

Session: BREAKFAST ROUNDTABLE SESSION
DATE: SATURDAY, MARCH 12, 2022
TIME: 7:00 AM - 8:00 AM

Determinants of CEO Compensation in Nonprofit Hospitals

Huilan Zhang
Pennsylvania State University at Altoona

ABSTRACT: This study examines what determinants CEO compensation in nonprofit hospitals. This study is motivated by the fact that most studies in this area model CEO compensation as a function of organizational performance and do not consider how individual executive ability affects compensation. Employing a publicly available data set of 704 observations from 85 Pennsylvania nonprofit hospitals during 2010 to 2019, this study finds a positive and statistically significant relation between CEO ability and total CEO compensation. The results show that moving from the lower to the upper quartile of CEO ability is associated with an 18.5% increase in total compensation. This study finds that nonprofit hospitals reward CEOs with incentive pay and other compensation for benefits provided to the community. However, the study fails to find evidence supporting the notion that total CEO compensation depends on various organizational performance measures. Overall, this study provides evidence that nonprofit hospitals comply with non-distribution constraint, and pay-for-performance in nonprofit hospitals is not imperative as CEOs who choose to work there are intrinsically motivated.

Session: BREAKFAST ROUNTABLE SESSION
DATE: SATURDAY, MARCH 12, 2022
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Discount Rate Adjustment by Not-for-Profits in Response to SFAS 158

Anubhav Gupta
National University of Singapore

David Matkin
Brigham Young University

ABSTRACT: In the United States, the not-for-profit sector occupies an important and growing role in the production and provision of public goods. Despite the significant incentives within the sector to report favorable financial information, the scarcity of strong oversight systems, and the relative flexibility within generally accepted accounting principles for managerial discretion, surprisingly little research examines bias in not-for-profit accounting. This paper aims to test whether not-for-profits manage the discount rates of their defined-benefit (DB) pension plans to report favorable financial information. Our research is situated in the context of Statement of Financial Accounting Standards (SFAS) 158, issued by FASB in September 2006. The new standard became effective from June 15, 2007 for not-for-profit organizations. The most significant change introduced by SFAS 158 is the recognition of the funded status of a defined-benefit plan on the firm's balance sheet. Under the new standard, the funded level is defined as the difference between Pension Benefit Obligation (PBO) and plan assets. This is a substantial revision of SFAS 87 which required firms to recognize only the accrued pension cost, calculated as the difference between cumulative net period pension cost and cumulative employer contributions. SFAS 87 also required organizations to record an additional minimum liability if the unfunded accumulated benefit obligation (ABO) exceeded the accrued pension cost. For most DB plans, SFAS 158 instituted a shift from recognizing unfunded ABO to recognizing unfunded PBO on the balance sheet. Depending on the difference between a plan's ABO and PBO, the effect of SFAS 158 on a firm's debt-to-equity ratio could have been anywhere between extremely negative to somewhat positive. This situation created strong incentives for firms with unfunded plans to increase their discount rates in order to shrink their PBOs. We hypothesize that firms responded to the incentives created by SFAS 158 and increased their discount rates after adopting the new standard. We draw on a hand-collected panel dataset of 75 unique not-for-profits and a matched sample of for-profits obtained from Compustat to test our hypothesis. Our key findings suggest that the not-for-profit organizations that were most vulnerable to the effect of SFAS 158 increased their discount rates post-SFAS 158. However, we find that comparable for-profit firms did not alter their discount rates discernably. These findings have implications for accounting choice and the recognition versus disclosure difference in

the not-for-profit sector.

Session: BREAKFAST ROUNTABLE SESSION
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Efficient Contracting or Rent Extraction: Evidence from City Manager Cash Benefits in California

yuan ji
The University of Texas at Arlington

ABSTRACT: I study implications of city managers' cash benefits in the state of California from 2011 to 2017. Cash benefits include lump sum one-time payments, car allowances, meeting stipends, longevity pay, incentive pay and bonuses. Using a municipality fixed-effects model, I find consistent evidence that city manager cash benefits are negatively associated with corruption convictions, which is in line with the efficient contracting argument. This result remains robust using an alternative proxy of cash benefits, in a change model analysis, and a Heckman two-stage model. I also find evidence that a strong council is negatively associated with CAO corruptions. Cross-sectional analyses further suggest that the negative relation is stronger when the CAO has higher ability, the CAO has a longer tenure, and the city has a higher sales tax rate. Finally, I document that city manager cash benefits are positively associated with performance and retention rate. My study provides unique evidence on the consequences of public officials' cash benefits in the public sector.

