leader? Yes / No / Unsure

Internal controls – reconciliation practices

Q38. Are all funds and bank account balances reconciled each month by a person who is not involved in writing checks? Yes / No / Unsure

Q39. Are accounting book balances current, balanced, reconciled with financial reports, and closed on a regular basis? Yes / No / Unsure

Q40. Are valuables (marketable securities, notes, valuable documents, deeds, etc.) protected in a bank safe deposit box? Yes / No / Unsure

Q41. Is an updated inventory of securities, valuables, equipment, fixed assets, buildings, and other major noncash assets maintained? Yes / No / Unsure

Q42. Are regular insurance reviews made to determine if coverage is adequate and up-to-date? Yes / No / Unsure

Q43. Is church-owned vehicle mileage tracked and usage restricted to ministry purposes? If no church-owned vehicles are used, select “yes.” Yes / No / Unsure

Q44. Are budgeted expenditures periodically compared to actual expenditures to ensure that funds are being spent as authorized? Yes / No / Unsure

Q45. Are required government payroll tax filings periodically inspected for accuracy and completion? Yes / No / Unsure

Appendix B: Annual Budget Size Question

The following question is about the annual budget size of your church. Please answer to the best of your ability. If you do not know the answer, please select “Unsure.”

In dollars, what is the annual budget size of your church, with annual budget size being understood as the calendar-year amount of expected expenses for operations, ministries, and capital maintenance of your church location? \$ _____ or Unsure

Appendix C: Leadership CPA Licensure Questions

The following questions are about the active CPA licensure of the church leaders at your church. Please answer to the best of your ability. Please select “Yes” or “No” based on your knowledge of active CPA licensure, not strictly on occupation alone. For example, persons who are bookkeepers or accountants may not be licensed CPAs by your State Board of Accountancy. If you do not know the answer, please select “Unsure.” You can easily verify if someone has a CPA license by visiting www.cpaverify.com and clicking on “Start Search.”

Q1. Do any of your elders have an active CPA license? Yes / No / Unsure

Q2. Do any of your deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets have an active CPA license? Yes / No / Unsure

Appendix D: Nepotism Potentiality Questions

The following questions are about the family relationships within the leadership and employees of your church. Please answer to the best of your ability, based on your understanding of family relationships. For purposes of these questions, make no distinction between blood relatives and adopted children. If you do not know the answer, please select “Unsure.”

Q1. How many of your church’s elders are related to other elders? Only count each relationship once. For example, if two brothers are both elders, your answer would be 1.

If zero, please skip ahead to Q2.

If one or more, please answer the following question for each pair of individuals you described in Q1.

[NOTE: The number of relationship follow-up questions that populate corresponds with the original responses given for Q1-Q6. For the computerized surveys, the survey website will adapt to populate the necessary questions. For any paper surveys mailed (if any), space for numerous family relationship follow-up questions will be provided.]

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, please skip ahead to Q2.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Q2. How many of your church's elders are related to any deacon or nondeacon treasurer that handles cash, supervises church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets?

If zero, please skip ahead to Q3.

If one or more, please answer the following question for each pair of individuals you described in Q2.

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, please skip ahead to Q3.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her

husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Q3. How many of your church's elders are related to any church employee that handles cash, works in church finance or accounting, assesses church accounting systems, or authorizes or conducts the purchase or sales of significant church assets? _____

If zero, please skip ahead to Q4.

If one or more, please answer the following question for each pair of individuals you described in Q3.

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, please skip ahead to Q4.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Q4. How many of your church's deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize

or conduct the purchase or sale of significant church assets are related to any other deacon or nondeacon treasurer that handles cash, supervises church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? Only count each relationship once. For example, if two brothers are both deacons, your answer would be 1. _____

If zero, please skip ahead to Q5.

If one or more, please answer the following question for each pair of individuals you described in Q4.

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, please skip ahead to Q5.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Q5. How many of your church's deacons or nondeacon treasurers that handle cash, supervise church finance or accounting, access church accounting systems, or authorize

or conduct the purchase or sale of significant church assets are related to any church employee that handles cash, works in church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? _____

If zero, please skip ahead to Q6.

If one or more, please answer the following question for each pair of individuals you described in Q5.

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, please skip ahead to Q6.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Q6. How many of your church's employees that handle cash, work in church finance or accounting, access church accounting systems, or authorize or conduct the purchase or sale of significant church assets are related to any other church employee that handles

cash, works in church finance or accounting, accesses church accounting systems, or authorizes or conducts the purchase or sale of significant church assets? Only count each relationship once. For example, if two siblings are both office employees, your answer would be 1. _____

If zero, you have completed the nepotism potentiality questions.

If one or more, please answer the following question for each pair of individuals you described in Q6.

