

AN ANALYSIS OF FRAUD PREVENTION AND DETECTION IN NOT-FOR-PROFIT  
ORGANIZATIONS IN THE STATE OF SOUTH CAROLINA

by

Mary Robinson Gibson

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Doctoral Study Submitted in Partial Fulfillment  
of the Requirements for the Degree of  
Doctor of Business Administration

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Liberty University

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## Abstract

This study analyzed fraud detection and prevention techniques and analyzed if there was a relationship between the techniques and the detection of fraud. The combined techniques were fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, whistleblower policy, fraud control plan, fraud control policy, and internal control review. Nonprofits are vulnerable to fraud and costly for the organizations that rely heavily on donations to provide needed services or goods to a community. Through analyzing 109 nonprofits surveyed in South Carolina, the researcher found 59 reported fraud occurrences and 86 percent were using fraud detection and prevention techniques. This study showed statistical significance in the relationships between fraud prevention and detection techniques used in nonprofits and the detection of fraud. In this study, the results indicated the NFPOs in South Carolina had fraud detected and used the techniques which demonstrated a level of understanding prevention and detection techniques. This study helps internal stakeholders understand the theories and aspects of fraud to bring awareness to help prevent or detect fraud quicker.

*Key words:* fraud detection, nonprofit, fraud prevention, fraud triangle

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## Dedication

My dedication is first and foremost to God for giving me the abilities and skills to complete the doctorate program. Secondly, I am very thankful and proud of a wonderful chair, Dr. Sullivan. I faced several challenges of losing my only son and father during this process. Dr. Sullivan was supportive and through prayers, I was able to continue despite the horrific events in my personal life. I am thankful to my husband, Steve Gibson, and daughter, Katherine Robinson, who gave up many weekends so I could tirelessly work on the research. I lastly want to dedicate this to my son, Matthew Robinson. He was gifted and talented and would have surpassed my skills and knowledge in his life. This world will never know his potential but I do and I shine with the similar gifts and talents.

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## Table of Contents

Section 1: Foundation of the Study.....	1
Background of the Problem .....	1
Problem Statement .....	2
Purpose Statement.....	3
Nature of the Study .....	3
Discussion of Method .....	3
Discussion of Design .....	4
Research Questions.....	5
Hypothesis 1.....	6
Hypothesis 2.....	6
Hypothesis 3.....	6
Theoretical Framework.....	6
Discussion of Theory 1 .....	6
Discussion of relationships between theories and variables.....	8
Discussion of Theory 2 .....	8
Discussion of relationships between theories and variables.....	9
Definition of Terms.....	10
Assumptions, Limitations, Delimitations .....	11
Assumptions.....	11
Limitations .....	12
Delimitations.....	12
Significance of the Study .....	13

Reduction of Gaps.....	14
Implications for Biblical Integration.....	15
Relationship to Field of Study .....	19
A Review of the Professional and Academic Literature.....	20
Fraud Triangle Theory .....	21
Behavior Culturally Influenced Fraud Theory.....	26
Fraud Detection and Prevention Techniques .....	33
Ethics Training.....	34
Fraud Risk Registers.....	36
Red Flags .....	38
Whistle-Blowing Policy.....	42
Code of Conduct/Ethics .....	44
Internal Controls and Risk Assessments.....	45
Occupational and Non-Occupational Fraud.....	49
Stakeholder’s Role in Fraud Detection and Prevention.....	52
Fraud Issues in Practice .....	53
Fraud Affects Future Donations and Tarnishes the Image .....	54
NFPOs Issues with Detecting Fraud.....	55
Impact of Limited Resources on NFPOs .....	57
Variables in the Study.....	59
Summary of the Literature Review.....	62
Transition and Summary of Section 1 .....	63
Section 2: The Project.....	64

Purpose Statement.....	64
Role of the Researcher .....	65
Participants.....	66
Research Method and Design .....	67
Discussion of Method .....	67
Discussion of Research Design.....	68
Summary of research method and design .....	69
Population and Sampling .....	69
Discussion of Sampling .....	70
Summary of population and sampling .....	72
Data Collection .....	72
Instruments.....	72
Selection of the measurement instrument.....	72
Demographic information.....	73
Fraud reporting.....	73
Fraud detection techniques .....	74
Reliability and Validity.....	76
Reliability.....	76
Validity .....	77
Data Collection Technique .....	78
Data Organization Techniques.....	79
Data Analysis .....	79
Variables .....	81



Testing of hypothesis .....	82
Null Hypotheses.....	84
Summary of Data Analysis .....	86
Transition and Summary of Section 2 .....	88
Section 3: Application to Professional Practice and Implications for Change .....	89
Overview of the Study .....	89
Presentation of the Findings.....	90
Survey Participants .....	91
Hypotheses Testing.....	93
Hypothesis 1.....	94
Hypothesis 2.....	96
Hypothesis 3.....	98
Summary of the Findings.....	101
Applications to Professional Practice .....	102
Understanding of Fraud Consequences .....	102
Awareness of Fraud and Techniques .....	103
Training on Fraud Techniques in NFPOs .....	104
Fraud Theories and fraud Plans in Practice .....	105
Fraud Policies in NFPOs.....	106
Biblical Applications .....	107
Recommendations for Action .....	108
Awareness and Training .....	108
Strong Policies and Procedures.....	109

Assessments and Reviews.....	110
Fraud Control Plans .....	110
Recommendations for Further Study .....	111
Reflections .....	112
Summary and Study Conclusions .....	113
References.....	117
Appendix A: NFP Fraud Survey.....	142
Appendix B: Survey Tables .....	145

## List of Tables

Table 1. Contingency Table.....	75
Table 2. Contingency Table With and Without Techniques.....	94
Table 3. Contingency Table; Detection Only .....	97
Table 4. Contingency Table; Prevention Only .....	100

## List of Figures

Figure 1. Behavioral red flags; displayed perpetrators. ....	40
Figure 2. Sample size (Given by National Statistical Service, 2018).....	70

## Section 1: Foundation of the Study

Not-for-profit organizations (NFPOs) exist in every town, athletic booster organizations, band organizations, 501(c)(3) organizations for health or other social organizations, some hospitals, religious organizations, civic, and government pass-through organizations. NFPOs are always hosting fundraising campaigns or asking for donations to fulfill their mission. The NFPOs do not have a lot of reserve funds and they typically do not hire many core employees, rather relying on volunteers. NFPOs typically have oversight board members, typically from the community and on a volunteer basis. The volunteers are not typically accountants and have limited financial management backgrounds. This study examined the relationship between the stakeholder's awareness of accounting fraud prevention and detection techniques and the level of fraud detection.

### **Background of the Problem**

Commonly, as Archambeault, Greenlee, and Webber (2015) discovered in a study, NFPOs lost five percent of revenues to fraud and 115 cases of fraud were detected in NFPOs. NFPOs faced the challenge of board governance where the focus was on logistics of cause-related or political memberships (Considine, O'Sullivan, & Nguyen, 2014) rather than a concentration on fraud prevention. Although the primary objective of NFPOs was the mission achievement, researchers (Irvine & Ryan, 2012) described that boards and management reviewed the financial stability of the NFPOs. Financial statements were tools for decision-making which was difficult to do if the financial statements were incorrect. Fraudulent reporting of the financial statements affected the entire organization and groups they served. Gamble and Beer (2017) observed that NFPOs served disadvantaged and marginalized groups. If fraud

occurred, this hindered the mission such as building homes in impoverished areas or even combating a health crisis. Fraud affected all stakeholders.

Archambeaul et al. (2014) unraveled that NFPOs had limited funds and fraud cost the NFPOs money such as investigation cost, the loss of donors because of the tarnished reputation, and other costs. Since NFPOs were typically small and had limited resources, small losses greatly impacted the organizations and the ability to fulfill the organization's mission. Othman and Ameer (2014) further explained that NFPOs suffered funding issues that affected the service the organization offered to their community. Also, NFPOs were vulnerable to fraud because some NFPOs relied on volunteers who were not of particularly reputable backgrounds. This was problematic because fraud was more likely to occur and the stakeholders might not be aware of the fraud.

### **Problem Statement**

The internal stakeholders of NFPOs had a problem detecting and preventing fraud (Best, Kummer, & Singh, 2015). The problem addressed in this study was the relationship between fraud detection and prevention and the use of fraud detection techniques and effectiveness of internal stakeholders in NFPOs to detect fraud in South Carolina. Best et al. (2015) reported there was a gap in the understanding of fraud detection techniques. Udeh (2012) realized there was lack of understanding fraud detection techniques for the stakeholders to detect and prevent fraud. Internal stakeholders may not have had the education in detecting fraud or preventing fraud. Best, Mula, and Singh (2013) revealed that accounting fraud was growing and that organizations were ill-equipped to prevent and detect fraud. Klammer, Richtermeyer, Siegel, and Sorensen (2010) elucidated there was a lack of understanding between fraud detection education and practice and it was difficult to detect fraud and prevent fraud. The focus of the

study was to gain insight into the problem of internal stakeholders preventing and detecting fraud in NFPOs in South Carolina.

### **Purpose Statement**

The purpose of this quantitative correlational study was to examine the effectiveness of fraud detection and prevention techniques and internal stakeholders detecting and preventing fraud in NFPOs in South Carolina. Free (2015) explained that fraud has the greatest economic impact on society rather than any other crime. Yetman and Yetman (2011) reported that NFPOs were vulnerable to fraudulent activities. This research furthered the study of the impact of fraud detection and prevention techniques previously studied, Best et al. (2015), to see if the internal stakeholders in NFPOs in South Carolina used them and detected fraud.

### **Nature of the Study**

#### **Discussion of Method**

The researcher used quantitative method to analyze the survey data for this study because the analysis provided correlation to find the linear relationship between the independent variables of fraud detection and prevention techniques and the dependent variable of fraud detection (Goertzen, 2017; Onen, 2016). The quantitative research method helped the researcher determine a commonly used (variable) fraud detection and prevention technique and the effectiveness of detecting fraud (Goertzen, 2017; Creswell, 2014). The qualitative method might have helped the researcher understand the stakeholder's thoughts (experiences) on fraud detection and prevention and if the stakeholders understood the techniques were effective (Cruz & Tantia, 2017; Viadero, 2005). However, the fraud detection techniques were not observable behaviors (Creswell, 2013) nor was this study looking at human perception (Stake, 2010). The mixed methods study included quantitative and qualitative methods (McKim, 2015). This study

did not need to study the qualitative aspects of observed behaviors (Bradt, Burns, & Creswell, 2013) as a mixed-methods method or qualitative method would not have explained the research questions since they were numerical in nature.

### **Discussion of Design**

The researcher used correlational quantitative research design to gather insights into the relationship between fraud detection and prevention techniques and fraud detection (Creswell, 2014). Comiskey, Curtis, and Dempsey (2016) clarified that correlational research could be used if the independent variables did not need to be manipulated. A relationship or direction of a relationship between variables could be established. The researcher selected this design over descriptive, quasi-experimental, and experimental because the researcher determined if fraud detection and prevention techniques and fraud detection were correlated.

A descriptive quantitative research design described a phenomenon (Wildmuth, 2016) and summarized the relationships (Neuendorf, 2016). This study was not describing the fraud detection and prevention techniques rather analyzed the variables (fraud detection and prevention techniques) and detection of fraud. Therefore, the descriptive design was not an appropriate design for this research study.

Experimental research design was used in studies to learn about systems or how processes worked as part of the scientific process and to observe experiments using groups and then applying inputs to those groups (control and experimental groups) to study changes (Montgomery, 2017). The experimenter studied a group and provides intervention to test a hypothesis (Creswell, 2014). This research did not conduct experiments with control groups or experimental groups.



Quasi-Experimental design studied naturally occurring groups (Wildmuth, 2016) and tested effects on a group or process (Flaviu & Gregory, 2016). Reeves, Waddington, & Wells (2017) explained that quasi-experimental design was similar to experimental design except the groups were controlled (not random) and influenced by the researcher. This research study did not have groups rather a study of NFPOs in South Carolina. The study was conducted to show a relationship between fraud detection and prevention techniques and the detection of fraud, not to study effects (causation) among the variables being studied.

Correlational quantitative design was the most appropriate design to study the research questions. Correlational quantitative design was used to give more accurate estimates of the relationships between variables (Atinc et al., 2016). The NFPOs in South Carolina were given a survey that was statistically studied to look at the relationship between fraud detection and prevention techniques to fraud detection. Moore (2016) conducted a study that used correlational design to study the relationship between organizational size and occupational fraud. Best et al. (2015) also used correlational design to explain the effectiveness of fraud detection and prevention techniques in NFPOs.

### **Research Questions**

Research Question 1: Is there a relationship between the use of all of the fraud detection and prevention techniques and the detection of fraud in NFPOs in South Carolina?

Research Question 2: Is there a relationship between the use of detection techniques with the detection of fraud in NFPs in South Carolina?

Research Question 3: Is there a relationship between the use of prevention techniques with the detection of fraud in NFPs in South Carolina?

**Hypothesis 1**

H<sub>01</sub>: There is no statistically significant relationship between the fraud detection and prevention techniques and fraud detection in NFPs in South Carolina.

H<sub>A1</sub>: There is a statistically significant relationship between the fraud detection and prevention techniques and fraud detection in NFPs in South Carolina.

**Hypothesis 2**

H<sub>02</sub>: There is no statistically significant relationship between the fraud detection techniques and fraud detection in NFPs in South Carolina.

H<sub>A2</sub>: There is a statistically significant relationship between the fraud detection techniques and fraud detection in NFPs in South Carolina.

**Hypothesis 3**

H<sub>03</sub>: There is no statistically significant relationship between the prevention techniques and fraud detection in NFPs in South Carolina.

H<sub>A3</sub>: There is a statistically significant relationship between the prevention techniques and fraud detection in NFPs in South Carolina.

**Theoretical Framework****Discussion of Theory 1**

First, Cressey (1953) created the theory of the Fraud Triangle when he interviewed white-collar embezzlers and realized a common triangle of consistent trends. His data collected from over 120 incarcerated 'trust violators' in US prisons composed an empirical basis for the Fraud Triangle. The three pieces of the Fraud Triangle were (a) the perception of the need to fix the problem or motivation (pressure and incentive), (b) an opportunity to commit fraud, and (c) the rationalization or neutral attitude that the action was not criminal. Borba and Wuerges (2014)

further explained the Fraud Theory. The manager felt a pressure to perform with high revenues/sales. The manager could surpass internal controls and change data to make the financial statements look better than they actually were. The manager had an internal rationalization that they were committing fraud for the success of the company and avoided layoffs. Carpenter, Jones, Riley, and Trompeter (2014) disclosed that SAS No. 99 outlined the fraud triangle of pressure to commit fraud, opportunity, and rationalization (attitude). Free (2015) explained the concept of the fraud triangle was embedded in professional auditing standards (SAS No. 99 and ISA 240). The fraudster had a pressure to commit fraud (either personal financial issues or organizational financial goals), opportunity (the fraudster might know how to penetrate internal controls and work around weaknesses to commit fraud), and rationale (attitude to do the fraud). The small organizations were more vulnerable to fraudulent activities (Andon, Free, & Scard, 2015) and NFPOs were typically small (Gayle, Harrison, & Thornton, 2017). The fraudster had more of an opportunity to commit fraud. The fraudster had a pressure (maybe a few pressures). They were pressured to fulfill a mission. The NFPO may not have paid the employees a good salary and they had external pressures to steal. The fraudster also could have built up a rationalization that the fraud did not matter because they were not paid what they were worth or no one was overseeing them.

Lowers (2013) also explained with the Fraud Triangle accounting theory the person committing the fraud had some kind of pressure to achieve prestige or was motivated by the need for money. The person who committed the fraud had the opportunity or open door of trust that allowed them to commit fraud. The organization may have lacked good internal controls or an absence of control activities. Also, the organization may have lacked controls such as inventory counted on a regular basis, petty cash was not attended, no dual signatures or controls in place, or

an excess of materials lying around. The person committing the fraud also had a rationalization that the fraud was acceptable. They believed it was okay. Levi and Schuchter (2016) found that companies realized the Fraud Triangle existed and based on the empirical study, fraud risk could be lowered with company measures and company culture.

**Discussion of relationships between theories and variables.** The NFPO may not have had a lot of internal controls or supervision which allowed the opportunity for the fraudulent behavior. This study showed the need for further study on what fraud detection techniques were most effective so stakeholders could be aware of it and put the safeguards in place to detect and prevent fraud. If the person who has the motivation, rationalizes fraud, and has the opportunity to commit fraud, he or she can commit fraud (Cressey, 1953; Borba & Wuerges, 2014). Fraud triangle is a theory that supports the insight of the problem behind the fraud and the stakeholders will learn more about the theoretical theory so they can prevent fraud or detect fraud. The fraud triangle helped explain why fraud occurred and this supported this research study's fraud risk in practice. With this information, the readers can understand how fraud risk registers were created, with the fraud triangle concept where an employee has the opportunity to commit the fraud, the incentives or pressure to meet goal, and rationalization that fraud is not wrong.

## **Discussion of Theory 2**

Another theory related to fraud and behaviors is (Connelly, Hoskisson, & Shi, 2017) the Cognitive Evaluation Theory where an individual has an external pressure that motivates the person to do certain actions. Individuals have innate needs for autonomy (self-determination /choices) and competence (the belief the individual can influence outcomes). The external control could be very coercive and the manager had a high likelihood to commit financial fraud. External pressures affected internal motivations. If the rewards or punishments inhibited

intrinsic motivation to conduct ethically, the manager or individual would commit illegal acts. The individual who deceived others commit fraud. The individual would lie about facts; fail to disclose information, falsify documents, and other corruptive behaviors. The managers wanted to appear to have improved performance. The cognitive evaluation theory suggests that managers had different levels of motivation and if the manager had high levels of dedication to perform, the manager was more prone to commit fraud. Mahmood, Pahnilia, and Siponen (2013) revisited the Cognitive Evaluation Theory to study corporations in Finland to find if pressures comply with policies and procedures outweighed rewards. The external pressure was most persuasive to have the employees comply with the information. Chae, Choi, and Hur (2017) found that when a buyer (person) exerted power on a supplier (another person) the supplier would comply or even committed more to a buyer. Cognitive Evaluation Theory explained that coercive or rewarding could mediate power. The empirical study showed that power influences the motivation. In NFPOs, the workers feel like they deserve the services and deserve the money going to the needy because they feel needy. They feel like they could fudge the numbers to meet the expectations of the donors so they could get more donations.

**Discussion of relationships between theories and variables.** If the manager had pressure to perform and had the opportunity to commit fraud, the manager only needed a rationalization and motivation to do the fraud. Cognitive Evaluation Theory explains that motivation can coerce a manager to commit fraud and power influence the motivation (Connelly et al., 2017; Chae et al., 2017). This study gave insight into the effectiveness of internal stakeholders detecting fraud and Levi and Schuchter (2016) reported that fraud could be lowered with measures and company culture. The study of fraud prevention and detection techniques

was important. Also, it was important to study to see what was effective in detecting or preventing fraud.

### **Definition of Terms**

**Codes of conduct:** Codes of Conduct are policies or guides for how professional should treat one another and help set ethical culture in an organization (Hardy, 2016). This was a prevention technique.

*Fraud awareness training:* Fraud (risk assessment) awareness training is training to strengthen culture and help the organization be more resilient to the threat of fraud and corruption (Brytting, Minogue, & Morino, 2011) and some organizations have formal training to detect fraud and prevent deception from occurring (Carswell, Seay, Wilmarth, & Zimmerman, 2014). This was used as a prevention technique. Detection is after the training and reporting.

*Fraud control plan:* A fraud control plan is simply a plan to respond to fraud when it occurs (Lord, Miller, & Mclaughlin, 2015).

*Fraud Control Policies:* Policies are organizational rules and procedures that prevent fraud and abuse and are used to safeguard the assets (Park, Matkin, & Marlowe, 2017).

*Fraud detection and prevention techniques:* Fraud detection and prevention techniques were fraud control policies, whistle-blower, fraud risk registers (Best et al., 2015), fraud awareness training, codes of conduct, fraud control plan, internal control review, and risk assessments.

*Fraud risk registers:* Fraud risk registers are levels of risk of the fraud triangle (risk of incentives, opportunity, and rationalization to commit fraud), it is the awareness of the holistic view of fraud potential in the organization (Mock, Srivastava, & Wright, 2017). The more risks the higher the fraud potential and it is to prevent by awareness.

*Risk assessments:* Risk assessments is assessing the presence of the fraud triangle (opportunity, incentive, and rationalization to commit fraud) in an organization to prevent fraud (Mock et al., 2017).

*Red Flags:* Red flags are identifiable behaviors that are indicators that fraud is possible and these indicators are proven from collected data as signs to locate fraudulent behavior to prevent fraud (Vona, 2016).

*Whistle-blower:* Whistle-blowing is where a person blows the whistle on organizational fraud, illegal operations, or corrupt operations, in reporting the organization the person believes that it is for the greater good of the public interest (Middlemiss, 2017). This was a fraud detection technique.

### **Assumptions, Limitations, Delimitations**

The assumptions, limitations, and delimitations are discussed in this next section.

#### **Assumptions**

One assumption of this study was that the questionnaires would be honestly and correctly answered. After Veldkamp, Nuijten, Dominguez-Alvarez, van Assen, and Wicherts' (2014) survey of over 600 authors of published statistical studies, they found that self-reporting produced desirable responses. The researcher found the individuals who did not respond to the survey were more inclined to give less reliable responses. The respondents that completed the survey were found to have a positive effect on probability.

Another assumption was all the individuals surveyed would have a working knowledge of fraud prevention and detection techniques. The researcher included examples in the survey of what each technique looks like so there was a clear understanding of the techniques. For example, some organizations may not call the technique 'code of conduct' but rather a code of

ethics. The researcher was aware the organizational leaders needed clear understanding so there was not a negative outcome of the study. If the questionnaire was not clear, this could give incorrect statistical analysis. To mitigate this risk, the researcher made the questionnaire questions clear and explained what the techniques might be called in the different organizations (define the techniques).

### **Limitations**

A limitation of the study was where individuals accurately and correctly submitted self-report correct data. Veldkamp et al. (2014) explained this could cause some error in probability; however, it was more likely that respondents self-report accurate data. The surveyed authors who did not respond to this research were more likely to have inconsistencies. It must be understood that certain organizations may be prone to fraud while other organizations experience little to no fraud. This research was only to bring more insight into fraud detection and the use of fraud prevention and detection techniques to see if there was need for further study.

