THE RELATIONSHIPS BETWEEN YEARS OF EXPERIENCE, AND CHURCH SIZE, AND THE REPORTED USE OF FINANCIAL REPORTING PRACTICES AND INTERNAL CONTROLS; A MULTIPLE REGRESSION STUDY

by

Carlos G. Ranglin

JUDITH L. FORBES, PhD, Faculty Mentor and Chair

DOUGLAS SMITH, DBA, Committee Member

ROBERT VEGA, DM, Committee Member

Barbara Butts Williams, PhD, Dean, School of Business and Technology

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Abstract

The financial costs of fraudulent activities are significant because of the widespread implications for business organizations. Current literature reveals misrepresentation of financial statements has resulted in significant penalties and fines affecting the profitability of the organization. Based on the Association of Certified Fraud Examiners the current estimate of financial irregularities suggests a significant amount of revenue is lost because of fraud. The issue of financial accountability is not confined to for-profit entities but is also applicable to not-for-profit organizations such as churches. The news of fraudulent activities and scandals in religious institutions has increased the need for effective accounting standards and practices in churches. Not-for-profit organizations are not mandated under federal laws for financial reporting hence churches have been utilizing undesirable accounting practices over the past decade. Research on the financial affairs of churches is limited because of a lack of federal mandates of churches. Research has shown the need for more financial accountability among churches. The perspective of administrator of churches in the United States in this study provided further insight and sought to identify the relationship between administrator experience and the reported use of both the financial reporting practices and internal controls.

Dedication

This dissertation is dedicated to my wonderful wife Marie, my daughters Kerry-Ann and Larissa and my sons Daniel and Karl. Thank you for your love, encouragement and support. It was not an easy journey but to God be the glory I have made it. To my heavenly father, the Lord of the universe, without your divine intervention I know I could not have made it thus far. Thank you Lord.

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1. INTRODUCTION

Introduction to the Problem

The misrepresentation of the financial records of churches is a widespread phenomenon. Numerous studies have shown that the financial costs of the misrepresentation of financial records in not-for profit organizations are significant (Dorminey, Fleming, Kranacher, & Riley, 2012; Hess, 2006). This has severe implications for not-for-profit organizations because of the significant contributions the not-for profit sector makes to the United States economy. Not-for-profit organizations contributed 173 billion dollars to the gross domestic product of the US economy in 2010 (Blackwood, Roeger, & Pettijohn, 2012).

Carmona and Ezzamel (2006) emphasized the need for further research of religious organization accounting strategies and stated that such research would contribute to the literature on religious accounting practices and financial reporting. Similarly, Schreiter (2008) concluded the need for adequate financial reporting and accountability are important issues facing religious institutions. Inadequate financial training is seen as one of the reasons for the lack of financial reporting in religious institutions. In comparison, Miller and Collins (2007) suggested that the need for greater internal controls in churches is prompted by funds embezzlement as well as overpayments to church leaders. Heinen (2008) advanced the need for religious institutions to adopt more stringent accounting principles and procedures and the need for greater internal controls to safeguard the assets of the organization. Squires (2010) emphasized various fraudulent activities and suspected financial activities in churches make it imperative to implement accounting measures that will ensure more adequate financial reporting and greater accountability among church officers.

Background of the Study

The issue of financial accountability is not confined to for-profit entities but is also applicable to not-for-profit organizations such as churches. The news of fraudulent activities and scandals in religious institutions has increased the need for effective accounting standards and practices in churches (LaShaw, 2007). Not-for-profit organizations are not mandated under federal laws for financial reporting hence churches have been utilizing undesirable accounting practices over the past decade.

Inadequate financial training is seen as a primary cause of unverifiable financial reporting in religious institutions. Hackler and Saxton (2007) supported the conclusion that inadequate financial training prevented verifiable financial reporting and stated one of the measures not-for-profit organizations should use to improve financial reporting and internal controls are staff training. Similarly, Duncan et al. (1999) believed the lack of training in accounting impedes the efforts of non-for–profit organizations in providing accurate financial reports. Busby (2005) revealed the need for internal controls in churches was prompted by embezzlement and the overpayments of funds to church administrators. Heinen (2008) advanced the need for churches to adopt stringent internal control and accounting principles to safeguard the assets of the organization. Squires (2010) emphasized fraudulent and suspicious financial activities within churches make it imperative to implement practices, ensuring adequate financial reporting and accountability.

Statement of the Problem

Research on the financial affairs of churches is limited and one of the reasons is a lack of federal mandates of churches (Duren, 2011; Elson, O'Callaghan, & Walker, 2007). Duren (2011) emphasized the need for more financial accountability among churches because of widespread financial irregularities (Busby, 2005; Heinen, 2008; Squires, 2010). According to Duren (2011), the participants in his study were African American Methodist local church members. "Similar research conducted in church districts or conferences may uncover new knowledge" (p 168). It was specifically pointed out that expanding the study to church administrator may uncover new knowledge. A gap in knowledge existed regarding the relationships among administrator experience and church size to financial reporting and internal controls. This study addressed this gap and is expanded to administrator of churches in the United States.

Purpose of the Study

The purpose for the survey study is to evaluate the application of the theory of accounting, especially as it relates to financial reporting and internal controls within churches where administrator experience and church size may be important. A survey is used to measure the participant's perception of the variables administrator experience; church size; financial reporting and internal controls. Permission was obtained to use the instrument. The questions in the instrument are designed to provide responses to measure administrator experience, church size, internal controls and financial reporting (Wooten, Coker, & Elmore, 2003). Likert rating scale was used to measure the responses with five possible choices: 1= *always*; 2= *nearly always*; 3=*sometimes* 4= *seldom* and 5= *never*.

Financial reporting was measured based on questions 1 to 21 and internal controls was measured based on questions 22 to 31. Administrator experience and church size are measured by the demographic information (see appendices B & C).

Administrator experience is defined as the number of years an administrator has served in this capacity in the church. Church size is defined as the membership of the church. Financial reporting is generally defined as the process of achieving fiscal responsibility by establishing controls and safeguarding the assets of the organization (Bacher and Cooper-White, 2007). Internal controls are the procedures established to provide the organization the assurance that safeguards are in place to ensure the financial statements are reliable based on the laws and regulations (Edmonds, Edmonds, McNair, Olds, & Schneider, 2006).

Rationale

Schreiter (2008) emphasized the need for adequate financial reporting and accountability as important issues facing religious institutions because of widespread financial irregularities (Busby, 2005; Heinen, 2008; Squires, 2010). This study used a multiple regression research design which measures the relationship between the variables (Field, 2009). The researcher collected data using a survey and perform interpretation by performing statistical analysis. Based on the data collected statistical inferences are made in order to understand the relationship of the variables (Cooper & Schindler, 2011).

Research Questions

R1: In church administration what are the relationships between the years of experience of the administrator or church size, and the reported use of the financial reporting practices?

R2: In church administration what are the relationships between the years of experience, church size, and the reported use of the internal controls?

Significance of the Study

The study is timely and significant because of the recent accounting scandals surrounding professional integrity in the accounting profession. The study could have widespread potential benefits to the not-for-profit organizations and the accounting profession. One of the benefactors will be churches. If a relationship is recognized between church administrator experience, church size to financial reporting practices and internal controls this could pave the way for not-for-profit institutions in developing accounting policies and procedures. Although churches are not mandated by federal laws to prepare financial reports, the religious sector plays a significant role in influencing social and economic policies.

Nonprofit organizations received over 298 billion dollars in 2012 and employed over 13 million individuals who are approximately 10% of the working population. The nonprofit sector contributes over 5% of Gross Domestic Product (Blackwood et al., 2012). This study has increased church administrators' awareness and sensitizes them to the importance accounting principles. This should enhance internal controls and minimize accounting scandals in churches. In addition to contributing to the research on financial reporting of churches, this study has increased existing knowledge in the accounting profession and financial integrity in churches.

Definition of Terms

Operational Definitions and Key Terms

The variables studied are administrator experience, church size, financial reporting and internal controls. The dimensions include years of experience, administrative time, accounting controls, generally accepted accounting principles, financial management, and financial accounting.

Accounting controls: Accounting controls are primarily concerned with the safeguarding of assets and ensuring reliability of the financial statements (Baker, 2006; Whittington & Pany, 2010).

Administrator experience: Administrator experience is defined as the number of years an administrator has served in this capacity in the church.

Church size: Church size is defined as the membership of the church (Wooten et al., 2003).

Financial accounting: Financial accounting is the steps involved in preparing financial reports of an entity for internal and external stakeholders' use (Kieso, Kieso, Weygandt, & Warfield, 2007).

Financial management: Financial management is the process of generating financial information to assist in decision-making (Finkler, 2005).

Financial reporting: Financial reporting is generally defined as the process of achieving fiscal responsibility by establishing controls and safeguarding the assets of the organization (Bacher & Cooper-White, 2007).

Generally accepted accounting principles (GAAP): Generally accepted accounting principles provide stakeholders the assurance that the financial statements are accurate (Zietlow, Hankin, & Seidner, 2007).

Internal controls: Internal controls are the procedures established to provide the organization the assurance that safeguards are in place to ensure the financial statements are reliable based on the laws and regulations (Edmonds et al., 2006).

Demographic information includes church size and the number of years in church administration.

Assumptions and Limitations

Assumptions are statements which are not evident or examined regarding the nature of an object (Neuman, 2006). Assumptions are generally tacit but they provide an avenue for developing a concept and a basis for further analysis and evaluation of a concept. The methodology used in this study assumes the subjective responses provided by the participants are integral to the research questions. The following assumptions are made in this study.

1) The participants understand the survey.
2) The participants answered the questions honestly and were candid in their responses.
3) The participants are representative of the population.
4) The survey is adequate for the research questions and meets the threshold for reliability.

Topical Assumptions

The researcher made an assumption that further research is needed to study the relationships between the years of experience of the administrator and both the financial reporting practices and the use of internal controls (Carmona & Ezzamel, 2006; Heinen, 2008; Miller & Collins, 2007; Schreiter, 2008; Squires, 2010; Wooten et al., 2003).

Related literature on the topic was researched and analyzed and the search revealed other studies related to the topic. A topical assumption was made based on results of the search.

Methodological Assumptions

The purpose of the research is to describe the relationship rather than controlling or comparing the variables (Cooper & Schindler, 2011). As such, the method and design of this research is most appropriate for a quantitative study of the relationship between the years of experience of the administrator and both the financial reporting practices and the use of internal controls. The researcher utilized positivism, assuming an unbiased philosophical worldview based on facts obtained from relationship among the variables (Holden & Lynch, 2004).

Statistical Assumptions

The variables are administrator experience, church size, financial reporting and internal controls. The data collected and analyzed from the survey are presented in a descriptive format accompanied by a succession of tables. The instrument consists of questions that are designed to provide responses to measure administrator experience, church size, financial reporting and the use of internal controls (Wooten et al., 2003). Likert rating scale was used to measure the responses with five possible choices: 1= *always*; 2= *nearly always*; 3= *sometimes* 4= *seldom* and 5= *never*. Likert scale was coded for analysis. Likert scale is composed of 5 items that are combined during the analysis to provide a quantitative measure. Likert scale data are analyzed at the interval measurement scale.

Cooper and Schindler (2011) advanced Likert scale is significant in that the participant is given 5 possible choices and then a numerical score assigned by the researcher to measure the responses. The hypotheses were tested using multiple regression.

This statistical analysis requires that the data be interval to produce a true measure of the relationship between two variables (Vogt, 2007).

The data collected are considered ordinal, as the items can be ranked as higher or lower, but with no measurement of the distance between. Given the ordinal nature of the data, quantitative analysis is used. Multiple regression is used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls. Descriptive analysis is used to analyze demographic questions on administrator experience and church size. Multiple regression allows the researcher to draw conclusions on rejecting or accepting the null hypothesis. Multiple regression identifies the best set of predictor variables in this study. Field (2009) asserted that multiple regression is a parametric statistical tool which requires the data be interval to obtain a true measure of the relationship between the variables.

Statistical assumptions are important to determine the significance of the regression coefficient and the appropriate statistical test. In order to accurately reflect reality the assumptions of linearity, homoscedasticity, data type and normality for the hypothesis testing should be true (Field, 2009). If these assumptions do not hold the alternative plan is to perform bootstrapping. Bootstrapping helps the researcher to identify information regarding estimators and unusual parameters of the population. Bootstrapping identifies standard errors where no parametric estimates are present (Wright, 2007).

Multiple regression analyzes the regression coefficient, Beta for the independent variable in explaining the dependent variable. A zero regression coefficient means no relationship is present and the null hypothesis is rejected. The independent variable does not predict or explain the dependent variable (Field, 2013).

This study has 2 dependent variables and 2 independent variables. Two separate multiple regression analysis was performed. The first analysis is the relationship between the years of experience, church size, and the reported use of the financial reporting practices and the second analysis is the relationships between the years of experience, church size, and the reported use of the internal controls. Vogt (2009) emphasized the importance of data analysis and often the salient issue is the shape of the distribution.

Limitations

The study is limited to the number of church administrators who were willing to participate in the study. Members who are not in administrative positions are not included in the study. The participant's response is based on his or her perceptions of financial reporting which may be different from those directly involved in financial reporting in the church. The study may be distorted because of the participant's credibility (Creswell 2009).

Strengths

Financial reporting and administrator experience have not been widely studied and this research provides new opportunities for church administrator to evaluate financial reporting. Carmona and Ezzamel (2006) emphasized the need for further research of religious organization accounting strategies. This study adds to the body of knowledge on churches financial reporting. The study focuses on geographic locations across the United States and the population provided quantifiable data in financial reporting and internal controls.

Stratification of the population allows the researcher to obtain a representative sample that enhances a wide participation. Utilizing survey monkey to collect the data is cost effective because of the time and money that is saved by the researcher. The reliability and validity of the instrument and its alignment with the research question adds strength to the study. The research design enables the research to relate the variables instead of manipulating them.

Nature of the Study

Prior studies on internal controls and financial reporting in churches discussed the need for effective financial controls and accountability (Irvine, 2005; Jacobs, 2005). The administrators' experience and church size were needed to provide a comprehensive picture of the financial operations in churches. An exploration of the relationships among the administrator experience, church size, and the reported use of the financial reporting practices and internal controls in churches uncovered the organizational perspectives on generally accepted accounting principles and the FASB Statement of Financial Accounting Concepts the authoritative references for the accounting profession.

Generally Accepted Accounting Principles represent the cornerstone for accounting practices. Accounting theory provides a basis for the organization to identify and develop an accounting method which can be used to explain the financial results of operation (Schroeder, Clark & Cathey, 2005). The theoretical framework that guides this study is the theory of accounting that relates financial reporting to years of experience and administrative time.

