Internal Controls and Fraud in Small Businesses: A Qualitative Case Study

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Approval Page

Internal Controls and Fraud in Small Businesses: A Qualitative Case Study

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Abstract

Various financial crimes occur in small businesses. The specific business problem is that small business leaders lack internal control strategies to minimize fraud in small businesses. The purpose of this qualitative multiple case study was to explore internal control strategies that small business leaders used to minimize fraud in small businesses. The guiding theoretical framework in the study was fraud triangle theory. In-person interviews was performed with 10 business leaders that own small businesses in the United States. Four research questions were used in the study, as specified in the implications section. The design used was qualitative multiple case study. In the data analysis, responses from the participants were grouped into themes with codes. The results included the following themes: deterrence of internal controls, no absolute assurance for absence of fraud because of strong internal controls, internal controls fail to prevent fraud, diminishing opportunity to perpetrate financial crimes because of strong internal controls, detection of fraud because of strong internal controls, reduction of fraud because of strong internal controls, inefficiency of internal controls, improper application of internal controls, expensive of internal controls, whistle blower policy, bank accounts reconciliation, and anti-financial crime training. The implications of the results were strong internal controls deter fraudulent workers to commit fraud, strong internal controls do not guarantee absolute assurance for zero fraud, internal controls have failed to prevent fraud, diminishing opportunity occurs because of adequate internal controls, strong internal controls detect and reduce fraud, internal controls are inefficient, entrepreneurs apply internal controls incorrectly, and internal control are expensive to adopt. Recommendations for practice included enhancement of internal controls. Recommendations for future research focus on exploration of more internal control strategies, internal control measures, and improvement of the study.

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Chapter 1: Introduction

Hrncir and Metts (2012) stated that small businesses include retail and service businesses that have less than $5 million in yearly sales, manufacturers that have less than 500 workers, wholesalers that have less than 100 employees, and construction firms with less than $17 million yearly sales. According to the Committee of Sponsoring Organization of the Treadway Commission (COSO), segregation of duties, protection of assets, and verification of transaction constitute internal controls (Frazer, 2012). Small businesses do not have adequate internal controls because some entrepreneurs are ignorant of the consequences of not having sufficient internal controls (Frazer, 2012).

Some small business entrepreneurs are against the use of internal controls (Frazer, 2012). They do not believe that the advantages of sufficient internal controls outweigh the costs associated with the internal controls (Frazer, 2012). Some business entrepreneurs have a negative perception of internal controls and view that internal controls have no significant impact on the performance of businesses (Frazer, 2012). Small business entrepreneurs argue that the costs of internal controls deplete the income of businesses (Frazer, 2012). Also, they believe internal controls are burdensome and complex (Frazer, 2012). Furthermore, small business entrepreneurs undermine internal controls. Some fraudulent workers and customers exploit the situation of not having sufficient internal controls to steal small business inventories and cash (Frazer, 2012).

Small businesses are vulnerable to fraud; various kinds of embezzlement are prevalent in small businesses (Hrncir & Metts, 2012). The various types of embezzlement are credit card fraud, check fraud, inventory thefts, and paying fictitious vendors (Hrncir & Metts, 2012). Fraudulent activities such as concealment and conversion constitute a fraud (Hrncir & Metts, 2012). Small businesses do not have sufficient resources to put in place adequate internal

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controls (Frazer, 2012). Some workers engage in occupational frauds to defraud small businesses of a huge amount of money (Hrncir & Metts, 2012). One of the key reasons why small businesses are vulnerable to frauds is because employers trust fraudulent workers heavily without checking their operations (Hrncir & Metts, 2012). Frauds contribute to 30 to 50% of small businesses failure (Hrncir & Metts, 2012).

According to Committee of Sponsoring Organization of the Treadway Commission, internal controls involve separation of duties to discourage fraudulent workers from committing frauds while performing their routine operations (Frazer, 2012). The US Congress enacted Sarbanes-Oxley Act of 2002 to strengthen internal controls in both small and large businesses (Kevin, 2014). Sarbanes-Oxley Act needs businesses to design and implement internal controls to take a proactive action against fraudulent activities (Kevin, 2014). Majority of small businesses fail to comply with Sarbanes-Oxley Act of 2002 to put in place an adequate internal control system (Kevin, 2014).

There is little research that explains how small businesses should segregate duties to avoid one person doing all operations (Frazer, 2012). More importantly, there is no current research on internal control strategies that entrepreneurs use to minimize fraud in small businesses (Frazer, 2012). Small businesses do not have sufficient resources to implement Sarbanes-Oxley Act; this leads to deterioration of their internal controls (Frazer, 2012). Consequently, small businesses have poor performance due to their non-implementation of Sarbanes-Oxley Act (Frazer, 2012).

The study may minimize the key problem, which is fraud. The study intends to identify the internal control strategies that business leaders may use to reduce financial crimes. Based on the

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results from the study, business leaders can enhance the internal controls that could eliminate fraudulent activities from small businesses.

Statement of the Problem

The general business problem is that fraudulent activities decrease small business inventories and cash (Mei, Chan, McVan, Sarah, & Skaife, 2015), resulting in the loss of profits (Krishnan & Wei, 2012). Various kinds of fraud occur in small businesses, which are cash larceny, inventory theft, billing schemes, paying to fictitious vendors, check tampering, and skimming (Jong, Sunhwa, Hogan, & Joonil, 2013). The loss of income of small businesses may result in bankruptcy and the demise of small businesses, because of a shortage of internal controls (Hrncir & Metts, 2012). When small businesses neglect the protection of assets, the segregation of duties, and the verification of transactions (Voss & Brettel, 2014), the internal controls will be in danger (Verovska, 2012). Internal controls are essential because they enhance efficiency, minimize the risk of loss of assets and assure reliability of financial statements (Frazer, 2012).

The specific business problem is that small business leaders lack internal control strategies to minimize fraud in small businesses. Internal control problems may persist in business entities that do not have the internal control protocol (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). The inadequacy of internal controls in small businesses tends to be prevalent; as a result, their financial system may be at risk (Mei, Chan, McVan, Sarah, & Skaife, 2015). The financial institutions may be reluctant to provide loans to small businesses that witness excessive fraud (Krishnan & Wei, 2012). If the research is not performed on the internal control strategies that small business leaders use to minimize fraud in small businesses, the fraud could be very severe for small businesses, probably resulting in closing down of some

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enterprises while others tend to lay off their workers. The retrenched workers may increase the unemployment rate (Voss & Brettel, 2014). Frazer (2016) and Kevin (2014) are aware that insufficient or lack of internal controls in small businesses creates opportunities for dishonest employees to perpetrate fraud. However, Frazer (2016) and Kevin (2014) do not know which internal control strategies that could adequately minimize fraud in small businesses. Frazer (2016) and Kevin (2014) failed to conduct a research on internal control strategies that entrepreneurs may use to reduce fraud in small businesses. Hence, there is need to perform the research on internal control strategies that entrepreneurs could use to minimize fraud in small businesses.

Purpose of the Study

The purpose of this qualitative multiple case study was to explore internal control strategies that small business leaders used to minimize fraud in small businesses in Albany, New York. The study focused on fraud and internal controls, which consist of segregation of duties, protection of assets, and verification of transactions. The interview and documents were the sources of data, as well as the data collection methods for this study. The data was primary. In-person interview of participants was performed. The participants were entrepreneurs who had successfully implemented and used internal control strategies in small businesses in Albany, New York that have less than 200 employees and have been in operation for at least 5 years. The target population was two million small business in New York and the sample size was 10 small businesses in New York. The study took place in Albany, New York, which was the research site.

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Theoretical Framework

Specifically, this study tended to contribute to the theory of fraud (Harlow, 2009). The findings from the study confirmed that internal controls could minimize fraud. The confirmation tends to make the internal controls more important in the fraud triangle theory because it could reduce fraud. The confirmation of the finding expanded the description of internal controls to include fraud reduction. The deterrence was included in the theory of fraud. Also, the description of fraud expanded to include the effect of deterrence. The results contributed to the theory of fraud because diminishing opportunity is a concept that decreases fraud. The diminishing opportunity was added to the theory of fraud. The description of fraud expanded to include the effect of diminishing opportunity. The results contributed to the theory of fraud because detection is a concept that decreases fraud (Verovska, 2012). The detection was added to the theory of fraud. The description of fraud expanded to include the effect of fraud detection. The findings contributed to the theory of fraud because fraud reduction is a concept that decreases fraud (Verovska, 2012). The fraud reduction was added to the theory of fraud. The description of fraud expanded to include the impact of fraud reduction. The findings contributed to the theory of fraud because inefficiency of internal controls is a concept that increases the financial crimes. The inefficiency of internal controls was added to the theory of fraud. The description of fraud was expanded to include the effect of inefficiency of internal controls. The results contributed to the theory of fraud because improper application of internal controls is a concept that increases financial crimes. The improper application of internal controls was added to the theory of fraud. The description of fraud was expanded to include the impact of improper application of internal controls. The results contributed to the theory of fraud because expensiveness of internal controls is a concept that increases fraud. The explanation of fraud increased to include the impact of

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expensiveness of internal controls. The whistle blower policy is a concept that decreases fraud in the theoretical framework (theory of fraud). The explanation of fraud includes the effect of the whistleblower policy, which was added to the theoretical framework. Bank accounts reconciliation is a concept, which reduces fraud that is in the theoretical framework (theory of fraud). The explanation of fraud includes the impacts of bank accounts reconciliation, which was added to the theoretical framework. The results contributed to the theory of fraud. Anti-financial crime training is a concept that reduces fraud. The explanation of fraud includes effects of anti-financial crime training, which was added to the theoretical framework.

The study of the internal control strategies that entrepreneurs use to minimize fraud in small businesses contributed to the theory of fraud in many ways (Harlow, 2009). There was no contradiction between the fraud theory propositions and the observation from the study. Hence, the study supported the theory by using the new evidence from the observation to build on the fraud theory. The study used literature review to support the fraud theory. In the literature review, various scholarly articles support the fraud theory. The problem statement (small business leaders lack internal control strategies to minimize fraud in small businesses) was clear, precise and well-framed; resulting in a quality research (Harlow, 2009). As a result, the study tended to build on fraud theory (Harlow, 2009). Put another way, the research probably supported the fraud theory.

Fraud occurs in every organization; especially small businesses because of lack of internal controls (Murphy & Free, 2016). Control environment or tone at the top determines the occurrence rate of fraud in organizations (Murphy & Free, 2016). Tone at the top include managers' behavior, integrity, and ethical values (Murphy & Free, 2016). When tone at the top in organizations depicts high ethical values, there should be less fraud (Murphy & Free, 2016).

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Fraud triangle investigates the incentives for fraud. Financial crimes have been in existence for centuries (McMahon, Pence, Bressler, 2016). Fraud triangle cannot determine all kinds of fraud in various ways that include eager for money, ideology, coercion, ego, and entitlement (McMahon, Pence, Bressler, 2016). Financial crimes negatively impact business expansion and is a key bottleneck for many companies (Ruankaew, 2016). Various fraud schemes- asset misappropriation, corruption, and financial statement fraud- occur in businesses. As a result, there is a loss of consumers' confidence, shareholders' investments and the demise of some business entities (Ruankaew, 2016). Some scholars expanded fraud triangle theory to include capacity (Ruankaew, 2016). The fraud triangle is comprised of some elements, as indicated below.

Incentive/pressure. Every fraudster has some pressure or incentive to perpetrate fraud (Ruankaew, 2016). Perceived pressure or incentive is the motivation that influences the perpetrator to commit fraud (Ruankaew, 2016). A person may call an issue non-sharable, which may induce him to commit a financial crime (Dorminey, Fleming, Kranacher, & Riley, 2012). A person may not share his financial problem or seek any monetary help because of his ego (Dorminey, Fleming, Kranacher, & Riley, 2012). Perceived pressure, which may not be real, can happen in any worker for various reasons (Ruankaew, 2016). The pressure may be economic needs, greed, living beyond one's means, large expenses, poor credit, and personal financial losses (Ruankaew, 2016). Financial pressure causes 95% of all fraud issues (Ruankaew, 2016). The perceived pressure is external, and it indicates that the perpetrator is treated unfairly (Murphy & Free, 2016). For pressure to motivate a person to commit a financial crime, there should be an external and related internal pressure (Murphy & Free, 2016). For example, if a manager treats an employee unfairly (external pressure), the worker is unlikely to act on it unless

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he wants to revenge (internal pressure). The key issue with the external and internal demarcation of incentive is that observers are biased in their perception of incentives (Murphy & Free, 2016). Most instances of financial crime result in fraudster collecting money, hence the observers conclude that the fraudster is greedy (Murphy & Free, 2016). Various participants may respond to incentive/pressure survey questions differently, depending on whether they are fraudsters or observers (Murphy & Free, 2016).

Opportunity. Opportunity enables employees to commit fraud (Ruankaew, 2016). When fraudulent workers notice weak internal controls in their organization and believe that somebody catching them is unlikely, they may perpetrate financial crimes (Dorminey, Fleming, Kranacher, & Riley, 2012). The opportunity may not exist, but the unreliable workers believe that they have the chance to commit fraud (Ruankaew, 2016). If organizations screen their workers properly before employing them, all their employees may be honest (Murphy & Free, 2016). The honest staff may not see the weak internal controls as an opportunity to commit a financial crime (Murphy & Free, 2016).

Rationalization. Fraudulent individuals do not see their financial crimes as evil. They believe that their fraudulent activity is acceptable and they have the right to steal cash (McMahon, Pence, & Bressler, 2016). When a worker cannot justify unethical actions, he may not commit financial crimes (Murphy & Free, 2016). Some employees use different kinds of justification to rationalize their fraud (Ruankaew, 2016). For example, the perpetrators may say that they borrow from their organization (Ruankaew, 2016). The fraudsters may claim that their organization can afford the loot (Ruankaew, 2016). Also, they could say that their company refuses to give them some raise or bonus that they deserve (Ruankaew, 2016). The perpetrators'

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justification is a fallacy; they only want to satisfy their selfish desire (Dorminey, Fleming, Kranacher, & Riley, 2012).

Capacity. The capacity is an expansion of the fraud triangle theory (Ruankaew, 2016). An employee's function can provide him the capability to perpetrate the financial crime (McMahon, Pence, & Bressler, 2016). The employee has the unique qualities to hold the same position for a long time; as a result, he has the opportunity, which is not available to others, to defraud his company (McMahon, Pence, & Bressler, 2016). Members of top management may perform vital functions that enable them to perpetrate financial crimes without being caught (McMahon, Pence, & Bressler, 2016). Some red flags are prevalent in organizations for the employee to commit fraud (Ruankaew, 2016). The red flags include executive position, exploitation of weak internal control to commit a financial crime, and ego that nobody can detect the fraud (Ruankaew, 2016).

Fraud prevention/internal control. An effective internal control system is an essential tool an organization must use to prevent fraud. The priority of members of top management of every company is to avoid fraud from occurring rather than responding to it (McMahon, Pence, & Bressler, 2016). Fraud decreases profit, destroys the corporate image, and erodes the morale of stakeholders: workers, investors, management, and surrounding communities (Murphy & Free, 2016). Perception can prevent fraud. When unreliable employees perceive that internal control is strong and somebody may catch them if they perpetrate a financial crime, it is unlikely that they will commit the fraud (McMahon, Pence, & Bressler, 2016). The members of management can use deterrent actions, such as surprise audits, surveillance, monitoring, enforcement of policies, data mining exercises, prosecution of perpetrators and publicizing successful convictions (McMahon, Pence, & Bressler, 2016).

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The fraud triangle theory forms the theoretical framework. The above theory is essential to the study of the internal control strategies that small business leaders use to minimize fraud in small businesses. The fraud triangle theory focuses on fraud and internal control, which were the key issues of the study. Strong internal controls could expose and eradicate threats and risks (Murphy & Free, 2016). Effective internal controls could minimize mistakes and fraud in small businesses as well as provide precautionary means that avert errors and fraud (Lakis & Giriunas, 2012). This research contributed to the fraud triangle theory in various ways. The case study provided new data in the unexplored area (McMahon, Pence, & Bressler, 2016). The new evidence from the case study brought a theoretical knowledge that either supported the existing theory (Ruankaew, 2016). The qualitative case study contributed to the given theory through verification of findings to confirm the theory (Lakis & Giriunas, 2012). The theory was used to ascertain the internal control strategies that entrepreneurs use to minimize fraud in small businesses. The concepts that are in theory are internal control and fraud. The internal controls tend to determine fraud. When the internal control is strong, fraud decreases but when the internal control is weak, fraud increases (Ruankaew, 2016). The theory specifies the vices of fraud and how the internal controls can minimize financial crimes (McMahon, Pence, & Bressler, 2016). The theoretical framework was used to formulate the research questions that better explained the study of the internal control strategies that small business leaders used to minimize fraud in small businesses.

Nature of the Study

The purpose of this qualitative multiple case study was to explore internal control strategies that small business leaders used to minimize fraud in small businesses in Albany, New York. The qualitative method, purpose of the study, problem statement and research questions

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were descriptive and explorative; as a result, there was an alignment that connected them (Yin, 2011). The study focused on fraud and internal controls, which consist of segregation of duties, protection of assets, and verification of transactions. The interview and documents were the sources of data, as well as the data collection methods for this study. The data was primary. Thematic coding analysis was used to analyze the responses of participants. The qualitative multiple case study disclosed strategies entrepreneurs used to reduce financial crimes in small enterprises (Yin, 2011). The study involved various small businesses (multiple cases); hence, multiple case study was used (Yin, 2011).

The qualitative multiple case study was appropriate to this research because it allowed for exploring internal control strategies that small business leaders used to minimize fraud in small businesses. The qualitative method fitted this research because the study was descriptive. The qualitative case study was the optimum choice for this study because it helped to develop theoretical perspective, enabled the development of a new concept, and gained new insights and in-depth understanding about internal control strategies that business leaders used to minimize fraud in small businesses (Leedy & Ormrod, 2009). The qualitative case study fitted this research because it was suitable to study businesses (Trochim & Donnell, 2008). Another reason for choosing qualitative case study was that it was good for many kinds of graphic that examined data for the internal control strategies that entrepreneurs used to minimize fraud and it was good for the Most Significant Change technique (Trochim & Donnell, 2008). Most Significant Change technique helped to generate stories from participants by asking them to explain the most significant change they noticed in a given period because of internal control strategies that entrepreneurs used to minimize fraud in small businesses (Trochim & Donnell, 2008). The changes included increase in profits, efficiency, output, among others (Leedy & Ormrod, 2009).

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The qualitative case study was the right choice because it involved many data sources such as interviews and documents to ensure that the exploration of internal control strategies that entrepreneurs used to minimize fraud is not from one data source (Yin, 2009). The qualitative case study fitted this research because it focused on participants (entrepreneurs) to explore internal control strategies that small business leaders use to minimize fraud. The qualitative case study was the right choice because it was good for a sample of small size of 10, which was used for generalizing to the population of small businesses.

The instrument included the following questions: What is the level of your experience? How long have you worked for the company as an entrepreneur? Have you successfully used internal control strategies to minimize fraud? Does the fraud occur when internal controls are inadequate? Does fraud occur when internal controls are sufficient? Does fraud rate increase when there is weak internal controls? Does fraud rate decrease when there is strong internal controls? Does fraud exist when there are no internal controls? Does fraud exist when there are internal controls? What is your perception of fraud when there are more internal controls? What is your perception of fraud when there are less internal controls? Do internal control strategies minimize fraud? What are the right strategies that small business leaders use to reduce financial crimes?

Research Questions

The research questions focused on the internal control strategies that entrepreneurs use to minimize fraud in small businesses that are in operation in Albany, New York. Fraud depends on internal controls (Murphy & Free, 2016). When internal controls become strong in small businesses, fraud may decrease (Murphy & Free, 2016). The entrepreneurs (participants) provided answers concerning the use of internal controls to minimize fraud in small businesses.

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The fraud triangle theory offers insight into fraud and internal controls of small businesses (Dorminey, Fleming, Kranacher, & Riley, 2012). I designed the qualitative research questions to explore the use of internal controls on minimizing fraud in small businesses.

Q1. How do entrepreneurs perceive the relationship between internal controls and fraud?

Q2. How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud?

Q3. How do entrepreneurs perceive the use of internal controls on minimizing fraud?

Q4. What internal control strategies do entrepreneurs use to minimize fraud?

Significance of the Study

The study was essential because a lack of internal controls in small businesses may result in the demise of some enterprises. The study disclosed the negative consequences of not having internal controls in small businesses. When there are no internal controls in small businesses, employees could exploit the opportunity of not having internal controls to perpetrate fraud. Excess spending of enterprises resources is a great concern because no specific officers control the organizational expenditure. The study helped to disclose the internal control deficiencies and their negative consequences. This disclosure encouraged the organizations to strengthen their internal controls. This study contributed significantly to the theoretical framework. Specifically, this study contributed to the theory of fraud (Harlow, 2009). The findings from the study proved that internal controls could reduce fraud. The confirmation of the findings extended the definition of internal controls to include fraud reduction. Also, the findings expanded the definition of fraud to include that internal controls affect fraud.

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Definitions of Key Terms

Billing scheme. Billing scheme occurs when a business makes some payments for sham transactions (Hartwell, Lightle, & Domigan, 2011). Dishonest employees can create bogus transactions in order to convince the enterprises to pay some funds for the fictitious transactions. Some employees could use fictitious invoices and time cards to defraud businesses (Hartwell, Lightle, & Domigan, 2011).

Cash larceny. Cash larceny is the stealing of cash after a perpetrator has recorded the transactions (Hartwell, Lightle, & Domigan, 2011). For example, dishonest employees can take some cash from cash boxes, cash registers, and bank deposits without authorization.

Check tampering. Check tampering is when workers criminally alters the payee on the check to divert the amount on the check for their personal use (Hartwell, Lightle, & Domigan, 2011). The perpetrators can establish shell companies (fictitious companies that do not exist), which they will use as payees of the altered checks (Frazer, 2012). Dishonest employees can intercept legitimate checks and alter the payees on the checks.

Compliance objectives. Compliance objectives enable companies to comply with laws and regulations that guide businesses (Frazer, 2012).

Control activities. Control activities are a guide on how the managers execute their instructions. Control activities include approval, authorizations, verifications, and reconciliations, to mention just a few (Frazer, 2012).

Control environment. The control environment sets the tone for every business entity (Frazer, 2012). Control environment is the foundation of all other components of internal control because it offers discipline, structures, integrity, ethical values, and workers' competence (Frazer, 2012).

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Information and communication. Freedom of communication is common in business entities. Business owners generate reports on operations that help them manage their businesses (Frazer, 2012). Communication is used for internally generated data and organizational activities. Free flow of communication downwards and upwards exists in the organizational hierarchy.

Internal controls. Internal controls are measures that business owners put in place in order to have efficient business operations. Internal controls serve as checks and balances. Internal controls involve segregation of duties, protection of assets, and verification of transactions (Lenghel, 2012).

Monitoring. Monitoring is a procedure that evaluates the quality of internal controls in organizations. Monitoring team should oversee how an organization is being managed. Monitoring includes regular management and supervisory duties that managers must accomplish on a regular basis (Frazer, 2012). Managers should report internal control inefficiencies to top management and the board of directors (Frazer, 2012).

Operation objectives. Operation objectives deal with the effectiveness and efficiency of a firm's operations to protect assets from eminent losses (Frazer, 2012).

Protection of assets. Protection of assets involves physical control of assets. Physical controls require the use of tangible measures such as locks, fences, workers' identity cards, safes, and fireproof file cabinets (Lenghel, 2012). The physical measures protect the assets from theft or damage (Lenghel, 2012).

Reporting objectives. Reporting objectives are concerned with producing reliable reports (internal, external, financial, and nonfinancial).

Risk assessment. Every business entity is prone to risks that emanate from internal and external sources (Frazer, 2012). Risk assessment is the selection and examination of risks

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necessary for the accomplishment of objectives (Frazer, 2012). The assessment detects how business owners will manage the risks (Frazer, 2012).

Segregation of duties. Segregation of duties is a concept that enables business owners to assign different tasks to workers (Lenghel, 2012). For example, an individual that keeps the records of assets should not be the same person that physically controls the assets.

Skimming. Skimming means stealing cash before a perpetrator records the transactions in the financial books (Hartwell, Lightle, & Domigan, 2011). For example, a dishonest worker can steal cash at the time he sells some goods before recording the sales. This type of theft could be difficult to detect (Hartwell, Lightle, & Domigan, 2011).

Verification of transactions. Verification of transactions means that other employees should verify the duties of a worker that performs the transaction (Lenghel, 2012). For example, a supervisor should verify the accuracy of cashers' drawer at the end of a day's work. Also, internal auditors should verify the accuracy of supervisors' counts cash at the end of a day's work.

Summary

Chapter 1 clearly stated the specific business problem. Small business leaders lack internal control strategies to minimize fraud in small businesses. Due to lack of internal controls, small businesses suffer some setbacks. The small businesses incur losses because their dishonest employees steal their money through check tampering, credit card theft, and inventory theft. As a result, some small businesses may close down while others may sack their workers. The retrenched employees may increase the unemployment rate. The research was necessary to preserve small enterprises from being financially deficient. The purpose of this qualitative multiple case study was to explore the strategies that small business leaders used to minimize

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fraud in small businesses in Albany, New York. Interview is the data collection method for this study. The participants were business leaders who had successfully implemented and used internal control strategies in small businesses in Albany, New York that had less than 200 employees and had been in operation for at least 5 years. This study expanded the theoretical framework of fraud triangle, as stated above. Also, the study clearly specified research questions, as stated above. The study clearly defined all the key terms. Introduction clearly described the study. The study disclosed whether internal control strategies could minimize fraud in small businesses.

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Chapter 2: Literature Review

The purpose of this qualitative multiple case study was to explore the internal control strategies that small business leaders used to minimize fraud in small businesses in Albany, New York. The exploration of this study could reveal whether the internal control strategies are efficient to reduce fraud. Fraud is the key challenge that negatively affect every small business (Kevin, 2014). Fraud threatens the existence of small businesses because of lack of internal controls in small enterprises (Frazer, 2016). The literature review section discussed various themes that included: documentation, internal controls and conditional conservatism, quality review of control risk assessments, the effect of human resource investment in internal controls, the effect of type of internal control report on users' confidence, the effect of internal controls on the operating activities of small businesses, the conception of internal control, the updated COSO internal control-integrated framework, Sarbanes-Oxley Act 2002, quality of internal control over financial reporting, IT internal control weaknesses, and firm performance, improvement of investment efficiency after disclosure of material weakness, customers' response to the disclosure of internal control weakness, A conceptual model for segregation of duties, why small businesses fall victim to fraud, consequences of internal control problems, ineffective internal control over financial reporting, total quality management and manufacturing, fraud dynamics and controls in organizations, quality of employees' ethics training, and summary. All the themes were sequentially stated, as enumerated above, in the literature review section; the same sequence as they (themes) were in the table of contents. All themes were level two headings. The section was concluded with a summary.

Different search engines were used to retrieve scholarly articles from various data bases. Different keywords that were used for the search are segregation of duties, verification of

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transactions, protection of assets, internal controls, and fraud. The data bases that were used for the research include EBSCOHost, ProQuest, Science Direct, and Roadrunner.

Internal Controls and Conditional Conservatism

Beng and Dan (2011) used quantitative study with the sample of 1,098 firms that have material weaknesses. The researchers utilized a survey method to collect data for the research and multivariate regression to analyze the data. The researchers surveyed American firms for their study.

Companies that report material weaknesses exhibit smaller conditional conservatism than companies without any material weakness (Beng & Dan, 2011). Material weakness companies, which remediate their weaknesses, show larger conservatism than material weakness companies that do not implement the same idea. Material weakness companies are smaller and financially leaner than the control companies (Beng & Dan, 2011). Material weakness companies have greater negative change in net income and accruals than control companies (Beng & Dan, 2011). Net income, stock returns, cash flow from operations, and market-to-book ratio between material weakness firms and control firms remain the same (Beng & Dan, 2011). The outcomes of the study are consistent with strong internal control system that enhances conservatism (Beng & Dan, 2011). Weak internal control companies that indicate an enhancement in internal controls show no difference in conservatism from companies that do not have such improvement in their internal controls (Beng & Dan, 2011). Conservatism means that financial reporting has less emphasis on transactions that will result in gains but exhibit more emphasis on transactions that will result in losses (Beng & Dan, 2011). Material weakness companies reflect losses in a slow manner relative to control companies (Beng & Dan, 2011). This slow recognition of losses

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means that material weakness companies are less conservative. Internal control quality and conservatism are positively related (Frazer, 2012).

