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# Analyzing Small Business to Determine the Best Internal Controls to Implement within Student Organizations in Order to Prevent Fraud

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ANALYZING SMALL BUSINESS TO DETERMINE THE BEST INTERNAL CONTROLS TO  
IMPLEMENT WITHIN STUDENT ORGANIZATIONS  
IN ORDER TO PREVENT FRAUD

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Submitted in Partial Fulfillment  
of the Requirements for  
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## ***Thesis Summary***

After serving as a treasurer for a student organization it was clear that it would not be difficult to commit fraud and the largest obstacle was likely the guilt that would be associated with being unethical. However, students frequently cheat in an academic setting which is similar to the setting which a student organization operates within, making it possible that leaders in student organizations are committing fraud. Therefore, students were surveyed about both cheating in an academic setting and personal experience with a leader in their student organization committing fraud. The survey results along research regarding past publicized cases of theft show that student organizations do have a problem with being vulnerable to fraud. Because student organizations are similar to small businesses, small businesses were then researched and a local small business owner was interviewed to determine the best ways to combat fraud. As a result, the best internal controls were better determined and discussed in terms of how student organizations could implement these controls. However, one predicted challenge with implementation is the fact that many students trust their leaders due to the values which their organizations are founded upon. Furthermore, the survey conducted revealed how students find it much less ethical to steal from a student organization than to cheat in an academic setting, further reflecting their hope that leaders will be ethical. While this is a trust students would like to have in their leaders, the personal experience the same students have with fraud and previous cases show that the role of ethical decision making is not enough to prevent fraud which further demonstrates the need to implement stronger internal controls. And small businesses served as a beneficial starting point regarding the best internal controls to implement in student organizations, with these internal controls being explained in more detail as well as listed in flyer as a reference for student organizations' treasurers.

## ***Introduction***

The fraud triangle is a helpful tool for understanding why students might commit fraud within their organizations. The elements of this triangle are opportunity, rationalization, and incentive. Not only has this triangle been used in business settings but it has also been applied to academic situations (Little & Handel, 2016). For example, a business professional is mostly incentivized to commit fraud due to the fact that they need money, and a student is mostly incentivized to cheat in order to achieve a better GPA, both things that can provide more opportunities for their futures (Little & Handel, 2016). So, if the fraud triangle can explain student behavior it holds that it could also apply to students “cheating” in organizations they’re involved with, otherwise known as committing fraud and potentially stealing from their organization.

## ***Examples of Fraud in Student Organizations***

### **Past Cases of Fraud Seen in Student Organizations**

Unfortunately fraud is not uncommon in student organizations and has occurred at Michigan State University, where a student embezzled \$20,000 from their fraternity, as well as Trinity College, where a student embezzled \$1,000 from the school (Berg, 2018) (Cogen & Powell, 2001). There are also several cases where adults involved in the Greek Life Office or serving as a consultant for a sorority embezzled funds. These cases further demonstrates elements of the fraud triangle, for those who embezzled had clear opportunities. For example, the University of Georgia Director of Greek Life ended up stealing more than \$1 million dollars over a ten year time period. Some elements that enabled her to do this include the fact that she “had almost complete control over all financial activity without oversight or independent review of these activities” such as having her superiors sign blank checks that were later made out to herself or making large purchases that were not related to her job (Rigall et al, 2019). And,

because nobody else was reconciling bank statements or otherwise looking at activity in the accounts, due to her office trusting her, none of these things were caught. A similar case was seen at Carmel University where a sorority's financial coordinator was able to embezzle about \$450,000 by taking money orders and altering the corresponding financial ledgers that she assisted the organization with ("Carmel based fraternity", 2019).

The main problem with reviewing past cases, and the setting in which they occur, is the fact that some details can't be fully revealed due to legal reasons, or those students involved decline to comment. Furthermore, there may be cases where members of an organization are aware of fraud but don't report anything due to fears the university shutting down their organization. Therefore, while there have been examples of cases where students have stolen from their organizations or school, there may be more that haven't been as publicized or weren't ever discovered, possibly because of a lack of internal controls or lack of reporting. A lack of internal controls is a likely reason for all the mentioned cases, for the information did provide some information about opportunities allowing students to commit fraud such as a lack of supervision of leaders. This lack of controls and supervision, while providing information about the opportunity element of the fraud triangle, shows less about incentive and rationalization. Therefore, I conducted a survey to determine if college students had personal experiences related to theft in student organizations, both to gain more understanding about the other elements of the fraud triangle and because there has most likely been more fraud committed than the documented cases indicate. Overall, the survey was meant to gauge how prevalent fraud is within student organizations. By determining how prevalent fraud is it is easier to determine if more internal controls are necessary in order to prevent fraud,

