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DATE: FRIDAY, FEBRUARY 26, 2021
TIME: 1:00 PM - 2:30 PM

The Relation between Governance, Endowment Holdings, and Donations in Nonprofit Organizations

Mina Pizzini
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ABSTRACT: This study investigates the effects of governance on the level of endowments held by nonprofit (NP) organizations and examines the relation between excessive endowment levels and future donations. Endowments in nonprofits are analogous to cash holdings in for-profit firms. Large endowments enable NP organizations to absorb financial shocks and meet unexpected demand for services; however, excess funds provide managers with an opportunity to expropriate funds for private benefit. Our results indicate that endowments are larger in organizations with more donor-imposed restrictions on funds and more effective board-of-director governance mechanisms. Endowments are smaller in organizations that receive more funding from government grants and have weaker internal controls. We also find that private donors withhold contributions from organizations that maintain endowment levels that exceed the organization's current needs, suggesting that altruism drives donors' giving decisions. This study extends the literature on nonprofit governance, endowments, and donations.

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The Effect of Network Participation on Nonprofit Performance

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Steven Balsam
Temple University

ABSTRACT: Using a sample of community development nonprofits over a 10-year period we examine the effect of network participation on their performance, where performance is measured as revenues and the quality of governance. Our expectation is that because network acceptance provides credibility, i.e., a positive signal on the quality of the nonprofit; and the network hub firm provides resources such as grants, monitoring and sharing of best practices; membership will add value for the nonprofit in the form of increased revenues and improved governance.

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The Effect of State Minimum Wage Increases on Nonprofit Organizations

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Min Xu
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Jack Zhang
Temple University

ABSTRACT: We examine the impact of minimum wage increases on the nonprofit sector, an important sector which contributes about $2 trillion to the U.S. economy, and employs more than one in 10 workers. We find that employment growth declined significantly post minimum wage hikes, with the decrease being greater for charitable nonprofits. We also find that investment in automation, i.e., information technology, rises in nonprofits post minimum wage increase, which is consistent with the substitution of capital for labor. In contrast we do not find any systematic impact of the minimum wage on the use of volunteers. We also observe declines in donations and program service revenues, which are consistent with a lower provision of services post-minimum wage increase. Accentuating the decrease in provision of services, we find that minimum wage increases lead to more nonprofits ceasing to operate. Interestingly, we find decreases in executive compensation post-minimum wage hikes. When we dig deeper we find that this decrease only occurs in nonprofits with good governance, as proxied for by board independence.

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Fairness of Not-for-Profit Managers' Accounting Choice

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Brigham Young University

ABSTRACT: This paper examines the fairness of two critical pension accounting assumptions – the expected rate of return (ERR) and the discount rate (DR) – of the pension plans sponsored by not-for-profit organizations. The two assumptions are of particular interest because they may be subject to managerial discretion and have potentially significant influence on the reported financial health of organizations. The for-profit literature has documented that opportunistic firms choose upward biased ERR assumptions to inflate their reported earnings. Firms have less discretion over the DR assumption because accounting standards require them to use high-quality bond yields, but the DR assumption is not free of bias either. The not-for-profit literature on pension assumptions is relatively limited. There is evidence from cross-sectional data that not-for-profits use more aggressive ERRs and DRs compared to similar for-profit pension plans. There is also some evidence that not-for-profits use actuarial assumptions to manage reported earnings. SFAS 87 recommends that the ERR assumption should be based on past and expected future returns on plan assets. In theory, a plan with a high equity exposure should have a higher ERR than a plan with little equity exposure, ceteris paribus. Similarly, the DR assumption should be based on "high-quality fixed-income investments". The DR assumption can vary across plans depending on maturity of the benefits; a plan with a shorter maturity would generally use a lower discount rate than that with a longer maturity. Using hand-collected audited data on 83 Massachusetts-based not-for-profit pension plans, we examine the correlation between ERRs and plans' asset allocations, and between DRs and high-quality bond yields. We use a sample of Massachusetts for-profit pension plans as a benchmark to evaluate the fairness of not-for-profit actuarial assumptions. This is the first study to examine the fairness of not-for-profit ERR and DR assumptions using panel data in the U.S. context. Our results suggest that not-for-profit plans assume significantly higher ERRs compared to their for-profit counterparts, controlling for past returns and asset allocations. We also find that the future actual returns earned by not-for-profit plans are significantly lower than those by the for-profit plans, on average, controlling for ERR and asset allocations. Finally, we find that not-for-profits assume significantly higher DRs than for-profit plans, and that Moody's Baa-rated bond yields better explain the not-for-profit DR assumptions than the for-profit DR assumptions. Overall, our results suggest that not-for-profits enjoy more discretion than their for-profit counterparts in setting actuarial assumptions.