Financial statements are conservative; the financial reports recognize losses more than profits (Beng & Dan, 2011). Situations, which result in material weaknesses, cause bottlenecks for companies to remediate their material weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). Coefficient on material weakness in the results table align with material weakness companies (Beng & Dan, 2011). This alignment support earlier findings that material weakness companies that remediate their internal control problems depict larger conservatism than material weakness companies, which fails to do same (Beng & Dan, 2011). The lower the accrual-based conservatism, the greater conservatism of the companies' financial statements (Beng & Dan, 2011). All results for accrual-based conservatism are consistent with previous findings (Beng & Dan, 2011). Material-weakness companies have greater operating accruals than those of control companies (Beng & Dan, 2011). Material-weakness companies have larger incentives to prevent timely loss recognition (Beng & Dan, 2011). Firm-level material weaknesses are more severe than any other type of material weaknesses (Beng & Dan, 2011). Contextual analysis of the nature of material weaknesses supports the earlier findings that severe material weakness companies depict smaller conservatism than any other material weakness companies (Beng & Dan, 2011).

This study has some limitations. For the test of the second hypothesis, the researchers excluded half of 1,098 material weakness companies that lack SOX 404 opinions because of eradication of securities registration (Beng & Dan, 2011). It is unknown how the inclusion of these companies will impact the outcomes of the second hypothesis. Another unknown factor is

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the findings did not disclose the costs and advantages of SOX. The study did not mention the effectiveness of internal control reporting requirements under SOX (Beng & Dan, 2011).

Quality Review of Control Risk Assessments

Issa and Kogan (2014) used quantitative methodology for the study, the observation method to collect data and ordered logistic regression to analyze data. The researchers used data set of internal control issues from American business owners that consisted of 9,593 records for their study. Scholars use predicted values of ordered logistic regression model to rank detected exceptions (Issa & Kogan, 2014). The methodology the researchers use enhances audit efficiency by concentrating on the concept of audit by exception (Issa & Kogan, 2014). The researchers can use the ordered logistic regression model as a teaching tool that permits non-expert users to access knowledge. The ordered logistic regression model offers business owners a chance to describe issues with non-conforming risk levels (Issa & Kogan, 2014). This will, in turn, enhance the preparers' capability to assess the risk levels. The scholars use the ordered logistic regression model as the consistency check (Issa & Kogan, 2014).

External auditors can analyze all the audits that involve control risks, which internal auditors perform (Asare & Wright, 2012). The external auditors assess the quality of internal audits (Issa & Kogan, 2014). All the independent variables are statistically significant (Issa & Kogan, 2014). The difference between the control-risk assessment model prediction of risk levels and business owners' perception of risk levels shrinks to 16.43 percent (Issa & Kogan, 2014). For example, control risk-self assessment model can predict some cases to be on the medium risk level but business owners actually assign them to a low risk level (Issa & Kogan, 2014). The accuracy of the predicting model is greater than the fitted model. The researchers find the business owners efficiently use control risk-assessment model because they acquire experience

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for using the model over the years. Business owners support the cases that control risk-assessment model predicts to be at low risk and medium risk (Issa & Kogan, 2014).

Specifically, the control risk-assessment model predicts two extreme outliers to be at a low risk level but the business owners consider them to be at a high risk level (Issa & Kogan, 2014). There were three outliers that the control risk-assessment model predicts to be at a high risk level but business owners consider them to be at a low risk level (Issa & Kogan, 2014. The level of alignment is 16.46% of the cases, which the control risk-assessment model predicts to be at a medium risk level but the business owners classify them as a low risk-level class (Issa and Kogan (2014). The lowest level of alignment between the entrepreneurs and control risk self-assessment occur when the predictive model predicts control cases to be at high risk level, but entrepreneurs classify them as medium risks (Issa & Kogan, 2014). The auditors and entrepreneurs fail to assign high risk to risky cases (Petrovits, Shakespeare, & Shih, 2011). The auditors' key duty is to disclose risk levels and perform a substantive test as regards the control issues of businesses (Petrovits, Shakespeare, & Shih, 2011). Business owners disclose risk levels as well as accounting for weaknesses of the internal control Petrovits, Shakespeare, & Shih, 2011). Entrepreneurs make several attempts to correct the internal control weaknesses (Frazer, 2012). Entrepreneurs are bias to overestimate the risk level of internal control weaknesses (Issa & Kogan, 2014). The entrepreneurs' overestimation of risk levels is due to their conservatism to be pessimistic view of internal controls (Issa & Kogan, 2014).

The internal auditors' evaluation of internal control risk gains more recognition to external auditors and management (Issa & Kogan, 2014). Internal auditors exhibit high quality jobs to satisfy the stakeholders (Petrovits, Shakespeare, & Shih, 2011). External auditors use the control risk self-assessment to review the internal auditors' and entrepreneurs' assessment of

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internal control weaknesses (Issa & Kogan, 2014). Enterprises apply the predicted values to rank the exceptions (anomalies of internal controls); this ranking enables the external auditors to concentrate on the exceptions (Issa & Kogan, 2014). The system of ranking the anomaly of internal controls enhances the efficiency of audits (Issa & Kogan, 2014). The external auditors concentrate on the exceptions of internal controls (Issa & Kogan, 2014). The ranking process serves as a teaching technique that permits non-expert users to have access to professional knowledge. The business owners use data they gather from highly skillful auditors to study the anomaly of the internal controls (Issa & Kogan, 2014). The entrepreneurs can efficiently interpret the internal control deficiencies (Mei, Chan, McVay, Sarah, & Skaife, 2015). The business owners' ability to interpret the anomaly of internal controls improves the external auditors' capability to assess the risk levels (Mei, Chan, McVay, Sarah, & Skaife, 2015). The researchers can apply the results to the companies that use similar control risk self-assessment and have a dataset that contains specific control problems. The business owners can use the control risk self-assessment model to ascertain the outliers while they use ranking system to prioritize the outliers (Issa & Kogan, 2014).

The key limitation of this study is that the researchers did not know the weights of the ordinal variables (Issa & Kogan, 2014). Also, the researchers did not know whether the distance from a critical to a major issue is equal to the distance between a major and non-major issue (Issa & Kogan, 2014). The company did not disclose the standard they used to classify the issues into critical, major and non-major issues (Issa & Kogan, 2014).

The Effect of Human Resource Investment in Internal Controls

Jong, Sunhwa, Hogan, and Joonil (2013) collected a sample of 5,402 internal control weakness firms from Korean-listed firms. The researchers used a quantitative methodology along

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with logistic regression to analyze the data and the observation method to collect the data. Companies that have stronger internal control system indicates that the companies possess internal control personnel that monitor and detect frauds and irregularities (Jong, Sunhwa, Hogan, & Joonil, 2013). The proportions of internal control personnel are negatively connected with the disclosure of internal control weakness. A variation in internal control personnel is positively connected with internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). Internal control weakness companies are smaller, younger, and financially deficient relative to control companies (Jong, Sunhwa, Hogan, & Joonil, 2013). Companies that experience internal control weaknesses suffer losses, low growth, and cash flows problem (Frazer, 2012). Internal control weaknesses differ from country to country because of different legislature (Jong, Sunhwa, Hogan, & Joonil, 2013).A board of directors of a business entity that consist of more external directors is not efficient to avert internal control weaknesses (Su, Zhao, & Zhou, 2014). Companies that have large shareholders do not experience internal control weaknesses (Su, Zhao, & Zhou, 2014). The decrease in internal control personnel during the accounting period is positively related to chances of reporting internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). The increase in internal control personnel during the accounting period is negatively related to chances of reporting internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). A change in internal control personnel is positively related to chances of remediating the internal controls (Jong, Sunhwa, Hogan, & Joonil, 2013). Changes in internal control personnel in accounting, information technology system and other departments are not significantly related to the chances of remediation in the subsequent year (Jong, Sunhwa, Hogan, & Joonil, 2013).

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Control variables- increased company size, enhanced financial condition, and increased inventory levels- are significantly related to bigger chances of remediation of internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). The researchers discover that equity issuance, an increase in cash flow problems, and an increase in the ownership of big shareholders are related to smaller chances of remediation (Su, Zhao, & Zhou, 2014). An optimal level of internal control personnel decreases the efficiency of the internal controls (Jong, Sunhwa, Hogan, & Joonil, 2013). The internal control issues are shortage of manpower and none existence of segregation of duties (Frazer, 2012). Improper training of personnel poses a challenge to remediate internal control weaknesses (Jong, Sunhwa, Hogan & Joonil, 2013). Non-internal control-associated weaknesses relate to internal control staff (Jong, Sunhwa, Hogan, & Joonil, 2013). Staff-related internal control weaknesses are associated with shortage of workers, segregation of duties, and deficient oversight of internal controls (Jong, Sunhwa, Hogan, & Joonil, 2013). Non-internal control workers that discharge their duties in various departments are connected to the disclosure of staff-associated internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013).

There is a relationship between a change in resource internal control and mitigation of staff-internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). It is very hard to mitigate staff-related internal control weaknesses than other type of internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). There is a significant relation between staff-related internal control weaknesses and trends in resource internal control (Jong, Sunhwa, Hogan, & Joonil, 2013). Companies that have increase in internal control staff have more chances to mitigate non-staff-associated internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). Companies that have decrease in internal control staff have less chances to mitigate non-

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staff- associated internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). Non-existence of internal control staff is associated with internal control weaknesses that are not directly associated with staff matters (Jong, Sunhwa, Hogan, & Joonil, 2013). An adequate number of internal control workers can avert and mitigate various kinds of internal control weaknesses (Frazer, 2012). The researchers find change in internal control staff quality at company level is positively related to the chances of mitigating recent reported internal control weaknesses (Jong, Sunhwa, Hogan, & Joonil, 2013). Quality of internal control staff is associated with the effectiveness of internal controls (Frazer, 2012). Internal control staff quality and quantity are essential to ascertain the efficiency of internal control (Jong, Sunhwa, Hogan, & Joonil, 2013).

The results were consistent with the perception that internal control staff were related to both staff-associated and non-staff associated internal control weaknesses. However, the results are deficient because the sample size was small and lacked statistical power. The researchers did not generalize the outcomes to other countries because of unknown institutional differences—differences in Generally Accepted Accounting Principles and tax requirements. The implementation of guidelines for internal controls in other countries may differ. The researchers revealed there are other unknown institutional factors (endogeneity) that can affect both human resource investment in internal control personnel and disclosure of internal control weaknesses. There are some measurement errors in describing the internal control personnel that affect the findings. The description of what constitute the internal control personnel is vague and unclear (Jong, Sunhwa, Hogan, & Joonil, 2013).

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The Effect of Type of Internal Control Report on Users' Confidence

Asare and Wright (2012) used a sample of 65 equity analysts from northern United States for the study. The researchers used a survey method to collect data, a one-way multivariate analysis of variance (MANOVA) to analyze the data, and quantitative methodology for the study. Public companies that accept an adverse internal control over financial reporting (report) also accept standard audit report on the financial statements (Asare & Wright, 2012). Material weakness in internal control over financial reporting can occur when companies materially misstate their financial statements (Asare & Wright, 2012). Auditors that notice the ineffectiveness of internal controls can transform their plans to minimize the audit risks in financial statements to a reasonable level (Asare & Wright, 2012). Analysts' confidence in the standard audit report is greater when it is associated with account-specific unfavorable internal control over financial reporting (ICOFR) relative to entry-level unfavorable internal control over financial reporting (Asare & Wright, 2012). Standard audit report confidence has an impact on the decline in the stock price (Asare & Wright, 2012). Confidence in the standard audit report has no significant impact on stock recommendation (Asare & Wright, 2012). Standard audit report confidence is significant and has a negative impact on the investment decision Petrovits, Shakespeare, & Shih, 2011). Favorable investment decision has a positive impact on stock recommendation (Asare & Wright, 2012). Standard audit report confidence lacks significant impact on stock recommendation. The kind of material weaknesses an adverse report discloses impacts the investors' confidence (Petrovits, Shakespeare, & Shih, 2011).

Standard audit report (SAR) is an essential gauge when taking investment judgment (Petrovits, Shakespeare, & Shih, 2011). Confidence in standard audit report is smaller with a combination of standard audit report and adverse internal control over financial reporting (Asare

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& Wright, 2012). Confidence in the standard audit report for the investors that obtain the unqualified internal control over financial reporting is greater than both the account-specific and entity-level internal control weaknesses (Asare & Wright, 2012). The high confidence offers stronger proof that adverse combined reports hamper users' confidence in the standard audit report (Asare & Wright, 2012).

Investors that obtain unqualified internal control over financial reporting have greater confidence that the audited financial statements have no material misstatements than the investors who obtain the account-specific unfavorable internal control over financial reporting (Asare & Wright, 2012). The evaluation of confidence of investors in account-specific unfavorable internal control over financial reporting is greater than investors in entity-level situation (Asare & Wright, 2012). The chances that financials contain misstatements for investors that obtain the unqualified internal control over financial reporting is smaller than the account-specific and entity-level unfavorable internal control over financial reporting (Asare & Wright, 2012). The information risk increases when there is adverse material weakness (Stoel & Muhanna, 2011). Firms that obtain an unfavorable internal control over financial reporting also obtain a standard audit report on the financials (Asare & Wright, 2012). Auditors can modify their plans appropriately and decrease the audit risks in the financial statements to the right level (Issa & Kogan, 2014). Investors perceive consolidation of a standard audit report and an unfavorable internal control over financial reporting as inconsistent (Asare & Wright, 2012). The ugly consolidated audit reports on deficient internal control over financial reporting and financial statements negatively impact investors' confidence (Asare & Wright, 2012). The decrease in confidence in the standard audit report is highly significant (Issa & Kogan, 2014).

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The manipulation of control report has no impacts on the confidence in auditors' capability (Asare & Wright, 2012). This non-existence of impacts on auditors' confidence indicates that variation of confidence in the standard audit report has no connection with auditors' bias (Asare & Wright, 2012). Auditors are not bias in the standard audit report (Petrovits, Shakespeare, & Shih, 2011). There is a connection between internal control over financial reporting and confidence in the standard audit report (Asare & Wright, 2012). Also, there is a connection between the internal control over financial reporting and mediators (Asare & Wright, 2012). The information risk parameter and verification risk parameter are positively significant (Asare & Wright, 2012). The modified information risk and modified verification risks are positively significant (Asare & Wright, (2012). The various kinds of internal control over financial reporting disclosures are significantly connected (Su, Zhao, & Zhou, 2014). The modified information risk exhibit a significant impact on the confidence in the standard audit report (Asare & Wright, 2012). The modified verification risk has a significant impact on confidence in standard audit report (Asare & Wright, 2012).

There are some limitations in this study. Users perceive a combination of a standard audit report and adverse internal control over financial reporting as an inconsistent red flag (Asare & Wright, 2012). The inconsistency between the reports can mar confidence in the standard audit report (Asare & Wright, 2012). The joint auditor report on ineffectiveness of internal control over financial reporting influences users' judgment by downgrading their confidence in the standard audit reports (Asare & Wright, 2012). The standard audit report on financial statements loses credibility when it is combined with adverse internal control over financial reporting (report). Researchers did not know whether confidence in a standard audit report is restored when internal control over financial reporting is remediated (Asare & Wright, 2012).

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Researchers did not know whether a downgrade of confidence in a standard audit report has a long-term impact on confidence in auditors. The researchers did not offer subjects with corporate officers' certification (Asare & Wright, 2012). The availability of the report may change users' confidence judgment and risk evaluation (Asare & Wright, 2012). There is a significant variation between investors that obtain the unqualified report and investors that obtain the entity-level unfavorable internal control over financial reporting (Asare & Wright, 2012). The difference between the unqualified internal control over financial reporting and account-specific adverse internal control over financial reporting is not significant (Asare & Wright, 2012. Differences also occur between unfavorable account-specific internal control over financial reporting and unfavorable entity-level internal control over financial reporting (Asare & Wright, 2012). These results support the view that investors are more pessimistic of the capability of auditors' procedures to identify and amend material misstatements that a weak entity-level internal control over financial reporting produce (Asare & Wright, 2012). The results disclose the investors' concerns about the capability of auditors' procedures become intense when entity-level material weakness occur (Petrovits, Shakespeare, & Shih, 2011).

The Effect of Internal Controls on the Operating Activities of Small businesses

Frazer (2012) used a sample of 270 small businesses from the New York State Businesses Association's database of small businesses in Nassau County of New York State that have been in business for at least three years. The researchers used a survey method for the study as well as quantitative methodology and a linear regression analysis to analyze the data.

Internal controls have positive impacts on small businesses' survivability and profitability (Frazer, 2012). Proper internal controls make small businesses more sustainable and profitable (Frazer, 2012). Internal control frameworks offer reasonable assurance that assets are

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safeguarded and that financial statements are objective and trustworthy (Jong, Sunhwa, Hogan, & Joonil, 2013). There is a relationship between the failure rate and internal controls (Indranil, Lin, & Wu, 2015). Material weaknesses in internal controls are more likely to occur in smaller, younger, and financially lean businesses (Frazer, 2012). Small businesses have weak internal controls (Frazer, 2012). Small businesses that have deficient internal controls outnumber the percent of small businesses with sufficient internal controls (Frazer, 2012). The managers of small enterprises uphold the view that internal controls are deficient (Frazer, 2012). The entrepreneurs that uphold negative view of internal controls do not recognize the usefulness of internal controls on enhancing profit and survivability (Frazer, 2012). The entrepreneurs uphold the positive view that internal controls will increase profits, reduce costs, and increase return on assets (Frazer, 2012). Efficient internal controls offer reasonable assurance that enterprises protect their assets and financial statements are objective and reliable (Frazer, 2012).

There are some limitations in this study. Frazer (2012) does not know whether internal controls are sufficient, if other researchers decide to replicate the study on other industries. Also, Frazer (2012) does not know whether internal controls are sufficient.

The Conception of Internal Control

An effective internal control system is one of the essential tools an enterprise must use to accomplish a competitive advantage over other businesses (Lakis &Giriunas, 2012). Internal control is a tool and means of controlling risks and it aids a firm to accomplish its goals, as well as performing its duties (Lakis & Giriunas, 2012). Effective internal controls expose and eradicate threats and risks (Issa & Kogan, 2014). Internal controls minimize mistakes and frauds in businesses as well as providing precautionary means that avert mistakes and frauds (Lakis & Giriunas, 2012). Internal controls are a performance measure of every business entity with a

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defined influence on operations of businesses (Lakis & Giriunas, 2012). The American Institute of Certified Public Accountants (AICPA) defined the internal control for the first time in 1949 (Lakis & Giriunas, 2012). AICPA defined the internal control as a plan and coordinated means and way by which an entity safeguards its assets, checks covertness and reliability of data to increase its efficiency and to assure the correct implementation of management policies (Lakis & Giriunas, 2012).

In 1992, the Committee of Sponsoring Organizations of Treadway Commission (COSO) came into existence and defined the concept of internal control to include implementation of the measures to ensure the prevention of the internal control deficiencies (Lakis & Giriunas, 2012). Internal control is an executive process that accomplishes the following elements, which include: efficiency and effectiveness of operations; reliability of financial records; and obeying laws and regulations (Lakis & Giriunas, 2012). Nowadays, there is a set of concepts that defines the system of internal control as a means of leadership to assure the safety of enterprise assets (Lakis & Giriunas, 2012). The Lithuanians and foreign scientists improved on the definition of the internal control concept (Lakis & Giriunas, 2012). The internal control means examining, perceiving, maintaining, and restricting the business operations (Lakis & Giriunas, 2012). A thorough examination of internal control definitions depicts that different scholars provide various definitions of internal control, but the general purposes of internal control remain the same. The general purposes of the internal control include: assuring a reliable and comprehensive information to safeguard the property and documents, and assuring the efficient economic operations, to mention just a few (Lakis & Giriunas, 2012). The internal control is the part of the company management that assures the fulfilment of its goals, efficient economic and commercial operations, and efficient regulation of risks (Issa & Kogan, 2014). The internal

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controls help to reduce the number of errors and frauds in business operations (Lakis & Giriunas, 2012).

The internal control originated from the Great Depression that occurred in 1929 when stock prices collapsed, resulting in loss of investors' confidence in the United States' stock market (Frazer, 2016). Inflated share prices, inefficient monetary policies, deceit, fraud, fraudulent financial reports, and insufficient internal controls are the key causes of the economic depression (Frazer, 2016). Congress enacted the Securities Act to ensure that shares sold in the stock market are free from distortion, deceit, manipulation, and other vices of the fraudulent activities (Frazer, 2016).

Internal controls have numerous benefits and are essential to the existence of companies (Frazer, 2016). Members of management use internal controls to maintain records of costs incurred for carrying out transactions in small businesses (Frazer, 2016). Managers use the costs to plan and take decision on decreasing organizational costs (Ehrlich & Williams, 2016). Internal controls involve division of labor that managers use to eliminate collusion among dishonest workers that commit deceitful acts (Ehrlich & Williams, 2016). There are transfers and some changes in the workforce. Workers are transferred to other departments to avoid illegal cooperation among employees (Ehrlich & Williams, 2016). The business leaders should hold workshops and seminars to educate workers on the importance of implementing internal controls (Ehrlich & Williams, 2016). The components of internal controls include accounting and financial controls, administrative and managerial controls, inventory controls, purchasing controls, and cash controls (Frazer, 2016). Accounting and financial controls make sure that financial statements- cash flow, balance sheet, income and expenditure, and retain earnings- are properly prepared (Frazer, 2016). The managers should review the accounting records regularly

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to eliminate the erroneous data and maintain true and fair financial records (Frazer, 2016). The external auditors should audit the financial records regularly to detect financial crimes and eliminate false entries from the financial records (Frazer, 2016). All financial records should be updated and secured (Frazer, 2016). There should be outsource of the accounting section. A third party should render professional auditing and accounting services to companies. Ehrlich & Williams, 2016). The third party that has no connection with the firms may provide more reliable financial statements. (Ehrlich & Williams, 2016). The key goal of a company is to maximize the return on the owners' capital while minimize the costs of production and sales (Ehrlich & Williams, 2016). Enterprises should recognize revenues and expenses based on the accounting principles Frazer, 2016). As a result, there will be one standard of income and expenses measurement for all the transactions. The income statement serves as the analytical tool that discloses good and poor performance (Frazer, 2016). Cash flow is the money derived from the annual operating activities of a business (Frazer, 2016). Companies use cash flow to settle their financial obligations. The key problem with businesses is to have excess inventory because of poor control of stock. Some enterprises may have obsolete and damaged inventories as their closing stock that serves as assets in the balance sheet. The companies inflate their profits with the obsolete inventories that they should have written off as losses (Frazer, 2016). The company with excess inventories may have problem with cash that they will use to settle their debt (Frazer, 2016). Cash-intensive companies are prone to financial crimes (Frazer, 2016). When dishonest employees perceive that somebody will see them when they steal some cash, they will not commit the financial crimes (Frazer, 2016). However, when the dishonest individuals notice that nobody will see them for stealing the cash, they will seize the opportunity to steal cash (Frazer, 2016). When members of management neglect the cash flow statement that discloses the

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amount of cash in the business, dishonest employees may defraud the huge amount of money without being detected. The business may be financially deficient if the fraudulent activities persist while the members of the management overlook the cash flow statement (Frazer, 2016). The control mechanism includes supervising the handling of cash, sales invoice and issuing receipts for receiving cash (Ehrlich & Williams, 2016). The sales invoice is received from the vendors. The invoices specified the quantity and cost of goods and services rendered to the organizations.

The Updated COSO Internal Control-Integrated Framework

The internal control involves the policies, rules, and procedures the management of a company adopts to provide reasonable assurance that financial reports are reliable, the operations are effective and efficient, and company activities comply with the prevailing laws and regulations (Frazer, 2012). There are two kinds of internal control that help the companies to make decisions: financial and administrative controls (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). The financial controls are connected to the reliability of financial information and administrative controls are connected to the actions of employees (Janvrin, Payne, Byrnes, Schneider, & Curtis (2012). The U.S. government created the Committee of Sponsoring Organizations of Treadway Commission (COSO) in 1985 to ascertain the elements that can cause the fraudulent financial reports and to devise a recommendation to put to rest the challenges (Frazer, 2012). Weak internal controls are a red flag to frauds (Frazer, 2012). Members of Committee of Sponsoring Organization of the Treadway Commission devised a model that organizations will use to put to rest the weak internal controls (Janvrin, Payne, Byrnes, Schneider & Curtis, 2012). Members of Committee of Sponsoring Organization of Treadway Commission created the internal controls integrated framework to put in place the

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internal control system (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). The internal control system of Committee of Sponsoring Organization of Treadway Commission serves as a guide to every business to have a strong internal control (Frazer, 2012).

Members of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) recently issued an exposure draft to update the internal control framework that they established in 1992 in order to respond to changes in the business, operating environments, advances in technology, increased market globalization, and increased shareholders' interest (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). Members of Committee of Sponsoring Organization of the Treadway Commission intend to use the updated framework to assist organizations to establish and maintain internal controls that are adaptable to changes in the business and operating environments (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). The new framework maintains the previous definition of the internal control and five components of internal control that include control environment, risk assessment, control activities, information and communication, and monitoring (Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). Also, the new framework retains the three objectives of the internal control (operations, reporting, and compliance). The aim of members of Committee of Sponsoring Organization of Treadway Commission is to create and implement internal controls that will increase the chances of accomplishing the enterprise objectives (Janvril, Payne, Byrnes, Schneider, & Curtis, 2012).

Sarbanes-Oxley Act 2002

The United States Congress passed the Sarbanes-Oxley Act to put in place good financial statements and build the investors' confidence in the reliability of financial reports (King & Case, 2014). The sections 302 and 404 of Sarbanes-Oxley Act (SOX) need the company management to evaluate internal controls and disclose internal control weaknesses (King &

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Case, 2014). Auditors should attest to top management assertion that the internal control system is efficient and express their opinion on the efficiency of the internal control system (King & Case, 2014). Internal control weaknesses can lead to fraudulent financial reports (Frazer, 2012). Hence, an efficient internal control system is essential to assure quality financial reports (King & Case, 2014). The U.S. Congress enacted SOX as a response to corporate and accounting scandals because of weak internal controls (King & Case, 2014). Investors lost billions of dollars when the stock price of the victim companies (Enron, Tyco International, Adelphia, and WorldCom) dropped drastically (King & Case, 2014). The Public Company Accounting Oversight Board (PCAOB) came into being to oversee, control, inspect, and discipline accounting firms for fraudulent audits of companies (King & Case, 2014). The Public Company Accounting Oversight Board (PCAOB) evaluates the internal controls, ensures auditors' independence, and corporate governance (King & Case, 2014). The Public Company Accounting Oversight Board enhances the quality of internal controls (King & Case, 2014). The Sarbanes-Oxley Act requires auditing firms to evaluate the quality of internal controls in organizations and report any internal control issues to audit committees (King & Case, 2014). The audit committees will take necessary actions to put in place strong internal controls in the organizations. The Public Company Accounting Oversight Board ensures quality of internal controls in organizations (King & Case, 2014).

SOX 404(b) internal control audits and SOX(a) management assessments are connected to enhanced quality of internal control mechanism. Control audit and evaluation result in improvement of internal control quality (Schroeder & Shepardson, 2016). Companies that have a strong internal control mechanism possess enhanced operational efficiency and reduced borrowing rates (Schroeder & Shepardson, 2016). Members of management use non-audited

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financial statements to make the appraisal of accruals. Earlier research on internal control audits and reporting quality resolves the impacts of the internal control over financial reporting audits (Indranil, Lin, & Wu, 2015). The researchers performed a study; whether internal control over financial reporting audits result in efficiency of the financial reports (Indranil, Lin, & Wu, 2015). There was the use of unaudited accrual quality to determine whether internal control audits lead to internal control enhancements (Schroeder & Shepardson, 2016). The key goal is to ascertain if the internal control over financial reporting audits enhance internal control quality. The members of the management tend to enhance internal controls in reaction to internal control over financial reporting audits (Schroeder & Shepardson, 2016). Providing proof of internal control quality impacts on control audits was emphasized. Small businesses (non-accelerated filers) have management evaluation without internal control over financial reporting audits (Schroeder & Shepardson, 2016). Non-accelerated filers are exempted from audits because of high audit costs (Schroeder & Shepardson, 2016). The key aim is to ascertain whether control disclosure laws result in internal control quality enhancements. Determining whether the results reflect on the internal control quality, there was an estimation of findings, utilizing the chances that unaudited financial reports are materially misstated (Indranil, Lin, & Wu, 2015). Based on the sample of accelerated filers (big companies), unaudited accrual quality minimized between pre- and post-Auditing Standard No. 5 periods, which serves as a proof that auditing standard change may result in decay of internal control quality (Schroeder & Shepardson, 2016). The Auditing Standard No. 5 tends to be ineffective at enhancing internal control quality relative to Auditing Standard No. 2 (Schroeder & Shepardson, 2016). The reduction in material weakness under the Auditing Standard No. 5 does not imply enhancement of internal control quality (Schroeder & Shepardson, 2016). Big companies unaudited accrual quality became worse vis-à-vis small

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companies (Schroeder & Shepardson, 2016). There is no proof that SOX 404(a) management assessments impacts unaudited accrual quality (Schroeder & Shepardson, 2016). As a result, management evaluation is not the right solution but internal control over financial reporting audits could enhance the internal control quality (Frazer, 2016). Auditors report little material weakness under Auditing Standard No. 5 but a large percentage of small companies tend to disclose material weakness under SOX 404(a) (Schroeder & Shepardson, 2016).