Session: BREAKFAST ROUNTABLE SESSION
DATE: SATURDAY, MARCH 12, 2022
TIME: 7:00 AM - 8:00 AM

Factors Affecting Accountants' Adoption of Remote Working during the COVID-19 Pandemic: Evidence from Jordanian Governmental Organizations

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ABSTRACT: The accounting profession was one of the most impacted professions within the pandemic of COVID-19. As the gradual increase of covid-19 spread, nations have taken strict measures and procedures to prevent this pandemic, such as the social distance that led to remote working. These sudden procedures might shock many organizations that did not have any risk or crisis plans to accept technology by employees, especially accountants. In addition, many factors influence the acceptance and the use of technology which might be impacted by the low enthusiasm during the pandemic. Therefore, this paper aims to examine the factors that impact accountants' adoption for remote working within the Jordanian governmental organizations. Several numbers of models have proven to explain the acceptance and usefulness of technology during COVID-19. Therefore, this paper provides an integrated model from a set of theories, including the Technology acceptance model (TAM), Technology-Organization-Environment (TOE), Social Capital Theory (SCT), and Theory of Reasoned Action (TRA). This paper will use a questioner shared with accountant governments agencies; thus, a quantitative statistical method will analyze the data.

Session: BREAKFAST ROUNTABLE SESSION
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Nonprofit Rating and Pay-to-Performance Sensitivity

Chen Zhao
West Texas A & M University

Richard B Dull
West Virginia University

ABSTRACT: Prior studies on agency theory suggest that agency problems exist in both for-profit organizations and nonprofit organizations. CEO compensation is associated with agency problems in nonprofit organizations (Core, Guay, and Verdi 2006). Aggarwal, Evans, and Nanda (2012) found evidence that board size is negatively associated with pay-to-performance sensitivity for nonprofit organizations. However, since donors are fund providers of nonprofit organizations, it is also likely that donors have strong incentives to carry out the monitoring role externally. The monitoring role of donors is limited to the donors' ability to acquire nonprofit organization information, but charity rating agencies make the information more accessible and understandable. Given that prior research find that donors dislike high CEO compensation (Balsam and Harris 2014), this study focuses on whether charity rating availability is associated with negative pay-to-performance sensitivity. Using a sample derived from e-filed IRS Form 990s and Charity Navigator rating records, this study provides evidence that rating availability is negatively related to pay-to-performance sensitivity for nonprofit organizations. Additional tests provide evidence that the overall rating score and financial rating score are negatively associated with pay-to-performance sensitivity.

Session: BREAKFAST ROUNTABLE SESSION
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Smaller Municipality Reporting: Where's the Information?

Renee Flasher
Penn State University - Harrisburg

Michelle Lau
Brock University

Dara M Marshall
Western Carolina University

ABSTRACT: This paper explores the financial report of fund balances/net position for 110 entities for concordance between reporting financial performance to the state and the Governmental Accounting Standards Board compliant statements for fiscal year 2017. Exploring the concordance of the information around fund balance is critical to the understanding the financial reporting of smaller entities (mostly representing fewer than 40,000 people) used to assess fiscal soundness and the ability of these entities to be resilient in changing economic times. Associations with key qualitative factors are also explored for relationships with key accounting measures. This detailed exploration provides information to the GASB, the regulator for governmental accounting, state regulators responsible for fiscal oversight, and citizens of Pennsylvania. This paper complements the public policy research around slack.

Session: BREAKFAST ROUNDTABLE SESSION
DATE: SATURDAY, MARCH 12, 2022
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*The Relation Between Reported Earnings and Executive Compensation in Nonprofit
Healthcare Organizations*

George R Wilson
Valdosta State University

ABSTRACT: This study examines the relationship between multiple components of nonprofit health care (NPHC) executive compensation and reporting earnings using a sample of 504 firm-year observations from 97 large NPHC organizations gathered from IRS 990 filings. I extend the current literature by documenting that the association between earnings (change in earnings) and NPHC executive compensation (change in NPHC executive compensation) is driven by elements of compensation more likely to be related to performance - bonuses and retirement compensation. Additional results indicate that firms with the highest levels of earnings display a significantly stronger incremental relation between reported earnings and those performance-aligned elements of NPHC executive compensation. Finally, this paper extends current NPHC literature by finding evidence that increasing numbers of independent board members act to constrain NPHC executive compensation.