Squires (2010) emphasized various fraudulent activities and suspected financial activities in churches make it imperative to implement accounting measures that will ensure more adequate financial reporting and greater accountability among church officers.

According to Drucker (1990) nonprofit organizations are focused on the social and spiritual development of human beings. In order to achieve this goal the organization stressed personal as well as corporate responsibility. Gallagher (2009) contended a spiritual emphasis in churches is accountability from a religious perspective and is not the same as financial accountability. According to Gallagher (2009) the church should have skilled personnel with expertise in administration in order to effect change to impact financial accountability. Miller (2007) expressed a similar view and claimed that the organizational structure of churches provide a sound framework for financial accountability.

FASB Statement of Financial Accounting Concepts No. 4 (1980) provided the theoretical framework for adequate financial reporting for not-for-profit organizations. The statement emphasize the need for providing financial reports which are useful in assisting stakeholders and decision makers in making strategic decisions to allocate scare resources. The church's financial reports should provide donors and users the opportunity to evaluate the financial condition of the organization. The reports should provide periodic financial data to depict the viability of the organization. The overall liquidity, cash flow management and borrowing capability should be presented in the financial reports. Financial reports are useful in providing stakeholders information regarding managers' responsibility in discharging their fiduciary obligations (Warren, Reeve & Duchac, 2009).

Mulder (1999) affirmed a lack of academic research regarding the financing of churches in spite of the significant contributions churches are making in economic and social development of the Unites States economy. The study emphasized the need for continued research in understanding the financial reporting of churches. These business theories guided the focus of this study on the relationships between the years of experience of the administrator and both the financial reporting practices and the use of internal controls. The theories assisted the researcher to formulate the research questions and build the foundation of the quantitative study.

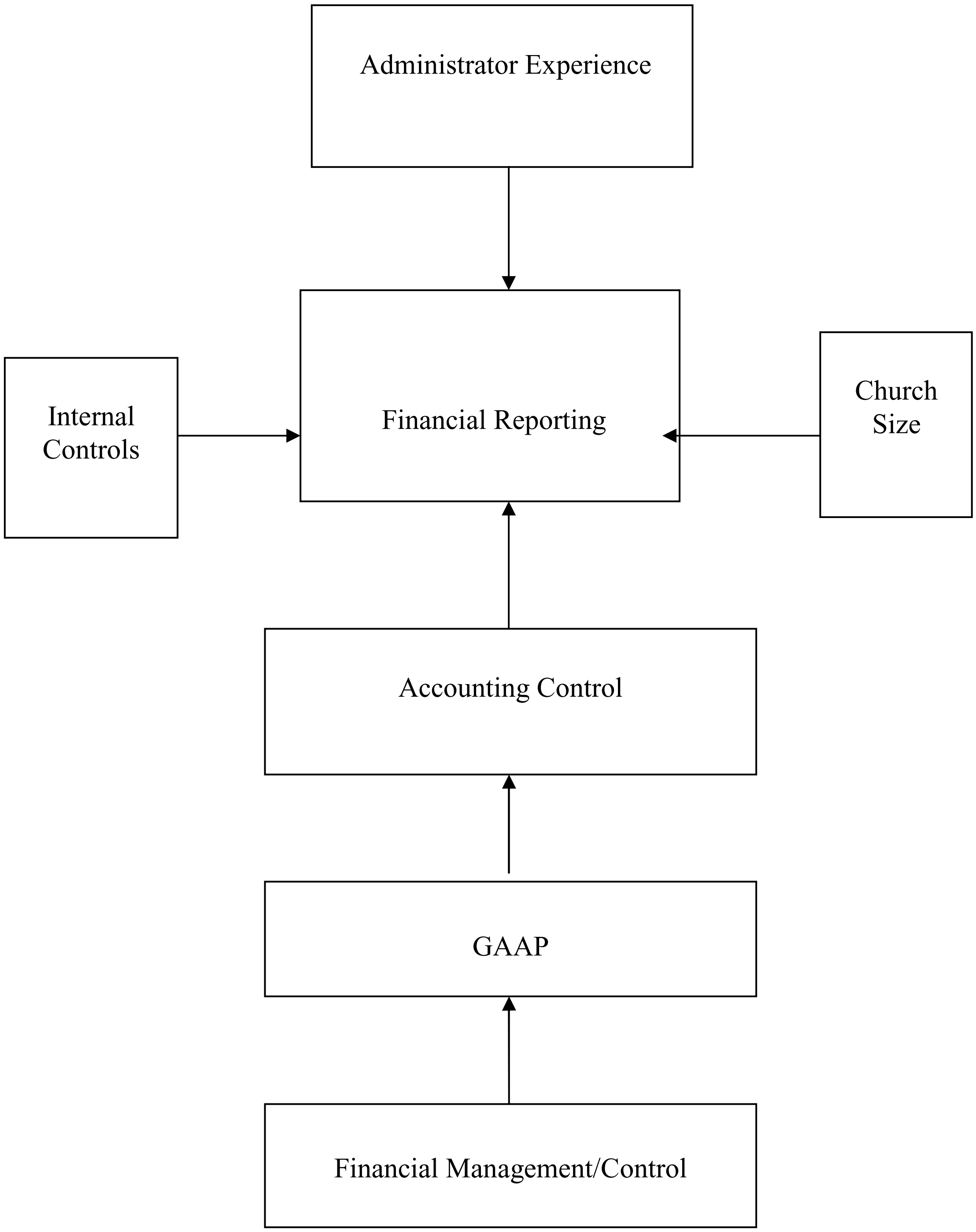

Figure 1. Concept Map

The concept map identifies the critical variables of the study and provides a synopsis of the critical elements of financial reporting and internal controls in churches.

The concept map depicts a visual description of the key focus areas identified in the literature review. The relationships of the variables are shown in the concept map and this enables the researcher to navigate the various sources of information and succinctly place the data collected into one single document. The essential variables relating to finance and accounting in churches are captured and formed the basis for statistical analysis in the study.

Organization of the Remainder of the Study

Chapter 1 provides an introduction to the study, Chapter 2 examines the history of financial reporting and internal controls in churches, the theoretical foundation of accounting controls and financial management in churches and the relationships between the years of experience, and church size, and the reported use of the financial reporting practices and internal controls. Chapter 3 describes the research design, the population and sample, sampling procedures, sample size, rationale for the quantitative approach design, the variables, relationship among variables, instrumentation, validity and reliability, ethical considerations, data collection process, data analysis, expected outcomes, anticipated findings, and implications. Chapter 4 provides a comprehensive analysis of the research questions and a summary of the results. Chapter 5 concludes the study by summarizing the findings and presenting the limitations, impact on churches and future recommendations.

CHAPTER 2. LITERATURE REVIEW

Overview of Financial Reporting in Churches

Although the literature on financial reporting and internal controls in churches is not extensive, the literature review reveals some published empirical studies focusing on financial reporting and internal controls in nonprofit organizations. The purpose of this chapter is to review and analyze the current literature which provides a framework in developing the methodology for this study. The chapter focuses on studies in financial reporting and internal controls in nonprofit organizations specifically related to churches.

This chapter analyzes and synthesizes the salient literature on financial reporting and internal controls in churches. This chapter includes several subsections such as accountability in nonprofit organizations, accounting in churches, accounting principles and practices, accounting practices and standards, internal controls and financial reporting in churches. A justification is presented after each subsection to identify the relevance of the literature to the research study. The dialogue commenced with a discussion of the literature followed by a justification to enunciate the relevance of the literature to the research study.

Warb (2004) asserted the literature review provides a background on the study and outlines the salient issues on the topic and identify gaps for future research. The study concentrated on three critical factors impacting the ability of churches to prepare financial reports: administrator experience, internal controls, and church size. Research studies on accountability of nonprofit organizations are very limited despite the fact that organization’s performance is intricately linked to its accountability (Geer, Maher, & Cole, 2008).

The perspective of administrator of churches in the United States in this study provided further insight and sought to identify the relationship between administrator experience and the reported use of both the financial reporting practices and internal controls. The cornerstone of financial reporting is to provide leaders with information to strategically align and allocate resources and for stakeholders to evaluate growth and development of the organization (Warren, Reeve, & Duchac, 2009).

The literature focuses on accounting practices of churches. The chapter evaluates and outlines the literature relative to proper financial reporting and internal controls. The variables in this study are: administrator experience, financial reporting and internal controls. The dimensions include years of experience, administrative time, accounting controls, generally accepted accounting principles, financial management, and financial accounting.

The study enhances and expands the body of knowledge on accounting principles and practices in churches. Duren (2011) emphasized the need for more financial accountability among churches. The participants in his study were African American Methodist local church members. "Similar research conducted in church districts or conferences may uncover new knowledge" (p 168). It was specifically pointed out expanding the study to conference leaders may uncover new knowledge. The literature review recognized a gap and this study addressed the gap and was expanded to administrators of churches in the United States. The literature relevant to the topic was reviewed and analyzed and sources relevant to the topic's title were identified and an in-depth analysis performed of internal controls and financial reporting in churches. The sources primarily ranged from 2006-2013 except for earlier literature obtained for a seminal perspective.

Accountability in Nonprofit Organizations

Cutt and Murray (2000) posited accountability is an important concept measured by established benchmarks and evaluations. Accountability in this sense is narrow and serves as a point of reference for decision making. Keating and Frumkin (2003) expressed a similar view but they believed the scope of accountability should be expanded to all aspects of the financial model including the quality and availability of data.

In the financial model donors are regarded as the most significant stakeholders of religious institutions contributing the necessary funding for operations. Religious institutions are under scrutiny by their stakeholders to ensure the organizations are accountable for the funds received. The United States population is responsive to the churches need but in return they would like to hold the institutions accountable for the use of the funds donated (Crown Financial Ministries, 2011).

Edwards (1990) confirmed misappropriation of the funds in religious organizations have a negative impact donor contributions. Similarly, Vanderwarren (2001) stated the misuse of charitable contributions by nonprofit organizations has heightened public outcry and distrust. The trial and conviction of a former chief executive officer of a not-for profit organization has increased the demand for more accountability of charitable organizations (Vanderwarren, 2001).

Stevens, Steensma, Harrison and Cochran (2005) stressed programs focused on integrity training in not-for profit organizations provided a good opportunity for educating and training stakeholders about fraudulent activities. The training of volunteers and employees is a radical shift in the culture of the organization in sensitizing stakeholders to fraudulent activities and holding employees accountable.

This training does not guarantee the elimination of fraudulent activities but it enhances accountability. The limited resources of churches prevent the training of members; hence churches are prone to fraudulent activities.

Accounting in Churches

Anthony (1995) postulated not-for profit organizations such as churches receive and process accounting information to make strategic decisions utilizing the same strategies as for-profit organizations. Churches are governed by the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) for implementing sound accounting policies and procedures. A major Financial Accounting Standard for not-for profit organizations was issued in 1993 (Anthony, 1995). In 1987, FASB issued pronouncements on depreciation of fixed assets. Prior to 1987, the AICPA provided accounting guidance and reporting practices for non-for- profit organizations by issuing industry guides for four sectors, academic institutions, hospitals and health care providers, voluntary welfare organizations, and others (Granof & Wardlow, 2010).

Inconsistencies in the guides for the four sectors led the AICPA to consolidate the guides into industries: health care organizations and not-for-profit organizations. Both FASB and AICPA have emphasized the accrual basis of accounting in financial reporting for not-for profit organizations (Granof & Wardlow, 2010). This study should serve as spring-board for churches to establish procedures that will enable adherence to the pronouncement of regulatory authorities.

According to Granof and Wardlow (2010), FASB is concerned with the financial condition and operating results of reporting entities. Both FASB and AICPA use pronouncements in establishing standards of financial reporting. In contrast, Schroeder et al., (2005), maintained FASB provided the standards of financial reporting for stakeholders of not-for profit organizations. By adhering to GAAP leaders of not-for-profit organizations learn new skills and techniques and implement accounting practices that serve to mitigate risks and threats regarding fraud.

Accounting Principles and Practices

Booth (1993) claimed a gap in the literature on church accounting and advocated a framework for addressing this gap. The framework of the study recognized three interrelated dimensions, the adherence to religious beliefs and the impact this has on resistance to accounting; the role of leaders in cultivating resistance and the funding of the organization. The three interrelated dimensions provided a measure for establishing effective accounting principles and practices. In contrast, Prieto, Mate', and Tua (2006) found that accounting records of churches in the 18th century provided a measure of accountability and the internal controls depicted a high degree of financial management practices making accounting principles and practices a cornerstone of the early churches.

Religion has played an integral role in human civilization but most of the studies have embraced the economic contributions of churches with a limited discussion on accounting practices and principles in sacred institutions. Prior studies on accounting practices in churches have made limited contribution to improve financial reporting in churches throughout the past decade (Carmona & Ezzamel, 2006).

In an effort to address this issue the study focused on the role of GAAP and FASB in providing a framework for addressing accounting practices in churches. Moerman (2008) stated that GAAP provided a foundation for accountability and the adaptation of well established accounting practices has the potential of increasing the organization's ability to respond stakeholder's demands in a timely manner.

According to Bloomfield (2008) the goal of accounting courses is to provide a foundation for understanding and interpreting financial reports. The goal of accounting practices in churches is to provide stakeholders information regarding the financial condition of the organization. Generally accepted accounting principles are established rules that provide the tools for recording and processing financial transactions. Consequently, it is imperative for churches to adopt both GAAP and FASB in order to fulfill stakeholder's needs.

Christensen (2010) emphasized the role of accounting practices and principles in the decision making process and ultimate control of information. In order to make sound investment decisions church administrators should evaluate financial data to estimate cash flows to determine worthwhile investments. This control mechanism enabled administrators to distinguish between various investment opportunities (Christensen, 2010). Accounting information that is reliable augments the decision-making process and underscores the need for effective accounting practices and principles to provide real-time information to enhance the decision-making process for churches.

Accounting Practices and Standards

Budde (2008) regarded accounting practices and standards as a science of interpreting financial information. Accounting practices and standards have no relationship to religious belief. In comparison, Aghimien, Mitchell, and Overholsoer (2009), believed religious belief impacts the manner in which accounting practices are implemented in churches. Churches that consider tithing and offering as their spiritual obligations are inclined to establish effective practices and standards to ensure accountability. The ultimate authority for accounting practices is the Financial Accounting and Standards Board (FASB) and churches are encouraged to follow FASB pronouncements although this practice is not mandatory. The FASB provides regulatory accounting practices for not-for-profit organizations.

