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The element of opportunity to commit fraud in non-profit organizations that inform zero fundraising and administrative expenses

Luz I. Gracia Morales / luz.gracia1@upr.edu
University of Puerto Rico
Mayagüez Campus

José Noel Caraballo / josenoel.caraballo@upr.edu
University of Puerto Rico
Cayey Campus

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ABSTRACT:
Nonprofit organizations (NPOs) with federal income tax exemption must file the 990 Form and answer questions about corporate governance. In this study, a logistic regression analysis was performed using the data reported in the 990 Form to examine the relation between the variables of the element of opportunity and NPOs with questionable zero administrative and fundraising expenses. The regression did not find a relation between them. However, a relation was found between one of the element of opportunity variables, the whistleblower policy, and the efficiency measure of a program expense ratio greater that 65%.

Keywords: Nonprofit organizations, earning management, fraud, Form 990

RESUMEN:
Las organizaciones sin fines de lucro (OSFL) con exención en el pago de impuestos a nivel federal tienen que completar la Forma 990 y contestar preguntas acerca de la gobernanza corporativa. En este estudio, se realizó un análisis de regresión logística utilizando los datos reportados en la Forma 990 para examinar la relación entre las variables del elemento de oportunidad y las OSFLs con cero gastos administrativos y de recaudación de fondos. La regresión no encontró una relación entre ellos. Sin

embargo, se encontró una relación entre una las variables de elementos de oportunidad, la política de delatores, y una razón de gastos del programa mayor de 65%.

Palabras clave: Organizaciones sin fines de lucro, manipulación contable, triángulo del fraude, Forma 990

Introduction

It was estimated that previous to 2007 Non for Profit Organizations (NPOs) in Puerto Rico contributed $3,041 million annually to the economy, which at that time represented 5.35% of the gross national product, and employed approximately 229,608 people (Estudios Técnicos, 2007). In general, information such as this one, and other statistics about Puerto Rican NPOs, is fragmented despite the significant contribution of NPOs to society and the large amount of money that they receive from the government and private sectors. The authors believes that this fragmentation of information has delayed the formation of a culture of evaluation of the NPOs sector in Puerto Rico and there is a growing concern that poor supervision or monitoring could lead to improper use of resources and fraud (Román, 2006; Díaz, 2000). The government, universities, donors, recipients of NPOS services, others NPOs, and the community can and should act as evaluators of the NPOs performance[1].

Unfortunately, this culture of evaluation is not yet in place. Vega (2009) emphasizes that Puerto Rican NPOs lack self-regulation mechanisms that would ensure the appropriate use of resources. Díaz (2000) and Román (2006) also point out that there is a lack of supervision of the NPOs by the Puerto Rican government. Thus, it can be argued that there are no mechanisms in place to supervise Puerto Rican NPOs and therefore the opportunity of committing fraud exits. Even in NPOs at United States, where there are support infrastructures that provide supervision mechanisms, misreporting

[1] This research is in progress by Gracia-Morales.

of functional expenses is a common type of financial statement fraud (Greenlee, Gordon, Fischer, & Keating, 2007).

The propensity to commit fraud can be explained using the concept of the fraud triangle (Dorminey, Fleming, Kranacher, & Riley, 2010) that establishes that in order to commit fraud the elements of pressure or motivation, opportunity and rationalization must be present. The presence of one element of the fraud triangle does not necessarily mean that fraud has been committed but that further investigation is nevertheless required. Among all these elements, opportunity is the one that can be controlled by organizations through the implementation of internal controls mechanisms and good governance practices. It is then important to study the relation between the element of opportunity and the governance practices as related to the NPOs.

In this paper, an analysis relating the fraud triangle element of opportunity and several NPOs governance practices is presented. The element of opportunity is a function of the following variables: audited financial statements, an audit committee, a whistleblower policy, a conflict of interest policy, and the related party transactions.

