

**Is Your Board Effective? An Empirical Analysis of Nonprofit  
Organizations and How Their Board  
Contributed to Fraud**

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A Dissertation  
Submitted to  
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DOCTOR OF BUSINESS ADMINISTRATION

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by  
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## ABSTRACT

### **Purpose**

In any organization, the Board of Directors acts as the last line of defense against fraud and abuse. Since 2008, the Internal Revenue Service (IRS) has required nonprofit organizations to publicly disclose any significant asset diversion, defined as theft or unauthorized use of assets, that occurred during the filing year. This research study uses this new disclosure of asset diversion to investigate whether proper board policy oversight and/or governance reduces the likelihood of asset diversion. Understanding how policy and governance impacts a nonprofit organization is critical for managers and practitioners to understand. Organizational management, board members and regulatory agencies (auditors, IRS) all have a responsibility to prevent asset diversion and would benefit from a deeper understanding of where the individual failure points exist from within the organization that create an increased chance of asset diversion.

### Research Methodology

This research study spanned the period between 2014 through 2018 and was comprised of 254 nonprofit organizations. The total sample of organizations that were represented in the IRS data sets consisted of 113,899 separate nonprofit organizations. Organizational data collected from IRS 990 filings across each of the 5 years was first isolated by organizations that experienced asset diversion (n=127) and then matched with an equal number of nonprofit organizations that did not experience asset diversion through random sampling. From the IRS filing data, 18 different variables were then tested against the dependent variable, asset diversion, using logistic binary regression analysis.

## **Findings**

The findings of this study both reaffirmed certain key aspects of asset diversion in nonprofit organizations as well as introduced new key variables that showed significant correlation with an increase in asset diversion. The findings suggest that there are variables from both board policy oversight and board governance regression analysis that show a significant relationship with asset diversion. More specifically, there were three common variables that showed significance throughout each test: organizational required audit, independent auditors, and improper party transaction with family members of current or former directors and/or officers of the organization. One additional variable, improper party transaction with an entity owned or operated by a current or former officer and/or director, showed significance in four of the five models tested, indicating that there is a strong correlation with increasing asset diversion.

*Keywords: Fraud, Asset Diversion, Nonprofit, Binary Regression, Board of Directors, IRS 990 Filing*

## **DEDICATION**

I would like to thank my parents, David, and Joan DeMilio and both my sisters Kristen Ables and Gina DeMilio for being so supportive throughout my life. Having a close family that always rallies around you is a tremendous support system.

With immense gratitude, I would like to thank my wife Kelly DeMilio and my two boys, Ryan and Alex DeMilio, for their encouragement and support during this incredible journey. Your love, patience and unwavering understanding has always allowed me to continue to reach for new accomplishments. Everything that I do in my life is because I have you behind me propelling me forward. Thank you for your encouragement and for picking me up so many times throughout this process. Thank you is not enough.

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## **CHAPTER 1**

### **INTRODUCTION**

Every organization is vulnerable to fraudulent or abusive acts. Nonprofit organizations are especially susceptible to fraudulent actors due to their mission driven business model and the lack of subject matter expertise either at the company or board of director's level, or both. The theme of this research is to analyze the fraud and/or abuse phenomena, by testing asset diversion in nonprofit organizations through the lens of the board of directors' policy oversight and governance standards.

The Association of Certified Fraud Examiners (ACFE) reports that "its respondents estimated fraud losses of 6 percent of annual revenue," meaning that annual worldwide fraud losses may total \$2.9 trillion or more (ACFE 2010), with over 150 billion of fraud and abuse in the US (Ariella, 2022). "Further, results from a PricewaterhouseCoopers (PwC) worldwide survey of over 3,000 respondents from 54 countries indicate that 30 percent of respondents reported one or more fraud incidents during the preceding year" (Kaplan et al., 2011). As business progresses in America, increasingly complex financial arrangements are now a normal course of action. Nonprofit companies and nonprofit boards of directors are susceptible to misappropriation of funds and material misstatements due to poor board oversight and/or governance. Nonprofit companies are so susceptible in fact, that about one-sixth of all major embezzlements occur in the nonprofit industry (Stevens & Flaherty, 2013). The main objective of this study is to analyze how nonprofit board oversight and governance influences asset diversion and define these two distinct terms of variable measurement as board policy oversight and board governance. Using the

IRS 990 document, this paper defines board policy oversight as the overall management of the organizations policies and how their board's enforcement of these policies and procedures keeps the organization compliant. Board governance variables provide a way of measuring the organization's compliance with organizational policies from a more stringent focus and ensuring organizational regulatory independence. This research defines board policy oversight to include the following areas:

- Does the nonprofit organization have voting members?
- Does the nonprofit organization have conflict-of-interest policies?
- Does the nonprofit organization have whistleblower policies?
- Does the nonprofit organization have record retention and destruction policies?
- Does the organization require an annual audit?
- Does the nonprofit organization have a committee that is responsible for overseeing annual audits?

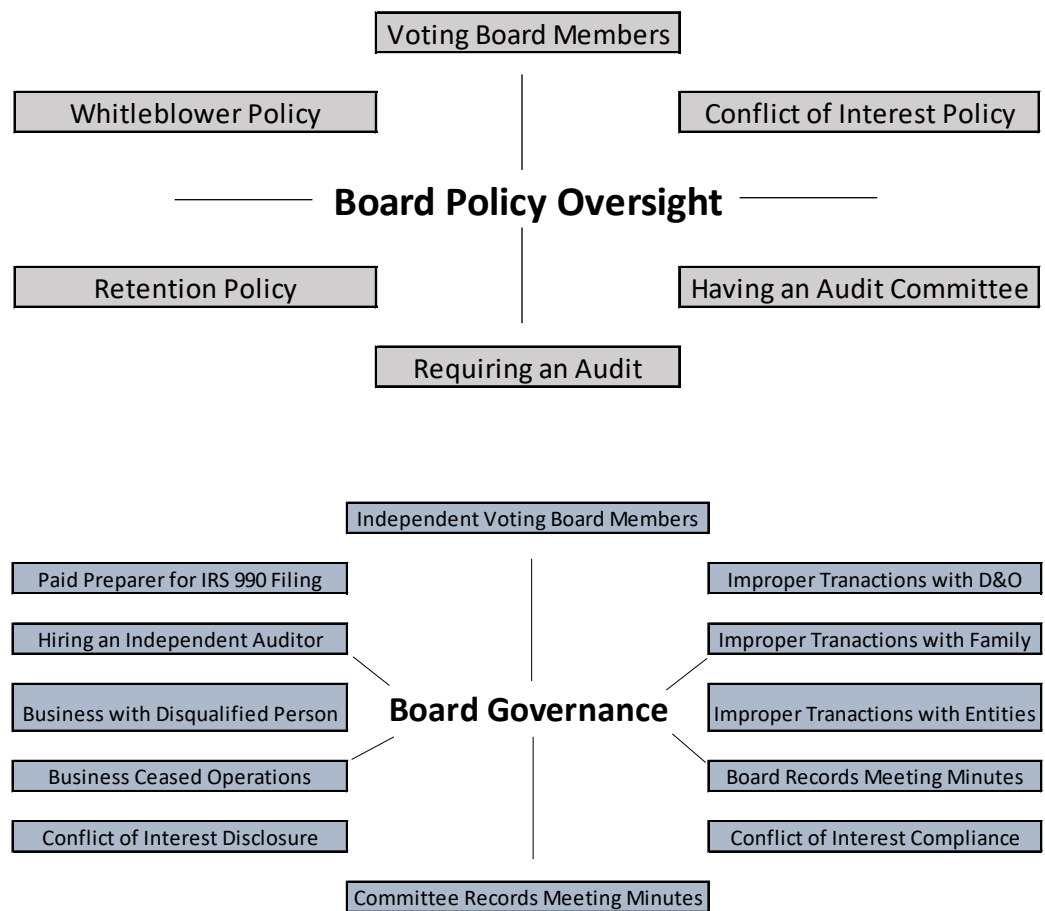
Board governance, as defined in this research, is a set or variables designed to further test the board policy oversight by identifying correlated independent testing of the organizations policies. This research defines board governance to include the following areas:

- Are the board's voting members independent voting members?
- Does the board's conflict-of-interest policy require an annual disclosure and annual compliance plan?
- Does the board use a third party to prepare their IRS 990 filing?
- Does the board use an independent audit group to complete their annual audit?
- Has the organization allowed transactions to take place with disqualified or inappropriate persons, including current or former directors and/or officers, or their families of entities owned or operated by them?
- Does the board keep board minutes?
- Does the board committee that is responsible for the audit keep committee minutes?

This research will explore the following questions related to this theme:

- Does the board’s policy oversight influence asset diversion in nonprofit organizations?
- Does the board’s governance influence asset diversion in nonprofit companies?
- Is there an interdependent structure between board policy oversight and board governance as defined in this research?
- Do specific governance committees, such as the audit or governance committee, help to eliminate asset diversion in nonprofit organizations?
- What internal controls (board governance) variables show a negative correlation to asset diversion in nonprofit organizations?

Figure 1. Board Policy Oversight and Governance Variables.



This research defines asset diversion to mean willful and malicious deception that breaks the trust covenant between employees, officers of a company, boards, and their stakeholders. Asset diversion is akin to fraud and abuse in the way that it defames the mission that a nonprofit organization seeks to carry out. As nonprofit organizations experience fraud and abuse, public trust is eroded, undermining the company's ability to execute its mission and serve the nonprofit's population and stakeholders. This is especially troublesome when the fraud or abuse is a result of poor board policy oversight or lack of board governance.

One of the distinct factors that makes for-profit companies different from nonprofit companies is the way that these organizations are regulated. As a result of the well-known for-profit companies that have publicly experienced fraud and abuse, the Sarbanes-Oxley Act was enacted in 2002, also known as the Public Company Accounting Reform and Investor Protection Act. Nonprofit companies have yet to see this level of sweeping compliance legislation and have been left to be regulated by State or industry specific audit rules which are, at best, sporadic and inconsistent. However, in 2008, the Internal Revenue Service (IRS) began requiring nonprofit organizations to disclose in their 990 Form tax filing whether they were aware of any significant asset diversions during the year (Khandra et al., 2019). Part VI, Section A of the 990 filing, covers governance, management, and disclosure best practices. Question 5 asks "Did the organization become aware during the year of a significant diversion of organization's assets?" (IRS, 2008). The IRS defines a significant diversion of assets to mean a fraudulent event in which the gross amount exceeds the lesser of 5% of gross receipts, 5% of total assets at year end, or \$250,000. A

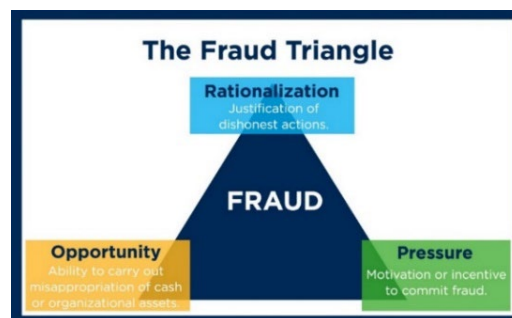
diversion of assets includes any unauthorized conversion or use of the organization's assets including, but not limited to, embezzlement or theft activities (IRS, 2019). Nonprofit organizations are also required to answer a comprehensive list of governance questions that are designed to assess the level of risk that each nonprofit is disclosing in their annual filing (Harris et al., 2015).

## CHAPTER 2

### LITERATURE REVIEW

To better understand how board policy oversight and board governance can influence asset diversion, this research outlines the phenomenon of fraud in nonprofit companies and the theoretical framework of the fraud triangle model to organize the research and categorize the frauds taking place. Additionally, the research outlines how the board governance and internal control structure influences company compliance and asset diversion. First, it's important to understand what theoretical fraud frameworks exist that examine how and why fraud is committed. Donald Cressey's fraud triangle theory is perhaps the most well-known concept as it purported that there were three "legs" to fraud; rationalization, opportunity, and pressure. This study will analyze the opportunity aspect of the fraud triangle to further understand the relationship between the dependent and independent variables regarding board policy oversight and governance. This framework is influential in understanding the phenomenon of asset diversion in nonprofit companies by analyzing the theoretical understanding of how fraud occurs. This research uses this theory as the fundamental understanding of fraud and how bad actors perpetrate asset diversion.

*Figure 2. Cressey's Fraud Triangle (1950).*



## **The Fraud Triangle**

The expansive body of research in the field of fraud has steadily evolved since 1950 when Donald Cressey categorized fraud and further explained fraudster motivation and behavior. Cressey set out to study why people commit fraud, and his research led him to focus on the trust covenant that exists between employees and board members or stakeholders and why individuals violated this trust in the face of criminal prosecution (Cressey, 1950). The fraud triangle has been used in countless journal articles or fraud publications and it has served as the standard for understanding the three dominant motivations of fraud that are most commonly present during the act: rationalization, opportunity, and pressure (Cressey, 1950). The fraud triangle theory has been at the center of various other fraud theories and has helped explain the criminal's motivation and blend this theory with the psychological aspects of fraud.