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Organizational Identity, Fixed Contract, and Financial Performance in Local Governments: Theory and Evidence

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ABSTRACT: This study explores the effect of organizational identity on improving financial performance under fixed salary contracts in public sector organizations. Owing to the lack of appropriate performance measures and the nature of their work, the compensation contracts for civil servants in many countries are based on fixed salaries. We situate organizational identities using the principal–agent model under a fixed salary, set a testable hypothesis, and empirically test the hypothesis to Japanese municipalities. According to our model, when the principal does not set an optimal target, its expected utility is not necessarily high even if the agent has a high organizational identity, as this utility depends on the extent of the financial adjustment fund. Studying 452 financial officers in Japanese municipalities, we find evidence consistent with our hypothesis based on the theoretical model.

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State Tax Abatement Disclosures: Lessons learned since GASB 77 Implementation

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ABSTRACT: This study provides an analysis of the tax abatement disclosures by states for the years 2017, 2018 and 2019 following the implementation of GASB 77. Governmental entities offer tax incentives to encourage particular economic activities. The tax abatements, sometimes referred to as tax expenditures, are a reduction or exemption from taxes. The types of tax incentive programs observable through CAFR reporting are analyzed using data collected from all 50 state governments. We find that tax abatements overall have a significantly positive impact on tax revenues in total. However, there is insufficient evidence to conclude that tax abatements specifically labeled as “economic development”, those for “employment or jobs”, or “tax credits” have a positive impact on tax revenues. When analyzing each type of tax abatement independently, there are only three that have a significantly positive impact on tax revenues at the state level; abatements for housing, films and entertainment, and those for research. Each of these programs tend to have clawback features. Analysis of tax abatements and their impact on tax revenue generation is important to governmental entities as they develop strategies to improve their financial health and economic sustainability.

Session 1.02: 1.02: GOVERNMENT RESEARCH 1
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The Effects of Federal Government Monetary Policy on Firm's Financial Distress

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ABSTRACT: Government monetary policy is one of the key government tools for affecting the economy and employment. This study demonstrates that federal monetary policy has a statistically and economically significant effect on a firm's financial distress from the federal funds rate interacting with financial distress firm indicators such as the Altman Z-score. The results of this study indicate that when the economy is overheated, monetary policy can be used to stress and thin out the herd, while when economy is weak, monetary policy can be used keep weak firms alive in what has been described as a "zombie" state. Thus, government monetary policy can be used to reduce or enhance unemployment. This study also shows that an optimal government monetary policy balances the financial distress influences on firms, increasing the probability of financial distress for weak firms while decreasing the probability of financial distress for strong firms.

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Federal Government Financial Reporting

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ABSTRACT: The Government Accountability Office (GAO) and the Office of Management and Budget (OMB) are turning the corner on 100 years since their predecessor organizations were first established in 1921. Meanwhile, the Chief Financial Officers (CFO) Act of 1990 and the Federal Accounting Standards Advisory Board (FASAB) are at the 30-year mark. Progress during the last 20 years has focused on extending the CFO Act requirements, improving federal financial reporting standards, and increasing transparency through easily accessible open data (usaspending.gov). This study surveys the century-long arc of federal government financial reporting developments and sets out to offer insights into the financial reporting process at the federal leve

Session 2.01: 2.01: GNP CASE STUDIES
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Government and Nonprofit Accounting: A Human Capital Ecosystem Analysis

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ABSTRACT: We leverage the comment letters submitted in response to an invitation to comment on Certified Public Accountant (CPA) exam changes by the American Institute of Certified Public Accountants specifically around the issue of removal of government accounting. This paper provides a detailed exploration of the landscape of governmental and non-profit auditing engagements within one state, Pennsylvania, to explore the linkages among the CPA firms providing auditing services, the partners in these firms, and their linkages with educational institutions in the state. We find that the auditing marketplace appears to have shifted further away from the largest auditing firms in Pennsylvania over the last decade. We find that partners that have significant economic and career interests in the government and nonprofit sector can recruit from their alma maters but not all their new staff have access to a standalone government and nonprofit accounting course. Finally, we document smaller schools from which current partners have graduated are more likely to be the ones that offer governmental and nonprofit accounting courses than the larger institutions based on enrollment size. This highlights that the existing level of governmental accounting on the exam appears to have ramifications for governmental accounting research. Thus, this paper begins to provide a framework for validating concerns of the comment letter writers that support the retention of the material on the CPA exam.