Another limitation was studying only NFPOs in South Carolina. There may be more instances of fraud detection in for-profit organizations or more fraud in different regions of the country.

### **Delimitations**

The researcher studied fraud prevention and detection techniques in relation to fraud detection. The researcher did not include data mining (Sangal, 2016) or other computer related fraud detection techniques, the fraud detection and prevention techniques included in this study were code of conduct, fraud awareness training, whistle-blowing policy, fraud assessments, fraud control plan, internal control review, fraud control policy, and fraud registers. The study analyzed NFPOs use of fraud prevention and detection techniques to detect fraud in NFPOs in



South Carolina. The research study on NFPOs was not conducted in other states in the United States. The researcher only studied NFPOs in South Carolina rather than for-profit organizations. This study looked at internal fraud rather than external fraud.

### **Significance of the Study**

When fraud occurred in a NFPO, the initial losses, future loss of donors, and a ruined reputation inhibited the organization from fulfilling its mission (Perols, 2011). This study will bring insight into fraud detection issues that cost organizations money from donors. Hou, Zhang, and King (2017) observed that return donors would evaluate the performance and expectations based on level of trust or distrust for future giving. The level of charitable donations changed over time and when a trust crisis happened. The NFPO had to work hard to rebuild that trust. This study was significant because this helped the NFPOs realize how much fraud will hurt their future funding. The fraud caused mistrust with donors and NFPOs rely on donors to fulfill the mission and cover operational expenses (Madhavaram, McDonald, Sullivan Mort, & Weerawardena, 2015). This study helped stakeholders realize fraud implications. Also, this study will lead to more discoveries on what fraud prevention and detection techniques are most effective for detecting or preventing fraud. Fraud cost NFPOs money and it is important for organizations to have the correct fraud detection or prevention techniques in place. It is important to understand the concepts behind fraud to gain understanding to lead to solutions or preventions of fraud occurrences. Fraud hinders the progress of the organization. This study was significant for NFPO's success, fulfilling the mission, and giving inferences to what fraud prevention and detection techniques work best for detecting or even preventing fraud.

## **Reduction of Gaps**

Researchers agreed that NFPOs were vulnerable to fraud (Andres-Alonso, Garcia-Rodriguez, Romero-Merina, & Voluntas, 2016; Clemenson & Sellers, 2013). In recent years, Garbou, Halbouni, and Obeid (2016) noted that a trend of internal fraud prevention programs, established policies and procedures, and communication about fraud awareness abounded, however, there was a lack of extensive studies to prove what fraud prevention and detection techniques were most effective. The focus of research shifted toward better understanding that leaders, management, and board members or stakeholders, in general, were responsible for financial situations of the organizations (Clemenson & Sellers, 2013). Organizations that do not have clearly written policies struggle with understanding fraud prevention and detection techniques.

Since NFPOs had problems detecting fraud, the stakeholders needed to understand the effective ways to prevent fraud. As Cressey (1953) started research on the commonality trend of fraudsters of the Fraud Triangle, the study's awareness continues today to 'reflect in recent developments in fraud theory' (Jeppesen & Leder, 2016) including cognitive behaviors. According to Udeh (2012) and Klammer et al. (2010), stakeholders found it difficult to detect fraud and did not know what fraud detection techniques were effective and helpful for NFP organizational stakeholders. Through understanding the aspects that make up fraud, stakeholders can understand what fraud detection and prevention techniques are most effective in detecting fraud and learn how to prevent fraud. Best et al. (2015) looked at the relationships between the existence of fraud detection and prevention techniques and actual detection of fraud. This study narrowed the gap on understanding the significance of fraud prevention and detection techniques to prevent fraud and may help to decrease fraud occurrences.

## **Implications for Biblical Integration**

Humans were called to be stewards for God's creation. Van Duzer's (2010) concept of 'consequences of broken God-human relations for businesses' explained that work needed to be God centered. Humans should plan their future around God's center. The humans focus was on human centered activity rather than Godly activity. This lack of focus and disobedience led to the sinful nature of mankind. In accounting fraud, the fraudster had a self-centered focus rather than a Godly focus. The Bible clearly states that a person should not defraud. Fraud is a sin and not acceptable in the eye of God. "You shall not have in your bag differing weights, a large and a small. You shall have a full and just weight; you shall a full and just measure, that your days may be prolonged..." Deuteronomy 25: 13 -16 ESV. "A false balance is an abomination to the Lord, but a just weight is His delight" Proverbs 11:1 ESV. "Differing weights and differing measures, both of them are abominable to the Lord" Proverbs 20:10 ESV. "Is there yet a man in the wicked house, along with treasures of wickedness and a short measure that is cursed? Can I justify wicked scales and a bag of deceptive weights?" Micah 6: 10-11 ESV. Clearly the Bible gives direct proof that fraud is not acceptable. Altering financial reports would not be acceptable, all measurements must be accurate.

The Bible is also clear that it is not acceptable to steal. "You are cursed with a curse, for you are robbing Me, the whole nation of you. Bring the whole tithe into the storehouse, so that there may be food in My house..." Malachi 3:9-10 ESV. "You are not to steal or lie or deal falsely with your neighbor" Leviticus 19:11 ESV. "You are not to oppress your neighbor or rob him. "The wages of a hired laborer are not to remain in your possession until morning"" Leviticus 19:13 ESV. "Instead, you yourselves practice doing wrong and cheating others, and brothers at that"! I Corinthians 6:8 ESV. "You are not to steal" Exodus 20:15 ESV. "You are

not to steal” Deuteronomy 5:19 ESV. “He who withholds grain, the people will curse him, but blessing will be on the head of him who sells it” Proverbs 11:26 ESV. “The thief must no longer steal but must work hard and do what is good with his own hands, so that he might earn something to give to the needy” Ephesians 4:28 ESV.

You are not to act unjustly in deciding a case or when measuring weight and quantity.

You are to maintain just balances and reliable standards for weights, dry volumes, and liquid volumes. I am the LORD your God, who brought you out of the land of Egypt.

Leviticus 19:35-36 ESV

When a person lies and steals from others, they sin against God. The Bible clearly says that humans should not steal, lie, or deceive one another. When a person intentionally commits fraud, that person sinned and stakeholders should know how to identify fraud to protect the investors and organization from harm.

Borba and Wuerges (2014) described that accounting fraud has three variables: pressure, opportunity, and rationalization, which are known as the fraud triangle. The manager feels a pressure to perform with high revenues/sales. The manager has the opportunity to surpass internal controls and change data to make the financial statements look better than they actually are. The manager has an internal rationalization that they are committing fraud for the success of the company and avoid layoffs. The manager attempts to control the situation for personal gain rather than following God’s will and showing accurate accounting of the financial reports. God expects humans to be honest. “Give to everyone what you owe them: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor” Romans 13:7 NIV. “For the love of money is a root of all kinds of evils. It is through this craving that some have wandered away from the faith and pierced themselves with many pangs” Timothy 6:10 ESV.

“They take bribes among you to shed blood. You've taken usury and exacted interest. You've gained control over your neighbor through extortion. And you've forgotten me," declares the Lord GOD” Ezekiel 22:12 ESV. “So, whoever knows the right thing to do and fails to do it, for him it is sin” James 4:17 ESV. Humans are instructed to do the right thing and honestly conduct business and accounting should reflect correct liabilities on financial reports. Humans should learn to follow God’s will. Humans should follow God’s will in their future decisions rather than disobeying God.

When someone commits fraud, they hinder the progress of something else. If they fraud investors, the investors could lose money they invested and those investors could invest in some other organization that could give them a return on investment. If they fraud the organization for personal gain, the organization suffers and the organization might not be able to continue their mission of helping others. If they commit fraud in general, the organization’s image is hurt and the organization might lose future donors and not fulfill their mission. The Bible is very clear not to lie. “If a man vows a vow to the Lord, or swears an oath to bind himself by a pledge, he shall not break his word. He shall do according to all that proceeds out of his mouth” Numbers 30:2 ESV. “You know the commandments: ‘Never murder.’ ‘Never commit adultery.’ ‘Never steal.’ ‘Never give false testimony.’ ‘Never cheat.’ ‘Honor your father and mother.’” Mark 10:19 ESV.

Van Duzer (2010) unraveled that humans should learn to work together to help communities flourish and grow. The organizations should provide creative and meaningful work that brings value to the community. God had a purpose for humans from the beginning and doing God’s business was to glorify God. Van Duzer (2010) said “Already we have seen that this work is to be meaningful, engage our creativity, reflect our diversity, and grow out of and

give back to the community” (p. 38). If the organization has fraud allegations, the organization will suffer and could end up not giving back to the community. As Van Duzer (2010) rationalized, work should focus on advancing God’s kingdom. Humans should do good work bringing glory to God, “For we are his workmanship, created in Christ Jesus for good works, which God prepared beforehand, that we should walk in them” Ephesians 2:10 ESV. God wants humans to work and do good. Committing fraud can directly hinder God’s will to do good work since the mission of most NFPOs is to help others with charity work. Fraud hinders the mission. “The integrity of the upright guides them, but the unfaithful are destroyed by their duplicity” Proverbs 11:3 NIV.

Van Duzer (2010) revealed it is difficult for Christians in the business world. The majority of the world does not have ethical standards as Christians. Enderle (2015) reported that different parts of the world perceive ethics differently and Christian may not share the same standards as non-Christians. Ethics laws help regulate some of the wrongs in the world; however, many countries still have unethical practices that go against Christian law. There is a struggle in the Bible about sinful nature: “For I know that good itself does not dwell in me, that is, in my sinful nature. For I have the desire to do what is good, but I cannot carry it out. For I do not do the good I want to do, but the evil I do not want to do – this I keep on doing” Romans 7:18,19 NIV. Krogerus and Tschäppeler (2012) continued to explain that people will do things even though they know it is immoral and wrong, even though they know the decision will lead to bad consequence based on the decision. The term cognitive dissonance describes a state of mind where actions are not consistent with beliefs/thoughts. This model explained that people will justify their wrong actions rather than ask for forgiveness (self-justification). The person will do this to feel as if they have a clear conscious of doing what they know is wrong (free from self-

doubt). The person will ignore the view (the correct view) which is the opposite of their behavior. When a person commits fraud, they rationalize the act, as the fraud triangle explains.

In the past, humans fell into sinful natures and did not work together as a whole and evil (unethical) events happened throughout the Bible.

As surely as I live, declares the Sovereign LORD, because my flock lacks a shepherd and so has been plundered and has become food for all the wild animals, and because my shepherds did not search for my flock but cared for themselves rather than for my flock, therefore, you shepherds, hear the word of the LORD: This is what the Sovereign LORD says: I am against the shepherds and will hold them accountable for my flock. Ezekiel 34:8-10 NIV

The shepherds were eating the food and not taking care of God's people. God took charge of this unethical behavior and held the shepherds accountable for their actions. When someone commits fraud, they are cheating and not being truthful about financial reports or accounting. God holds humans accountable for fraud behavior.

### **Relationship to Field of Study**

In the field of accounting, auditors have continually discovered fraud. Andon et al. (2015) analyzed that fraud occurred in accounting, management, finance, and various areas of organizations and that although, fraud had gained attention of practitioners, fraud still continued to be an issue in the field (ACFE, 2014). Accounting professionals know the fraud triangle components of a perceived opportunity, desire/motivation, and justification/rationalization to commit fraud; perpetrators still committed fraud (Gupta & Gupta, 2015; Mui & Mailley, 2015). The American Institute of Certified Accountants (AICPA) set AU §316.06 under 'description and characteristics of fraud' explained the accounting audit practice of SAS No. 99 is the

generally accepted accounting standards as fraud usually occurs when the opportunity, rationalization, and attitude/character to commit fraud, which gave the framework for the Fraud Triangle to accounting professionals to investigate fraud through auditing (AICPA, 2007, p. 1729).

### **A Review of the Professional and Academic Literature**

The intentional act of distorting financial transactions is fraud (Copcinschi, Laceanu, Luschi, & Munteanu, 2016). Hollow (2014) rationalized that individuals that committed fraud had a motive to commit fraud. An individual may feel pressure to meet deadlines and commit fraud to make the numbers look better than they are. An individual may have a personal reason to steal like living beyond his or her means and stealing money to pay his or her personal bills. Fraud leads to loss of a company's money, tarnish organizational reputation, and stakeholders suffer (e.g., recipients of the services could have delays in needed services and workers may lose their jobs because of the fraud; Hollow, 2014; Bradley, 2015). In the early 2000s, organizational fraud such as the fraud committed by Tyco leaders brought more awareness of fraud in the field of accounting due to the extent that the leaders used company funds to purchase luxurious personal items with the company money (Alex & Carrigan, 2015). Coman, Coman, and Horga (2014) explained that fraud jeopardizes the reputation of the organization. Fraud can affect the operations and existence of the organization. The clients, partners, and all stakeholders feel a sense of loss of confidence. Fraud is a consequence of altering data or documents or mishandling documents, often forging to misrepresent a truth. If the correct conditions are in place, for profit and NFPOs may have issues of fraud.

Giovino (2014) described that NFPOs were more vulnerable because they were more trusting and individuals targeted NFPOs because they believe they can get away with fraud.



Nikolova (2014) disclosed the NFPOs often are funded by tax payers through governmentally funded programs to serve a need of the community. If the organization is funded mainly through taxpayer's money, the taxpayer's money is swindled and this affects everyone. The reason NFPOs exists is to serve the public and provide a need. The service is to help the community grow and give resources to help society be successful and flourish. Nikolova (2014) also expounded that it is important to identify fraud detection techniques to prevent fraud, especially in NFPOs. Internal stakeholders should understand the fraud detection techniques to be able to identify fraud and prevent fraud from occurring in NFPOs. This literature review was divided into eight sections: fraud triangle theory, behavior culturally influenced fraud theory, fraud detection and prevention techniques, occupational and non-occupational fraud, stakeholder's role in fraud detection and prevention, fraud issues in practice, NFPO's issues with detecting and preventing fraud, and fraud hinders the NFPO's mission.

### **Fraud Triangle Theory**

The fraud triangle was discovered when Cressey interviewed prison inmates on the violation of financial trust who were convicted of embezzlement (Cressey, 1953). Cressey (1953) discovered collective motives that the violators had perceived opportunity, rationalization, and perceived pressure (non-shareable problem). The individuals that committed fraud had positions of financial trust where they had the opportunity to commit fraud. The individuals had adjusted their internal conceptions of users of the property as they wanted a rationalization of the fraud. Some that committed fraud believed they were honest and the act did not compromise their ethics. Cressey and other contributors coined the phrase: 'Fraud Triangle' to describe the findings in Cressey's interviews in 1953 (Cressey & Sutherland, 1970). Dellaportas (2013) interviewed offenders and found the inmates had financial and non-financial

pressures to commit fraud. The financial pressure was due to failing investments and one offender committed fraud to help his brother who was struggling financially. The other offenders were struggling with pressures of performance goals. The non-financial pressures were disgruntled employees, perceived victimization, and the remaining reason was due to gambling issues. The offenders that were gambling believed they would win the money back and were not too worried about consequences when it was happening. Dellaportas (2013) continued to report that the offenders also explained they had the opportunity such as learning the systems and processes to manipulate controls to avoid detection. The organizations had weaknesses in their internal controls. The audit procedures were not adequately administered. The offenders rationalized their behaviors and did not believe they had criminal intent. They claimed they made poor decisions. They had denial of responsibility, injury, and victimization. They believed they were corrupt due to circumstances. The fraud triangle was further affirmed by this study. Parsons, Pryor, and Roberts (2017) observed that NFP organizational leaders feel pressured to report efficiency ratios and pressured to make sure the numbers show good use of their resources. This could result in the pressures to commit fraud explained in the fraud triangle theory that cause individuals to fraudulently report the numbers for a favorable outcome. The individual/manager would have had the sophistication (rationalization) to manipulate the ratios and the individual/manager have had the opportunity through a dysfunctional accounting system to inaccurately reporting of fundraising income and inflow of funds.

Other researchers studied the fraud triangle. Fraud theories of the fraud triangle and behavior helped to explain the underlying reasoning for individuals to commit fraud in organizations such as NFPOs. Andon et al. (2015) described that individuals engaged in fraudulent behavior because of a relentless financial pressure or hardship. Hollow (2014) also

statistically analyzed the factors associated with the fraud triangle and found that over twenty percent of fraud occurrence happened because of pressures. The individuals had various types of pressure: non-financial personal pressures, financial personal pressures, work-related pressures, and external financial pressures. The majority of fraud occurrences were because of financial pressures. The different hierarchy of employees showed differences; however, all showed pressures as a main reason to commit fraud. According to Hollow's (2014) study, the lower level employees had lower pay and committed fraud to pay off debts or support a habit/vice. The mid-level management was motivated for financial gain. Senior level management was financially motivated to commit fraud for extravagant spending or on vices/gambling. Andon et al. (2015) continued to explain that an individual legitimized the behavior to meet his or her financial goals. The individual had circumstances that influenced his or her behavior. There were opportunity seekers who sought positions that they took advantage of the organization for their personal gain or theft. Individuals with criminal histories were likely to engage in more criminal acts when given the opportunity. In Andon et al.'s (2015) study, the researchers disclosed that the State of Accounting Standards (SAS) No. 99 explained general concepts such as an individual's attitude gave insights to fraud risks. Based on Andon et al.'s (2015) study, descriptive statistics showed that on average fraud went undetected for an average of thirty-two months. Smaller organizations had more cases of fraud; close to 75 percent of 192 accounting fraud cases studied in Australia were fraud cases in small organizations. The smaller organizations had fewer resources for controls and less separation of duties. All of which led to the fraud occurrences and reaffirmation of the fraud triangle. Sandhu (2016) unfolded that interviewed fraud offenders discussed many aspects of their fraudulent behavior. The offenders had strong ambitions and drive to be successful and rich. The offenders held grudges with

successful individuals. According to this study, the offenders also were not extroverts and did not go to social events or parties. The offenders were dissatisfied with their jobs and believed that they were underpaid and deserved a promotion. The offenders justified their behavior and they had family or financial problems and had a pressure to commit fraud. The fraud triangle was affirmed with this study. The offenders had the opportunity, the rationalization that they were justified, and motivation because of financial needs. Cox, Kim, and Roden (2016) analyzed 103 firms to study the fraud triangle concept. They discovered fraud was more likely to happen when the chief executive officer was also the chairperson, influx of insiders on the board, lack of diversity, and long tenure. The stock options increased the occurrences of fraud as an incentive to get a higher return on investing. When the chief executive director was also the chairperson, this gave that person the opportunity to influence the board to lower the internal controls to where they could commit fraud. When the internal chief executive director has this power, the oversight of the board was compromised. Cox et al. (2016) continued to explain that the board should be independent of all internal workers. This compromised oversight was compounded when the chief executive officer had a number of years of tenure. The board was more likely to trust the individual who has been there for an extended period of time. The pressure to commit fraud was compounded when stock option compensations was offered, they wanted a positive return on investment. The rationalization was increased when there was a lack of independence, the fraudster was confident that he or she was not going to be caught. Steinmeier (2016) determined when a manager felt pressured to show sustainability to continue a program, that manager was more prone to commit fraud if the right circumstances were in place (the fraud triangle). The sustainability management has a lot of pressure to manipulate the data to meet the organizational goals. If there is a lack of proper control environment, the sustainability manager

will have the opportunity to commit fraud. The manager will rationalize that committing fraud will not only meet required goals, but also will help the organization show profitability. The fraud was driven by performance. The managers had a pressure to have a reputation to succeed in sustaining the programs. The managers wanted to secure their jobs and advance their careers. In some cases, the manager will have had bonuses based off their performance. This increased their incentive and pressure to commit fraud. In these situations, there were opportunities to commit fraud. The reporting systems were not reliable and could be modified. The oversight stakeholders lacked expertise to verify accuracy.

Carver, Gisting, and Klein (2015) reported that NFPOs used the knowledge of the fraud triangle to deter and prevent fraud. When the NFP organizational leaders were aware of the fraud triangle, they developed procedures to prevent and deter fraud. The leaders made sure that cash collections were reconciled against the number of items/programs sold (such as a fundraising event). The leaders must review and challenge discrepancies. The second part to the fraud triangle was motivation. The leaders must make sure the workers do not have any motives for stealing (e.g., if the worker was convicted of a drug felony, that worker should not handle money). The third part of the fraud triangle was rationalization. The workers must never feel like they could take money and then return it later. This should be means for dismissal. Workers could never feel entitled to take items because they could not afford it, the leaders should pay the workers what they are worth or find workers who are not in financial need to where they would not steal. The idea was to understand what would cause the situation of a fraud triangle and eliminate or reduce the likelihood of that situation in the organization. Also, Houdek (2017) elucidated the fraud triangle was a tool to help decrease dishonest behavior. If organizations had poor organization of the groups or fail to set standards of behavior or failed to enforce the

standards, there would be opportunity to commit fraud. The second part of the fraud triangle of motivation should have been reduced. If employees are motivated by property, status, or advantages, the assets should be attainable (pay employees what they are worth). If managers were pressured to reach high performance or high financial indicators, they are more likely to do unethical means attain the goals. The managers should not be paid or given a pay raise based on goals too hard to obtain. The key was to reduce the motivations. The third part of the fraud triangle of rationalization was where someone feels as if they are moral even if they commit immoral behavior. They recommended rewarding moral behaviors.