Which of the following categories describes the level of relatedness between these two people? They are (a) spouses, (b) parent & child, or full siblings, (c) parent-in-law & child-in-law, sibling-in-law & sibling-in-law, (d) half-siblings, grandparent & grandchild, aunt/uncle & niece/nephew, (e) grandparent-in-law & grandchild-in-law, half-sibling-in-law & half-sibling-in-law, aunt/uncle-in-law & niece/nephew-in-law, (f) cousins, great-grandparent & great-grandchild, great-aunt/uncle & great-niece/nephew, or (g) or some other more distant relatedness.

If you selected B, D, F, or G, you have completed the nepotism potentiality questions.

If you selected A, C, or E, please answer the following question.

How many descendants do these two people have in common? For example, in a case where a man's daughter had two children with her husband, the answer to this question would be 2 if you were answering about the parent-in-law and child-in-law relationship. _____

Appendix E: Demographic Questions

The following questions are about the demographics and background of your church. Please answer to the best of your ability. If you do not know the answer, please select “Unsure.”

How many men serve on the general and spiritual leadership board known as the eldership at your church? _____ or Unsure

How many men serve as deacons (financial or nonfinancial) at your church? _____ or Unsure

How many people serve as unpaid nondeacon treasurers at your church? _____ or Unsure

How many people serve as paid office employees (accountants, bookkeepers, payroll clerks, financial secretaries, payroll clerks, etc.) or paid nondeacon treasurers at your church? _____ or Unsure

How many individuals are formally recognized as members by the eldership of your church? _____ or Unsure

How many individuals typically attend the primary religious worship service on Sundays at your church? _____ or Unsure

What has been the church attendance growth pattern over the past two years?

Attendance Decreasing / Attendance Stable / Attendance Increasing / Unsure

Where is your church physically located? Alabama / Arkansas / California / Florida /

Oklahoma / Tennessee / Texas / Other _____

In which county is your church physically located? _____ or Unsure

Is your church legally incorporated in your state? Yes / No / Unsure

Does your church have a functioning internal audit committee? Yes / No / Unsure

Does your church have a functioning finance committee? Yes / No / Unsure

Does your church have a functioning contribution counting committee? Yes / No /

Unsure

Does your church use an external accounting firm to maintain accounting records and/or

prepare financial statements for the church? Yes / No / Unsure

Does your church use an external payroll service to maintain payroll records, prepare payroll tax forms, and submit government payroll tax filings for the church? Yes / No /

Unsure

Appendix F: Demographic and Descriptive Characteristics Frequency Tables

Table F1
Eldership Size Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	9	7.4	7.5	7.5
	3	28	23.0	23.3	30.8
	4	23	18.9	19.2	50.0
	5	14	11.5	11.7	61.7
	6	9	7.4	7.5	69.2
	7	5	4.1	4.2	73.3
	8	8	6.6	6.7	80.0
	9	2	1.6	1.7	81.7
	10	8	6.6	6.7	88.3
	12	4	3.3	3.3	91.7
	13	2	1.6	1.7	93.3
	14	4	3.3	3.3	96.7
	15	1	0.8	0.8	97.5
	16	2	1.6	1.7	99.2
	39	1	0.8	0.8	100.0
	Total	120	98.4	100.0	
Missing	System	2	1.6		
Total		122	100.0		

Table F2
Number of Deacons Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	13	10.7	10.9	10.9
	1	2	1.6	1.7	12.6
	2	3	2.5	2.5	15.1
	3	9	7.4	7.6	22.7
	4	12	9.8	10.1	32.8
	5	7	5.7	5.9	38.7
	6	7	5.7	5.9	44.5
	7	3	2.5	2.5	47.1
	8	2	1.6	1.7	48.7
	9	3	2.5	2.5	51.3
	10	8	6.6	6.7	58.0
	11	6	4.9	5.0	63.0
	12	5	4.1	4.2	67.2
	13	1	0.8	0.8	68.1
	14	2	1.6	1.7	69.7
	15	1	0.8	0.8	70.6
	16	1	0.8	0.8	71.4
	18	3	2.5	2.5	73.9
	19	1	0.8	0.8	74.8
	20	3	2.5	2.5	77.3
	21	2	1.6	1.7	79.0
	22	2	1.6	1.7	80.7
	23	2	1.6	1.7	82.4
	25	2	1.6	1.7	84.0
	27	1	0.8	0.8	84.9
	30	4	3.3	3.4	88.2
	32	2	1.6	1.7	89.9
	34	3	2.5	2.5	92.4
	36	1	0.8	0.8	93.3
	39	1	0.8	0.8	94.1
40	2	1.6	1.7	95.8	
43	1	0.8	0.8	96.6	
44	1	0.8	0.8	97.5	
50	2	1.6	1.7	99.2	
68	1	0.8	0.8	100.0	
	Total	119	97.5	100.0	
Missing	System	3	2.5		
Total		122	100.0		