Cressey referred to the pressures that an organization faces typically as a manifested type of external financial performance pressure. This external force can be from either a board of directors, stakeholders, or executive management. These pressures for the firm to perform can be so profound that it drives employees to commit misstatements to preserve their careers or fulfill bonus levels for personal monetary gain. When it comes to employee pressures Cressey wrote that "persons become trust violators when they conceive of themselves as having incurred financial obligations which are considered as non-socially sanction-able and which, consequently, must be satisfied by a private or secret means" (Cressey, 1953, 741).

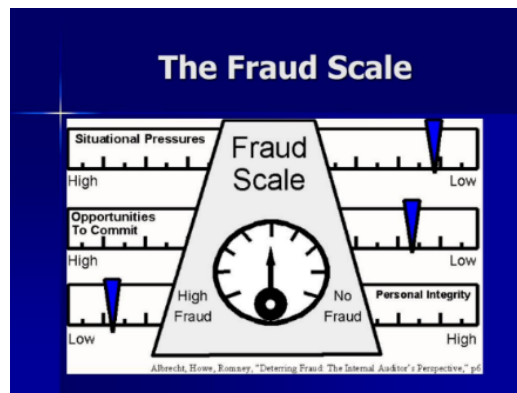
The opportunity to commit fraud stems from employees' influential positions within the company and how they circumvent internal controls, if any exist. Fraud opportunity is further explained as "perceived opportunity that arises when the fraudster sees a way to use their position of trust to solve the financial problem, knowing they are unlikely to be caught (Abdullahi et al., 2015, 31). Fama et al. (1983) explain that the separation of risk bearing (Board of Directors) from decision management (Executives/Managers) leads to decision systems that separate management from control. This fundamental understanding of the separation of power and control is at the heart of Cressey's theory of how to prevent fraud opportunity.

Cressey's third leg of the fraud triangle model is rationalization. Cressey referred to rationalization as verbalizations used by trust violators as a reflection of "cultural ideologies which adjust for the person's contradictory ideas" (Cressey, 1950, 743). The literature defines fraud rationalization as "justification that the unethical behavior is something other than criminal activity" (Abdullahi et al., 2015, 33). Stemming from Cressey's criminality study, Hooper et al. also describe the concept of rationalization by saying, "Individuals who commit fraud possess a particular mind-set that allows them to justify or excuse their fraudulent actions." (Abdullahi et al., 2015, 33). I didn't have a choice, I would have lost everything, or I work 80 hours a week, and I deserve the money, are all classic examples of the fraud triangles rationalization stage.

## Other Fraud Theories

There have been various new fraud theories that have spawned from the fraud triangle to further expound on why employees defraud their companies. Theories such as the fraud scale theory or the fraud diamond theory have gained notoriety as theories that have been built on Cressey's original "Criminal Violation of Financial Trust" (fraud triangle). Albrecht's fraud scale theory "looks at the scale of the probability of fraud occurring from the existence of these three causes. Therefore, the theory of triangle fraud developed into the theory of fraud scale" (Ardi, 2019, 58) The fraud scale theorizes that there are three factors that cause fraud: situational pressure, opportunity, and personal integrity. Albrecht expanded on Cressey's model by replacing rationalization with an individual's personal integrity to apply measurable variables more easily to testing.

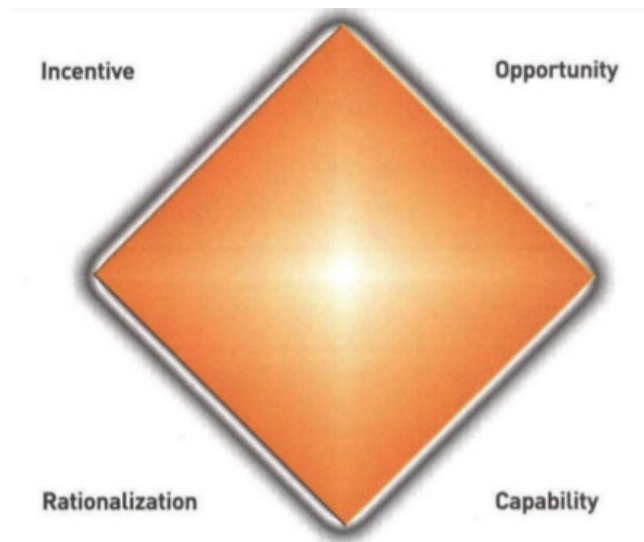
*Figure 3. The Fraud Scale, Albrecht, Howe, Romney, (1983).*



A further attempt to enhance Cressey's work, the fraud diamond theory, was introduced in 2004 and consists of four elements: incentive, opportunity, rationalization,

and capability. In similar fashion to the triangle theory, this research uses the opportunity to build the study in terms of opportunity for fraudsters to commit and sustain fraud or abuse. The board of directors is effectively the last line of defense and is responsible for ensuring that the organization operates in a lawful and compliant manner based on the applicable regulations and how they define financial compliance. The opportunity to commit fraud is only available if the board's policy oversight and governance are lacking.

*Figure 4. The Fraud Diamond, Wolfe, Hermanson. 2004*



## CHAPTER 3

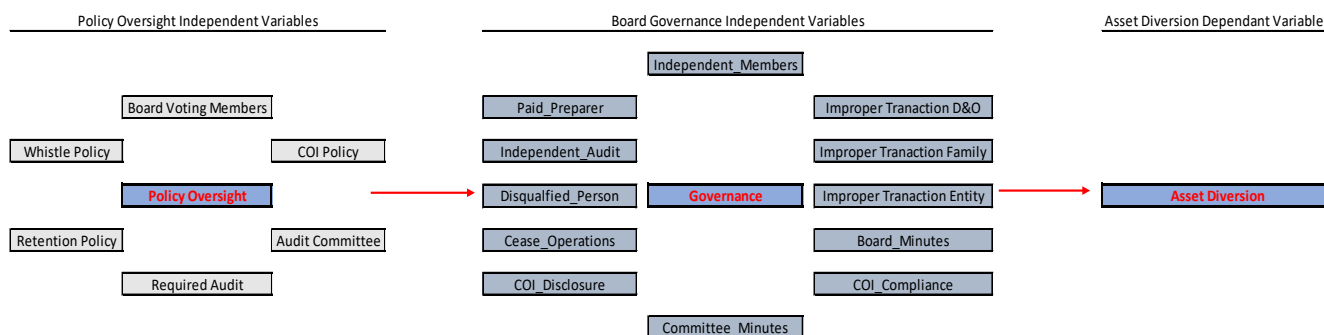
### RESEARCH PAPER OVERVIEW

For the purposes of this study, even with proper motivation and rationalization, one could argue that opportunity is the propellant that makes fraud possible in most cases. One of the key tenets of the fraud triangle theory lies within the opportunity for unethically motivated employees to defraud the company. The Board of Director's role in nonprofit organizations acts as the steward of the organization and is the last line of defense in regulating and ensuring that compliant business is carried out. The opportunity to commit fraud and the Board of Directors oversight and governance is tied closely together in both for-profit and nonprofit organizations. Fama and Jensen contend that, "the separation of decision and risk-bearing functions observed in corporations is common to other organizations such as professional partnerships, financial mutuals, and nonprofits". (Fama & Jensen 1983, 301) In this sense, a separation of management and ultimate decision making is a shared paradigm across all organizations.

Although the research surrounding fraud and abuse in organizations is rich and ever expanding, there is an existing gap in the literature when it comes to for-profit companies vs. nonprofit organizations. Much of the literature and testing that has been evaluated and documented has been in response to IRS or SEC compliance measures over the last 20 years, especially regarding internal organizational controls. There is also a noticeable gap when it comes to board oversight and governance vs. the external audit's role in protecting shareholders. This research bridges this gap with an empirical analysis of nonprofit boards, rooted in theory and measured with IRS secondary data.

## Conceptual Model

Figure 5. Conceptual Map.



## Research Questions

- Does the board's policy oversight influence asset diversion in nonprofit organizations?
- Does the board's governance influence asset diversion in nonprofit companies?
- Is there an interdependent structure between board policy oversight and board governance as defined in this research?
- Do specific committees, such as the audit committee, help to eliminate asset diversion in nonprofit organizations?
- Do independent, third-party auditors or preparers influence asset diversion?
- What internal controls (board governance) variables show a negative correlation to asset diversion in nonprofit organizations?
- Was poor board policy oversight and/or governance present during documented cases of asset diversion?

## Hypothesis

Historically, fraud has been a pervasive issue that nonprofit organizations have combatted for decades. The role of policies and procedures as a governance tool has evolved over time from a need to steadily ensure compliance and shepherd an organization away from fraud opportunities and risk. But there is no doubt that fraudsters will always find a way to scam or mislead for greed or prominence. The board of directors in a nonprofit organization acts as the governing body that spreads risk and decision making

across qualified directors to prevent frauds such as asset diversion. This research study creates two distinct categories that describe how the board of directors will manage risk in a nonprofit organization. These two risk management categories are identified as policy oversight and governance. The distinction between the two terms identifies hierarchy in how the board will regulate the organization. The term board policy oversight is the internal makeup of the board's required compliance policies. This less stringent method first identifies what policies and base compliance is achieved in the organization with best practices, such as:

- Requiring that the organization has written policies aimed at preventing asset diversion.
- Requiring that the organization conducts an annual audit. Because not all organizations require an audit, this is a base line best practice to control risk.
- Organizing the nonprofit in such a way that the board of directors has voting members. This is not a requirement of all nonprofit organizations.
- That the Board has a select committee that has responsibility for the annual audit. This is a best practice that enhances transparency and compliance culture for organizations that require an annual audit. This provides further compliance and best practices to manage the organization's risk.

The most stringent level of regulation that is identified in this research is board governance. This research defines the term board governance as carrying out all the required board policy oversight requirements and documenting how the board successfully manages the organization's risk with review, disclosure, and independent examinations.

Board governance encompasses a specific set of criteria as defined in the IRS 990 documents to include the following set of criteria:

- Requiring that the Organization underwent a required annual audit, and that this audit was performed by an independent source, not related to the organization. The requirement of an independent auditor is a more expensive regulatory step but it is a more comprehensive way to prevent asset diversion.
- Requiring that not only is the organization required to have voting members, but these voting members must be independent members that are not employed or financially tied to the organization.
- Requiring that the board audit committee that is responsible for the annual audit also keeps written meeting minutes. This best practice is a third layer of compliance for the board's structure (requiring an audit, requiring an audit committee, requiring documented meeting minutes).
- Requiring that the organizations written policies consist of a conflict-of-interest policy, that it has a required annual disclosure of conflict for all board members and organizational employees.

Through the literature review as well as data gathering and analysis, the stated hypothesis recognizes the hierarchy in the board's regulatory methods. The hypothesis identifies the interdependence of the board policy oversight and governance models that have been defined herein. The following null hypothesis highlights this intersection.

H0: The presence of board policy oversight variables without board governance variables will not reduce asset diversion in nonprofit companies.

The stated hypothesis focuses on the organization's board makeup and the level of stringent governance that the board establishes to ensure organizational compliance. The model hypothesizes that both variables are distinct factors that influence asset diversion in nonprofit organizations. H0 hypothesizes that board policy oversight alone will not produce variables that will show significance in reducing asset diversion.

To understand how the variables will influence asset diversion, it is necessary to further define each variable and predict the effect that the variable will have on asset diversion.

Does the organization have voting members of the board- having a board with voting members is an initial step towards board independence. Having voting members of the board will serve to reduce asset diversion.

Does the organization have a conflict-of-interest policy- the organization's conflict-of-interest policy indicates that the organization is taking steps toward identifying conflict-of-interest either on the board or within the organization. Having a conflict-of-interest policy will reduce asset diversion.

Does the organization have a whistleblower policy- a whistleblower policy acts as a decree to all employees to fight fraud waste and abuse. The creation of a whistleblower policy will reduce asset diversion.

Does the organization have a document retention and destruction policy- the organization's document retention and destruction policy signify that the organization

adheres to best practices and doesn't have anything to hide. Adherence to a document or retention policy will reduce asset diversion.

Does the Board have an audit committee- creating a committee that is responsible for governance and/or audit regulation indicates the organization's willingness to sustain a systematic review of the organization's policies, procedures, and financials. The creation of an audit committee where the committee chooses the auditor and is responsible for workpapers will reduce asset diversion.

Is the organization required to conduct an audit- because the organization is not required to conduct an audit, these variable test the organizations policies. This audit variable documents whether the organization has chosen to require an annual audit. The required audit of the organization will reduce asset diversion.