### **Behavior Culturally Influenced Fraud Theory**

A few researchers expanded upon the fraud triangle to add other elements of fraud behavior in addition to the fraud triangle. The other theories are linked behaviors and culture to the fraud. Levi and Schuchter (2016) expanded upon the fraud triangle to include an inner voice that becomes silent over time to where the individual does not have inhabitation to commit fraud. The inner voice was influenced by the corporate culture of the organizations. The fraud triangle was still prevalent in the fraudster's situations. The opportunity was there to commit fraud, pressures/incentives to commit fraud, and rationalizations that it was okay to commit fraud. The extension of the fraud triangle was the capability to commit fraud. The fraudster has had the know-how to commit fraud and other traits of a cognitive ability such as not having the fear of being discovered and confidence/ego or even coercion to convince others to conceal crimes. The fraudster will have had effective lying skills and be manipulative. The individual has had the nerve to defraud and neutralize his or her moral sensibility and violate trust. The individual with the behavioral tendencies to commit fraud would surpass the normal behavior of high ethics of care possessed by those who did not commit fraud. Levi and Schuchter (2015) studied that fraud

opportunity was the binding component of all fraud cases. The interviews with offenders showed that the offenders perceived a pressure to commit the fraud and the offenders had an inner voice phenomenon of no behavioral inhibition to commit fraud rather than just an internal rationalization (as the Fraud Triangle explains) to commit fraud. The inner voice that inhibits the fraudulent behavior becomes quieter over time and he or she commits fraud. The longer he or she was not caught; the individual had less of a guilty conscious. The environment or organizational culture influenced fraud. Mackevicius and Giriunas (2013) unraveled that the fraud triangle ignored the fraudster's capability and skills. The three elements of opportunity, motive, and realization created the favorable condition for fraud to occur. The employee has had an internal motive or pressure to commit fraud. The individual may not have had the inclination to commit the fraud. The individual may have had pressure to meet organizational goals, pay for his or her lifestyle, or external pressure. This could be expanded to add greed and debt to go against the system (anarchy), and dissatisfaction with their wages. Another term for opportunity was possibility. The fraudster also had the capability to commit fraud (an internal behavioral aspect) and possessed the skills to commit fraud. The organization opened the possibilities of low internal control, complex transactions, poor job division, or lack of audit for the fraudster to use their skills to commit fraud. Burns and Roberts (2013) observed that behaviors influence attitudes and norms. If a person was pressured from social forces the individual would be influenced to act upon the pressure. Free and Murphy (2016) touched upon the fraud triangle. However, they expanded the concept and included that a climate influenced fraud. The perpetrator had a rationalization that he or she acted in a socially motive manner rather than just an internal rationalization. The fraud triangle aspect of rationalization was the third angle on fraud triangle and rationalization comes after incentives/pressure and opportunity to commit

fraud. If an individual rationalizes an action based off of cultural norms, the internal rationalization was not the same as an ethically sensitive culture compared to a corrupt culture. If the triangle was present in an organization, the fraud risk assessment was higher. Then, certain people were driven to commit fraud to keep a good reputation. Certain people committed fraud because the social atmosphere was in hostile work environments and the unethical practices seemed normal. Behavioral reasoning behind fraud helped this researcher understand the mind-set of fraudsters in NFPOs.

Domino, Wingreen, and Blanton (2015) explained the organization's ethical climate affected behavior and increased fraud risks. When narcissism behavior exists, the fraud risk rose. The combination of low integrity and narcissism created an environment of high risk for fraudulent behavior. In contrast, the higher integrity showed the more ethical climate in the organization. Social cognitive theory is an organization's ethical climate and organizational attitudes. The idea was if an organization has a highly ethical climate the employees would be more satisfied and there would be less incidences of accounting fraud. The behavior of individuals was modified to a group-think type of ethical thought process when the organization sets the tone for ethical practices. The organization retained quality management and morale was higher. The opposite was also called a social climate of corruption. If the social climate was highly unethical, the behavior to commit fraud was higher. Eaton and Korach (2016) analyzed that understanding behavioral aspects helped to prevent fraud. Specifically, the behavioral aspects of personality characteristics, psychology, and sociology showed the aspects involve in occupational fraud. The idea was to understand the motivation behind fraud to prevent fraud from occurring. A criminal profile could be established to build a way to be aware of the criminological and behavior aspects of the actions of the fraudster. The culture of the



offender could also contribute to the unethical practices. Certain characteristics could be identified from this study. One trait was gaining authority. The fraudster would use their power for personal gain. Although not all leaders in authority commit fraud, some have had integrity and did not participate in the unethical acts. If leaders are elected from the same family and over time would build a culture or tradition which could be founded on unethical practices and over time, the corruption would just compound. The offenders showed high levels of cultural hedonism. In the United States, individuals have had a need to have accumulated wealth and indulge in lavish lifestyles. The offender felt pressured to meet the cultural standards and commit fraud to meet his or her cultural expectations. Eaton and Korach (2016) continued to explain over 44 percent of offenders were living beyond their means when they committed fraud. Another type of leadership that could be a sign of trouble was a charismatic leader. The charismatic leader would display a huge dynamic of energy and seem to be very confident. An individual could have tendencies to be great and lead to success or have an underlying evil tendency to coerce others to follow his or her unethical practices. The offenders displayed similar characteristics with narcissism feeling entitled, not empathetic, need for admiration, and illusions of grandeur. The offender would also display low self-control. The offenders were motivated, pressured, had vulnerable targets, and lacked the inner capacity to prevent the fraud. This research study examined fraud detection and prevention techniques in NFPOs in South Carolina.

Lokanan (2015) expounded that the fraud triangle existed with additional variants. The fraud triangle consisted of incentive/pressure to commit fraud, opportunity, and a rationalization to commit fraud. In some studies such as Lokanan (2015), the fraud triangle was not the only concept/theory that explains the thought process of fraud. Some fraudsters have better

organizational skills and are more predatory rather than just certain circumstances as the fraud triangle suggests (e.g., the person committing fraud intentionally commits fraud without incentives or pressure). Previous studies explained the perceived pressure was a non-shareable financial need. This description was scrutinized and was not the same for all individuals who commit fraud. Not all fraud was financial fraud and it could be shareable. Sometimes collusive behavior and superior orders would not explain the idea of non-shareable behavior rather it would be a factor of circumstance. Some fraudsters would not have a rationalization to commit fraud, they just did it. Sociologically, the individual may have had organizational circumstances that affected their decisions to commit fraud. Social interactions could also influence fraudulent behavior. Mihret (2014) found that national cultural aspects could increase fraud risks. In the study of 66 countries, the author found cultural dimensions affected fraud occurrences and corruption varied between cultures. Certain national cultures distinctively contributed to the orientation of acceptable or unacceptable ethical practices in context to their area. The culture context of fraud could help individuals understand fraud risks further. When the organization was in a culturally corrupt location, the fraud was more internally rationalized in the individual to where he or she believed that his or her fraudulent activity was justified. This also showed that fraud schemes were more likely in social contexts where corruption was higher in the culture. The individuals felt more of coercive power and this power influenced behaviors. Some cultures were so strong that over a long period of time that the individuals did not deviate from their norm, which could be a corrupt culture. The individuals in the grounded cultures were more apt to give into pressures and incentives. Jeppesen and Leder (2016) analyzed that some individuals had a precursor behavior of a corporate psychopath. The corporate psychopath was very coercive and manipulate, usually promoting to the top of the organization. The psychopath

would have a lack of guilt, consciousness, no remorse for harming others, and no empathy. The person with psychopathic tendencies craved money, power, or status. The psychopath would not take responsibility for his or her actions. The individual would make short-term decisions to make things seem successful. These researchers found that the Big Four accounting firms affirmed that the corporate psychopath did not take responsibility for his or her actions, deceitfulness, and lack of conscience. Kim, Kim, and Kim (2017) reported when there was a socially responsible oriented organization that culture was highly ethical, there were not a lot of internal weaknesses with financial reporting. Conversely, if the organization did not have a socially responsible orientation, the organization was more likely to have internal control weaknesses and they were highly likely to have fraudulent financial statements. The employee turnover rate was higher with highly unethical management. The fraudsters had the social function of thought process to commit fraud. The social attitudes set the behaviors for the organization. Boyle, DeZoort, and Hermanson (2015) studied 95 auditors from the Big 4 public accounting firms and studied the fraud triangle and additional component of capability. Sometimes an executive director would have narcissistic tendencies and a capability to commit fraud in addition to pressure, incentive, and opportunity to commit fraud. The fraudster would have the capability to hide stress, persuasive ability to convince people the accounting records are correct, and the person was very skilled in accounting and audit. The managers were pressured to be profitable, compete with other organizations, meet performance goals, and meet customer demands (among other pressures to succeed). The managers had opportunities when the organization had weak internal controls, weak board and weak committees, turnover of other management, and other weakened organizational situations. The manager would feel he or she needs to achieve forecast goals, argue with audit, and rationalizing wrongdoing. The other

characteristic of fraud was capability which adds to the fraud triangle and was known as the fraud diamond model and included individuals in the right position or function to commit fraud. The individual had the confidence to avoid detection. The individual had the ability to coerce others to commit or conceal the fraud. The individual would effectively lie and convince others their reports were accurate. Behaviors of fraudsters were important to understand because the characteristics helped understand the underlying reasons and helped with fraud detection techniques to detect fraud in NFPOs

Spratt (2013) observed the occurrences of occupational fraud had elements of the fraud triangle. According to this study, stakeholders were found to be the most effective way to preventing fraud. The boards, partners, and internal stakeholders could help establish effective internal controls that prevent fraud. The independent oversight committee (board) would make sure the organization was using effective internal controls and identifying risks. The top management needed to have high integrity and good ethical standards. The organizations should have hired competent employees and had accurate accounting. The idea was to reduce opportunities for fraud. The workers should have had segregated accounting functions. Revenue functions should have been separated such as billing and accounts receivables. Disbursement functions should have been segregated such as approving purchase orders and accounts payable. Downsizing and growth would have increased opportunity risks. If they downsize, the workers could have had less segregation of duties. If they grow, they needed to verify they had competent employees to perform the duties. Spratt (2013) continued to explain if an employee had to meet unrealistic performance goals or bonus targets, the employee would have had incentives to commit fraud. If the employee had addictions or financial difficulties, the employee was more prone to commit fraud. When the employees felt as if they were treated

unfairly, they could rationalize the fraud was justified. Those unjust practices could have been a lack of equal opportunity hiring practice, uncompetitive wages, or unjust treatment of employees in general. The culture and atmosphere of the organizations led to ethical or unethical outcomes. Borry (2017) explained that NFPOs were significantly influenced by culture and climate to bend the rules. The social aspects of a culture influenced the organizational culture to follow the norm. Culture was one factor that influenced a person bending the rules. Another factor discussed in this research was that an individual's behavior influences the bending of the rules (Borry, 2017).

### **Fraud Detection and Prevention Techniques**

Fraud detection and prevention techniques were used to detect or prevent fraud. Morales, Gendron, and Guénin-Paracini (2014) revealed it was understood that organizations were accountable for deterring the risk of fraud, or they would be negligent. Organizations that had effective control structures were less likely to have occurrences of fraud. Verick (2013) explained that fraud prevention was not easy for stakeholders to identify. Fraud caused NFPOs to lose donors because of the tarnished image and hurt the organization's competitive advantage. The internal financial managers should have had procedures, guidelines, and templates to follow so they could have had accurately kept the books and reported correctly to state and federal agencies. Stakeholders should have been able to verify the financial managers were correctly doing their job to detect or prevent fraud. The fraud detection and prevention techniques should have been transparent so stakeholders could have a working knowledge of the techniques of prevention or detection so the company could detect fraud more quickly or prevent fraud from occurring.

## **Ethics Training**

First, ethics training is a type of fraud prevention that brings awareness to ethical issues and explains what fraud is in organizations. Godkin and Valentine (2016) found that ethics training was good fraud prevention and brought awareness to stakeholders. With a 181 individuals studied, the researchers studied ethics training and socially responsible business practices and found the workers who had the training learned how to recognize unethical behavior and improved their decision-making. Training helped each worker improve his or her own reasoning. The workers learned organizational expectations, laws, and regulations. The workers learned proper ethical social standards. Workers learned how to find resources and build support systems to where the employees could gather ethical and legal advice. Employees felt empowered to seek more information on ethics and discuss situations they question. The workers would reach out to gain legal advice and question risks when they had a working knowledge of fraud. The training empowered the workers to make ethical decisions. Also, the training showed that after the training, workers had a more socially responsible outlook. Statistically proven, the workers had a more positive work attitude and their job satisfaction was higher. The workers wanted to continue to work a long-time for the organization. Turnover was reduced. Continuing with training, Kelly, Graycar, and Wal's (2015) qualitative study of 36 organizations in Australia observed that anti-corruption (ethics) training helped decrease fraud risks. They found fewer incidences of corruption when the workers had training. However, the training program was limited to codes of conduct and not specifically related to corruption. Initially, the workers were trained when they went through induction. Also, some organizations had online learning programs to help the workers understand the codes of conduct. The executives had more workshops on ethics and values, which set the tone at the top to have ethical

behavior and display ethical practices. They provided limited training on policies and procedures with employees. One third of the 36 organizations studied did not provide any educational training on ethics nor anti-corruption. Some of the organizations were less concerned about integrity and more concerned about internal processes (basic work like procedures/steps, not internal controls). Training brings awareness. This research analyzed if NFPOs in South Carolina were using ethics training as a part of their fraud prevention and detection techniques to prevent fraud.

Training also reaffirmed or helped set the tone for ethical practice. Gyoo Kang, Edum-Fotwe, Price, and Thorpe's (2014) qualitative study on construction engineers in connection with PhDs specializing in ethics studies had customized ethics trainings and found those organizations were more effective and efficient with the organizational objectives. The trainings helped the participants with interpersonal relationships and built higher ethical traits. This study validated the use of ethics training. Ethical training helped the organization reflect on ethical concepts to bring a higher level of awareness. In a study in Nigeria of 91 researchers, Okonta and Rossouw (2014) discovered that regular ethical training helped decrease misconduct in organizations. If an organizational culture was allowing and condoning a particular misconduct, the rest of the workers would believe that that conduct was okay. However, through training and educating workers on moral and ethically acceptable business behaviors, the workers would be less likely to engage in misconduct. Educating and training were important to understand the misbehaviors and to explain 'what is misconduct' (some of the individuals did not know certain behaviors were considered misconduct). Lowery, Duesing, and Beadles (2014) explained that spiritual people were more ethically natured not to commit unethical acts. The employers provide training in ethics to help change the perceptions to more acceptable behaviors in the

organization. Hope (2016) reported that anti-corruption training helped strengthen knowledge, values, codes of conduct, and skills. The goal of such training was positive for ethics and integrity, which influenced behaviors. The training exposed and informed participants of bad or illegal behaviors. The training helped improve ethical decision-making and reduced corruption. Although this research was focused on curbing police corruption, the basic foundation was to build a moral compass and reaffirm human sense of right and wrong behaviors. With ethics, individuals could build good virtues of justice, truth, responsibility, and respect, all of which were needed to prevent the corruption or negative behaviors. Lail, Macgregor, Marcum, and Stuebs (2017) reported motives and maintaining the social status (the individual's identity) was the root cause of fraud. Their analysis showed that education of professionalism and virtues would be vital to preventing fraud for accounting professionals. Hamilton and Slatten (2013) explained that NFP organizational members benefited from understanding ethical issues through training. The training taught the members how to make ethical judgments under pressure.

### **Fraud Risk Registers**

A fraud risk register was another fraud prevention technique. The register could be elaborate or simply a list of red flags that the committees put in place that was used as a checklist of what to be aware of in preventing or detecting fraud. Brudney and Nezhina (2012) reported that NFPOs also benefited from the Sarbanes-Oxley (SOX) Act of 2002 such as U.S. Code amendments to Section 42 121(b) of Title 40 of the U.S. Code and U.S. Code Chapter 3, Title 18. It was originally intended for for-profit organizations. However, the SOX act could benefit NFPOs. The NFPOs would have better financial controls and aid in reducing the risk of fraud. Some of the relevant SOX provisions were having a whistle-blowing protection policy, independent board members, open access to financial and audit reports, basic financial training



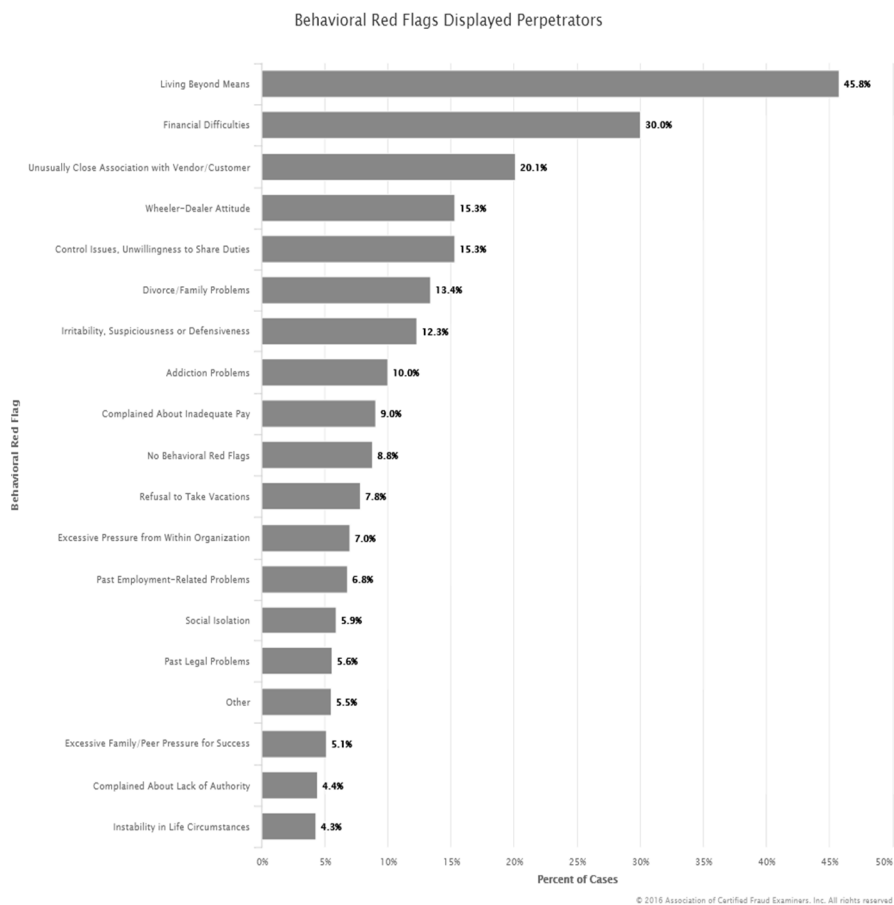
for board members and executive directors, and external audits. Brudney and Nezhina (2012) continued to explain that donors liked to know the money they donate was utilized in a proper way and not misappropriated. The review of internal controls safeguarded the money and deterred workers from committing fraud. When the board had more interest in the NFPOs finances, it gave another layer of financial protection against fraud. West (2014) reported the Chartered Institute of Public Finance and Accountancy launched a study of Global Fraud Risk Register for the general public. There was a need to identify and react to fraud threats. New forms of fraud happened and there was an ongoing need to establish fraud risk registers. Thomopoulos (2013) elucidated it was important to have tools to identify fraud risks. Employee's awareness of the fraud risk was important to helping identifying fraud. The employees had a stake in the organization and the employees have a vested interest to prevent fraud. However, employees may also have had alternative interests (to commit fraud) in working/volunteering for an organization. The organization should be aware of external business interests of their employees to identify potential fraud risks. Organizations should have codes of conduct that explain how gifts and sponsorships are given to employees. Carpenter et al. (2014) studied 92 prisoners on risk behaviors. The prisoners had several similarities such as numerous marriages, living in certain neighborhoods, academic aptitude, and personal assets to liabilities mismatched, and had less than a five-year employment history. The employees' environment affected the likelihood of committing fraud. Then, if the organization did not have strong internal controls, the fraudster would have had more of an opportunity to commit fraud. The prisoners rationalized their actions and a fraud risk register would have benefited the organizations because of the perpetrator's thought process.

## **Red Flags**

Efrim-Boritz and Timoshenko (2014) defined that red flags were checklists. The red flags gave clues to potential fraudulent behavior. Holtzlatt, Needles, and Tschakert (2016) reported that red flags were fraud warning signs that displayed higher risk when the correct situations were in place. The risk was often unique to the organization and the organization could identify the risk and monitor the situations. The staff would work together to identify the risk using flowcharts, brainstorming, questionnaires, or data analysis. Certain red flags were identifiable such as an individual under a lot of financial pressure (especially a male providing for a family), increased authority in the organization, and roughly a year after tenure. Other red flags existed such as kickbacks, increasing prices, decreasing quality, favoritism in vendors, or complaints from customers. A lavish lifestyle would be a red flag. The misuse of assets was an aspect such as buying furniture using the organizational funds and delivering the furniture to a personal home rather than using the furniture at the business location. The individual would have conflicts of interest such as hiring family and bribe workers to conceal wrong-doing. Other red flags included: financial difficulties, living beyond one's means, unwilling to share duties, shrewd behavior, irritability, addictions, not taking vacations, gambling, increased smoking, and finding scapegoats when things went wrong.

Mangala and Kumari's (2015) paper examined fraud warning signs and red flags of fraudulent behavior. Significant red flags were criminal backgrounds, aggressive attitudes, unexpected profit targets, and high compensation for management. Other red flags were working in adverse regulatory environments, high competition, and continuous change in the industry. In the operation and finance, there were red flags of individuals creating complex structure, third party transactions, close relations with suppliers and customers, and an

individual's troubled finances. In the internal processes, there were red flags of poor segregation of duties, inadequate recordkeeping, poor job screening, inefficient supervision, poor physical control, and weak internal controls. Kramer (2015) unfolded that understanding red flags helped to prevent or detect fraud. The red flags were indicators of potential fraud or indicators of risky individuals upon hiring. The internal weaknesses were present and those weaknesses made fraud more of a risk. Some organizations looked at specific fraud red flags such as mailing letters without fold marks in the same area (suggesting it was not mailed), numbers out of sequence, all even dollar amounts, missing checks, voided checks, or unexplained increase in expenses. Other red flags included cues that individuals were living outside of their means, such as buying designer clothing, jewelry, new cars, or vacations. The person committing fraud had a change in behavior and was more irritable. Association of Certified Fraud Examiners (ACFE, 2016), showed the red flags were: living beyond means, financial difficulty, unusually close association with vendor/customer, wheeler-dealer attitude, controlled issues (unwillingness to share duties), divorce/family problems, irritability/suspiciousness (or defensiveness), addition problems, complained about inadequate pay, no behavioral red flags, refusal to take vacations, excessive pressure from within organization, past employment-related problems, social isolation, past legal problems, excessive family/peer pressure for success, complained about lack of authority, and instability in life circumstances (see figure 1). In 92 of the cases, the offenders exhibited at least one of the red flags in the ACFE list. Understanding and being aware of these red flags helped to detect or prevent fraud.



*Figure 1.* Behavioral red flags; displayed perpetrators.

