

ABSTRACT

Reducing the Risk of Fraud in Ugandan Churches

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While many organizations are susceptible to fraud, there is evidence that churches are especially vulnerable. Unfortunately, most fraud prevention suggestions are not tailored to churches in developing countries. This paper focuses on fraud in Ugandan churches. My main question is whether any observable features in Ugandan churches are associated with accounting practices that reduce the likelihood of fraud. If not, then explicit foreign instruction may be necessary. To answer my question, I collect an original dataset surveying Ugandan pastors and students. I introduce a new summary measure of internal controls, called the Internal Control Index, based on best practices described in accounting literature. Using this measure, I find that none of the characteristics observed, such as theological views, pastor and accountant experience, or denominational affiliation, are systematically associated with anti-fraud accounting practices. This suggests that direct foreign instruction may be necessary to reduce the risk of fraud in these churches.

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Reducing the Risk of Fraud in Ugandan Churches

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PREFACE

Inspiration for Thesis Topic

My inspiration for “Reducing the Risk of Fraud in Ugandan Churches” began in May 2011 while in Uganda with Baylor University on a vocational mission trip with the Baylor University accounting team. I saw first-hand that the local churches operated without even the most basic accounting practices. I had the opportunity to help lead a conference, which was designed to equip and challenge Ugandan pastors on financial matters. The goal was to help them understand that some simple accounting concepts when incorporated into their church processes are beneficial. God used my time in Uganda to stir my interest in the integration of faith and accounting. The people deeply blessed me by the boldness in their Christian faith and their joy. I recall one pastor in particular named Moses, who was a former economics professor, challenged me to have a passion and a business vision that is of the Lord. My thesis advisor, Dr. Bill Thomas, J.E. Bush Professor of Accounting and Master Teacher, also directed the vocational mission trip to Uganda. The impact of the shared experience in Uganda facilitated the desire to develop a deeper understanding through research and analysis. This paper is my first step in pursuing those desires.

ACKNOWLEDGEMENTS

I would like to thank my thesis advisor, Dr. Bill Thomas, for having permitted me to carry out this thesis project. Dr. Thomas' contributions go beyond the scope of this project, as his spiritual wisdom and academic expertise are qualities I wish to emulate. The initial research conducted would not have been possible without the guidance of Dr. Kathy Hurtt. She provided valuable insight about church finances and its relation to fraud.

DEDICATION

*To my dear Ugandan friends
for their exceeding joy about doing the Lord's work,
To my mother, father, brother and sister
for their unwavering encouragement to perform for an audience of one,
and to the Lord Almighty
for giving me a passion for nonprofits.*

CHAPTER ONE

Introduction

“The silver is mine, and the gold is mine, declares the Lord of hosts.”

-Haggai 2:8

The concept seems simple: money belongs to the Lord. However, the concept is increasingly difficult to abide by because money is intertwined with seemingly important facets of life. Money is oftentimes demanded for immediate purposes, such as food, water, or medicine. When money is scarce, it is especially difficult to simply be a steward and give money to the Lord through tithing. Amidst the difficulty, the Lord commands Christians in Malachi 3:10 to “bring the full tithe into the storehouse, that there may be food in my house...” Paul also comments on the importance that Christians systematically and proportionately give. In 1 Corinthians 16:1-4, he advises Christians to set aside money on the “first day of the week” and “to the extent that he prospers.” Although tithing may not appear as an immediate demand, it is nevertheless important for church sustainability. Tithes are comparable to donations in not-for-profit organizations;

Tithes and offerings are essentially the revenue base of churches, and tithing is a spiritual admonition for church members.

From an institutional standpoint, financial stewardship on the part of the church is essential for credibility and church sustainability. Churches are accountable to use the highest principles in both collecting and using money. Although churches are not the same type of entities as for-profit businesses, it is prudent those churches operate their finances similar to businesses and that they adopt universal principles of good governance for credibility and sustainability. Unfortunately, churches are notorious for mismanaging tithes and offerings. Fraud Magazine released an article named “Pilfering in the Pews,” which details the fraud committed by one church treasurer. The fraud involved altering the amount of church receipts, making irregular transactions, and paying for personal expenditures with offering receipts (Shedd). Just as a business, a church must identify how to properly safeguard assets from fraud.

With regard to financial stewardship, Ugandan churches are particularly vulnerable for several reasons. Uganda is a case study in financial hardship and mismanagement. Uganda relies on financial and technical assistance from the World Bank, composed of International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), and owned by 187 member countries. The World Bank fights to combat Uganda’s significant poverty levels (“Working for a World Free of Poverty”). The 2012 Corruption Perceptions Index ranks Uganda with a higher perception of

corruption relative to other countries; Uganda is ranked 130 out of 176 countries indexed (“Corruption Perceptions Index 2012”). In addition, 86% of Ugandans profess to be Christians (“Islam and Christianity in Sub-Saharan Africa: Poll”). The contrast between corruption levels and the percentage of professed Christians is interesting. Ugandan churches suffer from a poor reputation for handling finances. While church membership is relatively prevalent, giving as a practice is relatively scarce. A study of Ugandan churches provides much insight into the difficulties of being godly stewards in the face of extremely scarce resources.

African Worldview of Finances

The general African behavior towards money is a collectivism worldview: shared resources. In *African Friends and Money Matters*, author David Maranaz, Ph.D., observes African everyday life and presents ninety observations of African behaviors related to money. Most of Maranaz’s observations greatly differ from the Westerner perspective on money. He regards westerners as largely individualistic in regards to finances; they are influenced by personal criteria. Westerners have a higher income and live amongst people who are equally wealthy. There are few demands from the community for resources. The African behavior towards money presented by Maranaz is diametrically opposite that of the Western. The African outlook can simply be stated as “living in community

and sharing resources.” (Maranaz, p. 202) Africans are influenced by the financial needs of the community. Those who have more financial resources are expected to share with those who have less. As sharing financial prosperity with others is integrated in to society, it is hard to find truly autonomous individuals. Maranaz depicts African collectivism as a method of surviving financially demanding times. Under collectivism, a person in financial need benefits from a larger community because the person can capitalize on a greater amount of financial resources. Even further, “in this [collectivist] worldview it is understood that putting the group first is the way to achieve a measure of financial security from hardships. A person who is saving resources when others around are in need is viewed as being a bad Christian.” (Lederleitner, p. 36)

The shared financial burden in the community outlook appears advantageous for those with limited financial resources. This Uganda perspective of finances, however, tends to overlook budgetary constraints. In an interview on February 26, 2011, Richmond Wandera, Compassion Leadership Development Program graduate, Moody Bible Institute scholar, and creator of the Pastor’s Discipleship Network in Uganda, commented on the Ugandan understanding of financial budgets. He stated, “Budget is a good thing, but African culture typically elects to choose need over budget.” The need Wandera refers to can simply be defined as the financial demand for essential items, such as food, water, or medicine. These immediate needs seem more urgent and therefore take precedence over the relatively sterile concept of abiding by a budget.

There is also an additional unspoken worldview amongst Ugandans that regard money as evil. For some, the production of income has a negative connotation. This theory is often unspoken, but relates to the Ugandan perspective of money generally being viewed as sinful.

Biblical Worldview of Finances

Both the individualist and collectivist worldviews of finances have scriptural support. The individualist worldview necessitates accountability and discipline, which Jesus illustrates in the parable of the talents (Matthew 25:14-30). The servants that demonstrated accountability were deemed “good and faithful,” but the servant that did not adequately invest his talent was considered “wicked and slothful.” Collectivism for the good of all is considered spiritual as well. “Not even one” of the early church followers described in Acts 4:32-35 claimed that their possessions were their own. Shared resources meant that all believers’ basic needs would be met. Paul further addressed the collectivism worldview in 2 Corinthians 8:13-14; “...Your abundance at the present time should supply their need...” Although both worldviews of finances are biblically supported, neither is without error. The extreme of the individualist viewpoint is selfishness and greediness, while extreme collectivism might lead to idleness and slothfulness.

The collectivist worldview often permeates Ugandan churches. When those in the community are needy, the church should supply their needs. This worldview places an overwhelming responsibility upon the Ugandan church. Imagine a majority of the congregation with an immediate need for essential items, but with the church having a limited amount of money. The ultimate answer seems to be a more developed view of stewardship. As described in Acts with the early church, the Ugandan church must be both generous and prudent in order to be considered godly. The church must revert back to the belief that “money belongs to God and the church is merely a steward.” Without effective stewardship, the church is exposed to greater financial risk.