THE REPORTING OF ZERO ADMINISTRATIVE AND FUNDRAISING EXPENSES

In Puerto Rico and the United States, NPOs that have federal tax exemption are required by the Internal Revenue Service (IRS) to fill the 990 Form. This form requires that all expenses be reported and classified as either fundraising, administrative or program expenses[2]. The categories of functional expenses are used to calculate the program expense ratio (total program expense/ total expenses), administrative expense ratio (total administrative expense/total expenses) and the fundraising expense ratio (total fundraising expenses/total expenses), among others. Those ratios are considered measures of efficiency and effectiveness and are used by donors and watchdog organizations to make donation decisions (Greenlee et al., 2007). For example, the Better Business

[2] This definition is consistent with Generally Accounting Principles (GAAP).

Bureau Wise Giving Alliance (BBB) is a watch dog organization that established a program expense ratio of 65% and administrative expense ratio of 35% as good efficiency and effectiveness indicators. Manipulating the data in the 990 Form to show appropriate program expense and administrative expense ratios can be considered a form of manipulation with the intention of increasing the good efficiency and effectiveness indicators that could represent bigger donations to the NPOs.

Previous research found evidence that reporting zero administrative and fund raising expenses had the consequence of making NPOs appear less inefficient (Jacobs & Marudas, 2012). Meanwhile, Krishnan, Yetman, & Yetman (2006) found evidence that the reporting of zero fundraising expenses was intentional. According to them, this expense misreporting was positively associated to managerial incentive measures. According to Yetman & Yetman (2012) reporting zero fundraising and administrative expenses would automatically increase the program expense ratio as this is considered by donors and watchdogs organizations as a good efficiency indicator. In 2002, the General Accountability Office (GAO) reported that 1.5% percent of all NPOs that received donations reported zero fundraising expenses and 10% of NPOs reported zero administrative expenses. Similar results were found in Kennard & Hager (2004). This investigation showed that 37% of NPOs with at least $50,000 in contributions reported zero fundraising costs; 25% of NPOs reporting $1 million to $5 million in contributions reported zero fundraising costs and 20% of those reporting more than $5 million in contributions also reported zero fundraising expenses. The same study also found that 13% of NPOs reported zero management-and-general expenses. Wing, Gordon, Hager, Pollak, & Rooney (2006) described these findings this way: "Unfortunately, nonprofit financial reporting represents a potential ticking time bomb for the profession" (p.1). If a NPO wants to artificially increase the program expense ratio they could report zero fundraising and administrative expenses (Yetman & Yetman, 2012).

The IRS defines administrative expenses as:

> Overall, management and administrative expenses usually includes the salaries and expenses of the chief executive officer and his or her staff unless a part of their time is spent directly supervising program services or fundraising activities, costs of board of directors meetings; committee meetings, and staff meetings (unless they involve specific program services or fundraising activities); general legal services; accounting general, liability insurance; office management; auditing, human resources, and other centralized services; preparation, publication, and distribution of an annual report; and management investments. (Instructions of Form 990, 2010, p.36)

Based on the IRS definition, it is very unlikely that NPOs would report zero administrative expenses. Reporting zero administrative expenses means that the organization does not even spend a penny in any administrative task[3].

The IRS defines fund raising expenses as:

> Fundraising expenses are the expenses incurred in soliciting contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns and (b) soliciting bequests and grants from foundations or other organizations, or government grants reported on Part VIII, line 1. This includes participating in federated fundraising campaigns; preparing and distributing (fundraising manuals, instructions, and other materials). (Instructions of Form 990, 2010, p.38)

It is very unlikely that NPOs that reported income from gifts, contribution, federal or state grants would report zero fundraising expenses because the IRS specifically mandates the classification of all expenses incurred obtaining gifts, grants and contributions as fund raising expenses (Wing et al., 2006). This phenomenon led the American Institute of Certified Public Accountants (AICPA) to issue new guidelines on how to report fundraising expenses in May 2007.

[3] See the discussion part of this paper for evidence of this misreporting.