According to Jacobs (2005), in a study within the Church of Scotland, accounting could be integrated in the spiritual development of the church. The study depicted the church primarily as a spiritual institution and secular activities such as accounting was secondary to spiritual growth and development. Jacobs (2005) believed that accounting practices enhance spiritual growth and should be aligned with the mission of the church. The Financial Accounting Standards Board (FASB) makes pronouncements for adequate financial reporting including: effective decision making for allocation of resource; performance management and providing quality services (Wilson & Kattelus, 2004). FASB is cornerstone for accounting practices and standards for not-for-profit organizations (Copley, 2008). FASB establishes two standards in 1993: Statements 116 and 117 (Copley, 2008). Statement 116 distinguishes for-profit and not-for -profit entities and identified the accounting standards for donor’s contributions (Copley, 2008).

In conjunction with FASB, the American Institute of Certified Public Accountants (AICPA) issues auditing guides for accounting practices for not-for-profit organizations (Copley, 2008).

FASB statement 117 provided reporting standards for the financial statements of not-for-profit entities (Copley, 2008). Statement 117 established the requirements for GAAP including: statement of financial condition, cash flow and activities (Wilson & Kattelus, 2004). According to Wooten, Coker, and Elmore (2003) recent scandals have prompted churches to be more prudent in their accounting and financial reporting requirements. Church leaders however, lacked the necessary financial management skills for accounting and financial reporting. Jagels and Coltman (2007) declared a system of accountability is integral for continuity of churches and accounting practices provided a framework to evaluate church operations. GAAP provides the guidelines and procedures for accounting practices (Epstein, Bragg, & Nach, 2010). Not-for-profit organizations are required to adhere to all FASB standards in recording and documenting financial transactions (Copley, 2008). One of the standards is the accrual basis accounting, requiring the booking of transactions contemporaneously.

Accounting is an evolving process that incorporates both GAAP and FASB to satisfy stakeholders. Revenues and expenses are recognized under the accrual or cash method of accounting, when earned and occurred under the accrual method and when received and paid under the cash method (Jagels & Coltman, 2007). Accounting theory explains the logic of selecting one accounting method over another (Schroeder, Clark & Cathey 2005). Generally accepted accounting principles (GAAP) is the cornerstone for accounting practice (Schroeder et al., 2005).

Internal Controls

Internal controls ensure the books and records are reliable and the financial statements are prepared in compliance with established laws and regulations. Accounting controls are primarily concerned with the safeguarding of assets and ensuring reliability of the financial statements (Shelton & Whittington, 2008). Duncan and Stocks (2003) declared the need for strong internal controls in not-for-profit organizations similar to the controls in for-profit organizations.

Snyder and Clifton (2005) observed weakness in internal controls within the congregation and church administrators have limited understanding of financial reporting and internal controls. Trusting each other in handling the affairs of the church was one of the factors contributing to the lack of internal controls in churches. In addition, member's duties are not segregated and this complicates the implementation of internal controls and enhanced fraud.

The literature on fraud pointed to a lack of internal controls as one of the reasons for fraudulent activities and misappropriation of assets (Albrecht, Albrecht, & Albrecht, 2006; Wells, 2005). Fraud has wide ranging financial and economic implications for the organization and should not be left undetected. A lack of confidence in the organization's financial reporting affects both internal and external stakeholders (Albrecht et. al., 2006). The primary reason for fraud is weak internal controls (Association of Certified Fraud Examiners, 2008). Churches have not shown an interest in establishing accounting controls to deter and detect fraud and in some cases have concealed the issue of fraud and embezzlement resulting in severe consequences for the organization (West & Zech, 2007).

Bowrin (2004) described the essence of internal controls in religious institutions in a study in Trinidad and Tobago. The study found religious institutions have weak internal controls even though the institutions implemented the framework for effective internal controls that is embedded in the ethical code of conduct.

Internal controls support the ethical code of conduct and are essential for organizational integrity hence it should be emphasized by the organization's leadership (Hess, 2006). Internal controls enhance the governance structure of the organization by establishing the tone for the ethical culture and promoting a commitment to values and integrity. Financial irregularities have called into question the internal controls of churches (Bowrin, 2004).

Effective financial management, which includes budgeting and financial reporting, is critical for internal controls and integral to the growth and development of sacred institutions such as churches as it is for private organizations (Freeman, Shoulders, Allison, Patton, & Smith, 2009). According to Duncan and Stocks (2003) church pastors and administrators should ensure that adequate internal controls are established to ensure the integrity of the financial reports. Weak internal controls inhibit sound accounting practices and permeate accounting fraud and other questionable activities.

Duncan, Flesher, and Stocks, (1999) affirmed the academic information regarding financial management in not-for profit organizations is limited. Because of the divorce of ownership and control the member's perception influences the development of internal controls. The lack of stock ownership, unified method of performance and the absence of trained accounting professional are all distinguishable factors of not-for- profit organizations such as churches which makes it imperative to develop internal controls to enhance financial reporting.

According to Irvine (2005), the membership of churches has confirmed the need to implement accounting practices with strong internal controls to raise funds for advancement of the ministry. It is imperative to recognize the important role of funding in advancing the mission of churches and implement internal controls to safeguard the assets of the organization (Irvine, 2005). Academic research on financial reporting and internal controls in churches is limited hence this study will add to the existing knowledge in the accounting profession. Hackler and Saxton (2007) advanced meaningful suggestions that not-for- profit organizations should encourage information technology, business systems, budgeting, training and performance standards that can enhance their long term viabilities. This means that information technology and business systems could be used to improve internal controls and accounting practices in not-for- profit organizations.

Financial performance enhances the ability of mosque to conduct more quality programs using information business systems. Mosque is vital to the social and economic well being of Muslims and in order to ensure the viability of the organization it is imperative to maintain strong internal controls. Both the quality and quantity of the programs embraced by mosques are intricately linked to the mosques' financial performance (Said, Mohamed, Sanusi, & Yusuf, 2013). Hence, internal controls are essential for successful financial performance.

Information business systems are important tools for enhancing internal controls in business operations. Because information business systems are often used to produce financial reporting results in terms of billing, accounts receivable and cash receipts it is imperative for church administrators, business leaders and accountants to have an in-depth understanding of business systems.

Auditors are required to examine the nature of the transactions and their business purposes, hence it is important to understand the electronic and business systems that are designed to produce reports that compile and analyze data (Shelton & Whittington 2008).

Smith and Smith (2003) declared the accounting profession is constantly challenged by changing technology specifically electronic business systems. All organizations use technology to perform their operational functions such as billing, accounts receivable and cash receipts. With the advances in technology businesses are forced to change or modify methods of production. It is imperative to document information systems and implement strong internal controls in order to comply with statutory regulations and internal reporting. Documenting information systems enhances the ability of internal and external auditors to effectively test the internal controls of the organization using tools such as flowcharts, modeling and conceptual theoretical framework. These tools are used in the documentation, analysis and design of electronic accounting systems.

The complexity of the business environment and the rapid changes in technology forced the accounting and business profession to adapt an accounting information system that provides strong internal controls for billing, accounts receivable and cash receipts to combat fraudulent financial reporting. This means more effective risk assessment of internal controls will have to be undertaken. Well developed and documented electronic and business systems and functionalities such as billing, accounts receivable cash receipts and asset management are required in order to achieve the desired results in internal controls (Smith & Smith, 2003).

Agrawal, Johnson, Kiernan, and Leymann (2006) contended that workflows can be used by examiners to evaluate the salient issues regarding threats and weaknesses in internal

controls. The Sarbanes-Oxley Act specifically identified corporate reforms to ensure the reliability of financial reporting. A workflow analysis is provided to assess financial data flow and an automated system used for the detection of financial irregularities.
The module provided a systematic approach in examining workflows using an anomaly detector which provides automated searches and detection to verify compliance with internal controls.

Scott (2004) identified and embraced a framework for strategic thinking and operational reporting of financial information. The process involves performing risk assessment and monitoring of the business enterprise systems. In order to accomplish this task the various organizational divisions and subsidiaries will have to be placed on a system wide data base with an effective internal control mechanism. This approach could be readily integrated into accounting systems of churches because of the centralized reporting structures.

Krishnan, Peters, Padman, and Kaplan (2005) maintained the Sarbanes-Oxley Act has made it imperative for organizations to be more cognizant of its data reliability hence the importance for information systems documentation. The Sarbanes-Oxley Act of 2002 was established to help keep business honest. Specifically, the Act was designed to combat fraudulent financial activities and ensure that penalties are imposed for non compliance. The research focused on building information systems models using information systems application that ensured data reliability and risk assessment and strong internal controls. The research also focused on developing mathematical models to assist in performing trend analysis to enhance the development of application software for documentation of information systems and internal controls.

The activities are documented using data workflow charts and structured diagrams resulting in quality products that are produced on a timely basis to meet stakeholder's demand. Thus, effective internal controls are essential to achieve these results.

Financial Reporting in Churches

The growth in nonprofit organizations over the past decade has not resulted in improved financial reporting and internal controls. Keating and Frumkin (2003) posited a model for assisting users in financial reporting. The focus of the model was assessing financial performance of nonprofit organizations and how the performance should be disseminated to stakeholders. The study evaluated accounting standards and underscores four important features on nonprofits that should be recognized in the implementation of accounting standards: the main purpose for existence is to fulfill a charitable mission; the organization is voluntary hence a divorce of ownership and control; the organization does not have a profit motive and is virtually without a clear operating structure (Keating & Frumkin, 2003).

According to Keating and Frumkin (2003) financial performance should be measured by business results based on the organization fulfilling its mission. The measurement of business results is contingent upon the organization's ability to attract donors to provide the necessary funds to deliver its mission. The ability to perform this function is hampered by a lack of ownership and control which prohibits accountability.

Irvine (2005) focused on the role of accounting in religious organizations and the impact on religious beliefs. Budgeting was advocated as one the essential practices for strong internal controls and financial reporting. In contrast, Kluvers (2002) believed budgeting has little on or no effect on churches. Laughlin (1988) and Booth (1993) affirmed a division between the sacredness of churches and the secular view of accounting. The division could be reduced by expanding research of accounting in sacred institutions.

Irvine (2005) posited several questions on the role of accounting and spiritual leadership. The questions attempt to focus attention on the spiritual mission and emphasis of the church as distinguished from the secular role of accounting. This study may answer some of the questions and pave the way for future study of the issue across a wide spectrum of churches.

McGuire, Omer, and Sharp (2012) examined the relationship between religion and financial reporting. The results of the study revealed churches with a strong spiritual focus experience low financial irregularities. In addition, the study found a negative relationship between religiosity and financial reporting and a positive relationship between religiosity and earnings management. The study concluded spiritual maturity is an integral element for effective financial reporting practices.

According to Christensen and Mohr (2003), financial information of nonprofit museums lacked accountability and transparency that is generally seen in for-profit organizations. The museum's annual report depicted a sales and marketing approach instead of a financial reporting document as it appeared the organization was concealing its financial information. Canning (2002) observed 35% of Evangelical Council for Financial Accountability (ECFA) members did not provide financial information despite financial accountability being a critical membership standard.

Because of the lack of accountability in nonprofit organizations, Keating and Frumkin (2003) suggested seven proposals for enhancing nonprofit financial reporting which may also be useful for churches. First, they recommended a restructuring of the board so that the board has governance over the entity. Second, the IRS filing requirements should be reconciled with generally accepted accounting principles (GAAP). Third, all filings and statements should be done electronically. Fourth, improved training and education for stakeholders in understanding financial statements. Fifth, more transparency to stakeholders. Sixth, the creation of an entity focusing solely on nonprofit entities. Seventh, the establishment of an independent commission to study financial reporting in nonprofit organizations.

Hamilton (2006) declared churches should provide annual financial reports of income and expenditures to their members at business meetings. The financial records of American Baptist Church are presented at annual business meetings and can be reviewed by any member (Hamilton, 2006). Christensen (2010) advocated a similar view and indicated contributors should be appraised of the use of their contributions.

According to Smith and Smith (2003), donors require nonprofit organizations to perform due diligence for projects undertaken and have insisted on accurate financial reporting to safeguard the contributions made. Well developed and documented electronic and business systems and functionalities such as cash disbursement, billing and accounts payable are required in order to provide the necessary audit trails.

In response to Sarbanes-Oxley Act of 2002, which was established to help keep business honest it is imperative that strong internal controls on cash disbursement, billing and accounts payable be implemented by organizations. As such, more strategic risk assessments should be performed in order to enhance financial reporting (Wooten et al., 2003). Wooten et al. (2003) found weak internal controls in churches. The study revealed controls over receipts were stronger than controls over disbursements in churches.

The larger the size of the church the greater the internal controls. The study found a relationship between church size and internal controls. In contrast, West and Zech (2007) focused on fraud and internal controls in Catholic churches and observed strong internal controls and regular financial reporting prevented fraud and embezzlements. Egging (2005) posited the absence of internal controls in churches facilitates fraud and embezzlement and concluded internal controls enhanced accountability and the viability of the organization.

Cordery and Baskerville (2007) affirmed increasing demands for accountability in charitable organizations. Charities in New Zealand are subject to same regulated reporting standards that are imposed on for-profit organizations. In comparison, charities in the UK are also subject to regulated reporting standards but the standards are not identical to for-profit organizations. The study concluded accounting standards can be generalized with an exception for charities. The advent of International Financial Reporting Standards (IFRS) gave rise to the imposition of financial standards in UK and New Zealand. IFRS suggested accounting standards should not be specific to a jurisdiction, instead accounting standards for charities should be universal as this would enhance financial reporting and internal controls hence accountability.

According to Dorminey et al. (2012) the accounting profession should be concerned about fraud because of the economic implications for the organization. A "meta-model" (p 61) was developed as a framework for taking proactive measures to prevent and detect fraud and for understanding the issues surrounding fraud. The framework provided a mechanism to analyze the mindset of the fraud perpetrator and the measures that are in place to detect and prevent fraud. Anti-fraud measures such as Sarbanes-Oxley Act of 2002 focused on internal controls, but internal controls are not entirely sufficient to prevent fraud.

The possibility of employee collusion, lack of segregation of duties and inept management can undermine established internal control measures. Dorminey et al. (2012) emphasized personal integrity and the use of Sarbanes Oxley Act to address fraudulent activities and ethical behavior should be emphasized at all levels of the organization. Having a compliance-based ethical code in place, and a commitment to integrity and values is imperative in addressing fraud in the organization.