SOX 404 requirements are connected to internal control over financial reporting that deals with internal control system that impacts the accounting and internal control mechanism (Frazer, 2016). The internal control over financial reporting auditing laws offer the following advantages: enhance internal controls, increase quality financial statements audit, and credible disclosure of material weakness (Schroeder & Shepardson, 2016). Members of management ascertain and mitigate deficiencies to enhance the internal control quality (Frazer, 2016). Determination of operation defects in the interbal control over financial reporting audits could result in proper estimate of control risks (Schroeder & Shepardson, 2016). Enterprises with enhanced internal control quality have the following benefits: reduced managers' wrong forecast, reduced borrowing rates, and enhanced operational efficiency (Schroeder & Shepardson, 2016). Stakeholders obtain credible financial statements because of the enhanced internal control quality (Frazer, 2016).

Quality of Internal Control Over Financial Reporting

The congress enacted Securities Exchange Act (1934) to empower the government to regulate the publicly traded companies (Frazer, 2016). The companies should publish their financial statements quarterly or annually. The reports should be free from errors and deceit (Frazer, 2016). The public company should have efficient internal controls (Frazer, 2016). Many

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companies have their internal controls that they use to address the challenges of fraud (Indranil, Lin, & Wu, 2015). Companies should attest to the efficiency of their internal control over financial reporting (Indranil, Lin, & Wu, 2015). There is a relationship between efficient internal controls and trusted the financial reports (Frazer, 2016). The nature of companies- size, age, and capital- influence their proficiency to develop strong internal controls (Frazer, 2016). Infant enterprises are prone to material weakness relative to big companies (Frazer, 2016). There are three classes of internal control deficiencies that include material weaknesses, aggressive deficiencies, and regulated deficiencies (Frazer, 2016). The inadequate use of resources cause the internal control deficiencies (Frazer, 2016). Some scholars uphold the view that professionally experienced managers and employees can strengthen the internal controls of the businesses (Indranil, Lin, & Wu, 2015). Lack of separation of duties and other internal control challenges result in financial loses of small businesses. (Frazer, 2016). Members of management should know the status of their enterprises before making decision on the use of internal control to combat fraudulent activities (Indranil, Lin, & Wu, 2015).

Many family businesses have internal control challenges. Members of management rely on their workers that perform the financial transactions. The workers may exploit the opportunity to commit fraud. Family-owned businesses lose some revenues to dishonest employees. For example, members of management may manipulate the internal controls to suit their selfish interest at the expense at expense of the family-owned businesses. Workers would like to perpetrate fraud when their bosses are dishonest. The likelihood of family enterprises material weaknesses is 1.88 times higher than that of non-family businesses (Indranil, Lin, & Wu, 2015). The family enterprises in which family members belong to the top management do not show a high likelihood of material weaknesses compared with family companies that do not use any

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control-enhancing technique (Indranil, Lin, & Wu, 2015). Dual-class family companies have more chances to have material weaknesses relative to family enterprises that do not have any control-enhancing technique (Indranil, Lin, & Wu, 2015). Family companies with dual-class shares have more chances to exhibit material weaknesses relative to non-family companies with or without dual-class shares (Indranil, Lin, & Wu, 2015). The impact of interaction between family ownership and dual-class stock structure lead to high chances of material weaknesses among family companies (Indranil, Lin, & Wu, 2015).

There are two levels of material weaknesses, which are account-level material weaknesses and company level material weaknesses (Indranil, Lin, & Wu, 2015). Account-level material weaknesses involve controls over account-specific balances (Indranil, Lin, & Wu, 2015). Company-level weaknesses are weaknesses in one or five components of internal control framework (Indranil, Lin, & Wu, 2015). The control framework consists of control environment, risk assessment, control activities, information and communication, and monitoring (Frazer, 2012). Company-level material weaknesses are more severe relative to account-level material weaknesses (Indranil, Lin, & Wu, 2015). The company-level material weaknesses have impacts on company-wide business procedures (Indranil, Lin, & Wu, 2015). The disclosure of company-level material weaknesses represents a weak internal control environment (Frazer, 2012).

The key limitations to this study are that small size and homogeneity of the sample, together with big number of internal control variables reduces the power of statistical tests (Indranil, Lin, & Wu, 2015). In addition, big companies dominate the S & P 500 population where the researchers obtain the sample to perform the analysis. The faulty sample limits the generalization of findings from the study. The researchers will not generalize the findings to bigger population because the sample size is small with the same features. The homogeneity may

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not exist in bigger population. The homogeneity and small size of sample hurt the external validity of the results.

IT Internal Control Weaknesses and Firm Performance

Stoel and Muhanna (2011) used quantitative methodology for the study and regression analysis to analyze the data. The researchers collected data from databases (Audit analytics and Compusat). Accounting scholars used audit analysis to track every SEC filing, capture management evaluation of effectiveness of internal system (Stoel & Muhanna, 2011). Audit analysis contains 21 kinds of internal control weaknesses (Stoel & Muhanna, 2011). Only one of the types is information technology (IT) internal control weaknesses; the remaining 20 types are non-information technology kinds of internal control weaknesses (Stoel & Muhanna, 2011). Businesses that disclose an information technology internal control weakness (IT ICW) have less return on assets and less earnings multiple relative to businesses with strong information technology internal control system (Stoel & Muhanna, 2011). Effective information technology internal control system is important to minimize the associated risks (Issa & Kogan, 2014). The researchers observed that deficiency in the internal control system negatively impact performance of small businesses- return on assets and investment decreases (Frazer, 2012).

Stoel and Muhanna (2011) utilized audited data evaluation to investigate the value and effects of internal controls. The effects of account procedure internal control weakness and account management internal control weakness change (Stoel & Muhanna, 2011). The most control factors (variables) are significant across the production models (Stoel & Muhanna, 2011). The variables include: age, growth, and foreign transactions, to mention just a few. The standard errors on the variables are small (Stoel & Muhanna, 2011). The information technology internal control material weakness is not related to market valuation (Stoel & Muhanna, 2011). The

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earnings do not ascertain the market value for companies that disclose information technology internal control weaknesses (Su, Zhao, & Zhou, 2014). The results depict that internal control weakness in information technology is a moderator of the association between earnings and market value (Stoel & Muhanna, 2011). The results show that account procedure internal control weakness possesses a negative relationship with the market value (Su, Zhao, & Zhou, 2014).

Account resource internal control weakness moderate the market value/earnings association (Stoel & Muhanna, 2011). The restatement of the financial records minimizes the information risks as they connect with disclosed earnings (Stoel & Muhanna, 2011). The information technology internal control weakness negatively affects performance of the firm (Stoel & Muhanna, 2011). A well remediated information technology internal control weakness is related to a high return on assets (Jong, Sunhwa, Hogan, & Joonil, 2013).

All information technology internal control weakness variables have no significant direct impacts on any given situation (Stoel & Muhanna, 2011). The interaction between changes in information technology internal control weakness and changes in earnings is significantly negative (Stoel & Muhanna, 2011). The interaction that occurs in account procedure internal control weakness is significantly negative (Stoel & Muhanna, 2011). The changes and levels of analytical technique align with poor information technology internal controls, which influence investors to evaluate greater information risk connected with disclosed earnings as a parameter for future earnings (Stoel & Muhanna, 2011). The evaluation efficiently reduces the function of earnings as an element that determines the company's market value (Stoel & Muhanna, 2011). Some non-information technology internal control weaknesses possess higher effect on the study (Stoel & Muhanna, 2011). There is no significant association between information technology internal control weakness and market value (Mei, Dan, & Yuan, 2013). There is a negative

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association between a market valuation and interaction term that deal with information technology internal control weakness and income (Stoel & Muhanna, 2011). The companies that previously suffer some losses may disclose internal control weaknesses in the future (Mei, Dan, & Yuan, 2013). The information technology internal control weakness offer additional explanatory power (Stoel & Muhanna, 2011). The analytical trends are consistent with information technology internal control weakness that affects return on assets (Stoel & Muhanna, 2011). The information technology material weakness is directly related to the return on assets and indirectly related to market value (Su, Zhao, & Zhou).

The key challenge is that Stoel and Muhanna (2011) failed to investigate adequately the differential effects of various kinds of non-information technology internal control weaknesses (IT ICWs). Findings indicate that outcomes of the association between non-information technology internal control weaknesses and return on assets varies across the research process as oppose to consistent results on the impacts of information technology internal control weaknesses on operating performance. Another shortcoming in the study is that the application of aggregated measure of information technology internal control weakness undermines the chances that various kinds of information technology internal control weaknesses can differently affect performance. Specifically, Stoel and Muhanna (2011) failed to classify and examine the effects of different kinds of information technology internal control weaknesses (IT ICWs) as well as confounding variables that influence the results. The exclusion of company-specific variables and selection bias from the study will impact the results. The company-specific and selection bias are third factors.

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Improvement of Investment Efficiency after Disclosure of Material Weakness

Businesses with poor quality of internal controls under-invest when they are financially deficient (constraint) but over-invest when they are financially surplus (Mei, Dan & Yuan, 2013). The quality of an enterprise's financial report is connected with investment efficiency (Mei, Dan & Yuan, 2013). The Sarbanes-Oxley Act requires an enterprise to report if it experiences a material internal control weakness Frazer, 2012). The internal control weakness enterprises that report internal control weaknesses indicate deficient investment before the disclosure (Mei, Dan & Yuan, 2013). But the internal control weakness enterprise will have sufficient investment after disclosure of internal control weaknesses (Mei, Dan & Yuan, 2013). Mei, Dan and Yuan (2013) use control sample and internal control weakness sample. Control sample is the sample of enterprises that do not report internal control weaknesses. But internal control weakness (ICW) sample is the sample of enterprises (firms) that report internal control weaknesses (Mei, Dan & Yuan, 2013). The researchers obtained control sample and internal control weakness sample from Audit Analytics database (Mei, Dan & Yuan, 2013). The researchers use 545, 439 and 388 firms as a sample of ICW firms. Furthermore, the researchers used 4999, 4050, and 3145 as a sample of control firms. Quality of financial report is an independent variable while investment is a dependent variable. When quality of financial reports increases, investment increases and vice versa (Mei, Dan, & Yuan, 2013).

Internal control weakness (ICW) enterprises have more significant investments relative to control enterprises (Mei, Dan, & Yuan, 2013). The researchers use regression analysis to analyze the results. The study contributes to theory; there is a positive relationship between the quality of financial reporting and investment efficiency (Mei, Dan & Yuan, 2013). The researchers analyze the connection between internal control weaknesses over financial reports and efficiency of

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investment prior and after an enterprise's initial report of its internal control weakness (Mei, Dan & Yuan, 2013). A year before disclosure, internal control weakness (ICW) firms over-invest. Furthermore the internal control weakness enterprises under-invest when they perform in a place more expose to over-investment. The investment deficiencies vanish after the disclosure of material weaknesses (Mei, Dan, & Yuan, 2013). When the chances of under-investment are high, internal control weakness companies invest significantly less than control companies (Mei, Dan, & Yuan, 2013). The internal control weakness firms over invest relative to control companies (Mei, Dan, & Yuan, 2013). The material internal control weakness unfavorably impact investment efficiency before the disclosure (Mei, Dan & Yuan, 2013). The unfavorable impacts of investment efficiency are either over investment or under investment (Mei, Dan & Yuan, 2013). The impacts of internal control weaknesses on investment inefficiency are economically and statistically significant (Mei, Dan, & Yuan, 2013).

The differences in the investment levels between the internal control weakness companies and control companies are statistically significant (Mei, Dan & Yuan, 2013). A variation in investment between internal control weak companies and control companies is enormous (Mei, Dan & Yuan, 2013). Further test also serves as a proof that in the year prior to internal control weakness report, companies with internal control weaknesses over-invest under unconstraint resources (Mei, Dan & Yuan, 2013). Furthermore, companies with internal control weaknesses under-invest under constraint resources (Mei, Dan, & Yuan (2013). Further test reveals that increase in investment efficiency changes between companies that remediate their internal control weaknesses in financial statements and companies that have zero remediation (Beng & Dan, 2011).

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Many companies implement many changes after their initial report of internal control weaknesses to address their internal control challenges (Su, Zhao, & Zhou, 2014). The enhancement in the investment effectiveness in the remediated companies for all the results remains the same (Mei, Dan, & Yuan, 2013). The enhancement of investment efficiency in remediated internal control companies remains the same (Mei, Dan, & Yuan, 2013). The internal control weakness companies with regular internal control weakness reports do not significantly under-invest but significantly over invest (Mei, Dan & Yuan, 2013). The test for capital expenditure and non-capital expenditure supports the earlier finding that after the initial report of internal control weaknesses, the under-investment and over-investment disappear (Mei, Dan, & Yuan, 2013). The company's report of its internal control weaknesses, as stipulated by SOX, reduces the investment deficiencies in capital and non-capital investments (Frazer, 2012). The firm-level weaknesses cause investment deficiency (Mei, Dan, & Yuan, 2013). In addition, internal control weakness companies at the account-level exhibit no investment deficiency compared with control companies (Mei, Dan, & Yuan, 2013).

The key problem with this study is that the researchers' findings of decrease in under-investment are weak in some tests (Mei, Dan, & Yuan, 2013). Put another way, decrease in under-investment is not consistent in all the tests. The researchers should not generalize the results. There should be further research to investigate the reasons of the anomaly. There may be third variables that cause the anomaly.

Customers' Response to the Disclosure of Internal Control Weakness

Su, Zhao, and Zhou (2014) selected a sample of 925 firms that have internal control weakness disclosures from Audit Analytics Database. Su, Zhao and Zhou (2014) used regression analysis to analyze the data. The researchers used random sampling method to select the

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participants from the Audit Analytics Database. The reliability of financial statements depends on the efficiency of enterprises internal controls (Asare & Wright, 2012). The independent variable is the efficiency of internal controls while the dependent variable is the reliability of financial statement (Su, Zhao, & Zhou, 2014).

After enterprises disclose their internal control weaknesses, they recorded low sales (Su, Zhao, & Zhou, 2014). The enterprises sales growth significantly decreased because customers were reluctant to purchase their goods from the organizations that disclose their internal control weaknesses (Su, Zhao, & Zhou, 2014). The changes that take place after internal control weakness reports adversely shrink the firm size and foreign transactions (Petrovits, Shakespeare, & Shih, 2011). The decline in sales is consistent with customers' negative perception of the company capability to conduct any business after reporting their internal control weaknesses (Mei, Chan, McVay, Sarah, & Skaife, 2015). Other stakeholders- creditors, capital providers, investors, suppliers, and employees- lose their confidence on the company (Su, Zhao, & Zhou, 2014). The stakeholders cease providing their services for the company that reports its internal control weaknesses (Su, Zhao, & Zhou, 2014). The sales growth decreases greatly for companies that report their internal control weaknesses relative to firms that fail to disclose their internal control weaknesses (Su, Zhao, & Zhou, 2014). The companies with industrial customers suffer most in sales when they report their internal control weaknesses relative to firms that do not have industrial customers (Su, Zhao, & Zhou, 2014). There is more decline in sales of companies that deal with durable products relative to companies that do not deal in durable goods (Su, Zhao, & Zhou, 2014). The regression results align with view that customers take into account the internal control weaknesses of a company before making a purchase decision on the company goods and

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services (Su, Zhao, & Zhou, 2014). There is a positive association between reliability of financial statements and efficiency of the internal controls (Su, Zhao, & Zhou, 2014).

The decrease in sales for companies that remediate their internal control weaknesses is small compared with companies that do not do the same (Su, Zhao, & Zhou, 2014). Customers can differentiate internal control weakness companies that remediate their weaknesses from the internal control weakness firms that do not remediate their weaknesses. Internal control weaknesses increase with complex operations of the enterprises. Extreme sales growth and inventory can increase the internal control weaknesses in any organization (Su, Zhao, & Zhou, 2014). The researchers discover restructuring actions can increase the internal control weakness in an organization (Su, Zhao, & Zhou, 2014). The internal control weaknesses increase when a business has a resources constraint (Asare & Wright, 2012).Further test confirm some companies inflate their sales before reporting their internal control weaknesses (Frazer, 2012). There is an aggressive reversion of inflated sales of pre-disclosure of internal control weaknesses to smaller sales of post disclosure of internal control weaknesses (Su, Zhao, & Zhou, 2014). Inflated sales (aggressive report) of pre-internal control weakness disclosure cause a decline in future sales growth (Su, Zhao, & Zhou, 2014). The internal control weakness disclosure impacts on some companies costs that include purchases, wages, loans, and production cost (Su, Zhao, & Zhou, 2014). Due to disclosure of internal control weaknesses, employees reduce their performance (they produce less goods or services), suppliers reduce their raw materials, and capital providers offer less capital (Su, Zhao, & Zhou, 2014).

The problem with this study is that there are other third variables that can decrease the customers' demand for the enterprises products after internal control weakness disclosure, which the study fails to consider (Su, Zhao & Zhou, 2014). For example, customers' change of taste

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and dwindling financial situation, to mention but a few, can decrease customers' demand for the firms' products. The other problem is that there is a selection bias; a person may select a control firm as an internal control weakness company because not every firm has internal control weaknesses.

A Conceptual Model for Segregation of Duties

Kevin (2014) used qualitative case study to conduct the research. The researcher used interviews to collect data from the participants. The researcher conducted interviews with some of American small businesses. The researcher used telephone interview to collect data from American small businesses.

There is difference between primary segregation of duties and secondary segregation of duties. Primary segregation of duties detects theft of assets and secondary segregation of duties detects deficiencies in the performance of primary duties. The separation of duties between at least three workers in a manual procedure and five in information technology-supported procedures maintains a consistent degree of internal controls (Kevin, 2014). The divisions of labor among the three or five workers may promote operational efficiency in some small businesses but do not address the issue of separation of duties (Kevin, 2014). The study added two additional duties (grant of access and authorization of access) necessary to accomplish a primary separation of duty for information technology-assisted tasks (Kevin, 2014). The major characteristics of a control design- who will originate a transaction, approve it, or change programs that directly control assets and records- are modified with computer-based access control (Kevin, 2014). The authorization mainly appraises and discloses activities of employees who undertake the work of asset custody (Kevin, 2014). In many businesses the same employees that are in charge of custody of assets record the transactions of the assets as opposed to

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segregation of duties (Frazer, 2012). The segregation of duties model and agency theory-based model do not mean the same thing (Kevin, 2014). The segregation of duties model reflect the findings of agency theory based segregation of duties that advocates the three-way segregation of duties that include custody, primary authorization, and secondary authorization. The features of a firm's segregation of duties include initiating, approving, and modifying transactions (Frazer, 2012). Workers that are independent of segregation of duties should make and review changes to the organizational segregation of duties (Kevin, 2014).Separation of duties model asserts that management should honor segregation of duties to allow some employees to review and report on activities the assets custodians (Kevin, 2014). The Separation of duties will minimize fraudulent activities in the organization (Frazer, 2016). The principles of segregation of duties model help managers and auditors to efficiently evaluate whether internal controls in enterprises is adequate (Kevin, 2014). The Separation of duties model offers opportunity to promote the quality of internal control and minimize the cost of segregation of duties (Kevin, 2014).

Members of management could connive with their subordinates to circumvent the segregation of duties to commit fraud. The internal control issues may be prone to human mistakes. The internal controls may not address the fraudulent cases because many workers are dishonest. The efficient internal controls may be deficient because honest employees may become deceitful at the expense of their organization (Indranil, Lin, & Wu, 2015). In some small businesses, one person does three or more jobs without being supervised (Frazer, 2016). Members of management may uphold the view that internal controls are unnecessary and unimportant (Indranil, Lin, & Wu, 2015). Auditors may have the perception that internal controls of an enterprise is strong and over rely on them (Frazer, 2016). As a result, there may be more

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fraud because workers may perpetrate fraud when they notice that auditors have relaxed to perform a thorough audit (Frazer, 2016).

The study failed to investigate the trends of costs emanating from transfer of recording transactions to an agent (employee) that is not in charge of asset custody (Kevin, 2014). The segregation that the study proposed does not suit information technology-related procedures (control of access, keeping and managing programs). Kevin (2014) declares future researchers should compare the segregation model with the segregation of duties that commercial software vendors recommend in the assessing tools to determine any discrepancy, if any. Kevin (2014) is not sure of the capability of the model; hence the researcher recommend for more study on the segregation of duties to ascertain whether findings are consistent.

Small Businesses Fraud

The segregation of duties is a branch of internal control (Hrncir & Metts, 2012). There is no segregation of duties in small businesses (Hrncir & Metts, 2012). An employee can complete the whole transaction without other employees either review or perform the part of a transaction (Hrncir & Metts, 2012). There are no checks and balances in the management of small businesses (Hrncir & Metts, 2012). Small businesses are prone to frauds because of non-existence of internal controls (Frazer, 2012). Small businesses do not have adequate resources required to offer oversight of business (Frazer, 2012). Occupational fraud is common in the small businesses; workers engage in all kinds of fraud that include check tampering, credit card theft, and inventory theft, to mention just a few (Hrncir & Metts, 2012). The occupational frauds take place because small businesses do not have adequate resources to put in place a strong internal control system. The small businesses do not have sufficient capital to hire capable workers that can perform various duties (Hrncir & Metts, 2012). The business owners have so much trust on

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their employees. The entrepreneurs sacrifice internal controls for interpersonal relationship with their employees. Estimated yearly losses due to occupational frauds range from 20 billion to 90 billion dollars (Hrncir & Metts, 2012). Occupational frauds cause 30 to 50% of small businesses' failures (Hrncir & Metts, 2012). In every small business, there is one person that is responsible for the enterprise's financial management (Hrncir & Metts, 2012). Due to non-existence of segregation of duties, the dishonest person has free access to the custody of the organization's assets (Hrncir & Metts, 2012). Non-existence of internal controls and unnecessary trust on employees can enhance fraudulent transactions in small businesses (Hrncir & Metts, 2012).

Consequences of Internal Control Problems

Petrovits, Shakespeare and Shih (2011) get their data from public charities. The data are from two sources that are: the A-133 Single Audit database and the IRS Form 990 databases. The A-133 data consist of general auditee information, the amount of federal awards, auditor name, and type of audit performed. IRS data consist of revenues, expenses and balance sheet. There is a public support sample of 47,318 observation, and government sample of 65,415 observations (Petrovits, Shakespeare & Shih, 2011). The observations consist of five industries that include: education, health, human resources, public benefits, and art (Petrovits, Shakespeare & Shih, 2011).

A going concern statement is positively related to internal control deficiencies; and surplus is negatively related to internal control deficiencies (Petrovits, Shakespeare, & Shih, 2011). Internal control problems are positively related to growth, and risks (Petrovits, Shakespeare, & Shih, 2011). The low financially healthy and growing organizations report more internal control inefficiencies (Petrovits, Shakespeare & Shih, 2011). Small and complex businesses report more internal control weaknesses (Petrovits, Shakespeare & Shih, 2011).

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Internal control weaknesses increases when an enterprise uses a regional audit firm to audit its financial records (Petrovits, Shakespeare, & Shih, 2011). If a company discloses internal control weaknesses in previous years, the company will disclose internal control weaknesses in the present year (Petrovits, Shakespeare & Shih, 2011).

The frequency of internal control weaknesses is statistically the same for companies with direct support (Petrovits, Shakespeare, & Shih, 2011). The direct support means public support (Petrovits, Shakespeare, & Shih, 2011). A negative and significant exist in the relationship between internal control weaknesses and public support (Petrovits, Shakespeare, & Shih, 2011). Petrovits, Shakespeare and Shih (2011). The audit cost for businesses with internal control weaknesses is high (Frazer, 2012). The cost-benefit analysis discloses an advantage for putting in place a strong internal control system (Frazer, 2012).

The government contributions, program revenues, and public supports are associated with internal controls (Petrovits, Shakespeare, & Shih, 2011). Individuals that organize and contribute to fund-raising program do not consider internal control issues (Petrovits, Shakespeare, & Shih, 2011). The decisions that people, corporations, and foundations make are related to internal control issues over financial reporting (Petrovits, Shakespeare, & Shih, 2011). The internal control issues impact industries that obtain more contributions from donors (Petrovits, Shakespeare, & Shih, 2011). Some individuals may hesitate to donate money to businesses because of non-existence of internal controls (Petrovits, Shakespeare, & Shih, 2011). The government agencies consider internal control disclosures over compliance of federal program before giving grants (Petrovits, Shakespeare & Shih, 2011). The organizations that exert some influence on the legislature obtain more government grants (Petrovits, Shakespeare & Shih,

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2011). The government contributions to non-profit businesses depend on political and economic factors (Petrovits, Shakespeare & Shih, 2011).

The key limitation of this study is the researchers are not sure of which kind of donors (foundations, corporations, or persons) responds to internal control weaknesses. Also, the researchers are not sure which type of government (federal, state, and local agencies) use A-133 data. The researchers do not know how internal control weaknesses impact other aspects of non-profit organizations' operations- earnings management and executive compensation. Put another way, Petrovits, Shakespeare and Shih (2011) could not establish how internal control weaknesses affect other areas of not-for-profit organizations' operations.

Ineffective Internal Control over Financial Reporting

This study has a sample of 15,485 firms. There are data on internal control effectiveness that start from 2004 to 2009. Mei, Chan, McVay and Skaife (2015) obtain the data from a WRDS-based Audit Analytics database that include assessment of internal control over financial reporting (ICFR). The researchers investigate the reasons for material weaknesses in the internal controls. When there is a material weakness in internal controls, it indicates ineffective internal control over financial reporting (Mei, Chan, McVay & Skaife, 2015).

Material weaknesses in internal controls over financial reporting that are not connected to inventory are unrelated to inventory turnover (Mei, Chan, McVay & Skaife, 2015). Zero association between other kinds of material weaknesses and inventory turnover put to rest argument that a poor management causes inventory-associated deficient internal control over financial reporting and small turnover ratio (Mei, Chan, McVay & Skaife, 2015). Inventory turnover is greater in companies that have larger fixed costs (Mei, Chan, McVay, & Skaife, 2015). The uncertainty in the demand for commodities leads to managers' inability to predict

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efficient quantum of inventory (Mei, Chan, McVay, & Skaife, 2015). Companies that have large diverse operations that compete in offshore commodity markets and older companies have less inventory turnovers (Mei, Chan, McVay & Skaife, 2015). There is a positive relation between turnover and return on assets (ROA). There is a large turnover that increases return on assets. There is a negative relationship between size and turnover (Mei, Chan, McVay, & Skaife, 2015).

Some firms' inventory accounts suffer some internal control weakness (Asare & Wright, 2012). Some firms do not keep correct records of their purchases (goods); they depend on physical counts of inventories (Indranil, Lin, & Wu, 2015). Some firms do not have efficient control over the valuation of specific inventories and associated cost of goods sold (Su, Zhao, & Zhou, 2014). Companies do not have an efficient control over the computation of LIFO to assure the right stock valuation (Mei, Chan, McVay, & Skaife, 2015). It is essential to track and control the quantity of inventories to avoid ordering too many or too few goods (Mei, Chan, McVay, & Skaife, 2015). The eradication of weaknesses of internal control increases the inventory turnover (Su, Zhao, & Zhou, 2014).