Session: 1.01 NONPROFIT RESEARCH CONCURRENT SESSION:
DONATION DECISIONS
DATE: SATURDAY, MARCH 12, 2022
TIME: 8:00 AM - 9:30 AM

Differences in the Giving Decision-Making of Sophisticated and Individual Donors

Kyle Alexander Smith
University of Alabama-Tuscaloosa

ABSTRACT: I exploit a novel dataset of sophisticated donors to explicitly test differences in the nonprofit performance and governance measures used by sophisticated and novice private donors in their giving decision-making. The nonprofit accounting literature has been unable to directly differentiate between donations from sophisticated and novice donors, limiting prior studies to weak proxies of donor sophistication. Prior studies show that average donors place too much reliance on narrow measures of efficiency, but cannot discern whether sophisticated donors respond similarly. I identify one type of sophisticated donor, private foundations, which gave \$70 billion in total grants to nonprofit organizations in 2016. I find that, relative to individual donors, sophisticated donors respond more strongly to financial vulnerability and governance, and less strongly to efficiency ratios. This study contributes to our understanding of how sophistication influences the donor response to accounting reports.

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DONATION DECISIONS
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Donors, Distance, and the Influence of Accounting Information

Julie Mercado
Boise State University

Linda M Parsons
University of Alabama-Tuscaloosa

Chezham Leon Sealy
University of Alabama

ABSTRACT: In this study, we examine how accounting disclosures that help explain performance can influence decision making. We do this by testing a practical intervention to a common problem in nonprofit reporting: the overemphasis of spending ratios when assessing performance. To address this issue, regulators recommend that nonprofits provide explanatory disclosures to aid donors in better understanding organizational performance. We present experimental evidence to show that donations to a nonprofit with a relatively low program ratio are higher if an explanatory disclosure is provided, and this effect is greater when the presentation of the disclosure's information (concrete vs. abstract) is congruent with a donor's psychological distance (near vs. far) from the organization. Additionally, we find that donors whose distance is far from a nonprofit are more likely to be influenced by favorable benchmarking information than those whose distance is near.

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*Examining the Influence of Donor Charitable Tax Incentives on Nonprofit Program
Expense Funding*

Iguehi Rajsy
Temple University

ABSTRACT: In this study, I use the relation between donors' charitable tax incentives and nonprofit organizations' (NPOs) program service expenses to determine program service underfunding. I identify an NPO as underfunded if it falls below the program service funding benchmark based on the residuals from industry-year regressions of program service expense on donor charitable tax incentives. I also examine the firm characteristics of underfunded NPOs and find that these organizations receive fewer government grants and have lower program service revenue than their counterparts. They also have weaker governance at the organization and state levels. In addition, these organizations tend to have higher endowment reserves, and their endowments are more sensitive to revenue changes compared to their counterparts.

Session: 1.01 NONPROFIT RESEARCH CONCURRENT SESSION:
DONATION DECISIONS
DATE: SATURDAY, MARCH 12, 2022
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*The Role of Related Party Fundraising on the Relation Between Reporting Quality
and Donations*

Steven Balsam
Temple University

Erica Harris
Florida International University

Paul Anthony Wong
University of California-Davis

ABSTRACT: Prior research shows that donors discount program ratios when a nonprofit organization reports zero fundraising expense. In this paper, we show that a plausible reason for organizations reporting zero fundraising expenses is that a related party conducts fundraising on the organization's behalf. Consistent with this interpretation, we find that nonprofits reporting a related fundraising entity are more likely to report zero fundraising expenses. We also find that related party fundraising moderates the negative impact of reporting zero fundraising expenses on donations.

Session: 1.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
REPORTING & ACCOUNTABILITY
DATE: SATURDAY, MARCH 12, 2022
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Regulated Public Accessibility to Municipal Financial Reports and Bond Interest Cost

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University of New Hampshire

Catherine Plante
University of New Hampshire

Linda Ragland
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ABSTRACT: There is a robust stream of accounting literature on how timeliness (in terms of accessibility) of financial information is important in financial markets. However, concerns surrounding this topic continue to be raised, especially for local governments (Sohl, Waymire, and Webb 2018). In an effort to improve accessibility, some states are requiring municipalities to provide (within a specific time period) public access to audited financial reports using an online state-level repository. The purpose of the current study is to examine whether this type of regulation (measured by the time-period from audit filing date to the state repository filing date) is deemed useful by municipal bond market participants. We find that the timeliness of required accessibility to financial information is positively associated with bond interest costs. Our results suggest states (municipalities) have incentive to require (provide) financial reports with a repository to provide useful information to stakeholders (potentially lower bond interest costs).