Independent voting members of the board- this variable measures a deeper aspect of the composition of the board. It serves as a further testing variable that measures whether the voting members of the board are independent, meaning they have no relation to the board and derive no monetary gain. Having voting members of the board that are independent will reduce asset diversion.

Paid preparer of 990 filing- nonprofit organizations have a choice to either hire a third-party preparer or to prepare the 990 filing internally. Having an independent preparer that is aggregating work papers and further reviewing financial statements to complete the 990 filing will serve to reduce asset diversion.

Independent auditor- depending on certain factors, most nonprofit organizations aren't even required to conduct an audit, let alone have a requirement for that audit to be

done by an independent source. If an organization is required to conduct an audit this variable further measures the impact of that audit through the use of an independent third-party audit group. If the audit that is conducted is not performed by an independent source, then the organization could be conducting more of a review, hence, the quality of the audit could be affected. Having an independent auditor that reviews work papers and forms an independent opinion about the organization will serve to reduce asset diversion.

Doing business with a disqualified person- if an organization has not taken the required due diligence to exclude disqualified persons from business activities, then the organization could subject itself to disciplinary action and/or asset diversion. Doing business with a disqualified person will serve to increase asset diversion.

Business transaction with former officer or director- if an organization is engaged with a former officer or director then a conflict-of-interest could arise. Inside information that compromises the organization in any way could be problematic. An organization that is engaged with a former officer or director would serve to increase asset diversion.

Business transaction with a family member of a former officer or director- if an organization is engaged with the family member of a former officer or director then a conflict-of-interest could arise. In most cases, conflict-of-interest scenarios with family members and former directors and officers are forbidden. If an organization engages with the family member of a former officer or director in significant business transactions this would serve to increase asset diversion.

Business transaction with an entity owned or operated by a former officer or director or family member- this type of business arrangement with an entity that is either

owned or controlled by a family member of a former officer or director, or if the entity is owned directly by the former officer or director, this could give rise to non-arm's length transactions, embezzlement, theft, or no bid contracts. Very often, asset diversion is carried out when the perpetrator has an inside understanding of the internal workings of the organization and how to circumvent internal controls. Doing business with an entity that has significant conflict-of-interest will increase asset diversion.

Did the organization cease operations- if an organization ceased operations during the that asset diversion was disclosed, that information would be pertinent to understand if asset diversion was a significant factor. An organization that ceases operations would be a factor that increases asset diversion.

Is each board meeting documented with board minutes- this variable provides a deeper understanding of the board oversight in terms of how the board conducts meetings. Beyond the board meetings policy lies the question, did the board responsibly record meeting minutes that conveyed all the information that was disclosed during the meeting. If the board is properly recording meeting minutes this will reduce asset diversion.

Is each committee meeting documented with committee minutes- this variable provides a deeper understanding of how the board's committees operate and how oversight and/or governance was conducted for each committee. Information such as which audit firm was chosen is an example of board meeting decisions that should be captured in the minutes. If the board is properly recording the committee's minutes this will reduce asset diversion.

Required annual conflict-of-interest disclosure- this variable measures board policy effectiveness through governance by requiring the completion of an annual conflict-of-interest disclosure across the organization, including all board members. This additional layer of oversight would serve to reduce asset diversion.

Required annual conflict-of-interest compliance- this variable is a further measurement of the conflict-of-interest disclosure. If the organization is requiring a formal compliance structure for conflict-of-interest disclosures, then this process serves as an additional layer of oversight to ensure the conflict-of-interest does not rise between the organization and disqualified employees, former directors or officers, their family members, or entities controlled by former directors or officers. This additional oversight would serve to reduce asset diversion.

### **Methodology- Study Design and Procedures**

Measuring financial fraud is largely quantitative in nature based on the financial statement aspect of business and the emphasis on fiscal analysis. The “why” factor of fraud is an equally important but very different analysis and is best measured with a qualitative approach that would include interviewing known fraudsters and organization officials to better understand their motivation. As Cressy demonstrates, a qualitative approach to data gathering is critical in understanding the mind of a criminal. Although qualitative research is a dynamic tool in fraud observation, this study will focus on secondary data using a quantitative approach to data analysis that shows how opportunity gives way to asset diversion.

This study focuses on secondary data that is reported on the IRS 990 tax filing form that all nonprofit organizations are required to complete annually. Historically, nonprofit data that disclosed fraud and abuse was difficult to obtain. However, in 2008 the IRS enacted a major shift in legislation for nonprofit organizations and started to require fraud disclosures with a targeted question on the IRS 990 form to find organizations that had “significant asset diversions during the year” (IRS 990 filing, Section VI, question 5). Nonprofit organizations are also required to answer a comprehensive list of governance questions that further attempt to detect anomalies and risk (Harris et al., 2015). This data is available by year on the IRS website under the Statistics of Income (SOI) data files.

The primary purpose of this study is to examine the board policy oversight and governance practices of nonprofit organizations and examine the effects of these practices on the probability of asset diversion taking place within the organization. To test the hypotheses, IRS 990 nonprofit filings were examined by isolating only the organizations that disclosed a significant asset diversion during the year. This data collection method is like the Khadra & Delen (2019) approach and allows the research to evolve from reported instances of asset diversion while applying an empirical test of board policy oversight and governance.

Because of the voluminous nature of the SOI files and the substantial lines of data contained in each of the 990 returns, the IRS uses ASCII text format for user downloads. An example of the data output is captured in Appendix B. This data set is challenging to work with because of its binary nature and how the data is presented; it is therefore necessary to build an algorithm to pull out the precise answers to the questions. The data

was formatted and imported into an excel spreadsheet for the years 2014 to 2018. The data, when imported into Excel in ASCII format, creates large strings of converted text and numbers separated by large stretches of blanks and/or characters such as + or -. The first step to convert the data was to find and replace all the separation characters with one common character. The character chosen in all data sets was the comma. Once all the data was uniformly separated by commas, then a process of delimiting the data was necessary to separate relevant 990 data into columns to build a strategy to extract "Y" answers to the question "did the organization become aware during the year of a significant diversion of the organization's assets?" (IRS990, Part VI, Question 5). Once the data was delimited and separated into separate columns, the data still consisted of long strings of text data that represented answers to IRS 990 questions in order, following the IRS 990 format. This process allowed the data to be scrubbed to find the specific answer to the asset diversion question in a long string of text for each organization included for each year. From there, a MID function was written for each organization to extract the text, either Y or N, that would indicate their asset diversion reporting. These extracted answers were then isolated in a separate column where they were able to be filtered by Y or N, with all the Y's being reported instances of asset diversion. The isolated data was then collected and further scrubbed in a separate spreadsheet to identify the name of the organization and their EIN number. This same process was completed for the years 2014 through 2018. Once the sample of positive organizations was identified, it was necessary to then obtain and store each actual IRS 990 filing for all 127 Y's (Table 1) that were identified during the sampling process. All the IRS 990 filings were obtained, in their entirety, and stored in files by year.

All 127 organizations were checked manually to ensure that the organization did report an answer of Y to the asset diversion question. Finally, this provided a 5-year sample of nonprofit organizations that experienced asset diversion. All five years of total data and sampling are represented in Table 1 below.

*Table 1. Asset Diversion Sample.*

<i>Sample Year</i>	<i>IRS 990 SOI Total Organizations</i>	<i>Nonprofit Organizations with Asset Diversion</i>
2014	21,789	21
2015	22,160	23
2016	22,856	32
2017	23,745	28
2018	23,349	23
<b>Total</b>	<b>113,899</b>	<b>127</b>

To avoid bias in the sampling, the matching principle was used as a statistical technique to evaluate the effects of the positive asset diversions by comparing them with other organizations that reported for asset diversion in the same years. Because the treatment is not randomly assigned, it's necessary to match organizations in the sample that did not experience asset diversion, effectively doubling the sample.

In Appendix C, the data is shown as selected sections from IRS 990 as it is presented to the IRS. The questions that are examined have been highlighted in the hypothesis section of the paper to include 6 policy oversight measurement variables and 12 governance measurement variables that were tested in several regression analyses to show probabilities related to asset diversion in the selected organizations (Table 2). The data was then aggregated for each organization and converted to binary coding where all the Y entries for each variable were converted to 1 and all of the N's were converted to 0 to make the regression analysis possible. Table 2 below shows all the variables coded.

*Table 2. Policy Oversight & Governance Coded Independent Variables.*

<b>Policy Oversight Measurement</b>		
<b><u>IV Coding</u></b>	<b><u>IRS 990 Question</u></b>	<b><u>Values</u></b>
Voting_Members	Number of voting members of the governing body at the end of the tax year?	
COI_Policy	Did the organization have a written conflict of interest policy?	Yes/No
Whistle_Policy	Did the organization have a written whistleblower policy?	Yes/No
Retention_Policy	Did the organization have a written document retention and destruction policy?	Yes/No
Audit_Committee	Does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?	Yes/No
Required_Audit	As a result of a federal award, was the organization required to undergo an audit or audits as set forth the Single Audit Act and OMB Circular A-133?	Yes/No
<b>Governance Measurement</b>		
<b><u>IV Coding</u></b>	<b><u>IRS 990 Question</u></b>	<b><u>Values</u></b>
Independent_Members	Number of independent voting members of the governing body at the end of the tax year?	
COI_Disclosure	Were officers, directors, or trustees and key employees required to disclose annually interests that could give rise to conflicts?	Yes/No
COI_Compliance	Did the organization regularly and consistently monitor and enforce compliance with the (conflict of interest) policy?	Yes/No
Paid_Preparer	Did the organization have a paid preparer of the 990 statement?	Yes/No
Independent_Audit	Did the organization obtain separate independent audited financial statements for the tax year?	Yes/No
Disqualified_Person	Did the organization engage in an excess benefit transaction with a disqualified person during the year?	Yes/No
Business_Trans_D&O	Was the organization a party to a business transaction with a current or former officer, director, trustee, or key employee?	Yes/No
Business_Trans_Family	Was the organization a party to a business transaction with a family member of a current or former officer, director, trustee, or key employee?	Yes/No
Business_Trans_Entity	Was the organization a party to a business transaction with an entity of which a current or former officer, director, trustee, or key employee was an officer, director, trustee, or direct or indirect owner?	Yes/No
Cease_Operations	Did the organization liquidate, terminate, or dissolve and cease operations?	Yes/No
Board_Minutes	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the governing body?	Yes/No
Committee_Minutes	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by each committee with authority to act on behalf of the governing body?	Yes/No

## Data Analysis Results

Since this study relies on secondary data to measure the variables, the data needed to undergo a significant transformation to be properly categorized. An example of the raw data from the IRS 990 filings is represented in Appendix C with the semi-categorized data being represented in Appendix B.

To aggregate and test all the independent variables, the data was categorized with all the policy oversight and governance variables in separate tabs in excel. Each tab represents both the organizations that were identified as experiencing asset diversion and the matched organizations resulting in 254 different organizations that were isolated and analyzed. To ensure accuracy, each of the 990 filings for the five years were obtained for each organization and manually analyzed to extract the nominal answers to each of independent variable and categorized in spreadsheets in the organizational tabs. The data was then organized in Excel as shown in Table 3.

Table 3. Independent Variables Testing

Organization	DV		Policy Oversight					Governance											
	Asset_Diversion	Voting_Members	COL_Policy	Whistle_Policy	Retention_Policy	Audit_Committee	Required_Audit	Independent_Members	Paid_Preparer	Independent_Audit	Disqualified_Person	Business_Trans 1	Business_Trans 2	Business_Trans 3	Cease_Operations	Board_Minutes	Committee_Minutes	COL_Disclosure	COL_Compliance
2915480315147315818691506 ALPHA XI DELTA BUILDING CORPORATION OF EDMOND OKLAHOMA	Y	Y	N	N	N	N	N	Y	N	N	N	N	N	N	N	Y	Y	N	N
2916030024031317246561412 PELHAM COUNTRY CLUB	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	N	N	N	N	Y	Y	N	N
2916350001181316242021508 TEACHERS COLLEGE COLUMBIA UNIVERSITY	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N	N	N	N	Y	Y	Y	Y
9315460335135609428531412 Population Services International	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N	N	Y	Y	Y	Y
9315460372141356486111412 MASONIC MEDICAL RESEARCH LABORATORY	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	N	N	N	N	Y	Y	Y	Y
9315460416089303915731412 GOOD SAMARITAN HOSPITAL CORVALLIS	Y	Y	Y	Y	Y	Y	N	Y	N	N	N	N	N	N	N	Y	Y	Y	Y
9315460416179301100951412 ALBANY GENERAL HOSPITAL	Y	Y	Y	Y	Y	Y	N	Y	N	N	N	N	N	Y	N	Y	Y	Y	Y
9315460448107606607891412 Educational Developers Inc	Y	Y	N	N	N	N	N	Y	N	N	N	N	N	N	N	Y	Y	Y	Y
9315460467033621670111412 FIELD MUSEUM OF NATURAL HISTORY	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y	Y	Y

In order to test and interpret the data and findings with accuracy, 4 testing methods were utilized. First, the data’s descriptive statistics were aggregated and analyzed by generating summaries about the data. Next, the sample was tested with multiple regression analysis. Next, a robustness test was completed through a correlation matrix to depict all the possible patterns in the data to further develop the significant variables that were identified in the other testing methodologies. Finally, a 2x2 matrix was built to show the probability of asset diversion in four distinct quadrants.