Understanding of the biblical worldview of finances in Uganda is incomplete without an understanding of the health, wealth, and prosperity gospel. The Ugandan church has been exposed to the false teachings of the prosperity gospel. Notable televangelists, such as Joel Osteen, Benny Hinn, Robert Tilton, T.D. Jakes, and Kenneth Copeland, advocate this “feel good” gospel. Malachi 3:10 states, “Bring the full tithe into the storehouse, that there may be food in my house. And thereby put me to the test, says the Lord of hosts, if I will not open the windows of heaven for you and pour down for you a blessing until there is no more need.” The verse is often misinterpreted as “when God blesses, financial success follows.” The verse is sometimes also inferred: “people without financial resources are in that position because they are not faithful.” Under this perverse teaching, negative financial or other circumstances can be attributed to lack of

faith. Thus, the lack of financial resources that most Ugandan churches face will be assumed as the result of unfaithfulness on the part of the people. The Bible does not explicitly commend the prosperity gospel. “There is no place in the Bible that indicates that poverty is a desirable state or that material things are evil. In fact, wealth is viewed as a gift from God.” (Fikkert, p. 42)

CHAPTER TWO

Literature Review of Fraud and Internal Controls in Churches

Trust can be viewed as a primary asset of any organization either for-profit or nonprofit; therefore, a loss of trust due to a scandal such as fraud can create an unnecessary liability. Marconi in *Crisis Marketing – When Bad Things Happen to Good Companies* comments on trust, claiming that the hardest thing for an organization to recover is the loss of trust. All entities in society should act ethically, but churches especially need to uphold trustworthy operations, as trust is a fundamental Judeo-Christian value. Psalm 91:2 states, “in Him I will trust.” Proverbs 3:5 claims to “trust in the Lord with all your heart.” Proverbs 11:3 states, “the integrity of the upright shall guide them.” Psalm 7:1 professes, “O Lord my God, in you do I put my trust.” Those steering church operations are assumed to be trustworthy, however, anytime people and money are involved, there is a possibility of fraud. *Fraud in Houses of Worship* claims, “fraud examiners know that houses of worship...are among the most vulnerable entities to fraud” (Cornell).

Fraud

Academic research outlined in the Appendix claims that fraud is prevalent in business practices and is a significant liability that businesses need to address. Unfortunately, the research does not specifically address fraud in Ugandan churches. Regardless, churches should not be exempt from fraud prevention, but should implement internal controls to help reduce the risk of fraud.

Fraud is defined as “the use of one’s occupation for personal gain through the deliberate misuse or theft of the victim organization’s resources or assets” (“Managing the Business Risk of Fraud: A Practical Guide” p.5). The key elements of fraud are: (1) a benefit for the perpetrator; (2) intent; and (3) damages on the part of the injured party. The “fraud triangle” is typically used to help explain three elements of fraud: (1) pressure, (2) opportunity, and (3) rationalization. Pressure at the individual level typically relates to a significant unmet financial need, such as a financially excessive lifestyle and monetary debts. Pressure at the organizational level typically refers to heightened pressure to perform. Opportunity at both the individual and organizational levels is created by weak controls. Rationalization is essentially an excuse given by the perpetrator, however far-fetched that supports the fraudulent behavior. Rationalization

excuses include “I need it more than they do” or “They won’t miss it” (Hopwood).

Internal Controls

Churches are vulnerable to fraud because oftentimes church employees are not formally trained in internal control practices or fraud prevention. Pastor Martina B. Kausimbi of the Act of God Church in Uganda declares, “People are very poor. They don’t know what to do. Even pastors are poor. They are struggling with running the church because they don’t know what do...”

Academic research outlined in Appendix B addresses internal controls used by nonprofits with more elaborate accounting systems than those of most Ugandan churches. The suggested internal controls are impractical for Ugandan churches to apply because Ugandan churches have limited resources. By implementing cost effective simple and practical internal control measures in Ugandan churches, fraud has the potential to be reduced to an acceptable level. The following internal control procedures can be implemented at a nominal cost: segregation of duties, comparisons and compliance monitoring, adequate records, limited access, and proper approvals.

Segregation of duties is a fundamental internal control activity, which simply requires that no individual in the organization should perform more than

one of the following duties: authorization of transactions, custody, or recording functions (Hopwood). Fraudulent activity can easily be covered up if one person both handles assets and performs the accounting function. For example, a bookkeeper who maintains the church checkbook, the cash account records, the general ledger, and the member-giving records has the ability to steal church tithes and offerings on account and cover up the losses by falsifying the accounting records. If the church has poor segregation of duties, then all other internal control processes can be rendered useless. In church practices, authorization refers to authorizations for expenditures and donations. Before church resources are spent, all transactions must be authorized. Custody typically refers to the direct physical custody of assets. The person(s) who collect and count the church offerings, therefore, have custody of the assets. Also, individual(s) who have check signing authority on the church bank account essentially have custody of cash. Recordkeeping refers to the updating and processing of the accounting records. In church practices, continually updating the accounting records is necessary for staying within the budget and keeping the congregation informed of the church's financial affairs.

Segregating duties is necessary to implement in all churches regardless of size. Churches with a limited number of employees and constrained resources may have difficulty establishing proper segregation of duties providing increased opportunity for errors to go unnoticed and unauthorized transactions to occur. The simple solution for churches to mitigate poor segregation of duties is to add more

people to the staff. However, this may not be possible because of the associated costs. Smaller churches can rotate the authorization, custodial, and recordkeeping duties of its existing staff. Even with two people on staff, periodic rotations allow one person to check the work of another. Smaller churches can also emphasize the pastor's oversight in day-to-day financial activities. Vigorous oversight reduces the likelihood of inaccuracies.

Comparisons and compliance monitoring disallows a person to completely process a transaction from beginning to end without being checked by another. For example, the cash receipt records should be compared to the cash deposited records. Compliance is oftentimes monitored through the use of budgets. The use of a budget as shown in Figure 1 should be used to estimate future expenses and monitor compliance. The budget considers previous year's spending habits and serves as a financial guide. If actual spending to a specific account in the previous year was significantly less than the budgeted amount, then the current budget will allocate less to the account and vice versa.

Figure 1: Church Budget Example

Church Budget			
Month:			
REVENUES	Projected	Actual	Difference
Tithes/Offerings			
Donations			
Other Income			
Total Revenues			
EXPENSES	Projected	Actual	Difference
Building	-	-	-
Mortgage or rent			
Phone			
Electricity			
Gas			
Water			
Maintenance or repairs			
Supplies			
Other			
Building Totals			
Programs/Ministries	-	-	-
Transportation			
Supplies			
Other			
Programs/Ministries Totals			
Guests	-	-	-
Transportation			
Groceries			
Dining Out			
Other			
Hospitality Gifts			
Guests Totals			
Gifts and Donations	-	-	-
Charity/Church 1			
Charity/Church 1			
Charity/Church 1			
Gifts and Donations Totals			
Other	-	-	-
Legal Obligations			
Taxes			
Benevolence			
()			
()			
()			
()			
Other Totals			
Total Expenses			
CASH LEFT			

Adequate accounting records are necessary to document and support the validity of transactions. Transactions are detailed in documents, such as receiving reports, purchase orders, and vendor invoices. Templates for the documents allow easy use and pre-numbered documents assure completeness of processing transactions. With recordkeeping implemented, the likelihood of omitting transactions is reduced.

Another internal control procedure is to limit the access to the assets and the records. Generally, only individual(s) with custodial responsibilities should be allowed access to assets. As a result, not everyone on staff is permitted to access cash. This procedure reduces the likelihood of misappropriation. Only individual(s) with recordkeeping responsibilities should be allowed access to accounting records. Records should be in a secure location.

Transactions should not be processed without proper approvals. Large transactions of great significance require specific approval whereas small transactions may only need a general approval. Proper approvals disallow random cash disbursements.

CHAPTER THREE

Data and Analysis

Internal controls are necessary for public confidence in the church. The objective of internal controls is to enhance the accuracy of the accounting records, safeguard assets, improve the timing of reporting, increase orderly and efficient business conduct, and prevent fraud or non-compliance of law. Church leaders are responsible for initiating and maintaining the internal controls. Thus, it is important to evaluate how church leaders perceive internal controls and the prevention of fraud. I surveyed Ugandan church leaders to provide insight regarding their perceptions of money, accounting processes, and stewardship. The goal of this analysis was to determine whether certain characteristics of Ugandan churches are positively related to accounting practices that reduce the likelihood of fraud. If so, then it may be possible to encourage adoption of these features. If not, then explicit instruction (such as training programs or workshops) may be necessary. To answer my question, I collected an original dataset surveying 177 Ugandan pastors and students on the accounting practices of their churches. I introduce a new summary measure of internal controls based on the best practices

described in accounting literature, which I call the Internal Control Index (ICI). While these churches may not be implementing the explicit proposals listed in the previous chapter, they nevertheless may have processes that make them more or less susceptible to fraud. The ICI index captures this information by quantifying the internal control proposals.