Role of Technology

Modern technology has replaced manually intensive paper-based programs as it becomes more cost effective and accessible to do business (Zietlow et al., 2007). This revolution has changed business operations and the impact on financial reporting and internal controls is far reaching. E business has revolutionized the entire accounting operations by using electronic linkages to support accounts payable and receivable and balance sheet reporting. It is imperative that organizations are prepared for this change as it has affected all facets of accounting and control (Coulter 2008). Advanced technology is an integral component of the business operations of churches for supporting the accounting functions of internal controls and financial reporting (Kelly, 2008).

Shang & Seddon (2002) defined Enterprise Systems (ES) as well defined organizational systems that are designed to support the organization's business units. These systems operate as predesigned operating software or custom built software. They are used to gather and analyze data across various business units in order to provide real time information to support the organization's business needs.

This includes data on billing, accounts receivable and cash receipts marketing, production, financial operations and information technology.

Lamont (2005) exposed some of the salient issues regarding transparency, accountability and responsibility at the federal, state and local levels. In a quest to make the decision making process more effective government institutions have adopted various measures to streamline their electronic information systems for processing cash receipts and disbursements. One such measure is the effective roll-out of a bill tracking service to provide rapid response to stakeholder's questions. Documenting the processes involved by way of flowcharts enhance the organization's capability to provide real-time services and enhances the ability of internal and external auditors to effectively test the internal controls. According to Zietlow et al. (2007) real-time information provides an opportunity to respond to customers in a timely manner and is important for workflow reengineering.

Ramayya, Peters, Padman, and David (2005) asserted that the Sarbanes-Oxley Act has made it imperative for business organizations to be more cognizant of its data reliability hence the importance for information systems documentation. The research focused on building information systems models using information systems application that ensures data reliability and risk assessment. The research also focused on developing mathematical models to assists in performing trend analysis to enhance the development of application software for documentation of information systems and internal controls for billing, accounts receivable and cash receipts.

Fisher (1995) researched the implication of quality assurance on business information systems using ISO 9000. This system is aimed at providing real time customer information for billing, accounts receivable and cash receipts.

The system establishes and documents various work activities. These activities include defining and identifying the responsibilities of work to be performed and ensuring the adequate resources are allocated to the activities. The activities are documented using data workflow charts and structured diagrams. The end result is to guarantee quality products are produced timely to meet consumer's demand. Thus effective internal controls are essential to achieve these results.

Gelinas and Dull (2010) asserted that electronic and business systems can be classified as Information Systems (IS) which are management tools designed assist management in making decisions. Both systems are used to support an organization's missions and objectives; current and future tactical decisions; and an organization's strategic goals. The safeguards are designed to ensure the integrity of the data and the data are protected at all points of input, output, and storage.

Willcocks and Margetts (1994) povided a framework for information systems development and the associated risk. The authors looked at inherent risk associated with the environment as well as organizational practices. The research revealed that in 1992 private sector informational technology (IT) expenditure was about 1.5% of overall revenues. The study also revealed that between 20% to 40% of IT projects realize no benefits to the organization. Despite this fact the risk of not having a reliable IT system to provide real time information is deterimental to the organization. In this regard, it is imperative to have a an IT system that can provide strong internal controls that supports reliable financial reporting.

Whittington and Pany (2010) asserted that it is imperative to have an understanding of the client, the information systems and the environment to evaluate financial misrepresentation.

An understanding of the environment and the information systems will allow the auditor to design effective examination procedures in assessing billing, accounts receivable and cash receipts. It is imperative to have an in-depth understanding of the accounting procedures and internal controls prior to assessing the financial statements and the risk of misstatement. The due diligence process allows the auditor to consider the reputation of management and the financial strength and the credit worthiness of the prospective client. The client's control environment is also an important factor in assessing risk and misrepresentation. According to Porter and Norton (2009) the control environment acts as a catalyst for establishing internal controls. The control environment is necessary to guide the organization in various directions and create an ethical climate that is conducive to growth and development.

Whittington and Pany (2010) stated that the auditor has a responsibility to plan and conduct the audit in a manner that gives reasonable assurance no significant misstatement is in the financial statements. This means the auditor will have to perform due diligence and at the same time exercise judgment in the analysis and evaluation of the audit procedures which includes an assessment of the information systems for billing, accounts receivable and cash receipts.

Porter and Norton (2009) asserted that in assessing internal controls auditors should apply materiality test and weigh the costs and benefits associated with materiality test in order to determine if this is a viable alternative. The materiality test recognizes that some matters are more important than other to the financial statement presentation.

In planning an audit the auditor should determine a measure of materiality and associate this measure with the various components and accounts in the financial statements. In the evaluation process the auditor should use materiality as the key focus.

The planning process emphasizes quantitative considerations while the evaluation process emphasizes both quantitative and qualitative considerations. Where a risk of material misstatement is detected further audit procedures should be designed to minimize the risk. These additional procedures include test of controls and substantive procedures on issues such as billing, accounts receivable and cash receipts.

According to Friedman (1994) in order to maximize shareholders' wealth it is imperative that organization attempt to strategically align the interest of managers and shareholders. Social responsibilities of all stakeholders should be documented and recognized in the strategic plans of the organization. Issues of corporate governance, social responsibility and strategic management should be integrated in the planning process. A review of the Enron financial scandal and in particular the related party transactions revealed that the organization lacked strong internal controls resulting in material misstatement in billing, accounts receivable and cash receipts. The profession should have performed test of controls and substantive procedures to unravel the falsification and misappropriation of the assets (American Institute of Certified Public Accountants, 2011).

Conclusion

The noteworthy scandals of Enron, WorldCom, and Arthur Andersen in for-profit organizations emphasized the need for integrity programs to train employees about the issue of fraud. The challenge for leaders of for-profit organizations was to develop strong internal control measures and to encourage more employees to voluntarily participate in efforts to identify and reduce fraud. Although not-for-profit organizations such as churches are not regulated in the US similar internal control and financial reporting measures are needed to ensure the viability of these organizations. Cordery and Baskerville (2007) claimed an increasing demand for accountability in charitable organizations. The study concluded International Financial Reporting Standards (IFRS) accounting standards for charities should be universal this would enhance financial reporting and internal controls hence accountability.

The scandals of Enron, WorldCom, and Arthur Andersen revealed the need for strong internal controls and transparency in financial reporting. The unethical behavior of administrators and fraudulent activities created the need for and integrity-based ethical training programs in churches. Church administrators were unable to detect unethical behaviors because of a lack of training in financial management which enabled fraudulent activities (Palmer, 2009). Albrecht, Albercht, and Albercht (2006) asserted the desire for wealth and lack of a compliance-based initiative and integrity-based programs all contributed to the fraudulent activities in churches.

The Sarbanes-Oxley Act provided a framework for organizations to promote integrity-based programs and implement astute polices focused on educating stakeholders about accurate financial reporting. Adherence to the act required a change in organization's modus operandi as stakeholders are responsible for unethical behavior. The act had remarkable successes in for-profit organizations and could have similar effects in not-for profit organizations. Severe penalties were imposed on organizations for not complying with the act (Hess, 2006). The act is a compliance-based initiative but it also encourages personal integrity by holding stakeholders accountable. Robbins (2005) asserted strong ethical behavior of stakeholders in an organization have a direct impact on financial reporting.

Mulligan (2007) suggested the implementation of strong regulatory reforms similar to Sarbanes Oxley for not-for-profit organizations. Like other business organization, religious organizations require sound financial polices and internal controls to enhance financial reporting. Significant results could be obtained if churches adopt integrity-based compliance programs. Empirical evidence revealed such programs are designed to promote ethical values and provide a framework for addressing unethical behavior. The implementation of Sarbanes Oxley and other sentencing guidelines in churches could minimize fraudulent activities (Hess, 2006).

The alignment of internal and external business systems is integral for financial reporting and internal controls. The rapid changes in global markets and technological innovation make it imperative for the accounting and business profession to adapt strong internal controls on billing, accounts receivable and cash receipts to combat fraudulent financial reporting in the future. This means more effective risk assessment of internal controls should be undertaken. Well developed and documented electronic and business systems and functionalities such as billing, accounts receivable and cash receipts are required in order to achieve the desired results.

The Sarbanes-Oxley Act of 2002 forces business to establish strong internal controls on the accounting functionalities such as accounts payable, accounts receivable and cash receipts. This means more strategic risk assessments should be performed in order to assist church administrators with financial reporting. Implementing strategic risk assessments and strong internal controls should help churches to reduce fraudulent activities.

This chapter has chronicled the current research on financial reporting and internal control in churches. The growth in religious institutions over the past decade and renewed interest for accountability in churches make it imperative for additional research in this area. According to Blackwood, Roeger, and Pettijohn (2012) the nonprofit sector contributes over 5% of Gross Domestic Product and churches play a significant role in influencing social and economic policies yet the research on financial reporting of churches is limited. This study provided a broader perspective and understanding of financial reporting and internal controls in churches where administrator experience and church size may be important. The next chapter outlines and analyzes the methods and procedures used to conduct the study.

CHAPTER 3. METHODOLOGY

Restatement of the Problem and Purpose

Research on the financial affairs of churches is limited because of a lack of federal mandates of churches (Duren, 2011; Elson et al., 2007). Duren (2011) emphasized the need for more financial accountability among churches because of widespread financial irregularities (Busby, 2005; Heinen, 2008; Squires, 2010). According to Duren (2011) the participants in his study were African American Methodist local church members. “Similar research conducted in church districts or conferences may uncover new knowledge” (p 168). It was specifically pointed out that expanding the study to church administrator may uncover new knowledge. A gap in knowledge existed regarding the relationships among administrator experience and church size to financial reporting and internal controls. This study addressed this gap and is expanded to administrator of churches in the United States.

The purpose for the survey study is to evaluate the application of the theory of accounting, especially as it relates to financial reporting and internal controls within churches where administrator experience and church size may be important. A survey is used to measure the participant’s perception of the variables; administrator experience, church size, financial reporting and internal controls. Permission was obtained to use the instrument. The questions in the instrument are designed to provide responses to measure administrator experience, church size, internal controls and financial reporting (Wooten et al., 2003). Likert rating scale was used to measure the responses with five possible choices: 1= *always*; 2= *nearly always*; 3= *sometimes* 4= *seldom* and 5= *never*.

Financial reporting was measured based on questions 1 to 21 and internal controls were measured based on questions 22 to 31. Administrator experience and church size are measured by the demographic information (see appendix B).

Administrator experience is defined as the number of years an administrator has served in this capacity in the church. Church size is defined as the membership of the church. Financial reporting is generally defined as the process of achieving fiscal responsibility by establishing controls and safeguarding the assets of the organization (Bacher and Cooper-White, 2007). Internal controls are the procedures established to provide the organization the assurance that safeguards are in place to ensure the financial statements are reliable based on the laws and regulations (Edmonds et al., 2006).

Research Questions

R1: In church administration what are the relationships between the years of experience of the administrator or church size, and the reported use of the financial reporting practices?

R2: In church administration what are the relationships between the years of experience, church size, and the reported use of the internal controls?

Research Design

A non-experimental research design which is the simplest method of quantitative research is used for this study. The research design is quantitative and the data were collected using survey research. A survey has no control or comparison group and the variables are easily measured.

The researcher attempts to describe the relationships between the years of experience of the administrator and church size and both the financial reporting practices and the use of internal controls in churches. The relationships were analyzed and validated based on statistical data. The data were collected online using Survey Monkey which is a national research panel. The survey packet included the survey instrument, a letter explaining the study and confidentiality of responses, instructions for completing the survey and the deadline for responses. The survey was conducted over 2 weeks.

A quantitative method was chosen because it allows the researcher to describe trends and provide statistical analyses of the relationships among the variables (Field, 2009). The quantitative method allows the researcher to evaluate the variables and determine significant relationships. A multiple regression design was utilized to determine a linear relationship of the variables (Creswell, 2009). The researcher analyzed the strength and direction of the relationships among the variables.

The population for this study is administrator of churches in the United States. The survey included responses from 130 participants who are all administrators of churches in the United States. Multiple regression was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls.

The research was conducted using a survey and permission was obtained to use the instrument. The questions are designed to provide responses to measure administrator experience, church size, internal controls and financial reporting (Wooten et al., 2003). Likert rating scale was used to measure the responses with five possible choices: 1= *always*; 2= *nearly always*; 3=*sometimes* 4= *seldom* and 5= *never*.

Financial reporting was measured based on questions 1 to 21 and internal controls were measured based on questions 22 to 31. Administrator experience and church size are measured by the demographic information (see appendix B).

The questionnaire was administered online via Survey Monkey data bank portal. Participants were contacted by Survey Monkey via e-mail to obtain permission to participate in the study. The informed consent outlining the requirements of the study was provided to Survey Monkey and given to each participant. All the participants were assigned a unique personal identification number that was used to access Survey Monkey data bank portal to complete the survey questions. The survey questions were designed to determine whether administrators are able to recognize what is financial reporting and internal controls. The questions evaluate and describe administrator experience, church size, financial reporting and internal controls in churches. Descriptive analysis was also used to analyze the demographic questions on administrator experience and church size.

Data for the study were collected from the church administrator including the president, the secretary, the treasurer, the finance committee and pastors in the United States. The research assessed the administrator experience, church size, financial reporting and internal controls. A quantitative study was chosen as this research method quantifies records, analyzes, and measures the association between categorical variables. Data analysis included multiple regression analysis, descriptive statistics and hypothesis testing using SPSS version 22 (Vogt, 2007).

Sample

The population for this study was administrators of churches in the United States. The survey included responses from 130 participants who are all administrators of churches. Data for the study were collected from administrators including the president, the secretary, the treasurer, the finance committee and local church pastors. Multiple regression was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls. Demographic information included church size and the number of years in church administration.

Sampling Procedures

A simple random sample was used in this study as this provided a chance for all members of the population to be selected. This ensures small, medium and large churches were represented in the sample. In order to prevent distortion the researcher ensured the data collected are typical of the population (Leedy & Ormrod 2005). The data were collected online and survey was conducted over 2 weeks using Survey Monkey which is a national research panel. The survey packet included the survey instrument, a letter explaining the study and confidentiality of responses, instructions for completing the survey and the deadline for responses.

Sample Size

The study was administered Survey Monkey and time and budgetary constraints were two important considerations for the sample size chosen. Because the researcher had no direct communication with the participants this reduces bias and the quality of the data collected. Vogt (2007) asserted using power analysis is an important tool to compute sample sizes as this lowers the significance level and increases the sample size.