Brazel, Jones, Thayer, and Warne (2015) surveyed 194 participants to look at fraud frequency and the number of fraud risk assessments to determine what red flags were successful in detecting or preventing fraud. It was summarized that red flags reduced losses due to fraud. Holtzlatt et al. (2016) also expounded that recognizing red flags helped reduce risks. Red flags were warning signs that fraud could occur. The most common type of fraud occurs was fraudulent financial statements. Other red flags included illegal acts, corruption, and other types of fraud. The financial statement fraud occurred when the statements were misstated or parts of the statement were omitted (not disclosed). A main reason that financial statement fraud occurred was because of performance-based compensation and stock-based performance. The

employee was paid on his or her performance. Sometimes, financial fraud occurs when the manager was trying to avoid bankruptcy so he or she continued to have a job. There were a number of ways to check for red flags. One way to check for red flags was to compare previous year's financial reports to current year's financial reports. The stakeholders also looked at the budget to compare current budget to actual budget and previous year's budget to current budget. The stakeholders looked at the assets and income to see if it was realistic. Holtzlatt et al. (2016) continued to explain that account balances were analyzed to other similar organizations and looked if the financial reports were consistent. The stakeholders monitored expense activities to see if there were unusual balances or unexpected charges. A few notable red flags were auditor changes, rapid turnover of key employees, complex business and software, declining sales and profits, insufficient liquidity, loss of market share, and problems with regulatory agencies. Employee theft was identified by missing work tools, furniture, or equipment. In addition, the shipments were delivered to non-work related sites. The journal entries were altered or deleted to conceal theft. Other red flags analyzed were expenses exceeding the budget, multiple receipts for the same vendor, expenses with no details, or travel expenses not reviewed. Further, Holtzlatt et al. (2016) explained that flags included lack of segregation of duties (internal controls may be lacking), the payroll clerk could commit fraud such as creating fake employees, overpaying employees, or not paying payroll taxes. There were large quantities of orders, a favorite vendor, or complaints from clients. A person who has full intentions of committing fraud would want to learn all about the organization's internal controls. The individual would have a lot of stress such as high mortgage or children with high tuition. The individual would have increasing authority in the organization and not be prepared for the stress and pressure of performance goals.

## **Whistle-Blowing Policy**

A fraud detection technique used was setting a no retaliation whistle-blowing policy. Policies and procedures are a way that NFPO's leaders can manage the internal controls to prevent fraud and detect fraud. Young (2013) described that whistle-blowers were fearful that they would face retaliation if they reported wrongdoing. The whistle-blowers also feared the organization would suffer negative public relations if they reported the fraud. The internal disclosure of fraud was an added policy where employees could anonymously report suspected fraud. However, Young's (2013) findings in the study of all federal agencies mandated to complete a survey through the Office of Government Ethics showed the whistle-blowing policy was inconclusive in the effectiveness of detecting fraud. Brink and Gao (2017) explained there were different characteristics of whistle-blower's intentions. The creditability of the individual reporting suspected fraud was important to the validity of the claim of fraud (e.g., the individual had a grudge against a co-worker and falsely report suspected fraud). Whistle-blowing is where an individual reports illegal, immoral, illegitimate practices in an organization. The whistle-blowing policy was created after accounting scandals in 2001 to help give employees a way to report suspected fraud to detect the incidences of fraud quicker. Morales et al. (2014) reported that one of the keys to fraud detection was to have an anonymous whistle-blower hotline allowing employees or individuals to report suspected fraud so the allegation would be investigated. Intervention of fraud was effective when using control techniques such as the whistle-blower hotline to detect fraud. Redman and Caplan (2015) revealed that organizations benefited from a whistle-blower policy because that helped to correct a wrong doing in the organization. MacGregor and Stuebs (2013) clarified that whistle-blowing was a fraud detection technique. However, stakeholders or witnesses may not recognize the fraudulent activity as such

if they were not trained to understand the behavior as wrongdoing. The internal employees are legally responsible for understanding illegal activity concepts and need to have a working knowledge of accounting concepts. Employees need to be educated on the consequences of not reporting suspected fraud and should use the whistle-blowing as a tool. Lee (2016) explained organizations that had a whistle-blower policy and conflict of interest policy had strong due diligence and were more aware of fraudulent behavior. The policies gave accountability to the stakeholders. Policies showed good governance. This research study on NFPOs looked at policies such as whistle-blowing to examine if this was effective in detecting fraud and if organizations used this technique in South Carolina.

Rothschild (2013) explained that whistle blowing means to speak freely and this concept has grown in business organizations to mean that an individual can speak freely for the defense of the organization where he or she works. The whistle-blower stands up and reports suspected fraud for the best interest of the public. The worker should go to his or her manager first unless he or she feels the management is involved. Then, the worker would report the incident to either a whistle- blowing hotline, contact the board president, or in some cases, contact the local police or investigative office (depending on the unethical act). In some cases, a whistle-blower will report fraud because of vengeance and no unethical act was committed. However, this was only evident in a few cases in Rothschild's (2013) study of 400 whistle-blowers from all regions of the US. Most of the time the worker will have a high level of integrity and not falsely report alleged unethical acts. Rothschild (2013) continued to explain that around two-thirds of the whistle-blowers had adverse work retaliation because they reported the unethical act. The retaliation included: losing their jobs, negative evaluations, criticized by coworkers, and blacklisted from jobs in their field. Over 90 percent of the whistle-blowers reported they would

still blow the whistle to reduce harm to society and ethically still do the right thing. Some organizations created a grievance policy where the individual could contact representatives of the organization. Other organizations had an external whistle-blowing hotline that an employee could report alleged wrong-doing in confidence.

### **Code of Conduct/Ethics**

Another fraud prevention technique under policies is to have a code of conduct or code of ethics policy. Giorgini et al. (2015) revealed that codes of conduct are ethical and professional guides for ethical behaviors. The code of conduct/ethics policy helps workers avoid unethical occurrences, promotes a healthy public image, and sets the tone for higher ethical standards. The individual also could refer to the guidelines when he or she has specific situations to help understand what he or she should do. The individuals were more aware of harm and results of unethical behavior as a result of having a code of conduct/ethics policy. Godkin and Valentine (2016) explained that codes of conduct/ethics policy were guides with the organization's duties, overall principles, and expectations of ethical/appropriate behaviors. The code of ethics is a formal document that gives guidance to core beliefs of the organization, norms, and values/morals. Moraga et al. (2017) reported it is common for professionals to create a code of ethics as an ethical guide to follow. In a discussion at GInSEng workshop, several software engineers and professionals discussed that codes of conduct reflected ethical culture and promoted self-regulation. However, the codes of conduct should not be used alone to gauge misconduct and prevent fraud. Bromley and Orchard (2016) determined that formal codes of conducts or codes of ethics in the policies were important for NFPOs to help prevent fraud and codes of conducts are created as an ethical guide to follow to reduce misconduct. Internal workers and volunteers should have had accountability for the activities inside the NFPOs in an



interval study of 45 NFPOs. Codes of conduct policies also helped improve transparency preventing unethical practices and the codes helped foster a cultural atmosphere of ethical practices. Andrade, Hamza, and Duarte (2017) observed that codes of ethics/conduct provided workers with a formal idea of the behaviors that were expected. The codes provided standards of how the employees should act within the community. In large corporations in Brazil and Portugal, the workers in a study were given codes to keep the organization's reputation strong and foster ethical practices. The codes of conduct/ethics policy often reflected the organization's mission and priority. Chiu, Huang, Lin, and Yen (2015) described that a code of ethics policy helps guide/govern ethical behaviors. The ethical code helped show the public the organization had due diligence to set high ethical standards to be managed ethically and to fulfill the mission of the organization. Morales et al. (2014) reported that effective fraud detection happened when organizations had ethically strong cultures of codes of conduct policies because they were aware of fraud in general. The ethically enriched culture counteracted negative influences that led to fraud such as pressure to commit fraud to meet goals. The individuals had higher integrity and limited thought process to rationalize fraudulent behaviors. The senior management was responsible for building a strong ethical culture and maintaining the ethical standards in the codes of conduct. Lee (2016) unfolded that NFPOs that have clearly written procedures have better controls. Perhaps NFPOs having clear procedures and policies will further show validity of effectiveness in preventing and detecting fraud in NFPOs located in South Carolina.

### **Internal Controls and Risk Assessments**

Internal control procedure/policy is another fraud detection and prevention technique as a part of risk assessment. Kulikova and Satdarova (2016) determined that fraud detection technique of internal controls was important to detect and prevent fraud. The internal control

components included: controlling the environment, risk assessment, procedures, communication, and monitoring. The accounting data should be reliable and accurate and presentable when reviewed. Graycar and Lenz (2016) explained that internal control procedures are important to detect fraud and organizations need to have internal audit or a committee on the board to oversee the accounting. If a manager does not follow the internal procedures and does not allow stakeholders to review the financials, then there is a high risk of fraudulent activity. Morales et al. (2014) described that given the right set of circumstances, people in general were capable of fraud. Accounting experts agreed the fraud triangle exists where the individual had the opportunity, incentive/pressure, and rationalization to commit fraud; in addition, fraud occurred when the organization had lost control of internal processes. The best way to prevent fraud was to educate workers with the skills to detect the fraud and gain control of processes. Ferreiro (2012) reported when the NFPO had a strong and accurate budget, it can monitor cash flow by YTD budget analysis. Internal controls help prevent fraud. One of the internal controls that helps prevent fraud is the segregation of duties. Internal control potentially helps prevent fraud such as corruption (accepting bribes or conflicts of interest), fraudulent billing schemes (sending money to a fake company that funnels into the personal account of the manager), skimming (keeping a cash donation), or check tampering (writing a fraudulent check to self). Cali and Marshall (2015) also found that internal controls helped prevent fraud. The organization sets up an integrated framework of objectives, components, and principles to prevent fraud. In this case study on SafeNet, Inc., not all stakeholders were aware of internal controls and how to manage the controls to detect fraud.

Blaskovic and Sijepcevic (2014) also found fraud could be prevented with good internal controls. Udeh's (2012) study showed companies had inadequate internal controls were at a

higher risk for fraud. This research also found organizations with no internal controls and multiple fraud occurrences. Adetiloye, Olokoyo, and Taiwo (2016) reported that internal controls such as separation of duties, monitoring, and analyzing profit were important in preventing fraud. Some technology helped internal managers detect fraud. Internal controls were only good if the staff followed the internal controls.

Lenghel (2013) explained that internal controls contributed to the prevention and detection of fraud. Internal controls help find errors and inaccuracies in financial accounting because this allows a dual set of eyes on the accounting and processes. Internal control is a technique that internal stakeholders use to ensure accuracy and efficiency in the fulfillment of the organization's mission. The goal of internal controls is to reduce risks and bring awareness to when there are deviations from the internal control policies and procedures. It is important to have separation of duties so the same person who writes checks is not the same person who signs the checks. Also, other separations of duties exist to double check the accounting functions. The risks should be reduced in the controlled environment. Mutnuru (2016) studied 900 employees in organizations with internal control systems and found strong internal control systems were effective. The employees with defined internal controls felt they fully understood what their work roles were and the employees were satisfied and invested in their work roles. The employees were more focused on effectively and efficiently completing their objectives. Maguire (2014) revealed when a NFPO clearly provided stakeholders proper policies and procedures explaining the internal controls, the stakeholders were more effective in fulfilling the organizational mission. Internal controls help support accountability and transparency in the organization. Strong internal controls showed ethics of care and due diligence to donors to make more informed decisions whether to donate money to the organization. Maguire (2014)

continued to expound that a research conducted by advanced auditing class at Coastal Carolina in South Carolina on NFPOs. The research showed that organizations with strong internal control have less fraud and fulfill their mission more effectively. A good internal control framework will include: control activities, risk assessment, information and communication, monitoring, and environment. The executive director should set an ethical tone at the top to encourage ethical practices in the organization. The organization leaders should also assess internal and external risks. It is important to make sure all employees are following the duties assigned to safeguard against fraud. This study examined NFPO's use of internal controls review is an effective technique to detect fraud in South Carolina.

Domanski (2016) explained that NFPOs used risk assessment to make changes to prevent fraud. A committee of programmatic workers would review the programs and events to brainstorm potential problems and action plans on how to prevent fraud and theft (i.e., fraud detection plan). Some of the identified risks from the study were having adequate supervision, volunteer assessments, defining expectations, inventorying assets, internal auditing, and stakeholder communication. Domanski's (2016) study of 235 Polish NFPOs found that half of the organizations had worked on identifying fraud risks. Risk assessments were more successful if a committee of leaders discussed the fraud risks in the organizations. The leaders ranked the importance and likelihood of risk. Identifying fraud risks improves efficiency in the organization. The NFPOs that were committed to risk management assessment and improving processes were better at detecting the probability of fraud.

The fraud detection techniques can be combined to safeguard the organization from fraud. Minogue (2013) unraveled that NFPOs should create a code of conduct, have good internal controls, risk assessment such as employee screening, whistleblower policies, audit

procedures, and creating a tone at the top with additional ethics education. The code of conduct needs to be communicated to everyone in the organization. The organization should make sure that codes of conduct are monitored for compliance and that all are committed to follow the conduct. Internal control should have clear and effective segregation of duties (e.g., the same person making the deposit should not be soliciting the funds).

### **Occupational and Non-Occupational Fraud**

There are different types of fraud. This literature review is going to touch upon occupational and non-occupational fraud. ACFE (2014) determined that occupational fraud is internal fraud. It is the misuse of the organization's assets or resources. The employee commits fraud against his or her employer. Non-occupational fraud is external fraud. To expand upon Giovino's (2014) study mentioned previously, NFPOs are particularly vulnerable to occupational fraud. The average median loss from occupational fraud is \$140,000. Occupational fraud occurs when an employee feels like he or she is compensated enough. Another reason for occupational fraud to occur is when the employee has an addiction problem and steals money to pay for the addiction problem. The employees who struggle paying bills may steal money to pay bills with the organization's money and they justify their actions by believing they will repay it later. The employees who are most likely to commit fraud will have bank signing rights on the accounts or company credit cards where theft is easily accessible. The easiest time to commit fraud is around a holiday or fundraising events where there is extra money flowing into the organization. Other organizational fraud is embezzlement. Minogue (2013) reported NFPOs were vulnerable to embezzlement schemes such as paying personal expenses with charity funds or creating fraudulent invoices with fake vendors. The fraudster will skim money or create fake tax deductions on his or her tax returns (e.g., sending a donation and then requesting a refund of that

donation). Fraudsters have been known to also write counterfeit checks to their own account or use a donor's credit card for personal purchases. Some fraudsters accept bribes from vendors to get kickbacks or expect special treatment from vendors, all for personal use. Goldstein (2015) unraveled a case study to explain occupational fraud. The human resource manager and accounting manager can falsify wages and benefits, commit larceny, and make personal purchases with company money (fraudulent billing). The smaller organizations have less internal controls which make it easier to commit fraud. In the case study, Goldstein (2015) explained that the stakeholders trusted the management to do the day-to-day operations honestly. Three types of occupational fraud are discussed: corruption, asset misappropriation, and fraudulent financial statements. The employees were not screened properly. When hiring an accounting manager, the search committee should also check his or her credit, education, employment, residence, driving record, and other licenses on the candidate. The stakeholders/search committee should have due diligence to fully research a candidate for accounting. Goldstein (2015) continued to explain the organization had no good internal control procedure for checking payroll taxes. The accountant that committed fraud had no second signer on the checking account and the bank statements and canceled checks were not reviewed. The organization was audited by a local auditing firm; however, the auditors did not discover the discrepancies. The manager who committed fraud was knowledgeable on all accounting reporting and audit and that manager was able to manipulate the books to conceal the fraud. Occupational fraud can be reduced by surveillance, recording, and monitoring accounting with checks and balances. Rendon and Rendon (2016) found that procurement fraud is where an individual alters contracts to his or her own special interests or to an organization that benefits his or her own interest. The study found the United States government had to be careful to have

proper internal controls to prevent procurement fraud. The Department of Defense (DoD) awarded over \$285 billion in 2014 for supplies and services. The DoD had to hire contract management because of the fraud, waste, and abuse/mismanagement. Sometimes the leaders fall to bribes and kickbacks. The main procurement fraud was in contracting processes and internal controls of processes to comply with regulations. The incidences ranged from abuse of power to travel reimbursement violations. The contracts are specified and certain deliveries are expected from the procurement/purchases. In one finding, an air base manager wrote a proposal for funding and received the grant. The problem was the air base was his own company and he took the money for personal gain. He was charged and pled guilty of a misdemeanor violation. He served time and was fined.

Non-occupational fraud is where a customer or vendor would cheat the company. An example of non-occupational fraud is insurance fraud. Chang, Ishida, and Taylor (2016) found that insurance fraud can include property or casualty insurance claims according to Coalition against Insurance Fraud report in 2012 in the United States and property and casualty insurance claims cost \$80 billion per year. The insurance industry claims that over ten percent of claims are fraudulent. NFPOs can have fraudulent insurance claims with the general liability insurance. Aleem, Brooks, and Button (2016) revealed there are different types of fraud. Insurance fraud is one fraud where individuals turn in insurance claims on fraudulent automobile accidents to collect cash. Individuals exaggerated claims or claimed personal injury to collect money. Sometimes these individuals will cause accidents to collect claims. Sometimes a fake accident is created to collect on claims. The individual that creates the claim will collect on damage to his or her vehicle, injuries such as whiplash, loss of earnings/work, rental cars, fees for storing the vehicle, fees for doctors, and other fees that he or she can create. The profile for these fraudsters

was typically a part of organized crime. The individual was supplementing his or her other criminal activities. NFPOs may have employees who claim fraudulent insurance claims on accidents. However, the deceitfulness of committing insurance fraud should raise fraud alerts when hiring individuals.

The explanation of the fraud triangle was theorized to show the individuals had thought out the fraud (had a pressure, opportunity, and rationalized it). For this study, the concentration was on occupational fraud (internal fraud) in NFPOs where individuals were involved in fraud. However, some non-occupational fraud may be evident if collusion of internal management and external vendors are working together to commit fraud in NFPOs in South Carolina.

### **Stakeholder's Role in Fraud Detection and Prevention**

Fraud has been an issue in practice. Bradley (2015) reported that NFPOs needed employees to take an active role in preventing and detecting fraud. The workers shape the behavior of the culture in the organization. If the workers take responsibility to look for fraud risks and have an aptitude for ethical behavior, they will foster an organization for deterring fraud and wrongdoings. Employees may be able to provide insight into making procedures more efficient. The employees can give insight to design, implement, and foster anti-fraud procedures and strategies. The employees are empowered to prevent fraud and keep their peers from wrongdoings. Bradley (2015) determined the severity of some of the fraud instances: \$5 million stolen from Association of American Medical Colleges, \$400 million stolen from a Venture nonprofit, and over \$500,000 from a charity in Ohio. The organization's stakeholders were responsible for their own watch guarding against fraud. A fraud prevention program was necessary for the organizations to safeguard their assets. Brudney and Nezhina (2012) conducted a quantitative study and a qualitative study. The quantitative study was conducted by a survey of



top executives. The survey was not what they were looking for so they conducted a stratified random sample of 2,000 public charities from the National Center for Charitable Statistics (NCCS) at the Urban Institute. They looked at the 990 or 990ez tax forms of 501(c)(3) NFPOs. The researcher wanted a qualitative study also to review the attitudes, perceptions, and behaviors of decision-makers in NFP. They selected six nonprofit organizations (varying in size). Brudney and Nezhina's (2012) research showed NFPOs had different views of the financial safeguards against fraud. Some organizations wanted more risk provisions and some did not understand the risk provisions. Over 50 percent of the NFPOs did not adopt any provision of fraud prevention and 30 percent only adopted a small amount of prevention. The researchers recommended more attention to NFP communities to adopt fraud detection techniques. Bernstein, Hamilton, and Slatten (2015) reported stakeholders should protect the reputation of NFPOs because the stakeholders are stewards of donor's contributions and fulfill the mission of the organization. Often, there are scandals and unethical practices to where the wishes of the donor are not realized.

### **Fraud Issues in Practice**

Some organizations try to conceal the fraud or commit fraud to cover up. Baca (2013) determined that over 60 percent of NFPs in Ventura, California did not report fundraising expenses. There was a lack of understanding of the reporting of fundraising expenses and the processes of accounting for the funds. The NFPOs relied on the internal stakeholders to insure public trust and accountability to fulfill the mission. Thirteen percent of NFPs had revoked status because of their failure to report taxes. The organizational leaders did not understand accounting and could not detect fraud or had misstatements on tax reports. Salceanu (2014) revealed that fraud occurs in several ways. In reference to NFPs, the management will alter the

depreciation period, alter assets (overstating) or liabilities (understating), or creating fictitious other income categories (overstating income). Managers will reduce losses or place erroneous amounts on assets valuations. They will postpone losses. Managers will change insurance values and forge prepaid insurance amounts to show a stronger balance sheet. Caneghem, Reheul, and Verbreggen (2012) studied NFPOs in Belgium and found that NFPOs lagged in reporting or disclosing bad news in their financial reports. In this study in Belgium, around one fifth of the NFPOs sampled did not file financial statements within the time span legally allotted. Capelleveen, Hillegersberg, Mueller, Poel, and Thornton (2016) determined that around \$700 billion results from fraud in the US healthcare system. Some health-care systems are NFPOs and not only commit fraud, but also do not pay taxes on their revenues because they are NFPOs. These types of fraud have collusion in which a group of individuals work together to cheat the government and individuals. Arshad, Asyiquin, Bakar, and Razali (2015) disclosed that abuse and fraud cases are on the rise especially in NFPOs. The fraudsters use NFPOs to embezzle or misuse charitable funds for personal benefit.

### **Fraud Affects Future Donations and Tarnishes the Image**

Totty (2013) reported that fraud hurts an organization even though the organization itself was not necessarily responsible for the theft. The image of the organization is tarnished with scandals regardless of intent. The organization hurts financially due to the fraud or perceived fraud. The organization would have to pay for any damages the employee caused such as refunding money and even legal fees for arbitration if sued. The employer has to train a new employee and employees for damage control and retraining. Online transactions at credit unions have fraud control policies that require encrypted data on specific devices to deter fraudulent transactions on public devices. Rochat (2016) explained that NFPOs compete with other

NFPOs. If one NFP has fraudulent activities detected, the donors will go to another NFPO to donate money. If the NFPO does not receive money from donors, they cannot fulfill their mission in many cases. The NFPO would not be able to feed hungry children, workers go without pay and their families suffer, and society suffers. Roughly one third of NFPOs would not survive funding after four months. Another third of all NFPOs could not survive funding for one to three months and five percent would not last one month without funding.