Data Used

I formed predictions about the susceptibility of fraud in Ugandan churches based on initial research that I gathered from the literature on church finances, internal controls, and fraud in other churches. Research suggests that if internal controls are not properly implemented, then the likelihood of fraud increases. However, fraud is difficult to measure without access to the church's financial statements or without observing church staff performing the accounting processes. I used questionnaires to gather the data, because it was not possible to obtain the financial reports of the Ugandan churches. Indeed, in many cases, financial reports for these churches did not exist.

I obtained the data in May 2011 at a pastor's conference sponsored by the Pastor's Discipleship Network (PDN) at Uganda Christian University (UCU) in Mukono, Uganda. I also randomly distributed survey instruments to UCU students in their classes. Both the UCU students and the Ugandan pastors

represented a wide range of the population of Ugandan cities. I assumed the sample was representative of church leaders and educated Ugandans. The questionnaire I used is contained in the Appendix to this paper.

H₀: If an individual holds a Biblical perspective, then the likelihood of internal controls increases.

H_a: If an individual holds a Biblical perspective, then the likelihood of internal controls does not increase.

In order to analyze the biblical perspective and internal controls, I created two separate indices: (1) the biblical perspective index (BPI); and (2) the internal control index (ICI). The following questions illustrate the biblical perspective questions used in the development of the BPI:

- When God blesses, financial success follows.
- People without financial resources are not faithful.
- If you give your money to God, God will bless you with more money.
- God wants Christians to be prosperous.

The complete list of BPI questions can be found in the Appendix. The ICI contains questions that related to internal control processes. The following questions are a sample of the internal control questions included in the ICI:

- My personal finances and the church's finances should be the same.
- Accounting for how money is spent is good stewardship.
- Accounting for how money is spent shows a lack of trust.
- Budgeting shows faithful stewardship.

The comprehensive list of ICI questions can be found in the Appendix. The questionnaire was designed to elicit both positive and negative responses in order to reduce survey bias. I instructed respondents to answer according to a Likert scale, with the following coding: 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree, or 6=no opinion.

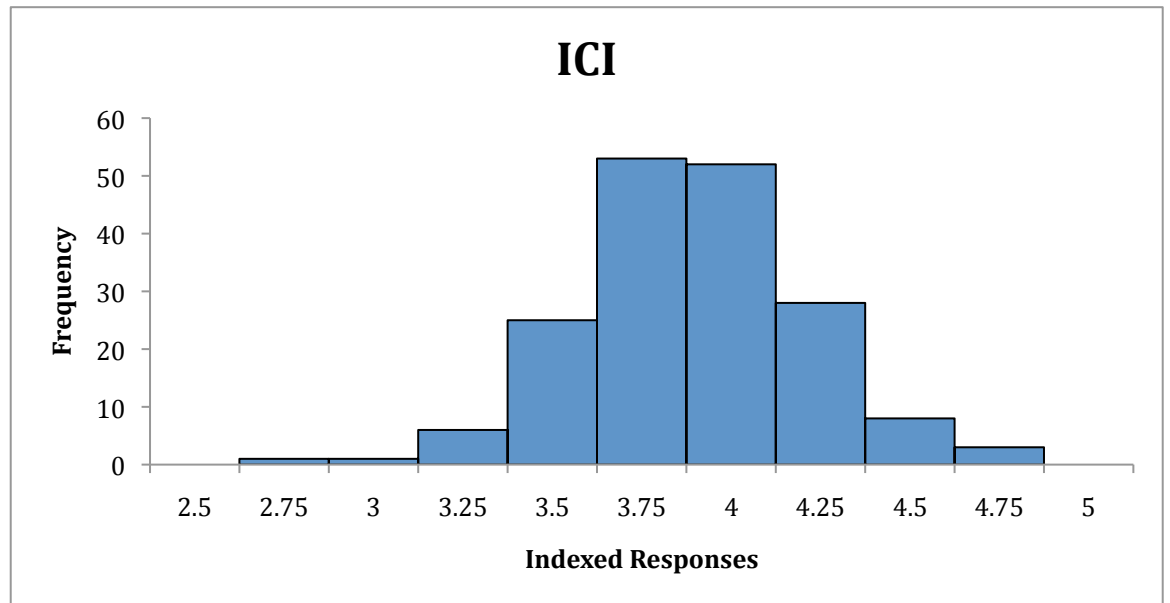
Reducing survey bias is necessary in obtaining unbiased results. If the survey were designed to elicit positive responses, then respondents may simply respond 5 because they believe that response is “best.” Furthermore, respondents may not fully read the statements, leading to inaccurate responses. After I extracted BPI and ICI questions, I re-ranked the responses on a scale 0-5 with a response of 5 demonstrating a higher index. I then calculated average responses for each respondent so that, when constructing indexes and computing regressions the higher the number on the scale relates to a higher index. On the BPI, a response of 5 relates to the highest attainable Biblical perspective.

Data Analysis

After compiling the data, I used them to construct BPI and ICI indexes and used regression analysis to identify various independent variables that may affect respondents’ perceptions of internal controls. Internal controls were evaluated through the ICI as shown in Figure 2. The respondents’ indexed values were

relatively high on the index scale suggesting that respondents have relatively high knowledge of internal controls.

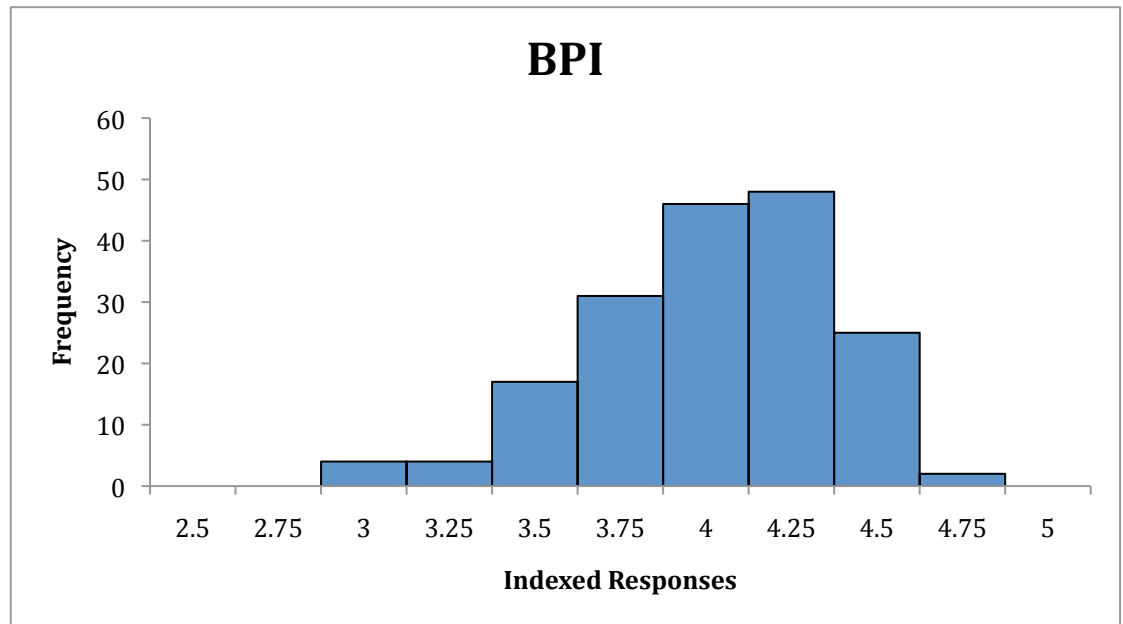
Figure 2: Internal Control Index (ICI)



I evaluated the biblical perspective variable, which examines finances with a biblical worldview. The motivation for evaluating the biblical perspective variable is to determine if a higher biblical perspective relates to greater internal controls. The commonality identified among respondents was their Christian faith so I examined internal controls through a Christian worldview. Since, a biblical perspective is difficult to observe, I created a BPI index. The distribution of the indexed biblical perspective values of respondents over the sample is shown in Figure 3. The indexed responses were high, which suggests that respondents have a relatively high biblical perspective. I believe that the high BPI ranking is

accurate as most of the respondents surveyed were Christian pastors or students enrolled in a Christian university.