## Descriptive Statistics

The purpose of this study is to break down two distinct elements of analysis to explain the relationship between how a nonprofit organization operates and how their board of directors govern. Separating out these distinct elements (board policy oversight and board governance) also uncovers trends in the data that further elucidates these relationships. With the analysis of each variable, it is important to understand how they affect asset diversion.

There were a few surprising statistics that were noted for both the asset diversion sample as well as the non-asset diversion sample.

- 253 organizations answered yes to having voting members of the board of directors, with one blank (nearly 100% of the sample).
- There were 23 instances where organizations in the asset diversion group did not pay for an outside IRS 990 preparer to complete their filing versus only 12 instances in the non-asset diversion group, almost 50% more.
- Having a policy for conflict-of-interest, whistleblower, or retention and destruction showed no significance in terms of reducing asset diversion.
- 46% of asset diversion companies were not required to complete an annual audit versus only 12% of non-asset diversion organizations.
- Only 30% of asset diversion organizations had an outside independent auditor prepare their financial statements versus 54% of non-asset diversion organizations.
- In terms of board and committee compliance, meeting minutes were not a factor in reducing asset diversion.

Perhaps the largest area that produced the most robust data centered around the conflict-of-interest policy, its annual disclosure and compliance juxtapose to the improper party transactions that took place in asset diversion organizations. Although organizations that experienced asset diversion had conflict-of-interest policies and required annual disclosure and compliance with these policies, they also had much higher instances of

improper party transactions. Meaning, organizations that were experiencing asset diversions had policies that were circumvented. This result indicates that real organizational governance from the board of directors is achieved more successfully when outside third party, independent reviewers are either preparing financial statements or completing the organizations IRS 990 filings. 76 different asset diversion organizations answered yes to “was the organization a party to a business transaction with one of the following parties... an entity (or family member) of which a current or former officer, director, trustee, or key employee or a family member was an officer, director, trustee, or direct or indirect owner” (IRS 990 filing, Table 4) versus only 11 instances in the non-asset diversion organizations. The data indicates that asset diversion is taking place within the organization through improper business transactions with former employees, their family members, or entities owned by former employees.

*Table 4. Descriptive Statistics Breakdown*

	Asset Diversion						Non Asset Diversion							
	Yes	No	n	Blanks	YES %	NO %	Yes	No	n	Blanks	YES %	NO %		
Reduce Asset Diversion	Voting_Members	126	0	126	1	99%	0%	Voting_Members	127	0	127	0	100%	0%
Reduce Asset Diversion	COI_Policy	111	16	127	0	87%	13%	COI_Policy	109	18	127	0	86%	14%
Reduce Asset Diversion	Whistle_Policy	105	22	127	0	83%	17%	Whistle_Policy	99	28	127	0	78%	22%
Reduce Asset Diversion	Retention_Policy	108	19	127	0	85%	15%	Retention_Policy	99	28	127	0	78%	22%
Reduce Asset Diversion	Audit_Committee	106	8	114	13	83%	6%	Audit_Committee	110	3	113	14	87%	2%
Reduce Asset Diversion	Required_Audit	59	66	125	2	46%	52%	Required_Audit	15	107	122	5	12%	84%
Reduce Asset Diversion	Independent_Members	112	12	124	3	88%	9%	Independent_Members	122	5	127	0	96%	4%
Reduce Asset Diversion	Paid_Preparer	104	23	127	0	82%	18%	Paid_Preparer	115	12	127	0	91%	9%
Reduce Asset Diversion	Independent_Audit	38	89	127	0	30%	70%	Independent_Audit	68	59	127	0	54%	46%
Increase Asset Diversion	Disqualified_Person	5	102	107	20	4%	80%	Disqualified_Person	2	99	101	26	2%	78%
Increase Asset Diversion	Business_Trans D&O	12	115	127	0	9%	91%	Business_Trans D&O	2	125	127	0	2%	98%
Increase Asset Diversion	Business_Trans Family	36	91	127	0	28%	72%	Business_Trans Family	3	124	127	0	2%	98%
Increase Asset Diversion	Business_Trans Entity	28	99	127	0	22%	78%	Business_Trans Entity	6	121	127	0	5%	95%
Increase Asset Diversion	Cease_Operations	1	124	125	2	1%	98%	Cease_Operations	0	125	125	2	0%	98%
Reduce Asset Diversion	Board_Minutes	126	1	127	0	99%	1%	Board_Minutes	124	3	127	0	98%	2%
Reduce Asset Diversion	Committee_Minutes	115	12	127	0	91%	9%	Committee_Minutes	109	17	126	1	86%	13%
Reduce Asset Diversion	COI_Disclosure	109	11	120	7	86%	9%	COI_Disclosure	107	6	113	14	84%	5%
Reduce Asset Diversion	COI_Compliance	108	10	118	9	85%	8%	COI_Compliance	107	6	113	14	84%	5%
		n=127		127					n=127		127			

## **Regression Testing**

The hypothesis was further tested through regression analysis to evaluate whether asset diversion is more prevalent in nonprofit organizations that show poor board policy oversight and/or governance. To test the study's null hypothesis, bilinear regression analysis was designed for each of the variables using asset diversion as the dependent variable. To ensure that the significant findings were not just artifacts of the variables and to prove that the significance wasn't random coincidence, it was necessary to test the variables in multiple rigorous regression tests. The first test conducted was the "kitchen sink" test where all variables were tested in one binary regression test of significance. From there, there were four additional regression tests that served to test these findings to ensure continued significance and to find common variables that showed consistent significance across all the regression tests. These results yielded a total of 5 different regression analysis (including the kitchen sink test) including:

1. All variables included in one binary regression (Kitchen sink test).
2. Univariate binary regression for each variable.
3. Grouping the variables that showed a significance from the univariate regression.
4. Regression analysis for all board policy oversight variables and board governance variables.
5. Board policy oversight and board governance paired regression capitalization.

### **The Kitchen Sink Test- All variables in one binary regression test**

As a baseline, this main regression study includes all variables in a large regression analysis meant to combine variables and test for significance. The variables were aggregated into one binary regression test with the results shown in Table 5 below, with all the SPSS output

data captured in Appendix A. The significant variables resulting from this test are, organizational required audit, using an independent auditor to compile financial statements and improper business transactions with family members of former directors or officers and entities owned or operated by former directors of officers.

*Table 5. All Variables Regression Results*

<b>All Variables in One Regression</b>		
<i>Policy / Governance</i>	<i>Variable</i>	<i>(1)</i>
Policy	COI Policy	-1.176 (0.505)
Policy	Whistle Policy	1.204 (0.322)
Policy	Retention Policy	0.225 (0.819)
Policy	Audit Committee	-0.901 (0.449)
Policy	Required Audit	1.559 *(<.001)
Governance	Independent Members	-1.2 (0.367)
Governance	Paid Preparer	0.642 (0.349)
Governance	Independent Audit	-0.945 *(0.023)
Governance	Disqualified Person	0.486 (0.672)
Governance	Business Trans D&O	0.937 (0.385)
Governance	Business Trans Family	1.992 *(0.006)
Governance	Business Trans Entity	2.02 *(0.014)

*Table 5. Continued*

Governance	Cease Operations	-0.81 (0.56)
Governance	Board Minutes	-1.934 (0.266)
Governance	Committee Minutes	0.157 (0.845)
Governance	COI Disclosure	0.391 (0.821)
Governance	COI Compliance	-1.863 (0.126)

\* Variables that are starred are statistically significant at the 5% level.

### Univariate Regression Analysis

Each of the 18 variables univariate regression results have been captured in Table 6 below with all SPSS output data captured in Appendix A.

*Table 6. Univariate Regression for All Variables.*

<b>Univariate Regression</b>		
<i>Policy / Governance</i>	<i>Variable</i>	<i>(1)</i>
Policy	COI Policy	0.136 (0.713)
Policy	Whistle Policy	0.3 (0.345)
Policy	Retention Policy	0.475 (0.148)
Policy	Audit Committee	-1.018 (0.14)
Policy	Required Audit	1.853 *( $<.001$ )
Governance	Independent Members	-0.952 (0.082)
Governance	Paid Preparer	-0.751 *(0.049)
Governance	Independent Audit	-0.993 *( $<.001$ )

*Table 6. Continued*

Governance	Disqualified Person	0.886 (0.296)
Governance	Business Trans D&O	1.875 *(0.015)
Governance	Business Trans Family	2.794 *( $<.001$ )
Governance	Business Trans Entity	1.741 *( $<.001$ )
Governance	Cease Operations	0.413 (0.654)
Governance	Board Minutes	1.115 (0.337)
Governance	Committee Minutes	0.402 (0.315)
Governance	COI Disclosure	-0.558 (0.263)
Governance	COI Compliance	-0.502 (0.348)

\* Variables that are starred are statistically significant at the 5% level.

The results of the univariate regressions indicate that 6 of the independent variables show significance when compared to the dependent variable, asset diversion. The variables organizational required audit, using a paid IRS 990 preparer, an independent auditor, and three separate levels of improper business transactions with former director or officers, family members or entities controlled by former directors and/or officers all showed a p-value of less than .05 (95% confidence level).

#### **Comparison of the Kitchen Sink Test vs. Univariate Test**

Both the univariate regression and the regression of all variables shared 4 of the same variables that showed significance. In the Univariate test, 2 were shown to have a

p-value of greater than .05, using a paid preparer to complete the IRS 990 filing and improper transactions with directors or officers of the organization. Effectively, two variables of significance in the univariate test increase in p-value as opposed to the kitchen sink test.

When analyzing the coefficients of these two variables, the paid preparer variable is negatively correlated in the univariate regression test and positively correlated in all variables test. In the univariate regression model, hiring a third-party paid preparer to complete the organization's 990 filing means that the organization is less likely to report asset diversion. Which, in theory, makes sense because if a paid preparer is questioning every line item and requiring workpapers for each data point, then the organization is less likely to report asset diversion because there is a proper internal control to prevent fraud opportunity. Another reasonable assumption for this variable is that only organizations that do not have asset diversion would hire a third-party preparer to complete their IRS filing while the fraudulent organizations choose to prepare the filing in house to conceal their fraud. Similarly, the variable used to test whether an organization has hired an independent audit group to complete their annual audit was also negatively correlated, meaning that when an independent auditor is hired, the organization is less likely to report asset diversion. Both variables' negative correlation explanations are plausible given their relationship with the dependent variable, asset diversion.

In both the univariate and the kitchen sink regressions, the variable that answers whether an organization is required to complete an annual audit showed a positive coefficient of 1.853 and 1.559 respectively for both regressions. This indicates that when

an organization is required to complete an annual audit, the likelihood that the company will disclose asset diversion is significantly higher. This analysis makes sense, the more organizations that are required to complete an audit the more asset diversion that will be uncovered and disclosed.

One of the variables that fell out of significance in the kitchen sink regression test was improper business transactions with current or former directors and/or officers of the organization. But, in analyzing the univariate regressions, all three of the improper business transactions show significance. Each of the variables indicated strong p-values under .05 and positive coefficients which indicates that the more transactions conducted with improper parties, the more likely the organization is to report asset diversion. The rational explanation of these variables is a good predictor of an organization that is using former directors and/or officers, their family members, or their entities to create asset diversion and defraud the organization.

In analyzing the insignificant variables to predict why they didn't show significance requires a realistic approach when analyzing each variable. The variables that are in the board policy oversight group are largely not strong enough to predict asset diversion, apart from organizational required audit. Other variables such as measuring if an organization ceased operation, could be a good descriptive statistic to explain what results from asset diversion but has shown not to be a reliable predictor of fraud. The variable that tests governance with conflict-of-interest and board and committee meeting minutes are variables that are largely left up to the organization to complete and are variables that can easily be manipulated from within the organization. This perhaps explains why they are

not good variables to predict asset diversion. If bad actors from within the organization are willing to defraud the company, then it is also plausible to assume that they are willing to manufacturer policies and meeting minutes to cover their tracks. It also explains why variables such as independent auditors or required audits are a stronger indicator of asset diversion because they are largely outside of the organization's ability to cover up.

### Significant p-values test

The significant p values test was used by isolating all the p-values under .05% and running them in a regression together. Table 7 below outlines the p-values for each variable that showed significance.