Some firms report material weakness internal control in previous years as well as reporting it in the current year (Mei, Chan, McVay, & Skaife, 2015). Mitigating other material weaknesses in internal control over financial reporting is related to the change in inventory turnover (Mei, Chan, McVay, & Skaife, 2015). There is no significant association between mitigation of other kinds of internal control weaknesses and changes in inventory turnover (Mei, Chan, McVay, & Skaife, 2015). Firms that mitigate their inventory-tracking material weakness internal control (MWIC) have a significant increase in in their inventory turnover rate (Su, Zhao, & Zhou, 2014). The material weakness internal control impacts the day-to-day inventory management (Su, Zhao, & Zhou, 2014). As gross margin increases, inventory turnover decreases

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(Mei, Chan, McVay, & Skaife, 2015). When companies eliminate their internal control weaknesses, their performance remains the same as companies that have efficient internal controls (Mei, Chan, McVay, & Skaife, 2015). Newly remediated companies have small inventory turnover ratios visa-vis effective internal control over financial reporting (ICFR) companies (Mei, Chan, McVay, & Skaife, 2015). Efficient ICFR companies' sales are significant and greater as compared to remediated companies (Mei, Chan, McVay, & Skaife, 2015). However, operating margin and gross margin are the same statistically for companies that mitigated their inventory-associated MWIC and companies with efficient ICFR (Mei, Chan, McVay, & Skaife, 2015). Remediated companies' operating cash flows are small relative to companies that have efficient internal controls (Mei, Chan, McVay, & Skaife, 2015).

Material weakness internal control (MWIC) has a negative effect on companies' performance in various ways (Mei, Chan, McVay, & Skaife, 2015). Inefficient internal controls over financial reporting (ICFR) on accounts receivable can lead to firms hesitating to address the outstanding receivables (Mei, Chan, McVay, & Skaife, 2015). The internal control over financial reporting (ICFR) can result in huge uncollectible accounts that in turn can lead to large bad debts, which may be written off (Mei, Chan, McVay, & Skaife, 2015). The written-off bad debts reduce firms' operating income (Mei, Chan, McVay, & Skaife, 2015). Inefficient internal control over financial reporting on sales-associated liabilities will result in inefficient pricing (Su, Zhao, & Zhao, 2014). Companies that mitigate their ineffective internal control over financial reporting have some improvement in return on assets (Su, Zhao, & Zhou, 2014). Some companies that report inefficient internal control over financial reporting (ICFR) have small return on assets (Su, Zhao, & Zhou, 2014). Companies with inefficient ICFR experience poor operating performance (Mei, Chan, McVay, & Skaife, 2015). However, companies that mitigate their inefficient ICFR

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score a high performance (Mei, Chan, McVay, & Skaife, 2015). The beginning balance of companies reporting inventory-associated MWIC includes impaired inventory (Mei, Chan, McVay, & Skaife, 2015). The impaired inventory may shrink the inventory turnover ratios (Mei, Chan, McVay, & Skaife, 2015). Companies that have inventory-associated MWIC experience the effects of shortage of stock, excess inventory, and large inventory obsolescence (Mei, Chan, McVay, & Skaife, 2015).

There are many cases of bogus financial reporting that result in loss of investments (Liu, Wright, & Wu, 2015). Organizations, auditors and regulators review and correct the fraudulent financial statements ((Liu, Wright, & Wu, 2015). Enterprises strengthen their internal control system to reduce the fraud rate (Liu, Wright, & Wu, 2015). Incentives, opportunity and rationalization induce managers to perpetrate fraud in organizations (Ruankaew, 2016). Internal controls minimize the opportunity for managers to engage in fraudulent activities (Ruankaew, 2016). Poorly designed and implemented internal controls may not prevent fraudulent reporting (Liu, Wright, & Wu, 2015). Internal controls are used to coordinate and monitor activities of employees in organizations (Liu, Wright, & Wu, 2015). The research examined whether strong or weak internal control could decrease fraudulent reporting (Liu, Wright, & Wu, 2015). Based on previous studies, strong internal controls minimize fraudulent reporting (Ruankaew, 2016). Managers inflate costs in the financial statements to maximize their wealth at the detriment of the organizations (Mei, Chan, McVay, & Skaife, 2015). When business leaders framed the organizational massage for monitoring or coordinating purpose, strong internal controls reduce fraudulent reporting (Liu, Wright, & Wu, 2015). The strength of internal controls for minimizing fraudulent reporting depend on how companies frame the purpose of implementing the internal controls (Liu, Wright, & Wu, 2015). The strong internal controls could minimize risks of

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fraudulent report (Liu, Wright, & Wu, 2015). Stringent control on employees implies that business owners do not trust them. Lack of trust on workers could result in more deceitful financial report (Liu, Wright, & Wu, 2015). Stronger controls on workers will lead to their low performance (Liu, Wright, & Wu, 2015). Employees may be demotivated to perform their tasks effectively (Liu, Wright, & Wu, 2015). Previous ethics study on deceitful financial report dealt with impacts of employees' behavior to be involved in the deceitful financial report (Liu, Wright, & Wu, 2015). When monetary risk is small and the amount is insignificant, business leaders' propensity to be involved in financial crimes increases (Ruankaew, 2016). Previous studies showed that when the opportunities to commit fraud is reduced, the financial crimes decrease (Liu, Wright, & Wu, 2015). Business owners use monitoring and coordination to control their workers (Mei, Chan, McVay, & Skaife, 2015). The level in which business leaders' report is limited depends on the strength of the implemented internal controls (Liu, Wright, & Wu, 2015). Managers were not permitted to report more than a given amount above the actual costs (Liu, Wright, & Wu, 2015). As a result, the managers may not benefit from inflating costs at the expense of the organizations (Liu, Wright, & Wu, 2015). Managers rationalize their fraudulent reporting. The managers claim that they want to maximize their payoff or self-interest. Payoff claimed is the amount the managers earned according to the reported amount. The payoff available is the maximum amount managers may earn above the real costs by overstating costs (Liu, Wright, & Wu, 2015). When business leaders notice that their organizations are dishonest and unfair, they will rationalize their deceitful reporting (Ruankaew, 2016). When employees notice that their organizations are honest and fair, they may not rationalize their deceitful reporting (Liu, Wright, & Wu, 2015). The fraudulent financial reporting reduces companies revenues by 5% annually (Liu, Wright, & Wu, 2015). Investors lose their capital, due to the

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deceitful reporting (Liu, Wright, & Wu, 2015). The business ethics literature concentrate on the effects of people's attitudes to be involved in the deceitful reporting. The researchers used fraud triangle theory to explain the managers' rationalization on the deceitful reporting (Liu, Wright, & Wu, 2015). The present research concentrates on the interaction between opportunities and rationalization in connection with deceitful financial statements. The efficiency of carrying out more stringent controls decreases when they are used for coordinating purpose (Liu, Wright, & Wu, 2015). However, the efficacy of internal controls increases when they are used for monitoring purpose (Liu, Wright, & Wu, 2015). A more stringent control disseminated for coordinating purpose increases business owners propensity to be involved in the deceitful financial reports (Liu, Wright, & Wu, 2015). The rationalization offers the explanation for why inconsistency leads to higher business leaders' propensity to be involved in the deceitful reporting Mei, Chan, McVay, & Skaife, 2015). Stakeholders (investors, creditors, and government) advise the organizations to be proactive to minimize the fraudulent reports. Specifically, the stakeholders recommend that companies should increase their internal controls to mitigate the fraudulent reporting (Mei, Chan, McVay, & Skaife, 2015). Internal controls do not mitigate fraud but increase it (Liu, Wright, & Wu, 2015). The auditing standards do not recognize the behavioral impacts of controls: demotivation and poor performance of workers.

When components of internal control are not disclosed, the impact of internal control on trust decreases (Mei, Chan, McVay, & Skaife, 2015). The preventive control (segregation of duties) eliminate undesirable attitude from the organizations (Liu, Wright, & Wu, 2015). Detective control (bank reconciliation) ascertains the undesirable attitude that takes place in companies (Liu, Wright, & Wu, 2015). Detective controls have little effects on workers' perceptions than preventive controls in connection with restraining autonomy (Liu, Wright, &

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Wu, 2015). There are some internal control strategies that members of management use to control costs (Liu, Wright, & Wu, 2015). Companies may introduce a budgetary control that have restriction on costs. Any expenses that are greater than the budgeted costs are not authorized (Ruankaew, 2016). Entrepreneurs could frame the budgetary limits as a monitoring technique to assess the departmental actions. As a result, the budgetary limits ensure that the spending is within the budgetary limit (Liu, Wright, & Wu, 2015). The budgetary limits may be framed as a coordinating technique to offer essential information to top management (Liu, Wright, & Wu, 2015. The information will guide the managers on how to allocate the firms' resources efficiently to enhance the company performance (Liu, Wright, & Wu, 2015). The manner in which a massage is framed influence persons' perceptions and decisions. Framing the massage in a unique way could lead to persuasion to woo the employees.

The key limitation of this study is that Mei, Chan, McVay and Skaife (2015) fail to address the issue of benefits and costs of effective ICFR. The researchers leave the issue of whether benefits of effective ICFR outweigh its costs to future researchers. Mei, Chan, McVay and Skaife (2015) do not investigate changes in one year because it is unknown when firms mitigate the inventory-associated material weakness (Mei, Chan, McVay, & Skaife, 2015). The non-investigation of changes in inventory turnover can impact negatively on the results (Mei, Chan, McVay, & Skaife, 2015). The researchers may not generalize the results to a bigger population because the results do not reflect on the true situation (Mei, Chan, McVay, & Skaife, 2015). This literature has not examined the effect of internal controls on reducing deceitful reporting attitudes (Liu, Wright, & Wu, 2015). There is the conflicting view for the efficiency of stronger internal controls to minimize the fraudulent reporting (Liu, Wright, & Wu, 2015). The research is essential to gain insight into both circumstances in which internal controls may

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enhance the desired attitudes (reporting true financial statements) and promote deceitful reporting (Liu, Wright, & Wu, 2015). Previous studies were inconclusive on the rationalization measures for deceitful reporting (Liu, Wright, & Wu, 2015).

Total Quality Management (TQM) and Manufacturing

Companies' good performance enhances total quality management that, in turn, accomplishes an internal fit (Zatzick, Moliterno & Fang, 2012). The internal fit deals with how human resource management and companies' systems are connected to achieve the organizational goals (Zatzick, Moliterno & Fang, 2012). The organizational goals in this context mean cost reduction (Mei, Dan, & Yuan, 2013). Total quality management enhances efficiency in manufacturing organizations (Zatzick, Moliterno, & Fang, 2012). The total quality management involves optimum integration of human resource and organization to achieve efficiency (Zatzick, Moliterno & Fang, 2012). Efficiency in this context means cost minimization (Mei, Chan, McVay, Sarah, & Skaife, 2015). The workers understand the organization and know how to manage it efficiently (Zatzick, Moliterno, & Fang, 2012). Total quality management minimizes the costs of production and other costs of organizations (Zatzick, Moliterno & Fang, 2012). The internal fit is the key to quality performance when an organization integrates human resource elements into the activity system. (Zatzick, Moliterno & Fang, 2012).

The organizational elements such as companies' activities, policies, and resources interact with one another to enable companies target a given market position (Zatzick, Moliterno & Fang, 2012). An organization adds other organizational elements to the existing elements to strengthen the connections in the organizational system (Zatzick, Moliterno & Fang, 2012). This tight connection will result in internal fit that will, in turn, lead to high performance (Zatzick, Moliterno, & Fang, 2012). The internal fit takes place when total quality management is

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consistent with the strategic orientation of the company’s activity system (Zatzick, Moliterno, & Fang, 2012). Strategic orientation is the cost leadership that occur when firms accomplish a competitive advantage by eliminating waste in the production and service delivery activities (Zatzick, Moliterno & Fang, 2012). Organizations use total quality management to accomplish cost efficiency. Total quality management could accomplish higher internal fit that will, in turn, lead to cost leadership. Activity systems that have a strategic orientation concentrate on promoting the value of products or services by innovation and attending to customers’ request (Zatzick, Moliterno & Fang, 2012).

Total quality management and cost leadership are positively associated to performance (Jong, Sunhwa, Hogan, & Joonil, 2013). The interaction between total quality management and cost leadership is positive and significant (Zatzick, Moliterno & Fang, 2012). Furthermore, the connection between total quality management and performance is negative for firms that have small cost leadership (Zatzick, Moliterno & Fang, 2012). The internal fit that is between the strategic orientation and total quality management is positively connected to the performance (Zatzick, Moliterno, & Fang, 2012). The advantages of total quality management are shadow for firms other than the enterprises already concentrate strategically on cost effectiveness (Zatzick, Moliterno, & Fang, 2012). The total quality management does not necessarily result in performance profits rather it is a valuable element, which is the most efficient when it strengthens the company’s cost-oriented key elements (Zatzick, Moliterno, & Fang, 2012). The alignment between internal operations and administrative practices lead to lower costs. Managers can decide on the implementation of total quality management.

The key limitation of this study is inconsistence of results (Zatzick, Moliterno, & Fang, 2012). Some results depicted that there is a relationship between total quality management and

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performance while other results indicated that there is no relationship between total quality management and performance (Zatzick, Moliterno & Fang, 2012). Further researches are necessary to disclose how the organizational system impacts total quality management implementation. Another major limitation is that the data, which the researchers used in this study, did not allow them to test some prepositions and research questions. There should be future research to address these issues. The researchers failed to find significant relation between differential orientation and performance. There may be third variables- industrial factors- that have some impacts on the results. Another key limitation is that the researchers did not have a measure of particular total quality management practices implemented in a company (Zatzick, Moliterno & Fang, 2012). The researchers failed to measure the aggregate number of years when the organization implements the total quality management (Zatzick, Moliterno & Fang, 2012).

Fraud Dynamics and Controls in Organizations

Fraud is a threat to any business; particularly international companies that have offshore subsidiaries experience negative impacts of financial crimes (Laxman, Randles, & Nair, 2014). Businesses lose 5% of their yearly revenues to financial crimes (Laxman, Randles, & Nair, 2014). Fraud depletes profits and assets of enterprises. Members of internal audit team at Hewlett Packed (HP) establish fraud mitigation program (FMP) that is used to minimize financial crimes (Laxman, Randles, & Nair, 2014). The internal auditors at Hewlett Packed explore various ways that are necessary to create fraud mitigation program (FMP) (Laxman, Randles, & Nair, 2014). The internal audit team include corporate controller, chief ethics, compliance officer, chief audit executive, executives of financial reporting, and internal security officer (Laxman, Randles, & Nair, 2014). The members of the internal audit team designed fraud mitigation program based on the elements of internal control-integrated framework that include control environment,

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communication and information, monitoring, risk assessment, and control activities (Laxman, Randles, & Nair, 2014). The members of the team critically examine all the elements to identify which ones are weak and require the effective development (Laxman, Randles, & Nair, 2014). The members of the team recommend self- assessment for all the departments of Hewlett Packed (HP) to identify the effective and weak components of internal control integrated framework (Laxman, Randles, & Nair, 2014). With the aid of the assessment, the departmental head will resolve the internal control issues. Also, a project team used pilot assessments to put in place the risk and control assessment in HP (Laxman, Randles, & Nair, 2014). In other businesses, internal auditors evaluate the components of internal control-integrated framework and devise ways of addressing the fraud-effected environment (McMahon, Pence, & Bressler, 2016). Some organizations have fraud risk registers to address various types of fraud that include assess misappropriation, corruption, dishonest reporting, and external financial crimes (Rodgers, Soderbom, & Guiral, 2015). The project team serves as the enabler to guide and train managers on the assessment criteria for their internal control system (Rodgers, Soderbom, & Guiral, 2015). The members of the team put in place a mechanism to adequately tackle the fraud risks in the organization (Laxman, Randles, & Nair, 2014). The members of the project team assess the fraud risks by ranking the organizational functions according to certain elements that include past financial crimes, past audit cases, the expenditure, and past fraud risks. Other factors that are considered when evaluating fraud risks and controls include the following: (a) determining the enterprises procedures and their risks, (b) determining the particular fraud risks, (c) ascertaining the type of control that decreases the given risks, (d) assessing the effect of the residual risks, and (e) performing the self-evaluation of mitigating controls (Laxman, Randles, & Nair, 2014). Members of the management create awareness of financial crimes by using workshops and risk

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evaluation training. The information dissemination is on the ethics compliance to dam fraudulent behaviors (Davis & Pesch, 2013). Many organizations have policy guidelines that delineate financial crime-associated duties of the staff. The policy specifies how the organizations mitigate fraud through detection, prevention, and reporting (Davis & Pesch, 2013). The objectives of companies for the policy guidelines include the following: (a) protecting the corporate image, (b) specifying clearly that financial crimes are not permitted, (c) disseminating the information to the workers and managers that their duty is to prevent, detect, and address financial crimes, and (d) Assuring that the managers take the right decision when fraud is detected (Laxman, Randles, & Nair, 2014).

The prevalence of fraud in organizations is alarming (Davis & Pesch, 2013). Some workers engage in various kinds of frauds in organizations (Davis & Pesch, 2013). Some employees perpetrate frauds through check tampering, fictitious vendors, and over invoicing (Davis & Pesch, 2013). Various mechanisms for fraud prevention fail because fraud is unabated in organizations (Davis & Pesch, 2013). The agent-based model that they developed to evaluate the efficacy of mechanisms, which organizations use to prevent frauds, is effective. The agent-based model allows the researchers to access information on frauds in organizations (Davis & Pesch, 2013). There must be motive, opportunity and attitude before employees commit frauds in organizations (Ruankaew, 2016). Some employees find it necessary to commit frauds to satisfy their financial needs (McMahon, Pence, & Bressler, 2016). Employees interact on how to commit frauds in organization (Davis & Presch, 2013). Fraudulent employees persuade honest workers to commit fraud in organizations (Davis & Pesch, 2013). Fraudulent workers rationalize frauds they perpetrate in organizations (McMahon, Pence, & Bressler, 2016). When susceptibility is small (fraudsters have little influence on honest workers), the number of

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fraudsters in organizations become low and stable for a period of time (Davis & Pesch, 2013). When susceptibility is high, the number of fraudsters in organizations become very high (Davis & Pesch, 2013). The high susceptibility transforms honest organizations to fraudulent ones while the low susceptibility transforms fraudulent organizations to honest ones (Davis & Pesch, 2013). The decrease in perceived opportunity to commit fraud minimizes the number of fraudsters but when susceptibility is high, the number of fraudsters in organizations becomes unabated (Dorminey, Fleming, Kranacher, & Riley, 2012). Any effort to eradicate fraudsters in organizations may reduce the number of fraudsters to a zero level (Davis & Pesch, 2013). Agent-based model is suitable for the learning of social phenomenon such as fraud (Davis & Pesch, 2013). The agent-based model investigates dynamics of fraud (Davis & Pesch, 2013). The agent-based model deals with different social sciences such as, psychology and sociology (Davis & Pesch, 2013). The agent-based model deals with individual attitude and social interactions (Davis & Pesch, 2013). The agents are employees, traders, organizations, and environment (Davis & Pesch, 2013). The agents commit fraud if they have opportunity, motive, and behavior to commit financial crimes (Ruankaew, 2016). But if the agents do not have the elements (opportunity, motive, and attitude) of fraud, they become honest and devoted workers (McMahon, Pence, & Bressler, 2016). Some agents may not have the motive to commit fraud but others have the motive to commit fraud (Davis & Pesch, 2013). The opportunity to commit frauds occurs when the internal controls are weak (McMahon, Pence, & Bressler, 2016). For example, opportunity to commit frauds occurs when managers over-trust their employees without checking their job (Davis & Pesch, 2013). Also, opportunity to commit fraud occurs when there is no segregation of duties (Ruankaew, 2016). One person does all the jobs without being checked by other workers (Davis & Pesch, 2013). The environment may be static or varies

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according to rules or due to interactions with agents (Davis & Pesch, 2013). Agent-based model is good for empirical observation of frauds (Davis & Pesch, 2013). Agent-based model is good for prediction, understanding and explanation of phenomena (various cases of frauds) (Davis & Pesch, 2013). Employee's attitudes in an organization are heterogeneous because they have a unique set of behaviors in the organization (Davis & Pesch, 2013). Some employees can be fraudsters while others are honest and devoted staff (Davis & Pesch, 2013). When honest employees interact with fraudsters in the organizations, they (honest employees) become fraudsters (Davis & Pesch, 2013). Conversely, the honest employees can interact with fraudsters to convert them (fraudsters) to honest workers (Davis & Pesch, 2013). Fraud and bribes are acceptable in organizational cultures (Davis & Pesch, 2013). The fraud emanates from top management and infest the whole organization (Davis & Pesch, 2013). Fraud transmits from fraudulent employees to honest workers through interactions and socializations (Davis & Pesch, 2013). Employees comply with illegal directives of top managers to assist them (top managers) to commit frauds in organizations (Davis & Pesch, 2013). Some organizations have low fraud cases while others have high fraud cases (Davis & Pesch, 2013).

Managers of organizations set the tone and implement ethical training for their employees to reduce fraud (Weber, 2015). Managers set the tone and advice their employees to comply with the code of ethics when performing their duties to avoid committing fraud (Davis & Pesch, 2013). The ethical behaviors turn the fraudsters to honest workers (Davis & Pesch, 2013). The managers explain to their employees on what constitute fraud (Davis & Pesch, 2013). Workers comply with ethical behavior to perform their jobs honestly. Honest employees have more influence on fraudsters and turn them to honest workers (Davis & Pesch, 2013). The workers do not engage in fraud but perform their duties diligently due to ethical training they receive

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(Weber, 2015). The number of honest employees continue to grow until there is an adequate number of honest employees that can avert frauds (Davis & Pesch, 2013). Managers detect fraudsters and substitute them with honest workers (Davis & Pesch, 2013). Fraud prevention and termination are more effective in companies with less fraud (Davis & Pesch, 2013). When the likelihood of detection and termination of financial crimes increases, the fraud level tends towards zero level (Davis & Pesch, 2013).

A proficient management system is a prerequisite for accomplishing the enterprise goals (Dimitrijevic, Milovanovic, & Stancic, 2015). Achieving targets is not easy and it involves a sophisticated procedure that could be on the wrong direction (Dimitrijevic, Milovanovic, & Stancic, 2015). Monitoring activities help to detect the deviation from the target (Dimitrijevic, Milovanovic, & Stancic, 2015). Supervision is a management role to assure continuous monitoring of goods and cash flows in the organizations (Dimitrijevic, Milovanovic, & Stancic, 2015). Also, managers focus on the strategies and future of the enterprises. Management is responsible to establish the sufficient internal controls to prevent deceitful reports. Efficient internal controls prevent fraud and data manipulation in the organizations (Davis & Pesch, 2013). The members of management assess the consistency between the real situation and the given targets (Dimitrijevic, Milovanovic, & Stancic, 2015). The members of management design an approach towards supervision over procedures and message (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal controls mean policies and procedures that managers use to accomplish companies' goals (Davis & Pesch, 2013). The internal controls involve the prevention, detection of fraud and mistakes, protection of assets, and segregation of duties to enhance profitability of businesses (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal controls do not deal with the event but activities that oversee the enterprises' performance (Davis

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& Pesch, 2013). The board of directors expect internal controls to offer a rational assurance that the firms' goals are accomplished (Dimitrijevic, Milovanovic, & Stancic, 2015). Managers and their employees circumvent the internal controls to render them insignificant (Dimitrijevic, Milovanovic, & Stancic, 2015).

Enterprises use their internal controls to formulate plan (Dimitrijevic, Milovanovic, & Stancic, 2015). Internal controls are essential but not adequate for the proficient management (Davis & Pesch, 2013). Internal controls may not address all the firm problems. But weak internal controls could lead to organizations challenges (Dimitrijevic, Milovanovic, & Stancic, 2015). The most efficient internal controls are not solution to fraudulent activities and weak management (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal controls include the preventive activities that enhance the accomplishment of the following goals: Consistent actualization of business strategies and adequate utilization of available resources, risk determination, and obeying the rules (Dimitrijevic, Milovanovic, & Stancic, 2015). Every company should have internal controls that are hierarchical. Knowing the goal of internal controls is a problem for many senior managers (Dimitrijevic, Milovanovic, & Stancic, 2015). Internal controls and external controls are not related. External control deals with external influences that affect the companies. Government regulations are an example of external controls (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal control instruments include balance sheet, regulation of the quality of products and services, and audit. The system of organization affects the internal controls (Dimitrijevic, Milovanovic, & Stancic, 2015). The organizational system of companies should align with their internal controls to achieve the desired goals (Davis & Pesch, 2013).

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The organizational units include departments, sectors, payroll section, and cost center (Dimitrijevic, Milovanovic, & Stancic, 2015). Every unit has a task and internal control practice. The responsibility of the internal control is ascertained in every unit (Dimitrijevic, Milovanovic, & Stancic, 2015). The controls are integrated into the organizational structure of companies. Managers oversee the business units (Dimitrijevic, Milovanovic, & Stancic, 2015). The accounting system is the instrument that represents internal controls, due to the amount and significance of data that it contains (Dimitrijevic, Milovanovic, & Stancic, 2015). The managers of every company create accounting internal control, due to the degree of examination depends on the reliability of the accounting internal controls (Dimitrijevic, Milovanovic, & Stancic, 2015). The accounting system is significant and possesses internal control instruments that include accounting standards, chart of accounts, accounting regulation, cost accounting system, and documentation (Dimitrijevic, Milovanovic, & Stancic, 2015). Internal audit is a different function in firms that oversee the operation of internal controls and determine their effectiveness (Frazer, 2016). Internal audit evaluates internal controls and offers the solution to their weaknesses (Frazer, 2016). When companies lack the internal audit, they should create a professional accounting department that evaluate their internal controls (Frazer, 2016). Some businesses use the cadre, which is a group of accounting experts, to accomplish their goals (Dimitrijevic, Milovanovic, & Stancic, 2015). The organizations use various ways to enhance their performance. The cadre enhances the internal controls to protect the assets and strengthen the profitability of companies (Dimitrijevic, Milovanovic, & Stancic, 2015). The balance sheet reveals the actual position of assets, and companies may prepare their balance sheet periodically. (Dimitrijevic, Milovanovic, & Stancic, 2015). The periodical balance sheets are partial while the yearly balance sheet is complete (Dimitrijevic, Milovanovic, & Stancic, 2015). To comply with

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the regulations, accountants prepare the balance sheet and send it to the board of directors for approval (Dimitrijevic, Milovanovic, & Stancic, 2015). The organizations enhance the quality of goods and services to strengthen their corporate image (Dimitrijevic, Milovanovic, & Stancic, 2015).

The internal control mechanism has changed from responsive actions to proactive decision (Dimitrijevic, Milovanovic, & Stancic, 2015). Internal controls focus on fraud prevention instead of detection (Dimitrijevic, Milovanovic, & Stancic, 2015). Based on the current function of the internal controls, internal auditors could offer positive services to minimize the chances of fraud (Dimitrijevic, Milovanovic, & Stancic, 2015). Managers are responsible for fraud that takes place in organizations. When fraud occurs in the organizations, internal auditors will explain why they could not identify the red flags that result in fraud (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal auditors note voluntary violations, errors, exclusions, and deficiency (Frazer, 2016). The internal control may not offer a complete solution to the fraudulent activities (Dimitrijevic, Milovanovic, & Stancic, 2015). The internal controls could identify the red flags that may result in fraud (Frazer, 2016). Financial crimes may occur during the audit (Dimitrijevic, Milovanovic, & Stancic, 2015). Business leaders have noted that it is appropriate to have an efficient internal control system to prevent fraud (Davis & Pesch, 2013).

Dishonest managers could satisfy their interest to cook the book at expense of their enterprises (Davis & Pesch, 2013). The managers include false data in the financial reports (Davis & Pesch, 2013). The fraudulent financial report is the deliberate exclusion of material facts and accounting information. The fraudulent financial report include the following falsification of transactions and cooking the books (Frazer, 2016). Business leaders falsify

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revenues and expenses in the income statement. There are bogus revenues. There are some deceitful ways to increase revenues that include: multiple payments of the same invoice, sham invoices, and using reserves as revenues (Dimitrijevic, Milovanovic, & Stancic, 2015). There are some fraudulent ways to decrease revenues that include no invoices for deliveries and suspension of revenue recognition. Deceitful financial reports could result in capital market crises. Investors may lose billions of dollars because of manipulated financial statements (Dimitrijevic, Milovanovic, & Stancic, 2015) (Dimitrijevic, Milovanovic, & Stancic, 2015). Fraudulent financial statements could damage the corporate image of organizations (Frazer, 2016). Stakeholders- investors, creditors and government do not have confidence in financial statements and audit reports (Frazer, 2016). Controversial companies may lose their investors. The stock price of dishonest companies may fall drastically. As a result, the affected companies may be financially deficient (Dimitrijevic, Milovanovic, & Stancic, 2015). The capital market crises may lead to fall in GDP and employment rate (Dimitrijevic, Milovanovic, & Stancic, 2015). The persistent capital market crisis, if not checked, may lead to economic recession (Dimitrijevic, Milovanovic, & Stancic, 2015). The deceitful financial statements may pose a threat to the financial environment, as stated above. True and fair financial statements attract and maintain the existing investors. As a result, there may be increase in stock price (Dimitrijevic, Milovanovic, & Stancic, 2015). If managers achieve their corporate goals they get remuneration and bonuses from the owners. There are some financial crimes that may impact employees, pensioners, and business leaders that need protection from the fraudulent activities (Frazer, 2016).