Figure 3: Biblical Perspective Index (BPI)



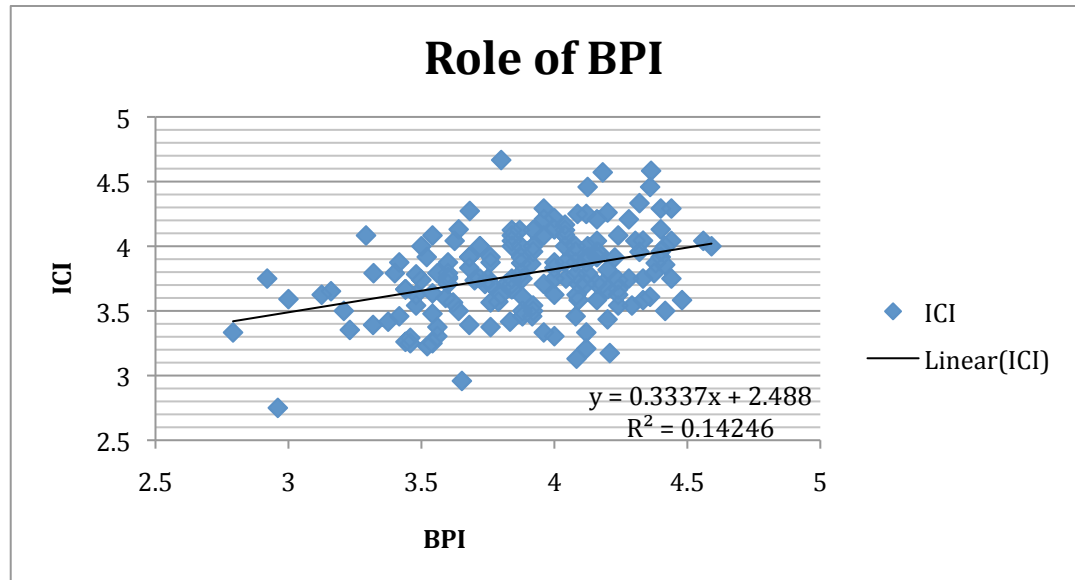
The regression analysis explores the relationship between a biblical perspective and internal controls. I used the following regression equation in calculating Figure 4, which is each individual's average BPI and ICI.

$$y_i = \alpha + \beta x_i + e_i$$

$$y_i = \text{ICI}$$

$$x_i = \text{BPI}$$

Figure 4: Role of BPI



BPI is positively related to ICI so an individual with a high biblical perspective also has high regard for internal controls. Assuming that church leaders exercise a biblical perspective, then it follows that their churches should maintain strong internal controls.

The combination of accounting for sampling variation with a two-sample t-statistic formula and the 95% confidence interval was used.

$$t = \frac{x_1 - x_2}{\sigma(x_1 - x_2)} = 0.478984$$

$$\sigma(x_1 - x_2) = \left(\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2} \right)^{1/2}$$

$$x_1 = 3.776874694$$

$$s_1^2 = 0.097139$$

$$n_1 = 75$$

$$x_2 = 3.799663$$

$$s_2^2 = 0.098778$$

$$n_2 = 102$$

$$\text{dof} = \frac{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}{\frac{s_1^2/n_1}{n_1 - 1} + \frac{s_2^2/n_2}{n_2 - 1}} = 83.55609$$

$$\text{critical value} = 1.9886$$

The difference in the mean ICIs for Ugandan pastors and UCU students was not large enough to be statistically significant due to sampling variation. I inferred from this finding that being a Ugandan pastor does not necessarily increase ICI. The difference between pastor and UCU student may not be statistically significant because both populations share similar Christian beliefs. Through church influences and cultural norms pastors and UCU students may have a common perspective on internal controls.

I examined experience of the respondents by analyzing their responses as to their tenure in years as a pastor and also by their tenure in years as an administrator. The assumption was that with more experience, the respondent would have more knowledge of internal controls. It is possible that, during their careers, pastors have been subjected to training in internal controls.

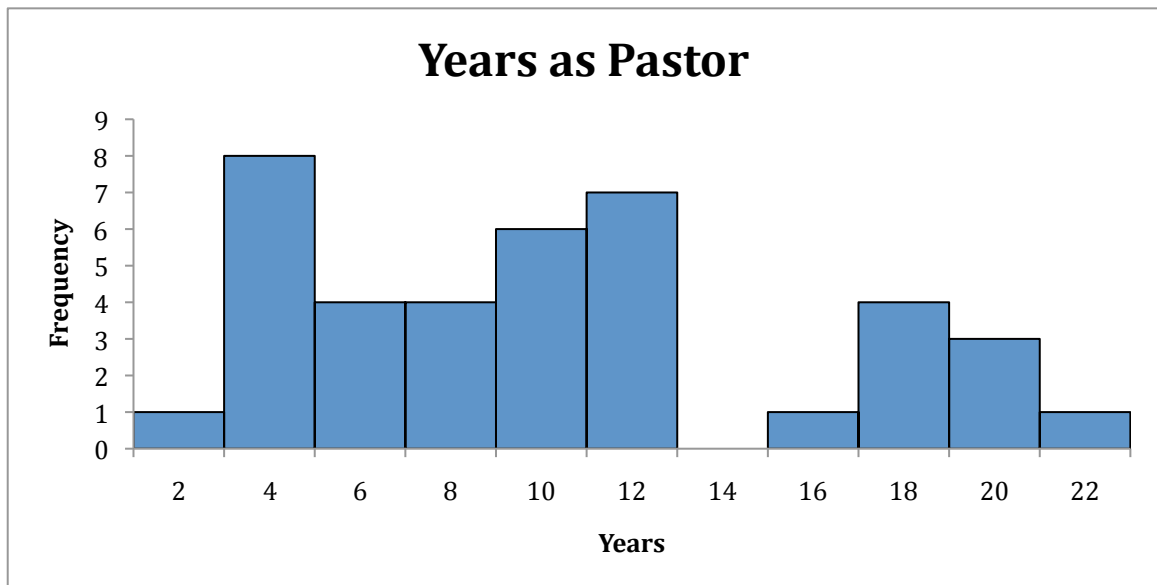
H₀: If the individual had more experience in years as a pastor, then the likelihood regard for internal controls increases.

H_a: If the individual had less experience in years as a pastor, then the likelihood regard for internal controls does not increase.

I found that many pastors failed to provide data as to their experience.

Thus, Figure 5 excludes the nonresponses from the data collected for experience as a pastor. The sampled pastors had varying years of experience, which is beneficial for analysis purposes. The number of years is not a skewed distribution so an accurate estimate can be calculated.

Figure 5: Years as Pastor



The respondent's number of years as pastor was compared to the ICI to determine if a relationship between the two variables existed. Respondents with

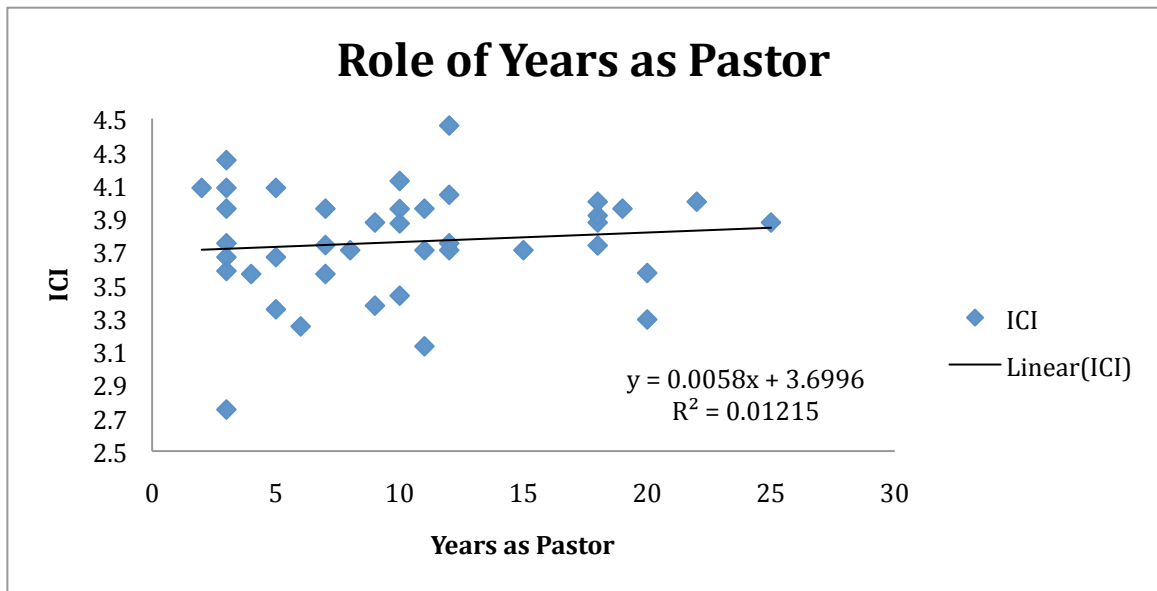
greater experience as pastor may exhibit a higher ICI relative to those with less experience. The number of years as pastor and ICI are plotted in Figure 6 using the following regression equation:

$$y_i = \alpha + \beta x_i + e_i$$

$$y_i = \text{ICI}$$

$$x_i = \text{Years As Pastor}$$

Figure 6: Role of Years as Pastor



The trend between experience as a pastor and ICI appears to be positive, however, since the coefficient of determination is close to zero, the regression line does not fit the data very well. Thus, the regression model is not likely to predict future outcomes on the dimension of experience.