Table F3
Number of Nondeacon Treasurers Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	57	46.7	47.5	47.5
	1	37	30.3	30.8	78.3
	2	16	13.1	13.3	91.7
	3	6	4.9	5.0	96.7
	4	1	0.8	0.8	97.5
	5	1	0.8	0.8	98.3
	9	1	0.8	0.8	99.2
	44	1	0.8	0.8	100.0
	Total		120	98.4	100.0
Missing	System	2	1.6		
Total		122	100.0		

Table F4
Number of Office Employees Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	36	29.5	30.0	30.0
	1	60	49.2	50.0	80.0
	2	13	10.7	10.8	90.8
	3	5	4.1	4.2	95.0
	4	3	2.5	2.5	97.5
	5	2	1.6	1.7	99.2
	6	1	0.8	0.8	100.0
	Total		120	98.4	100.0
Missing	System	2	1.6		
Total		122	100.0		

Table F5
Growth Pattern Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Attendance Decreasing	28	23.0	23.5	23.5
	Attendance Stable	61	50.0	51.3	74.8
	Attendance Increasing	30	24.6	25.2	100.0
	Total	119	97.5	100.0	
Missing	System	3	2.5		
Total		122	100.0		

Table F6
Membership Size Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 - 100	19	15.6	17.4	17.4
	101 - 200	24	19.7	22.0	39.4
	201 - 300	13	10.7	11.9	51.4
	301 - 400	20	16.4	18.3	69.7
	401 - 500	4	3.3	3.7	73.4
	501 - 600	5	4.1	4.6	78.0
	601 - 700	4	3.3	3.7	81.7
	701 - 800	6	4.9	5.5	87.2
	801 - 900	5	4.1	4.6	91.7
	901 - 1000	2	1.6	1.8	93.6
	1001 - 1100	0	0.0	0.0	93.6
	1101 - 1200	3	2.5	2.8	96.3
	1201 - 1300	0	0.0	0.0	96.3
	1301 - 1400	2	1.6	1.8	98.2
	1401 - 1500	1	0.8	0.9	99.1
	1501 - 1600	1	0.8	0.9	100.0
Total		109	89.3	100.0	
Missing	System	13	10.7		
Total		122	100.0		

Table F7
Sunday Morning Attendance Size Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 - 100	24	19.7	20.2	20.2
	101 - 200	30	24.6	25.2	45.4
	201 - 300	19	15.6	16.0	61.3
	301 - 400	9	7.4	7.6	68.9
	401 - 500	14	11.5	11.8	80.7
	501 - 600	3	2.5	2.5	83.2
	601 - 700	12	9.8	10.1	93.3
	701 - 800	3	2.5	2.5	95.8
	801 - 900	2	1.6	1.7	97.5
	901 - 1000	0	0.0	0.0	97.5
	1001 - 1100	2	1.6	1.7	99.2
	1101 - 1200	0	0.0	0.0	99.2
	1201 - 1300	1	0.8	0.8	100.0
	Total		119	97.5	100.0
Missing	System	3	2.5		
Total		122	100.0		

Table F8
Incorporation Status Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Incorporated	86	70.5	78.2	78.2
	Not Incorporated	24	19.7	21.8	100.0
	Total	110	90.2	100.0	
Missing	System	12	9.8		
Total		122	100.0		

Table F9
Audit Committee Presence Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	27	22.1	23.9	23.9
	No	86	70.5	76.1	100.0
	Total	113	92.6	100.0	
Missing	System	9	7.4		
Total		122	100.0		

Table F10
Finance Committee Presence Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	65	53.3	55.6	55.6
	No	52	42.6	44.4	100.0
	Total	117	95.9	100.0	
Missing	System	5	4.1		
Total		122	100.0		

Table F11
Contribution Counting Committee Presence Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	94	77.0	79.0	79.0
	No	25	20.5	21.0	100.0
	Total	119	97.5	100.0	
Missing	System	3	2.5		
Total		122	100.0		

Table F12
External Accounting Firm Usage Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	15	12.3	12.7	12.7
	No	103	84.4	87.3	100.0
	Total	118	96.7	100.0	
Missing	System	4	3.3		
Total		122	100.0		

Table F13
External Payroll Service Usage Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	38	31.1	32.2	32.2
	No	80	65.6	67.8	100.0
	Total	118	96.7	100.0	
Missing	System	4	3.3		
Total		122	100.0		

Table F14
Presence of CPA Leaders Frequency Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No CPA Elder or CPA Deacon	72	59.0	59.0	59.0
	Either CPA Elder or CPA Deacon	39	32.0	32.0	91.0
	Both CPA Elder or CPA Deacon	11	9.0	9.0	100.0
	Total	122	100.0	100.0	
Missing	System	0	0.0		
Total		122	100.0		