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Audit Case Study in Data Analytics

Kimberly Jane Tribou
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ABSTRACT: Auditors must be independent. This requirement is stated in Public Company Accounting Oversight Board (PCAOB) and Generally Accepted Government Accounting Standards (GAGAS). The performance of certain non-audit services can limit auditor independence. Using Excel's data analytics tools and publicly available data from the United States Federal Procurement Database System (FPDS), students will evaluate financial statement auditor independence. Students will also prepare working papers to document their process, their testing, and their conclusions. While this case is written from the perspective of a government auditor, GAGAS can be substituted for PCAOB standards to use this case in a traditional audit setting. This case would also be appropriate for a data analytics course or a government accounting course.

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Publish or Perish: A Case of Not-for-Profit Issues

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ABSTRACT: This case helps students apply knowledge learned regarding not-for-profit accounting and taxation to a situation based on a real entity. The complexities allow the students to consider some interesting accounting issues as well as concerns about not-for-profit exemption, tax reporting status, and governance. Students are asked to play the role of an accountant who volunteers to help a not-for-profit pull together financial statements only to find out there are numerous governance and tax compliance issues. The case provides the facts that allow students to identify these issues and conduct research to determine the actions the not-for-profit should take to be in compliance with the tax code and generally accepted accounting principles.

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Program Ratio Bias

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ABSTRACT: A not-for-profit organization's reported ratio of expenditures on program services to total expenses is a key performance metric for many donors, which may lead the manager of a not-for-profit organization to manipulate this ratio. This paper presents a theoretical model to examine when and how this ratio is likely to be manipulated. The model features an organization that discloses its program ratio to signal its productivity to informed donors and uninformed donors. We show that program ratio manipulation is executed through a combination of misreporting and real activities manipulation. This manipulation leads to inefficient donation choices, free riding among informed donors and uninformed donors, and decreased total production of public goods. Given these detriments, we examine whether two mechanisms — voluntary auditing and leadership giving — could facilitate the realization of a separating equilibrium.

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Do Donors Value Volunteer Commitment in Assessing Nonprofit Effectiveness?

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ABSTRACT: We examine the extent to which donors value disclosures on volunteer commitment as reported on the Internal Revenue Service Form 990. Based on the notion that donors prefer to donate to nonprofits that are effective in furthering their missions and that volunteers are more likely to commit their time to nonprofits that are effective in furthering their missions, we examine the extent to which donors value the volunteer commitment disclosure in their donation allocation decisions. We find that the level of donations is positively associated with the level of volunteer commitment, consistent with donors viewing volunteer commitment as a signal of nonprofit effectiveness. Next we examine whether volunteer commitment can enhance the usefulness of other (noisy) effectiveness measures, namely the program service ratio and the corporate governance disclosures. We find that the value relevance of these other effectiveness disclosures is increasing when considered alongside volunteer commitment. These results suggest that donors view volunteer commitment as a signal of nonprofit effectiveness, and that this signal is useful in interpreting other measures of nonprofit effectiveness. Our evidence also suggests that sophisticated donors consider volunteer commitment in their evaluations to a greater extent than non-sophisticated donors.

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Low Quality IRS Form 990 Efficiency Information of Financially Supported Nonprofits

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ABSTRACT: Nonprofit organizations are sometimes financially supported by related organizations that perform or pay for one or more of their ancillary activities. These ancillary activities are normally supporting activities rather than activities directly aimed at accomplishing the nonprofit's mission. In this paper, we examine whether such asymmetric reporting results in lower financial reporting quality for supported nonprofits in the form of overstated efficiency ratios. We use eight measures of support including IRS-defined support, Schedule R identified support, and reported donations, compensation, and endowments from related organizations. We find strong evidence that supported nonprofits and those receiving greater amounts of support are more likely to report zero or underreported fundraising expenses, zero administrative expenses, and overreported program ratios. Because many donors and other stakeholders use Form 990 to evaluate nonprofits, this could result in a lack of comparability across organizations and misinformed resource allocation decisions.

Session 3.01: 3.01: GNP AUDITING
DATE: FRIDAY, FEBRUARY 26, 2021
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The Role of State and Local Government Auditors in the Fight Against Political Corruption

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ABSTRACT: This paper examines the structure of the state auditing agencies to determine if the functional responsibilities of investigation and financial auditing impact the corruption prosecutions. The results reveal a direct impact from the financial auditing fieldwork for local governmental entities and a moderating impact on corruption cases from the combination of fraud investigative and local government fieldwork responsibilities. This highlights a spillover benefit to financial auditing of local government entities that is beyond the audit opinion allowing for financial government auditors to provide more benefit to the citizens of their respective states.