The ICI of pastors with of less than 5 years was compared to that of pastors with greater than 5 years experience. The two-sample t-statistic combined with the 95% confidence interval suggests that the difference between less than 5 years experience and greater than 5 years is not large enough to be statistically significant due to sampling variation.

$$t = \frac{x_1 - x_2}{\sigma(x_1 - x_2)} = 0.422847$$

$$\sigma(x_1 - x_2) = \left(\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2} \right)^{1/2}$$

$$x_1 = 3.732763$$

$$s_1^2 = 0.168785$$

$$n_1 = 12$$

$$x_2 = 3.785277$$

$$s_2^2 = 0.085546$$

$$n_2 = 63$$

$$\text{dof} = \frac{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}{\frac{s_1^2/n_1}{n_1 - 1} + \frac{s_2^2/n_2}{n_2 - 1}} = 11.85882$$

$$\text{critical value} = 2.1788$$

I inferred from these results that having experience as a pastor does not necessarily result in a higher ICI. Through the years, pastors may not specifically receive formal training on internal controls; therefore, inexperienced pastors have the same, if any, accounting knowledge as more experienced pastors. Knowledge of internal controls is not naturally acquired from experience, but rather must be specifically learned. Since internal controls are an important facet in the

prevention of fraud, pastors and other church leaders should be trained specifically on the implementation and continuation of internal controls.

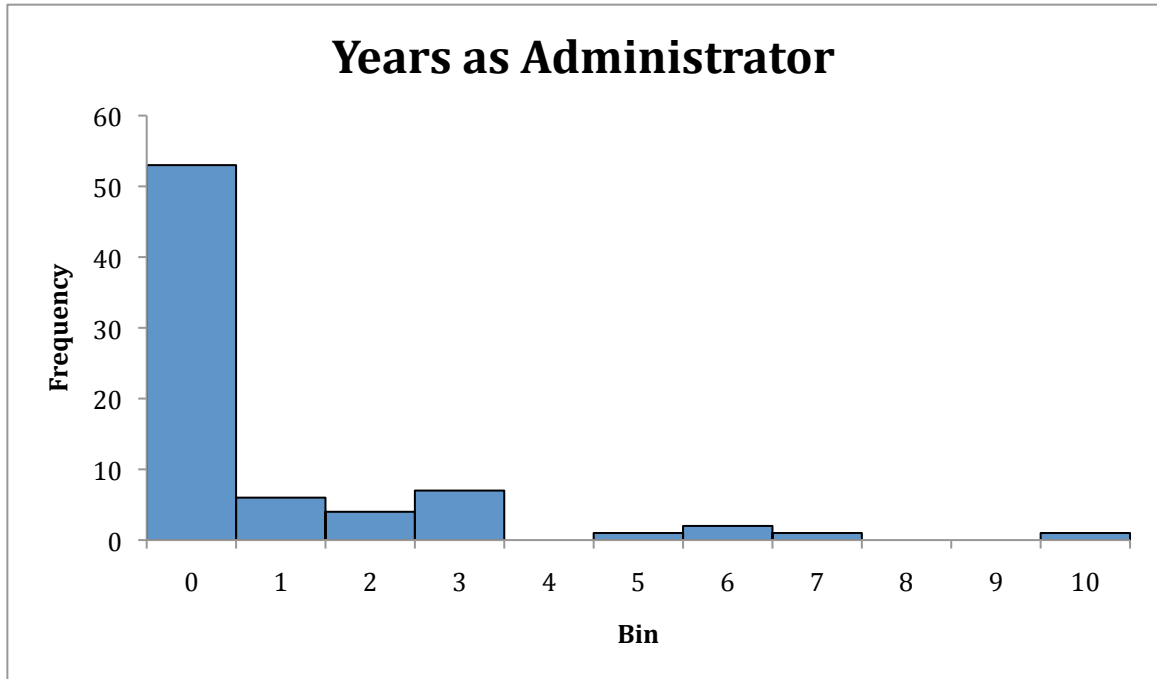
I also measured experience through respondents' number of years as an administrator. Some respondents surveyed were church administrators who performed accounting tasks.

H_0 : Regard for internal controls increases with one's experience as an administrator.

H_a : Regard for internal controls is not affected by the respondents' experience as an administrator.

The distribution of the number of years as an administrator over my sample is shown in Figure 7.

Figure 7: Years as Administrator



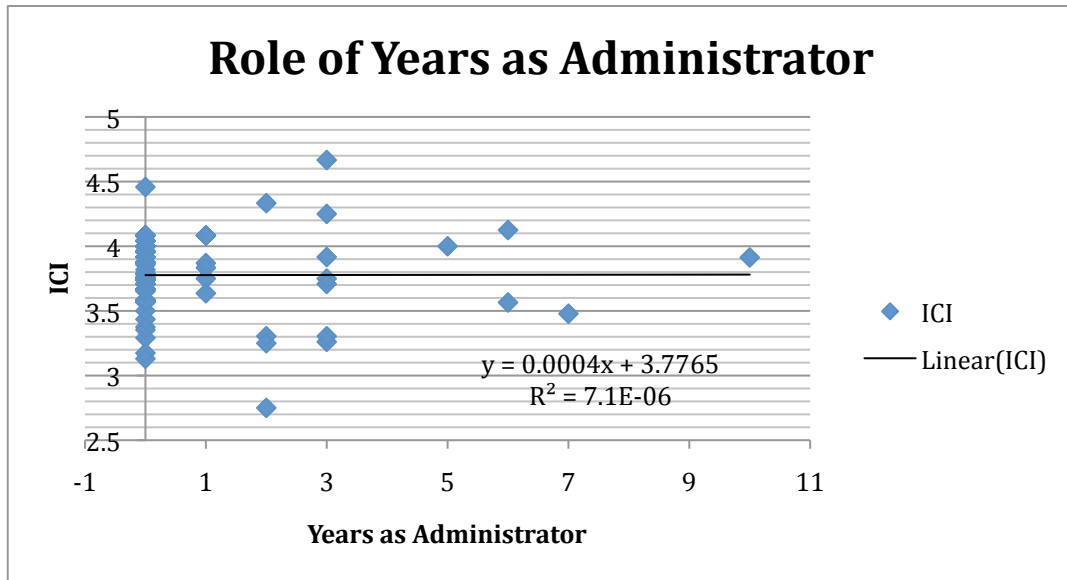
To determine if a statistical relationship existed experience as an administrator and ICI were compared. Accountants are assumed to have a greater knowledge of internal controls as compared to non-accountants. Most accountants understand the vital role internal controls play in reporting financials accurately, safeguarding assets, improving the timing of reporting, maintaining orderly and efficient business conduct, and preventing fraud. The following regression equation was used to explore the role of years as an accountant:

$$y_i = \alpha + \beta x_i + e_i$$

$$y_i = \text{ICI}$$

$$x_i = \text{Years As Administrator}$$

Figure 8: Role of Years as Administrator



The regression plotted in Figure 8 indicates that experience, as an administrator is not highly associated with a high ICI. Further statistical analysis also suggests that the difference between accountants and non-accountants is not large enough to be statistically significant due to sampling variation.



$$\sigma(x_1 - x_2) = \left(\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2} \right)^{1/2}$$

$$x_1 = 3.781766$$

$$s_1^2 = 0.062469$$

$$n_1 = 53$$

$$x_2 = 3.765092$$

$$s_2^2 = 0.187409$$

$$n_2 = 22$$

$$\text{dof} = \frac{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}{\frac{s_1^2/n_1}{n_1 - 1} + \frac{s_2^2/n_2}{n_2 - 1}} = 22.64053$$