In summary, the literature showed that fraud detection and prevention was important for further study in NFP and for-profit organizations. In addition, fraud detection techniques will be explored for prevention of fraud. These techniques will help NFP stakeholders understand how to detect fraud, what techniques work, and which ones need to be applied to their organization. The hope is to prevent fraud by awareness. This researcher wants to discover that techniques are more effective in detecting fraud and decrease fraud. Ghosh (2015) reported the business world is plagued with scandals and unethical practices, corruption, and decline of moral values. Individuals should be socially responsible and care for the future generations. The stakeholders should be actively interested in their charitable cause and verify that the causes are doing the service that they say they are doing. The stakeholders should understand legal and professional standards and if the organization is being responsible with the funds. The study of NFPO's climate and leadership has been under researched. Sabine (2016) revealed that fraud is on the rise. Everyone is responsible to deter and prevent fraud.

### **NFPOs Issues with Detecting Fraud**

NFPOs have an issue detecting fraud. Bierstaker, Brody, and Pacini's (2006) study related to fraud detection and prevention. Fifty-two of the 96 accountants surveyed expected fraud to increase. They tested to see what fraud detection techniques were used most frequently.

The most frequently used fraud detection techniques were fraud procedures, internal control reviews, and improvements (assessments). The smaller organizations could not afford some of the techniques such as forensic accounts or data mining. However, a cost benefit analysis was not conducted to look at the cost versus benefit of utilizing certain fraud detection techniques. Mohd-Sanusi et al. (2015) stated there was a gap in stakeholders understanding of external fraud. NFPs studies did not know how to look for fraud red flags and how to do risk assessment on external vendors/fundraisers. The data had conflicting fraud prevention outcomes for the techniques.

Copcinschi et al. (2016) reported that management in organizations was responsible to ensure and guarantee true depiction of the financial reports (assets, liabilities, and equity). The management was responsible for proper regulations, legal provisions, and mismatches in accounting transaction were prevented and detected. Fraud occurred when the internal controls had inefficiencies. The management and internal stakeholders needed to understand when they saw misappropriations of assets, recording fraudulent activities, illegal operations, and misstatements of financial statements. Workers needed to know when values or information was misleading, acts of deceit, misapplication of accounting principles, and intentional misinterpretation of events or transactions. Workers need to know when assets were stolen, documents were manipulated, or removal of transactions. Organizational fraud includes the abuses of expense accounts, payroll fraud, fraudulent financial reporting, or theft. Madhavaram et al. (2015) found that NFPOs fill all kinds of services for the community: police, hospitals, education, churches, and other supportive organizations such as human health services. The government funds many of these organizations and individuals donate money to fulfill the missions. The mission provides value to the society in which they serve. The organizations

assume stewardship of the money and the missions. The NFPOs are competitive for donations, grants, and contracts to keep an adequate operational cash flow. When a NFPO suffers from fraud, the fraud affects the donor relations, hinders the mission and hurts the communities they serve, and the tax payer's money would have been swindled. Felix, Gaynor, Pevzner, and Williams (2017) determined that NFPOs managers have a higher level of trust with funds and accounting. When an opportunistic manager finds a way to work for a NFPO, he or she can build up a level of societal trust to where it is easy for the manager to commit fraud.

### **Impact of Limited Resources on NFPOs**

Greiling, Harris, and Stanley (2016) unraveled that NFPOs have limited resources. The NFP stakeholders are responsible to ensure the resources are used efficiently and effectively. The NFPOs also have to show accountability for the resources and show transparency. Gentenaar and Solomon's (2015) article expounded that NFPOs have limited resources and are vulnerable to accounting fraud. The workers should have good stewardship and care about unethical practices in the organization. The stakeholders/managers were responsible to make sure third parties were also conducting proper accounting functions. The employees and even board members should be properly trained in detecting fraud. They should identify suspicious behavior known as red flags. They should understand the consequences of failing to follow processes and how fraud behavior reflects on all stakeholders. NFPOs often rely on volunteers with little knowledge about accounting. Bang, Reio, and Ross (2013) reported that committed volunteers help the organization with day to day activities. Ives, Patton, and Patton (2013) discovered that registered 501(c)(3) NFPOs rely heavily on volunteers. Most of the time the volunteers lack formal training and there is no consistent procedures on how to manage the funds nor how to audit. If the treasurer does not catch on to the accounting of expenses, the director

can get out of control with spending. The director should know how much money he or she has in the different budget categories when purchasing. Cash flow analysis can show the changes in spending for the board to analyze. Espina and Viader (2014) reported NFP organizational boards review risks and accountability of operations.

Dolnicar, Leisch, and Randle (2013) unraveled the need for volunteers is great because of the large amount of non-profits serving the public with limited funds and resources. Euwema and Smith (2015) found that accounting standards boards were working on improving existing NFP financial reporting. Stakeholders need quality information to make investment decisions (to donate) and the literature suggests there is a lack of education for volunteers in NFPOs to accurately give financial information for decision-making. Ferreiro (2012) observed that fraud cases occur in NFPOs because of their vulnerability. Adena (2016) reported that NFPs had serious problems with fraud and scandals. On occasions, NFPOs did not fulfill their mission. The stakeholders maximized profits and stole the money. Grimmer and Lippman (2016) elucidated that NFPOs exist as a steward of donations and bequests. The organization has a mission to accomplish a goal. If the goals are not met, the organization suffers potential loss of future donors. Anderson (2007) observed there were limited training programs for NFPOs. Training would help improve organizational stability. Organization training was studied with for-profit organizations but not as much study on NFPOs. There is need for defining criteria for management, funders, and others to measure financial investments. Adetiloye et al. (2016) determined although internal controls were effective, the staff lacked the education in accounting software to understand if they were following the correct internal control. Some staff were not committed to follow the controls. The NFP staff was lower paid employees with limited education and could not understand the technology. If the organization hired quality staff with

good pay, this could help deter fraud. The employees would be educated to use the software and follow internal controls and they would be satisfied in their jobs. As a consequence, the fraud would not be as prevalent. Irvine and Ryan (2012) reported that NFPOs have had a lot of trouble with fraud and inefficiency. The board needed to understand financial analysis to detect fraud. Hamilton and Slatten (2013) reported NFPOs were not using fraud detection techniques effectively. The bookkeepers had inefficient accounting/recordkeeping. The board members in meetings were not focused on financial reports nor did they discuss employee conduct. The staff and stakeholders were faced with difficult choices if they did not follow ethical standards daily. The internal stakeholders should have had training for ethical decision-making, including the board members. The internal stakeholders should also have had an understanding of the laws and ethics. They were responsible for making sure the funds were spent on what they were obligated to spend it on and the mission was being fulfilled. This study examined the effectiveness of stakeholders to detect fraud in NFPOs in South Carolina so the mission can be fulfilled in the manner in which the donors expect.

### **Variables in the Study**

In this research study, the dependent variable is fraud detection. Fraud can occur in any organization. Ewelt-Knauer, Knauer, and Lachmann (2015) conducted a study on fraud and analyzed the dependence on fraud detection in correlation to fraud detection techniques or characteristics and the correlation showed what was effective in detecting fraud. Brewington (2013) conducted a quantitative study on fraud and the determination of fraud detection and fraud techniques showed correlations of the fraud and effectiveness of the technique used. In North Carolina over 30 percent of 48 surveyed in NFP governmental agencies had fraud detected after ethics training and awareness. This research study also analyzed the dependent variable of

fraud detection and prevention in South Carolina NFPOs and correlated that to the independent variables of the use of fraud detection and prevention techniques.

An independent variable of all the fraud detection and prevention techniques could be combined and analyzed in NFPOs in South Carolina. Kelly et al.'s (2015) qualitative study of 36 organizations in Australia not only trained the employees on fraud detection and prevention, but taught them on their policies, codes of conduct, and various fraud detection and prevention techniques combined. Zamzami, Nusa, and Timur's (2016) research study of 100 internal audit offices in Indonesia explained that codes of conduct build an ethical awareness that helps to prevent fraud and understanding to detect fraud. Brazel et al. (2015) studied 194 investors to learn the use of risk assessments increased the ability to prevent and detect fraud. Fortvingler and Szívós' (2016) case study in Hungary of 61 audit planners showed risk assessments improved the ability to identify fraud cues. This research analyzed all eight fraud detection and prevention techniques to see if there was a correlation in the detection of fraud and if the combination was effective in preventing and detecting fraud.

Another independent variable analyzed is fraud prevention techniques of code of conduct, fraud risk assessment, fraud awareness training, fraud control plan, fraud control policy, and fraud risk register and the use in NFPOs in South Carolina. If fraud prevention techniques have a correlation with the detection of fraud, the fraud prevention techniques could be effective in preventing fraud. In a doctorate study, Peters (2015) found fraud risk registers would be beneficial for religious organizations because fraudsters sometimes intentionally seek out the religious organizations to commit fraud. The religious leaders could have a fraud risk register to red flag potential individuals who could be high risk for committing fraud and prevent the fraud. Peltier-Rivest and Lanoue (2015) reaffirmed that fraud prevention techniques such as internal



control policies/procedures and preventive fraud programs such as training in ethics (codes of conduct) and risk assessments help minimize losses in a study conducted in Canada. Carswell et al. (2014) found there is limited awareness of fraud and some organization have formal training to prevent fraud from occurring. A fraud control plan is a systematic and strategic plan to deal with the fraud such as an action plan (Domanski, 2016). This study also analyzed if fraud prevention techniques were used in NFPOs in South Carolina and if there was a correlation with fraud detection. If there was a correlation, this could be an effective group of fraud prevention techniques.

Also, the independent variable of fraud detection techniques of whistle-blower policy and internal control review will be analyzed in NFPOs in South Carolina. Zamzami et al. (2016) found that internal control procedures were one of the highest effective techniques for fraud detection in Indonesia. Multiple researchers found that internal control reviews were important for organizations to detect fraud (Graycar & Lenz, 2016; Kulikova & Satdarova, 2016). Whistle-blowing policy is known as one of the fraud detection techniques often used by organizations (MacGregor & Stuebs, 2013). This study analyzed the use of whistle-blowing and internal control review used in NFPOs in South Carolina to see if there was a correlation to detected fraud. If there was a correlation, then this would be a good set of fraud detection techniques.

Similar fraud detection and prevention techniques were also used as independent variables and dependent variable (Best et al., 2015; Brewington, 2013). This research analyzed the independent variables of the use of codes of conduct, fraud risk registers, fraud policies, fraud awareness training, whistle-blower policy, fraud control plan, internal control reviews, and fraud assessments to study if there is a correlation between the dependent variable of detecting and preventing fraud in NFPOs in South Carolina. If a dependent variable is correlated to

detecting or preventing fraud, this could indicate effectiveness in detecting fraud and would be beneficial to study further.

### **Summary of the Literature Review**

The literature review explained the theoretical framework concepts of Fraud Triangle and Behavior/Social concepts that explain the reasoning behind the fraudster's mind and reasoning. The concepts have been studied since the 1950s and found that pressure, opportunity, and rationalization are behaviors associated with the occurrence of fraud in addition to social aspects that affect behavior. Also, fraud detection techniques such as ethics training, fraud risk registers, red flags, whistle-blowing policy, code of conduct/ethics, fraud awareness training, whistle-blower policy, fraud control plan, internal control review, and internal control and risk assessments are techniques used to detect and prevent fraud. Ethics training brings awareness about fraud and internal stakeholders benefit from understating the ethical issues associated with fraud. Certain similarities exist among individuals who commit fraud and fraud risk registers help organizations identify fraud risks. Also, red flags can identify several indicators of fraud risks. Another fraud detection technique of whistle-blowing encourages employees to report suspected fraudulent behavior for the best interest of the public. Codes of conduct are guides for ethical behaviors for organizations and fraud control policies help guide employees for fraud awareness and prevention. The fraud detection technique of strong internal control reviews, and prevention techniques of fraud control plans, policies and procedures, and risk assessments identify risks contribute to the prevention and detection of fraud. The result of this study will help provide NFPOs more informed understanding of the effectiveness of fraud prevention and detection techniques. The researcher used techniques used in previous studies to analyze what

was most effective. Also, the literature review explained that internal fraud is occupational fraud and non-occupational fraud is external fraud. This study concentrated on internal fraud.

The literature review helped to explain that stakeholders are stewards of donor's contributions and were responsible for fulfilling the organizational mission. It was further shown the issues of fraud in organizations. Also, the fraud issues in practice, such as NFPOs comprise a large portion of the economy in the United States and NFPOs have a greater risk of fraud due to weak fraud detection techniques used and volunteers often lacked the understanding and skills to prevent fraud. Fraud has increased in frequency and severity in organizations over the last decade. The literature review explained that fraud affects future donations and tarnishes the image. NFPOs and smaller organizations suffer greatly from fraud and fraud damages organizational reputation and the NFPOs rely on the reputation because NFPOs depend on raising revenue from donations (managing the donations in good faith of fulfilling mission). Lastly, the literature review explained that NFPOs have limited resources and rely on relatively low-skilled volunteers which make the NFPOs vulnerable to fraud.

### **Transition and Summary of Section 1**

The methodology will be discussed in Section 2. Section 2 will discuss the design of the study, the data collection techniques, and methods to analyze data collected. The researcher will answer the research questions of the applied doctoral research project.

## Section 2: The Project

This research analyzed NFPOs in South Carolina to determine what fraud detection and prevention techniques that internal stakeholders could use to be effective in detecting and preventing fraud. The NFPOs have a duty to the donors and public to provide the service to the community that will help their community flourish and help the neediest (Jindra & Jindra, 2016). However, fraud hinders the service to the community and hurts the mission and ultimately hurts all the stakeholders. It is important to study fraud and fraud detection to prevent or deter fraud from occurring and costing the NFPOs many losses.

Some believe fraud detection and prevention techniques will help internal stakeholders detect fraud quicker and more efficiently than not having any safeguards in place (Garbou et al., 2016). However, the current studies have been inconclusive concerning which fraud detection and prevention techniques are most effective (Best et al., 2015; Klammer et al., 2010). The researcher designed this study to address the research questions and hypothesis regarding fraud detection and prevention techniques.

The researcher designed the study to help contribute to the current research concerning the effectiveness of internal stakeholders to detect fraud in nonprofit organizations. The following sections will include: (a) purpose statement, (b) role of the researcher, (c) participants, (d) research method and design, (e) population and sampling, (f) data collection (techniques, collection technique, data organization techniques), (g) data analysis technique, and (h) reliability and validity.

### **Purpose Statement**

The purpose of this quantitative correlational study was to examine the effectiveness of fraud detection and prevention techniques and internal stakeholders detecting or preventing fraud

in NFPOs in South Carolina. Free (2015) explained that fraud has the greatest economic impact on society rather than any other crime. Yetman and Yetman (2011) reported that NFP organizations are vulnerable to fraudulent activities. This research studied the impact of fraud detection and prevention techniques previously studied by Best et al. (2015) to see if the internal stakeholders in NFPOs in South Carolina used them and detected fraud.

### **Role of the Researcher**

The participants were identified through NFP listing on the South Carolina Secretary of State: Charities & Non-Profits (2018) website under Public Charities and charities. After identifying the participants (NFPOs) online, the researcher contacted the participants from their listed contact information through email or phone call (only to gain the email address). Then, the researcher verified the participants could complete the survey using their computers or electronic devices through email and social media correspondence. The researcher also emailed or included a consent form for participation in the research. Stritch (2017) reported the role of the researchers is to provide the research technique. The researcher provided the survey for online distribution. Sanchez (2016) found that websites and Internet have played a large role in research in the current century. After providing the Survey Monkey link to the participant, the researcher received the submissions from the participants after completion. The data were collected automatically from the Survey Monkey software application. After the data were collected, the researcher maintained the data in Microsoft Excel. The data were sorted by submission order, and then identified any duplication, in which duplications were deleted. Statistical analysis was conducted on the data.

## **Participants**

The first step in gaining access to the participants, the researcher searched online for the listed NFPOs in South Carolina from the state website: South Carolina Secretary of State: Charities & Non-Profits that lists registered nonprofits. Newhart and Patten (2017) confirmed the researcher's participants will need to show the application of the local setting. The list of NFPOs was entered into an Excel spreadsheet and Microsoft Word listing emails of the NFPOs. The information was cross referenced by using Google browser to verify the organization was valid and active. After establishing the organizations were active, the researcher either emailed the leaders of the organizations or send informed consent letter explaining the study to the emails gathered. The organizations would have a working knowledge of previous fraud detection and would know what fraud detection or prevention techniques were used.

To establish as working relationship with the participants, the researcher explained the research study was to gain insight into what fraud detection or prevention techniques were more effective and this research will help NFPOs understanding of fraud to detect and prevent future fraud. The researcher did not directly interact with the participants during the completing of the surveys. There was not a direct relationship with the participants, employees, volunteers, or interns for completion of the survey. The communication was professional and informative. Morse (2016) confirmed the participants must have knowledge of what is being sampled. Questions were answered if contacted on the informed consent information and validating the survey link was not spam.

The researcher ethically protected the participants for confidentiality and anonymity. The leadership of the organizations was assured their participation was confidential and no identification information would be in the research study to insure their confidentiality.

However, that identification was deleted for the statistical research. Once the survey was completed online, the data were sent to Survey Monkey application. Then, the data were pulled and grouped for statistical analysis. The organizations and any identifying information were removed for the statistical analysis. The participants completed the survey link and the raw data were available upon request of the researcher; particularly identifying organization data that were not disclosed upon request of the organization's privacy.

### **Research Method and Design**

The researcher used the quantitative method and correlational research design. More details regarding the research method and design employed in this project will be discussed in the following sections.

### **Discussion of Method**

As mentioned in the nature of the study, the researcher selected the quantitative method to study fraud in NFPOs in South Carolina. The researcher analyzed the dependent variable of the detection of fraud in correlation to independent variables of fraud detection and prevention techniques. The researcher was looking for commonly used fraud detection and prevention techniques and their correlation in detecting and preventing fraud. Creswell (2014) reported that the quantitative method is one way to analyze a relationship between measurable data. Purda and Skillicorn (2015) also used the quantitative method in their study comparing fraud detection tools and effectiveness in firms. This research study examined fraud detection and prevention techniques and the effectiveness of those techniques in detecting fraud. Bernauer and O'Dwyer (2013) found quantitative research helps simplify complexity and strives to discover new knowledge. The quantitative method is often used with large samples and random selection of the population to be generalized for study. Bernauer and O'Dwyer (2013) explained problem

finding is an important aspect of the method and overall study. The quantitative method helped the researcher determine if the fraud detection and prevention techniques were used in the sample surveyed to discover what was effective in the use of the techniques.

### **Discussion of Research Design**

The researcher used correlational design to study the relationships between fraud detection and prevention techniques and fraud detection. Mertens (2014) explicated that correlational research design will help look for strengths and directions of relationships between variables. The researcher conducted several steps using the correlational research design. Mertens (2014) detailed the researcher must first identify a problem, then identified variables, identified participants, collected quantifiable data, and then analyzed data and interpreted the results. The problem of fraud detection and prevention techniques in NFPOs in South Carolina was identified. The independent variables of the use of internal control review, whistle-blower policy, codes of conduct, fraud awareness training, fraud control plan, fraud control policy, fraud risk registers, fraud policies, and fraud risk assessments were used to examine if there was a correlation between the independent variables and the dependent variable of detecting fraud in NFPOs in South Carolina. The research collected the quantifiable data from the NFPOs in South Carolina through a survey instrument.

The survey data were analyzed. Comiskey et al. (2016) reported that a relationship or direction of a relationship between variables would be established in a correlated design. The researcher selected this design because the researcher will determine if fraud detection and prevention techniques and fraud are correlated. Orcher (2016) confirmed that a correlation of 1.0 for a relationship and 0.00 for absence of a relationship. Correlational design was the most appropriate design to study the relationships between dependent and independent variables.



Thapliyal and Thakre (2017) reported that correlation between two or more variables show the strength of the relationship. Correlational design is used to show the strength between dependent variable and the independent variables which will give accurate estimates of the relationships between variables (Atinc et al., 2016).

**Summary of research method and design.** Conclusively, the researcher examined what fraud prevention and detection techniques show a relation to the detecting of fraud. Peltier-Rivest and Lanoue (2015) reaffirmed that fraud detection or prevention techniques such as internal control policies/procedures and preventive fraud programs such as training in ethics (codes of conduct) and hotlines such as whistle-blowing lines, and risk assessments help minimize losses in a study conducted in Canada. The fraud detection and prevention techniques evaluated in this study are the use of codes of conduct, fraud risk registers, fraud policies or plans, and risk assessments used in nonprofits in South Carolina. This study will gain insight between the instances of fraud in NFP organization registered in South Carolina and the effectiveness of fraud detection and prevention techniques used.

### **Population and Sampling**

The researcher's population was NFPOs in South Carolina. The sample was drawn from the population. The population was generated from state registration of nonprofits, South Carolina Secretary of State: Charities & Non-Profits and charities. All nonprofits in South Carolina are required to register and submit financial reports to the state office and cross-referenced in charity websites. There are approximately ten thousand charitable organizations registered since 2015, however, only 3,000 charitable organizations are in good-standing and in operation in South Carolina. Some of the organizations have several registrations within the

state but are the same nonprofit, which makes roughly 1,000 individual nonprofits in South Carolina.

### Discussion of Sampling

Creswell (2014) explained that a sample size is based on a fraction of the population, such as 10% of the population. The sample size was 60 up to 286 with a 95% confidence level of the one-thousand of the population and 5% margin of error, National Statistical Service (2018).

**Determine Sample Size**

Confidence Level: 95% ▼ ⓘ

Population Size: 151 ⓘ

Proportion: 0.5 ⓘ

Confidence Interval: 0.09800 ⓘ

    Upper: 0.59800

    Lower: 0.40200

Standard Error: .05 ⓘ

Relative Standard Error: 10.00 ⓘ

Sample Size: 60 ⓘ

$$SE = \frac{\sqrt{SE_1^2 N_1^2 + SE_2^2 N_2^2 + SE_3^2 N_3^2}}{N}$$

Figure 2. Sample size (Given by National Statistical Service, 2018).