Representative samples were integral for the study in order to minimize errors in sampling and ensure a greater statistical power (Creswell, 2009). A large representative sample size was chosen in order to prevent a sampling error. The demographic data were used to determine the mean, median and mode of the population. G*Power 3 was utilized to calculate the sample size. Using a power achieved of .8, effect size of .15 and probability error of .025 the minimum sample size calculated was 81. Survey Monkey guaranteed 130 participants would respond. The relationships between administrator experience, church size, financial reporting and internal controls were analyzed. The response rate was an important factor in this study because a low response rate could affect the results (Hart, 2007).

Rationale for Quantitative Approach Research Design

A quantitative study was performed and data were collected using a previously used and validated questionnaire (Wooten et al., 2003. The instrument measures the participant's perception of the variables; administrator experience, church size, financial reporting and internal controls and the researcher obtained permission to use the instrument.
The demographic questions are focused on administrator experience and church size. (see appendix B).

The researcher performed the following steps in the study:

The researcher (a) investigated four variables (b) used a survey instrument in collecting the (c) obtained and analyzed scores for each variable (d) used Pearson correlation and multiple regression to explain the results, and (e) performed statistical analysis to interpret the data. The researcher collected data in order to make conclusions and recognize the relationship of the variables in the study (Cooper & Schindler, 2011). The study entailed statistical analysis of the variables to determine the relationships between the years of experience of the administrator, church size and both the financial reporting practices and the use of internal controls.

Quantitative research allows the researcher to evaluate and enumerate data to explain a phenomenon and perform an objective analysis of the data to generate additional knowledge (Williams, 2007). According to Creswell (2009) a quantitative study answers the research questions by establishing the relationships between the variables in a study. Quantitative research allows the researcher to draw conclusions from the study based on the research questions and make generalizations about a theory.   A survey, which is a non-experimental design, was used in this study. Both the research questions and the problem statement in this study are aligned. Multiple regression was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls.

A quantitative study addresses the research questions and delineates the purpose of the study. The purpose of the research is to describe the relationship rather than controlling or comparing the variables hence, a quantitative study is appropriate. The data were statistically analyzed using SPSS Version 22 to describe the relationships between the years of experience of the administrator and both the financial reporting practices and the use of internal controls and church size and both the financial reporting practices and the use of internal controls.

This study used a multiple regression research design which measures the relationship between the variables (Field, 2009). The researcher collected data using a survey and perform interpretation of the data using statistical analysis. Based on the data collected statistical inferences were made in order to understand the relationship of the variables (Cooper & Schindler, 2011). Multiple regression research aligns the research questions and hypothesis and was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls.

Variables

The variables studied are administrator experience, church size, financial reporting and internal controls. The dimensions include years of experience, administrative time, accounting controls, generally accepted accounting principles, financial management, and financial accounting. Administrator experience is defined as the number of years an administrator has served in this capacity in the church. Church size is defined as the membership of the church (Wooten et al., 2003). Large churches were defined as churches with membership of 4,000 and greater. Medium churches were defined as churches with membership of 1000 to 3, 999 and small churches were defined as churches with membership less than 1000. Financial reporting was generally defined as the process of achieving fiscal responsibility by establishing controls and safeguarding the assets of the organization (Bacher & Cooper-White, 2007). Internal controls are the procedures established to provide the organization the assurance that safeguards are in place to ensure the financial statements are reliable based on the laws and regulations (Edmonds et al., 2006

Accounting controls are primarily concerned with the safeguarding of assets and ensuring reliability of the financial statements (Whittington & Pany, 2010). Generally accepted accounting principles provide stakeholders the assurance that the financial statements are accurate and presented without significant misstatement (Zietlow, Hankin, & Seidner, 2007). Financial accounting is the steps involved in preparing financial reports of an entity for internal and external stakeholders' use (Kieso et al., 2007). Financial management is the process of generating financial information to assist in decision-making (Finkler, 2005).

Relationships among Variables

Multiple regression research was used to ascertain the relationship between the variables. In a regression study the relationships between the variables can forecast the results of one variable which implies causation (Williams, 2007). Leedy and Ormrod (2005) asserted in a multiple regression research, the characteristics of the groups are evaluated to determine validity and reliability of the coefficients. An evaluation of the quantitative data in a descriptive format using statistical analysis SPSS Version 22 software package was performed and multiple regression was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls.

The survey questions were specifically designed to identify this relationship. A relationship between the years of experience of the administrator, church size and both the financial reporting practices and the use of internal controls can pave the way for not for profit institutions in developing accounting policies and procedures. The research questions forms the basis for the hypothesis in this study. The relationship between the variables may be negative or positive. A positive relationship between administrator experience or church size and financial reporting or internal controls indicates one variable increases the other increases. A negative relationship between the variables implies an inverse relationship exists.

Instrumentation/Measures

A quantitative study was performed and the data were collected by a previously used and validated (Wooten et al., 2003). The instrument measures the participant's perception of the variables; administrator experience, church size, financial reporting and internal controls. The demographic questions are focused on administrator experience and church size. (see appendix B).

The research was conducted using a survey and permission was obtained to use the instrument. The questions are designed to provide responses to measure administrator experience, church size, internal controls and financial reporting (Wooten et al., 2003). Likert rating scale was used to measure the responses with five possible choices: 1= *always*; 2= *nearly always*; 3=*sometimes* 4= *seldom* and 5= *never*.

Data Collection Process

The data were collected online using Survey Monkey which is a national research panel. The survey packet included the survey instrument, a letter explaining the study and confidentiality of responses, instructions for completing the survey and the deadline for responses. The survey was conducted over 2 weeks. The population for this study was administrators of churches in the United States. The survey included responses from 130 participants who are all administrators of churches.

Data Analysis

The data were analyzed for compatibility with the research questions and coded based on observation. Descriptive analysis was used to quantify the data and numerical data were used for categorization (Vogt, 2007). Ordinal measures were used for sequencing and categorizing the variables (Leedy & Ormrod, 2005).

Critical controls were established in analyzing and evaluating the data as a guideline for ensuring data integrity. This was specifically done before importing the data to prevent errors. The researcher maintained control of the data in the study throughout the entire process as this could impose a challenge to link the data to the theoretical framework (Neill, 2007).

The research questions were developed to prevent bias in the data collection. Multiple choice questions were used instead of open-ended questions which were easier to code and analyze. The data collected and analyzed from the survey were presented in a descriptive format accompanied by a succession of tables.

The data are considered ordinal, as the items can be ranked as higher or lower, but with no measurement of the distance between. Given the ordinal nature of the data, quantitative analysis was used.

The researcher collected data using a survey and interpreted the data by performing statistical analysis. Based on the data collected statistical inferences were made in order to understand the relationship of the variables (Cooper & Schindler, 2011). Multiple regression research aligns the research questions and hypothesis and was used to determine how years of experience and church size are related to financial reporting practices and how years of experience and church size are related to use of internal controls.

For validity of the test statistic the sample distribution should be normally distributed, the data should be interval to produce a true measure of the relationship between two variables and the variables should be linear. Preparing a scatter plot using SPSS determined if the points cluster around a straight line to verify linearity of church size and the administrator's years of experience. The sample size for this study was 130 participants. The null hypothesis was rejected if a relationship exists between the variables. The hypothesis test is the level of significance when ($p < .05$). In this situation the sample and normal distributions are significantly different and when ($p > .05$) the sample and normal distributions are not significantly different. The five steps in performing hypothesis testing are: a) develop a null and alternative hypothesis, b) find the level of significance, c) collect and organize the data, c) compute the statistic and e) either reject or accept the null hypothesis (Creswell, 2009). For this study the null hypotheses were identified. The level of significance was set ($p = < .05$). Pearson correlation and multiple regression were utilized to answer the research questions and test the hypotheses.

The research questions and hypotheses used in this research study are identified below:

R1: In church administration what are the relationships between the years of experience of the administrator, and church size, and the reported use of the financial reporting practices?

R2: In church administration what are the relationships between the years of experience, and church size, and the reported use of the internal controls?

H1o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

H1a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

H2o: There is no relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

H2a: There is a relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

H3o: There is no relationship between church size and the reported use of the financial reporting practices.

H3a: There is a relationship between church size and the reported use of the financial reporting practices.

H4o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the internal control.

H4a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the internal control.

H5o: There is no relationship between the years of experience of the administrator and the reported use of the internal controls.

H5a: There is a relationship between years of experience of the administrator and the reported use of the internal controls.

H6o: There is no relationship between the church size and the reported use of the internal controls.

H6a: There is a relationship between church size and the reported use of the internal controls.

Validity and Reliability

A quantitative study was performed and data were collected with a previously used and validated questionnaire (Wooten et al., 2003. A validated instrument is important for the data collection process as it provides reliable information to draw meaningful conclusions. The reliability and validity of the instrument and its alignment with the research question adds strength to the study (Vogt, 2007).

The statistical analysis consisted of: (a) the mean, (b) analysis of variance (ANOVA), and (c) multiple regression analysis. Mean scores were obtained and compared and analyzed in the study. The ANOVA had an F distribution determined with a level of significance of 5%. Multiple regression analysis was used to determine the correlational relationships among the years of experience of the administrator or church size, and the reported use of the financial reporting practices. In addition, multiple regression analysis was used to determine the correlational relationships among the years of experience, church size, and the reported use of the internal controls.

Ethical Considerations

Ethical principles were established and used in this study. The researcher adhered to sound ethical and moral obligations in conducting this study. The legal implications for publication of sensitive data were addressed. The safety of the participants and data security was addressed (Bryant, 2005). The necessary permission was obtained from Capella University Institutional Review Board to conduct the study and the researcher recognized the rights of the participants.

Bryant (2005) emphasized it is imperative to obtain the participant's consent in order to conduct the study. In this study the informed consent addressed the ethical principles and was sent to the participants. The informed consent conveyed the salient issues of the study. The objective of the study, the inherent risk and the benefits associated with this study were all conveyed to the participants.

In this study no personal identifying information was collected. The participants remained anonymous and the researcher adhered to Belmont principle of beneficence. The risk of harm to the participants was minimal and all data collected by Survey Monkey will be destroyed after seven years. The researcher maintains an encrypted copy of the data on a thumb drive which will be securely locked away in a safe deposit box for seven years.

Implications

This study increases church administrators' awareness and sensitize them to the importance of accounting principles. This should enhance internal controls and minimize accounting scandals in churches.

By contributing to the research on financial reporting of churches this study, adds to the existing knowledge in the accounting profession and financial integrity in churches.

The study was timely and significant because of the recent accounting scandals surrounding professional integrity in the accounting profession. The study could have widespread potential benefits to the not for profit organizations in the accounting profession. One of the benefactors is likely to be churches. If relationships are recognized among church administrator experience, church size to financial reporting practices and internal controls, this could pave the way for not for profit institutions in developing accounting policies and procedures. The statistics revealed nonprofit organizations received over 298 billion dollars in 2012 and employed over 13 million individuals who are approximately 10% of the working population. The nonprofit sector contributes over 5% of Gross Domestic Product (Blackwood et al., 2012).

In summary, the researcher performed the following steps in the research design:

1. Obtained Mentor, SMR and IRB approval for the research study.
2. Obtained permission to use instrument.
3. Upload the survey in Survey Monkey portal.
4. Accessed the data base for contact information for the participants and churches and perform simple random sample of churches
5. Provided Survey Monkey with information to be sent. The survey packet included the survey instrument, a letter explaining the study and confidentiality of responses, instructions for completing the survey and the deadline for responses.
6. Secured consent from participants.
7. Ensured completed surveys contain no missing data.

8. Completed surveys were collected and stored in researcher's account at Survey Monkey.

9. Transferred data from Survey Monkey to researcher's personal computer and analyze the data using SPSS version 22 statistical software.

10. Completed data analysis and evaluate findings.

The following chapter outlines the data screening, statistical analysis and the reason for choosing the statistical procedures. The researcher utilized tables and figures to display the results. The results are also described in detail to address the specific research questions.

CHAPTER 4. RESULTS

Research Hypotheses

H1o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

H1a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

The null hypothesis was supported by the data collected and analyzed. Table 3 showed that the regression model was not statistically significant. The administrator's years of experience and the church size did not have any linear relationship on the average with financial reporting.

H2o: There is no relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

H2a: There is a relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

The null hypothesis was supported by the data collected and analyzed. Table 4 showed the regression model was not statistically significant. The average financial reporting practices were not explained by administrator's years of experience.

H3o: There is no relationship between church size and the reported use of the financial reporting practices.

H3a: There is a relationship between church size and the reported use of the financial reporting practices.

The null hypothesis was supported by the data collected and analyzed. Table 5 showed the regression model was not statistically significant. The financial reporting practices on the average were not related to the church size.

H4o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the internal control.

H4a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the internal control.

The alternative hypothesis was supported by the data collected and analyzed. Table 6 showed the regression model was statistically significant. The administrator's years of experience and the church size have linear relationships on the average with internal controls.

H5o: There is no relationship between the years of experience of the administrator and the reported use of the internal controls.

H5a: There is a relationship between years of experience of the administrator and the reported use of the internal controls.

The null hypothesis was supported by the data collected and analyzed. Table 7 showed that the model is not statistically significant. The administrator's years of experience on the average was not linearly related to internal control.

H6o: There is no relationship between the church size and the reported use of the internal controls.

H6a: There is a relationship between church size and the reported use of the internal controls.

The alternative hypothesis was supported by the data collected and analyzed. Table 8 showed that the model was statistically significant. This means that on the average, a linear relationship existed between the church size and internal control.

The literature indicates a relationship exists between church size and internal controls but very little are known about the relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices. In the study the assumptions about the population parameters were tested in order to make a statistical conclusion about accepting or rejecting the hypothesis. Donnelly (2007) stated each hypothesis test has an alternative hypothesis and a null hypothesis. The null hypothesis is identified by Ho: indicating the population mean greater than or less than or equal to a value. The alternative hypothesis is identified by Ha: is the reverse of the null hypothesis. The level of significance in this study is p=< .05 which is use to determine to accept or reject the null hypothesis. The data collected were analyzed to test the hypothesis.

Summary of Results

Fraudulent activities are pervasive within not-for-profit organizations. The literature review reveals falsification of financial reports over recent years resulted in enormous losses to the organization. The financial costs to not-for-profit organizations are significant (Hess, 2006). Not-for-profit organizations including churches lost over 5 % of revenues as a result of fraud (Dorminey et al., 2012; Hess, 2006). The issue of financial accountability is not confined to for- profit entities but is also applicable to not-for-profit organizations such as churches. Inadequate financial training is seen as a primary cause of unverifiable financial reporting in religious institutions. Busby (2005) asserted the need for internal controls in churches is prompted by embezzlement and the overpayments of funds to church administrators. Heinen (2008) advanced the need for churches to adopt stringent internal control and accounting principles to safeguard the assets of the organization.