### **Analysis of Survey Regarding Personal Experience with Fraud in Student Organizations**

The survey asked students from different universities involved in different student organizations whether they knew of cases of fraud and for more details regarding these situations, if they occurred. The survey received 59 responses and of those 16 students reported they knew of a case where a leader in a student organization stole funds from said student organization. Of these 16 cases, 62.5% of the time it was the president who had stolen funds and 18.8% of the time it was the treasurer. The other 3 cases were either other or general members stealing supplies. Of the 16 cases reported, the different student organizations mentioned were social sororities and fraternities, a musical theater organization, student government, intramural sports, professional fraternities, and club sports. The fact that these cases occurred within different organizations further reflects that there is likely fraud that goes unreported, for the 16 known cases could not have been reflective of one case. The variation in organizations where fraud was known also make it clear that it isn't only leaders in social sororities and fraternities that are committing fraud, despite the fact that the documented cases discussed only involved those organizations. Overall, the survey was able to show that students do have personal connections to fraud within their student organization so it is important to learn more about this area of fraud and what can be done to combat it.

In order to look more qualitatively about the instances of theft, and to gain more understanding about how the fraud triangle relates to fraud within student organizations, respondents were also asked what the main motivation was in stealing funds, or what they believed the main motivation to be. Certain responses appeared multiple times, namely the idea of greed, desperation, and financial gain. Other motivations listed were things such as the officer being frustrated with the organization, or the fact that "in a position of power, they may feel as though their actions are excusable". This specific response reflects the element of rationalization

in terms of the fraud triangle. Other students discussed the fact that these officers excused their actions since it is so easy for them to steal and they were confident that they would never be caught, demonstrating the prevalence of opportunity. These responses speak to the rationalization aspect. Another response related to the rationalization aspect of the fraud triangle was the fact that one leader thought chapter supplies were also meant to be personal supplies for the executive board, since this had been normalized to them as they took the position over from their predecessor, showing more about how the culture of an organization can start this cycle of actions that may technically be fraud. The survey provided more of an understanding regarding the elements of the fraud triangle concerned with incentives and rationalization, which served as helpful since many previously documented cases provided more information regarding opportunity.

### **Interviews with Student Organization Treasurers Regarding Fraud and Internal Controls**

While past cases and the survey both provided some insight regarding the three elements of the fraud triangle, opportunity was left to be an important area to look into on a more personal level. Therefore, current treasurers of social organizations were interviewed about the opportunity aspect and it was found that the circumstances that led to documented cases of fraud are still somewhat prevalent today. For example, the treasurer of one sorority explained that the situation where money could most easily go missing surrounds cash. She went on to explain that when there are fundraisers where cash donations are collected it is the treasurer who is then responsible for taking this cash to the bank to get a money order which is then sent to the national organization. But, it is this same women who is also responsible for filling out the paperwork that documents how much money is made, so if she were to steal some cash it wouldn't ever be noticed as long as the report and money order amounts match (Sorority Treasurer 1, 2020). As these sorority treasurers' interviews went on it became clear that there are



plenty of opportunities for fraud, and the incentive to have more money is common among college students, as emphasized with the survey. Another sorority treasurer interviewed, who will be referred to as Sorority Treasurer 2, also discussed the incentive to easily obtain more money and she can “see the temptation to cash in the chips and walk away”, or to commit fraud large enough to be financially beneficial for her, even if it would be noticed and she would then lose her position (Sorority Treasurer 2, 2020). She went on to discuss how this wouldn’t be especially difficult since while there is a policy requiring another officer to approve any request she makes to load the debit card with funds, there are two checking officers so it would be possible to collude with only one of them and commit fraud. A professional fraternity’s treasurer was also interviewed and she brought up similar points, reflecting how this is a problem in organizations varying in size and type. For, she explained that she is an authorized check signer and is usually the only one checking the organization’s PayPal account, both of which would allow her to “funnel money or overcharge members or firms for events and take that money” (Professional Fraternity Treasurer, 2020). The interviews also brought up the element of rationalization since leaders of large organizations have to do lots work with little reward and may find themselves thinking “nobody will notice if I take one \$5 bill from the cash we raised” (Sorority Treasurer 1, 2020). The problem is if that \$5 compounds or one day becomes thousands. The incentive would then increase while the rationalization and opportunity would remain.