Session: 1.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
REPORTING & ACCOUNTABILITY
DATE: SATURDAY, MARCH 12, 2022
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*The Role of Formal Control and Trust in Interorganizational Relationship Monitoring
in Finnish Public Sector Organizations*

Benita Maria Gullkvist
Hanken School of Economics

Arja Flinkman
University of Eastern Finland

ABSTRACT: The aim of this study is to explore the role of formal control and trust in interorganizational relationship monitoring of financial accounting outsourcing (FAO) in the public sector context. Drawing on transaction cost economics (TCE) and interorganizational control literature, we analyse six written contracts and conduct 21 interviews with personnel of municipal organizations. Our analysis indicates that duration and experience of FAO as well as the organizational structure and interorganizational relationship are related to the role of trust, which can play a substitutive or complementary role with detailed contracts. The bigger the organization and the shorter the duration of collaboration, the more the control is based on detailed contracts and jointly specified development groups, both of which representing hierarchical and hybrid arm's length control. Further, when goodwill and competence trust increase over time, the role and significance of the contract decreases. Goodwill trust also seems to play a key role in mutual solving of problems arising after the implementation of the outsourced service. Trust may act as complementary or substitute or both for contracts and other formal control mechanisms in complex public sector environments. All control archetypes could be found in municipal organizations studied.

Session: 1.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
REPORTING & ACCOUNTABILITY
DATE: SATURDAY, MARCH 12, 2022
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The State of Ohio's Auditors and the Enumeration of Population, and the Project of Eugenics

Cameron Graham
York University

Martin Emanuel Persson
University of Illinois at Urbana-Champaign

Vaughan S. Radcliffe
Ivey Business School at Western University

Mitchell Stein
Western University

ABSTRACT: In 1856, the State of Ohio began an enumeration of its population to enumerate and identify people with disabilities. This paper examines the ethical role of the accounting profession in this project, which supported the transatlantic eugenics movement and its genocidal attempts to eliminate disabled persons from the population. We use a theoretical approach based on Levinas to show that the self is generated through engagement with the Other, and argue that this engagement is built on a sense of responsibility to the Other (Knights and O'Leary, 2006, p. 126). We show that successive waves of legislation relied on State and County auditors along with Township clerks and assessors to conduct the mechanics of the enumeration of the population, which focused on the identification, categorization, and counting of the disabled people of the State. The financial expertise and structures of the State were engaged in the execution of this mandate, which remained in place for over a century and supported a program of institutionalization. We consider the ramifications of this for our understanding of the ethical role of public sector accounting in the United States over this period, which has been under-explored.

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REPORTING & ACCOUNTABILITY
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Researchers Seeking Accountability, When Appropriate?

Ken Smith
School Accountability Group, LLC

John Richard Kurpierz
York University

ABSTRACT: Building on a foundation of multiple case studies over the past 10 years, this paper wrestles with some of the difficult methodological choices facing governmental and nonprofit (GNP) accounting researchers when they uncover and complete a written report identifying a lack of accountability. The case studies draw from several entities, with a primary focus on local School Districts in a single state. The rules, norms and community preferences around the steps 'after the report is written' are complex, nuanced and often in tension or conflict. We oversimplify the choice of next steps into 4 discrete options: 1) exit, 2) more communication, 3) more research, and 4) actively seek accountability via advocacy escalation. We propose a 5-level 'appropriateness' scale to assist researchers in assessing their next steps. The paper makes several contributions. First, it concludes with brief researcher checklists allowing quick self-assessments of the proposed tools. Second, it draws attention to the broader academic literature on accountability that is rarely used by US-based accounting scholars. Third, it illuminates a host of research opportunities in school districts, a deeply under-researched institutional setting for which GNP scholars have competitive advantages. Fourth, it makes more explicit the ethical, economic and professional demands that seem to incentivize relatively too much time on new incremental research and relatively too little timely on communicating completed research, coordination among researchers and advocacy escalation.

Session: 2.01 NONPROFIT RESEARCH CONCURRENT SESSION: NPO
PERFORMANCE
DATE: SATURDAY, MARCH 12, 2022
TIME: 9:45 AM - 11:15 AM

Deferred Compensation and NPO Performance

Steven Balsam
Temple University

Min Xu
Temple University

ABSTRACT: We examine the relation between the deferred compensation of Nonprofit Organizations (NPO) directors and officers and NPO performance. Specifically, we examine how deferred compensation is associated with the organization's profitability, as well as whether and how deferred compensation enhances the stability of the organization. Using large-sample NPO data, we provide empirical evidence that deferred compensation enhances the stability of the organizations. Our study is the first to examine deferred compensation in the nonprofit sector, and sheds light on how compensation structure elicits certain behaviors from the NPO managers.