- The standard error of each stratum (SE1, SE2, SE3)
- The size of the population for each stratum (N1, N2, N3)
- The total population size (N)

Sim and Wright (2005) confirmed that a sample size calculation should detect statistical significance with a desired confidence interval. The calculated sample size is consistent with the desired significance and confidence.

The sample was gathered from willing participants in NFPOs in South Carolina which will occur naturally. Bryman, Futing Liao, and Lewis-Beck (2004) discussed that multistage sampling is where populations are hierarchically arranged and the sample is selected in stages. For this study, the researcher selected multiple groups of participants from small to large organizations and small annual budgets to large annual budgets. As Bryman et al. (2004) reported, all units were included at the latter stage as was in this study. However, the group was clustered into a group of fraud detected to analyze what specific fraud detection or prevention techniques were used, so then cluster sampling was used for that section. Elam, Lewis, and Ritchie (2013) explained that sample framing is selecting the appropriate information sources in which participants are to be selected. The sample frame in general is registered NFPOs in South Carolina and the organizational contacts were contacted as the source to provide the data for the survey.

Further describing the sample size determination, as Clark, Harrington, Miller, and Wolf (2013) clarified, investigators need to observe adequate sample size to properly find relationships in the data. The probability of not making a Type II error and rejecting the null hypothesis when it is false is using the statistical power given the correct number of samples and using alpha level at typically .05. This research will use alpha .05. Clark et al. (2013) also explained that confidence intervals are typically 95% and that percentage will be used in this research. The sample size percentage was correct because as Perugini and Schönbrodt (2013) reported that a researcher needs a corridor of stability point which is obtained from the correct level of

confidence intervals such as the 95% chosen and formula at the optimal deviations .05. This research was able to analyze the data with a correct sample size to statistically show the fraud detection and prevention technique(s) that are effective in detecting fraud.

**Summary of population and sampling.** The eligibility criterion of the study participants is individuals who are Not-for-Profit leaders from registered South Carolina Secretary of State: Charities & Non-profits and charities. The leaders (specifically chief executive officer and the organization's websites lists board/executive directors) will be identified to fill out the survey online and completed the survey when possible. The researcher looked on the organization's website to verify organization's continuity of operation. The rationale for this population was the NFPOs in South Carolina are easily accessed through the state website.

### **Data Collection**

Data collection is important for properly analyzing the fraud detection techniques used in NFPOs in South Carolina. This section summarizes the research instruments, data collection techniques, and the organization of the data collected.

### **Instruments**

The data were collected using an electronic survey instrument hosted by Survey Monkey. The survey instrument was linked to the participant's email or social media and contained the survey with eight total questions. The survey sent to the NFPO's leaders is listed in Appendix A.

**Selection of the measurement instrument.** In 2015, the BDO (Binder Dijker Otte) of Australia and New Zealand (2015) conducted a huge not-for-profit fraud survey to study the impact of fraud in the industry, Not-For-Profit Fraud Survey (2014). The survey measures indicators show that without fraud prevention there is a higher average value of fraud in NFPOs.

The BDO survey intent is to help NFPOs understand how susceptible they are to fraud and educate the stakeholders on methods to protect the organization from future fraud. Other organizations such as Deloitte conducted fraud surveys such as Deloitte India Fraud Survey Edition 1 (2014) to which fraud detection techniques were analyzed for effectiveness in detecting fraud. As a result, several research studies have concentrated on fraud detection techniques and how effective those techniques are in detecting fraud (Best et al., 2015; Peters, 2015; Lee, 2017) consequently the researchers found the study of fraud detection and prevention techniques to have validity and reliability.

The survey of Best et al. (2015) was replicated in this research study and their survey used several of the BDO survey questions. Lee (2017) found that when a fraud detection or prevention technique is in place and the stakeholders are aware that this technique lowers the probability of fraud. Another confirmation of aptness, Peters (2015) found that with proper fraud detection or prevention techniques such as good internal control are effective fraud prevention measures for NFPOs.

**Demographic information.** The first set of questions of the survey instrument were basic questions the organizational leaders self-reported, including four demographical questions. The demographic questions included if the organization was a NFPO, number of employees, annual budgeted income, and type of NFPO (such as health, education, foundation, religious, social, civic, agricultural, or other NFP). The participant then answered the rest of the survey pertaining to fraud and fraud detection.

**Fraud reporting.** The next section of the survey includes four fraud survey questions. The replicated study of Best et al. (2015) presented 16 possible fraud types which were used in this research's survey. The next question asked if they used any fraud detection and prevention

techniques listed when the NFPO had detected fraud. The next question asked was, what is the estimated value of fraud. The last question asked if the organization has any of the fraud detection or prevention techniques listed currently in use in the organization. The study conducted by Best et al. (2015) is a subset of the larger BDO Not-for-Profit Survey of 2014. For the participant survey, the survey of the replicated study was not edited from the original survey.

**Fraud detection techniques.** The participants disclosed if fraud was detected and if so, if they had fraud risk assessment, fraud risk register, codes of conduct, fraud awareness training, whistle-blower policy, fraud control plan, fraud control policy, internal control review, or no measure in place when the fraud was detected.

For question number six in the survey, if the fraud detection was indicated, this was labeled as F (to mean fraud was detected in the organization). If no fraud was indicated, this was labeled NF (to mean no fraud was detected in the organization). The coded information from question number six in the survey were displayed in a 2X2 contingency table. Best et al. (2015) used a contingency table (2X2) with fraud detection technique on the right side and fraud detected on the left side, also using yes and no with the appropriate labels. If the organization used a fraud detection technique, this was indicated using the letter T (meaning technique was used), and if not, this was labeled NT (meaning no technique was used).

Table 1

*Contingency Table*

Fraud Prevention and Detection Instrument	Fraud Discovered Yes = F	No Fraud Discovered No = NF
Fraud Prevention and Detection Technique Yes = T	Fraud detection and prevention technique is used and fraud was discovered within the last five years.	Fraud detection and prevention technique is used and fraud was not discovered within the last five years.
No Fraud Prevention and Detection Technique No = NT	Fraud detection and prevention technique is not used and fraud was discovered within the last five years.	Fraud detection and prevention technique is not used and fraud was not discovered within the last five years.

## Demographic Section:

1. Is your organization a nonprofit organization operating or registered in the state of South Carolina?
2. How many employees (excluding volunteers) does your organization have?
3. What is the annual budgeted income?
4. What type of NFP organization applies?

## Survey for Research Section:

5. Has your organization suffered any of the following in the past five years (reported or not reported)? (select as many as appropriate)
6. If you currently or previously had occurrences of fraud in your organization, did you have any of the following fraud prevention and detection measures in place when the fraud was detected? (Select as many as appropriate)
7. What is your estimate of the total value of all frauds suffered by your organization in the past five years?

8. Which of the following fraud prevention and detection measures does your organization currently have? (Select as many as appropriate)

Levy and Lemeshow (2013) detailed that framing involves listing selections. However, the frame does not have to list all the elements in the population. The data were framed enumerate such as yes or no fraud detected. Once a fraud detection or prevention technique was scored with an incidence of fraud detected, the scoring would then continue to evaluate each technique upon which technique was used and if fraud was detected which using the technique. The raw data from this survey were not attached to the research paper; however, it is available upon request. Summary of the raw data was included in Appendix B and in the contingency tables.

### **Reliability and Validity**

#### **Reliability**

Clarnette et al. (2015) stated when an instrument consistently has the same result in the same situation in repeated instances; it is an instrument that has reliability. Creswell (2014) reported that reliability is where scores on an instrument are internally consistent (consistent across constructs), stable over time (test-retest correlations), and whether there was consistency in test administration and scoring (p. 247). Creswell (2014) also stated that significance testing will show a pattern other than chance (unlikely by chance to have occurred, null hypothesis of 'no effect' can be rejected). Also, a confident interval of 95% will be observed (meaning 95 of 100 times observed will be in the range of value). Dahiru (2008) reported that 95% confidence intervals (CIs) with p-value scores means that 95 of 100 the times the study is repeated the true findings are reliably true,  $p < 0.05$ . The CI provides reliability or precision of the results. In the study of Best et al. (2015), the reliability scores were determined to have internal consistency



reliability. Multiple tests were run on the data in that study. Fisher's exact test was used for the calculation of the p-value and the Pearson chi-square is an additional measure that can be used to determine internal consistency (p. 444). Gill (2011) reported the Fisher's test showed significant thresholds at 0.01 and 0.05. The Fisher's exact test showed p-values for fraud risk registers below 0.01, which is very significant. The Fisher's exact test showed p-values for whistleblower policy, fraud control policy, and no measures for detection below 0.05, which is also significant (Bland, 2015). The rest of the fraud detection techniques were not significant enough to be free of error to state significance. Also, the Pearson chi-square showed these same four fraud detection techniques an acceptable level of below 0.05. These four fraud detection techniques had a continuity correction of less than 0.05, acceptable limit of 0.1 and 0.01 (Bland, 2015). Kenny (2015) wrote that chi-squared test is a reasonable measure of fit. In the replicated study, the consistency of the correlation of fraud detection techniques and fraud detection or prevention fell within the limits of 1.0 to -1.0 (Bland, 2015) and no level showed 0.0; although, code of conduct was close to 0.0.

### **Validity**

Clarnette et al. (2015) stated validity is when an instrument is accurately measured in a quantitative study to what is claimed to be measured. Best et al. (2015) used a subset of the questions from the Not-For-Profit Fraud Survey (2014) conducted by the BDO accounting firm. Although the BDO only provided descriptive statistics, Best et al. (2015) conducted statistical study using the selected survey questions. The focus of the study was to bring insight into what fraud detection and prevention techniques are most effective in detecting fraud which analyzing the relationships show content validity. The techniques were all included in the survey and data were compiled (BDO, 2014; Best et al., 2015). Additionally, the survey selected for this

research provided construct validity through the truthfulness of the statistical results (Bland, 2015) shown by showing relationships between the hypothesis and the research questions. Fraud risk registers, whistle-blower policy, fraud control policy, and no measures for detection positively correlated with the detection of fraud construct and chi-squared test levels were within valid limit of  $<0.05$ . These instruments show validity for the overall data as measured and unmodified.

Best et al. (2015) reported that threats to validity are minimal. LoBiondo-Wood and Haber (2014) reported that a threat to internal validity or bias is minimized by randomness of the study. One threat to external validity was assuming the leadership of the NFPO was completely honest. Nardi (2015) reported that self-reporting questionnaires are appropriate for some setting if behaviors are not necessarily a part of the observation. The researcher reached out to the organizations listed on their organizational registration and websites. Gast and Ledford (2014) confirmed that randomness decreases bias which contributes to better internal validity. There are no changes to the original survey instrument regarding the research.

### **Data Collection Technique**

The researcher used the free online access of to collect the Survey Monkey research data. The researcher chose Survey Monkey for the quick return of the answered survey, low cost, familiarity of the application, and easy to use. The form is customizable and user friendly for the researcher to set up the questions and answers. Also, Survey Monkey is very secure, only the researcher has the password to access the form results. The ability to download the data to a spreadsheet is flawless.

The researcher imputed the questions in the Survey Monkey and prepared a draft. The researcher tested the survey link to make sure that everything was properly working. The

researcher also tested the link on a separate computer at work to verify the link was working properly. After testing the link, the researcher saved the link for future deployment.

The researcher gathered the emails listed on the NFPOs websites with the listed leader on the state website of nonprofits to prepare a list of participants (the population). The researcher compiled the informed consent section of the email and link to the survey for deployment in an email and media outlets for the NFPs. The participants were given information related to the study, approximate completion time, confidentiality information (anonymity), and other information that was pertinent to the participants. Once the participants read the email and content, they had the option to click on the survey as acknowledging consent to participate in the survey.

The survey link remained active until the researcher was ready to start analyzing the data. If the participants had not responded nor filled out the survey, the researcher sent out a follow-up email to remind the participant to fill out the survey. Once the sample size was met, the researcher was able to pull the data for analysis.

### **Data Organization Techniques**

The survey instrument can be found in Appendix A. All questions are listed as well as permission to use the instrument by researchers. Once the survey was completed, the data were compiled in Microsoft Excel. The raw data were kept securely on a password protected Survey Monkey website. Then, the data were transferred to and stored on a password protected laptop to run statistics. After the statistics are completed, the data will be saved on the secure laptop.

### **Data Analysis**

The researcher confirmed that a minimum of 60 surveys were received.

$$SE = \frac{\sqrt{SE_1^2 N_1^2 + SE_2^2 N_2^2 + SE_3^2 N_3^2}}{N}$$

(Given by National Statistical Service, 2018)

The researcher reviewed the demographic information to remove any participants who were not NFPOs and incomplete data and summarized the demographic information to describe the population. The demographic information was evaluated using descriptive analysis. Byrne (2017) conveyed the uses of descriptive statistics such as frequencies count the number of cases have a value, median (equal number of cases with larger/smaller values), average (total and averaging numbers), mean (a middle set of data), and spread (similar or varied set of observed values for a particular value). The researcher used descriptive analysis to discuss average estimate value of losses due to fraud in NFPOs. The researcher discussed what was the percentage difference in the number of employees. The researcher discussed the levels of annual budget for the NFPOs and what type of NFPO organizations were represented.

The fraud detection data were analyzed with statistical functions using Microsoft Excel. Fraud risk assessment, fraud risk register, codes of conduct, fraud awareness training, whistleblower policy, fraud control plan, fraud control policy, internal control review, or no measure in place when the fraud was detected will be analyzed for correlations. The results of the survey were placed in a contingency table and a table listing all statistics as mentioned earlier in section two, as well as the coding. In this study, the chi-square, critical value, and p-value were analyzed for statistical significance showing a relationship between variables. Marchant-Shapiro (2015) reported that chi-square is a measure of statistical significance. After setting up the rows and columns (2X2 contingency table in this study), the researcher recorded observed cell

frequencies ( $f_x$ ). Then, the researcher calculated the expected value by multiplying  $E(X) = (\text{row proportion}) \times (\text{column } n)$ ; Marchant-Shapiro, 2015) and continued to subtract expected from observed  $f_x - E(X)$ . Marchant-Shapiro (2015) continued to explain the researcher squared the difference  $[f_x - E(X)]^2$  divided the squared difference  $[f_x - E(X)]^2/E(X)$ , and then calculated chi-square  $\chi^2 = \sum [f_x - E(X)]^2/E(X)$ . The researcher checked for significance and reliability by checking for critical value and if the chi-square was larger, then there was a relationship between the variables were significant and the null hypothesis was rejected.

### **Variables**

The independent variables are fraud risk assessment, fraud risk register, codes of conduct, fraud awareness training, whistle-blower policy, fraud control plan, fraud control policy, internal control review, or no measure in place when the dependent variable of fraud was detected. Also, independent variables were group by prevention techniques of fraud risk assessment, fraud risk register, codes of conduct, fraud awareness training, fraud control plan, and fraud control policy; and detection techniques of whistle-blower policy and internal control review. This will be discussed in the next few paragraphs starting with the hypothesis discussion. Salkind (2010) reported that dichotomous variables are variables that is existing or not existing for instance, fraud exists or fraud does not exist. The fraud detection or prevention technique exists or does not exist in the organization. This further explains the independent and dependent variables are dichotomous variables.

Moderating variables will be discussed in the descriptive statistics and indicate any indication of similarities that could explain the fraud. Allen (2017) expressed how mediation variables link the independent and dependent variables which explains the relationship between the other two variables. If the mitigating questions in the demographic section indicate a similar

impact on the independent variable, then this would need further study because there could be a relationship which would help explain the fraud occurrence for example if NFPOs with fewer employees have higher instances of fraud, then this would need further study to see if this is a weakness in the NFPOs in general. If there is relevant descriptive statistics (high frequency, central tendencies), then further statistics such as multiple regression analysis could give more insight in future studies (Allen, 2017). The moderating variables were grouped by size of organization (small number of employees and large number of employees), revenue (low or high budgeted income), and type of organization (Health Care, Education, Foundations, Religious, Social Welfare, Civic, Agricultural, and Other).

**Testing of hypothesis.** This research used the dependent variable of the detection of fraud and three independent variables of grouped together fraud risk assessment, fraud risk register, codes of conduct, fraud awareness training, whistle-blower policy, fraud control plan, fraud control policy, internal control review, and grouped by prevention techniques and detection techniques and the detection of fraud. The Fisher p-value will show an effect between the independent and dependent variables if significant levels (Anderson & Whitcomb, 2016; Fisher, 1925). All three independent variables will be tested in correlation with the dependent variable with the p-value to reject the null hypothesis is the p-value calculated a value of statistically significance of  $p < 0.05$ . The researcher test p-values for all eight independent variables to determine if any values are  $p > 0.05$  and will accept the null hypothesis. Microsoft Excel formula CHIDIST will show p-value (significant f) and will show under the p-value, if  $p < 0.05$  ( $\alpha = .05$ ) then this is significant correlation between the independent variable and the dependent variable (Bland, 2015).

The hypotheses will also be tested with critical values and chi-squared. The three independent variables of fraud prevention and detection techniques be checked for associations with fraud detection. Schumacker (2015) reported that chi-square value will show associations between variables and independent variable. The cells should have frequencies below 0.5 before squaring (Yates continuity correction; Yates, 1934).

After the survey instrument was completed by the participant, the researcher eliminated incomplete surveys. The data were placed into two sections, one section for descriptive statistics and one section for quantitative analysis. The researcher will use descriptive statistics to organize and summarize ordinal data/ranking order data (Holcomb, 2016). The participants were asked 'how many employees (excluding volunteers) does your organizations have' (ranked from low to high numbers) and the researcher ranked the responses from small number of employees to large number of employees. This was compared to the occurrences of fraud and monetary amount of loss due to fraud, question 'what is your estimated of the total value of all frauds suffered by your organization in the past five years' which will be ranked/ordinal data (ranked low to high). Byrne (2017) reported that descriptive statistics can summarize data in many ways such as frequencies (counting the number of cases which have a value), median (equal number of larger or smaller values), or spreads (how similar or varied set of values are). The researcher also surveyed the participants, 'what is the annual budgeted income' which was used to separate and rank the NFPOs as large and small budgeted organization (ordinal data). The last demographic question was 'what type of NFP organization applies' which categorized the type of organizations into different industries for potential future study targeting a segment of NFPOs which is more nominal than ordinal. This was analyzed with the detection of fraud in the types of organizations. If there was a higher instance of fraud, then that organization would be further

studied for frequencies to indicate why this type of organization had more fraud compared to other types of organizations. Then, the researcher took the remaining survey questions and analyzed the correlations between the dependent variables and independent variable summarized in the next paragraph.

### **Null Hypotheses**

H<sub>0</sub>1: There is no statistically significant relationship between the use fraud detection and prevention techniques and fraud detection in NFPs in South Carolina.

H<sub>0</sub>2: There is no statistically significant relationship between the fraud detection techniques and fraud detection in NFPs in South Carolina.

H<sub>0</sub>3: There is no statistically significant relationship between the prevention techniques and fraud detection in NFPs in South Carolina.

The researcher asked ‘how many frauds have your organization suffered in the last five years’ and corresponding question was ‘did your organization have fraud prevention or detection measures in place when the fraud was detected,’ all yes or no type questions. One of the selections was none. The researcher then used the data in a contingency table and progressively calculated a chi-square. The chi-square was compared to the critical value. If the chi-square was higher than the critical value, then the null hypothesis was rejected. If the chi-square was lower than the critical value, then the alternative hypothesis was rejected and null hypothesis was accepted. The p-value was also calculated to show further statistical significance of the chi-square testing.

Hypotheses 1:

H<sub>A</sub>1: There is a statistically significant relationship between the fraud detection and prevention techniques and fraud detection in NFPs in South Carolina.



The researcher asked ‘how many frauds have your organization suffered in the last five years’ and corresponding question was ‘did your organization have fraud prevention or detection measures in place when the fraud was detected,’ all yes or no type questions. The participants chose the techniques. The researcher can then use the data in a contingency table and progressively calculate a chi-square. The chi-square was compared to the critical value. If the chi-square was higher than the critical value, then the null hypothesis was rejected. If the chi-square was lower than the critical value, then the alternative hypothesis was rejected and null hypothesis was accepted. The p-value was also calculated to show further statistical significance of the chi-square testing.

Hypotheses 2:

H<sub>A2</sub>: There is a statistically significant relationship between the fraud detection techniques and fraud detection in NFPs in South Carolina.

The researcher asked ‘how many frauds has your organization suffered in the last five years’ and corresponding question was ‘did your organization have fraud prevention or detection measures in place when the fraud was detected,’ all yes or no type questions. The participants chose the techniques. The researcher specifically looked at whistle-blower policy and internal control review for this hypothesis. The researcher then used the data in a contingency table and progressively calculate a chi-square. The chi-square was compared to the critical value. If the chi-square was higher than the critical value, then the null hypothesis was rejected. If the chi-square was lower than the critical value, then the alternative hypothesis was rejected and null hypothesis was accepted. The p-value was also calculated to show further statistical significance of the chi-square testing.

Hypotheses 3:

H<sub>A3</sub>: There is a statistically significant relationship between the prevention techniques and fraud detection in NFPs in South Carolina.

The researcher asked ‘how many frauds has your organization suffered in the last five years’ and corresponding question was ‘did your organization have fraud prevention or detection measures in place when the fraud was detected,’ all yes or no type questions. The participants chose the techniques, the researcher specifically looked at the code of conduct, fraud risk assessment, fraud awareness training, fraud control plan, fraud control policy, and fraud risk register. The researcher then used the data in a contingency table and progressively calculated a chi-square. The chi-square was compared to the critical value. If the chi-square was higher than the critical value, then the null hypothesis was rejected. If the chi-square was lower than the critical value, then the alternative hypothesis was rejected and null hypothesis was accepted. The p-value was also calculated to show further statistical significance of the chi-square testing.

### **Summary of Data Analysis**

After three hypotheses were tested, the data were summarized and presented in a chart in Appendix B. The summary included a narrative of proven hypothesis and any null hypotheses. All data reflected the theoretical framework and founded findings of the study.

This section explained the reliability and validity of the research study. LoBiondo-Wood and Haber (2014) reiterated that a study should have validity and reliability to be a valid and nonbiased which will advance the expansion of the evidence-based practice.