Opportunity to commit fraud and the fraud triangle

The propensity to commit fraud can be explained in terms of the fraud triangle (Dorminey et al., 2010). The fraud triangle establishes that in order to commit fraud the elements of pressure, opportunity and rationalization must be present. Financial need or motivation is a pressure or need that the person feels in order to commit fraud. This pressure can happen at an institutional (managerial) or personal level. At a personal level, the perpetrator has real financial needs that may include delays in debt payments, a standard of living that exceeds income, addiction problems, etc. At an institutional level, the management has the motivation or financial pressure to obtain funds or to accomplish a mission. Another example of motivation or financial need to commit fraud is to feel pressure to show satisfactory operational results.

Rationalization implies a justification of the fraudulent conduct in a way that does not conflict with personal values. Given the case that a person stole money, it would be justified by thinking of it as a loan that will be returned. Another example is to think that the work is poorly paid or that everyone "does it." Opportunity is a path or route to commit fraud without people detecting it. It is the result of weak internal controls, little supervision, and/or an inadequate use of authority and rank. In the pressure to commit fraud, opportunity is "what converts motive into action" (Zack, 2003, p. 22). In this paper, lack of opportunity is a function of the following variables: existence of audited financial statements, an audit committee, a whistleblower policy, a conflict of interest policy, and the related party's transactions. This information is found in the 2008 Form 990. As explained earlier, this form is widely used by academics to obtain financial information about NPOs (Gordon, Knock, & Neely, 2009).

Factors related to the opportunity to commit fraud

Studies suggest that opportunity or lack of opportunity to commit fraud has been related to the existence (or lack) of an audit committee, related party transactions, whistleblower policy, a conflict of interest policy, and audited financial statements, among others. The presence of an auditing committee could reduce the opportunity to commit fraud because this committee carried out the responsibilities of financial oversight, protecting the nonprofit and avoiding liability for breach of fiduciary duty (Owen, 2004). The committee must function as the link between the external auditors and the board of directors, and it is expected that it could detect financial irregularities. Empirical research in this area is not conclusive; however Beasley (1998) found that the existence of an auditing committee did not decrease the possibility of fraud happening in the financial statements. Furthermore, Dechow, Hutton, Kim, & Sloan (2012) have found a negative relationship between the presence of an auditing committee and fraud.

Abbott, Park, & Parker (2000) and Beasley, Carcello, Hermanson & Lapides (2000), for example, studied organizations that had committed fraud and other organizations that had not committed fraud in their financial statements. These studies revealed that in the organizations that had not committed fraud in their financial statements, the auditing committees were formed by external people and met at least twice a year. In another study, Abbott et al. (2000) examined the activity of the auditing committee, the independence of the committee members, and the percentage of the financial aspects of at least one of the committee members, and found a negative relation between the committee's oversight, the independence, and the accounting manipulation.

The existence of related party transactions is another factor of the element of opportunity to commit fraud. Gordon, Knock, & Neely (2009) defined related party transactions as those transactions between organizations and their directors, subsidiaries, owners, or officers. According to the authors, what can be gathered from the Enron and Adelphia cases is that the purpose of this kind of transaction is to cheat or commit fraud and does not have a legitimate business purpose. According to Benzing, Leach, & McGee (2010), the conflict of interest policy and the whistleblower policy reduce the probability of a fraudulent conduct.

The whistleblower policy provides certain mechanisms to submit complains, to investigate, and to protect against reprisals to the informer who decides to denounce any kind of fraud. Since the 1990s, the Federal Government has trusted this policy as a way to control fraud and abuse in the Medicaid and Medicare programs (Carson, Verdu, & Wokutuch, 2008). According to Cruise (2002), the whistleblower policy is an important part in the prevention against fraud.

The conflict of interest policy is a mechanism that can help protect the assets of the organization against the personal interests of any individual. According to the IRS, this policy protects the NPO when it is "contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction" (IRS 2011 990 Form Instructions, p.49).