Entrepreneurs tend to establish internal controls to protect their resources. The management examine if there are eminent financial crimes at the top management level. The

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business leaders could use external auditors to examine whether there is fraud in the financial reports.

There are many ways to improve on the internal controls to detect fraud. Members of management know how the internal controls function. Managers determine whether the internal controls can adequately prevent and detect fraud in businesses. The members of management adopt the following elements that enhance their knowledge of internal controls: maintaining the internal control mechanism, determining the period of time taken to complete a transaction, reviewing all the transactions, and establishing a trustworthy internal control system (Dimitrijevic, Milovanovic, & Stancic, 2015). There is the need to approximate the internal control risk (Dimitrijevic, Milovanovic, & Stancic, 2015). There is no internal controls that can entirely prevent fraud in businesses (Dimitrijevic, Milovanovic, & Stancic, 2015). Members of management collude with their subordinates to circumvent the internal controls and perpetrate financial crimes in the organizations (Frazer, 2016). Members of management use the following means to prevent deceitful financial reports: establishing ethical principles to fight fraudulent activities, reporting unusual behaviors that may be fraudulent, financial rewards for employees that are whistleblowers, oversee all the financial transactions by audit committee, and investigation of fraudulent activities (Dimitrijevic, Milovanovic, & Stancic, 2015). Business leaders tend to determine the important changes in responsibilities and outcomes of previous investigations before they ascertain the scope of the current investigation of fraud (Dimitrijevic, Milovanovic, & Stancic, 2015). Managers may measure the reliability of the internal controls before embarking on any activity (Dimitrijevic, Milovanovic, & Stancic, 2015). Managers assess the control risks in connection with fraud prevention and detection. The control risk evaluation enables members of management to ascertain intentional errors that may occur in the financial

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statements (Frazer, 2016). The following factors are considered when assessing the control risks: determining errors that may be in the financial records, ascertaining the important procedures for intentional errors prevention, and performing test on controls (Davis & Pesch, 2013). Members of management ascertain the impacts of control risk evaluation on the internal control tests. Business leaders and audit committee receive the control risk assessment from middle level managers. When members of management notice that errors and fraud occur in the financial reports, after control risk assessment, they should offer the solution to resolve the issue (Dimitrijevic, Milovanovic, & Stancic, 2015). Furthermore, when managers notice that there are no errors in the financial reports, after control risk evaluation, they minimize the size of the tests (Dimitrijevic, Milovanovic, & Stancic, 2015). The size of control risk is still significant; hence management did not discontinue with the test but reduce the size (Dimitrijevic, Milovanovic, & Stancic, 2015). The errors that reflect on the financial statements depict that the internal controls are weak.

Members of management document other forms of controls- external auditing and forensic accounting- to address the internal control challenges in the organizations. Top managers disseminate information on how to tackle fraudulent activities. The explanation of elements adopted to prevent fraud is part of the document. The document specifies the functions of the stakeholders: members of management, employees, and auditors. Members of management evaluate both programs to fight and prevent financial crimes (Frazer, 2016). Managers use both internal and external auditors to assess whether the preventive mechanism is efficient (Frazer, 2016). The entrepreneurs have records for the methods, and monitoring mechanism for fraud in the financial reports (Dimitrijevic, Milovanovic, & Stancic, 2015).

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Members of management that are responsible for creating, keeping, and overseeing internal controls assure the accomplishment of the organizational goals (Dimitrijevic, Milovanovic, & Stancic, 2015). The members of management establish the code of ethic. The managers explain the code ethic to the employees and ensure that they comply the ethical principles. The managers use the following elements to reduce the chances of workers to perpetrate fraud: set the tone at the top, establishing conducive working condition, sufficient employees, training and development of workers, (Dimitrijevic, Milovanovic, & Stancic, 2015). The managers depict ethical behavior to convince their worker to comply with the ethical principles. The members of management assess and measure red flags of deceitful financial reports. A weak internal controls increases the red flags. The members of management measure the internal controls to ascertain their quality. The members of management determine the level of red flags and use the corrective measures to either minimize them. The members of management strengthen the internal control system.

Corporate social responsibility stresses the significance of firms' responsibility to other stakeholders instead of favoring only the stockholders (Rodgers, Soderbom, & Guiral, 2015).

Business owners attempt to strengthen the corporate ethics because some workers and members of management are dishonest (Rodgers, Soderbom, & Guiral, 2015). Business leaders enlighten the importance of corporate social responsibility to all employees in organizations. As a result, dishonest workers are discouraged from perpetrating fraud. Fraud triangle outlines the reasons for fraud: perceived pressure, perceived opportunities, and rationalization (Ruankaew, 2016). Ethical principles and internal controls may reduce fraudulent acts in the enterprises (Rodgers, Soderbom, & Guiral, 2015). Ethical Process Model is integrated into fraud triangle to enlighten the consequences of unethical behaviors in organizations (Rodgers, Soderbom, &

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Guiral, 2015). The Ethical Process Model (EPM) focuses on perception, dissemination of information, and decision making process (Rodgers, Soderbom, & Guiral, 2015). Ethical Process Model clearly specifies how the elements (pressure, opportunity, and rationalization) of fraud triangle may influence employees' decision on perpetrating financial crimes (Ruankaew, 2016). Perception is how people view the situation. Employees may see the situation as an opportunity to commit fraud (Ruankaew, 2016). Also, workers may perceive that the opportunity to perpetrate fraud in businesses does not exist because the internal control mechanism is strong (Ruankaew, 2016). The managers use both financial and non-financial information to make decision (Rodgers, Soderbom, & Guiral, 2015) .The decision process depicts whether actions will be taken or suspended (Rodgers, Soderbom, & Guiral, 2015).

Corporate social responsibility is related to the stockholders' theory in connection with good management (Rodgers, Soderbom, & Guiral, 2015). The theory specifies that a business exists not solely to maximize the shareholders' wealth but also promote the interest of other stakeholders (Rodgers, Soderbom, & Guiral, 2015). Ethical Process Model and fraud triangle concentrate on how to use efficient internal controls to minimize fraud in businesses (Laxman, Randles, & Nair, 2014). Ethical Process Model (EPM) and fraud triangle use the following elements to strengthen the internal controls: (a) managers put in place the efficient internal controls, and (b) employees will observe the internal controls (Rodgers, Soderbom, & Guiral, 2015). Internal controls are absolutely necessary in fraud prevention and detection (Rodgers, Soderbom, & Guiral, 2015). The ethical behavioral mechanism that managers appropriately apply could offer security, fraud detection and prevention (Laxman, Randles, & Nair, 2014). The businesses are socially responsible for their actions. Companies own corporate social responsibility to the society and environment. The companies promote social, economic, and

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environmental condition (Rodgers, Soderbom, & Guiral, 2015). Many business owners and top executives engage in unethical behaviors (bribery, social menace, and other vices) at expense of the companies and society. For example, executives of Shell Corporation are involved in political bribery and influence. Exxon's oil spilled in Alaska while other businesses are involved in sweatshop in Asian and African continents (Rodgers, Soderbom, & Guiral, 2015). Nestle are accused of controversial baby formula that it (Nestle) markets in developing continents. Based on the ethical vices, as noted above, corporate image diminishes drastically. Society losses confidence in organizations. Re-assessment of corporate social responsibility is necessary to address the unethical problems (Laxman, Randles, & Nair, 2014).

Ethical situations (prevailing ethical principles) may affect attitudes in companies when taking a decision on fraudulent activities. The ethical situation could strengthen the internal controls by minimizing fraudulent activities. Ethical situation occurs because of change in personnel that observe ethical principles to exhibit appropriate behaviors (Laxman, Randles, & Nair, 2014). Based on the ethical situation, business leaders could reduce fraudulent activities in small enterprises (Rodgers, Soderbom, & Guiral, 2015). Individuals consider costs and benefits whenever they take decision on the financial crimes (Rodgers, Soderbom, & Guiral, 2015). Managers' preferences either support highly risky businesses or less risky ventures to reduce the chances of fraud in the firms (Rodgers, Soderbom, & Guiral, 2015). The managers structure internal controls that enables workers to perform their duties after analyzing the advantages and risks of the transactions (Rodgers, Soderbom, & Guiral, 2015). There could be a tone at the top in the organizations to set the pace for moral behaviors (Rodgers, Soderbom, & Guiral, 2015). Members of the management communicate moral guidance on what is wrong and good (Rodgers, Soderbom, & Guiral, 2015). The moral and ethical communication could create the

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honest-based environment. Workers perform their duties diligently and honestly (Rodgers, Soderbom, & Guiral, 2015). The members of management provide workers feedback on right attitudes (Laxman, Randles, & Nair, 2014). Managers' actions to accomplish the target need to be checked properly (Laxman, Randles, & Nair, 2014). If the managers' actions are not controlled, they tend to accomplish the organizational goal at the expense of the stakeholders (Laxman, Randles, & Nair, 2014). Managers may cook the book to achieve the profit target of their organizations (Laxman, Randles, & Nair, 2014). The managers may produce the bogus financial statements to actualize their profit target. Managers may be eager to reach the unrealistic profit target because of the bonuses and other compensations they will receive from the organizations (Laxman, Randles, & Nair, 2014). When the members of management are unethical, workers will perceive that the environment is conducive to commit fraud (Rodgers, Soderbom, & Guiral, 2015). Especially, when the employees are drug-addicted, gambling-addicted, and spending-addicted they will commit the financial crimes in their companies (Rodgers, Soderbom, & Guiral, 2015). The members of management may take the following ruled-based actions to strengthen the internal controls: (a) enhancing the comprehension of the company mission, (b) conducting risk evaluation to determine and categorize risks, (c) prioritizing risks and workers' actions, establishing procedures, training and controls for advanced risks, and (d) monitoring the internal controls efficiency (Rodgers, Soderbom, & Guiral, 2015). The rule-based actions indicate responsibility, authority delegation, organizational objectives, and operations (Rodgers, Soderbom, & Guiral, 2015). Workers are given the authority and responsibility to discharge their duties (Rodgers, Soderbom, & Guiral, 2015). Maximization of the stockholders' value is essential to discourage managers to perpetrate financial crimes (Rodgers, Soderbom, & Guiral, 2015). The stock price is the appropriate

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parameter that measures the shareholders' wealth (Rodgers, Soderbom, & Guiral, 2015). However, when the maximization of stockholders' wealth is related to compensation of members of management, such as stock options and share bonuses, managers may be unethical to inflate profits and assets (Rodgers, Soderbom, & Guiral, 2015). Put another way, in order to meet the unrealistic profit target, managers may cook the book to have sham financial statements (Rodgers, Soderbom, & Guiral, 2015). Members of management could misapply the accounting principles, hide some vital financial information, and falsify accounting records to meet the performance target (Laxman, Randles, & Nair, 2014).

Relative position means that incentives and motivations are connected to workers' various values (cultures and attitudes) in a company (Rodgers, Soderbom, & Guiral, 2015). Members of management impose ethical standards on workers. Environmental conditions, customs and values are the determinants of fraud in companies (Laxman, Randles, & Nair, 2014). Workers have different cultures, moral values, and environments. Some workers are dishonest while others are trustworthy (Rodgers, Soderbom, & Guiral, 2015). Managers may properly process and administer data to have prudent financial statements (Rodgers, Soderbom, & Guiral, 2015). Members of management could monitor decentralized financial activities. Members of management tend to assess the divisions in the enterprises in connection with services and actions (Rodgers, Soderbom, & Guiral, 2015).

There are some limitations in the study. The study failed to use an alternative model, as a further check, which randomly chooses an employee and ascertains whether the employee will interact with another employee to commit frauds (Davis & Pesch, 2013). The results of the study under the agent-based model may not be same as other models. Another limitation is that it is not feasible to replicate the study with other models because using other models may produce

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different results (Davis & Pesch, 2013). Another limitation is that agent-based model lacks generally accepted practices (a set of standard). Another limitation is that the study failed to fully examine the fraud triangle (Davis & Pesch, 2013). The study did not thoroughly investigate the motive, opportunity, and attitude to commit frauds (Davis & Pesch, 2013).

Quality of Employees' Ethics Training

Unethical behavior persists in businesses; many organizations face fraud and bribe investigations (Weber, 2015). In United States, SAC Capital paid $602 million to securities regulators for fraudulent transactions (Weber, 2015). J.P. Morgan paid $13 billion settlement with the United States' Justice Department for fraudulent mortgage-backed securities operations (Weber, 2015). Many organizations are dishonest; they indulge in unethical practices to defraud the public (Frazer, 2012). Many employees pay bribes to accomplish their goals (Weber, 2015). Many employees indulge in unethical practices to defraud their organizations (Frazer, 2012). Big businesses perform employee ethics training. The ethics training minimizes unethical practices of employees as well as conserving significant amount of money for the organizations (Weber, 2015). The organizations conserve the money that would have been wasted due to frauds and other unethical practices (Weber (2015). Many organizations engage the services of professional consulting businesses to perform ethics training on their staff (Weber, 2015). Other companies employ the services of local university professors to perform the employee ethics training (Weber, 2015). Internal trainers and external ethics consultants are in the best position to offer ethics training to employees. The trainees are board of directors and managers. Many businesses perform ethic training that takes some hours to complete (Weber, 2015).

Mainly executing ethics training is deficient. There must be an assessment of efficiency of the training program to ascertain how successful the training program is (Weber, 2015). Many

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respondents declare companies evaluate the procedure and delivery of the training program. (Weber, 2015). Some companies gauge the consequences of training program (Weber, 2015). The key challenge for the training program is insufficient resources (time and capital) that companies utilize on the training program (Weber, 2015). Another challenge is integrating the training program into the routine work of the employees and coordinating ethics training with other organizational training programs (Weber, 2015). There is an increase in providing employee ethics training in big business entities (Weber, 2015). Many large businesses adopt ethics training program for their employees. Government guidelines such as Foreign Corrupt Practices Act, U.S. Federal Sentencing Guidelines, and Sarbanes-Oxley Act inspire large companies to adopt employee ethics training for their employees (Weber, 2015). The government guidelines expect all business to introduce employee ethics training for their employees to reduce the menace of frauds and other vices in organizations (Weber, 2015). All businesses reflect on ethical behavior among their employees using employee ethics training (Weber, 2015). Frauds and other unethical vices persist in businesses although there is employee ethics training. The purpose of the employee ethics training is to enhance employees' ethical decision-making process (Weber, 2015). The employees will be aware of ethical disciplines that will enable them to address the ethical issues in their organizations (Weber, 2015). In the employee ethics training, employees will learn the law and regulations that guide their conducts in the organizations.

Organizations conduct employee ethics training on managerial employees, top management, and staff personnel, as United States' Federal Sentencing Guidelines recommended (Weber, 2015). Organizations have decided to include board of directors in the employee ethics training program to inject discipline in the top management that are corrupt and fraudulent at

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expense of their organizations (Weber, 2015). Employee ethics training of top management increases the public trust on organizations (Weber, 2015). Some organizations include third party (vendors and other entities that deal with the organizations) for the ethic training. Some vendors are involved in bribery to actualize their selfish motive at expense of the organizations; hence there is need to include them in the employee ethics training program (Weber, 2015). Ethics officers (respondents) support the inclusion of third parties such as consultants, and agents, to mention but a few, in the employee ethics training program (Weber, 2015). Frequent employee ethics training for organizational elements (top management, managerial staff, and other organizational worker) increase the ethical value of the trainees (Jong, Sunhwa, Hogan, & joonil, 2013). The employee ethics training program will enhance workers ethical-decision-making skills and high quality ethical behavior of employees (Jong, Sunhwa, Hogan, & joonil, 2013). Short employee ethics training is not adequate to increase ethical value of top management, managers, and other employees of organizations (Weber, 2013). Hence fraudulent activities, bribery, and other social ills persist in organizations notwithstanding there has been employee ethics training program in the organizations (Weber, 2013). For example, J.P. Morgan loss $2 billion that belong to its customer in trading bets (Weber, 2013). Another example of unethical practice is that SAC Capital attempted to hide a loss of $276 million from its records (Weber, 2015).

The key limitation to this study is that it is unknown whether using internal trainers to conduct employee ethics training leads to weakness in employee ethics training program (Weber, 2015). The weakness may increase unethical practices in organizations thus render the employee ethics training impotent (Weber, 2015). There may be increase in fraudulent activities and other ills in the organizations (Frazer, 2012). The problem for using ethics and compliance officers as

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the only source for ethic training program is that they are bias to explain how their organizations train workers (Weber, 2015). The ethics officers will provide a fictitious proof to support the employee ethics training program (Weber, 2015). The officers could not explain the perfect ethics training program; they failed to disclose the parameters, techniques, and assessment measures they use to ascertain the efficiency of the employee ethics training program (Weber, 2015). Another key limitation is that the sample of ethics and compliance officers belongs to the United States-based global business organizations and it does not include business headquarters in other countries (Weber, 2015). The ethics training is based on the United States regulations (Weber, 2015). Future research should include sample of companies headquartered within and outside the United States. There should be separate ethics training performed within and outside the United States. Another key limitation is the number of effective participants (ethics officials) is insufficient (Weber, 2015). The number of ethics officers that responded to the online-survey is small (Weber, 2015). The study is not generalizable because number of participants responding the survey is too small to represent the population of businesses. Ethics training programs among organizations differ; generalization will pose a problem (Weber, 2012).

Summary

The literature examined the constructs that included segregation of duties, protection of assets, verification of transactions, internal controls, and fraud. Internal control is a procedure that ensures accomplishment of an enterprise's objectives (Frazer, 2012). Specifically, internal controls ensure operational efficiency, reliability of financial statements, and compliance with policies and regulations (Lakis, & Giriunas, 2012). Internal controls helps to check or minimize risks in an organization. Businesses use internal controls to direct, monitor and measure their resources (Wilson, Wells, Little, & Ross, 2014). Internal controls tend to detect and prevent

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frauds, as well as protect the company's resources- physical and intangible (Frazer, 2012). Internal control means action, which an organization takes to accomplish a particular objective (Hrncir & Metts, 2012). Internal control is a major element of Sarbanes-Oxley Act. Enhancement of the internal control system in a business is necessary (Indranil, Lin, & Wu, 2015). The study was used to expand the theoretical framework. The findings were used to build on the fraud triangle theory. The literature review included various studies that clearly explained the constructs, as stated above. Fraud is the key challenge of small businesses. Members of management perpetrate the financial statement fraud (Mei, Chan, McVay, & Skaife, 2015). Managers cook the book to overstate the profits of their companies (Mei, Chan, McVay, & Skaife, 2015). Businesses lose assets, inventories and cash, due to financial crimes (Frazer, 2016). As a result, some companies are financially deficient (Frazer, 2016). The common limitations in the literature was that the sample size was small and the samples were homogeneous. The faulty samples limited the generalization of the findings from the studies. Furthermore, due to grave consequences of fraud, some small businesses may become bankrupt and close down. As a result, the study of the internal control strategies that entrepreneurs used to minimize fraud in small enterprises is needed. The current argument for a gap in fraud triangle theory is that no scholarly literature examined the triangle theory in area of the internal control strategies that small business leaders used to minimize fraud in small businesses. Series of literature found that internal controls are the lifeline of every business entity and they either minimize or eradicate occupational frauds.

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Chapter 3: Research Method

Small businesses have been having problems with their internal controls for many years (Hrncir & Metts, 2012). Internal control protocol does not exist in small companies (Hrncir & Metts, 2012). Small business leaders undermine internal control mechanism because of their ignorance of the aftermath of weak internal controls (Frazer, 2012). Entrepreneurs allow their workers to perform their duties without being supervised by their superiors (Hrncir & Metts, 2012). Business leaders do not have monitoring system in small companies (Frazer, 2012). Employees exploit the opportunity of the weak internal controls to perpetrate fraud in their organizations (Hrncir & Metts). Many small businesses become financially deficient because of losses they sustain, due to financial crimes (Frazer, 2012). Some enterprises cease to exist, as a result of not having adequate internal controls (Frazer, 2012). Many small business leaders make several attempts to minimize fraud with internal control strategies (Hrncir & Metts, 2012).

The purpose of this qualitative multiple case study was to explore the internal control strategies that small business leaders used to minimize fraud in small businesses in Albany, New York. The specific business problem is that small business leaders lack internal control strategies to minimize fraud in small businesses. This study disclosed the strategies that entrepreneurs used to minimize fraud in small businesses. The study showed whether the internal control strategies are efficient to minimize fraud. Based on the findings, few small business leaders improved on their internal control mechanism. The fraud and internal controls were essential concepts that were the key issues in the study. The following research questions were designed for the study.

Q1. How do entrepreneurs perceive the relationship between internal controls and fraud?

Q2. How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud?

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Q3. How do entrepreneurs perceive the use of internal controls on minimizing fraud?

Q4. What internal control strategies do small business leaders use to minimize fraud?

In this chapter, the qualitative multiple case study, research questions, statement of the problem, purpose of the study, population, sample, materials and instrument, data collection and analysis, assumptions, limitations, delimitations, and ethical assurances were properly described. Also, a summary concluded the chapter.

Research Methodology and Design

The qualitative multiple case study was appropriate for the statement of the problem, purpose of the study, and research questions, as specified in chapter 1 because they were descriptive and explorative (Martens & Carvalho, 2016). The study focused on the use of qualitative multiple case study, which explored the internal control strategies that entrepreneurs used to minimize fraud in small businesses (Killingback, Tsofliou, & Clark, 2017). The qualitative multiple case study was appropriate for this research because it allowed for exploring internal control strategies that small business leaders used to minimize fraud in small businesses (Martens & Carvalho, 2016). The qualitative method fitted this research because the study was descriptive (Martens & Carvalho, 2016). The qualitative method was appropriate for the research question, the purpose statement, and problem, which were exploratory (Martens & Carvalho, 2016). The qualitative multiple case study was the optimum choice for this study because it helped to develop theoretical perspective, enabled the development of a new concept, and gained new insights and in-depth understanding about internal control strategies that business leaders used to minimize fraud in small businesses (Leedy & Ormrod, 2009). The qualitative multiple case study fitted this research because it was suitable for studying businesses (Killingback, Tsofliou, & Clark, 2017). Another reason for choosing qualitative case study was that it was

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good for many kinds of graphic that explored data for the internal control strategies that entrepreneurs used to minimize fraud and it was good for the Most Significant Change technique (Killingback, Tsofliou, & Clark, 2017). Most Significant Change technique helped to generate stories from participants by asking them to explain the most significant change they noticed in a given period because of internal control strategies that entrepreneurs used to minimize fraud in small businesses. (Killingback, Tsofliou, & Clark, 2017). The changes included the increase in profits, efficiency, output, among others (Trochim & Donnelly, 2008). The qualitative multiple case study was the right choice because it involved many data sources such as interviews and documents to ensure that the exploration of internal control strategies that entrepreneurs used to minimize fraud is not from one data source (Yin, 2011). The qualitative multiple case study fitted this research because it focused on participants (entrepreneurs) to explore internal control strategies that small business leaders used to minimize fraud (Martens & Carvalho, 2016). The qualitative multiple case study was the right choice because it was good for a sample of small size of 10, which I used to generalize to the population of small businesses.

The quantitative methodology was not appropriate for this study because it could not explore or provide in-depth knowledge of the internal control strategies that entrepreneurs used to minimize fraud in small businesses (Martens & Carvalho, 2016). The quantitative method was good for examining or investigating a study (Trochim & Donnelly, 2008). Ethnography, phenomenological study, grounded theory study, and content analysis were not appropriate for this study because it involved many cases (various small businesses) (Leedy & Ormrod, 2009).

Population and Sample

A population of over 2 million small businesses is located in New York (Huang, 2015). Many small businesses are in New York State (Huang, 2015). The New York Small Business

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Development Center (SBDC) keeps the record of all the small businesses in New York (Huang, 2015). Ninety-nine percent of businesses in New York are small firms (Huang, 2015).

Twenty-eight million small businesses are in the United States (Huang, 2015). Twenty-two million of the small enterprises are non-employers (Huang, 2015). There are 543,000 small enterprises that start operation every month (Huang, 2015). However, many small businesses close down each month (Huang, 2015). Fifty-two percent of small enterprises are home-based (Huang, 2015). The population of sole proprietorships, partnerships, and corporations, which are non-employer enterprises, is 19.4 million, 1.6 million, and 1.4 million respectively (Huang, 2015).

The population is appropriate because small businesses constitute the population. The purpose and the problem of the study focus on small businesses. Specifically, the key problem in small businesses is that entrepreneurs lose a significant amount of money annually to fraudsters because of lack of internal controls (Kevin, 2014). Another reason for choosing the population is that it was possible to generalize results of the study to the population of small business.

I used the expert sampling, a branch of the purposive sampling, to select the participants (Trochim & Donnelly, 2008). The scope of the study, research topic, quality of data, the design of the study, and interview time were used to determine the sample size, which was 10 (Dworkin, 2012). Each of the 10 small businesses provided one participant for the study. In-depth interview was used to have the broad knowledge of the study (Trochim & Donnelly, 2008).

In the recruitment strategies, there were some inclusions and exclusions. The inclusion criteria included the following requirements. The participants were between 18 and 65 years and have worked for their companies for at least 5 years. Participants were small business leaders

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that had successfully implemented and used the internal control strategies in small businesses. The small business leaders worked for enterprises that have been in business for at least 5 years and have less than 200 employees. The small businesses are in Albany, New York. The exclusion criteria included the following disqualifications. Individuals that are under 18 years, entrepreneurs that do not have less than 200 employees, and entrepreneurs that own businesses that have not been in operation for at least 5 years would not take part in the study. Also, entrepreneurs that do not have adequate knowledge of internal control strategies were not qualified to be participants.

The postal service was used to send letters to people to seek their voluntary participation in the interview. Yellow pages were used to contact individuals that participated in the study. The entrepreneurs used the contact information (located on the consent form) to contact the researcher for any questions. Consent forms were mailed to entrepreneurs. The entrepreneurs read the consent forms before making the decision whether to participate or not. The business leaders indicated on the consent form that they were voluntarily consented to the study. The business leaders returned the consent forms to the researcher by post. The consent form explained about the study (the duration of the study, the responsibilities of participants, and those of the researcher). The participants had options (the over-the-phone and in-person interview). All the participants chose the in-person option. The in-person interview option was used to ask all the participants the same questions. The audio mechanism was used to record the data collected from the participants.

The sample was appropriate because small business leaders that own small businesses constituted the sample, which can be generalized to a population of small businesses. The purpose and problem of the study, together with research questions, focused on small businesses

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that are owned by small business leaders. The small business leaders provided the answer to research questions during the in-person interview. The sample was appropriate because sufficient number of entrepreneurs that constituted the sample provided adequate information on the problem and purpose of study when they responded to interview questions that were based on the research questions.

Materials/Instrumentation

The companies documents contained the archived data. Entrepreneurs produced reports on the inefficiency of internal control strategies (documentation of transactions, verification of transactions, protection of assets, and segregation of duties) to minimize fraud. The reports were archived data, which were reliable because they were in valid documents that included annual reports, brochures, letters, and agreements.

Janvrin and Mascha (2014) designed the following open-ended questions for the in-depth interviews: How do you monitor the financial close process? What metrics do you use to track your financial close process? What changes have you made to your financial close process? Is the timeliness vs. quality issue a problem for your financial close process? If yes, how do you handle this challenge? What are the key internal controls for your financial close process? How have these internal controls changed due to technology advances? Also, Eastburn and Boland (2015) designed the following open-ended questions for the in-depth interviews: Please tell me about your professional background. What are your major responsibilities? How long have you held this position? Thinking about the past 24 months, can you describe a specific event, goal, project or program, from your point of view that did not turn out as expected? Help me understand what happened before, during and after the event occurred? How was the surprise identified? How material was the event? When was the event recognized? What was the initial

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signal of the impending event? What concerned you at the time? What do you recall about that time? What questions do you remember having or asking? What action was taken in response to the surprise event? How would you rate your organization's level of alertness and adaptability? What are your continuing activities to ensure non-recurrence? Is there anything else of importance you would like to add that we did not talk about? The instruments, as stated above, focused on internal controls and fraud. Workers perpetrate fraud in organizations because of weak internal controls.