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*The Nature, Determinants and Consequences of Management Outsourcing by
Nonprofit Organizations*

Gregory D. Saxton
York University

Daniel Gordon Neely
University of Wisconsin-Milwaukee

ABSTRACT: Using a sample of 1.39 million IRS 990 e-filings by 242,948 501(c)(3) nonprofits between 2009 and 2019, this study examines the nature, determinants, and outcomes of management-related outsourcing activities by nonprofit organizations. We first explore the prevalence of management outsourcing, finding that 13.9% of filings reported management-related outsourcing expenses, with those organizations outsourcing on average \$728,381 each year in work to non-employees in management services. We next present evidence that the use of management outsourcing is most highly associated with younger, larger, less donor-driven organizations with lower complexity, more competition, and greater reliance on program service revenues as well as those organizations in the hospital, human services, and higher education industries. Lastly, we examine the effects of outsourcing on two key organizational outcomes: efficiency and capacity. We find the use of management outsourcing is, contrary to expectations, generally negatively associated with organizational efficiency ratios. There is also no overall effect for outsourcing on revenue growth, our proxy for organizational capacity, though organizations outsourcing a high proportion of management expenses do have lower revenue growth on average. Additional analyses further show that the outsourcing of management services has no apparent effect on donations and no aggregate relationship with CEO compensation, though proportionately “low” and “high” outsourcers experience different CEO pay outcomes.

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Unrestricted Cash Windfalls and Nonprofit Operating Outcomes

Kiely Yonce
Washington State University

ABSTRACT: This study examines the outcomes associated with an unrestricted cash windfall for nonprofit organizations (NPOs). Using e-filed Form 990 data, I construct a novel measure to operationalize an unrestricted cash windfall. I employ the Mahalanobis matching procedure to produce a sample of windfall and control organizations and I use a dynamic difference-in-differences approach to test several hypotheses related to nonprofit operating outcomes. I find that a cash windfall has a positive effect on program spending but no effect on CEO compensation or fixed assets. In additional exploratory analysis, I find that the windfall has a positive effect on management expense. The results of this study leave several avenues open for further investigation.

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*Managerial Constraint or Tool for Expropriation: The Role of Board-Designated
Endowments Among Not-for-Profit Organizations*

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Drexel University

Andrew Finley
Claremont McKenna College

ABSTRACT: We examine how a nonprofit organization's (NPO's) three sources of investable assets – operating reserves, board-designated endowments, and donor-restricted endowments – relate to operational performance and agency conflicts. Using Form 990 tax return data for years 2014 to 2018, we can distinguish the two endowment components and use balance sheet information to derive the operating reserves. We find that operating reserves and board-designated endowments are both associated with lower program spending and higher executive compensation ratios. These results suggest management is able to expropriate certain funds from the endowment and that boards fail in exercising appropriate oversight over these assets. Further, donor-restricted endowments are associated with lower program spending, but are not associated with executive compensation. This study should be of interest to policymakers concerned about growth in board-designated endowments specifically and to stakeholders evaluating NPO governance.

Session: 2.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
GOVERNANCE/AUDIT
DATE: SATURDAY, MARCH 12, 2022
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An Investigation into the Audit Fee Determinants of the U.S. Federal Government

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Louisiana State University

Kenneth J Reichelt
Louisiana State University

Laura Alford
Louisiana State University

ABSTRACT: In this paper, we create an OLS model to explain the audit fees of US federal government agencies. We examine determinants used in traditional models from publicly traded firms, municipal governments, and other public sector organizations. We start with an extensive list of variables and narrow the list down using the forward stepwise selection method. The model reveals that size and complexity factors are most significant in determining audit fees of federal agencies and that the risks for public auditors in this space have yet to be defined. We also control for unobservable year and agency variation with the addition of fixed-effects, and we find significant incremental explanatory power. However, the addition of agency fixed-effects leaves few other explanatory variables with statistically significant coefficients. These results suggest that model variables from extant studies do not fully explain US federal agency audit fees, and much remains to be understood. Our paper serves as an origination point to inform future research of an increasingly relevant topic.

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Government Contracts and Audit Fees

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University of Illinois-Springfield

Mai Dao
University of Toledo

Hongkang Xu
University of Massachusetts-Dartmouth

ABSTRACT: Topics concerning government contracts have recently attracted much attention from researchers and the public because of the U.S. government's significant spending on goods and services. In this study, we investigate whether audit fees are associated with audit clients' government contracts. We find that firms with a higher proportion of government sales to total sales pay higher audit fees than other firms. Our further analysis shows that audit fees are higher for firms having a higher proportion of sales to the federal government, the state government, and the local government to total sales. Taken together, our findings enhance our understanding of a potential factor that is related to audit fees and imply that auditors may view firms with and without government contracts differently.