In this paper it is assumed that the presence of audited financial statements deterred the opportunity to commit accounting manipulation. Audited financial statements are prepared following Statement of Auditing Standards 99 (SAS 99) *Consideration of Fraud in a Financial Statement Audit.* This statement establishes that auditors must plan their auditing in order to detect fraud in financial statements. It describes risks factors that auditor must evaluate and prescribes guides to increase the process efficiency when planning and performing the audit. These guides include examples of the risk factors that the auditor might identify and are classified by the categories of pressure, opportunity, and rationalization. As explained earlier these are the same elements described in the fraud triangle.

Research Questions

Through our review of the literature we identified several factors associated with the opportunity to commit fraud in NPOs corporations. These factors are: 1) the existence (lack) of related party transactions, 2) the absence (existence) of whistleblower policies, 3) the lack (presence) of conflict of interest policies, 4) the lack (presence) of audited financial statements, and 5) lack (presence) of an audit committee. Although we cannot measure fraud directly in this study, the non-reporting of administrative and fund raising expenses (even when they are reporting contributions) might be evidence that financial manipulation and thus fraud may be at work in the NPOs (Greenlee et al., 2007).

The specific questions that this research aims to answer, related to the 2008 990 Form, were: 1) What percentage of the NPOs in Puerto Rico reported zero administrative and fund raising expenses?, 2) What percentage of the NPOs in Puerto Rico reported program expense ratios greater or equal to 65%?, 3)What percentage of the NPOs in Puerto Rico reported administrative expense ratios less or equal to 35%?, 4)Which opportunities variables are related to the reported of zero administrative and fund raising expenses?, and 5) Which opportunities variables are related to the reported 65%/35% of program expense and administrative expense ratios?

Regarding the last two questions, our literature review suggests that the reporting of zero administrative and fund raising expenses, or the noncompliance with the BBB standards will be reduced when, 1) there exists an audit committee, 2) there is in place a conflict of interest policy, 3) the organization has audited its financial statements, 4) the organization has a whistleblower policy, and 5) the organization has related parties' transactions.

METHODS

POPULATION AND SAMPLE

The population for this study is all the NPOs that filled the Federal Form 990 for the year 2008 and that were in the www.guidestar.org database. For that year, the federal government required only the NPOs that had profits larger or equal to $500,000 or assets larger or equal to $1,250,000 to fill out the Form 990. The number of NPOs found in the database was 1,002. Of those, 60 NPOs were not considered because they are not incorporated in Puerto Rico. Another 691 NPOs returns were not of the year 2008; therefore, they were not used in the study. Of the remaining 251 NPOs, 49 of their returns corresponded to another version of the 990, not suitable for this research and eight returns were repeated. Thus, the total number of NPOs that met the criteria for the study was 194. Access to the completed 990 forms was obtained through the GuideStar database (www.guidestar.org). The 990s in the GuideStar database come from the IRS and the organizations themselves. The IRS sends the 990s to GuideStar as digital images, which GuideStar converts to PDFs and post on the site. The database contains more than 5 million Form 990 images provided by the IRS, and new images arrive from the IRS monthly.

The 990 form

Puerto Rican NPOs that are granted federal income tax exemption must file the 990 Form. Even though these organizations do not pay income taxes, they must inform the IRS about the organization's mission, programs, and finances. This form provides a snapshot of the financial health and expenditures of an organization at a specific time. The 2008 990 Form is divided into 11 main parts and 16 schedules. The complete 990 Form and schedules can be access in www.irs.gov clicking Forms and Publications or going to www.guidestar.org.