An interview protocol was used. In-person interview was used for the data collection from the participants. Interview questions were designed on internal controls and fraud to explore internal control strategies that small business leaders used to minimize fraud. Specifically, the interview questions were on participants' experience of internal control strategies and fraud. Interview questions were developed according to research questions. The research questions for this study were similar with those of the previous studies (Eastburn & Boland, 2015; Janvrin & Mascha, 2014), as stated above. The interview conversation was audio recorded that lasted approximately one hour twenty minutes. The interview questions are in appendix A.

Study Procedures

Fraud is a great concern in small businesses because of lack of internal controls (Frazer, 2016). Internal controls are weak in small businesses because business leaders undermine the internal control protocol (Frazer, 2014). The purpose of this qualitative multiple case study was to explore the internal control strategies that entrepreneurs use to minimize fraud in small businesses. The data collection was based on the above problem and purpose of the study. The interview and documents were sources of data, as well as the data collection methods for this

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study. The data were primary. The participants were entrepreneurs who had successfully implemented and used internal control strategies in small businesses in Albany, New York that have less than 200 employees and have been in operation for at least 5 years. The target population was two million small enterprises in New York. The expert sampling, a branch of the purposive sampling, was used to select the participants (Trochim & Donnelly, 2008). The scope of the study, research topic, quality of data, the design of the study, and interview time were used to determine the sample size, which was 10 (Dworkin, 2012). Each of the 10 small businesses provided one participant for the study. In-depth interview was used to have the broad knowledge of the study (Trochim & Donnelly, 2008).

Furthermore, informed consent forms were sent to the small business leaders that agreed to participate in the study. The small business leaders went over the informed consent forms and signed them prior to the in-person interview. Small business leaders were invited for the in-person interview at the Albany, New York, which was the research site. During the interview, the qualitative data were collected. At the interview, a brief note and audio tape of the entrepreneurs' responses were made. In addition, a member check of the participants' responses was made. Data that was collected from the in-person interview were de-indentified and stored in the external disk, which was kept and locked in the fireproof filing cabinet.

Data Collection and Analysis

Raw data files were prepared. The data files were responses from the participants. The recordings from the interviews were typed. A backup of data for the preparation of data files was made (Engle, 2015). The backup helped to reserve information from the interview. The information that participants provided for the interviews was reviewed and summarized.

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A thorough reading of the text was performed. A close reading of the text to identify the vital information from the interview was done. A continuous reading of the text until its content became understandable was carried out. A filter of the text to determine the key information for the study was performed. I ascertain whether the information that participants provided aligned with the theoretical framework of the study.

Formation of categories was made. At this stage, determination and description of categories or themes were performed. Evaluation of categories was performed. Furthermore, formulation of categories from real phrases was made. The qualitative analysis software was used to accelerate the coding process for big quantum of data (Engle, 2015).

Overlapping coding and uncoded text took place. Themes that contained responses of participants were coded. The agreement on the assignment of codes was made. Assignation of the preliminary thematic codes was made (Engle, 2015). The review of the coded interview to reconcile all the differences was performed. With the aid of indexing, all data on a certain theme were together. Indexing means grouping the participants' responses into themes. A combination of the categories that were similar was made.

Some measures were taken that included credibility, transferability, dependability, and confirmability to ensure trustworthiness of the qualitative case study.

Credibility. The following tools were used to create credibility: prolonged engagement, triangulation, negative case analysis, referential adequacy, and member checking (Cope, 2014). In the prolonged engagement, I spent adequate time in the field with participants to know their culture and internal control strategies that entrepreneurs used to minimize fraud. I spoke with the participants for a given period to create a good relationship with them. For being in the field for sufficient time, detection and accounting for the distortions that tended to occur in the data were

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performed. The participants disclosed vital information without any fear of breach of privacy because of their reliability on the study (Cope, 2014). Multiple methods were used to enhance a deeper understanding of the internal control strategies that entrepreneurs used to minimize fraud. With the aid of multiple methods of data collection, the examination of the consistency of various data sources was performed. In negative case analysis, certain data that tended to contradict the explanations from data analysis were identified. In the negative case analysis, refinement of data analysis was performed until it explained all contradictions in data (accounts for all contradictions). In referential adequacy, archiving a portion of data to be analyzed later was made. Conducting the data analysis on the remaining data to establish preliminary findings was performed. Analysis of the archived data to test validity of the findings (preliminary findings) was performed (Cope, 2014). In member checks, a test of data, interpretations, findings, and conclusions with participants (entrepreneurs) were made to establish the validity of the qualitative multiple case study. During member checks, subjects corrected errors that occurred in the study. During member checks, subjects volunteered to provide additional information (Cope, 2014).

Transferability. Thick description was used to enhance transferability. Adequate description of the internal control strategies that small business leaders used to minimize fraud was made. A detailed account of field experiences was given on the participants' behaviors and their perceptions of internal controls and fraud (Cope, 2014).

Dependability. Inquiry audit (external audit or data audit) was used as a tool to create dependability (Cope, 2014). Another researcher that was not involved in the research process was allowed to review the procedure and the entire study to check whether the data supported findings, interpretations, and conclusions of the study (Cope, 2014). Another researcher was used

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to enhance the validity of the qualitative multiple case study. Another researcher evaluated the sufficiency of data and preliminary findings. Another researcher provided a valuable feedback that resulted in further data gathering and development of stronger results (Cope, 2014).

Confirmability. Participants shaped the results that are free of the researcher's bias, motivation, and interest (Cope, 2014). The following tools were employed to establish confirmability. The tools included confirmability audit (external audit or data audit), audit trail, and triangulation (Cope, 2014). Confirmability audit (external audit) was used. Another researcher, who was not involved in the research process, reviewed the research to check whether data confirmed findings, interpretations, and conclusions (Cope, 2014). Another researcher looked for negative instances that contradicted findings and observations. After the research, the same researcher (another researcher) review the data collection and analysis and form an opinion on bias and distortions in the study (Cope, 2014). For the use of the audit trail, a thorough description of the qualitative multiple case study research stages (from the beginning of the study to the development and reporting of findings) was done. The stages included descriptions, explanations, management of data sources, interpretations, selection of data, coding of data, conclusion, and findings. Specifically, a documentation of the process for checking and rechecking of data throughout the research happened. With the aid of triangulation, multiple data sources was used to create a deeper knowledge of internal control strategies that business leaders used to minimize fraud in small businesses (Cope, 2014). The check and confirmation of the consistency of findings that various data sources generated were performed.

In the data analysis, the responses from the participants were grouped into themes with codes. This grouping in themes was thematic coding analysis. The grouping in themes with

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codes was qualitative thematic coding analysis. For example, the following table illustrates coding of qualitative data into five themes for 10 participants:

Table 1 data analysis

Participants	Theme 1	Theme 2	Theme 3	Theme 4	Theme 5
1	√	√		√	
2	√		√		
3	√	√		√	
4	√			√	
5		√		√	√
6	√	√			√
7			√	√	√
8		√		√	
9			√		√
10				√	√

The above symbols (check marks) indicated responses of participants. The symbols (check marks) showed the themes where responses of participants were present. Every theme had symbols, as indicated above.

Triangulation was used for the study. Many data sources were used to establish a comprehensive knowledge of a phenomenon (Blythe, Bryant, Carter, Dicenso, & Neville, 2014).

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For example, exploration of internal control strategies that small business leaders used to minimize fraud is a phenomenon. Various data sources were used to test validity (Blythe, Bryant, Carter, Dicenso, & Neville, 2014). Four types of triangulation were used, which included method triangulation, investigator triangulation, theory triangulation, and data source triangulation (Blythe, Bryant, Carter, Dicenso, & Neville, 2014). In the method triangulation, various methods of data collection (interviews and documents) were used. In the investigator triangulation, more researchers for the same research offered many observations and conclusions about the same phenomenon. This type of triangulation could ascertain and confirm the findings. In the theory triangulation, various theories were used to analyze and interpret data. Various theories helped to either refute or support the findings. In data source triangulation, data were collected from different kinds of people (individuals, groups, families, and communities) (Blythe, Bryant, Carter, Dicenso, & Neville, 2014). The data source triangulation helped to validate the data.

Assumptions

Some participants might withhold some information. Hence, an assumption was that all participants responded to the questionnaire honestly (Yin, 2011). The sample size was too small to represent the population of small businesses; as a result, there was the assumption that the sample size of 10 entrepreneurs was a true representative of entrepreneurs of all the small businesses. Put another way the sample size of 10 small businesses was a true representative of the population of small businesses. The findings were derived from the small sample; hence it was specified that the findings could be generalized to the entire population of small businesses. Many participants might not honor the invitation for the research interview. As a result, it was stated that all participants responded to the interview questionnaire. Other qualitative designs (ethnography, phenomenology, and grounded theory) were suitable for this type of study (Leedy

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& Ormrod, 2009). However, it was clarified that qualitative multiple case study was the best option for this research.

Limitations

The limitations included non-random sample (Connelly, 2013). The expert sampling was not random. The choice of the participants was made based on the judgment. Also, the selection of the participants was made based on their claims. As a result, unqualified participants might be selected. The poor selection might not produce true results. The non-random sample might not represent the population of small businesses. The results of the study were generalized to the population of all the small enterprises (Connelly, 2013). The study was limited to the United States; and excluded other countries. The study excluded women participants. The exclusion of other countries and women from the study will not produce true results (Yin, 2011). Some threats to the external validity included time, place, and people. The existing situation at the time of the interview might influence the responses of the participants (Yin, 2011). For example, an unfavorable economic situation that tended to negatively affect the responses of participants might occur. The participants might be highly educated. Certain percentage of small business owners are less educated. As a result, generalization of findings might not yield valid results. To mitigate the limitations, the study was conducted in various places, with different individuals, and at the different period. A ran-don sampling was used to address the weaknesses. A selection of only the qualified participants was performed. Other countries and women should be included in the study.

Delimitations

The problem statement, the purpose of the study, and research questions were specific and limit the scope of the study (Yin, 2011). The inclusion of only small businesses and the

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exclusion of big companies from the study were carried out. The inclusion of open-ended responses and exclusion of closed-ended Likert scale responses were performed. The choice of the qualitative multiple case study and exclusion of other designs (ethnography, phenomenology, grounded theory, and content analysis) from the study were made (Yin, 2011).

Ethical Assurances

The Institutional Review Board of Northcentral University (NCU) clearly states that all studies that involve human subjects must protect privacy and rights of the participants. The Institutional Review Board (IRB) must authorize a study before the collection of data. Informed consent and assurance that the participants gave their consent to participate in the research were complied with. Participation in the study was voluntary to all subjects. The subjects decided whether or not to participate in the study (Ignacio & Taylor, 2013). The English language was used to obtain the participants' consent. The proper permission was obtained from legally authorized individuals to serve as participants. An informed consent form that the subjects used to make the decision on whether to take part in the study were prepared (Ignacio & Taylor, 2013). The following elements were included in the consent form: purpose of study, risks and benefits, compensation, confidentiality, guarantee of voluntary participation, permission to exit, and contact information for inquiries. Based on the above information, participants decided whether to take part in the study or dam it. The participants were free to play their role in the study.

I maintained the privacy and confidentiality of the subjects. There was compliance with Laws to protect the confidentiality of personal information of the participants were complied with. Unauthorized persons were not permitted to have access to the personal information that the subjects provided for the study. Disks and drives were used to store the personal information

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of the participants. The drives were kept in a secured place that was free of fire hazard and theft; and ensure that no unauthorized persons had access to them (Ignacio & Taylor, 2013). Furthermore, the anonymity of participants was protected to encourage them to volunteer sensitive information. Identifiers of participants were eradicated. The identifiers included names and vernacular terms to motivate them to provide all their confidential information for the study (Ignacio & Taylor, 2013).

Summary

This chapter discussed internal control challenges of small businesses. The inadequacy of internal controls in small businesses hinders their financial capacity (frazer, 2016). The appropriateness of the qualitative multiple case study was discussed in this section. The qualitative multiple case study suited this study because it explored the internal control strategies that entrepreneurs used to reduce fraud in small enterprises (Yin, 2011). The qualitative method was appropriate for the research question, the purpose statement, and problem, which were exploratory (Yin, 2011). The qualitative multiple case study was the chosen option because it involved various data sources such as interviews and documents to ensure that the exploration of internal control strategies that entrepreneurs used to minimize fraud was not from one data source (Yin, 2011). Enterprises incur losses, as a result of financial crimes (Hrncir & Metts, 2012). This chapter discussed research questions, the purpose of the study and statement of the problem. Material/instrument section contained published instruments and original documents. There was a population of millions of small enterprises in the New York State (Huang, 2015). The measures that ensured trustworthiness included the following: credibility, transferability, dependability, and confirmability (Cope, 2014). For the study to be feasible, certain assumptions, limitations, and delimitations were made (Yin, 2011). Some ethical assurances for the study were

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made. For example, confidentiality and anonymity of responses of participants were paramount (Ignacio & Taylor, 2013).

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Chapter 4: Findings

The purpose of this qualitative multiple case study was to explore internal control strategies that small business leaders use to minimize fraud in small businesses. The study focused on fraud and internal controls, which consist of the segregation of duties, protection of assets, and verification of transactions. Chapter 4 involved the analysis of data from the entrepreneurs who were the participants of the study. Chapter 4 contains the following sections: results section, evaluation of findings section, trustworthiness section, and conclusion section. The results section contains all the information that participants provided for the study. The information that participants provided was organized based on the four research questions that include the following questions: How do entrepreneurs perceive the relationship between internal controls and fraud? How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud? How do entrepreneurs perceive the use of internal controls on minimizing fraud? What internal control strategies do entrepreneurs use to minimize fraud? The four research questions focus on the purpose and problem of the study. The participants discussed the purpose and problem of the study. The evaluation section contains the interpretation of the data provided by participants. The theoretical framework and previous studies were viewed with actual findings of this study to identify some variation.

Trustworthiness of Data

Some measures were taken that included credibility, transferability, dependability, and confirmability to ensure trustworthiness of the qualitative case study.

Credibility. The following tools were used to create credibility: prolonged engagement, triangulation, negative case analysis, referential adequacy, and member checking (Cope, 2014). In the prolonged engagement, I spent adequate time in the field with participants to know their

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culture and internal control strategies that entrepreneurs used to minimize fraud. I spoke with the participants for a given period to create a good relationship with them. Being in the field for sufficient time, detection and accounting for the distortions that tended to occur in the data was possible. The participants disclosed vital information because of their reliance on the study (Cope, 2014). It was appropriate to use multiple methods to enhance understanding of the internal control strategies that entrepreneurs used to minimize fraud. With the aid of multiple methods of data collection, reviewing the consistency of various data sources was made. In a negative case analysis, it was important to identify certain data that tended to contradict the explanation of data analysis. In the negative case analysis, the data analysis was refined to explain all contradictions in data. In referential adequacy, archiving a portion of data to be analyzed later was important. Analysis of the archived data to test the validity of the findings (preliminary findings) was made (Cope, 2014). During member checks, subjects corrected errors that occurred in the study. During member checks, subjects volunteered to provide additional information (Cope, 2014).

Transferability. The thick description was used to enhance transferability. An adequate description of the internal control strategies that small business leaders used to minimize fraud was made. It was important to give detailed account of field experiences on the participants' behaviors and their perceptions of internal controls and fraud (Cope, 2014).

Dependability. It was essential to use the inquiry audit (external audit or data audit) as a tool to create dependability (Cope, 2014). Another researcher that was not involved in the research process was used to review the procedure and the entire study to check whether the data supported findings, interpretations, and conclusions of the study (Cope, 2014). It was important

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to use another researcher to enhance the validity of the qualitative multiple case study. Another researcher evaluated the sufficiency of data and preliminary findings.

Confirmability. Participants shaped the results that were free of the researcher's bias, motivation, and interest (Cope, 2014). The following tools were employed to establish confirmability. The tools included confirmability audit (external audit or data audit), audit trail, and triangulation (Cope, 2014). The confirmability audit (external audit) was used. Another researcher, who was not involved in the research process, reviewed the research and identified whether data confirmed findings, interpretations, and conclusions (Cope, 2014). Another researcher looked for negative instances that contradicted findings and observations. After the research, the same researcher (another researcher) reviewed the data collection and analysis and formed an opinion on bias and distortions in the study (Cope, 2014). The audit trail was used. A thorough description of the qualitative multiple case study research stages was made. The stages included descriptions, explanations, management of data sources, interpretations, selection of data, coding of data, conclusion, and findings. In the triangulation, multiple data sources were used to enhance the knowledge of internal control strategies that business leaders used to minimize fraud in small businesses (Cope, 2014).

Data saturation was reached when interviewing the 10 participants because the participants provided sufficient information to replicate the study (Dworkin, 2012). Furthermore, the sample of 10 participants was adequate because additional themes did not emerge from the data when data saturation was reached (Dworkin, 2012). Specifically, additional themes did not emerge after obtaining the twelve themes from the participants' responses to the four research questions. The non-emergence of additional themes showed that data saturation was reached.

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Demographic Information

The ages of the participants were between 35 and 62. Most of the participants were above 40 years. The oldest participant was 62 years while the youngest participant was 35 years. All participants were male. Years of experience of participants were between 5 years and 25 years. Years of experience of 50% of participants were above 10 years. The two participants that have 25 years of experience were the most experienced participants. The two participants that have 5 years of experience were the least experienced participants. One participant that has a bachelor degree was the least educated participant. Three participants have master degrees while six participants have PhD and were the most educated persons.

Table 2

Demographics of Participants

Participants	Age	Gender	Years of Experience	Educational Level
1	40	Male	8	Master
2	38	Male	9	PhD
3	50	Male	10	Master
4	55	Male	15	PhD
5	60	Male	25	PhD
6	35	Male	5	PhD
7	37	Male	5	Bachelor
8	46	Male	14	Master
9	62	Male	20	PhD
10	58	Male	25	PhD

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Results

Qualitative multiple case study is good for in-depth exploration of a phenomenon (Eagle, 2015). The data collection process took two months to complete (August through October 2017). The 10 participants participated in the in-person interview. A brief note of the participants' responses was taken. Audio tape of the participants' responses took place. Verbatim transcription of the participants' responses was made in a word document that was securely saved as a file document. The fireproof filing cabinet, which was properly locked, was used for keeping the documents (reports, brochures, letters, and agreements), audio tape recorder, and notes that contained participants' responses.

Data analysis involved coding of data, creation of categories, and themes (Eagle, 2015). The participants' responses were grouped into themes. The grouping into themes with codes was qualitative thematic coding analysis (Eagle, 2015). Themes were formulated based on the purpose of the study and four research questions (Eagle, 2015). Similar themes were grouped into the same category. The study focused on the following research questions:

RQ 1. How do entrepreneurs perceive the relationship between internal controls and fraud?

RQ 2. How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud?

RQ 3. How do entrepreneurs perceive the use of internal controls on minimizing fraud?

RQ 4. What internal control strategies do entrepreneurs use to minimize fraud?

The above four open-ended questions for the in-person interview were designed to explore the internal control strategies that business leaders use to minimize fraud in small businesses. The instrument, as stated in the Appendix A, was created based on the four research

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questions. The instrument focused on the purpose and problem of the study. Furthermore the instrument was designed based on the previous instrument that Janvrin and Mascha (2014) designed for their study, as stated in the Chapter 3.

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Research Question 1: How do entrepreneurs perceive the relationship between internal controls and fraud?

In the table 3, participants' responses to interview questions, which were based on the research question 1, were grouped into three themes that were deterrence (theme 1), no absolute assurance (theme 2), and failure to prevent (theme 3). Check marks indicated the participants' responses.

Table 3

Perception of the Relationship between Internal Controls and Fraud

Participants	Theme 1: Deterrence	Theme 2: No Absolute Assurance	Theme 3: Failure to Prevent
1	√	√	√
2		√	√
3		√	√
4	√	√	√
5	√	√	√
6		√	√
7		√	√
8		√	√
9		√	√
10		√	√

Deterrence. Based on the research question 1 as stated above, the theme that is derived from the responses of the participants is deterrence. Three participants stated that internal

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controls deter workers from perpetrating fraud. Three participants said that internal controls are the strong tool that managers use to tackle the fraudulent activities in their organizations. The three participants noted that when internal controls are adequate dishonest workers may not like to commit fraud because they perceive that somebody will catch them at the time they perpetrate financial crimes.

Participant 1:

Some workers were reluctant to commit fraud in our organization because our new manager strengthened the internal control system. Workers are afraid to perpetrate fraud because they perceive that they will be caught, if they commit fraud because of the internal control protocol. Our company profit will decrease because of fraud, if there are no internal controls.

Participant 4:

Internal controls are the fiber of our organization. Our company would not have survived without a strong internal control system. All our employees comply with our internal control policy. Our workers do not cooperate with dishonest customers to perpetrate financial crimes in our company because they are honest employees. Our employees are scared to commit fraud because they perceive that somebody will see them. Our company profit increase in the recent times because fraud rate has decreased.

Participant 5:

It is hard to commit fraud in our organization because of our sophisticated internal control system. Workers cannot commit fraud because they always suspect that somebody will know about the financial crimes. Our workers feel that they are not safe if

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they engage in financial crimes. Our company profit has improved significantly because the financial crimes in our firm have drastically decreased in recent times.

No Absolute Assurance. Another theme that emerges from the responses of participants is no absolute assurance. All participants specified that no absolute assurance that internal controls can prevent all fraud because some workers connive to perpetrate fraud without being caught. All participants said that some employees that hold some strategic positions conspire to commit fraud. All participants stated that members of the management cannot stop fraud that involves managers that hold key positions. All participants specified that their organizations lose the significant revenue annually to fraud.

Participant 6:

Our company profit has decreased significantly for the past three years because of fraud. Some managers that hold key positions conspire to perpetrate fraud. Perpetrating fraud is easy for the dishonest managers that hold sensitive positions. Members of the management cannot stop the dishonest managers from perpetrating fraud because of the key positions that they hold.

Participant 7:

Dishonest members of top management sabotage the effort of management officials to put in place a strong internal control system. The dishonest members engage in fraudulent activities. The dishonest members of the top management find it easy to commit fraud because they hold sensitive positions. The fraud rate has increased tremendously for the past two years. Our management officials cannot detect or stop fraud that high profile top managers perpetrate.

Participant 8:

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Certain fraud emerges from highly respectful senior managers. Some senior managers that are dishonest conspire with one another to commit financial crimes in our firm. Last year, three senior managers that are highly respectful connive with one another to defraud our company of $500,000. All our employees that knew about the fraud were not happy with dishonest managers.

Participant 9:

When I noticed that one of our managers that I used to respect was involved in a financial crime, I was surprise. Similarly, all our workers who heard about the fraud that the dishonest manager perpetrated condemned the ugly incident. My concern is that top managers set the tone for the employees to perpetrate financial crimes. Some workers will engage in financial crimes, if they notice that some top managers commit fraud.

Participant 10:

Our accountants and two senior managers conspire to defraud our company of $800,000. Our company profit has decreased drastically for the past three years because of fraud that dishonest managers committed. Two years ago, the human resources senior manager sacked five workers including two managers that perpetrated financial crimes. The management team members distributed some circulars to condemn the fraud that dishonest workers perpetrated.

Internal Controls Fail to Prevent Fraud. All participants said that internal controls fail to prevent fraud in their organizations. All participants agreed that numerous financial crimes occurred in their companies although the management officials put in place a strong internal control protocol. All participants said that dishonest workers use different tactics to perpetrate fraud because they perceive that nobody will notice their fraudulent action.

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Participant 4:

Internal controls do not prevent fraud in our companies. There are some financial crimes in our firms, although members of management enhanced internal controls to check fraudulent activities. Our dishonest employees made several attempts to commit fraud. Financial crimes have increased tremendously for the past four years. Members of the management introduced different internal control measures that fail to prevent fraud.

Participant 5:

Fraud has become a menace in our company. The menace of financial crimes in our organization is beyond an imagination. Our company lose huge amount of money to fraudsters, although we have internal controls. Five workers in our account section defrauded our firm of $300,000. Our company lose significant amount of money yearly to fraudsters. I was surprise to hear that our account manager conspired with the accountant to committed fraud.

Participant 6:

Our management members updated our internal controls, which failed to prevent financial crimes. Some of our employees that feel cheated in the organization committed fraud. Dishonest workers connive with one another to perpetrate financial crimes. Dishonest workers always justify their fraudulent action. The fraudsters claimed that managers failed to reward them adequately for contributing to the growth of the organization.

Participant 7:

Fraud continues to occur in our organization. There are dishonest workers in our company. The dishonest employees perpetrate fraud whenever they need some money to

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address their financial needs. Some workers that live above their income perpetrate financial crimes. Dishonest workers defraud our company of the large amount of money that they will use to discharge their financial obligations. Dishonest workers prefer to steal the company cash to settle their financial responsibility.

Participant 8:

I do not believe that internal control prevent fraud because fraud occurs in our organization occasionally. Some workers commit fraud whenever they want to perpetrate it. Our members of management cannot stop employees from committing financial crimes. Many financial crimes took place in our organization yearly. All attempts that managers made to use internal controls to prevent financial crime failed. Our managers cannot identify the internal control measures that they will use to prevent fraud.

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Research Question 2: How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud?

In the table 4, participants' responses to interview questions, which were based on the research question 2, were grouped into three themes that were diminishing opportunity (theme 1), detection (theme 2), and reduction (theme 3). Check marks indicated the participants' responses.

Table 4

Perception of the Value of Strong Internal Controls

Participants	Theme 1: Diminishing Opportunity	Theme 2: Detection	Theme 3: Reduction
1			√
2			√
3			√
4	√	√	
5	√	√	
6	√	√	
7			
8			
9			
10			

Diminishing Opportunity. Three participants specified that strong internal controls decrease the opportunity to perpetrate fraud. The three participants said that workers perceive

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that the chances to commit fraud do not exist because a strong internal control system was established. The three participants said that workers who work in the account section are transparent because of the strong internal controls. The workers in the account section comply with internal control policies and discharge their duties prudently because of the strong internal control system.

Participant 4:

When our CEO strengthened the internal controls in the company, many dishonest employees repented and performed their job transparently. Many dishonest employees always feel that somebody may see them when they commit the financial crimes. Our workers comply with our internal control policies to perform their duties honestly. In the account department, the management accountant detected some fraudulent documents that fraudsters abandoned because they perceived that other workers might see their fraudulent transactions.

Participant 5:

Since our managers unanimously agreed to enhance the internal controls, none of our workers has suspicious attitude. Workers are always transparent in what they do. Workers do not have conflict of interest in discharging their duties. Employees always satisfy the interest of the company by performing their job honestly. Our employees have increased their productivity for the past three years. Our employees comply with the code of ethics to achieve the desired result.

Participant 6:

I am always happy that our employees perform their job diligently to achieve the desired goal. Recently, our new CEO adopted strong internal controls to check the fraudulent

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activities in the organization. Our employees perform their duties in accordance with the rules and regulations of the organization. Our employees always comply with the company policies to avoid fraudulent attitude towards discharging their obligations. Our employees always strive to satisfy the company interest by performing their duties honestly.

Detection of Fraud. Three participants stated that strong internal controls detect fraud. Three participants said that in their organizations managers detected some financial crimes. The three participants stated that internal controls are the controlling tool, which managers use to detect fraud in their companies. The three participants specified that their organizations would have lost a significant amount of money to fraudsters, if the managers failed to detect the financial crimes.

Participant 4:

My manager detected fraud that my friend intended to perpetrate. The manager dismissed the dishonest worker after querying him on the fraud. Furthermore, managers in my organization detected some financial crimes that dishonest employees intended to commit. Our managers were able to detect the fraudulent activities in their departments because of the strong internal controls.

Participant 5:

My accountants detected some financial crimes that some workers planned to commit. The accountants reported the dishonest workers that intended to commit the financial crimes to our CEO, who eventually terminated the workers' appointment. Strong internal controls are the fraud-fighting tool that my managers use to detect financial crimes in the

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organization. Without the strong internal controls, my managers would not have detected the financial crimes. As a result, my company profit would have decreased.

Participant 6:

My management officials have been detecting financial crimes since the CEO introduced strong internal controls in our organization. My senior accountants that work in various sections detected some financial crimes that workers planned to execute. My accounts manger dismissed five workers that were panning to perpetrate fraud. The CEO held series of meetings to educate managers on how to use the strong internal controls to detect fraud.

Reduction of Fraud. Three participants said that strong internal controls reduce fraud. The three participants said that since the introduction of strong internal controls in their organization, fraud has decreased. The three participants said that their organizations profit has improved because the financial crimes that decreased the organization profit have been reduced.

Participant 1:

Since my CEO introduced strong internal controls in my company, fraud cases have decreased dramatically. Strong internal controls are the fraud-reduction tool that my managers use to minimize financial crimes in my company. Since the introduction of strong internal controls in my company, the company profit has increased by 50% because financial crimes have decreased. Prior to the introduction of strong internal controls, my company profit diminished because fraud was high.