Squires (2010) emphasized fraudulent and suspicious financial activities within churches make it imperative to implement practices, ensuring adequate financial reporting and accountability.

The purpose for the survey study was to evaluate the application of the theory of accounting, especially as it relates to financial reporting and internal controls within churches where administrator experience and church size may be important. A 31 question survey questionnaire was used to measure the participant's perception of the variables; administrator experience, church size, financial reporting and internal controls. Descriptive statistics, hypothesis testing, and Multiple Linear Regression analyses were performed on the data using the SPSS software. The researcher studied the following research questions and the results of descriptive statistics and Multiple Linear Regression analyses are presented below:

Table 1.Descriptive Statistics

Question	N	Mean	Std. Dev.
Q1. Does the church utilize a written procedure manual covering the accounting and financial process?	130	2.25	1.39
Q2. Does the church utilize computerized financial records?	130	1.61	0.92
Q3. Does the church obtain an audit of its accounting records?	130	1.95	1.33
Q4. Are excess funds placed in an interest-bearing account until needed?	130	1.91	1.12
Q5. Are employees who handle cash bonded?	130	3.17	1.55
Q6. Is the person who handles cash receipts or disbursements also involved with the bank reconciliation?	130	2.72	1.47
Q7. Does the church have a finance committee?	130	1.79	1.34
Q8. Does the church prepare an annual budget?	130	1.37	0.98
Q9. Does the church provide individual contribution reports to members?	130	1.62	1.27
Q10. Does your church use the envelope system?	130	2.32	1.54
Q11. Is more than one person involved with the counting of Sunday offerings?	130	1.64	1.14
Q12. Is more than one person involved in depositing offering receipts?	130	2.52	1.41
Q13. Are cash receipts deposited the same day that they are collected?	130	3.04	1.31

Table 1: Descriptive Statistics (continued)

Q14. Is the person who maintains the giving records also involved with the handling of cash receipts or cash deposits?	130	2.76	1.43
Q15. Are designated receipts separately listed and reported until spent for the designated purpose?	130	1.68	0.98
Q16. Does the church report budget receipts compared to actual receipts?	130	1.95	1.31
Q17. Does the church provide individual contribution reports to members?	130	1.67	1.35
Q18. Does the church have a purchase order system that requires approval before purchases can be made?	130	2.39	1.34
Q19. Are bank accounts reconciled within two weeks of receipt?	130	1.80	0.96
Q20. "Are check signers provided written documentation to support each check before they sign?	130	2.00	1.15
Q21. "Are signatures required on checks written?	130	1.32	0.79
Q22. Are two signatures required on checks written?	130	1.32	0.79
Q23. If disbursements need to be made that are not in the budget, are they approved?	130	1.89	0.91
Q24. When the church is over or under budget for a particular period of time church members are given Oral explanations Written explanations Plans to correct or address.	130	2.18	1.21
Q25. Does the church report budgeted disbursements compared to actual disbursements?	130	2.02	1.31

Table 1: Descriptive Statistics (continued)

Q26. Are the following presented to members? Cash receipts and disbursements for the period Year-to-date cash receipts and disbursements Amount of unpaid bills at the end of the period.	130	2.37	1.39
Q27. Are the following presented to members? Amount of cash on hand Balance sheet	130	2.17	1.38
Q28. How often are the following presented to members? Listing of designated funds Comparisons of actual to budget	130	2.12	1.25
Q29. How often are the following presented to members? Cash receipts and disbursements for the period Comparisons of actual to budget Amount of debt outstanding Comparisons of current to prior years	130	2.23	1.30
Q30. How often is Financial statement prepared based on GAAP requirements presented to members?	130	2.36	1.44
Q31. How often are generally accepted accounting principles used for financial reporting?	130	1.68	1.02

Figure 2 shows the scatter plot between the church size and the administrator's years of experience. The figure shows no association between the administrator's years of experience and church size. The scatter plot showed no linear relationship between the administrator's years of experience and the church size.

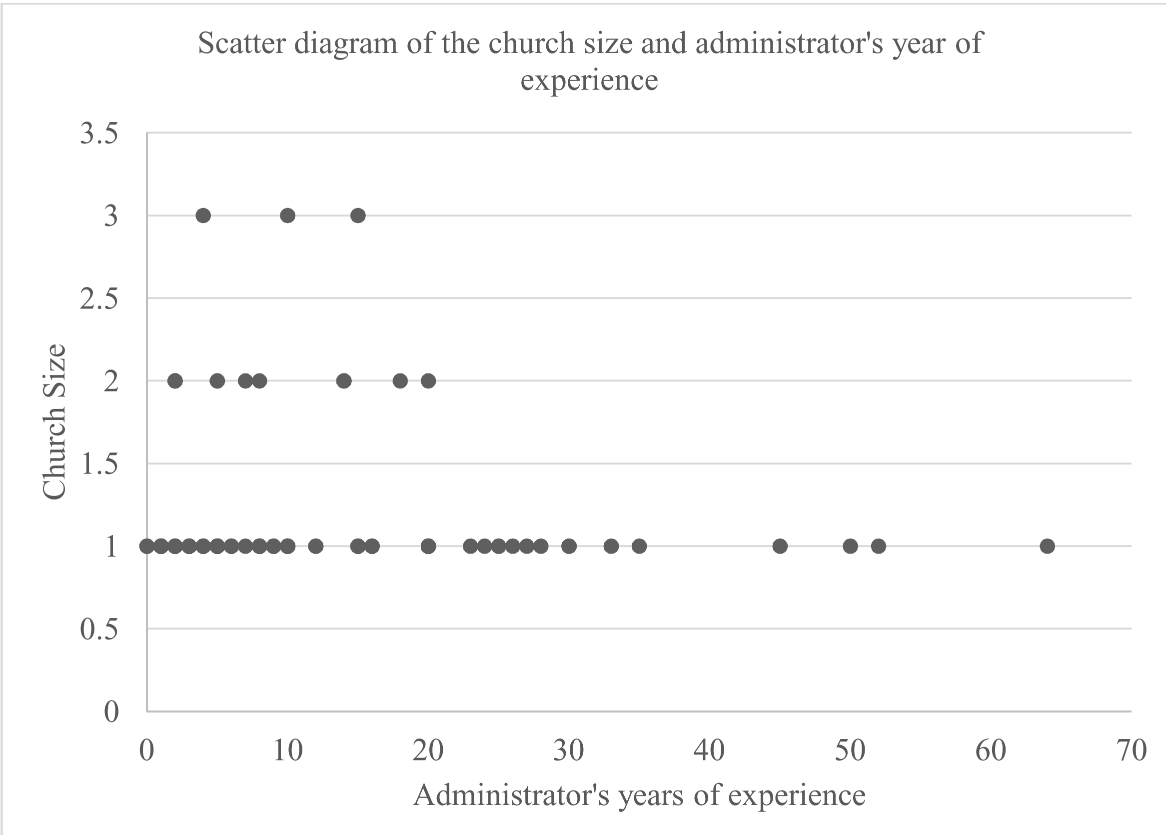

Figure 2. Scatter Plot between the church size and the administrator's years of experience

Pearson Product Moment Correlation was performed to determine whether multicollinearity exists between the independent variables administrator's years of experience and church size. Table 2 presents the correlational analysis. The result showed that the two independent variables are not linearly related with r = -0.03371 and p = 0.7033. Therefore, multicollinearity was not shown between the independent variables.

Table 2.Correlation between the mean of Administrator's years of experience and the mean of Church size

Pearson Correlation Coefficients, N = 130
Prob > |r| under H0: Rho=0

	Administrator's years of experience	Church size
Administrator's years of experience	1	-0.03372 0.7033
Church size	-0.03372 0.7033	1

Research question 1: In church administration what are the relationships between the years of experience of the administrator, and church size, and the reported use of the financial reporting practices?

Hypothesis:

H1o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

H1a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

Table 3. Multiple regression analysis of model Administrator's experience, church size and financial reporting

The REG Procedure
Model: MODEL1
Dependent Variable: Financial Reporting

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	0.52557	0.26278	0.34	0.7153
Error	127	99.35888	0.78235		
Corrected Total	129	99.88445			

Root MSE	0.88451	R-Square	0.0053
Dependent Mean	2.11377	Adj R-Sq	-0.0104
Coefficient Variance	41.84503		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.13082	0.24598	8.66	<.0001
Administrator Experience	1	-0.00558	0.00704	-0.79	0.4297
Church Size	1	0.03553	0.19416	0.18	0.8551

To answer research question 1 the dependent variable Financial Reporting (FR) was created as the average of the twenty-one questions (Q1 to Q21) that measured the financial reporting for each respondent.

Multiple linear regression analysis was then performed to predict the financial reporting from the administrator's experience and church size. Table 3 shows the result of the multiple linear regression analysis.

ANOVA showed that the regression model was not statistically significant with $F = 0.34$, df (2, 127) and $p = 0.7153 > \alpha = 0.05$. This means that the administrator's years of experience and the church size did not have any linear relationship on the average with financial reporting. The R^2 of 0.0053 showed that the administrator's years of experience and the church size do not explain any variations in the average financial reporting.

H2o: There is no relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

H2a: There is a relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the administrator's years of experience and the mean response of financial reporting practices. ANOVA showed in Table 4 that the regression model was not statistically significant with $F = 0.64$, df (1,128) and $p =0.4241 > \alpha = 0.05$. The R^2 of 0.0052 showed that the variations in the average financial reporting practices cannot be explained by administrator's years of experience.

Table 4. Regression analysis of model Administrator's experience and financial reporting

The REG Procedure
Model: MODEL1
Dependent Variable: Financial Reporting
Number of Observations Read and Used 130

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	0.49937	0.49937	0.64	0.4241
Error	128	99.38508	0.77645		
Corrected Total	129	99.88445			

Root MSE	0.88116	R-Square	0.0050
Dependent Mean	2.11377	Adj R-Sq	-0.0028
Coefficient Variance	41.68675		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.17144	0.10556	20.57	<.0001
Administrator Experience	1	-0.00562	0.00701	-0.80	0.4241

H3o: There is no relationship between church size and the reported use of the financial reporting practices.

H3a: There is a relationship between church size and the reported use of the financial reporting practices.

Table 5. Regression analysis of model church size and financial reporting

The REG Procedure
Model: MODEL1
Dependent Variable: Financial Reporting

Number of Observations Read and Used 130

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	0.03444	0.03444	0.04	0.8339
Error	128	99.85001	0.78008		
Corrected Total	129	99.88445			

Root MSE	0.88322	R-Square	0.0003
Dependent Mean	2.11377	Adj R-Sq	-0.0075
Coefficient Variance	41.78414		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.06773	0.23240	8.90	<.0001
Church Size	1	0.04071	0.19377	0.21	0.8339

Simple linear regression analysis was performed to determine the existence of a linear relationship between the church size and the mean response of financial reporting practices. ANOVA showed in Table 5 that the regression model was not statistically significant with $F = 0.04$, df (1, 128) and $p = 0.8339 > \alpha = 0.05$.

This showed that the financial reporting practices on the average were not related to the church size. Also, the $R^2 = 0.0003$ showed that the variations in the average financial reporting practices cannot be explained by the church size.

Research question 2: In church administration what are the relationships between the years of experience, and church size, and the reported use of the internal controls?

Hypothesis:

H4o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the internal controls.

H4a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the internal controls.

To answer research question 2 the dependent variable Internal Controls (IC) was created as the average of the ten questions (Q22 to Q31) that measured the internal controls for each respondent. Multiple linear regression analysis was then performed to predict the internal control from the administrator's years of experience and church size. Table 6 shows the result of the multiple linear regression analysis. ANOVA showed that the regression model was statistically significant with $F = 3.56$, df (2, 127) and $p = 0.0312 < \alpha = 0.05$. This means that the administrator's years of experience and the church size have linear relationships on the average with internal controls. The R^2 of 0.0532 showed that the administrator's years of experience and the church size explained about five percent (5.32%) of the variations in the average internal controls. The parameter estimate also showed that the church size has a significant relationship with the internal controls with $t = -2.16$ and $p = 0.033 < \alpha = 0.05$.

Table 6. Multiple regression analysis of model Administrator's experience, church size and internal controls

The REG Procedure
Model: MODEL1
Dependent Variable: Internal Controls
Number of Observations Read and Used 130

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	3.15400	1.57700	3.56	0.0312
Error	127	56.18341	0.44239		
Corrected Total	129	59.33740			

Root MSE	0.66512	R-Square	0.0532
Dependent Mean	2.07123	Adj R-Sq	0.0382
Coefficient Variance	32.11247		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.51660	0.18497	13.61	<.0001
Experience	1	-0.00872	0.00530	-1.65	0.1020
Church Size	1	-0.31475	0.14600	-2.16	0.0330

H5o: There is no relationship between the years of experience of the administrator and the reported use of the internal controls.

H5a: There is a relationship between years of experience of the administrator and the reported use of the internal controls.

Table 7.Regression analysis of Administrator's experience and internal controls

The REG Procedure
Model: MODEL1
Dependent Variable: Internal Controls
Number of Observations Read and Used 130

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	1.09808	1.09808	2.41	0.1228
Error	128	58.23932	0.45499		
Corrected Total	129	59.33740			

Root MSE	0.67453	R-Square	0.0185
Dependent Mean	2.07123	Adj R-Sq	0.0108
Coefficient Variance	32.56677		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.15674	0.08081	26.69	<.0001
Experience	1	-0.00834	0.00537	-1.55	0.1228

Simple linear regression analysis was performed to determine the existence of a linear relationship between the administrator's years of experience and the mean response of internal control. Table 7 showed that the model is not statistically significant with $F = 2.41$, df (1, 128) and $p = 0.1228 > \alpha = 0.05$. This means that the administrator's years of experience is not linearly related on the average to internal control.

The R^2 of 0.0185 showed that about two percent (1.85%) of the variations in the average internal control was explained by administrator's years of experience.

H6o: There is no relationship between the church size and the reported use of the internal controls.

H6a: There is a relationship between church size and the reported use of the internal controls.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the church size and the mean response of the internal control. Table 8 showed that the model is statistically significant with $F = 4.36$, df (1, 128) and $p = 0.0388 < \alpha = 0.05$. This means that on the average, a linear relationship existed between the church size and internal control. The R^2 of 0.0329 showed that about three percent (3.29%) of the variations in the average internal control can be explained by the church size.