LoBiondo-Wood and Haber (2014) also reported that reliability consistently and repeatedly measure the attributes with error-free outcomes. The research in this study consisted of demographic questions and fraud detection questions. The demographic questions were proper questions with multiple choice answers to eliminate errors. The fraud detection and

prevention questions were also multiple choice/multiple answer for the participant to answer all appropriate selections.

External reliability coincides with the reliability of the instrument. The researcher conducted test and retest analysis of the research. Polit (2014) diverged that research should be expanded and new outcomes should be studies with new participants to gain further insights as external reliability. The test should include test and retest reliability assessments. Best et al. (2015) successfully conducted a similar study which is going to be replicated in South Carolina. The research was test-retested for reliability.

Allik, De Vries, and Realo (2016) detailed that internal reliability is internal consistency. Consistent with the same reliability testing done with the instrument reassurance of reliability explained earlier in Section 2, the researcher also had Pearson Chi-Squared test conducted and continuity correction to show the study itself as a reliable study through the statistical analysis of the data.

As Aspinwall, Brown, and Tabery (2016) reported, validity of the study is how well the data represents the area of study in the research. The research should show what the researcher is questioning and testing in the study. The data should show if the hypotheses is null or positively significant. The study should show if there is a correlation and evidence to warrant further study of the material.

Lakshmi and Mohideen (2013) stated that external validity is where the study could be transferable to other groups or populations. The research was conducted in different groups in Australia and New Zealand (Best et al., 2015; BDO, 2014).

Lakshmi and Mohideen (2013) detailed that internal validity must exist before external. Zohrabi (2013) article stated that internal validity is similar to the findings with the reality. The

internal validity is how close the research measures what is supposed to be measured. This is evident in the research questions are answered and correlated to the research questions.

### **Transition and Summary of Section 2**

The researcher reached out in a professional manner to the NFPO participants in South Carolina to send a survey to gather data to analyze. The researcher used the quantitative method to study fraud in NFPOs in South Carolina. The research questions were fully analyzed through the method and each variable (independent, dependent, and moderating) was analyzed.

The researcher utilized correlational design to study the relationships between fraud detection and prevention techniques and fraud detection. The survey instrument gathered the data of a minimum of 60 to 286 participants which was an adequate sample size for desired significance and confidence of the study.

As a further reference, the researcher replicated a study conducted by Best et al. (2015), which also studied the fraud detection techniques in correlation to fraud detection. The instrument used in the study proved reliability and validity. The data analysis technique was typical for such research study. Each hypothesis was tested and the data were analyzed. The analysis was fully explained after the completion of the field study in Section 3. Section Three presented the findings through conclusions of all of the research questions and hypothesis. Quantitative data analysis section detailed the tests performed and linked the hypothesis back to the research question, theoretical framework, and literature. Section 3 explained the application to the professional practice and recommendations for actions (including who may be impacted by the study). Section 3 also included recommendations for further study and reflections.

### Section 3: Application to Professional Practice and Implications for Change

This section will summarize the analytical results of the study by presenting the findings of the study on prevention and detection of fraud in NFPOs. The researcher will discuss the practical implications to the practice of accounting and help NFPOs understand the most useful prevention and detection techniques to use. The use of these fraud prevention and detection techniques may ultimately lead to quicker detection of fraud and increase the prevention of fraud. The prevention of fraud will lead to less monetary losses due to fraud and theft. The researcher will provide reflection and recommendations for future research.

#### **Overview of the Study**

The quantitative correlational study examined fraud detection and prevention techniques and internal stakeholders detecting fraud in NFPOs in South Carolina. Fraud has a great economic impact and NFPOs are vulnerable to fraud. This research studied the techniques and if the internal stakeholders in NFPOs in South Carolina use them.

The researcher conducted a field study through surveying NFPOs in South Carolina and then pulled and exported the raw data to Microsoft Excel. The researcher gathered information through the survey from participants specifically gathered if fraud was detected and if the organization had fraud prevention and detection techniques in place when the fraud was detected. This was the basis for the research study with the research questions being analyzed using the data.

There are three main research questions: Is there a relationship between the use of all of the fraud detection and prevention techniques and the detection of fraud in NFPOs in South Carolina? Is there a relationship between the use of detection techniques with the detection of fraud in NFPOs in South Carolina? Is there a relationship between the use of prevention

techniques with the detection of fraud in NFPOs in South Carolina? The questions indicate if the NFPOs had an association between the use of fraud prevention and detection techniques and the detection of fraud while using the techniques in South Carolina. If there is an association /relationship, this will show what could be effective in the detection of fraud with the premise that both fraud was detected while the techniques were used.

The analysis indicated that there is a statistically significant relationship between the use of all the techniques and the detection of fraud in NFPOs in South Carolina. The relationship means that when the NFPOs used the fraud techniques that fraud was detected and this could further indicate these techniques are effective in detecting fraud. The analysis also indicated that fraud prevention techniques of fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, fraud control plan, and fraud control policy also showed a statistically significant relationship between the use of those techniques and fraud detection. The analysis also showed that fraud detection techniques of whistle-blower policy and internal control review did show a statistically significant relationship between the use of those techniques and fraud detection. With fraud detection techniques, such as the whistle-blower policy, there may be adequate anonymity.

### **Presentation of the Findings**

The findings were revealed through statistically analyzing all hypotheses. After statistically analyzing all of the hypotheses, the researcher addressed all of the research questions. The researcher also showed the application to professional practice of accounting and provide recommendations for actions. The researcher concluded with recommendations for further study and reflection with a summary/conclusion. Section 3 will include all data bound by the evidence collected. The researcher related the analysis to the literature on fraud in the

practice of accounting. The researcher addressed any outliers and discrepancies found in the data.

The combined fraud prevention and detection techniques include fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, fraud control plan, whistle-blower policy, internal control review, and fraud control policy. The combined detection techniques included whistle-blower policy and internal control review. The combined prevention techniques included fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, fraud control plan, and fraud control policy.

### **Survey Participants**

After the researcher gathered participants from the NFPOs listed on South Carolina's state registered NFPOs, the researcher cross-referenced each organization's website to gather emails and means to communicate. Most of the websites did not have emails listed, some had social media links, and the remaining had emails listed on their websites. The researcher sent 1,373 emails and 13 social media requests for participants to complete the survey with 21 emails invalid. The survey included detailed criteria which included the required informed consent form. The survey was open for 16 days with minimal responses. The researcher reopened the survey for additional seven days, sending reminders.

A total of 167 responses were collected. However, only 109 of those surveyed were complete. This number exceeded the minimum of 60 responses needed in the data analysis for desired confidence intervals (Sim & Wright, 2005). Mohd-Sanusi et al. (2015) conducted a study on fraud prevention techniques and sent 150 surveys with one and two responses in which Sekaran and Bougie (2010) stated a sample size less than 500 and more than 30 is appropriate for most research. The sample size is acceptable for this study.

The survey asked participants to self-report the demographic information, first and foremost to report if they were NFPOs, all organizations reporting as other than NFPs were removed. Even though the survey was sent to NFPOs specifically, the researcher wanted to make sure by asking this question. Perhaps, some of the NFPOs closed and reopened as for-profits and this survey no longer applied, about five surveyed indicated they were not NFPOs and were eliminated. The other demographic information included number of employees, annual budgeted income, and the type of organization. This information is included in Table 1, 2, and 3 and included in Appendix B. Added together, 73 percent of surveyed had under 25 employees, 27 had between 26 and 1,000 employees, and one surveyed had over 1,000 employees, excluding volunteers. Surprisingly, 34 percent surveyed had budgeted incomes of less than \$100,000, 29 had between \$100,000 and \$500,000, 21 percent had \$500,000 to \$1,000,000, and 23 percent had over \$1,000,000 annually budgeted income. The largest percentage were smaller organizations with fewer employees. The replicated study found that smaller organizations had fewer fraud detection techniques in place and were more frequently victimized (Best et al., 2015).

Other important questions asked were the types of theft/fraud and amount of loss due to fraud/theft. This information is included in Table 4 and 5 and included in Appendix B. The largest types of fraud found were inventory/asset theft (23 percent), cash theft (18 percent), credit card and database/intellectual property theft/fraud (12 percent), payroll fraud and identity theft/fraud (nine percent), expense account fraud (seven percent), bribery/kickbacks, check forgery, financial statement fraud, and online payment fraud (four percent), and none of the types of fraud were under three percent. Some of the organizations had multiple types of fraud. Comparatively, the BDO (2014) fraud survey conducted in Australia and New Zealand found that cash theft was the highest and in South Carolina this was second highest. Although in South



Carolina, inventory/asset theft was the highest, which was noted, theft of medicine and equipment in South Carolina's study is part of the inventory/asset theft. The BDO's (2014) second and third highest type of fraud was payroll and credit card fraud, which were also significant in South Carolina. Payroll fraud is intentional organizational fraud (Giovino, 2014). Credit card fraud can be intentional such as a key employee making personal purchases (Minogue, 2013) or credit card scam (e.g., someone stealing the credit card information and making purchases). BDO's (2014) lowest was database/intellectual property and financial statement fraud. In South Carolina, database/intellectual property fraud was higher on the percentages than the BDO. The misuse of resources (ACFE, 2014) such as database or intellectual property is one of the noncash fraud and perhaps one of the ways that indirectly affect NFPOs, when the donor's information is compromised by database breaches, the donor's trust is broken and NFPOs rely on donors to monetarily pay for overhead (Perols, 2011).

The cash value of fraud was categorized at \$1 to \$100 (42 percent), \$101 to \$1,000 (34 percent), \$1,001 to \$10,000 (nine percent), and over \$10,000 (five percent). Since 59 organizations reported fraud, this can be calculated further. If taking the minimum loss per percentage times 59, the average loss is \$1,034.32 per organization, at the maximum (assuming the five organization had a loss of \$100,000) is an average loss of \$10,381.36 per organization. If you take the minimum and maximum and average the two, the average loss is \$5,707.84 per organization. Giovino's (2014) reported that the average median loss from occupational fraud is \$140,000.

### **Hypotheses Testing**

The researcher tested each hypothesis by creating a contingency table and then solved for chi-square. The researcher then solved for the critical value and p-value (Allen, 2017). The

researcher tested the detection of fraud and the use of fraud prevention and detection techniques to study if there is a relationship or no relationship and if the p-value is significant to gain insight if there is a correlation. This will be discussed with each hypothesis.

### **Hypothesis 1**

Null Hypothesis:  $H_0$ : There is no statistically significant relationship between the fraud detection and prevention techniques and fraud detection in NFPs in South Carolina.

The researcher ran a chi-square test to evaluate the null hypothesis. If the chi-square is more than the critical value, we reject the null hypothesis. The chi-square alone does not expose the relationship. It is assumed with null hypothesis there is no relationship between the variables and that the variables are independent. However, if chi-square exceeds the critical value and it did in this test, it can be assumed there is a relationship between the two variables. The alternative hypothesis is accepted and the variables are dependent. No relationship between the variables can be rejected.

Table 1 Contingency table 2X2 of fraud detected, and no fraud detected compared to fraud techniques used and no fraud techniques used.

Table 2

#### *Contingency Table With and Without Techniques*

	With Techniques	Without Techniques	
No Fraud Detected	26	24	50
Expect	15.60	34.40	
$(O-E)^2/E$	6.94	3.15	
	34	75	109
Chi-Square	18.63		
Critical Value	3.84		
P-Value	0.00002		

A 2X2 Contingency table, as Jacobs and Evans (2017) reported has a degree of freedom of 1. The table of critical values shows with a degree of freedom of 1 at significance level of .05,

that the critical value is 3.84. Since the test value of chi-square is 18.63 and is more than the table value (critical value) then the null hypothesis is rejected. The P-value of .00002 indicates that this result is statistically significant. The null hypothesis is rejected, therefore there is an association between the use of fraud detection and prevention techniques and the detection of fraud. This finding addresses Research Question 1: Is there a relationship between the use of all of the fraud detection and prevention techniques and the detection of fraud in NFPOs in South Carolina?

In the study Bierstaker et al. (2006), prevention and detection techniques were studied with 56 surveyed admitted to the detection of fraud. It was found that both fraud prevention and detection techniques are effective in fraud prevention and detection. However, their research did suggest that the most effective methods are not used. Thomopoulos (2013) reported the importance of having tools to identify fraud risks and that the employees should have a vested interest to also prevent fraud. Theoretical study showed that if a person has the motivation, rationalizes the fraud, and has the opportunity, the individual will commit fraud (Cressey, 1953, Borba & Wuerges, 2014). The holistic way to decrease the chances of fraud is to prevent the opportunity to commit fraud. Prevention techniques of code of conduct/code of ethics, fraud risk assessments, fraud awareness training, fraud control plans and policies, and having fraud risk registers can minimize the rationalization of committing fraud and help educate individuals against committing fraud. Most of the prevention techniques are through training or instilling policies/plans in the organization to understand fraud and prevent fraud by education. Then, detection techniques are intermingled to expose the opportunity that was detected. When the board or committees review the controls internally, they can discover inadequacy or inconsistencies and discover fraud. The employees or volunteers should be able to report fraud

through a whistle-blower policy. Morales et al. (2014) reported that one of the keys to fraud detection was to have an anonymous whistle-blower hotline allowing employees or individuals to report suspected fraud so that the allegation could be investigated. The prevention and detection techniques uniquely contribute to a combination of the techniques that are effective in preventing and detecting fraud.

## **Hypothesis 2**

Null Hypothesis:  $H_0$ : There is no statistically significant relationship between the fraud detection techniques and fraud detection in NFPs in South Carolina.

The researcher ran a chi-square test to evaluate the null hypothesis. If the chi-square is more than the critical value, we reject the null hypothesis. The chi-square alone does not expose the relationship. It is assumed that with null hypothesis there is no relationship between the variables and that the variables are independent. However, if chi-square exceeds the critical value and it did in this test, it can be assumed that there is a relationship between the two variables. The alternative hypothesis is accepted and the variables are dependent. No relationship between the variables can be rejected.

Table 1 Contingency table 2X2 of fraud detection, and no fraud detection compared to detection techniques used or not used.

Table 3

*Contingency Table; Detection Only*

	Detection Only	
	With Techniques	Without Techniques
Fraud Detected	33	26
Expect	27.61	31.39
(O-E) <sup>2</sup> /E	1.05	0.93
No Fraud Detected	18	32
Expect	23.39	26.61
(O-E) <sup>2</sup> /E	1.24	1.09
	51	58
Chi-Square	4.32	
Critical Value	3.84	
P-Value	0.038	

The table of critical values shows with a degree of freedom of 1 at significance level of .05, that the critical value is 3.84. Since the test value of chi-square is 4.32 and is more than the table value (critical value) then the null hypothesis is rejected. The P-value of .038 indicates that this result is statistically significant. The null hypothesis is rejected, therefore there is an association between the use of fraud detection and prevention techniques and the detection of fraud. This finding addresses Research Question 2: Is there a relationship between the use of detection techniques with the detection of fraud in NFPs in South Carolina?

The researcher found the detection techniques alone were significant that there is significant relationship between the detection of fraud and detection techniques. Fraud detection was dependent upon the use of the fraud detection techniques. Interestingly, 59 participants reported fraud detection and 53 of those participants had a fraud detection or prevention technique in place; conversely, 50 participants reported no fraud detection with 26 of those participants had no fraud detection or prevention in place. If more detection techniques were in place, there could be more detection of fraud.

In a similar study, Lee (2017) found the use of whistleblowing policy reduced the accounting fraud when the detection technique was used than when firms/organizations did not have the detection technique. This also showed a reduction of five percent of auditing fees due to the whistleblowing controls to detect fraud in place and further gives insight to effectiveness of whistleblowing (detection) policy. In North Carolina, Brewington (2013) found that internal audit or internal control review was not statistically significant as well as an anonymous tip hotline (whistle-blower hotline) was not statistically significant. It was suggested that the organizations should be made more aware of the techniques and perhaps training the workers to understand those techniques. Copcinschi et al. (2016) reported that fraud occurred when the internal controls had inefficiencies. Adetiloye et al. (2016) determined the employees were not following internal controls correctly and did not understand the technology. Internal controls are perhaps misunderstood and using prevention techniques such as training will help the employees understand the internal controls better because the internal controls need to be reviewed for inefficiencies to know if there is fraud. If the organization does not have techniques, they do not have a good indication if fraud is occurring or not. Fraud detection techniques should not be discredited, however with this study, those techniques were statistically significant to show a relationship between the use of the technique and the detection of fraud.

### **Hypothesis 3**

Null Hypothesis:  $H_03$ : There is no statistically significant relationship between the prevention techniques and fraud detection in NFPs in South Carolina.

The researcher ran a chi-square test to evaluate the null hypothesis. If the chi-square is more than the critical value, we reject the null hypothesis. The chi-square alone does not expose the relationship. It is assumed that with null hypothesis there is no relationship between the

variables and that the variables are independent. However, if chi-square exceeds the critical value and it did in this test, it can be assumed there is a relationship between the two variables. The alternative hypothesis is accepted and the variables are dependent. No relationship between the variables can be rejected.

Table 1 Contingency table 2X2 of fraud detected, and no fraud detected compared to fraud prevention techniques used and no fraud techniques used.

Table 4

*Contingency Table; Prevention Only*

Prevention Only			
	With Techniques	Without Techniques	
Fraud Detected	45	14	59
Expect	34.64	24.36	
(O-E) <sup>2</sup> /E	3.10	4.40	
No Fraud Detected	19	31	50
Expect	29.36	20.64	
(O-E) <sup>2</sup> /E	3.65	5.20	
	64	45	109
Chi-Square	16.35		
Critical Value	3.84		
P-Value	0.0001		

The table of critical values shows with a degree of freedom of 1 at significance level of .05, that the critical value is 3.84. Since the test value of chi-square is 16.35 and is more than the table value (critical value) then the null hypothesis is rejected. The p-value of .0001 indicates this result is statistically significant. The null hypothesis is rejected, therefore there is an association between the use of fraud detection and prevention techniques and the detection of fraud. This finding addresses Research Question 3: Is there a relationship between the use of prevention techniques with the detection of fraud in NFPs in South Carolina?

When separating the detection techniques from the prevention techniques, the researcher found the prevention techniques alone were significant and there is a relationship between the detection of fraud and prevention techniques. The prevention techniques' chi-square of 8.59 was higher than the critical value of 3.84. The p-value was .003 which means 99.97% of the time that prevention techniques showed a relationship between the detection of fraud and the use of this technique. In the theoretical framework, Lowers (2013) explained the person committing the fraud has the open door (opportunity) of trust to commit fraud and with the absence of policies that the perpetrator would commit fraud. The person rationalizes a personal need and



ignores ethics to commit fraud. When the organization has taught new employees about the organizations stand on code of conduct, it sets the tone for higher ethical behavior (Giorgini et al., 2015). Domanski (2016) reported that risk assessments are used to make changes to prevent fraud, committee reviews fraud plans and fraud policies to make changes for prevention of fraud. The best way to prevent something is to bring awareness through training and education as discovered in North Carolina governmental agencies (Brewington, 2013), fraud training helps with the detection of fraud once awareness is evident. Fraud prevention techniques are statistically significant to show a relationship between the detection of fraud and those techniques.

### **Summary of the Findings**

Through surveying 109 NFPOs in South Carolina, the researcher gained insight into fraud prevention and detection techniques used in the NFPOs. The survey data were useful in answering the research questions on fraud detection and the use of fraud techniques through statistical analysis.

The first research question was to gain insight if there is a relationship between the use of all of the fraud detection and prevention techniques and the detection of fraud in NFPOs in South Carolina. A combination of fraud prevention and detection techniques showed a statistically significant relationship between the use of all of the techniques and the detection of fraud. When fraud was detected, the NFPOs had techniques in place. The use of fraud techniques potential increases the chances of preventing or quickly detecting fraud rather than having no techniques in place.

The second research question was to gain insight if there is a relationship between the use of detection techniques with the detection of fraud in NFPOs in South Carolina. Detection

techniques combined did show a statistically significant relationship between the use of those techniques and the detection of fraud. There was enough statistical significance to show a relationship that when fraud was detected fraud detection techniques alone were effective in the prevention and quicker detection of fraud.

The last research question was to gain insight if there is a relationship between the use of prevention techniques with the detection of fraud in NFPOs in South Carolina. Fraud prevention techniques combined showed a statistically significant relationship between the use of those techniques and the detection of fraud. Fraud prevention techniques were in place when fraud was detected.

### **Applications to Professional Practice**

This study helps internal stakeholders in NFPOs realize that fraud prevention and detection techniques combined show a statistically significant relationship with fraud detection. When the techniques were in place, the fraud was detected. When a NFPO has the techniques in place this will help prevent fraud and quickly detect current fraud. Fraud prevention and detection techniques can improve business practices through understanding, awareness, training, safeguards and plans, and policies.

### **Understanding of Fraud Consequences**

When the techniques are in place, this study significantly shows that fraud is detected. If no techniques are in place, the organizations risk fraud occurring and remaining undetected which leads to monetary loss and could ruin their reputation (Archambeault et al., 2014). Fraud also costs NFPOs loss of future donors because of the fraud allegations which inhibit the NFPO from fulfilling the mission to help the unprivileged or hinder the ability to provide a service to the needy (Perols, 2011). Since fraud continues to be an issue in the NFPOs, it is important to

further study fraud and the techniques to prevent or detect fraud. As reported in 2014 (ACFE, 2014), typically organizations lose five percent of revenues due to fraud. As a result of this study, the use of fraud prevention and detection techniques are important for NFPOs to detect and prevent fraud.

### **Awareness of Fraud and Techniques**

Through awareness of the fraud prevention and detection techniques, NFPOs can begin to become aware of how powerful the techniques can be for their organizations. Internal control review is reported to reduce the number of financial restatements/fraudulently reported financials and having clear lines of duties with policy and procedures make a difference according to leaders in PricewaterhouseCoopers, Hopgood Group, and other colleague CEO leaders (Lumb, 2017). This study also reiterates the importance of having a no-retaliation whistleblowing policy and is important for NFPOs in South Carolina. McCarthy (2017) wrote about how important fraud control policies are in health-care organizations (there were 11% NFP health organization listed in the NFPOs surveyed in South Carolina). In this case (McCarthy, 2017), US law enforcement charged 412 individuals in 30 US states for healthcare fraud involving over \$1.3 billion. Policies show good governance and due diligence in bringing awareness to fraudulent behavior (Lee, 2016). Prevention techniques such as fraud policies to educate and bring awareness or detection technique such as whistle-blower policy both empower the employees to detect and prevent fraud in the organization.