The 2008 990 Form includes all the necessary information to study the variables of this investigation. For example question 3 of section A of the 990 Form asks a yes or no question about third parties transactions. The question Part VI Section B of the return asks a yes or no the NPOs questions about the existence of a conflict of interest policy, and whistleblower policy. Part XI asks yes or no questions about the existence of audit committee and if the financial statement has been audited, among others. This form is widely used between academics and practitioners in the United States because it "is the key transparency tool relied on by the public, state regulators, the media, researchers, and policymakers to obtain information about the tax exempt sector and individual organizations" (IRS Background Paper p. 1). In 2008, the 990 Form was redesigned to include questions about corporate governance. These questions were driven from the Sarbanes Oxley Law Benzing et al. (2010), and Smoker & Mammano (2009) which was passed in response to the financial scandals of public corporations like Enron, Tyco, WorldCom, among others. Like the public corporations NPOs had been involved in high profile scandals and the IRS felt the necessity to monitor the NPOs sector (Yallapragada, Roe, & Toma, 2010; Ostrower & Bosbowick, 2006). This form is of public domain and must be available to inspection. The NPOs which do not submit this form for three consecutive years automatically lose their federal income tax exemption.

Data analysis

As a first step in the analysis, we computed the proportion of the NPOs that do not report program expenses, and those that do not report fund raising expenses. Secondly, we computed the program expenses ratio (PER) and the administrative expenses ratio (AER), and determined the percentage of PR NPOs that comply with the 65/35 standard (65% for the PER and 35% for the AER). Thirdly, descriptive statistics (mean, median, and standard deviation) were computed for each of the five variables related to the opportunity to commit fraud.

Finally, to answer the last two research question, logistic regressions was conducted using PER and AER, recoded as binary variables (0 if NPO does not met the BBB standard, 1 otherwise) as dependent variables, and existence of an auditing committee (AC), Majority of the board of directors are independent (BD), Financial statements audited by external auditors (FEA), Whistleblower policies (WP), Conflict of interest policies (CIP) and Existence of party related transactions (PRT) as independent variables. The statistical model used for the analyses is:

$$P(X=1)=\frac{1}{1+\exp\left\{-\left(\beta_0+\beta_1 AC+\beta_2 FEA+\beta_3 WP+\beta_4 CIP+\beta_5 PRT\right)\right\}}$$

where X represent our two recoded dependent variables Program Expense Ratio (PER) and Administrative Expenses Ratio (AER).

Model selection was conducted by means of backwards stepwise method using the Wald test to assess significance. All the analyses were performed with SPSS 18, and a significance level of 0.05 was used to assess the significance of the regression coefficients.

Results

The distribution of this sample by the National Taxonomy of Exempt Entities (NTEE)[4] is presented in Table 1. Most of the NPOs (87%) correspond to human services (35%), health (20%), social and public beneficence (18%), and education (14%).

Table 1
Taxonomy of NPOs in the sample as defined by the National Taxonomy of Exempt Entities

Type	N (%)
Arts and Humanities	9 (4.6)
Education	28 (14.4)
Environment and animals	4 (2.1)
Health	39 (20.1)
Human services	68 (35.1)
Social and public beneficence	34 (17.5)
Religious	2 (1.0)
International aid	3 (1.5)
Unknown	4 (2.1)
Total	194

Note: N= 194, most of the NPOs (87%) correspond to human services (35%), health (20%), social and public beneficence (18%), and education (14%).

[4] The NTEE is a classification system for nonprofit organizations that groups together similar organizations by purpose or mission. It used by the IRS, grant givers and recipients.

Table 2
Sources of expenses, and income from donations and grants of NPOs in the sample

	Mean	Median	S.D
Program expenses	$5,630,772.77	$567,427.00	$19,070,000.00
Administrative expenses	$2,158,300.72	$180,439.00	$7,255,377.82
Fund raising expenses	$29,151.63	$0.00	$258,558.82
Total expenses	$7,933,917.97	$1,022,146.50	$24,760,000.00
Federal government grants	$3,366.30	$0.00	$37,817.96
Income from fundraising	$17,903.90	$0.00	$134,967.25
State government grants	$1,017,052.65	$30,398.50	$3,702,467.70
Total income	$1,261,400.00	$257,454.00	$3829,210.00

Note: N=194, average expenses = $1,022,146.50, average income= $257.454.00

Means, medians and standard deviations of sources of income and expenses are presented in Table 2. As it is shown in Table 2, $1,017,052.65 out of $1,261,400 (80.6%) of the funds from contributions, gifts and grants for the Puerto Rico NPOs in the sample come from the state government.