Table 8. Regression analysis of church size and internal controls

The REG Procedure
Model: MODEL1
Dependent Variable: Internal Controls

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	1.95355	1.95355	4.36	0.0388
Error	128	57.38386	0.44831		
Corrected Total	129	59.33740			

Root MSE	0.66956	R-Square	0.0329
Dependent Mean	2.07123	Adj R-Sq	0.0254
Coefficient Variance	32.32670		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.41796	0.17618	13.72	<.0001
Church Size	1	-0.30663	0.14689	-2.09	0.0388

Further regression analysis were performed using each of the 31 questions as dependent variable and the administrator's experience and church size as independent variables. ANOVA shows in Table 9 a statistically significant linear relationship between the church size and financial reporting when employees who handle cash are bonded, with $F = 3.97$, df (1, 128) and $p = 0.0485 < \alpha = 0.05$. Question 5 specifically asked the participants about bonding for employees who handle cash.

Table 9. Regression analysis of church size and financial reporting-Q5

The REG Procedure
Model: MODEL2
Dependent Variable: Q5

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	9.26841	9.26841	3.97	0.0485
Error	128	299.00852	2.33600		
Corrected Total	129	308.27692			

Root MSE	1.52840	R-Square	0.0301
Dependent Mean	3.16923	Adj R-Sq	0.0225
Coefficient Variance	48.22619		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	3.92447	0.40216	9.76	<.0001
Church Size	1	-0.66790	0.33531	-1.99	0.0485

ANOVA shows in Table 10 a statistically significant linear relationship between the church size and financial reporting. This occurs when several persons are making deposits, $F = 8.18$, df (1, 128) and $p = 0.0049 < \alpha = 0.05$. Question 12 specifically asked the participants about the number of employees depositing receipts.

Table 10. Regression analysis of church size and financial reporting-Q12

The REG Procedure
Model: MODEL2
Dependent Variable: Q12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	15.40819	15.40819	8.18	0.0049
Error	128	241.02258	1.88299		
Corrected Total	129	256.43077			

Root MSE	1.37222	R-Square	0.0601
Dependent Mean	2.52308	Adj R-Sq	0.0527
Coefficient Variance	54.38679		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	3.49685	0.36106	9.68	<.0001
Church Size	1	-0.86116	0.30105	-2.86	0.0049

Table 11 shows a statistically significant linear relationship between the administrator's experience and financial reporting. This occurs when receipts are documented and allocated for funding, $F = 4.03$, df (1, 128) and $p = 0.0467 < \alpha = 0.05$. Question 15 specifically asked about allocation of receipts and the spending of designated funds.

Table 11. Regression analysis of administrator's experience and financial reporting-Q15.

The REG Procedure
Model: MODEL3
Dependent Variable: Q15

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model		3.78915	3.78915	4.03	0.0467
Error	128	120.28008	0.93969		
Corrected Total	129	124.06923			

Root MSE	0.96938	R-Square	0.0305
Dependent Mean	1.68462	Adj R-Sq	0.0230
Coefficient Variance	57.54282		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	1.84346	0.11613	15.87	<.0001
Administrator Experience	1	-0.01549	0.00771	-2.01	0.0467

Table 12 indicates a statistically significant linear relationship between the administrator’s experience and financial reporting. This occurs when bank reconciliations are performed within two weeks, $F = 8.75$, df (1, 128) and $p = 0.0037 < \alpha = 0.05$. Question 19 specifically asked about bank reconciliation within a specified period.

Table 12. Regression analysis of administrator's experience and financial reporting-Q19.

The REG Procedure
Model: MODEL4
Dependent Variable: Q19

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	7.59996	7.59996	8.75	0.0037
Error	128	111.20004	0.86875		
Corrected Total	129	118.80000			

Root MSE	0.93207	R-Square	0.0640
Dependent Mean	1.80000	Adj R-Sq	0.0567
Coefficient Variance	51.78154		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.02497	0.11166	18.14	<.0001
Administrator Experience	1	-0.02194	0.00742	-2.96	0.0037

Table 13 shows a statistically significant relationship between the administrator's experience and financial reporting when generally accepted accounting principles are used often for financial reporting, $F = 5.71$, df (1, 128) and $p = 0.0184 < \alpha = 0.05$. Question 31 specifically asked about using generally accepted accounting principles for financial reporting.

Table 13. Regression analysis of administrator's experience and financial reporting-Q31.

The REG Procedure
Model: MODEL5
Dependent Variable: Q31

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	5.72284	5.72284	5.71	0.0184
Error	128	128.34639	1.00271		
Corrected Total	129	134.06923			

Root MSE	1.00135	R-Square	0.0427
Dependent Mean	1.68462	Adj R-Sq	0.0352
Coefficient Variance	59.44100		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	1.87983	0.11996	15.67	<.0001
Administrator Experience	1	-0.01904	0.00797	-2.39	0.0184

Table 14 shows a statistically significant relationship between the administrator's years of experience, church size and financial reporting. This occurs when several persons counted the offering, $F = 3.22$, df (2, 127) and $p = 0.0433 < \alpha = 0.05$. Question 11 specifically asked about the number of individuals counting the offering.

Table 14. Regression analysis of administrator's experience, church size and Q11.

The REG Procedure
Model: MODEL6
Dependent Variable: Q11

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	8.10238	4.05119	3.22	0.0433
Error	127	159.90531	1.25910		
Corrected Total	129	168.00769			

Root MSE	1.12209	R-Square	0.0482
Dependent Mean	1.63846	Adj R-Sq	0.0332
Coefficient Variance	68.48466		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	2.30764	0.31205	7.40	<.0001
Experience	1	-0.01657	0.00894	-1.85	0.0660
Church Size	1	-0.44154	0.24631	-1.79	0.0754

Chapter 5 discusses the findings of this research based on the existing literature. Conclusions, implications, and recommendations are presented. In conclusion, recommendations for future research are presented.

CHAPTER 5. DISCUSSION, IMPLICATIONS, RECOMMENDATIONS

Chapter 5 summaries the study, enumerates the purpose and discusses the findings of Chapter 4. The discussion is followed by the conclusions, evaluation of financial reporting and internal controls. Finally, the implications for accounting in churches and recommendations for future research are presented.

Summary of the study

The issue of financial accountability is not confined to for-profit entities but is also applicable to not-for-profit organizations such as churches. The news of fraudulent activities and scandals in religious institutions has increased the need for effective accounting standards and practices in churches (LaShaw, 2007). Not-for-profit organizations are not mandated under federal laws for financial reporting hence churches have been utilizing undesirable accounting practices over the past decade.

This study explored the relationships between administrator experience and church size to financial reporting and internal controls in churches in the United States. Churches have a significant impact in shaping the social, political and economic fabric of society hence it is imperative to provide accurate financial reporting. The research questions arise because of a gap in the literature and the reality that the relationships among administrator experience, and church size, and financial reporting, and internal controls in churches are unknown. These relationships are important for long term viability and success of churches. This study adds to the academic literature in filing the gap in understanding financial reporting and internal controls in churches.

The results of the study are related to the literature review in two specific areas. First, the lack of financial reporting was found to exist across churches in the United States (Busby, 2005; Heinen, 2008; Schreiter, 2008; Squires, 2010). The literature revealed that this void existed because of a lack of skilled accounting personnel in churches. In addition, churches have no federal mandate for financial reporting which makes them vulnerable to fraudulent activities (Booth, 1993; Boyce, 1984; Fleckenstein & Bowes, 2000; Jacobs, 2005).

Second, Wooten et al. (2003) identified poor internal controls within churches due to the lack of segregation of duties (Sompayrac, 2003; Weiner, 2003; West & Zech, 2007). This study revealed a significant relationship between church size and internal controls and this is attributable to larger churches deploying more resources in real time information systems to enhance internal controls. Duncan et al. (1999) and Snyder and Clifton (2005) supported the absence of internal controls in churches.

Summary of Purpose

The objective of this quantitative multiple regression study was to evaluate the application of the theory of accounting, especially as it relates to financial reporting and internal controls within churches where administrator experience and church size may be important. The variables studied are administrator experience, church size, financial reporting and internal controls. The dimensions include years of experience, administrative time, accounting controls, generally accepted accounting principles, financial management, and financial accounting. A quantitative study was performed and data were collected using a previously used and validated questionnaire (Wooten et al., 2003). The literature review reveals churches are in need of financial responsibility and are not regulated by federal authorities for financial reporting. The data collected for the study was evaluated and the study has established the adequacy of financial reporting and internal controls in churches in the United States. A gap in knowledge existed regarding the relationships among administrator experience and church size to financial reporting and internal controls. This study addressed this gap and was expanded to administrator of churches in the United States.

The following research questions were answered in this study:

R1: In church administration what are the relationships between the years of experience of the administrator or church size, and the reported use of the financial reporting practices?

R2: In church administration what are the relationships between the years of experience, church size, and the reported use of the internal controls?

Discussion of Findings

The study explored the relationships between the years of experience, and church size, and the reported use of the financial reporting practices and internal controls. Two research questions were specifically designed to relate financial reporting and internal controls within churches where administrator experience and church size may be important. Duren (2011) specifically pointed out that expanding the study to church administrator may uncover new knowledge. A gap in knowledge existed regarding the relationships among administrator experience and church size to financial reporting and internal controls. This study addressed this gap and is expanded to administrator of churches in the United States. The findings of each research question and the related hypotheses are discussed below.

Research question 1: In church administration what are the relationships between the years of experience of the administrator, and church size, and the reported use of the financial reporting practices?

Hypothesis:

H1o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

H1a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices.

To answer research question 1 the dependent variable Financial Reporting (FR) was created as the average of the twenty-one questions (Q1 to Q21) that measured the financial reporting for each respondent. Multiple linear regression analysis was then performed to predict the financial reporting from the administrator's experience and church size. Table 3 shows the result of the multiple linear regression analysis.

ANOVA showed that the regression model was not statistically significant with $F = 0.34$, df (2, 127) and $p = 0.7153 > \alpha = 0.05$. This means that the administrator's years of experience and the church size did not have any linear relationship on the average with financial reporting. The R^2 of 0.0053 showed that the administrator's years of experience and the church size do not explain any variations in the average financial reporting.

Hypothesis:

H2o: There is no relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

H2a: There is a relationship between the years of experience of the administrator and the reported use of the financial reporting practices.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the administrator's years of experience and the mean response of financial reporting practices. ANOVA showed in Table 3 that the regression model was not statistically significant with $F = 0.64$, df $(1,128)$ and $p = 0.4241 > \alpha = 0.05$. The R^2 of 0.0052 showed that the variations in the average financial reporting practices cannot be explained by administrator's years of experience.

Hypothesis:

H3o: There is no relationship between church size and the reported use of the financial reporting practices.

H3a: There is a relationship between church size and the reported use of the financial reporting practices.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the church size and the mean response of financial reporting practices. ANOVA showed in Table 5 that the regression model was not statistically significant with $F = 0.04$, df $(1, 128)$ and $p = 0.8339 > \alpha = 0.05$. This showed that the financial reporting practices on the average were not related to the church size. Also, the $R^2 = 0.0003$ showed that the variations in the average financial reporting practices cannot be explained by the church size.

Research question 2: In church administration what are the relationships between the years of experience, and church size, and the reported use of the internal controls?

Hypothesis:

H4o: There are no relationships among the years of experience of the administrator, and church size, and the reported use of the internal controls.

H4a: There are relationships among the years of experience of the administrator, and church size, and the reported use of the internal controls.

ANOVA showed that the regression model was statistically significant with $F = 3.56$, df (2, 127) and $p = 0.0312 < \alpha = 0.05$. This means that the administrator's years of experience and the church size have linear relationships on the average with internal controls. The R^2 of 0.0532 showed that the administrator's years of experience and the church size explained about five percent (5.32%) of the variations in the average internal controls. The parameter estimate also showed that the church size has a significant relationship with the internal controls with $t = -2.16$ and $p = 0.033 < \alpha = 0.05$.

Hypothesis:

H5o: There is no relationship between the years of experience of the administrator and the reported use of the internal controls.

H5a: There is a relationship between years of experience of the administrator and the reported use of the internal controls.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the administrator's years of experience and the mean response of internal control. Table 7 showed that the model is not statistically significant with $F = 2.41$, df (1, 128) and $p = 0.1228 > \alpha = 0.05$.

This means that the administrator's years of experience is not linearly related on the average to internal control. The R^2 of 0.0185 showed that about two percent (1.85%) of the variations in the average internal control was explained by administrator's years of experience.

Hypothesis:

H6o: There is no relationship between the church size and the reported use of the internal controls.

H6a: There is a relationship between church size and the reported use of the internal controls.

Simple linear regression analysis was performed to determine the existence of a linear relationship between the church size and the mean response of the internal control. Table 8 showed that the model is statistically significant with $F = 4.36$, $df(1, 128)$ and $p = 0.0388 < \alpha = 0.05$. This means that on the average, a linear relationship existed between the church size and internal control. The R^2 of 0.0329 showed that about three percent (3.29%) of the variations in the average internal control can be explained by the church size.

Further regression analysis were performed using each of the 31 questions as dependent variable and the administrator's experience and church size as independent variables. Table 9 shows a statistically significant linear relationship between the church size and financial reporting for Question 5 when employees who handle cash are bonded. Table 10 shows a statistically significant linear relationship between the church size and financial reporting for Question 12 when several persons are making deposits.

Table 11 shows a statistically significant linear relationship between the administrator's experience and financial reporting for Question 15 when receipts are categorized and booked and allocated for specific purposes. Table 12 shows a statistically significant linear relationship between the administrator's experience and financial reporting when timely bank reconciliations are performed. Table 13 shows a statistically significant relationship between the administrator's experience and financial reporting when generally accepted accounting principles are used often for financial reporting. Table 14 shows a statistically significant relationship between the administrator's years of experience, church size and financial reporting when more than one person counted the Sunday's offering.

The findings in this study indicate the financial assets of churches are susceptible to fraudulent activities because internal controls are present in large churches but are lacking in small and medium churches. This finding confirmed Duncan, (1995) conclusion that church size had a relationship with internal controls. The results revealed a significant relationship between church size and internal controls. No relationships between church size and internal controls were found in small and medium churches. The findings suggest that internal controls in small and medium churches are below the established standards for for-profit organizations.

Conclusions

Over the past decade scandals in for-profit organizations have eroded the confidence of the public in the financial integrity of corporations in the Unites States. Scandals have also arisen in not-for-profit organizations, including churches. An effective method of increasing accountability is to provide frequent financial reporting and implement strong internal controls. With the growth of not-for profit organizations both in numbers and revenue contribution to the economy it is difficult for the organizations to function effectively and satisfy stakeholders need without adequate financial reporting and strong internal controls (Independent Sector, 2001). Not-for-profit organizations should establish accounting practices and procedures to enhance accountability and transparency (Independent Sector, 2005).