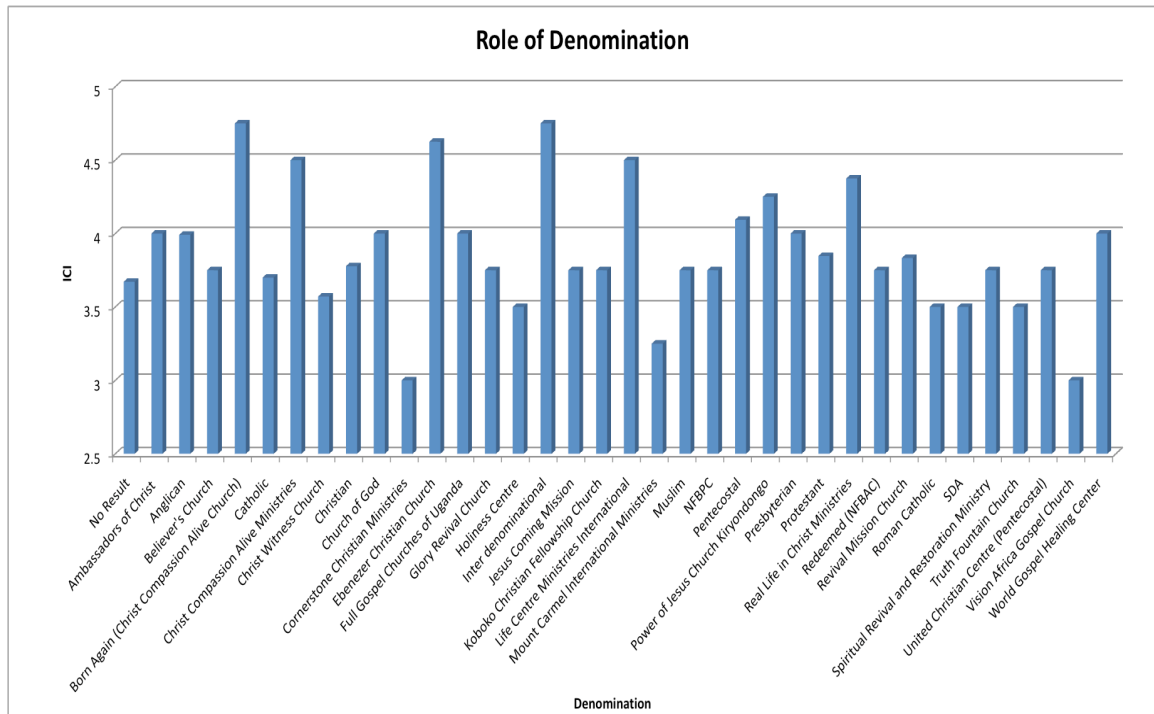
critical value = 2.0686

Administrators and pastors alike have similar ICI knowledge so they need training in internal controls.

I also analyzed religious denomination of both pastors and students to determine its effect, if any, on the ICI. Both pastors and students provided their denomination; therefore, a larger sample size was used as compared to the previously analyzed variables. A larger sample size is advantageous as it is more representative of the population. Both pastor and student denominations were compared with the ICI, thus the collective congregational views on internal controls within each denomination were identified. Figure 9 depicts that overall the denominations sampled have relatively high ICIs. Born Again (Christ Compassion Alive Church) and Interdenominational churches have higher average ICIs compared to Cornerstone Christian Ministries and Vision Africa Gospel churches, however, this result may be a sampling bias. Further exploration of the denominations with higher ICIs is necessary as these denominations may or may not effectively train church officials in internal controls and accounting processes. There could be interesting reasons why denominations have varying ICIs. The organizational structure of certain denominations may or may not require internal controls. The type of people within the denomination may also affect the internal controls. If a denomination is

typically more trusting and less educated, then it is likely to have less internal controls implemented. Churches with higher ICIs can work together to advise churches with lower ICIs on how to improve.

Figure 9: Role of Denomination



CHAPTER FOUR

Final Results and Recommendations

In this study, I analyzed how one's biblical perspective, experience in years as pastor, experience in years as an administrator, and denomination relate to attitudes about internal controls, using an internal control index (ICI) as a surrogate for attitudes about internal controls. The results show that none of the quantitative variables are statistically significant to the ICI. These findings may be attributable to any of the following reasons: (1) limited sample size, (2) more careful construction of data or (3) no relationship exists. The sample size was limited to surveys conducted of Ugandan pastors and church administrators in Baylor's 2011 Accounting Vocational Mission Trip to Uganda. Financial, time, and personnel constraints limited my ability to increase the sample size. A larger sample size might have been advantageous if it resulted in the sample being more representative of pastors throughout the country.

More careful construction of the data may also be necessary. The survey was constructed specifically for the purposes of this thesis; however, more

questions relating to internal controls could assist in formulating a more precise internal control index.

I found that learning good internal controls is not related to theology, which was measured using the biblical perspective index (BPI). In the pool of people sampled, not much difference in the BPIs existed because all the respondents were professed Christians. Therefore, BPI does not explain the absence of internal controls of churches. To better determine how much explanatory power BPI has, a sample of people with varying theological perspectives (i.e. Christian and non-Christian denominations) should be taken. Even though I found no relationship amongst Christians with similar BPIs, BPI is still important to consider because I did not survey people with low BPIs. The data does address that the BPIs within Christians do not have an impact on internal controls.

I identified that Ugandan pastors are not learning how to properly implement internal controls based on their experience. Pastors are not learning internal controls on their own. From the beginning of their ministry, most pastors are not trained in the concepts of good stewardship. Thus, from ignorance or neglect, they form bad habits. Since pastors are not learning internal controls on their own, they must receive training specifically on internal controls early in their careers.

Similarly, the data explained that Ugandan church administrators are not properly implementing internal controls. The knowledge of administration processes is not related to the internal controls. Pastors and church officials cannot simply rely on administrative knowledge to learn internal controls.

The data produced interesting results that some denominations have higher internal control indexes than others. Certain denominations may effectively train on internal control topics. Other factors may attribute to the varying ICIs, such as denomination structure and type of people within the denomination.

Since fraud is difficult to measure, I placed emphasis on examining internal controls. One objective of internal controls is the prevention of fraud so having increased internal controls relates to the reduction of fraud. Ideally, the hypothesis to be tested is that if internal controls are not properly implemented, then the likelihood of fraud increases. Future analysis with a fraud variable would be interesting to conduct.

In general, principles of internal control and how to implement them are not being learned in Ugandan churches. “Internal control protects...by minimizing opportunities for unintentional errors or intentional fraud that may harm...” (“The Importance of Internal Controls in Financial Reporting and Safeguarding Plan Assets”). Internal controls are an integral tool for reducing the risk of fraud, limited waste, inefficiency, and assuring compliance with laws and regulations. With previously established relationships with Ugandan pastors, the Baylor Accounting Department can leverage the data provided.

The Baylor Accounting Department should consider directly teaching internal controls to Ugandan pastors. Specifically lecturing on internal controls may be advantageous for pastors who wish to reduce their risk of fraud. Furthermore, once the internal controls are specifically taught, its effect can be tested and analyzed. From the results gathered on internal controls, interesting correlations may greatly contribute to academic research in regards to the prevention of fraud.

APPENDICES

APPENDIX A

Research on Fraud

- Fraudulent scandals like Enron and Worldcom have recently plagued the accounting profession. In response, the Sarbanes-Oxley Act of 2002 (SOX) was enacted to help restore confidence in the financial statements. SOX made corporate officials personally responsible for their company's financial statements and pressed for greater corporate integrity by requiring companies to follow good control practices.
- Organizations worldwide lose an estimated 5 percent of revenues to fraud, and the projected losses from fraud exceed \$3.5 trillion (“ACFE Report Estimates Organizations Worldwide Lose 5 Percent of Revenues to Fraud”).
- KPMG, one of the “big four” accounting firms, conducted an integrity survey and found that “nearly three out of four employees nationally reported that they had observed misconduct in the prior 12-month period, with half of employees reporting that what they had observed could cause

‘a significant loss of public trust if discovered’” (“Integrity Survey: 2005-2006”).

- The Association of Certified Fraud Examiners (ACFE) 2012 Report to the Nation claims that occupational fraud is still a significant threat to small businesses (“2012 Report to the Nation – Key Findings and Highlights”).
- The smallest businesses suffer the largest median losses (“2012 Report to the Nation – Key Findings and Highlights”).