The results of the first research question of our study revealed that 11% of the NPOs in the database reported zero administrative expenses while 57.2% reported at least one source of contribution (gifts, federal or state government grants, federated campaigns, fundraising events and other contributions) but reported zero fundraising expenses. For the second and third research questions, the data showed that 66 (34%) have a program expense ratio (PER) less than 65% and 56 (28.8%) of the NPOs have an administrative expense ratio (AER) greater than 35%. In other words, only 66% of the NPOs in Puerto Rico have a PER greater than 65% and 71.2 of the NPOs have AER less that 35%, being in compliance with BBB standards of good efficiency and effectiveness ratios.

Table 3 presents the percentage of NPOs for which opportunity to commit fraud variables are present. Interestingly, even though it is a requirement when filing for the federal exemption, almost 40% of

Table 3
Opportunity to commit fraud variables

Opportunity variables	N	%
Absence of conflict of interest policy	77	39.9
Absence of audited financial statements	28	14.7
Absence of committee of auditors	49	25.1
Absence of whistleblower policy	142	73.4
Absence of related transactions	183	94.3

Note: Almost 40% of the NPOs reported that they do not have a conflict of interest policy. Most of them reported that they have audited financial statements (14.7%) and external auditors (74.9%). Most of them also reported that they have not enacted whistle-blower policies (73.4%) or that they had external auditors (74.9). N is the total of NPOs that showed the opportunity variable and the percentage is for the total number of NPOs (194).

the NPOs reported that they do not have a conflict of interest policy. Most NPOs also reported that they have not enacted whistle-blower policies, and 85% reported that they had external auditors.

The backwards procedure for model selection failed to produce a significant model for predicting zero Program Expense and Administrative Expense ratios. Thus, none of the opportunities to commit fraud variables were significant predictors of PER nor AER. Similarly, the procedure also failed to obtain a significant model for predicting compliance with the BBB standard of an Administrative Expense Ratio less or equal to 35%.

Table 4
Results of the logistic regression for predicting non-compliance with Benchmarks Program Expense Ratio

Opportunity variables	B	S.E.	Wald	df	Sig.	Odd Ratio
Whistleblower policy	.825	.406	4.130	1	.042*	2.283**
Constant	.398	.189	4.462	1	.035	1.489

Note: N=194, * p<.05, **absence of a whistleblower policy increases the odds of noncompliance by a factor of 2.283.

The backwards model selection procedure for the logistic regression for predicting noncompliance with the 65/35 standard for the PER showed that only the model with one independent variable, the lack of a whistle-blower policy, was statistically significant (see Table 4). Based on this analysis, for a NPO without enacted whistle-blower policy the odds that it will not comply with the BBB's standard of at least a 65% of Program Expense Ratio is 2.283 times higher than the odds for an NPO with an enacted whistle-blower policy.

DISCUSSION AND CONCLUSIONS

For the Puerto Rico NPOs considered in our sample, the opportunity variables did not predict zero program or administrative expenses. Likewise, they do not predict compliance with the 65/35 standards for the Administrative Expenses Ratio. Only the absence of a whistleblower policy serves as predictor of non-compliance with BBB standards for the PER. Absence of a whistleblower policy increases the odds of noncompliance by a factor of 2.283. As explained before, the conflict of interest policy and the whistleblower policy reduce the probability of a fraudulent conduct.