The most significant findings in this study were the statistically significant relationships among the years of experience of the administrator, and church size, and the reported use of the internal controls. The R^2 of 0.0532 showed that the administrator's years of experience and the church size explained about five percent (5.32%) of the variations in the average internal control. The parameter estimate also showed that the church size has a significant relationship with the internal control. Another significant finding in the study was the statistically significant relationship between church size and the reported use of the internal controls. Table 6 showed that the model is statistically significant with $F = 4.36$, df (1, 128) and $p = 0.0388 < \alpha = 0.05$. The R2 of 0.0329 showed that about three percent (3.29%) of the variations in the average internal control can be explained by the church size.

Analysis of questions 5 and 12 reveal a statistically significant relationship between church size and financial reporting. This occurs when employees who handle cash are bonded and several persons are counting the offering. Analysis of questions 15, 19, and 31 reveal a statistically significant relationship between the administrator's years of experience and financial reporting. This occurs when receipts are documented and allocated for funding and bank reconciliations are performed timely and generally accepted accounting principles are used often for financial reporting purpose. Analysis of question 19 reveals a statistically significant relationship between the administrator's years of experience, church size and financial reporting when more than one person counted the Sunday's offering. The statistically significant relationships occur because of the resources available to larger churches. Larger churches are able to attract and retain highly skilled professions such as accountants with years of experience to produce quality financial reports.

Because of the lack of accountability in nonprofit organizations, Keating and Frumkin (2003) suggested seven proposals for enhancing nonprofit financial reporting which may also be useful for churches. First, they recommended a restructuring of the board so that the board has governance over the entity. Second, the IRS filing requirements should reconcile with generally accepted accounting principles (GAAP). Third, all filings and statements should be done electronically. Fourth, improved training and education for stakeholders in understanding financial statements. Fifth, providing more transparency to stakeholders. Sixth, the creation of an entity focusing solely on nonprofit. Seventh, the establishment of an independent commission to study financial reporting in nonprofit organizations. The proposals are well needed and should serve as a benchmark to address the issues of accountability and transparency in churches financial reporting and internal controls.

Limitations

The study was limited to the number of church administrators who were willing to participate in the study. Members who are not in administrative positions were not included in the study. The participant's response was based on his or her perceptions of financial reporting which may be different from those directly involved in financial reporting in the church.

The definition of what constitutes large, medium and small church size is also a limitation in this study as no precise definition exists for church size.

Implications for Accounting in churches

The literature revealed inadequate financial reporting and internal controls in churches across the United States. (Busby, 2005; Heinen, 2008; Schreiter, 2008; Squires, 2010). With over 298 billion dollars contributed to nonprofit organizations in 2012 this contribution represents a significant portion of the gross domestic product of the United States economy (Blackwood et al., 2012). The lack of federal mandates on reporting requirements for churches results in financial irregularities and continues to be a major problem. Because of the impact not-for-profit organizations have on the economy and amount of money involved it may be very difficult for the regulatory authorities not to address accountability and transparency in churches. Churches are not only accountable to members but they are also accountable to donors, hence the need for greater accountability is urgent. The Sarbanes-Oxley Act of 2002 was established to help keep business honest and combat fraudulent financial activities but the act is confined to for-profit organizations. The act should be expanded to non-profit organizations to alleviate some of the issues that churches are facing.

In a study conducted by West and Zech (2007) parishioners believed churches lacked financial accountability and internal controls. The study revealed that although the Catholic Church was subject to internal practices which embraced accountability they were still subject to fraudulent activities. Christensen (2010) reported donors are insisting that churches become transparent in their investments.

Churches should be held accountable for donated funds and this should increase the quality of financial reporting. Although this is not mandated by federal authorities, the increase demands for accountability by donors may force churches to become self regulated. Historically, transparency of financial reporting has not been the focal point of the agenda of churches prompting donor's desire for more accountability (McCarthy, 2007).

Wooten et al. (2003) believed large organizations have more robust internal controls and advanced several reasons for this conclusion. First, larger churches are blessed with more financial contributions which enable more flexibility in hiring accountants with greater technical skills and experience. Secondly, larger churches have formal reporting structures to enhance financial reporting and internal controls. The churches' influence in the community provides greater opportunity for stakeholders to play a more significant role in holding the churches accountable. This study confirmed a significant relationship between church size and internal controls which may be attributable to a broader skill set among the church membership. Larger churches are able to implement strong internal controls which are essential for the operational effectiveness. The parameter estimate in this study showed that church size has a significant relationship with internal control with $t = -2.16$ and $p = 0.033 < \alpha = 0.05$. This may be attributable to more segregation of duties and responsibilities which resulted in effective internal controls. Larger churches are able to acquire, develop and implement accounting programs and information systems with greater precision for internal controls.

The global complexity of the markets coupled with technological advances force churches to adapt strong internal controls for their information systems to combat fraudulent financial reporting.

Agrawal et al., (2006) stated that well developed and documented electronic and business systems are essential in order to provide adequate financial reporting and strong internal controls. In response to this need the electronic business industry has developed accounting software systems that can produce real time data to enhance accountability in churches financial reporting and internal controls (McClure, 2006). The accounting software allows churches to consolidate data and provide an audit trail to comply with GAAP. The researcher discovered the following as a result of the present study.

1. The level of internal controls and financial reporting in churches are inadequate with this exception of large churches where internal controls were present. Churches should expend more resources in plans to develop internal controls and financial reporting.
2. The training of administrators and accounting personnel in financial management should be pursued.
3. The segregation of duties should be implemented in churches

Further training and development of church administrators regarding accounting and fraud should provide churches the necessary safeguards in protecting the organization's assets. A concerted effort by church leadership to reduce or eliminate misappropriation of funds or fraud should result in donated assets used more effectively. Duncan, (1995) confirmed these significant factors in his study.

Recommendation for Future Research

The study reveals that adequate financial reporting and internal controls are integral for church operations. In addition, a relationship exists between church size and the reported use of the internal controls. The lack of variable financial reporting for churches is a major concern for donors and other stakeholders. Federal mandates are nonexistent in churches and churches have no desire for regulatory measures. Inadequate accounting training has also hampered stringent financial reporting and internal controls. These pitfalls provide opportunities for fraud and abuses making the relationships among church size, administrator experience, internal controls and financial reporting a central issue for further research.

Future researchers could increase the size of the sample and replicate the study to determine the relationships among the years of experience of the administrator, and church size, and the reported use of the financial reporting practices. In addition, for future research the study could be replicated by performing another statistical analysis, multivariate analysis of variance to determine the interaction effect between financial reporting and internal controls.

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APPENDIX A. STATEMENT OF ORIGINAL WORK

Academic Honesty Policy

Capella University's Academic Honesty Policy (3.01.01) holds learners accountable for the integrity of work they submit, which includes but is not limited to discussion postings, assignments, comprehensive exams, and the dissertation or capstone project.

Established in the Policy are the expectations for original work, rationale for the policy, definition of terms that pertain to academic honesty and original work, and disciplinary consequences of academic dishonesty. Also stated in the Policy is the expectation that learners will follow APA rules for citing another person's ideas or works.

The following standards for original work and definition of *plagiarism* are discussed in the Policy:

> Learners are expected to be the sole authors of their work and to acknowledge the authorship of others' work through proper citation and reference. Use of another person's ideas, including another learner's, without proper reference or citation constitutes plagiarism and academic dishonesty and is prohibited conduct. (p. 1)
>
> Plagiarism is one example of academic dishonesty. Plagiarism is presenting someone else's ideas or work as your own. Plagiarism also includes copying verbatim or rephrasing ideas without properly acknowledging the source by author, date, and publication medium. (p. 2)

Capella University's Research Misconduct Policy (3.03.06) holds learners accountable for research integrity. What constitutes research misconduct is discussed in the Policy:

> Research misconduct includes but is not limited to falsification, fabrication, plagiarism, misappropriation, or other practices that seriously deviate from those that are commonly accepted within the academic community for proposing, conducting, or reviewing research, or in reporting research results. (p. 1)

Learners failing to abide by these policies are subject to consequences, including but not limited to dismissal or revocation of the degree.

Statement of Original Work and Signature

I have read, understood, and abided by Capella University's Academic Honesty Policy (3.01.01) and Research Misconduct Policy (3.03.06), including the Policy Statements, Rationale, and Definitions.

I attest that this dissertation or capstone project is my own work. Where I have used the ideas or words of others, I have paraphrased, summarized, or used direct quotes following the guidelines set forth in the APA *Publication Manual*.

Mentor name and school	Dr. Judith Forbes, Capella University
Learner signature and date	Carlos Ranglin 10/17/2014

APPENDIX B. SURVEY INSTRUMENT

From Financial control in religious organizations: A Status Report, by Wooten, T. C., Coker, J. W., and Elmore, R. C., 2003, *Nonprofit Management and Leadership*, *13(4),* 343–365. Copyright 2003 by John Wiley & Sons, Inc. Adapted with permission.

Listed below are the questions that describe accounting practices relevant to churches. Please, carefully read every item to get a sense of the total list. The questions have response scales as *Always*, *Nearly Always*, *Sometimes*, *Seldom* and *Never*. Please rank them based on 5 possible choices. 1= *always*; 2= *nearly always*; 3= *sometimes* 4= *seldom* and 5= *never*

Thank you for participating in this study.

Control Environment

Keeping accurate accounting information	*Always*	*Nearly Always*	*Sometimes*	*Seldom*	*Never*
1.Does the church utilize a written procedure manual covering the accounting and financial process?	-------	----------	--------	-------	-------
2. Does the church utilize computerized financial records?	-------	----------	--------	-------	-------
Safeguarding the assets					
3. Does the church obtain an audit of it's accounting records?	------	---------	--------	-------	-------
4. Are excess funds placed in an interest-bearing account until needed?	------	---------	--------	-------	-------
5. Are employees who handle cash bonded?	------	---------	--------	-------	-------
6. Is the person who handles cash receipts or disbursements also involved with the bank reconciliation?	------	---------	--------	-------	-------
Complying with leaders' and contributors' desires					
7. Does the church have a finance committee?					
8. Does the church prepare an annual budget?	------	---------	--------	-------	-------

Control over Receipts

Keeping accurate accounting information

9. Does the church provide individual contribution reports to members?	------	---------	--------	-------	-------
10. Does your church use the envelope system?	------	---------	--------	-------	-------

Safeguarding the assets

11. Is more than one 1 person involved with the counting of Sunday offerings?	------	---------	--------	-------	-------
12. Is more than one person involved in depositing offering receipts?	------	---------	--------	-------	-------
13. Are cash receipts deposited the same day that they are collected?	------	---------	--------	-------	-------
14. Is the person who maintains the giving records also involved with the handling of cash receipts or cash deposits?	------	---------	--------	-------	-------
Complying with leaders' and contributors' desires					
15. Are designated receipts separately listed and reported until spent for the designated purpose?	------	---------	--------	-------	-------
Encouraging donor support					
16. Does the church report budget receipts compared to actual receipts?	------	---------	--------	-------	-------
17. Does the church provide individual contribution reports to members?	------	---------	--------	-------	-------

Control over Disbursements

Keeping accurate accounting information

18. Does the church have a purchase order system that requires approval before purchases can be made?	------	---------	--------	-------	-------
19. Are bank accounts reconciled within two weeks of receipt?	------	---------	--------	-------	-------
Safeguarding the assets					
20. Are check signers provided written documentation to support each check before they sign?	------	---------	--------	-------	-------
21. Are signatures required on checks written?	------	---------	--------	-------	-------
22. Are two signatures required on checks written?	------	---------	--------	-------	-------
Complying with leaders' and contributors' desires					
23. If disbursements need to be made that is not in the budget, are they					

approved? ------ --------- -------- ------- -------

24. When the church is over or under budget
for a particular period of time church
members are given
Oral explanations ------ --------- -------- ------- -------
Written explanations ------ --------- -------- ------- -------
Plans to correct or address ------ --------- -------- ------- -------

Encouraging donor support
25. Does the church report
budgeted disbursements compared
to actual disbursements? ------ --------- -------- ------- -------

Reporting to Members

Keeping accurate accounting information
26. Are the following presented
to members?
Cash receipts and disbursements for the period ------- -------- ------- ------- -------
Year-to-date cash receipts and disbursements ------- -------- ------- ------- -------
Amount of unpaid bills at the end of the period ------- -------- ------- ------- -------

Safeguarding the assets
27. Are the following presented
to members?
Amount of cash on hand ------- -------- ------- ------- -------
Balance sheet ------- -------- ------- ------- -------

Complying with leaders' and contributors'
desires
28. How often are the following presented
to members?
Listing of designated funds ------- -------- ------- ------- -------
Comparisons of actual to budget ------- -------- ------- ------- -------

Encouraging donor support
29.How often are the following presented
to members?
Cash receipts and disbursements for the period ------- -------- ------- ------- -------
Comparisons of actual to budget ------- -------- ------- ------- -------
Amount of debt outstanding ------- -------- ------- ------- -------
Comparisons of current to prior years ------- -------- ------- ------- -------

30. How often is Financial statements are prepared
based on GAAP requirements ------- -------- ------- ------- -------
31. How often are Generally accepted accounting principles
used for financial reporting ------- -------- ------- ------- -------

Demographic Information

Number of years in a church administration

How many members attend the church at this facility?

APPENDIX C: MATRIX OF INTERNAL CONTROL AND FINANCIAL REPORTING

Goals	Control Environment	Receipts	Disbursements	Financial Reporting
Internal control Financial Management Accurate accounting information	Policies and procedures Use of automation /technology	Method of reporting for individuals Use of envelope for contribution	Automated purchase order system Bank/Payables reconciliation	List of outstanding invoices Accounting for receipts and disbursements
Safeguarding the assets /Accounting Controls	Professional Annual audit Investment Alternatives Reconciliation of Investment portfolio Employees bonded	Handling of deposits- counters Funds deposited timely same day Multiple depositors Segregation of Duties of Counting/ Verification /Approval	Signatory on Account Verification of Documentation	Amount of cash Financial Statement/ Balance sheet
Management control Complying with stakeholders' pledges	Existence of a finance committee Annual Budget preparation	Chart of Accounts to classify designated funds	Approval of non budgeted Items Handling of budget variance in Accounts	Type of designated funds Variance Analysis- Budget comparisons to actual

Donor Support	Annual Budget preparation	Report of contributions to individual Budget comparisons to Actual	Variance Analysis-Budget comparisons to Actual	Accounts receivable- List of receipts Accounts Payable- List of disbursements Debts outstanding Comparisons of current to prior years GAAP is applied GAAP is important