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DATE: SATURDAY, MARCH 12, 2022
TIME: 9:45 AM - 11:15 AM

*Factors Influencing External Compliance Costs in Small and Mid-Sized
Municipalities—A Study of Connecticut Towns*

Jacqueline Tahminey Jamsheed
Central Connecticut State University

Marc Lewis
Central Connecticut State University

Joseph Patton
Florida Atlantic University

ABSTRACT: This paper examines audit fees paid by 96 small and midsized towns in Connecticut that utilize the Annual Comprehensive Financial Report (ACFR) for their annual required financial reporting. The setting of small and midsized towns and the drivers of audit fees is of interest since millions of Americans rely on their local governments to provide essential services while these same citizens utilize the audited financial statements to assess the spending patterns and economic health of their town. With most Americans living in small and mid-sized towns, the cost of compliance and the drivers contributing to this cost have been largely overlooked in the study of governments, resulting in little awareness of the cost to taxpayers for municipal assurance services. We chose to utilize agency theory as the theoretical basis for our study as local governments manage a series of complex agency relationships amongst the grant making authorities, bonding agencies, rating agencies, and their resident constituents. The role of financial statements (based on agency theory) is to help reduce agency costs between the principal (the public, elected officials, bureaucrats, etc.) and the agent (elected officials, bureaucrats, etc.) by providing transparent and accessible data on the sources and uses of funds. Voters, bureaucrats, elected officials, bonding agencies, and grant making entities are all consumers of municipal financial statements and utilize these statements based on their specific needs and agendas. The key to the usefulness of these financial statements for the user community is their accuracy, completeness, timeliness, and integrity as reviewed and attested to by certified public accountants. As a part of their operational mandate, municipalities are expected to provide transparent and timely reporting designed to inform, educate, and update the various constituencies they serve. Building on past research on audit fee determinants, we examined the cost drivers associated with the local entity municipal audits utilizing recent data from 2019 year-end reporting; gathered directly from local and state data sources. The impact of oversight committees, revenue sources (as reported in the

General Fund), fund balances, post-employment benefits, and bond rating were examined to determine the impact on audit fees of small and mid-sized towns in Connecticut. The findings can be generalized to gain insight on the variables impacting external audit fees. In addition, by studying audit fee drivers, opportunities for cost reduction or avoidance can be utilized by local governments as they assess the impact of recent pressures on their financial stability.

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Internal Audit and Reputational Risk: Evidence from the College Admissions Scandal

Han Yan
Washington State University

ABSTRACT: Internal auditors plan auditing and consulting activities based on their systematic assessment of risk. Prior anecdotal evidence suggests that internal auditors in higher education express greater concern on reputational risk than those working in other industries (Zemaitis 2008). In this study, I empirically investigate how internal auditors in large U.S. public universities respond to reputational risk, specifically the reputational risk associated with the 2019 college admissions scandal. Analyzing the hand-collected internal audit plans, I find that, after the scandal, internal auditors increased the number of projects related to admissions. The results suggest that internal audit organizational structure (centralized vs. decentralized vs. hybrid) plays a significant role in how internal auditors respond to the scandal. The study demonstrates the importance of organizational structure match and contributes to our understanding of the internal audit risk assessment and management practices.

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GOVERNANCE/AUDIT
DATE: SATURDAY, MARCH 12, 2022
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Assurance of Nonprofit Financial Reporting: An Analysis of State Audit and Review Requirements

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Paul Anthony Wong
University of California-Davis

Hollis Ashbaugh Skaife
University of California-Davis

ABSTRACT: Prior research suggests that federally mandated single-audit requirements enhances nonprofit organizations' financial reporting quality. Building on this research, we examine whether state mandated assurance regulations, which vary in presence and application, are associated with higher financial reporting quality for nonprofits that meet their state assurance thresholds but are not subject to the single-audit requirements. We find evidence consistent with our hypothesis that state required financial statement assurance incrementally improves financial reporting quality. Distinctively, we document that review attestation services contribute to nonprofit organizations' financial reporting quality. Unique to our study, we also provide an explanation as to why nonprofit organizations adhere to their state assurance requirements by documenting that state tax burdens, which would be imposed if nonprofits' forfeit their tax-free status, affect the likelihood of compliance. Our research provides evidence that assurance requirements at the state level enhance nonprofits' financial reporting and, more importantly, provides an explanation for why nonprofits comply with assurance requirements.