Participant 2:

I have experienced managers that put in place strong internal controls that minimize fraud in my company. Managers reduced cases of financial crimes in my organization by 50%.

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The number of dishonest workers in my organization has decreased because some workers have decided to stop perpetrating fraud. Strong internal controls lead to decrease in financial crimes in my organization. Dishonest employees are reluctant to commit fraud.

Participant 3:

When members of the management established a strong internal control system in my organization, the fraud rate has diminished. As a result, there is an increase in the profit. Prior to the establishment of the strong internal controls system, financial crimes were high. I do not know that internal controls reduce fraud until my management officials put in place the strong internal control protocol that has reduced fraud by 40% in my company.

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Research Question 3: How do entrepreneurs perceive the use of internal controls on minimizing Fraud?

In the table 5, participants' responses to interview questions, which were based on the research question 3, were grouped into three themes that were inefficiency (theme 1), improper application (theme 2), and expensive (theme 3). Check marks showed the participants' responses.

Table 5

Perception of the Use of Internal Controls

Participants	Theme 1: Inefficiency	Theme 2: Improper Application	Theme 3: Expensive
1			√
2	√	√	√
3	√	√	√
4			√
5			√
6	√	√	√
7	√	√	√
8	√	√	√
9	√	√	√
10	√	√	√

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Inefficiency of Internal Controls. Seven participants said that internal controls are inefficient to minimize fraud. The seven participants specified that their internal controls are weak to minimize fraud. The seven participants said that their managers never enhance the internal controls to decrease financial crimes. The seven participants stated that there is always fraud in their organization, although there are internal controls. The seven participants stated that dishonest workers took the advantage of weak internal controls to perpetrate financial crimes in their organizations.

Participant 7:

> Internal controls are always inefficient in my firm. My managers did not make any effort to enhance the internal controls. Dishonest employees have their field day to commit financial crimes in the firm because of the weak internal control system. I always talk to my managers to make internal controls their priority to check fraudulent activities. Two years ago, six workers conspired to use fraudulent transactions to steal $50,000 from the firm.

Participant 8:

> Managers in my organization undermine the internal control protocol. The managers are reluctant to improve the internal controls. My managers always say that internal controls are not their priority because they have other managerial challenges. For example, how to market their products is one of the managerial challenges. The managers spend money to improve other managerial challenges at the expense of internal controls.

Participant 9:

> When I established my organization, my intention was to prioritize the internal controls. However, my managers abandoned the original goal that I set- priority of internal

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controls. Occasionally, I held a meeting with my managers to discuss how to enhance the internal control system in the organization. Some employees exploited the opportunity of the weak internal controls to defraud the company of a significant amount of money every year.

Improper Application of Internal Controls. Seven participants said that there is improper application of internal controls in their organizations. Seven participants said that they do not follow the internal control protocol. The seven participants stated that they allow one worker to perform various jobs in their organizations. The various jobs are custody of the assets, recording of transactions, to mention but a few. The seven participants stated that they held series of meetings with their managers to discuss the proper application of internal controls in their organizations.

Participant 6:

There is improper application of internal controls in my organization. Recently, I held series of meetings with my managers to discuss the proper application of internal controls. There is no job rotation. One person will perform the same job for many years until she or he retires. Three years ago, my accountant and two managers conspired to perpetrate financial crimes in the organization. The accountant and two managers were able to commit the fraud because they held the same position permanently.

Participant 2:

Improper application of internal controls is a barrier to the success of our organization. One worker doing 40% of the job is a great concern with the management of the company. My company is prone to fraud because of improper implementation of internal

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controls. The rate of fraud in my organization is alarming. Some workers engage in fraudulent activities to steal significant amount of money from the organization.

Participant 3:

My workers always perceive that the organization is conducive to fraud because there is improper application of internal controls. The dishonest workers perceive that nobody will catch them, if they commit financial crimes. Last year, some managers used fraudulent transactions to steal $100,000 from the company. A significant amount of money is lost annually because of financial crimes.

Expensive. All participants said that internal controls are very expensive to use in their organizations. All participants said that internal controls require employment of many workers that can perform various jobs. All participants said that workers are expensive to keep because of their big salaries and wages. All participants said that their organizations do not have adequate income to pay salaries and wages of the large number of workers. All participants stated that they do not make sufficient profit to increase their income.

Participant 6:

My company income is not sufficient to provide internal controls adequately. The internal controls are expensive to introduce in my organization. If I want to have sufficient internal controls in the organization, I will employ many workers that I will pay expensive salaries and wages. The problem is that I do not make enough profit that may increase my company income.

Participants 7:

My company cannot afford many workers because its income is low. I have been striving to increase the company profit that could lead to the increment of the its income. I know

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that when the company income increases, I can pay many workers. Some workers defraud the company of large amount of money annually because I cannot employ many workers, who can perform various jobs.

Participants 8:

I cannot establish internal controls sufficiently because they are expensive. There are numerous costs that include installation of adequate accounting systems for the control purpose and salaries and wages of sufficient workers, to mention but a few. The company income is insufficient to pay for the cost of internal controls. I cannot provide any solution to the internal control problem because of the insufficient capital.

Participant 10:

Expensive internal control is a barrier to the company. My company cannot perform well, unless there are sufficient internal controls. I cannot use adequate internal controls in the organization because there is no adequate capital to hire sufficient workers that can perform various jobs. The internal control system in my organization continues to deteriorate. As a result, some workers commit fraud because they perceive that the company environment is conducive for the fraudulent activities.

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Research Question 4: What internal control strategies do entrepreneurs use to minimize fraud?

In the table 6, participants' responses to interview questions, which were based on the research question 4, were grouped into three themes that were whistleblower policy (theme 1), bank accounts reconciliation (theme 2), and anti-financial crime training (theme 3). Check marks showed the participants' responses.

Table 6

Internal Control Strategies

Participants	Theme 1: Whistleblower Policy	Theme 2: Bank Accounts Reconciliation	Theme 3: Anti-Financial crime Training
1	√	√	√
2			
3			
4	√	√	√
5		√	√
6			
7			
8			
9			
10			

Whistleblower Policy. Two participants stated that they have whistleblower policy that allows workers to report financial crimes to members of the management. The two participants stated that they have whistleblower protection that keeps the worker, who discloses the fraud,

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anonymous and save from retaliation. The two participants said that some employees disclosed financial crimes, which dishonest workers committed, to the members of the management. The two participants specified that their workers feel save to report fraudulent activities and suspicious individuals to members of the management. The two participants said that the whistleblower policy increased the perception of fraud detection.

Participant 1:

A worker reported seven persons that were involved in a fraudulent activity. The seven workers intended to defraud the firm of $800,000. Members of the management invited the seven workers to the management meeting to get the vital information on their fraudulent activity. During the interrogation, the seven workers confessed their crime to the management members. The seven workers said that they wanted to defraud the company of $800,000. The personnel manager sacked the seven employees.

Participant 4:

Since the introduction of whistleblower policy in my organization, many financial crimes have been reported to the members of management. Last year, my two account clerks were involved in a fraud. A worker that worked with the two fraudsters reported the fraud to the senior manager. When the senior manager investigated the two dishonest account clerks, he found that they wanted to defraud the company of $100,000. My senior manager terminated the appointment of the two account clerks.

Bank Accounts Reconciliation. Three participants said that they have the bank account reconciliation. The three participants said that they compare their organizations cash balance in the book with the cash balance in the bank statement. The three participants said that they detected fraud on their bank statements because they performed the bank accounts reconciliation.

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The three participants said that when they introduced the bank accounts reconciliation, there is no more fraud in their company bank accounts.

Participant 1:

> When we introduced the bank accounts reconciliation, dishonest individuals stopped perpetrating financial crimes. My account department detected fraud in the bank accounts when we introduced the bank account reconciliation. Prior to introduction of the bank accounts reconciliation, workers perpetrated many financial crimes. My firm loses huge amount of money every year because of the bank account fraud.

Participant 4:

> I am happy that the financial crimes have decreased since the introduction of the bank accounts reconciliation. Workers are reluctant to commit financial crimes because they perceive that managers will detect their fraudulent activities. Prior to the adoption of the bank accounts reconciliation, my company lose a significant amount of money yearly because of fraud.

Participant 5:

> I welcome the introduction of bank accounts reconciliation. Workers are afraid to commit fraud because they perceive that managers will detect their fraudulent activities by using bank accounts reconciliation. The financial crimes have drastically decreased since the introduction of the bank accounts reconciliation. Last year, two workers wanted to commit fraud, but the managers use the bank accounts reconciliation to detect the fraud. The CEO dismissed the two workers for attempting to perpetrate the financial crimes.

Anti-Financial Crime Training. Three participants said that they have anti-financial crime training for all workers. The three participants said that their workers receive training on

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what constitute fraud. The three participants said that their managers counsel their workers on how to avoid financial crimes. The three participants stated that during the anti-financial crime training, managers educate their employees on the negative impacts of fraud on the organizations. The three participants specified that managers always tell workers that fraud is forbidden in their organizations.

Participant 1:

My CEO hold the anti-financial crime training every three years to educate workers on the consequences of financial crimes. The CEO gave employees some handouts on fraud. The CEO stated in the handouts that workers should not involve in fraudulent activities. Also, the CEO stated in the handouts on how to avoid relationship with fraudulent individuals. The CEO told workers that dishonest friends will influence them to commit financial crimes.

Participant 4:

Every manager in my organization conducts the anti-financial crime training with his workers. The manager counselled workers on how to make the organization fraud-free. The manager discussed with the employees on the negative effects of fraud. The manager advised the workers to discharge their duties honestly for the interest of the company. Furthermore, the manager advised employees to live within their income. The manager advised workers that they should not live above their income to avoid committing financial crimes.

Participant 5:

I established anti-financial crime training three years ago for my company because I am the CEO. I have anti-financial crime training yearly with all my employees. During the

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> training, I advised my employees to denounce financial crimes. I told the workers that fraud is anti-productive and they should avoid it. I distributed handouts on fraud to all the workers that participated in the training. When I introduced the anti-financial crime training in my company, fraud decreased.

Seven participants' documents showed that internal controls do not exist. The documents, which include reports, brochures, letters, and agreements, indicated that the seven participants who are business leaders undermine internal controls in their small businesses. The documents indicated that lack of internal controls has been a great challenge in small businesses. Furthermore, the documents showed that the seven business leaders that are participants lost a significant amount of money due to financial crimes. The documents indicated that some members of the management and other workers perpetrated financial crimes in the companies. The documents depicted that the seven business leaders have internal control policy that included some measures that were not implemented. The measures are documentation of transactions, verification of transactions, protection of assets, and segregation of duties. Based on the documents, the business leaders argued that they do not have enough income to employ sufficient workers that should perform the internal control measures. Due to non-implementation of the internal control policy, as stated above, the seven business leaders continue to have internal control problems. The documents depicted that one person performs many duties.

Evaluation of the Findings

The view of results with the existing studies and the theoretical framework was made. The results are consistent and align with the studies and the theoretical framework (theory of fraud). The results are based on 12 themes as stated in Chapter 4. The evaluation of findings is organized based on the four research questions.

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Deterrence. Three participants mentioned that strong internal control deter workers to commit financial crimes. The participants' response is consistent with the previous study. Efficient internal controls deter dishonest employees to commit fraud (Ehrlich & William, 2016). When workers notice that managers use many internal control measures to tackle fraudulent activities, they perceive that somebody will catch them if they commit fraud (Frazer, 2016).

No Absolute Assurance. All participants stated that no absolute assurance that internal controls can prevent all fraud because some workers connive to perpetrate fraud without being caught. All participants specified that some employees that hold some strategic positions conspire to commit fraud. The results align with the existing study. Internal controls cannot totally prevent fraud in any organization because some management members conspire to perpetrate financial crimes (Mei, Chan, McVay, & Skaife, 2015). Also, the results align with the theoretical framework (the theory of fraud), which stated that members of management may perform vital functions that enable them to commit fraud without being caught (McMahon, Pence, & Bressler, 2016).

Internal Controls Fail to Prevent Fraud. All participants agreed that internal controls fail to prevent fraud in their organizations. All participants mentioned that numerous financial crimes occurred in their companies although the management officials put in place a strong internal control protocol. The result is consistent with the previous study. Some workers may hold essential positions for a long period. As a result, the workers can conspire to commit the financial crimes (Laxman, Randles, & Nair, 2014).

Diminishing Opportunity. Three participants specified that strong internal controls decreases the opportunity to perpetrate fraud. The three participants noted that workers perceive that the chances to commit fraud do not exist because there is a strong internal control system.

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When dishonest employees notice strong internal controls in their companies, they may not commit fraud because they believe that somebody could catch them (Ruankaew, 2016).

Detection of Fraud. Three participants stated that strong internal controls detect fraud. The three participants noted that in their organizations managers detected some financial crimes. When members of the management strengthen the internal control system, they can detect the financial crimes in their organizations (Frazer, 2012).

Reduction of Fraud. Three participants mentioned that strong internal controls reduce fraud. The result is consistent with the existing study. Fraud decreases in organizations where members of the management enhance the internal controls (Frazer, 2012).

Inefficiency of Internal Controls. Seven participants specified that internal controls are inefficient to minimize fraud. Fraud may not decrease in organizations because of weak internal controls (Mei, Chan, McVay, & Skaife, 2015).

Improper Application of Internal Controls. Seven participants stated that there is improper application of internal controls in their organizations. Seven participants mentioned that they do not follow the internal control protocol. One person may perform many jobs in small businesses (Su, Zhao, & Zhou, 2014)

Expensive. All participants agreed that internal controls are very expensive to use in their organizations. Internal controls require employment of many workers that can perform various jobs, which may be expensive to business owners (Kevin, 2016).

Whistleblower Policy. Two participants mentioned that they have a whistleblower policy that allows workers to report to members of the management any suspicious activities. Whistleblower policy is a measure that managers use to check fraud (Ruankaew, 2016).

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Bank Accounts Reconciliation. Three participants specified that they have the bank account reconciliation. The three participants noted that they compare their organizations cash balance in the book with the cash balance in the bank statement. The findings are consistent with the existing study. Bank accounts reconciliation is a measure that management members use to control financial crimes (Frazer, 2016).

Anti-Financial Crime Training. Three participants mentioned that they have anti-financial crime training for all workers. The three participants said that their workers receive training on what constitute fraud. Managers train their workers on how to avoid financial crimes in organizations (Laxman, Randles, & Nair, 2014).

Summary

Chapter 4 focused on the analysis of internal control strategies that business leaders use to minimize fraud in small businesses. The data from the responses to the four research questions were analyzed. Ten business leaders shared their view on four research questions that are stated below. How do entrepreneurs perceive the relationship between internal controls and fraud? How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud? How do entrepreneurs perceive the use of internal controls on minimizing fraud? What internal control strategies do entrepreneurs use to minimize fraud? Twelve themes emerged based on the four research questions. No absolute assurance, internal controls fail to prevent fraud, and expensive are themes that all participants agreed on. All participants shared similar views on the themes. All participants stated that internal controls cannot guarantee prevention of all fraud because some top managers hold key positions that they can use to perpetrate financial crimes. All participants specified that fraud may continue to occur, although there are strong internal controls in the organizations. All participants noted that internal controls are expensive

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to implement in their organizations. The other themes that were mentioned by some participants include deterrence to fraud, diminishing opportunity, detection of fraud, reduction of fraud, inefficiency of internal controls, improper application of internal controls, whistleblower policy, bank accounts reconciliation, and anti-financial crime training. Some participants upheld the strong view on the themes. Three participants stated that internal control deter workers from committing fraud. Also, three participants noted that strong internal controls decrease the opportunity for the dishonest employees to perpetrate financial crimes. Three participants specified that managers use strong internal controls to detect fraud. Three participants mentioned that members of the management use efficient internal controls to reduce financial crimes. Seven participants noted that internal controls are weak to minimize financial crimes. Seven participants specified that there is improper application of internal controls in their companies. The seven participants noted that they do not follow the internal control protocol. Two participants said that they have a whistleblower policy that permits workers to report to managers suspicious activities. Three participants noted that they have the bank account reconciliation that they use to check financial crimes. Three participants mentioned that they have anti-financial crime training that they use to train workers on how to avoid financial crimes. The documents indicated that lack of internal controls is a great concern in small businesses that are owned by seven business leaders who are participants. The documents showed non-implementation of internal control measures that include documentation of transactions, verification of transactions, protection of assets, and segregation of duties by the seven business leaders. The consistency of the results to the existing studies and the theoretical framework (the theory of fraud) was determined during the interpretation process.

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Chapter 5: Implications, Recommendations, and Conclusions

Financial crimes decrease small business inventories and cash (Mei, Chan, McVan, Sarah, & Skaife, 2015), resulting in the loss of profits (Krishnan & Wei, 2012). Different types of fraud that occur in small businesses are cash larceny, inventory theft, billing schemes, paying to fictitious vendors, check tampering, and skimming (Jong, Sunhwa, Hogan, & Joonil, 2013). The loss of income of small businesses may result in bankruptcy and the demise of small businesses (Hrncir & Metts, 2012). When small business leaders undermine the protection of assets, the segregation of duties, and the verification of transactions (Voss & Brettel, 2014), the internal controls may be at risk (Verovska, 2012). Internal controls are important because they enhance efficiency, reduce the risk of loss of assets, and assure reliability of financial statements (Frazer, 2012). The specific business problem is that business leaders lack internal control strategies to minimize fraud in small businesses. The inefficiency of internal controls in small businesses may result in the collapse of their financial system (Mei, Chan, McVan, Sarah, & Skaife, 2015). The financial institutions may hesitate to offer loans to small businesses that witness excessive financial crimes (Krishnan & Wei, 2012). Frazer (2016) and Kevin (2014) are aware that inadequacy of internal controls in small businesses may create opportunities for dishonest workers to commit fraud.

The purpose of this qualitative multiple case study was to explore internal control strategies that small business leaders used to minimize fraud in small businesses. The study focused on financial crimes and internal controls, which consist of segregation of duties, protection of assets, and verification of transactions. The interview and documents were the sources of data, as well as the data collection methods for this study. The in-person interview of participants was performed. The participants were entrepreneurs who had successfully

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implemented and used internal control strategies in small businesses in Albany, New York that have less than 200 employees and have been in operation for at least 5 years. The target population was two million small businesses in New York and the sample size was 10 small businesses in New York. Expert sampling, a branch of the purposive sampling, was used to select the participants (Dworkin, 2012). The scope of the study, research topic, quality of data, the design of the study, and interview time were used to determine the sample size, which was 10 (Dworkin, 2012). Each of the 10 small businesses provided one participant for the study.

The limitations in the study included non-random sample (Connelly, 2013). The expert sampling was not random. The participants were chosen based on the judgment. Also, the participants were selected based on their claims. For example, some participants might have falsely claimed that they had successfully implemented and used internal control strategies in small businesses. As a result, unqualified participants might be selected. The poor selection might not produce true results. The non-random sample might not represent the population of small businesses. Furthermore, all the business owners that were selected live in the Albany, New York. Business owners that live in other areas were excluded from the study. As a result, generalization of the results of the study to the population of all the small enterprises in the United States was not possible (Connelly, 2013). The existing situation at the time of the interview might influence the responses of the participants (Cope, 2014). For example, an unfavorable economic situation that tended to negatively affect the responses of participants tended to occur. Some business owners that were participants might be highly educated. The other business owners that are excluded from the study may be less educated. As a result, generalization of findings might not yield valid results.

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The results of the study were stated in Chapter 4. The results focused on the responses of the participants to the four research questions that were delineated in Chapter 4. The findings were viewed with the theoretical framework and the existing studies to identify their alignment (Cope, 2014). The implications made the findings more meaningful and understandable because results were properly interpreted (Cope, 2014). The recommendations for practice and future studies were made. The conclusion summarized the key points in this chapter. The discussion of how the results addressed the problem and purpose of study was done. Contributions of the study to the literature and the theory of fraud were identified. Methodology, design, and limitations were discussed.

Implications

The study of the internal control strategies that entrepreneurs use to minimize fraud in small businesses contributed to the theory of fraud and literature in many ways. The study expanded the theory of fraud that focuses on the internal controls and fraud. Findings showed that when managers strengthened the internal controls, financial crimes decreased. Internal controls are the tool that managers use to minimize fraud in their organizations (Ruankaew, 2016). Also, the results depicted that when internal controls became weak, fraud increased. When managers undermine the internal control protocol in their organizations, financial crimes may increase (Ruankaew, 2016). As a result, the study expanded the description of internal controls to include fraud reduction, which means internal controls decrease financial crimes (Murphy & Free, 2016). The study supported the theory by using the new evidence from the findings to build on the fraud theory (Indranil, Lin, & Wu, 2015). The propositions of the fraud theory were viewed with the results from the study to identify their alignment. No contradiction between the fraud theory propositions and the results from the study. The study used literature

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review to support the fraud theory. Various scholarly articles support the fraud theory (Indranil, Lin, & Wu, 2015).

To explore the entrepreneurs' perception on the relationship between internal controls and fraud, the first research question was established:

Q1. How do entrepreneurs perceive the relationship between internal controls and fraud?

Three themes emerged from the data collected from the participants on the first research question.

Deterrence. Strong internal controls deterred dishonest workers from committing financial crimes because they perceived that somebody could catch them (McMahon, Pence, & Bressler, 2016). The problem and purpose of the study were properly addressed with deterrence of dishonest workers from committing fraud. When managers introduced strong internal controls in their organizations, workers tended not to perpetrate financial crimes because they perceived that they might be caught (McMahon, Pence, & Bressler, 2016). As a result, financial crimes tended to decrease (Frazer, 2012). When financial crimes declined in the organizations, an increase in profit and income of businesses occurred (Dorminey, Fleming, Kranacher, & Riley, 2012). Hence, organizations might have sufficient fund to establish more internal control measures to tackle financial crimes.

Three participants stated that strong internal controls deterred workers from committing fraud. If all participants strengthen their internal controls, they would have achieved the same results as those of three participants. The results aligned with the theory of fraud, which stated that efficient internal controls in small businesses deter workers from committing fraud (McMahon, Pence, & Bressler, 2016). The results indicated that when business leaders strengthened their organizations internal controls, fraud could decrease because individuals may

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be deterred to perpetrate financial crimes (McMahon, Pence, & Bressler, 2016). The results contributed to the theory of fraud because deterrence is a concept that influences fraud. The deterrence was included in the theory of fraud. In addition, the description of fraud expanded to include the effect of deterrence. The results contributed to the literature because deterrence is a concept in the study that was included in scholarly written works.

No Absolute Assurance. Non-existence of fraud could not be guaranteed with the establishment of internal controls in small business (Voss & Brettel, 2014). No absolute assurance that when managers put in place efficient internal controls in their companies, fraud might not occur (Verovska, 2012). The number of dishonest individuals that perpetrated financial crimes increased because of financial issues. Some workers committed fraud in the organizations because they perceived that nobody could catch them, although strong internal controls were put in place (McMahon, Pence, & Bressler, 2016). Although managers introduced various internal control measures to address the menace of fraud, individuals perpetrated financial crimes in small businesses (McMahon, Pence, & Bressler, 2016). The menace of fraud was the key challenge in the small businesses because workers connived with one another to perpetrate financial crimes (Voss & Brettel, 2014). The financial crimes were inevitable in small businesses because some management members that held strategic positions committed fraud (McMahon, Pence, & Bressler, 2016). Profit and income of organizations decreased dramatically because of increase in financial crimes. As a result, the organizations were financially deficient and could not enhance their performance.

All participants specified that efficient internal controls did not assure absence of fraud in their organizations. The findings aligned with the previous study, which stated that internal controls do not guarantee a fraud-free environment (Jong, Sunhwa, Hogan, & Joonil, 2013). The

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findings were also consistent with the theory of fraud, which stated that fraud may occur in organization because of some elements that include incentives, rationalization, opportunities, and capacity (Ruankaew, 2016). Internal control measures that business leaders adopt do not stop financial crimes because of the above elements (Ruankaew, 2016). The results contributed to the literature because the phrase "no absolute assurance" is a concept in the study that was included in scholarly written works.

Internal Controls Fail to Prevent Fraud. Internal controls could not prevent financial crimes in small businesses (McMahon, Pence, & Bressler, 2016). Managers made several attempts to use internal controls to prevent fraud but they were unsuccessful. The results were consistent with the literature. Fraud continues to occur in the organizations, although internal controls were put in place (McMahon, Pence, & Bressler, 2016). Some managers exploited the opportunities of holding strategic positions to perpetrate financial crimes in their organizations (Ruankaew, 2016). The failure of internal controls to prevent fraud is a great concern in small businesses (Voss & Brettel, 2014). Small businesses lose millions of dollars yearly because of fraud (Voss & Brettel, 2014). Dishonest workers conspired with one another to commit fraud in their companies (Voss & Brettel, 2014). The menace of fraud effected many workers to become fraudulent. Some workers, who knew that other workers stole some money, defrauded their companies of huge amount of money. The menace of fraud reduced the financial capacity of the victim companies.

All participants said that internal controls failed to prevent fraud in their organizations. The results were consistent with the theory of fraud, which specified that workers commit financial crimes in companies because of various reasons (Ruankaew, 2016). The results contributed to literature because the phrase, "Internal Controls Fail to Prevent Fraud" is in the

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study that was included in scholarly written works. Scholars may refer the phrase, "Internal Controls Fail to Prevent Fraud" when conducting future research.

The three themes that emerged from the participants' responses to the first research questions included deterrence, no absolute assurance, and internal controls fail to prevent fraud. Few participants that implemented efficient internal control system proved that strong internal control deterred workers from committing financial crimes. If all participants introduced an adequate internal control system in their organizations, they would have achieved the same results as the few participants. The results was consistent with the literature, which stated that sufficient internal controls in an organization deter dishonest staff from perpetrating fraud (McMahon, Pence, & Bressler, 2016). All participants unanimously agreed that no absolute assurance for financial crimes. Efficient internal control system may not stop all financial crimes in organizations (McMahon, Pence, & Bressler, 2016). Some members of management that held strategic positions for a long period perpetrated financial crimes without being caught. The findings were consistent with the literature, which specified that strong internal controls do not guarantee a fraud-free situation (Voss & Brettel, 2014). All participants upheld the view that internal controls failed to prevent financial crimes. Strong internal controls may not prevent fraud in businesses. The results aligned with the literature that specified that adequate internal control measures do not prevent financial crimes (McMahon, Pence, & Bressler, 2016). Prevention of fraud is hard to achieve in businesses because workers that hold strategic positions for a long time perpetrate financial crimes easily (McMahon, Pence, & Bressler, 2016).

To explore the perception of entrepreneurs on the strong internal controls as they relate to reducing fraud, the second research question was established.

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Question 2. How do entrepreneurs perceive the value of strong internal controls as they relate to minimizing fraud?

Three themes emerged from the participants' responses to the second research questions.

Diminishing Opportunity. Diminishing opportunity to commit fraud occurred in companies when managers introduced strong internal controls (Verovska, 2012). Workers may not like to perpetrate fraud when they feel that they will be caught because of efficient internal controls (Verovska, 2012). Strong internal control measures are the only tool that can make the workplace difficult to commit fraud (Voss & Brettel, 2014). Problem and purpose of the study were addressed with diminishing opportunity because most workers might not like to perpetrate financial crimes because of strong internal control measures. As a result, financial crimes decreased (Ruankaew, 2016). Profit and income of few small businesses increased due to decline in fraud. As a result, the managers of the companies had enough fund to employ some workers to improve the internal controls. When workers perform their jobs without the desire to perpetrate fraud because of adequate internal controls, productivity may increase (Dorminey, Fleming, Kranacher, & Riley, 2012).

Three participants sated that adequate internal controls decreased the opportunity to perpetrate fraud. The three participants mentioned that workers perceived that the chances to commit fraud did not exist because of a strong internal control system. Managers put in place strong internal control measures to tackle financial crimes (Frazer, 2012). The findings were consistent with the theory of fraud. When members of management strengthen the internal controls of their organizations, workers may be reluctant to commit fraud because they perceive that they will be caught with the crime (Dorminey, Fleming, Kranacher, & Riley, 2012). The results contributed to the theory of fraud because diminishing opportunity is a concept that

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deceases fraud (Dorminey, Fleming, Kranacher, & Riley, 2012). The diminishing opportunity was added to the theory of fraud. The description of fraud expanded to include the effect of diminishing opportunity. The findings contributed to the literature because the diminishing opportunity was in the study that was included in the scholarly written works.