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Charter Schools: How Does Organizational Quality Differ Between For-Profit and Non-Profit Organizational Forms?

Chevonne Alston
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ABSTRACT: The charter school industry is a growing alternative to traditional public school education that is governmentally funded. Although charter schools do receive public funding, they are often able to operate independently of the state school system and can be managed by for-profit organizations. This privatization of public education continues to raise questions regarding reporting, including how for-profit management performs in comparison to non-profit management with public dollars. This study examines the difference in organizational risk and organizational performance, which affect overall organizational quality, between for-profit and non-profit organizational forms. This study uses Single Audit data to form three constructs: Financial Reporting Quality (FRQ), Major Program Quality (MPQ), and Going Concern Audit Report (GCAR) to operationalize organizational risk and organizational performance. Each construct represents a dependent variable that serves as a proxy for an Internal Control Deficiency (ICD). This study answers the call for additional research about the emerging charter school industry. Testing for the primary analysis reveals there is no significant difference between for-profit and non-profit charter schools with the organizational risks composite constructs, FRQ and MPQ. There is a positive relationship between for-profit charter schools and the GCAR construct suggesting for-profit schools have more going concern issues. While the primary analysis reveals no significant difference between for-profit and non-profit charter schools for financial reporting and program quality constructs, additional analysis suggests some components have a significant positive relationship with the for-profit organizational form. Overall, the study shows some evidence of differences between for-profit and non-profit charter schools for organizational quality.

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Audit Report Timeliness of the Fifty States: An Examination of Component Units and Prior-Period Adjustments

Andrew J McLelland
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ABSTRACT: This study examines the timeliness of state financial reporting. Timeliness is measured as how long it takes each state to complete its comprehensive annual financial report (CAFR) audit. State government CAFR audits for the last ten years have averaged 200 days to complete. Almost all take six months. However, variances by state do exist. For example, the shortest audit report lag was for Michigan in 2013 at 82 days or just under three months while longest time was in 2015 for Alabama at 565 days more than one- and one-half years. A report by NASAT, the AGA, and Grant Thornton LLP in 2012 asked practitioners to share their views and experiences on emerging issues in financial management with unique section on timely financial reporting. The survey asked what the impediments to timelier issuance of the CAFR are and what risks are associated with issuing the CAFR more quickly. State financial executives' top impediment was that component units cannot provide audited financial statements timely while the number one risk was a greater potential for accounting errors. Neither of these reasons have been directly examined in the municipal audit lag literature. In addition, the governmental accounting standards board (GASB) has a project to reexamine Statement 62 prior period adjustments, accounting changes, and error correction no its agenda.

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DATE: SATURDAY, FEBRUARY 27, 2021
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The Effect of Nonprofit Governance on Tax-Motivated Expense Allocation

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ABSTRACT: Most organizations, regardless of their ownership structure, face agency problems. Governance mechanisms can mitigate the inherent agency conflict. In nonprofit organizations, the governance mechanism aims to direct a manager's focus to more mission-related activities, rather than other activities. In this study, we investigate the extent of discretional expense allocation in relation to taxable activities and whether nonprofit governance reduces tax-motivated allocation, by using 16,487 firm-year observations (4,601 unique nonprofit organizations) in Japan. An estimated result of the expense allocation model shows that only 10.8% of nonprofit organizations assign program expenses to taxable expenses. In addition, we find that expense allocation for taxable activities stochastically decreases with an increase in the proportion of outside directors, number of donors, and regulatory costs (the scale of the size of taxable activities). These results suggest that tax-motivated allocation in Japanese nonprofit organizations is suppressed by the effect of the board, donors, and regulators on the tendency of nonprofit governance to allocate taxable expenses.

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Accounting for Old and New Duality: China's Long March to Communism

Chao Ren
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ABSTRACT: Accepting the claim that China has abandoned any commitment to a socialist agenda is problematic, we contend that the Chinese Communist Party’s (CCP) ideology and politically driven practices support the nation's long march to communism. We argue the two-track performance and remuneration arrangements put in place for old versus new Chinese public university academics support China's transition from a state to a market form of socialism. The duality of performance metrics is consistent with Marx's understanding of how workers should be rewarded during the initial stage of the transformation from capitalism to communism. The multiplicity of values that emerge through this study is particularly relevant, given the long-held criticism of societal inequality in China now that it has taken on the trappings of a capitalist society.