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GOVERNANCE/AUDIT
DATE: SATURDAY, MARCH 12, 2022
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Paycheck Protection Program: The Determinants of Participation and the Characteristics of the Loans Obtained

Daniel Gordon Neely
University of Wisconsin-Milwaukee

Gregory D. Saxton
York University

Paul Anthony Wong
University of California-Davis

ABSTRACT: We examine the characteristics of the Paycheck Protection Program (PPP) participants and the loans they obtained. We leverage public data on 71,283 nonprofit organizations to identify the business characteristics of PPP participants and the factors associated with loan amounts and loan forgiveness. Focusing on governance, interest costs, and financial distress characteristics, we find better governed businesses, businesses with interest costs, and less distressed businesses are more likely to participate. Loan amounts are similarly associated with interest costs and lower financial distress; however, better governed participants received smaller loans. Loan forgiveness is associated with stronger governance and lower financial distress, but it is less likely for businesses with interest expense. We also find that loan amounts and forgiveness are negatively associated with loans originated with fintech financial institutions. Beyond the academic contributions, the findings are relevant both for helping governments design business-focused economic relief programs that will reach the intended targets during economic downturns as well as businesses deciding whether to participate in such programs.

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*The Disappearing Local Newspaper: Implications for Nonprofit Organizations'
Agency Problems*

Robert Felix
The Catholic University of America

Mikhail Pevzner
University of Baltimore

Joshua Khavis
University at Buffalo

ABSTRACT: We examine whether local newspaper closures affect agency problems within nonprofits (NPs). We find that NPs decrease their program spending and increase administrative and officer compensation spending following a local newspaper closure. This effect pertains to NPs that have lower levels of (1) restricted donations, (2) local competition, or (3) local voter participation, respectively, suggesting that agency problems are exacerbated after newspaper closures particularly when alternative external monitoring is weak. Further results indicate that donor contributions after newspaper closures increase for NPs with higher levels of restricted donations or those with lower prior year administrative expenses. This suggests that sophisticated donors are unencumbered by the newspaper loss when making donation decisions and that the average donor uses the most recent publicly available information about NPs' expenses after newspapers close. Finally, excess endowments decrease after newspaper closures, suggesting that endowments are one source of funds for the documented opportunistic spending.

Session: 3.01 NONPROFIT RESEARCH CONCURRENT SESSION:
GOVERNANCE/AUDIT
DATE: SATURDAY, MARCH 12, 2022
TIME: 11:30 AM - 1:00 PM

Fraud in the Nonprofit Sector

Michelle Hutchens
University of Illinois

Amy Genson Sheneman
The Ohio State University

ABSTRACT: Research on fraud has primarily focused on the consequences of financial reporting misconduct in publicly traded, for-profit firms. We build upon this literature and examine the response of donors and nonprofit organizations following disclosure of a fraud. Using a comprehensive dataset of over 240,000 nonprofit tax returns from 2009 to 2014, we document a significant decrease in donations in the year following a disclosed fraud, with an average decrease in donations of 5 percent. This decrease is concentrated in organizations with weak governance and with fraud perpetrated by a member of the board of directors. We also document an increase in donations to geographic peers of nonprofits disclosing fraud, consistent with donors reallocating charitable donations to other nonprofit organizations in the same community. Last, we document a differential managerial response to the disclosed fraud. Among nonprofit managers, we observe an increase in charitable program expenses following a fraud event perpetrated by a board member and an increase in fundraising expenses following a fraud event perpetrated by a party external to the nonprofit.

Session: 3.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
HEALTHCARE (GOV'T & NPO) & OTHER - CASES
DATE: SATURDAY, MARCH 12, 2022
TIME: 11:30 AM - 1:00 PM

An Investigation of Fraud Mitigating Factors in Not-For-Profit Hospitals

Benedikt Markus Quosigk
Kennesaw State University

Jomon Paul
Kennesaw State University

ABSTRACT: We are the first to investigate actual Medicare/Medicaid fraud claims in the Not-for-profit hospital setting using panel data. We collect data from a Freedom of Information Act (FOIA) request made to the Center of Medicare and Medicaid Statistics (CMS) for The United States Justice Department's fraud statistics. We combine this data with IRS, OMB, and OPDR data. We are able to identify the utility of governance and oversight mechanisms using real fraud claims data. Our results indicate that oversight and corporate governance measures can help mitigate fraud.

Session: 3.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
HEALTHCARE (GOV'T & NPO) & OTHER - CASES
DATE: SATURDAY, MARCH 12, 2022
TIME: 11:30 AM - 1:00 PM

*Nonprofit Healthcare Organizational Legitimacy and its Effects on Payments in Lieu
of Taxes and Community Benefit Funding*

Gregory Stone
Old Dominion University

ABSTRACT: Building on prior studies analyzing both institutional theory and community benefit funding, I investigate the revised Boston Payments-in-lieu-of-taxes (PILOT) Program effects on nonprofit healthcare organization community benefit contributions. Recent studies of these organizations' contributions have focused less on the financial assistance and more on social benefit. This study builds on these prior efforts by fine tuning the analysis to include specific, socially beneficial community benefits as well as the underlying motivations for these allocations. Using publicly available data, I develop a model to determine the financial effects of revenue sources and PILOT contributions on community benefit spending. Results show PILOTs have a significant influence on allocations for community benefit, but not financial assistance, and contrary to expectations, revenue sources do not significantly influence PILOT participation. Finally, findings show when specifically analyzing contributions and donations, the need for organizational legitimacy to protect tax-exemption will drive organizations to make PILOTs; however, those organizations embedded in a community logic will reject these payments in favor of funding community building.