APPENDIX B

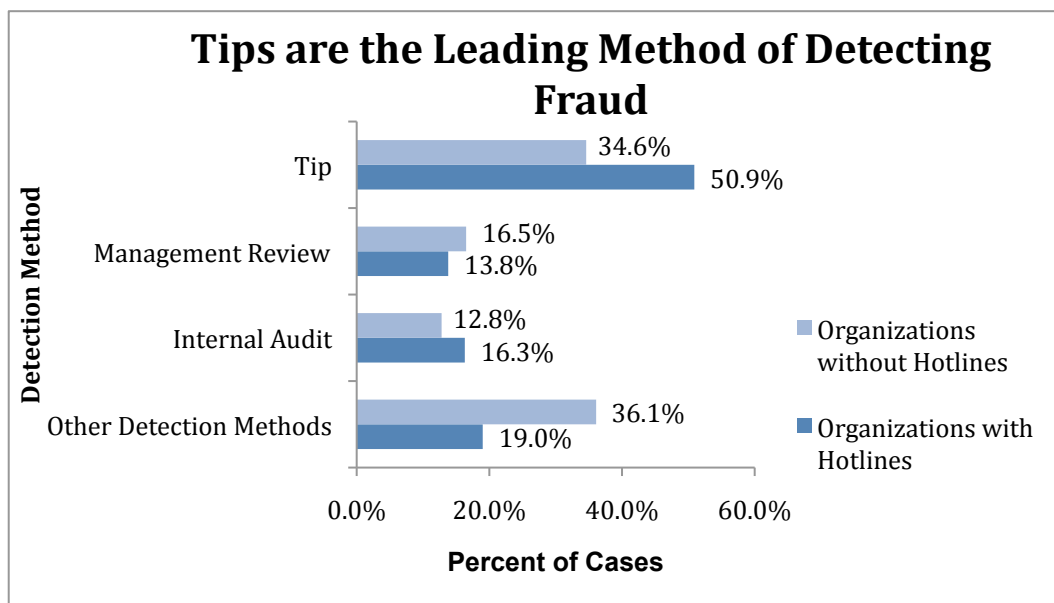
Research on Internal Controls

Nonprofits should implement segregation of duties. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which provides the authoritative guidance on internal controls, segregation of duties is “not an end in itself, but rather a means of mitigating risk inherent in processes” (Gramling).

Nonprofits should integrate an anonymous reporting mechanism, such as a fraud hotline. In the ACFE’s 2012 Report to the Nations, one key finding was that fraud is more likely to be detected by a tip than by any other method as shown in Figure 10 (“2012 Report to the Nations – Key Findings and Highlights”).

Employees of the victim organization reported the majority of tips reporting fraud.

Figure 10: Tips are the Leading Method of Detecting Fraud



The ACFE specifically recommends fraud-reporting mechanisms, such as hotlines, be set up to “receive tips from both internal and external sources and should allow anonymity and confidentiality” (“2012 Report to the Nations – Conclusions and Recommendations”). Even further, implementing a hotline is also in accordance with the SOX requirement that public companies establish procedures for the “receipt, retention, and treatment of complaints” received by the organization regarding accounting, internal controls, and auditing (“The Sarbanes-Oxley Act”). *The Benefits of a Fraud Hotline* in the CPA Journal

addresses that fraud hotlines also effectively uncover fraudulent activity and instill a “perception of detection” in the minds of potential perpetrators (Buckhoff). The “perception of detection” refers to the notion that if people think they will be caught, then they are less likely to commit fraud. Early detection of fraudulent activity is necessary, as fraud losses tend to increase over time. Employees can anonymously use the fraud hotline’s around the clock service.

Smaller nonprofits can implement other solutions, such as rotation of duties, management oversight, and third-party involvement (Gramling). Smaller nonprofits can periodically rotate the authorization, custody, and recordkeeping duties among existing personnel thereby reducing fraud losses. Greater emphasis is placed on management oversight by being more involved in day-to-day activities. Third-party involvement may be advantageous for nonprofits that cannot invest additional full-time resources into segregating duties.

Nonprofits should implement an ethical tone at the top control environment. Typically management sets the tone at the top by respecting the internal controls and actively engaging the ongoing design and management of the internal control processes (Hopwood). Management should also actively encourage employees to report suspicious activity and enact an anti-retaliation policy.

Nonprofits should prioritize expenses in the budget. Prioritizing expenses simply means categorizing each account by its level of importance. Prioritizing expenses helps assure that money is spent for its intended purpose. Expenses such as rent and utilities bear greater importance. Money cannot simply be given away

to fulfill every immediate need. Money allocated for high priority expenditures such as rent or utilities should not be given away for personal needs. Prioritizing expenses allows some flexibility with the budget, but does not allow at-will diversions from planned expenditures.

Use of budget envelopes visually incorporates prioritizing expenses. The first step in envelope budgeting is to individually label the envelopes with a budget category (rent, supplies, utilities). Envelopes are then numbered by priority of importance with one being most important. The money allotted to each budget category per month is literally enclosed in the respective envelope. Once all the money in the envelope is spent, that category is closed and is not allowed to reopen until the next month. The budget envelope system helps protect against over-spending and bringing discipline and accountability to the budget process.

Nonprofits can provide clarity to income and cash collection processes through flowcharting. Flowcharting can map the flow of cash through the church's operations.

Nonprofits should implement physical controls such as a lockbox. Cash kept on site should be securely locked in a safe in order to prevent employees from simply "borrowing" the money.

Nonprofits should not intermingle business and personal finances. The entity assumption states that the business activities are separate and distinct from its owners and all other entities (Nikolai p.51). In order to accurately report

finances, nonprofits must maintain and review that personal income and expenses are independent of the nonprofit's finances.

APPENDIX C

Questionnaire for Ugandan Pastors

Pastors' Discipleship Network

Mastering the Land Conference Survey

May 2011

Please complete the attached survey by circling the number that most closely corresponds to how you feel about the question. There are no right or wrong answers, we are simply interested in how you feel on a number of questions.

At the end of the survey are descriptive questions that we ask about your church. We appreciate your willingness to explain to us a little about how your church functions.

Thank you! The Baylor Team

Please provide the following demographic information before starting the survey:

Denomination of your church:

Number of years you have been a pastor OR:

Number of years you have been the church's accountant:

		Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree	No opinion
1	When God blesses, financial success follows.	1	2	3	4	5	6
2	People without financial resources are not faithful.	1	2	3	4	5	6
3	If you give your money to God, God will bless you with more money.	1	2	3	4	5	6
4	Money is to be used, not saved.	1	2	3	4	5	6
5	The wealthy should be generous with money.	1	2	3	4	5	6
6	God wants Christians to be prosperous.	1	2	3	4	5	6
7	If you are not prosperous, you must be sinning against God.	1	2	3	4	5	6
8	If you pray for God to bless you and enlarge your territory, He will grant your request.	1	2	3	4	5	6
9	Wealth is a sign of God's favor.	1	2	3	4	5	6
10	Poverty is a sign of God's disfavor.	1	2	3	4	5	6
11	God wants believers to be rich.	1	2	3	4	5	6
12	God requires faithfulness in finances.	1	2	3	4	5	6
13	Wealthy people are not faithful Christians.	1	2	3	4	5	6
14	Christians should not desire wealth.	1	2	3	4	5	6

15	Making money is bad.	1	2	3	4	5	6
16	Christians should not be concerned with money.	1	2	3	4	5	6
17	Business practices are mostly sinful.	1	2	3	4	5	6
18	Christians should not be wealthy.	1	2	3	4	5	6
19	Money corrupts the business world.	1	2	3	4	5	6
20	Being in the business world corrupts Christians.	1	2	3	4	5	6
21	Budgeting is a sign of faithfulness.	1	2	3	4	5	6
22	People who have many possessions are selfish.	1	2	3	4	5	6
23	Christians should buy what they need and nothing more.	1	2	3	4	5	6
24	It is important to share resources with others.	1	2	3	4	5	6
25	Christians should not be business people.	1	2	3	4	5	6
26	Scarcity in resources is more spiritual than abundance in resources.	1	2	3	4	5	6
27	Poverty is a sign of spiritual blessing.	1	2	3	4	5	6
28	Budgeting shows a lack of faith.	1	2	3	4	5	6
29	Accounting for how money is spent shows a lack of trust.	1	2	3	4	5	6

30	Accounting for how money is spent shows a lack of generosity.	1	2	3	4	5	6
31	Budgeting shows faithful stewardship.	1	2	3	4	5	6
32	It is sinful to be wealthy.	1	2	3	4	5	6
33	Christians should not be concerned with money.	1	2	3	4	5	6
34	Wealth corrupts Christians.	1	2	3	4	5	6
35	God owns all of our possessions.	1	2	3	4	5	6
36	I should not keep money or possessions for myself as long as there is a need.	1	2	3	4	5	6
37	When I am in need of money, I rely on others to obtain it.	1	2	3	4	5	6
38	Running a church is similar to running a business.	1	2	3	4	5	6
39	I do not trust business people.	1	2	3	4	5	6
40	I feel solely responsible for my church congregation.	1	2	3	4	5	6
41	I worry about my church's finances.	1	2	3	4	5	6
42	My personal finances and the church's finances should be the same.	1	2	3	4	5	6
43	Sometimes it is ok to say no to a church member's need.	1	2	3	4	5	6
44	Wealth does not make one happy.	1	2	3	4	5	6

45	Wealth is a sign of God's blessing.	1	2	3	4	5	6
46	He is the richest who is content with the least.	1	2	3	4	5	6
47	You cannot serve both God and money.	1	2	3	4	5	6
48	Accounting for how money is spent is good stewardship.	1	2	3	4	5	6
49	God gives different gifts to people in the Body of Christ.	1	2	3	4	5	6
50	When members of my congregation are in need of money, they rely on the pastor to meet that need.	1	2	3	4	5	6

Other Survey Questions (Yes or No. If Yes, please explain.)