*Table 7. Significant Variables Regression Results.*

<b>Significant Variables Regression</b>		
<i>Policy / Governance</i>	<i>Variable</i>	<i>(t)</i>
Policy	Required Audit	1.22 *( $<.001$ )
Governance	Paid Preparer	0.034 (0.942)
Governance	Independent Audit	-0.813 *(0.008)
Governance	Business Trans D&O	1.247 (0.178)
Governance	Business Trans Family	1.841 *(0.006)
Governance	Business Trans Entity	1.069 *(0.062)

\* Variables that are starred are statistically significant at the 5% level.

When this regression was run, both paid IRS preparer and improper business transactions with former or current directors and officer fell out of significance. I postulate that the variable improper business transactions with directors and officers is being swallowed up by organizations that are reporting improper business transactions with the entities of former directors and officers. In theory, if a consultant were hired to work in an organization it's common to hire their company to do work and not necessarily an individual. Thus, this variable could be significant in terms of reporting the overall picture of how improper business transactions are affecting asset diversion.

### **Board Policy Oversight Variables vs. Board Governance Variables Test**

This regression analysis isolated board policy oversight and governance into two separate regressions. Table 8 below outlines the p-values for each variable that showed significance when the variables were grouped by policy oversight vs. governance.

*Table 8. Policy Oversight vs. Governance Variables Regression Results.*

<b>Board Policy Oversight vs Board Governance</b>		
<i>Policy / Governance</i>	<i>Variable</i>	<i>(1)</i>
Policy	COI Policy	-0.383 (0.609)
Policy	Whistle Policy	-0.49 (0.471)
Policy	Retention Policy	0.851 (0.142)
Policy	Audit Committee	-1.588 *(0.027)

*Table 8. Continued*

Policy	Required Audit	1.999 *( $<.001$ )
Governance	Independent Members	-0.864 (0.313)
Governance	Paid Preparer	0.425 (0.456)
Governance	Independent Audit	-1.032 *(0.004)
Governance	Disqualified Person	0.452 (0.65)
Governance	Business Trans D&O	0.987 (0.297)
Governance	Business Trans Family	2.552 *( $<.001$ )
Governance	Business Trans Entity	1.414 *(0.027)
Governance	Cease Operations	-0.469 (0.719)
Governance	Board Minutes	0.402 (0.775)
Governance	Committee Minutes	0.026 (0.966)
Governance	COI Disclosure	0.827 (0.435)
Governance	COI Compliance	-1.551 (0.105)

\* Variables that are starred are statistically significant at the 5% level.

This regression analysis yielded a similar outcome to the previous three regression tests with one exception. As Table 8 indicates, one variable that did not appear in any other regression test but showed a significant p-value in this test was the variable “Does the organization have a committee that is responsible for their audit.” This variable was also negatively correlated, meaning that the existence of an audit committee made it less likely

for asset diversion to be reported in the organization. Because this was the only regression test that showed this result, the overall likelihood that this variable is truly significant is diminished. The other four variables that continued to show a trend of significance in this regression analysis were required audit, using an independent auditor, and improper business transactions with family and improper transactions with entities of current or former directors and officers.

### **Board Policy Oversight Variables vs. Board Governance Variables Paired Analysis**

The distinction between board policy oversight and board governance draws a clear line that shows whether an organization simply has policies in place or if the organization is actively being governed with a deeper set of internal compliance measures for oversight testing and compliance. Each aspect of policy oversight has a corresponding governance aspect that further tests compliance from within. This regression analysis pairs those variables together to see if there is still significance between simply requiring a policy or showing a deeper level of governance. Table 9 below shows the outcome of the regression analysis.

*Table 9. Paired Variables Regression Results.*

<b>Board Policy Oversight vs Board Governance Paired Analysis</b>		(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Policy / Governance</i>	<i>Variable</i>							
Policy	Voting Members	1						
Governance	Independent Members	(1) -0.952 (0.082)						
Policy	COI Policy		-0.325 (0.69)					

Table 9. Continued

Governance	COI Disclosure	0.107 (0.902)				
Governance	COI Compliance	-0.425 (0.61)				
Policy	Audit Committee		-1.341 (0.069)			
Governance	Committee Minutes		0.773 (0.115)			
Policy	Required Audit			1.814 *( $<.001$ )		
Governance	Paid Preparer			-0.502 (0.225)		
Policy	Required Audit				1.732 *( $<.001$ )	
Governance	Independent Audit				-0.838 *(0.003)	
Policy	COI Policy					-0.171 (0.706)
Governance	Disqualified Person					0.905 (0.287)
Policy	COI Policy					-0.384 (0.312)
Governance	Business Trans D&O					1.083 (0.209)
Governance	Business Trans Family					2.558 *( $<.001$ )
Governance	Business Trans Entity					1.167 *(0.025)

\* Variables that are starred are statistically significant at the 5% level.

The results of the paired regression analysis indicated the same significant variables that were previously identified in the other regression testing. The overall analysis of each regression had three common variables that showed significance throughout each test. Organizational required audit, independent auditors review, and improper party transactions with family members of current or former officers and/or directors. One

additional variable, improper party transactions with entities of current and/or former officers or directors of the organization showed significance in four of the five models indicating that there is a strong correlation with increased asset diversion.

To summarize the regression analysis significant findings, the below table was created to highlight the variables that showed significance from all five regression tests at the 95% confidence level.

*Table 10. Significant Values for all Regression Tests.*

<b>All Significant Variables from Regression Analysis</b>		
<b>All Variables in One Regression</b>		
Policy / Governance	Variable	p-value < .05
Policy	Organizational required audit	<0.001
Governance	Independent Auditor	0.023
Governance	Business Trans Family	0.006
Governance	Business Trans Entity	0.014
<b>Univariate Regression</b>		
Policy / Governance	Variable	p-value < .05
Policy	Organizational required audit	0.001
Governance	Paid IRS 990 Preparer	0.049
Governance	Independent Auditor	<0.001
Governance	Business Trans D&O	0.015
Governance	Business Trans Family	<0.001
Governance	Business Trans Entity	<0.001
<b>Variables of Significance Grouped Regression</b>		
Policy / Governance	Variable	p-value < .05
Policy	Organizational required audit	<0.001
Governance	Independent Auditor	0.008
Governance	Business Trans Family	0.006

Table 10. Continued

<b>Board Policy Oversight vs Board Governance Variables</b>		
Policy / Governance	Variable	p-value< .05
Policy	Organizational required audit	<0.001
Policy	Audit Committee	0.027
Governance	Independent Auditor	0.004
Governance	Business Trans Family	<0.001
Governance	Business Trans Entity	0.027
<b>Paired Regression Variables</b>		
Policy / Governance	Variable	p-value< .05
Policy	Required Audit	<.001
Governance	Independent Audit	0.003
Governance	Business Trans Family	<.001
Governance	Business Trans Entity	0.025

A key indicator that the significant variables have uncovered is that independent audits and independent paid preparers that are conducting required audits play a significant role in the reporting of asset diversion. When the board of directors requires the organization to conduct independent reviews of financial statements or IRS filings, the organization must be transparent thus drastically reducing the opportunity for asset diversion to exist. Separating the managers from the ultimate authority to report asset diversion has proved to be an effective compliance tool. This is a key finding in preventing fraud and reduces the organization's risk.

The strongest correlated variables that predict asset diversion are improper party transactions with current or former directors and/or officers, their family members, or their entities. These variables provide a looking glass into how asset diversion is practically carried out across the organization. Whether through a non-arm's length transaction or no bid contract, IRS part 4, questions 28 a, b & c, uncovers how asset diversion is funneled

throughout the organization. The results of this study are aligned with other research that has been conducted around occupational fraud or improper business transactions that include employees from within the organization pose the largest risk of asset diversion. The Association of Certified Fraud Examiners conducted their 2020 Report to the Nations analysis of over 800 reported instances of fraud in organizations across North America. In their report they found that “Asset misappropriation, which involves an employee stealing or misusing the employing organization’s resources, occurs in the vast majority of fraud schemes (86% of cases)” (ACFE, 2020) with corruption at 43% followed by financial statement fraud at 10%. These results fall in line with the significant variables found in this study.

### **Robustness Testing- Correlation Matrix**

Beyond the regression analysis, the study also tested the variables with a correlation matrix. Because the study had 18 different variables, a correlation matrix was used to draw relationships between variables and to help summarize the data. An important test that the correlation matrix helps to identify is how the variables are correlated to each other rather than how they correlate with the asset diversion. It is interesting to note that the results were consistent with the regression analysis and further explains the variables.

Below are the results of the significant variables that were identified in the correlation matrix. The variables that showed significance confirmed the regression analysis results from the five previous regression tests. The same six variables that showed

significant correlation in the regression testing were also flagged for being significant in the collation matrix testing. Figure 6 below outlines the correlations that were identified.

*Figure 6. Correlation Matrix Results.*

		<b>Correlations</b>					
		Organizational Required Audit	Paid IRS 990 Preparer	Independent Auditor	Improper Party Transaction 1	Improper Party Transaction 2	Improper Party Transaction 3
Organizational Required Audit	Pearson Correlation	1	-.140*	-.202**	.184**	.456**	.289**
	Sig. (2-tailed)		.028	.001	.004	<.001	<.001
	N	247	247	247	247	247	247
Paid IRS 990 Preparer	Pearson Correlation	-.140*	1	.223**	-.104	-.273**	-.145*
	Sig. (2-tailed)	.028		<.001	.099	<.001	.021
	N	247	254	254	254	254	254
Independent Auditor	Pearson Correlation	-.202**	.223**	1	-.029	-.161*	-.098
	Sig. (2-tailed)	.001	<.001		.640	.010	.118
	N	247	254	254	254	254	254
Improper Party Transaction 1	Pearson Correlation	.184**	-.104	-.029	1	.232**	.361**
	Sig. (2-tailed)	.004	.099	.640		<.001	<.001
	N	247	254	254	254	254	254
Improper Party Transaction 2	Pearson Correlation	.456**	-.273**	-.161*	.232**	1	.346**
	Sig. (2-tailed)	<.001	<.001	.010	<.001		<.001
	N	247	254	254	254	254	254
Improper Party Transaction 3	Pearson Correlation	.289**	-.145*	-.098	.361**	.346**	1
	Sig. (2-tailed)	<.001	.021	.118	<.001	<.001	
	N	247	254	254	254	254	254

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*.. Correlation is significant at the 0.01 level (2-tailed).

### Noteworthy Correlations

Organizational required audit is negatively correlated to both paid IRS 990 preparer and independent auditor. This indicates that if an organization is required to have an audit, then they are less likely to use a paid IRS 990 preparer or an independent third-party auditor. Conversely, the variable organizational required audit was positively correlated to improper party transactions, meaning that if an organization is required to have an audit, they are more likely to have improper business transactions with former or current directors and/or officers, family members, or improper entities.

The variable paid IRS 990 preparer was positively correlated to the variables independent auditor and negatively correlated with all three of the improper party transaction variables. The rational explanation for this correlation makes sense. If an organization is answering yes to bringing in a paid IRS 990 preparer, then they are already inclined to use an outside third-party independent auditor. Because both variables represent independent reviews, this correlation indicates similar findings. Conversely, if an organization answers yes to using a paid IRS 990 preparer, the organization is less likely to have answered yes to improper business transactions with current and/or former directors and officers, family members, or improperly associated entities. Very similarly, the variable independent auditor was also negatively correlated with all three improper business transaction variables. This also makes sense and indicates that with an increase in independent auditor reviews, the organization would have less improper business transactions.

In analyzing all three improper business transaction variables, it's interesting to note that each variable was positively correlated with organizational required audit. This indicates that the more an organization reported improper business transactions the more likely they were likely to have been required to conduct an audit. The most plausible explanation for all three of these variables is that if an organization was required to conduct an audit, that is the reason why improper party transactions were found. Conversely, all three improper business transactions were negatively correlated to the variable paid IRS 990 preparer and independent auditor. These results make sense as well, if an organization is already conducting improper business transactions, they are less likely to bring in a paid

IRS 990 preparer or an independent auditor for fear that these improper transactions will be found and reported.

## **2x2 Matrix**

Additional high-level testing was completed on all variables and grouped into a 2x2 matrix to create a visual depiction of asset diversion probabilities. The matrix serves as an additional way to plot policy oversight and governance variables and measure the probability of asset diversion at four distinct points or quadrants. To build this matrix, a separate regression was run with isolated variables according to their overall effect on asset diversion. Meaning, all variables were changed in the SPSS data to be variables that reduced asset diversion. The variables disqualified person, business transactions with directors and officers, business transactions with family members, business transactions with entities of directors and officers or family members and nonprofit organizations that ceased operations are all variables that increase the likelihood of asset diversion when a company answers “Y” (Yes). These variables were changed to match the rest of the variables so that all variables included in the sample served to reduce asset diversion when a company answers “Y” (Yes). This process allowed all the variables to be rerun in a kitchen sink regression and plotted on the matrix to show the probability of asset diversion.