Session: 3.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
HEALTHCARE (GOV'T & NPO) & OTHER - CASES
DATE: SATURDAY, MARCH 12, 2022
TIME: 11:30 AM - 1:00 PM

Morristown Memorial Hospital: The Nonprofit Property Tax Exemption Debate

Michele McGowan
King's College

Joseph Lohin
King's College

Barry Williams
King's College

ABSTRACT: This case highlights the changing role of nonprofit organizations and their relationship to their tax-exempt status and the communities they serve. Historically, nonprofit hospitals justified their tax-exempt status by meeting community health needs. However, over the years, to provide efficient and cutting-edge services, hospitals have evolved to include partnering with for-profit organizations to obtain the financial and technical resources necessary to provide state-of-the-art care. Unfortunately, these arrangements have raised issues regarding the tax-exempt status of nonprofit hospitals, making them an increasing target of property tax exemption challenges by cash-strapped municipalities. That is precisely the case when in 2015, the Tax Court of New Jersey ruled that Morristown Memorial Hospital (“Hospital”) was not entitled to tax exemption on nearly all its property in the Town of Morristown. In the ruling, the judge pointed to a complex structure in which nonprofit and for-profit interests were inextricably intertwined, noting the Hospital essentially functioned as a for-profit business. The Court held that if it is true that all nonprofit hospitals operate like the Hospital in this case, then modern nonprofit hospitals are essentially legal fiction for purposes of the property tax exemption. Students debate the changing nature of nonprofit healthcare organizations and the legitimacy of their tax exemption regarding their market behavior and formulate appropriate strategies to mitigate property tax exemption challenges.

Session: 3.02 GOVERNMENT RESEARCH CONCURRENT SESSION:
HEALTHCARE (GOV'T & NPO) & OTHER - CASES
DATE: SATURDAY, MARCH 12, 2022
TIME: 11:30 AM - 1:00 PM

Georgia's Film Tax Credit: A Peach or a Pit?

Usha Rackliffe
Emory University

ABSTRACT: Many of the biggest blockbusters at the box office in recent years: Avengers: Endgame, Infinity War, Black Panther, The Hunger Games: Catching Fire, Mockingjay Part 1, Part 2, the Marvel superheroes: Ant-Man, Thor, Spider-Man, have all been filmed in Georgia. Collectively, the top twenty movies filmed in the state since 2008 have grossed more than \$10 billion worldwide. Ninety-seven films have each grossed over \$35M. Since FY 2010, movie production companies have made a total direct capital investment of almost \$19 Billion in the state, and the total value of tax credits provided is \$5.5 Billion. Georgia offers up to 30% in credits, which are transferable, and, unlike other states, there is no maximum on total credits in any year. Georgia provides the largest film tax credits in the country. Broderick Johnson, producer of the award-winning movie, *The Blind Side*, said, 'The magnitude of Georgia's tax break is one of the best, if not the best in the country.' With significant cost savings, Georgia is now considered the Hollywood of the South. However, the incentive that draws movie productions comes at a cost to the state's treasury. Is the juice worth the squeeze? This case has three learning objectives: 1. To understand the use of tax policy by government to incentivize economic development. 2. How to assess the effectiveness of government tax credit in relation to public return on investment. 3. Gain a better understanding of government tax credit. The case focuses on the impact on Georgia's economic development, from two different studies. The first study from the Center for Economic Development at Georgia Tech says the credits have had an impact of \$4.2 billion, directly and indirectly. However, the second study, by the state department of audits, says the impact is only \$2.8 billion, after considering the opportunity cost of the impact the state would have had by funding other state priorities. The case asks four questions: 1. Why would a state offer tax credits? 2. Is there a difference between a tax credit for the film industry versus a corporate relocation tax credit? 3. How would you assess the impact of a state tax credit? (Quantitative, Qualitative) 4. Are there ways to strengthen the Georgia Film Tax Credit? The tax credit remains popular in Georgia. While class discussion included alternative uses for state funding, a concluding poll showed majority support for the credit, with suggestions for improvement.