Detection of Fraud. Managers used strong internal controls to detect fraud in small businesses (Verovska, 2012). When managers used adequate internal controls to detect numerous financial crimes in their organizations, the company assets were secured (Verovska, 2012). The organizations assets and income increased because managers detected many financial crimes that saved the organizations from the financial losses (Ruankaew, 2016). The problem and purpose of the study were addressed with the detection of fraud because financial crimes decreased (Verovska, 2012). Dishonest employees tended not like to commit fraud because they perceived that managers could use efficient internal controls to detect financial crimes (Verovska, 2012). Fraud detection has drastically reduced financial crimes in organizations (Verovska, 2012).

Three participants stated that strong internal controls detected fraud. Managers put in place efficient internal controls to detect fraudulent activities (Frazer, 2012). Managers continued exploring strong internal control measures that they could use to detect fraud. The results contributed to the theory of fraud because detection is a concept that decreases fraud (Verovska, 2012). The detection was added to the theory of fraud. The description of fraud expanded to include the effect of fraud detection. The findings contributed to the literature because detection is a concept located in the study, which was included in the scholarly written works.

Reduction of Fraud. Strong internal control system reduced fraud in the organizations. Managers of few businesses adopted efficient internal controls to decrease financial crimes in

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their organizations. Workers do not like to commit financial crimes when internal control system is efficient (Verovska, 2012). As a result, the organizations do not suffer financial losses; companies income and profit increase (Frazer, 2012). The liquidity position of few small businesses increased because of decrease in financial crimes. Due to increase in the liquidity position, the small business leaders improved on their companies performance. The fraud reduction addressed the problem and purpose of the study because financial crimes decreased (Voss & Brettel, 2014). Few companies adopted strong internal controls while most businesses had internal control problems.

Three participants stated that strong internal controls reduced fraud. The three participants specified that since the introduction of strong internal controls in their organizations, fraud has decreased (Verovska, 2012). If all the participants strengthen their internal controls, they would have achieved the same results as those of three participants. The findings contributed to the theory of fraud because fraud reduction is a concept that decreased fraud (Verovska, 2012). The fraud reduction was added to the theory of fraud. The description of fraud expanded to include the impact of fraud reduction. The findings contributed to the literature because fraud reduction is a concept located in the study that was included in the scholarly written works.

The three themes that emerged from the participants responses to the second research question include diminishing opportunity, detection of fraud, and reduction of fraud. Few participants that adopted the efficient internal control system attested that strong internal controls diminished opportunity to commit fraud. Dishonest workers did not like to commit fraud because they perceived that they may be caught for the crime (Verovska, 2012). The results aligned with the literature, which stated that every strong internal control system diminishes the chances of

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fraud in businesses (Dorminey, Fleming, Kranacher, & Riley, 2012). Few participants proved that adequate internal controls detected financial crimes in their companies. The findings were consistence with the literature, which specified that when internal controls are strengthened in an organization, some financial crimes may be detected (Verovska, 2012). Furthermore, few participants clarified that strong internal controls reduced fraud in their organizations. Whenever companies introduce sufficient internal controls, workers perceive that chances to perpetrate financial crimes do not exist (Dorminey, Fleming, Kranacher, & Riley, 2012). The findings aligned with the literature, which specified that sufficient internal controls tend to decrease fraud in businesses (Verovska, 2012). Results indicated that strong internal controls were established in few small businesses; but weak internal controls are a challenge in most businesses.

To explore the entrepreneurs' perception of the use of internal controls to decrease financial crimes, the third research question was established.

RQ 3. How do entrepreneurs perceive the use of internal controls on minimizing fraud?

Three themes emerged from the analysis of data collected from the participants on the third research question.

Inefficiency of Internal Controls. Internal controls were deficient to minimize fraud in most businesses (Hrncir & Metts, 2012). The findings were consistent with the literature and theory of fraud. Dishonest employees exploited the opportunity of weak internal controls to perpetrate financial crimes in their organizations (Frazer, 2012). The results indicated that financial crimes threatened the existence of many businesses because organizations lose the huge amount of money annually to fraudsters (Laxman, Randles, & Nair, 2014). Business leaders undermined the internal control protocol (Frazer, 2012). Nevertheless, findings showed that few

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business leaders put in place efficient internal controls. Internal controls continue to be a challenge in global businesses (Frazer, 2012).

Seven participants specified that internal controls were deficient to decrease fraud. The seven participants stated that their internal controls were weak to minimize fraud. The seven participants mentioned that their managers never enhanced the internal controls to decrease financial crimes. The seven participants mentioned that fraud always occurs in their organization, although internal controls were established. The results depicted that internal control challenges were prevalence in most companies (Hrncir & Metts, 2012). Members of the management ignored the internal control protocol in their organizations (Hrncir & Metts, 2012). The findings contributed to the theory of fraud because inefficiency of internal controls was a concept that increased the financial crimes. The inefficiency of internal controls was added to the theory of fraud. The description of fraud expanded to include the effect of inefficiency of internal controls. The results contributed to the literature because inefficiency of internal controls is a concept found in the study that was added to the scholarly written works.

Improper Application of Internal Controls. Improper application of internal controls was a great challenge in small businesses (Kevin, 2014). Business leaders undermined internal controls to allow the same person to perform 40% of the job. Employees performed their job without being properly supervised by their bosses (Kevin, 2014). The findings were consistent with the literature and theory of fraud. Workers exploited the opportunity of improper use of internal controls to perpetrate financial crimes (Jong, Sunhwa, Hogan, & Joonil, 2013). Due to improper application of internal controls, internal control problems continued to be a concern in businesses. Some businesses collapse every year because of improper use of internal controls (Mei, Chan, McVan, Sarah, & Skaife, 2015). For example, business leaders did not introduce the

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proper segregation of duties in their organizations. One employee performed many duties in their companies (Kevin, 2014).

Seven of the participants stated that they have improper application of internal controls in their companies. Seven of the participants mentioned that they did not follow the internal control protocol. The seven participants stated that they allowed one worker to perform various jobs in their organizations. Improper use of internal controls is common in businesses (Hrncir & Metts, 2012). The results contributed to the theory of fraud because improper application of internal controls was a concept that increased financial crimes. The improper application of internal controls was added to the theory of fraud. The description of fraud was expanded to include the impact of improper application of internal controls. The results contributed to the literature because improper application of internal controls is a concept found in the study that was included in the scholarly written works.

Expensive. Internal controls were expensive to use in the organizations. Most small business leaders do not have internal controls in their businesses because they do not have adequate capital to employ sufficient workers that can perform different jobs (Kevin, 2014). Lack of internal controls in small businesses is a great concern because workers conspire to perpetrate financial crimes (Verovska, 2012). The number of workers in small businesses is insufficient to perform various jobs (Jong, Sunhwa, Hogan, & Joonil, 2013). Small businesses are prone to financial crimes because of shortage of workers that can handle the various jobs based on the principle of segregation of duties (Hrncir & Metts, 2012).

All participants mentioned that internal controls were very expensive to implement in their organizations. All participants stated that internal controls required employment of many workers that could perform various jobs. Internal controls continue to be a great challenge in

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small businesses because business leaders cannot afford them (internal controls) (Laxman, Randles, & Nair, 2014). The results contributed to the theory of fraud because expensiveness of internal controls is a concept that increased fraud. The explanation of fraud was increased to include the impact of expensiveness of internal controls. The findings contributed to the literature because expensiveness of internal control is a concept in the study that was included in the scholarly written works.

The three themes that emerged from the participants' responses to the third research question were inefficiency of internal controls, improper application of internal controls, and expensive. The three themes focused on the entrepreneurs' perception of the use of internal controls to minimize fraud. Most participants upheld the view that internal controls were inefficient. The findings were consistent with the literature, which stated that internal controls are deficient in small business (Kevin, 2014). Small businesses lack internal control protocol (Voss & Brettel, 2014). Majority of the participants unanimously agreed that improper application of internal controls was a great concern in small businesses. The results were consistent with the literature, which specified that incorrect application of internal controls in small businesses is a great challenge (Jong, Sunhwa, Hogan, & Joonil, 2013). Many business leaders do not use internal controls properly in their organizations ((Jong, Sunhwa, Hogan, & Joonil, 2013). All participants mentioned that internal controls were expensive. The results aligned with the literature, which stated that small businesses may not afford adequate internal controls because their income is insufficient (Kevin, 2014). Business leaders argue that they cannot put in place strong internal controls in their companies because their income is deficient (Kevin, 2014).

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To explore the internal control strategies, which entrepreneurs used to minimize fraud, the fourth research question was established.

RQ 4. What internal control strategies do entrepreneurs use to minimize fraud?

Three themes emerged from the analysis of data collected from the participants on the fourth research question.

Whistleblower Policy. The whistleblower policy allows individuals to report suspicious activities and financial crimes to members of management (Mei, Chan, McVan, Sarah, & Skaife, 2015). The whistleblowers are protected from retaliation (Mei, Chan, McVan, Sarah, & Skaife, 2015).The information that the whistleblowers provide to members of the management is anonymous (Jong, Sunhwa, Hogan, & Joonil, 2013). Members of the management obtained vital information from workers on financial crimes and suspicious behaviors that they used to check fraud. Workers could not like to commit fraud because they perceived that whistleblowers may report their fraudulent activities to members of management. As a result, financial crimes decreased. The financial position of few companies that introduced the whistleblower policy increased. Due to the availability of fund, the companies business leaders employed some workers to strengthen the internal controls.

Two participants specified that they had a whistleblower policy that allowed workers to report to managers any suspicious activities. Furthermore, the two participants stated that they had whistleblower protection that kept the worker’s information anonymous, as well as protecting the whistleblower from retaliation. The results were consistent with the theory of fraud because dishonest workers perceived that they may be caught, due to the whistleblower policy (McMahon, Pence, & Bressler, 2016). Perception of fraud detection has increased because of whistleblower policy (McMahon, Pence, & Bressler, 2016). The whistle blower is a concept,

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which decreased fraud found in the theoretical framework (theory of fraud). The explanation of fraud in the theory of fraud included the effect of the whistleblower policy. Furthermore, whistleblower policy was a concept in the study that was added to the literature.

Bank Accounts Reconciliation. Few business leaders introduced bank accounts reconciliation that they used to check fraud (Mei, Chan, McVan, Sarah, & Skaife, 2015). Managers reconcile companies bank accounts monthly to check financial crimes (Mei, Chan, McVan, Sarah, & Skaife, 2015). Managers use the bank accounts reconciliation to detect some financial crimes (Mei, Chan, McVan, Sarah, & Skaife, 2015). Workers feel that their chances of being caught, if they commit fraud, is high because of the bank accounts reconciliation (McMahon, Pence, & Bressler, 2016). As a result, dishonest employees tended to avoid financial crimes. Financial crimes decrease in some businesses because of introduction of bank accounts reconciliation (McMahon, Pence, & Bressler, 2016). The decrease in fraud led to increase in profit and income of small businesses that introduced the bank accounts reconciliation. The companies business leaders expanded their businesses because of availability of sufficient fund.

Three participants stated that they had the bank accounts reconciliation. The three participants mentioned that they viewed their companies cash balance in the book with the cash balance in the bank statement. Bank accounts reconciliation plays an important role in small businesses because business leaders adopt it to safeguard their money in the banks (McMahon, Pence, & Bressler, 2016). Bank accounts reconciliation is a concept, which reduced fraud located in the theoretical framework (theory of fraud). The explanation of fraud included the impacts of bank accounts reconciliation. Bank accounts reconciliation is a concept in the study that was added to the literature.

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Anti-Financial Crime Training. Few business leaders introduced anti-financial crime training in there organizations (Frazer, 2012). Managers taught their workers on the menace of financial crimes. Managers taught the employees how they should avoid fraud. Managers told their workers that fraud was not tolerated in their organizations. Managers advised the workers to be honest when discharging their duties. Anti-financial crime training is a tool that managers use to minimize fraud in their organizations (Kevin, 2014). Many workers comply with the anti-financial crime training to denounce financial crimes in their organizations (McMahon, Pence, & Bressler, 2016). Fraud decreases in companies that adopt the anti-financial crime training because workers do not want to perpetrate fraud (Kevin, 2014). The liquidity position of companies that used the anti-financial crime training increased. Due to improved financial position, the business leaders employed qualified workers to strengthen the internal controls.

Three participants specified that they had anti-financial crime training for all workers. The three participants stated that their workers received training on what constituted fraud. The three participants mentioned that their managers counselled their workers on how to avoid financial crimes. Members of management use anti-financial crime training to address the internal control challenges in their companies (McMahon, Pence, & Bressler, 2016). The results contributed to the theory of fraud. Anti-financial crime training is a concept that reduced fraud, which is in the theoretical framework (theory of fraud). The explanation of fraud included effects of anti-financial crime training. Furthermore, the findings contributed to the literature. Anti-financial crime training is a concept that is in the study, which was added to the literature.

The three themes that emerged from the participants' responses to the fourth research question were whistleblower policy, bank accounts reconciliation, and anti-financial crime training. The three themes focused on the internal control strategies that entrepreneurs use to

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minimize fraud. Few participants stated that they had whistleblowers policy in their organizations. The findings indicated that few businesses put in place the whistleblower policy in their organizations. Workers reported financial crimes and suspicious behaviors to management members. The findings were consistent with the literature, which stated a whistleblower policy is a measure that managers use to tackle financial crimes (Mei, Chan, McVan, Sarah, & Skaife, 2015). Whistleblower policy is an efficient tool that may decrease fraud in businesses (Mei, Chan, McVan, Sarah, & Skaife, 2015). Few participants specified that they had bank accounts reconciliation that they used to check financial crimes in their companies. The results indicated that few business leaders had the bank accounts reconciliation that they used to check fraud in their companies. The results aligned with the literature because previous researchers stated that bank accounts reconciliation is a tool that business leaders use to tackle financial crimes (Mei, Chan, McVan, Sarah, & Skaife, 2015). Also, few participants stated that they put in place anti-financial crime training that they used to tackle fraud in their organizations. The findings showed that few business leaders established the anti-financial crime training in their companies. The results aligned with the literature because previous researchers stated that the anti-financial crime training is an internal control measure that business leaders use to address fraud in their companies (McMahon, Pence, & Bressler, 2016).

Recommendations for Practice

Twelve themes were created from the study; some of themes were used for practical applications. Based on the recommendation for practical application, small business leaders should improve internal controls in their organizations. Improvement of internal controls in small businesses by the business leaders will enhance their performance.

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The first recommendation is that business leaders should strengthen internal controls in their organizations. Business leaders should put in place the segregation of duties. The business leaders should allow one employee to perform one job. Results showed that strong internal controls deter workers from committing financial crimes (Dorminey, Fleming, Kranacher, & Riley, 2012). The business leaders should explore the right internal control measures that they will implement in their companies to deter dishonest employees from perpetrating financial crimes (Frazer, 2012). The results indicated that opportunity to commit fraud may diminish because of adequate internal controls (Verovska, 2012). Also, the findings depicted that efficient internal controls may detect and reduce financial crimes in small businesses (Voss & Brettel, 2014).

Another recommendation is that small business leaders should adopt appropriate internal control strategies that they should use to minimize fraud in small businesses. In addition, entrepreneurs should introduce more internal control strategies that they may use to decrease financial crimes. Findings indicated that few small business leaders adopted internal control strategies that include whistleblower policy, bank accounts reconciliation, and anti-financial crimes training. The whistleblower policy permit workers to report suspicious activities and financial crimes to members of management (Mei, Chan, McVan, Sarah, & Skaife, 2015). The findings showed that members of management reconcile companies bank accounts monthly to check fraud (Mei, Chan, McVan, Sarah, & Skaife, 2015). Also, the results indicated that managers use the bank accounts reconciliation to detect some financial crimes (Mei, Chan, McVan, Sarah, & Skaife, 2015). Most workers comply with the anti-financial crime training to dam fraud in their organizations (McMahon, Pence, & Bressler, 2016). Fraud decreases in

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organizations that introduce the anti-financial crime training because workers do not want to perpetrate fraud, after receiving the training (Kevin, 2014).

Recommendations for Future Research

The recommendation is that researchers should perform further research to explore more internal control strategies that small business leaders use to minimize fraud in small businesses (Verovska, 2012). Put another way, future research is needed to enable researchers have more insight in the internal control strategies that small business leaders use to reduce fraud in their organizations. The findings in the study showed internal control strategies that include Whistleblower Policy, Bank Accounts Reconciliation, and Anti-Financial Crime Training, which business leaders use to decrease fraud in small businesses. If researchers perform further study, they may find more internal control strategies that business leaders use to reduce financial crimes (Verovska, 2012). Furthermore, when future researchers perform further study, they may find more internal control measures that entrepreneurs use to strengthen their organizations internal controls. As a result, future researchers may have more insight on how to strengthen the internal controls. The findings showed internal control measures (segregation of duties) that entrepreneurs use to enhance their internal control system (Frazer, 2012).

The last recommendation is that future researchers should improve on the study because the study disclosed some limitations that include limitation of the scope of the study and the demographic of the participants. Another limitation that the study disclosed is that unqualified business leaders might have been selected as participants because of their false claims. The study was limited to the United States. The demographic of the participants included only men. The future researchers should include equal number of men and women as participants when they conduct the research in the United States. The future researchers should include business leaders

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from other countries, such as India, China, Italy, Canada, Britain, and South Africa when they perform the study outside the United States. Furthermore, future researchers should improve on the study to include qualified business leaders as participants. The future studies should be viewed with the current study to identify the differences.

Conclusions

Many implications were made based on the findings from the data analysis. Thirty percent of small business leaders interviewed mentioned that strong internal controls deterred workers from committing fraud (Frazer, 2012). All participants (small business leaders) unanimously agreed that strong internal controls did not guarantee absolute assurance for absence of financial crimes. Put another way, no absolute assurance for fraud when managers put in place strong internal controls (Voss & Brettel, 2014). All small business leaders, who were participants, mentioned that strong internal controls failed to prevent fraud because top management members that held strategic positions perpetrated financial crimes without being caught (Ruankaew, 2016). Thirty percent of the participants stated that diminishing opportunity to commit fraud occurred when managers established strong internal controls in their organizations. Workers perceive that chances to perpetrate fraud do not exist because of strong internal controls (Voss & Brettel, 2014). Thirty percent of small business owners that were interviewed specified that adequate internal controls detected fraud in their organizations. Fraud detection is the right solution that discloses financial crimes (Verovska, 2012). Thirty percent of small business owners that were the participants upheld the view that strong internal controls decreased financial crimes in organizations. Dishonest individuals perceive that they will be caught, if they commit fraud because of efficient internal controls (Verovska, 2012). As a result, financial crimes decrease (Verovska, 2012). Seventy percent shared their view that internal

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controls were inefficient to decrease fraud because they never enhanced the internal control system in their organizations. Weak internal controls in small businesses are a great concern (Hrncir & Metts, 2012). Seventy percent stated that improper application of internal controls was a great challenge in small businesses. One worker performs various jobs without being supervised by his boss (Kevin, 2014). All participants (business owners) upheld the view that internal controls were expensive to implement in small businesses. Small business leaders could not afford internal controls in their companies because they do not have enough income to employ adequate workers that perform various duties (Jong, Sunhwa, Hogan, & Joonil, 2013). Twenty percent of small business owners interviewed specified that they had a whistleblower policy that permitted workers to report to managers any suspicious activities and fraud. Furthermore, the twenty percent of small business owners that were interviewed stated that they had the whistleblower protection that kept the workers' information anonymous, as well as protecting the whistleblower from retaliation. Whistleblower policy is an internal control measure that entrepreneurs use to minimize fraud in small businesses (Mei, Chan, McVan, Sarah, & Skaife, 2015). Thirty percent of participants stated that they had the bank accounts reconciliation. The thirty percent of business owners interviewed mentioned that they viewed their companies cash balance in the book with the cash balance in the bank statement. Bank accounts reconciliation is a great internal control measure that entrepreneurs adopt to safeguard their money in the banks (McMahon, Pence, & Bressler, 2016). Thirty percent of entrepreneur interviewed specified that they had anti-financial crime training for all workers. The thirty percent of the entrepreneurs specified that their workers received training on what constitute fraud. Business leaders use anti-financial crime training to address the internal control challenges in their companies (McMahon, Pence, & Bressler, 2016).

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Findings showed that few entrepreneurs were in favor of internal controls because the internal control system has been successful in their organizations. However, most entrepreneurs were not in favor of internal controls because the internal control system failed in their organizations, without achieving any results. Based on the findings, lack of internal controls continues to be a great challenge in small businesses.

Recommendations for practical application by small business leaders were made. Also, recommendations for future research were made. The first recommendation was that future research was necessary to have more in-depth knowledge on the internal control strategies small business leaders use to minimize fraud in small businesses (Kevin, 2014). As a result, future researchers will have more insight on internal control strategies that entrepreneurs use to decrease financial crimes in their companies (Kevin, 2014). In addition, further research may enable the future researchers to know more internal control measures that entrepreneurs use to strengthen internal controls in their organizations. The final recommendation was that future researchers should improve on the current study to eliminate the limitations of the study that include exclusion of other countries and women from the study, as well as inclusion of unqualified business leaders as participants.

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Appendices

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Appendix A: Interview Protocol

Good morning. My name is Theophilus Nwoye. Greatly, the researcher appreciates your interest on the interview. There are no right or wrong answers for the In-person interview. Your participation in the study is voluntary. This researcher will use the qualitative multiple case study to explore the internal control strategies that small business leaders use to minimize fraud in small businesses in Albany, New York. The researcher will use the interview questions to gain insight on the study. The interview will be on experiences and focus on background and key questions on the internal controls and fraud. All the participants will read the consent form and agree to participate in the interview. The interview will be confidential. The researcher will audio record all the conversation between him and participants. You will receive the transcript copy of your responses for omissions and correction. You will proofread and amend your responses. The interview will last approximately 1 hour 20 minutes

Demographic Information

Please, specify your name and that of the company.

Are you between the ages of 18-65?

What is your gender?

What is the level of your education?

How long have you worked for the company as an entrepreneur?

Have you successfully used internal control strategies to minimize fraud?

Interview Questions

Relationship between Internal Control and Fraud

1. Does the fraud occur when internal controls are inadequate?

2. Does fraud occur when internal controls are sufficient?

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3. Does fraud rate increase when there are weak internal controls?

4. Does fraud rate decrease when there are strong internal controls?

5. Does fraud exist when there are no internal controls?

6. Does fraud exist when there are internal controls?

7. Does fraud determine internal controls?

8. Does internal controls increase when there is more fraud?

9. Does fraud cease when there is no internal controls?

10. Does fraud strongly impact on internal controls?

11. Does fraud lightly impact on the internal controls?

12. Does fraud affect internal controls?

13. Do internal controls prevent fraud?

Perception of the Value of Strong Internal Control in Connection with Fraud

14. What is your perception of effective internal controls when minimizing fraud?

15. What is your perception of more internal controls when minimizing fraud?

16. What is your perception of strong internal controls when fraud increases?

17. What is your perception of strong internal controls when fraud decreases?

18. What is your perception of efficient internal controls when there is no fraud?

19. Do you have negative view of strong internal controls as they relate to fraud?

20. Do you have positive view of strong internal controls as they relate to fraud?

Perception of the Use of Internal Controls to Minimize Fraud

21. What is your perception of the use of internal control to minimize fraud?

22. Do you perceive that you can use internal controls to minimize fraud?

23. Do you perceive that you cannot use internal controls to minimize fraud?

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24. Do you perceive that you can use internal controls efficiently to minimize fraud?

25. Do you perceive that you cannot use internal controls efficiently to minimize fraud?

26. Do you perceive that you can use internal controls appropriately to minimize fraud?

27. Do you perceive that there are challenges for using internal controls to minimize fraud?

28. What are those challenges that you have when using internal controls to minimize fraud?

Internal Control Strategies that Small Business Leaders Use to Minimize Fraud

29. Mention all the internal control strategies that you use to minimize fraud.

30. Are the internal control strategies that you use to minimize fraud effective?

31. Do you successfully use internal control strategies to minimize fraud?

32. Can you use internal control strategies easily to minimize fraud?

33. Do internal control strategies minimize fraud?

34. Do you have challenges for using internal control strategies to minimize fraud?

35. What are those challenges for using internal control strategies to minimize fraud?

36. Is there anything else of significance you may like to add that we did not discuss?

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Appendix B: Invitation Letter

Dear Business Owner:

You are invited to take part in a study that focuses on the exploration of the internal control strategies that you use to minimize fraud in small businesses. The duration for the interview is approximately 1 hour 20 minutes. You will be asked interview questions. You can ask the researcher questions for clarification. Furthermore, there will be a member check that will take 20 minutes. All your responses will not link to your name. Your information will be confidential. You are free to discontinue with the study at any time, if you are uncomfortable with the questions. You will not be penalized for leaving the study because participation is voluntary. There are two choices for the interviews: in-person and telephone interviews. To participate in this study you must be a small business owner. You must have successfully implemented and used internal control strategies. You must have less than 200 employees. You must have been in operation for at least 5 years. You must be at least 18 years. Your responses to the interview questions must be recorded. If you meet the above condition and voluntarily want to participate in the study, please go over the Informed Consent Form prior to starting the interview. The interview will be held at the African Center, Inc. 246 Davis Avenue, Albany, New York 12208, Conference Room located in the ground floor. I will contact you to schedule the interview. If you have any questions, and want to take part in the study, please contact me by telephone (5183341880).

Thank you.

Theophilus Nwoye

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Appendix C: Informed Consent Form

Introduction:

My name is Theophilus Nwoye. I am a doctoral student at Northcentral University. I am conducting a research study on internal control strategies that small business owners use to reduce fraud. I am completing this research as part of my doctoral degree. I invite you to participate.

Activities:

If you participate in this research, you will be asked to:

1. You will be asked the interview questions.
2. You can ask the researcher questions for clarification. The above two activities will take 1 hour.
3. There will be a member check that will take 20 minutes.

Eligibility:

You are eligible to participate in this research if you:

1. are a small business owner that has successfully implemented and used internal control strategies
2. own a small business that has less than 200 employees
3. own a small business that has been in operation for at least 5 years
4. are between the ages of 18-65
5. want your responses to be recorded

You are not eligible to participate in this research if you:

1. do not own a small business that has been in operation for at least 5 years
2. are not a small business owner that has successfully implemented and used internal control strategies
3. do not own small businesses that has less than 200 employees
4. are not between the ages of 18-65
5. do not want your responses to be recorded

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I hope to include 10 people in this research.

Risks:

There are minimal risks in this study. Some possible risks include: emotional effect of sensitive questions, encroachment of privacy and confidentiality.

To decrease the impact of these risks, you can stop participation at any time.

Benefits:

There are no direct benefits for the participants.

Confidentiality:

The information you provide will be kept confidential to the extent allowable by law. Some steps I will take to keep your identity confidential are: I will use a number to identify you, I will not ask for your name, and I will not link your answers to your names.

The people who will have access to your information are: Myself, and my dissertation committee. The Institutional Review Board may also review my research and view your information.

I will secure your information with these steps: I will lock it in a filling cabinet. I will lock the computer file in a document.

I will keep your data for 7 years. Then, I will delete electronic data and destroy paper data.

Contact Information

If you have questions for me, you can contact me at: T.Nwoye2637@email.ncu.edu. 5183341880.

My dissertation chair's name is Dr. Meena Clowes, who supervises my dissertation. You can contact her at: mclowes@ncu.edu. Also, you can contact her at: 754-777-0201.

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If you have questions about your rights in the research, or if a problem has occurred, or if you are injured during your participation, please contact the Institutional Review Board at: irb@ncu.edu or 1-888-327-2877 ext 8014.

Voluntary Participation:

Your participation is voluntary. If you decide not to participate, or if you stop participation after you start, there will be no penalty to you. You will not lose any benefit to which you are otherwise entitled.

Compensation:

There will be no compensation for your participation

Audiotaping:

I would like to use a voice recorder to record your responses. You will not be able to participate if you do not wish to be recorded.

Please sign here if I can record you:

Additional Costs:

There are no anticipated financial costs to you.

Termination of Participation:

I may stop your participation if I notice that you are emotionally disturbed due to uncomfortable and sensitive interview questions, you do not understand the study procedure, or I discover that you are not qualified to participate in the study.

If you decide to stop participation, you can leave the study any time. There will no penalty or cost to you. You will not lose any benefits. If so, I will not use the information I gathered from you.

New Findings:

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If new information might relate to your willingness to participate, I will give you that information as soon as possible.

Signature:

A signature indicates your understanding of this consent form. You will be given a copy of the form for your information.

Participant Signature Printed Name Date

______________________ ______________________

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Researcher Signature Printed Name Date

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