The matrix is built with policy oversight and governance on each axis. The matrix moves from low probability on the left and top to a higher probability of asset diversion as you move to the right and bottom. Binary regression was used and the question that was asked was, “Does this variable increase asset diversion?”. Quadrant one represents policy

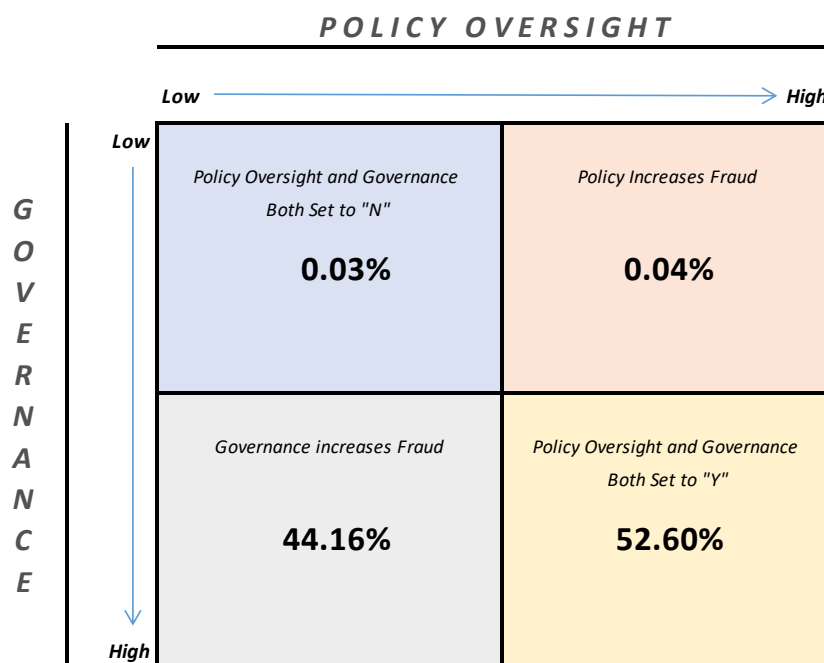
oversight and governance if all variables were set to “N” which indicates that all variables did not serve to increase the probability of asset diversion. The data in quadrant two set policy variables to “Y” and governance variables to “N” to measure the effect that policy oversight had on increasing asset diversion. Quadrant three shows the probability when the governance variables were set to “Y” and measures the probability of asset diversion when governance variables increase asset diversion. Quadrant four shows the probability when both policy oversight and governance variables were set to “Y” indicating that both increased asset diversion.

The matrix is oriented with policy oversight and governance as the axis variables. The probability of asset diversion is low in quadrant 1 and increases moving toward quadrant 2 and 3. Quadrant 1 shows both policy oversight and governance variables when nonprofit companies answer “N” to each variable. The probability of asset diversion at this quadrant is low at .03%. Quadrant 2 depicts policy oversight variables set to yes and governance variables set to no and this yields an overall asset probability of .04%. As you move into quadrant 3, policy oversight variables were set to yes and governance variables were set to no. This is where the probability of asset diversion increases sharply to 44.16%. Quadrant 5 sets both policy oversight and governance variables all to yes. This quadrant shows the highest probability of asset diversion at 52.6%.

When the data is plotted, policy oversight doesn't seem to have a significant impact on asset diversion in the matrix. Only Organizational Required Audit shows significance in the new regression testing. This result mirrors the findings from the other regression testing where this same policy oversight variable also showed significance. Within the

regression analysis for the policy oversight variables, the variables seem to be cancelling each other out and offsetting, indicating that most of the variables are not statistically significant. On the contrary, when the regression was run on the governance variables, there were three variables that were statistically significant and these governance variables all seem to be orientated in the same direction, except for conflict-of-interest disclosure, recording of committee minutes, and IRS paid preparer. Most governance variables in the regression analysis all seem to contribute to a stronger correlation with asset diversion, more so than policy oversight variables. The data that the 2x2 matrix outlines is consistent with the regression analysis from all other testing that was conducted. Governance variables show a stronger correlation to asset diversion and three of the same significant variables that were identified in the 2x2 matrix regression also showed significance in all the other regressions that were analyzed.

Figure 7. 2x2 Matrix Results.



### **Insignificant Variables**

Throughout the testing and regression analysis there were several variables that were hypothesized to show significance, that ended up not being a significant factor for decreasing asset diversion. Logically and in practice, strong polices such as whistleblower, conflict-of-interest, record keeping or compiling meeting minutes in board and committee meetings appear that they are important for the reduction of overall fraud and abuse. But the findings for this study did not find significance in several seemingly “key” variables. Below we analyze a few variables and the possible explanations behind their insignificance and postulate where additional studies might improve these variables as significant factors in nonprofit organizational asset diversion.

Board members vs. independent board members- the idea of independence when it comes to an organization’s financials is generally viewed positively and as a best practice. Yet the data that was composed in this study indicated that having independence on the board of directors did not show significance. I believe that this initial study was not a deep, penetrating test. This is the reason behind the follow-up in study 2 that was completed to dive deeper into a numerical analysis and breakdown exactly how many independent board members were present in each organization and what the ratios prove.

Whistleblower, conflict-of-interest, and record retention policies- one of the first requests that is made during an audit, or an investigation is for a full account of the organization's policies. Logically, an organization's policies should tell you how the organization conducts business and to what extent they are currently trying to prevent asset diversion. What the study indicated was that, even when organizations had effective

policies in place, asset diversion was still present. The findings in these organizations suggest that policies are not enough. I believe that the answer to this is simple: bad actors within an organization will do and say everything correctly, including having organization wide policies. But policy alone is not enough to prevent assets diversion.

IRS 990 Paid Preparer- a seemingly critical piece of information on the IRS 990 document is who prepared the actual IRS 990 filing. This is akin to having an outside auditor prepare your financial statements. Rational thought would tell you that having an outside, third-party preparer would remove some of the possibility of asset diversion because you are turning over sensitive information that can be uncovered and correlated with fraud or abuse. A best practice and an important part of the governance structure of any organization is uncompromised information being submitted for filing. One possible hole in this governance structure is the same officers and directors that have shown significance with asset diversion are typically the same individuals responsible for providing information and documentation to the paid preparer. Therefore, fraudulent, and misleading information or documents could be submitted to the IRS 990 preparer thus nullifying the process altogether. This is a potential explanation why having an outside IRS 990 preparer did not show a significant reduction in asset diversion.

## CHAPTER 4

### BOARD INDEPENDENCE STUDY

Throughout the research and literature review the importance of board member independence was a reoccurring theme as an important factor that nonprofit organizations used as a fraud deterrence tool. Yet, these variables showed no significance in any of the 5 regression analyses that were completed or the correlation matrix that further explained the variables. The research question that stemmed from these results is: “Why is such a seemingly pivotal factor not significant in predicting asset diversion?” If the same board members that are defrauding the organization are also the same board members voting on policy and procedures for the organization, how is this not a significant factor in asset diversion reporting?

Research Question: In organizations that do not have independent voting members or who have more voting members than independent voting members, does this factor increase asset diversion?

The motivation for this additional study is that I believe that these variables are significant, but the results are not shown accurately in a binary test. Rather, these variables need to be tested with actual board member totals. This analysis yields the following hypothesis.

H0: In nonprofit organizations that do not have independent board members, asset diversion will be more prevalent.

In section 1 of the IRS 990 filing, organizations must enter two distinct numbers regarding board members; they must acknowledge the presence of voting board members

with a total count and whether these voting board members are independent of the organization with a separate total count of independent members. This research study categorizes the presence of voting members as a board policy oversight variable and the presence of whether those voting members are independent as a board governance variable.

This research study measures both voting members and independent voting members as they are two critical aspects of a fully functioning board of directors. It is reasonable to assume that having independent voting members gives the nonprofit organization a distinct advantage in terms of reducing or avoiding asset diversion. Previous areas of statistical significance highlight business transactions between current or former members of the organization are highly correlated with asset diversion, a logical inference can be made that the more independent the board of directors is, the less asset diversion that the organization is likely to experience. There was also a marginal correlation of significance during the individual variable regression testing (p-value of .082), indicating that there could be a more significant relationship to explore. Yet, the descriptive statistic, when used as nominal values, do not indicate a significant relationship or plainly, independent voting members do not necessarily reduce asset diversion. Practically speaking, the same bad characters that were defrauding should be a factor in organizations reporting asset diversion. It's reasonable to determine that this might compromise the organization. It's also reasonable to assume that the independent voting members would have the ability to unbiasedly control organizational assets without corruption, bias, or asset diversion. By further analyzing the makeup of the board of directors, an important

aspect is to determine if there are more independent voting members that are voting members for each nonprofit organization.

## **Data and Methodology**

### **Data Collection**

The same secondary data set that was used for the main study was also utilized for the board independence study. The data was aggregated for the sample of nonprofit organizations that exhibit asset diversion and matched with the same number of nonprofit organizations that did not experience asset diversion to categorize specific board member voting data. The actual number of board members were collected, categorized, and organized into tables for further regression analysis for both the number of voting board members and independent voting board members.

### **Methodology**

Because the original study measured both voting board members and independent voting board members with the nominal value of either yes or no, further analysis is needed to explore the actual number of board members that make up each variable. The specific number of voting board members and independent voting board members are researched, and their values are categorized accordingly. This study identified three different board independence tests that aimed at capturing different levels of independent members across each organization. each test was compiled by asking the following questions:

1. 100% Independence Test- did the organization have any members of their board of directors that are not independent.

2. 50% Independence Test- was at least 50% of the organizations board of directors independent.
3. Ratio Independence Test- when the ratio of independent board members verse voting board members was compiled what is the overall percentage for each organization.

From that point, several testing elements are necessary to determine if there is a significance to recording and measuring the actual number of voting board members. The data was then organized and scrubbed by reviewing each of the 254 IRS 990 filings to properly ensure successful data transfer. Regression analysis was then used to determine if having independent voting board members shows a negative correlation with asset diversion.

This process consisted of coding the specific number of board members and independent board members that were filed for each organization. This information was compiled in rows for each nonprofit organization and algorithms were built to convert the actual numbers of board members into a code of either 0 which indicated that the board showed independence and a one which indicated that the board did not show independence based on the three different tests that were built.

The regression analysis, which was broken into three tests, allows the independence of each nonprofit organizations board to be tested on various levels. As noted in this paper's main study, there was not a statistical significance for board independence when the measured with nominal values. The regressions that were built in this expanded study

can test each organization with percentages of independence and ratio n that provide a deeper understanding of where each organization stands with board independence when measured.

### **Data Analysis Results**

To properly measure board independence throughout the sample of nonprofit organizations the study outlines three different regression analyses that were used to measure the correlation with asset diversion. The following breakdown of each regression analysis explains the results of each test.

100% Independence Regression Test- this data setup and regression captures all nonprofit organizations that have any board members that aren't independent. The significance of this test lies in how the board votes and who ultimately makes the final decisions for the organization. It's important to understand what regression analysis looks like for companies with any level of non-independence on the board of directors and their significance to asset diversion. The test results are shown in test 1 in Table 11 below.

50% Independence Regression Test- this regression analysis captures all nonprofit organizations that have greater than or equal to 50% of their board members that are not independent. This test is significant because it captures the traditional board voting structure of majority rules. This test will ultimately test all organizations that don't have at least 50% of their board members independent of the organization against asset diversion to show significance. The test results are shown in test 2 in Table 11 below.

Ratio Regression Test- this regression tests the ratio of non-independent board members vs board members. The significance of this regression is to continue to show the data in different tests to compare and contrast. In this regression, the ratio of nonindependence is used to highlight all significance to asset diversion. The test results are shown in test 3 in Table 11 below.

*Table 11. Study 2, Board Independence Regression Testing.*

<b>Board Independence Regression Testing</b>			
Variable	(1)	(2)	(3)
100% Board Independence	.741 *(.004)		
50% Board Independence		.629 (.174)	
Board Independence Ratio			-.769 (.127)

\* Variables that are starred are statistically significant at the 5% level.

The regression results showed statistical significance for the 100% independence test but showed no significance for either the 50% regression test or the ratio analysis test. One plausible explanation for why the 100% regression showed significance is because the number of organizations that had fewer independent members, but not below 50% sharply increased when compared to the other tests.

It was important to show there was a certain level of significance to not having independent board members, most boards operate on a majority voting process making the 50% regression test an important part of the overall testing methodology. It is possible that

certain boards operate by board chairman final decision that lease a bit of risk involved in not having 100% independence but not enough in this regression testing scenario.