1. Does your church have an accountant?
2. Does the pastor of your church handle the cash?
3. Does the pastor receive a salary?
4. Does the church have a budget?
5. Are tithes collected?
6. Are offerings collected?
7. Other than yourself, is there any paid staff at your church? (if yes, please list the positions).

Open-Ended Questions:

1. How is your church leadership organized and what are their roles?
2. How does your church's financial process work?
3. Do church members ask to borrow money from the church?
4. Does your church offer "welfare" funds? (Benevolence funds in the US.)

APPENDIX D

Questionnaire for Ugandan Students

Uganda Christian University Survey

May 2011

Please complete the attached survey by circling the number that most closely corresponds to how you feel about the question. There are no right or wrong answers, we are simply interested in how you feel on a number of questions.

At the end of the survey are descriptive questions that we ask about your church. We appreciate your willingness to explain to us a little about how your church functions.

Thank you! The Baylor Team

		Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree	No opinion
1	When God blesses, financial success follows.	1	2	3	4	5	6
2	People without financial resources are not faithful.	1	2	3	4	5	6
3	If you give your money to God, God will bless you with more money.	1	2	3	4	5	6
4	Money is to be used, not saved.	1	2	3	4	5	6
5	The wealthy should be generous with money.	1	2	3	4	5	6
6	God wants Christians to be prosperous.	1	2	3	4	5	6
7	If you are not prosperous, you must be sinning against God.	1	2	3	4	5	6
8	If you pray for God to bless you and enlarge your territory, He will grant your request.	1	2	3	4	5	6
9	Wealth is a sign of God's favor.	1	2	3	4	5	6
10	Poverty is a sign of God's disfavor.	1	2	3	4	5	6
11	God wants believers to be rich.	1	2	3	4	5	6
12	God requires faithfulness in finances.	1	2	3	4	5	6
13	Wealthy people are not faithful Christians.	1	2	3	4	5	6

14	Christians should not desire wealth.	1	2	3	4	5	6
15	Making money is bad.	1	2	3	4	5	6
16	Christians should not be concerned with money.	1	2	3	4	5	6
17	Business practices are mostly sinful.	1	2	3	4	5	6
18	Christians should not be wealthy.	1	2	3	4	5	6
19	Money corrupts the business world.	1	2	3	4	5	6
20	Being in the business world corrupts Christians.	1	2	3	4	5	6
21	Budgeting is a sign of faithfulness.	1	2	3	4	5	6
22	People who have many possessions are selfish.	1	2	3	4	5	6
23	Christians should buy what they need and nothing more.	1	2	3	4	5	6
24	It is important to share resources with others.	1	2	3	4	5	6
25	Christians should not be business people.	1	2	3	4	5	6
26	Scarcity in resources is more spiritual than abundance in resources.	1	2	3	4	5	6
27	Poverty is a sign of spiritual blessing.	1	2	3	4	5	6
28	Budgeting shows a lack of faith.	1	2	3	4	5	6

29	Accounting for how money is spent shows a lack of trust.	1	2	3	4	5	6
30	Accounting for how money is spent shows a lack of generosity.	1	2	3	4	5	6
31	Budgeting shows faithful stewardship.	1	2	3	4	5	6
32	It is sinful to be wealthy.	1	2	3	4	5	6
33	Christians should not be concerned with money.	1	2	3	4	5	6
34	Wealth corrupts Christians.	1	2	3	4	5	6
35	God owns all of our possessions.	1	2	3	4	5	6
36	I should not keep money or possessions for myself as long as there is a need.	1	2	3	4	5	6
37	When I am in need of money, I rely on others to obtain it.	1	2	3	4	5	6
38	Running a church is similar to running a business.	1	2	3	4	5	6
39	I do not trust business people.	1	2	3	4	5	6
40	I feel solely responsible for my church congregation.	1	2	3	4	5	6
41	I worry about my church's finances.	1	2	3	4	5	6
42	My personal finances and the church's finances should be the same.	1	2	3	4	5	6
43	Sometimes it is ok to say no to a church member's need.	1	2	3	4	5	6

44	Wealth does not make one happy.	1	2	3	4	5	6
45	Wealth is a sign of God's blessing.	1	2	3	4	5	6
46	He is the richest who is content with the least.	1	2	3	4	5	6
47	You cannot serve both God and money.	1	2	3	4	5	6
48	Accounting for how money is spent is good stewardship.	1	2	3	4	5	6
49	God gives different gifts to people in the Body of Christ.	1	2	3	4	5	6
50	When members of my congregation are in need of money, they rely on the pastor to meet that need.	1	2	3	4	5	6

Other Survey Questions (Yes or No. If Yes, please explain.)

1. What is your college major?
2. Where is your hometown?
3. What is your denomination?
4. Does your church have an accountant?
5. Does the pastor of your church handle the cash?
6. Does the pastor receive a salary?
7. Does the church have a budget?
8. Are tithes collected?
9. Are offerings collected?

Open-Ended Questions:

1. How is your church leadership organized and what are their roles?
2. How does your church's financial process work?
3. Do church members ask to borrow money from the church?
4. Does your church offer "welfare" funds? (Benevolence funds in the US.)

APPENDIX E

Questionnaire Questions Used in Measuring a Biblical Perspective Index (BPI)

When God blesses, financial success follows.
God wants Christians to be prosperous.
People without financial resources are not faithful.
If you are not prosperous, you must be sinning against God.
If you pray for God to bless you and enlarge your territory, He will grant your request.
Wealth is a sign of God's favor.
Poverty is a sign of God's disfavor.
God wants believers to be rich.
Wealthy people are not faithful Christians.
Christians should not desire wealth.
Making money is bad.
Christians should not be concerned with money.
Christians should not be wealthy.
People who have many possessions are selfish.
Christians should buy what they need and nothing more.
Scarcity in resources is more spiritual than abundance in resources.
Poverty is a sign of spiritual blessing.
It is sinful to be wealthy.
Christians should not be concerned with money.
Wealth corrupts Christians.
I should not keep money or possessions for myself as long as there is a need.
Wealth does not make one happy.
Wealth is a sign of God's blessing.
He is the richest who is content with the least.
You cannot serve both God and money.
Money is to be used, not saved.
Business practices are mostly sinful.
Money corrupts the business world.
Being in the business world corrupts Christians.
Budgeting is a sign of faithfulness.
Christians should not be business people.
Budgeting shows a lack of faith.

Accounting for how money is spent shows a lack of trust.
Accounting for how money is spent shows a lack of generosity.
Budgeting shows faithful stewardship.
Running a church is similar to running a business.
I do not trust business people.
Accounting for how money is spent is good stewardship.

APPENDIX F

Questionnaire Questions Used in Measuring an Internal Control Index (ICI)

If you give your money to God, God will bless you with more money.
The wealthy should be generous with money.
God requires faithfulness in finances.
It is important to share resources with others.
God owns all of our possessions.
When I am in need of money, I rely on others to obtain it.
I feel solely responsible for my church congregation.
I worry about my church's finances.
My personal finances and the church's finances should be the same.
Sometimes it is ok to say no to a church member's need.
God gives different gifts to people in the Body of Christ.

APPENDIX G

Main Accounting Issues Identified from Survey of Pastors

<i>Accounting Issue</i>	<i>Example</i>
Giving food vs. giving money	“We have a church in the village and when it comes to giving they always give greens, beans, bananas, as tithe money offering, etc. When it comes to money \$2,000 is the total.”
Prioritizing expenses	“Does one need to forego the needs in order to save or invest?”
Budget constraints	“Can’t I budget more according[ly] to the big goal of the ministry and then do resource manipulation like through proposal writing...for needs/programs beyond our income?”
Steps in income and cash collection	“What should we do with the treasurer who ran away with church money? I forgave him but the church members decided not to give [tithes] as usual.”

APPENDIX H

Possible Future Academic Work

Future work analyzing internal control and fraud data should seek to gain access to financial statements and perform walk-throughs of the accounting processes.

For future analysis of the biblical perspective variable, pastors and individuals from non-profit organizations or publically traded businesses that are not professed Christians should be compared.

For future analysis of explanatory variables, multivariate regression analysis should be performed. Relation between variables may exist and would be important for explaining variation in ICI. With the current data, however, the analysis of multiple variables would not produce significant results.

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