The data also shows that 66% of the NPOs in Puerto Rico have a PER greater than 65%. In other words, 65% of all expenses go to the programs. This means that the majority of the NPOs are in compliance with the BBB standards. On the other hand, this also means that approximately one in three of the NPOs are not in compliance with the 65% standard. This outcome, combined with the result that 28.8% of the NPOs have AER larger than 35%, raises a flag because they are not in compliance with BBB standards of good efficiency and effectiveness ratios. There are NPOs that may have higher administrative expenses (AER) because of their high structural costs such as museums and universities. But, for others, the compliance of the BBB standards of good efficiency and effectiveness ratios should be a goal to be accomplished, and the fact that so many organizations are not complying with the standards should be further investigated.

As mentioned earlier, 11% of the NPOs in the sample reported zero administrative expenses. Given the definition of the IRS for these expenses, it is very unlikely that a NPO would no spend even a penny in an administrative task. This could be explained by the lack of technical knowledge in how to classify the expenses between the functional categories (administrative, fundraising and program expenses) required by the IRS or the lack of an appropriate accounting systems to accumulate those expenses. As of the first reason, the authors found from the sample that 71.6% of NPOs paid a preparer to complete the 990 Form. A search in the internet of those preparers showed that 49.2% had the title of CPAs explicitly stated. It is expected that a paid preparer would have the technical knowledge and even more if the preparer is a CPA.

The lack of an accounting system to accumulate the functional expenses could be another reason for not classifying appropriately all the functional expenses. This fact was confirmed by a study of the Comptroller of Puerto Rico in 2005 that found that many of the audited NPOs had inappropriate accounting systems. This is contradictory with the fact that the NPOs in the sample were those with revenues of $500,000 or more and actives of $1,250,000 or more. It would be expected that NPOs in that range of revenues and actives would had invested in good accounting systems.

It was also found that 57% of the NPOs that reported zero fundraising expenses reported at least one kind of donation coming from gifts, or federal or governmental grants. This fact raises the same issues presented before concerning lack of technical knowledge or lack of appropriate accounting systems to accumulate the expenses. Given the IRS definition of fundraising expenses, the cost of writing the proposal would have been included as fundraising expenses. One possible explanation for this specific finding, in the case of the grants from federal or state government sources, where the period of the grant is for more than a year, is that it is possible that the NPOs recognized the expenses of writing the proposal during the first year.

The importance of this paper is that it is the first study on the reports of the Puerto Rico NPOs opening the door to other investigations. It is concluded that 990 Form provides information that allows scrutinizing the financial transparency of NPOs. Using that form, a logistic regression analysis was performed to study the relation between the variables of the element of opportunity and NPOs with questionable zero administrative and fundraising expenses. The regression did not find a relation between them. Only the absence of a whistleblower policy served as predictor of non-compliance with BBB standards for the PER increasing the odds of noncompliance by a factor of 2.283. In addition, analysis of the data showed several issues that raise flags about the financial transparency of the NPOs which need to be further investigated. Approximately one in three of the NPOs have PER greater than 65%, and 28.8% of the NPOs have AER larger than 35%, failing to be in compliance with BBB standards of good efficiency and effectiveness ratios. Also, 11% of the NPOs in the sample reported zero administrative expenses, and 57% of the NPOs that reported zero fundraising expenses reported at least one kind of donation coming from gifts, or federal or governmental grants. Both results question the accounting systems of the NPOs.

In addition, this research exposed facts that were beyond the research questions and require further inquiry. For example, it was found that one of the 990 forms that reported zero administrative expenses reported that they had expenses of $50,000 related to board of directors meetings. The IRS instructions explicitly states that those kinds of expenses must be reported as administrative expenses. In other words, for this specific NPO, the expenses of the board of directors meetings were not reported appropriately. It can be argued that this was not intentional and it was due to lack of technical knowledge. Still this specific 990 Form was completed by a Certified Public Accountant (CPA). Moreover, this investigation raises a red flag about the way the functional expenses in the NPOs are being reported to the IRS. The authors are not saying that fraud was committed, but it is important to investigate if the reporting of zero administrative expenses is due to a lack of technical knowledge, lack of good accounting systems or sloppiness, among others. This in turn opens the door for universities, professional associations and others NPOs to pay more attention to the information contained in the Form 990.

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