Although there was significance in one of the three tests, a more substantial view would have been to show a synergistic relationship across all the models or at least agreement between the 50% and 100% regression tests. It's true that Boards with less independent members show a higher propensity for asset diversion but a lack of statistical significance at the 50% level of regression testing indicates that there isn't strong enough evidence to prove the studies  $H_0$ , so we hereby reject the null hypothesis.

## CHAPTER 5

### CONCLUSION

This research is based on sound fraud theory that has been developed over the last 50 years combined with quantitative data analysis from eight separate regression or statistical testing methods. As the literature review demonstrates, one of the “legs” of the fraud triangle is opportunity. This study builds on the theory of opportunity to commit fraud that could be carried out through poor board policy oversight and governance. 18 different impactful variables have been used in the measurement of asset diversion to discover correlations and relationships among the data that would help explain if there were significant variables that were correlated to the reporting of asset diversion in nonprofit organizations. Testing showed if these variables either increased or reduced asset diversion based on the outcome of the binary logistic regression analysis.

The additional study conducted in this overall paper is a further analysis of the board of directors’ independence by researching, coding, and scrubbing board level data for all 254 nonprofit organizations. This board independence regression testing attempts to delve deeper into one of the major elements of the overall independent variables. Board independence, meaning non-employee board members that do not have a financial stake in the organization, were measured in three separate ways to determine if there was a significant effect on asset diversion. This test does show initial significance at the 100% of independence test but does not show significance for the ratio or 50% level of testing indicating a weak correlation with asset diversion. Overall, it does not appear that independent board members reduce asset diversion.

This research addresses the lack of current nonprofit data analysis. The main contribution in this research is to expand on previous studies on nonprofit organizations and provide a framework for how boards employ oversight and/or governance and how to effectively institute rules and policies that are disclosed and enforced to prevent asset diversion opportunities. For thousands of nonprofit companies that rely on boards to effectively manage the risk for their organization, this model and analysis will improve how organizations view board compliance. In terms of fraud exposure, many nonprofits lack sophisticated internal controls, such as those required of publicly traded companies by the Sarbanes-Oxley Act of 2002 (SOX; Spillan & Ziemnowicz, 2011), that can be helpful in preventing and detecting fraud (Archambeaulti, et al., 2015). This study will help organizations categorize policy oversight and board governance by identifying significant trends and variables to watch closely.

### **Limitations**

This research study is predicated on nonprofit organizations that have experienced asset diversion making a proper disclosure and answering yes to the IRS 990 asset diversion question. If the same bad actors that defrauded the company are also completing the IRS 990 form, then there could be organizations that experienced asset diversion that are excluded from this study. Although there is no way to quantify the potential underreporting of asset diversion in the IRS data, the possibility that undisclosed fraud exists is an overall limitation to building a larger sample.

An additional limitation exists when the fraudulent act is perpetrated by the board of directors themselves or if the board and management are involved in defrauding the organization together, indicated by the lack of independent voting board members. Because the Board of Directors is the true last line of defense, fraudulent acts from within the board is a clear and present potential threat.

Data scarcity for nonprofits is also a significant limitation in terms of building a sample to test. A qualitative approach to data gathering can be a significantly beneficial tool to understanding what type of fraud the organization experienced and how it was perpetrated.

To test the sample, a large enough sample size needed to be captured from organizations that disclosed asset diversion. This process limited the amount of data manipulation that could be done on the sample to prevent the sample from being reduced. A limitation, regarding the sample size, exists with the number of IRS filing years and the sheer size of the data sets that need to be converted and coded just to achieve a sufficient sample.

### **Future Research**

A qualitative approach to data gathering could be a powerful method for future research. Like Cressy's data sample and qualitative approach, interviews with nonprofit organizations that have experienced asset diversion could be useful to further identify motives and question how the fraud was carried out. Testing the quantitative findings through interviews to explore who caused the fraud and what role the board played in the

fraud would give a thorough understanding of the fraud and a method of testing how the asset diversion was carried out.

This analysis of board oversight and governance exists as a subset of a larger model that incorporates 7 overall factors or red flags that typically exist in a nonprofit organization that is experiencing asset diversion. This model has been named the Financial Integrity Evaluation model. Future research for each pillar of the model would develop an overall model or picture of significant contributing factors and a reliable model that would help to “predict” fraudulent behavior based on how many factors existed during organizational testing. This future research has significant implications for audit firms and regulators and could act as a guiding light within organizations. It also allows audit firms to use predictive modeling on each aspect of the organization to focus audit fieldwork on the problem areas within the nonprofit. The 7 pillars of the Financial Integrity Evaluation Model are highlighted below.

*Table 12. The 7 Pillars of the Financial Integrity Evaluation Model*



1	2	3	4	5	6	7
Board Policy Oversight & Governance	Lack of Internal Control Framework	Senior Management Turnover	Excess Growth or Contraction in Financial Statements	Inadequate Departmental Staffing	Inadequate Regulatory Oversight	Price of Audit

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**APPENDIX A**  
**BINARY LOGISTIC REGRESSIONS**

*All Variables Regression*

		<b>Variables in the Equation</b>					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	COI Policy	-1.176	1.763	.445	1	.505	.308
	Whistleblower Policy	1.204	1.215	.982	1	.322	3.332
	Record Retention Policy	.225	.985	.052	1	.819	1.252
	Audit Committee	-.901	1.190	.573	1	.449	.406
	Organizational Required Audit	1.559	.427	13.322	1	<.001	4.752
	Independent Voting Board Members	-1.200	1.330	.814	1	.367	.301
	Paid IRS 990 Preparer	.642	.685	.878	1	.349	1.901
	Independent Auditor	-.945	.416	5.158	1	.023	.389
	Disqualified Person	.486	1.148	.179	1	.672	1.625
	Improper Party Transaction 1	.937	1.078	.755	1	.385	2.552
	Improper Party Transaction 2	1.992	.728	7.498	1	.006	7.333
	Improper Party Transaction 3	2.020	.819	6.085	1	.014	7.540
	Organization Cease Operations	-.810	1.388	.340	1	.560	.445
	Board Minutes Record	-1.934	1.740	1.236	1	.266	.145
	Committee Minutes Record	.157	.808	.038	1	.845	1.170
	COI Annual Disclosure	.391	1.728	.051	1	.821	1.478
	COI Annual Compliance	-1.863	1.216	2.345	1	.126	.155
	Constant	3.753	2.291	2.684	1	.101	42.631

a. Variable(s) entered on step 1: COI Policy, Whistleblower Policy, Record Retention Policy, Audit Committee, Organizational Required Audit, Independent Voting Board Members, Paid IRS 990 Preparer, Independent Auditor, Disqualified Person, Improper Party Transaction 1, Improper Party Transaction 2, Improper Party Transaction 3, Organization Cease Operations, Board Minutes Record, Committee Minutes Record, COI Annual Disclosure, COI Annual Compliance.

### *Univariate Binary Regressions*

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Policy	.136	.369	.136	1	.713	1.146
Constant	-.118	.344	.118	1	.732	.889

a. Variable(s) entered on step 1: COI Policy.

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Whistleblower Policy	.300	.317	.893	1	.345	1.350
Constant	-.241	.285	.717	1	.397	.786

a. Variable(s) entered on step 1: Whistleblower Policy.

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Record Retention Policy	.475	.328	2.093	1	.148	1.608
Constant	-.388	.297	1.702	1	.192	.679

a. Variable(s) entered on step 1: Record Retention Policy.

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Audit Committee	-1.018	.691	2.173	1	.140	.361
Constant	.981	.677	2.099	1	.147	2.667

a. Variable(s) entered on step 1: Audit Committee.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Organizational Required Audit	1.853	.329	31.748	1	<.001	6.377
Constant	-.483	.157	9.530	1	.002	.617

a. Variable(s) entered on step 1: Organizational Required Audit.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Independent Voting Board Members	-.952	.548	3.018	1	.082	.386
Constant	.875	.532	2.705	1	.100	2.400

a. Variable(s) entered on step 1: Independent Voting Board Members.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Paid IRS 990 Preparer	-.751	.381	3.888	1	.049	.472
Constant	.651	.356	3.338	1	.068	1.917

a. Variable(s) entered on step 1: Paid IRS 990 Preparer.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Independent Auditor	-.993	.263	14.248	1	<.001	.370
Constant	.411	.168	5.996	1	.014	1.508

a. Variable(s) entered on step 1: Independent Auditor.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Disqualified Person	.886	.848	1.091	1	.296	2.426
Constant	.030	.141	.045	1	.832	1.030

a. Variable(s) entered on step 1: Disqualified Person.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Improper Party Transaction 1	1.875	.775	5.860	1	.015	6.522
Constant	-.083	.129	.416	1	.519	.920

a. Variable(s) entered on step 1: Improper Party Transaction 1.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Improper Party Transaction 2	2.794	.617	20.539	1	<.001	16.352
Constant	-.309	.138	5.025	1	.025	.734

a. Variable(s) entered on step 1: Improper Party Transaction 2.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Improper Party Transaction 3	1.741	.470	13.733	1	<.001	5.704
Constant	-.201	.136	2.193	1	.139	.818

a. Variable(s) entered on step 1: Improper Party Transaction 3.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Organization Cease Operations	.413	.922	.201	1	.654	1.512
Constant	-.008	.127	.004	1	.949	.992

a. Variable(s) entered on step 1: Organization Cease Operations.

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Board Minutes Record	1.115	1.162	.921	1	.337	3.048
Constant	-1.099	1.155	.905	1	.341	.333

a. Variable(s) entered on step 1: Board Minutes Record.

### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Committee Minutes Record	.402	.400	1.009	1	.315	1.495
Constant	-.348	.377	.853	1	.356	.706

a. Variable(s) entered on step 1: Committee Minutes Record.

### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Annual Disclosure	-.588	.525	1.251	1	.263	.556
Constant	.606	.508	1.426	1	.232	1.833

a. Variable(s) entered on step 1: COI Annual Disclosure.

### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Annual Compliance	-.502	.534	.882	1	.348	.606
Constant	.511	.516	.979	1	.323	1.667

a. Variable(s) entered on step 1: COI Annual Compliance.

### *Variables of Significance Regressions*

### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Organizational Required Audit	1.220	.361	11.424	1	<.001	3.388
Paid IRS 990 Preparer	.034	.468	.005	1	.942	1.035
Independent Auditor	-.813	.305	7.117	1	.008	.443
Improper Party Transaction 1	1.247	.925	1.815	1	.178	3.478
Improper Party Transaction 2	1.841	.665	7.674	1	.006	6.304

Improper Party Transaction 3	1.069	.573	3.477	1	.062	2.911
Constant	-.343	.451	.578	1	.447	.710

a. Variable(s) entered on step 1: Organizational Required Audit, Paid IRS 990 Preparer, Independent Auditor, Improper Party Transaction 1, Improper Party Transaction 2, Improper Party Transaction 3.

### ***Board Policy Oversight vs. Board Governance Regression***

#### Board Policy Oversight

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Policy	-.383	.748	.261	1	.609	.682
Whistleblower Policy	-.490	.680	.519	1	.471	.613
Record Retention Policy	.851	.579	2.158	1	.142	2.343
Audit Committee	-1.588	.720	4.868	1	.027	.204
Organizational Required Audit	1.999	.348	32.981	1	<.001	7.380
Constant	.983	.768	1.639	1	.201	2.672

a. Variable(s) entered on step 1: COI Policy, Whistleblower Policy, Record Retention Policy, Audit Committee, Organizational Required Audit.

#### Board Governance

#### **Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Independent Voting Board Members	-.864	.856	1.019	1	.313	.422
Paid IRS 990 Preparer	.425	.570	.555	1	.456	1.529
Independent Auditor	-1.032	.362	8.122	1	.004	.356
Disqualified Person	.452	.994	.206	1	.650	1.571

Improper Party Transaction 1	.987	.947	1.087	1	.297	2.683
Improper Party Transaction 2	2.552	.678	14.176	1	<.001	12.836
Improper Party Transaction 3	1.414	.638	4.912	1	.027	4.113
Organization Cease Operations	-.469	1.303	.130	1	.719	.626
Board Minutes Record	.402	1.409	.082	1	.775	1.495
Committee Minutes Record	.026	.591	.002	1	.966	1.026
COI Annual Disclosure	.827	1.059	.610	1	.435	2.287
COI Annual Compliance	-1.551	.957	2.629	1	.105	.212
Constant	.599	1.585	.143	1	.705	1.821

a. Variable(s) entered on step 1: Independent Voting Board Members, Paid IRS 990 Preparer, Independent Auditor, Disqualified Person, Improper Party Transaction 1, Improper Party Transaction 2, Improper Party Transaction 3, Organization Cease Operations, Board Minutes Record, Committee Minutes Record, COI Annual Disclosure, COI Annual Compliance.