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The Usefulness of Accrual-Based Surpluses in the Canadian Public Sector

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ABSTRACT: This paper investigates how useful accrual-based surpluses are when predicting future cash flows and surpluses in the context of the Canadian public sector. We provide evidence that surpluses incrementally enhance the ability of operating cash flows to predict future cash flows and surpluses. Analysis of our accrual quality model illustrates that in the public sector, accruals accounting is useful in mitigating the noise in operating cash flows. We also find that decomposing surpluses into operating cash flows and accruals enhances the ability of surpluses to forecast future cash flows and surpluses. Therefore, we conclude that aggregate and disaggregated surpluses are positively related to both relevance and reliability. We also find a lack of test results to support the presence of conservatism in the Canadian public sector, and confirm that the usefulness of surpluses in making predictions is independent of selected control factors.

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Integrity and Public Enterprise Performance: Evidence from South Korea

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ABSTRACT: In this study, we empirically examine an association between integrity and public enterprises' accountability and efficiency performance using publicly available data from South Korea from 2014 to 2017. We find evidence that integrity is positively associated with comprehensive management performance. We distinguish between integrity perceived by public service users (external integrity) and public enterprise employees (internal integrity) as two principal evaluators of public enterprise integrity, which we expect them to have evaluation bias. We find that external integrity is positively associated with financial management, the efficiency performance whereas internal integrity is positively associated with policy congruence performance, one of the accountability performance proxies. We also investigate the role of monetary rewards to public enterprise CEO in association between integrity and public enterprise performance, and find CEO monetary compensation has a negative (positive) influence in association between external (internal) integrity and comprehensive management performance. In a similar vein, public service users (public enterprise employees) perceive greater monetary compensation of public enterprise CEOs deteriorates (enhances) human resource performance and financial management performance. Our findings suggest that, integrity is perceived as a positive corporate governance quality in association with accountability and efficiency performance of public enterprises while greater monetary compensation paid to public enterprise CEO generally crowds out a CEO's prosocial motivation with extrinsic motivation in line with motivation crowding theory, which in turn, attenuates the association between integrity and public enterprise performance.

Session 5.01: 5.01: GNP HEALTHCARE RESEARCH
DATE: SATURDAY, FEBRUARY 27, 2021
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The Role of Funding on the Effectiveness of Medicaid Fraud Control Units

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ABSTRACT: We examine whether funding and constraints in funding affect the outcomes of state-level Medicaid Fraud Control Units (MFCUs) over the period 2011 – 2016. Responsible for detecting and prosecuting fraud perpetrated by Medicaid providers (doctors, hospitals, pharmacies, and medical equipment companies, for example), MFCUs serve an important role in preserving the fiscal integrity of the Medicaid program. In a two-stage regression analysis, we first predict MFCU spending. In the second stage, we find that higher relative MFCU funding, i.e., more funding than predicted in the first stage, is associated with more investigations and more convictions. In a separate small sample analysis, we find state-level MFCU compliance with federally-specified performance standards requirements is also associated with outcomes, i.e., MFCUs meeting federal guidelines have higher convictions. Our results suggest that adequate MFCU funding and compliance with OIG requirements are associated with more favorable investigation outcomes.

Session 5.01: 5.01: GNP HEALTHCARE RESEARCH
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Data Analytics (Ab)use in Healthcare Fraud Audits

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ABSTRACT: This study explores how data analytics are used by a governmental organization with purported success in eliminating fraud. However, the study focus is how this governmental organization enables algorithmic decision-making to alter power relationships in an audit setting to effect organizational and industry-wide change. While prior research has identified discriminatory threats emanating from the deployment of algorithmic decision-making, the effects of algorithmic decision-making on inherently imbalanced power relationships have received scant attention. Our results provide empirical evidence of how systemic and episodic power relationships strengthen each other, thereby enabling the governmental organization to effect social change that might be too politically prohibitive to enact directly. Overall, the results suggest that there are potentially negative effects caused by the use of algorithmic decision-making and the resulting power shifts, and these effects create a different view of the level of success attained through auditor use of data analytics.

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Liquidity and Availability of Resources of Not-For-Profit Healthcare Systems: The Implementation of ASU 2016-14

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ABSTRACT: With the stated purpose of improving how not-for-profit (NFP) organizations communicate their financial performance and condition to their stakeholders, FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, in August 2016, effective for fiscal years beginning after December 15, 2017. While the new standard has numerous provisions, this study examines the implementation of the required disclosure related to the liquidity and availability of financial assets to meet financial obligations as they come due. Using hand-collected audited financial statement data and related ASU 2016-14 quantitative and qualitative disclosure information from 2017-2019 for a sample of 277 NFP healthcare systems, we find….