The lack of internal controls is one of the loopholes that enables fraudsters to avoid fraud detection (Dellaportas, 2013; Mackevicius & Giriunas, 2013) and as a consequence internal control is a topic that is widely studied. Whistle-blowing policy is helping to correct a wrongdoing in an organization through reporting suspected fraud or theft (Redman & Caplan, 2015).

As Morales et al. (2014) reported, effective fraud detection happened when the organizational culture had code of conduct policies and the workers were aware of fraud as negative and unacceptable behaviors. The pressure to commit fraud was lower, the integrity was higher and lower rational to commit fraud. A combination of code of conduct, whistle-blower policies, and in general fraud control policies should be combined to effectively prevent fraud (Moraga et al., 2017; Minogue, 2013). When the policies are clear on fraud and ethics, the workers understand what is expected. They also gain understanding with policies and codes of ethics to know what is right and what is wrong. With this knowledge, the workers can spot wrong-doing and report suspected fraud.

### **Training on Fraud Techniques in NFPOs**

The place for NFPOs to start the process of utilizing fraud prevention and detection techniques is through training. De Armond and Zack (2017) found it is important for NFPO leadership and boards to take action by creating ethical environments and educating employees and volunteers awareness of fraud through training. The stakeholders should combat fraud with governance. The NFPOs should have training for internal stakeholders to understand fraud and fraud risks to help with the elimination of the risks of fraud. De Armond and Zack (2017) reiterated that NFPOs have to weigh the cost of fraud prevention and detection measures to money spent on training. Employees can engage in workshop trainings on fraud and ethics to bring more awareness. NFPOs build a reputation for helping the community and should engage in education and learning to be due diligent as good stewards of donor's donations. Training helps the organization be more resilient to the threat of fraud and corruption and helps build strong ethical organizations cultures (Brytting et al., 2011). Godkin and Valentine (2016) found that ethics training helped individuals learn how to recognize unethical behavior and improved

his/her own reasoning. Employees are trained when inducted into the organizations or had online learning programs to help workers understand (Kelly et al., 2015) as well as the leadership would go to workshops on ethics and values.

### **Fraud Theories and fraud Plans in Practice**

If fraud prevention and detection techniques were implemented, the organizations would have strong safeguards and plans to prevent fraud and quickly detect fraud. It is important to study the reasoning behind fraud. Cressey (1953) found there is a common thread to fraud called the Fraud Triangle. In theory, the fraudster had a motivation (pressure and incentive), an opportunity to commit fraud, and a rationalization or neutral attitude that the action was not criminal. The individual would circumvent the internal controls and commit fraud. Cognitive Evaluation theory explains that an individual can have a social or external influence that can contribute to their behavior and will contribute to that individual committing fraud (i.e., making numbers look better than they are for personal reasons rather than just an ulterior motivation; Connelly et al., 2017). With both theories and maybe a combination, the stakeholders need guidance in prevention and detection of fraud. The stakeholders need to discover motivations, eliminate opportunities, and educate the employees against rationalizing wrong-doing, and even discovering individuals prone to commit fraud. Since theories exist, so do safeguard techniques to prevent or detect fraud. Fraud risk registers exist to show what checklists or red flags exist to prevent fraud through identifying key areas to reduce the likelihood of fraud (Efrim-Boritz & Timoshenko, 2014). The hiring manager can use the check-lists of flags to determine if the candidate is a risk. West (2014) reported a global fraud risk register for the general public and this may not be widely known in South Carolina at this time. However, the Association of Certified Fraud Examiners (ACFE, 2016) updates the online publicly reported list

of red flags annually showing the red flags such as: living beyond means, financial difficulty, unusually close association with vendor/customer, wheeler-dealer attitude, controlled issues (unwillingness to share duties), divorce/family problems, irritability/suspiciousness (or defensiveness), addition problems, complained about inadequate pay, no behavioral red flags, refusal to take vacations, excessive pressure from within organization, past employment-related problems, social isolation, past legal problems, excessive family/peer pressure for success, complained about lack of authority, and instability in life circumstances.

Employers should also have fraud plans to prevent and detect fraud available for internal stakeholders to review such as code of conducts that sets the tone for what behaviors the employer wants to exhibit. Godkin and Valentine (2016) explored the prevention technique of the use of codes of conduct/ethics policies that guides the organization's duties, overall principles, and expectations of ethical/appropriate behaviors. The code of conduct sets the organization, norms, and values/morals. The use of code of conduct reduces misconduct and improves transparency in preventing unethical practices (Bromley & Orchard, 2016). Setting the standards and guidelines for the organization seem to show much significance in the ethical tone and prevention of fraud. Through having a plan, this shows due diligence that ethics have been thought out and fraud is not acceptable in the organization. When the organization shows a no-tolerance for unethical behaviors, this helps to show the public the organization had the public's good intentions with the donations.

### **Fraud Policies in NFPOs**

When the internal stakeholders gain understanding and training on fraud, the internal stakeholders need to have policies that reinforce the fraud prevention and detection techniques. Fraud control policy can encompass several ideas for NFPOs. If the proper policies are in place,

the internal controls were stronger and it was clearer to understanding the overall organizational mission (Maguire, 2014). Fraud risk assessment is a tool that committees or managers can use to review programs and events to brainstorm potential fraud risks to lead to policies (Domanski, 2016). Policies such as whistle-blower policy help allow an internal stakeholder to correct a wrong-doing in an organization by reporting the fraud (Redman & Caplan, 2015). The organizational culture can set the tone for ethical or unethical behavior. The donors give money to help the NFPO supply the need or provide the service to the community. The NFPO should have a code of conduct and ethics that is very clear to the donor that the organizational stand is for the stewardship of their donation and helping the community flourish by providing the service or need.

### **Biblical Applications**

Humans should be stewards of God's creation. However, individuals are by nature sinful and are disobedient to God's will (Van Duzer, 2010). In Deuteronomy, the Bible explains that defrauding is wrong. "You shall not have in your bag differing weights, a large and a small. You shall have a full and just weight; you shall a full and just measure, that your days may be prolonged..." Deuteronomy 25: 13 -16 ESV. "A false balance is an abomination to the Lord, but a just weight is His delight" Proverbs 11:1 ESV. "Differing weights and differing measures, both of them are abominable to the Lord" Proverbs 20:10 ESV. "Is there yet a man in the wicked house, along with treasures of wickedness and a short measure that is cursed? Can I justify wicked scales and a bag of deceptive weights?" Micah 6: 10-11 ESV. Clearly the Bible gives direct proof that fraud is not acceptable.

### **Recommendations for Action**

Fraud prevention and detection techniques shows statistically significant relationship to fraud detection. All internal stakeholders of NFPOs will be impacted as a result of this study. The employees and volunteers will be directly impacted and will need awareness and training. The board and committees will be impacted and should have awareness and training. The public will be impacted because this will help organizational leaders be good stewards of their donations. The communities and people the organization serve will be positively impacted because the organization will continue to provide the goods or service to the community.

### **Awareness and Training**

The first recommendation is that internal stakeholders should start with awareness and training. The internal stakeholders may not be aware of what and how fraud occurs. The NFPO should develop a training and awareness program for internal stakeholders. Kelly et al.'s (2015) observed that anti-corruption (ethics) training helped decrease fraud risks. They found fewer incidences of corruption when the workers had training. Even the executives had more workshops on ethics and values, which set the tone at the top to have ethical behavior and display ethical practices, and influenced internal stakeholders. Carswell et al. (2014) reported that some organization hire professionals to conduct formal training. This can also be implemented when the employee, board members, or volunteers start working for the NFPO, they should have a training manual or even a video of the organization's mission. As Lumb (2017) interviewed leaders, the training manuals should be tailored to the specific business and should be understandable to non-accountants. The manual should be integrated with internal controls to monitor compliance and communicated with auditors.



Since NFPOs are created to serve the public with a need or service to help the community, the NFPO should also have high integrity. The training video can include basic training on fraud/theft awareness such as cash theft, asset/inventory theft, and fraudulent activities specific to the industry such as insurance claims for Medicaid in the health industry for internal stakeholders to understand (Salceanu, 2014; Lowers, 2013). Also, the internal stakeholders should have fraud awareness workshops where the leader/director or board member can show videos on fraud and have discussion on the types of fraud and how fraud can occur.

### **Strong Policies and Procedures**

Another recommendation is to have strong policies and procedures in place. When the workers know what to expect, they will also know what to notice if something is wrong (Okonta & Rossouw, 2014). The policies should help make clear that they require an ethical climate. If there are clear policies, the workers will know when something is not correct and the workers will potentially know if there is wrong-doing. The procedures show processes and steps on what should be happening in the organization and as Lee (2016) unfolded NFPOs that have clearly written procedures have better controls over fraud. The NFPO need to develop good policies and procedures for the internal stakeholders. This can be implemented by drafting the policies through the governing board and verified either by an accountant or human resource professional and this was the responsibility of the leadership (Copcinschi et al., 2016). The policies should clearly state code of conduct to set the ethical tone for the organization. The policies should express no tolerance for unethical practices. The procedures would be drafted by the internal staff who can give a step by step of day-to-day processes in the office from who checks the mail, who processes the mail and makes deposits, to who goes to the bank and deposits the funds, and returning the deposit remittal to the accounting office because the stakeholders should have an

active role in helping safeguard the NFPO (Bradley, 2015). The internal procedures will be reviewed by the board for any inconsistencies or weaknesses in the internal controls (Copcinschi et al., 2016). The policies should be provided to new workers and procedures given with the job descriptions. Supervisors, manager, human resources, internal stakeholders and board members would have copies of both policies and procedures.

### **Assessments and Reviews**

Another recommendation is to have fraud risk assessments and internal reviews. The potential risks need addressed and reduce the chances of fraud and prevent fraud. The NFPO need to develop a risk assessment control for internal stakeholders. This can be implemented when the workers meet to review the procedures, this would be a good time to assess the fraud risk and weaknesses in the internal controls. The assessments can be done by internal or external audit or committees (Brazel et al., 2015). When reducing the errors and eliminating fraud, the workers who do the day-to-day work need to work through the processes of the day to identify risk areas (Bradley, 2015). The identified risks should be presented and the workers should be empowered to give suggestions to reduce this fraud risk. The workers will brainstorm the processes and discuss as a team. If the risks are identified then, the group needs to decide if policy should be analyzed. The board would take the identified risks and implement changes to the policies and procedures.

### **Fraud Control Plans**

A last recommendation is to develop a fraud control plan to deal with situations as they happen (Domanski, 2016). This can be implemented when developing a whistle-blower policy and fraud control plan clearly understood by internal stakeholders. A whistle-blower policy is important for workers to know that if they suspect fraud that the workers can call a board

member with the concern and that the worker's report is anonymous (Morales et al., 2014). The board president information should be available as part of the employee's contact information given. When fraud was detected, the organization should have a fraud control plan (Lord, Miller, & McLaughlin, 2015). The plan would tier upon the severity of the fraud or theft. For example, if a case of water is missing, the report should be internal and the managers should review the records and note the incident. However, if there is payroll fraud, this should be reported to the board president and reported to the authorities. The plan will be how to handle this fraud and maintaining the reputation of the organization. If the incident is small, the publicity would be low. However, if the incident is huge, then the organization will want to present all the safe-guards that were given through fraud training, policies that prohibited unethical behaviors, and reiterate the mission.

### **Recommendations for Further Study**

One recommendation for further study is to target a segmented industry of NFPOs. This research showed eight different industries. Other research can study just health NFPOs or only social or education organizations. Certain nonprofit was not included in this study such as international foreign affairs. Also, the type of fraud can be analyzed such as Capelleveen et al.'s (2016) study of US health care and collusion with around \$700 billion dollars results from fraud. Studying segmented types of NFPOs would be important to find out if other types of NFPOs used fraud prevention and detection techniques and if those types of NFPs would have fraud detected while using the techniques to add more insight into what techniques are most effective in detecting fraud. Perhaps, there will be some insight into gaps in the different industries and the detection of fraud. Perhaps, there will be a certain type of fraud that will need further study

into why that's a fraud issue in those industries. Even the results of the study will be different in the different types of industries in NFPOs.

Similar studies were conducted in Australia and New Zealand. Other US states or regions can be studied to compare the results to see if prevention or detection techniques are more prevalent. Other areas may show no fraud prevention and detection techniques were statistically significant with the detection of fraud. Other areas may find specific fraud techniques statistically significant and lead to further insight into the issue of fraud in NFPOs. If the study can be conducted in other areas, this may lead to more awareness and more insights into the study of fraud. Other area may have a larger concentration of NFPOs that are willing to do multiple studies over several years to gather further insight into the issue of fraud and the effectiveness of fraud prevention and detection techniques.

### **Reflections**

The researcher found it was difficult to get surveys completed and returned in a timely manner. The researcher also found the state of South Carolina does not list email addresses of NFPOs, which took a lot of time to search for the leader's email addresses online. The state does provide mailing addresses for regions in South Carolina for a fee, although mailing would have been a slower response time rather than digital. However, mailing would have been more formal and perhaps had a better reception.

The researcher had a preconception that organizations would not report fraud detection. Since this was anonymous, the organizations felt more comfortable to accurately report fraud. It was helpful for the organizations to report accurately, so this could lead to further research on how to prevent fraud and detect fraud more quickly.

The results did surprise the researcher on how low the p-values were. This shows strong significance in the relationship between the use of the fraud prevention and detection techniques and the detection of fraud. The researcher expected it to be significant with levels close to 0.05 and all the p-values were below 0.04.

Humans should do good work bringing glory to God, “For we are his workmanship, created in Christ Jesus for good works, which God prepared beforehand, that we should walk in them” Ephesians 2:10 ESV. Committing fraud can directly hinder God’s will to do good work since the mission of most NFPOs is to help others with charity work. Fraud hinders the mission. “The integrity of the upright guides them, but the unfaithful are destroyed by their duplicity” Proverbs 11:3 NIV.

### **Summary and Study Conclusions**

The fraud prevention and detection techniques were examined in three groups. The combined fraud prevention and detection techniques group include fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, fraud control plan, whistle-blower policy, internal control review, and fraud control policy. The combined detection techniques group included whistle-blower policy and internal control review. The combined prevention techniques group included fraud risk assessment, fraud risk register, code of conduct, fraud assessment training, fraud control plan, and fraud control policy. This researcher found that the relationship between the use of all of the prevention and detection techniques and fraud detection were statistically significant in NFPOs in South Carolina. When fraud was detected, the NFPOs had techniques in place. The use of fraud techniques potential increases the chances of preventing or quickly detecting fraud rather than having no techniques in place. Also, the researcher found the relationship between prevention techniques as a group and fraud detection

was statistically significant in NFPOs in South Carolina. Fraud prevention techniques were in place when fraud was detected. Also, the researcher found there was a statistically significant relationship between the use of detection techniques as a group and the detection of fraud. There was enough statistical significance to show a relationship that when fraud was detected that fraud detection techniques were effective in the prevention and quicker detection of fraud. In summary of the findings, fraud prevention and detection techniques combined show strong statistical significant as well as fraud prevention or fraud detection techniques. Those techniques indicate there is a relationship with the all of the techniques and are effective in the detection of fraud.

Previous studies indicated internal stakeholders in NFPOs did not understand fraud prevention and detection techniques and lacked the education to detect fraud (Best et al., 2015; Udeh, 2012). In this study, the results indicated the NFPOs in South Carolina had fraud detected used the techniques which demonstrates a level of understanding prevention and detection techniques. Fifty-two percent of the South Carolina NFPOs in this study who had no reported fraud also indicated they did not use any fraud detection techniques. This could be problematic since roughly 86 percent of NFPOs with detected fraud were using fraud detection techniques. This may indicate there is potential of undetected frauds in some NFPOs included in the study because they are not using any of the fraud prevention or detection techniques.

NFPOs serve marginalized and disadvantaged groups of individuals in which fraud would hinder the mission such as building home in impoverished areas or combating a health crisis (Gamble & Beer, 2017). NFPOs also have limited funds and rely on donors and fraud would tarnish the reputation and the NFPOs would lose donors and greatly impact the organization's ability to fulfill the mission (Archambeault et al., 2014). The initial focus of this

study was to gain insight into the problem of internal stakeholders preventing or detecting fraud in NFPOs in South Carolina. The purpose of this study did show that using the quantitative correlational study that internal stakeholders in NFPOs in South Carolina effectively use fraud detection and prevention techniques and detected fraud.

NFPOs are particularly vulnerable to fraud and the average loss in 2014 was over \$100,000 on average (Giovino, 2014). In 2015, Bradley, 2015 reported millions of dollars were stolen from American Medical Colleges and thousands of dollars from a charity in Ohio their study. In this study in South Carolina, the average loss was over \$1,000 minimum and average maximum loss was over \$5,000. So, the take away from this is that fraud losses are high and the NFPOs suffer from these losses. Further research in this area is needed to combat the issue of fraud in NFPOs.

If fraud prevention and detection techniques were implemented, the organizations would have strong safeguards and plans to prevent fraud and quickly detect fraud. It is important to study the reasoning behind fraud. The Fraud Triangle, Cressey (1953) found that there is a common thread to fraud. The person commits the fraud has a motivation (pressure and incentive), an opportunity to commit fraud, and a rationalization or neutral attitude that the action was not criminal. The individual would circumvent the internal controls and commit fraud. Strong internal controls are very important as well as the other fraud prevention and detection techniques to safeguard the donor's contributions to the mission (Borba & Wuerges, 2014). The stakeholders need guidance in prevention and detection of fraud. The stakeholders need to discover motivations, eliminate opportunities, and educate the employees against rationalizing wrong-doing, and even discovering intrinsic individuals prone to commit fraud.

Researchers agreed NFPOs were vulnerable to fraud (Andres-Alonso et al., 2016; Clemenson & Sellers, 2013). The focus of research has shifted toward better understanding that leaders, management, and board members or stakeholders in general were responsible for financial situations of the organizations (Clemenson & Sellers, 2013). This study showed that clearly written policies help organizations with preventing and detecting fraud. This study helped internal stakeholders understand the holistic aspects of fraud. If the techniques are used, the culture can be swayed toward ethical practices and the training/awareness of fraud help to reduce the opportunities because the safeguards are in place. The use of the fraud prevention and detection techniques can lead to fraud prevent and lead to quicker detection of fraud through awareness and education.



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## Appendix A: NFP Fraud Survey

## Demographic Section:

1. Is your organization a nonprofit organization operating or registered in the state of South Carolina? Yes/No \_\_\_\_\_
2. How many employees (excluding volunteers) does your organization have? \_\_\_\_\_  
0-10  
11-25  
26-1000  
1000+
3. What is the annual budgeted income? \_\_\_\_\_  
Under \$100,000  
100,001 – 500,000  
500,001 – 1 million  
More than a million
4. What type of NFP organization applies? \_\_\_\_\_  
Health Care  
Education  
Foundations  
Religious  
Social Welfare  
Civic  
Agricultural  
Other

Survey for Research Section:

5. Has your organization suffered any of the following in the past five years (reported or not reported)? (select as many as appropriate)

Cash Theft

Payroll Fraud

Kickbacks/Bribery

Theft of Inventory/Assets

Database Fraud

Identity Theft (Intellectual Property)

Credit Card Fraud

Expense Account Fraud

Check Forgery

Online Payments Fraud/Theft

Financial Statement Fraud

None

Other

6. If you currently or previously had occurrences of fraud in your organization, did you have any of the following fraud prevention and detection measures in place when the fraud was detected? (Select as many as appropriate)

Fraud risk assessment

Fraud risk register

Codes of Conduct

Fraud awareness training

Whistle-blower policy

Fraud control plan

Fraud control policy

Internal control review

No measures

7. What is your estimate of the total value of all frauds suffered by your organization in the past five years? \_\_\_\_\_

\$1 – 100

\$101 - \$1,000

\$1,001 – 10,000

Over \$10,000

None

8. Which of the following fraud prevention and detection measures does your organization currently have? (Select as many as appropriate)

Fraud risk assessment

Fraud risk register

Codes of Conduct

Fraud awareness training

Whistle-blower policy

Fraud control plan

Fraud control policy

Internal control review

No measures

### Appendix B: Survey Tables

Table 1

Number of Employees (excuding Volunteers)		
Employees 0-10	51	47%
Employees 11-25	28	26%
Employees 26-1,000	29	27%
Employees >1,000	1	1%
<b>Total</b>	<b>109</b>	<b>100%</b>

Table 2

Annual Budgeted Income		
Less than 100,000	34	31%
100K to 500k	29	27%
500K to 1 Million	21	19%
More than 1 Million	25	23%
<b>Total</b>	<b>109</b>	<b>100%</b>

Table 3

Type of Organization		
Health	12	11%
Education	30	28%
Foundation	6	6%
Religious	11	10%
Social	35	32%
Civic	11	10%
Agriculture	2	2%
Other	2	2%
<b>Total</b>	<b>109</b>	<b>100%</b>

Table 4

Types of Theft/Fraud		
Cash	19	18%
Payroll	9	9%
Bribery/Kickbacks	4	4%
Inventory	24	23%
Check Forgery	4	4%
Financial Statement	2	2%
Database	12	11%
Identity	9	9%
Credit Card	12	11%
Expense Account	7	7%
Online Payment	3	3%
<b>Total</b>	<b>105</b>	<b>100%</b>

Table 5

Amount of Loss (min \$1)			Min	Max	Average loss
\$1 to \$100	25	42%	\$ 25.00	\$ 2,500.00	\$ 1,262.50
\$100 to \$1,000	20	34%	\$ 2,000.00	\$ 20,000.00	\$ 11,000.00
\$1,000 to \$10,000	9	15%	\$ 9,000.00	\$ 90,000.00	\$ 49,500.00
More than \$10,000	5	8%	\$ 50,000.00	\$ 500,000.00	\$ 275,000.00
<b>Total</b>	<b>59</b>	<b>100%</b>	<b>\$ 61,025.00</b>	<b>\$ 612,500.00</b>	<b>\$ 336,762.50</b>
			<b>Average per organization:</b>		
<b>59 organizations reported loss</b>			<b>\$ 1,034.32</b>	<b>\$ 10,381.36</b>	<b>\$ 5,707.84</b>