### ***Board Policy Oversight vs. Board Governance Regression (Paired Tests)***

#### Voting Members and Independent Voting Members

#### **Variables in the Equation**

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Independent Voting Board Members	-.952	.548	3.018	1	.082	.386
	Constant	.875	.532	2.705	1	.100	2.400

a. Variable(s) entered on step 1: Independent Voting Board Members.

Conflict-of-interest Policy and Conflict-of-interest Annual Disclosure/Compliance**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Policy	-.325	.813	.159	1	.690	.723
COI Annual Disclosure	.107	.869	.015	1	.902	1.113
COI Annual Compliance	-.425	.833	.260	1	.610	.654
Constant	.649	.663	.958	1	.328	1.913

a. Variable(s) entered on step 1: COI Policy, COI Annual Disclosure, COI Annual Compliance.

Audit Committee and Committee Minutes**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Audit Committee	-1.341	.737	3.310	1	.069	.262
Committee Minutes Record	.773	.490	2.488	1	.115	2.167
Constant	.593	.723	.672	1	.412	1.809

a. Variable(s) entered on step 1: Audit Committee, Committee Minutes Record.

Organizational Required Audit and Paid Preparer**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Organizational Required Audit	1.814	.330	30.142	1	<.001	6.135
Paid IRS 990 Preparer	-.502	.414	1.473	1	.225	.605
Constant	-.038	.398	.009	1	.923	.962

a. Variable(s) entered on step 1: Organizational Required Audit, Paid IRS 990 Preparer.

Organizational Required Audit and Independent Auditor

### Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Organizational Required Audit	1.732	.334	26.836	1	<.001	5.651
	Independent Auditor	-.838	.286	8.571	1	.003	.433
	Constant	-.108	.200	.289	1	.591	.898

a. Variable(s) entered on step 1: Organizational Required Audit, Independent Auditor.

### Conflict-of-interest Policy and Disqualified Person

### Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	COI Policy	-.171	.454	.142	1	.706	.843
	Disqualified Person	.905	.850	1.134	1	.287	2.472
	Constant	.182	.428	.181	1	.670	1.200

a. Variable(s) entered on step 1: COI Policy, Disqualified Person.

### Conflict-of-interest Policy and Improper Business Transaction 1-3

### Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	COI Policy	-.384	.380	1.020	1	.312	.681
	Improper Party Transaction 1	1.083	.862	1.578	1	.209	2.954
	Improper Party Transaction 2	2.558	.629	16.526	1	<.001	12.905
	Improper Party Transaction 3	1.167	.519	5.048	1	.025	3.212
	Constant	-.118	.344	.118	1	.732	.889

a. Variable(s) entered on step 1: COI Policy, Improper Party Transaction 1, Improper Party Transaction 2, Improper Party Transaction 3.

### Independence Board Member Testing (Second Study)

#### 100% Board Member Testing

#### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Board Independence 100%	.741	.257	8.295	1	.004	2.097
Constant	-.357	.174	4.191	1	.041	.700

a. Variable(s) entered on step 1: Board Independence 100%.

#### Greater than or Equal to 50% Board Member Testing

#### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Board Independence 50%	.629	.462	1.851	1	.174	1.876
Constant	-.070	.132	.278	1	.598	.933

a. Variable(s) entered on step 1: Board Independence 50%.

#### Ratio of Independent vs Non-Independent Board Member Testing

#### Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Board Independence Ratio	-.769	.504	2.332	1	.127	.463
Constant	.655	.459	2.035	1	.154	1.924

a. Variable(s) entered on step 1: Board Independence Ratio.

Matrix Regressions**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Policy	.297	1.282	.054	1	.817	1.346
Whistleblower Policy	-.064	.774	.007	1	.934	.938
Record Retention Policy	.768	.705	1.186	1	.276	2.156
Audit Committee	-.809	.894	.818	1	.366	.445
Organizational Required Audit	1.805	.369	23.946	1	<.001	6.078
Independent Voting Board Members	-2.012	.907	4.918	1	.027	.134
Paid IRS 990 Preparer	-.191	.506	.142	1	.706	.827
Independent Auditor	-.838	.340	6.090	1	.014	.433
Board Minutes Record	-.855	1.619	.279	1	.597	.425
Committee Minutes Record	.184	.638	.083	1	.773	1.202
COI Annual Disclosure	-.182	1.018	.032	1	.858	.834
COI Annual Compliance	-1.314	.988	1.768	1	.184	.269
Constant	3.892	2.075	3.517	1	.061	49.010

a. Variable(s) entered on step 1: COI Policy, Whistleblower Policy, Record Retention Policy, Audit Committee, Organizational Required Audit, Independent Voting Board Members, Paid IRS 990 Preparer, Independent Auditor, Board Minutes Record, Committee Minutes Record, COI Annual Disclosure, COI Annual Compliance.

2x2 Matrix**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> COI Policy	-1.066	1.760	.367	1	.545	.344
Whistleblower Policy	1.182	1.214	.949	1	.330	3.262
Record Retention Policy	.234	.984	.057	1	.812	1.264
Audit Committee	-.887	1.186	.560	1	.454	.412
Organizational Required Audit	1.490	.434	11.807	1	<.001	4.439

Independent Voting Board Members	-1.292	1.340	.929	1	.335	.275
Paid IRS 990 Preparer	.760	.711	1.142	1	.285	2.137
Independent Auditor	-.906	.421	4.642	1	.031	.404
Disqualified Person	-.345	1.216	.081	1	.776	.708
Improper Party Transaction 1	-.882	1.086	.659	1	.417	.414
Improper Party Transaction 2	-2.401	.850	7.974	1	.005	.091
Improper Party Transaction 3	-1.977	.839	5.551	1	.018	.138
Organization Cease Operations	.931	1.427	.425	1	.514	2.536
Board Minutes Record	-1.894	1.740	1.186	1	.276	.150
Committee Minutes Record	.162	.801	.041	1	.840	1.176
COI Annual Disclosure	.324	1.723	.035	1	.851	1.383
COI Annual Compliance	-1.848	1.214	2.317	1	.128	.158
Constant	8.312	3.170	6.873	1	.009	4072.335

a. Variable(s) entered on step 1: COI Policy, Whistleblower Policy, Record Retention Policy, Audit Committee, Organizational Required Audit, Independent Voting Board Members, Paid IRS 990 Preparer, Independent Auditor, Disqualified Person, Improper Party Transaction 1, Improper Party Transaction 2, Improper Party Transaction 3, Organization Cease Operations, Board Minutes Record, Committee Minutes Record, COI Annual Disclosure, COI Annual Compliance.

APPENDIX B

SAMPLE IRS OUTPUT DATA in EXCEL FORMAT

Column1	Column2	Column3	Column4
15	2919150390161414704461812 INTL UNION OF ELEVATOR CONSTRUCTORS	NY1220605NN0680	O19111NYN+00000000000006+00000000000006+00000000000005+00000000000000
16	2919150390179120358241812 THE WILDERNESS TECHNOLOGY ALLIANCE WTA	MD2090403NY WILDTech.ORG	C2000WAN+00000000000012+00000000000012+00000000000004+00000000000025
17	2919150390199531487981812 IAMAW LOCAL LODGE 1584	CA9462105NY0264	O1991CAN+00000000000008+00000000000000+00000000000034+00000000000050
18	2919150390204704380211812 INTERNATIONAL ASSOCIATION OF HEAT FROST INSULATORS	NE6813705NN	C1950EN+00000000000005+00000000000005+00000000000009+00000000000000
19	2919150391012703802631812 SCHERTZ YOUTH SOCCER ALLIANCE	TX7815403NN	C2009TXN+00000000000006+00000000000006+00000000000000+00000000000000
20	2919150391026660127741812 CENTROS SOR ISOINA FERRE ENDOWMENT TRUST	AO9999003NN	T2018ACN+00000000000000+00000000000000+00000000000000+00000000000000
21	2919160368038202559521812 CRANE CREEK COUNTRY CLUB INC	ID8370207NN CRANECREEKCOUNTRYCLUB.COM	C1963IDN+00000000000012+00000000000012+000000000000258+00000000000000
22	2919160368042373979031812 ELIZABETHTOWN HARDIN COUNTY INDUSTRIAL FOUNDATION INC	KY4270106NN EIFKY.ORG	C1971KYN+00000000000018+00000000000018+00000000000002+00000000000000
23	2919160368054533680511812 HEALTH REPUBLIC INSURANCE OF NEW YORK	NY1003806NN NYLB.ORG	C2011NYN+00000000000000+00000000000000+00000000000000+00000000000000
24	2919160368065904229951812 RIOMAR COUNTRY CLUB	FL3296307NN RIOMARCOUNTRYCLUB.COM	C1925FLN+00000000000010+00000000000010+00000000000080+00000000000000
25	2919170359116216345941812 GOOD NEIGHBORS OF BLOUNT COUNTY	TN3780103NN WWW.GOODNEIGHBORSBC.ORG	C2018TNN+00000000000013+00000000000013+00000000000001+00000000000045
26	2919170359122619905051812 BEAUMONT FAMILY SHELTER INC	REALD GUEST HOUS TX7770103NN WWW.REALDGUESTHOUSE.ORG	C2007TXN+00000000000004+00000000000004+00000000000002+00000000000000
27	2919170359130206571921812 WOODWARD MANOR INC	FL3397003NN	C N+00000000000021+00000000000021+00000000000000+00000000000000+000
28	2919170359149119999461812 SECOND CHANCE RANCH	WA9921903NN WWW.SECONDCHANCERANCH.ORG	C1999WAN+00000000000004+00000000000000+00000000000000+00000000000005
29	2919170359152728770671812 KALAMAZOO FAMILY NONPROFIT HOUSING CORPORATION	MI4902403NN	C2008MIN+00000000000005+00000000000005+00000000000000+00000000000005
30	2919170359162054336391812 WOMANS ART CLUB OF CINCINNATI	OH4522703NN ARTATTHEBARN.ORG	C2008OHN+00000000000010+00000000000000+00000000000000+00000000000016
31	2919170359175919007721812 ST GILES MANOR INC	FL3378103NN	C1981FLN+00000000000007+00000000000007+00000000000000+00000000000000
32	2919170359194107941581812 UNITED STEELWORKERS LOCAL 11-00662	MN5508505NN0260	O2005MNN+00000000000011+00000000000000+00000000000005+00000000000000
33	2919170359208804209061812 LAS VEGAS METRO EMPLOYEE BENEFIT TR	NV8912809NN	T1998NVN+00000000000008+00000000000008+00000000000000+00000000000000
34	2919170360010461384201812 UNITED STEELWORKER LOCAL UNION 04-12003	MA0218405NN0260	O1957MAN+00000000000011+00000000000000+00000000000008+00000000000000
35	2919170360026311330711812 ALABAMA POWER CO POST RETIREMENT WELFARE	GA3030809NN	T1994ALN+00000000000001+00000000000000+00000000000000+00000000000000
36	2919170360032505685511812 INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL UNION 66	PA1523805NN	T1946PAN+00000000000022+00000000000000+00000000000042+00000000000000
37	2919170360048606482401812 FOOTHILLS CLUB WEST COMMUNITY ASSOCIATION	AZ8504804NN	C1989AZN+00000000002599+00000000002599+00000000000000+00000000000008

## APPENDIX C

### IRS DATA SCREENSHOTS

#### Voting members vs. independent voting members

Part I	Summary		
Activities & Governance	1 Briefly describe the organization's mission or most significant activities <b>PROVIDING LOW RENT GOVERNMENT ASSISTED HOUSING FOR ELDERLY.</b>		
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	21
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	21
	5 Total number of individuals employed in calendar year 2018 (Part V, line 2a)	5	0
	6 Total number of volunteers (estimate if necessary)	6	0
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	0
	b Net unrelated business taxable income from Form 990-T, line 38	7b	0

#### Written Policies

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code)		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a	X
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	X
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	X
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	X
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	X
13	Did the organization have a written whistleblower policy?	13	X
14	Did the organization have a written document retention and destruction policy?	14	X

#### This question indicates that the organization experiences fraud or abuse

**Part VI Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O See instructions Check if Schedule O contains a response or note to any line in this Part VI

Section A. Governing Body and Management		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O	1a	21
b	Enter the number of voting members included in line 1a, above, who are independent	1b	21
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	X
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person?	3	X
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	X
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	X

Independent auditors' opinion

- e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X
- f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X
- 12a** Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII

11e	X	
11f		X
12a	X	

Committee responsible for the audit and presentation of financial statements

**Part XIII** Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII

- 1 Accounting method used to prepare the Form 990  Cash  Accrual  Other \_\_\_\_\_  
If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O
- 2a Were the organization's financial statements compiled or reviewed by an independent accountant?  
If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both  
 Separate basis  Consolidated basis  Both consolidated and separate basis
- b Were the organization's financial statements audited by an independent accountant?  
If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both  
 Separate basis  Consolidated basis  Both consolidated and separate basis
- c If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?  
If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O

	Yes	No
2a		X
2b	X	
2c	X	