However, the interviews also shed light on positive aspects of these organizations and how many have started to implement policies intended to decrease fraud. For example, the professional fraternity’s treasurer explained how she performs monthly bank reconciliations that the faculty advisor reviews. There was also the sorority treasurer who said, starting next year,

“they will have a representative from OmegaFi who works directly with their chapter and prevents fraud” (Sorority Treasurer 2, 2020). OmegaFi is the third party company that this sorority uses to collect dues from their members, write checks, load their debit card, and create their financial statements. So having a representative not related to the chapter could prevent any attempts of fraud since this representative will be seeing the financial statements and can check all related transactions. Furthermore, this sorority treasurer discussed the checks and balances in place that prevent her from reimbursing herself and requires either the President or Vice President to approve any payments she issues. Despite these positive comments, she did still say that her organization’s International Headquarters could enforce more secure policies and practices that could prevent the misuse of cash specifically (Sorority Treasurer 2, 2020). Sorority Treasurer 1 mentioned that the Office of Fraternity and Sorority Life could discuss these potential problems when they have conferences with the various executive officers of social sororities and fraternities. Treasurers could benefit from a discussion of more effective internal controls since the main discussion points now are focused on how to use funds to benefit the most chapter members and how to discuss personal finances in a positive way so members will be encouraged to pay their dues and budget for themselves so it isn’t a hardship (Sorority Treasurer 1, 2020). And presidents could benefit from this discussion since they can hold treasurers accountable. Overall, if the Office of Fraternity and Sorority Life were to introduce this discussion point in these conferences multiple officers could be made aware of potential problems in their existing policies. For, interviews and surveys have made it clear that student organizations still have room for improvement when it comes to internal controls and policies, especially those related to cash and segregation of duties. These organizations could possibly

learn from small businesses that have determined both effective internal controls and ways to decrease fraud.

### ***Fraud in Small Businesses***

#### **Common Reasons Behind Fraud in Small Businesses**

To look at a situation where the stakes are higher than a student organization, small businesses can be analyzed to see how they most effectively combat fraud. A report done by the Association of Certified Fraud Examiners argues that small businesses are “particularly vulnerable to fraud because they lack the resources to implement complete systems of internal controls and properly segregate accounting duties among their limited staffs” (Smith, Hrnair & Metts, 2013).. Specifically, there are five main types of fraud in small businesses. These forms of fraud are “billing fraud, corruption, check tampering, skimming and expense reimbursement fraud” (Smith, Hrnair & Metts, 2013). Furthermore small businesses “often don't report these crimes because of families' embarrassment, decisions not to file criminal charges or wanting to keep knowledge of the crimes privy” (Smith, Hrnair & Metts, 2013). As a result, there may be more fraud within small businesses that isn't known and can't be included in the report or as part of the calculated losses.

#### **Comparing Fraud within Small Businesses and Student Organizations**

The report done by the Association of Certified Fraud Examiners reflects many similarities with both the survey results from those involved in student organizations and personal information shared by the sorority treasurers interviewed. For example, two of the reasons leading to fraud—check tampering and skimming—are the same things that the treasurers listed as potential ways fraud could occur within their organizations. The same sorority treasurers also discussed ways that check tampering are prevented, which shows that they have some of the internal controls seen in small businesses. While both small businesses and student

organizations can attempt to prevent these problems, it is still clear that these issues are prevalent within both and more can be done to address them. The fact that both small businesses and likely student organizations don't report all cases of fraud experienced further reflects how fraud is a bigger problem than the statistics suggest.

### **Interview with Local Small Business Owner Regarding Fraud and Internal Controls**

To better understand the experience of individuals trying to prevent fraud within their companies, I interviewed a small business owner. However, she also brought up another interesting point of the importance in hiring since a small business operates with a smaller group of employees, all of whom can be leaders in the workplace, similarly to how any member of a student organization has the opportunity to be a leader. The importance of hiring and training ethical employees was emphasized by the bakery owner, who said she conducts weekly meetings to not only emphasize company policies and customer service, but also integrity. While these meetings have the intention to limit the rationalization aspect of the fraud triangle, an effective fraud prevention program tends to focus more on limiting incentives and opportunities.

Therefore, the bakery owner was also asked more about those aspects of the fraud triangle.

The interview with this bakery owner even further established how she is aware of the problems that can occur in small businesses that are most responsible for fraud, such as corruption, skimming, and expense reimbursement fraud. This demonstrates how small business owners likely know the importance of enforcing internal controls. Specifically, when asked about internal controls the bakery owner outlined two important aspects. First, she explained that "we have checks and balances in our accounting system which includes end of day counting of drawers, running reports daily from our point of sale system, checking inventories, and month end reporting and paperwork". All of these listed examples show how skimming would be unlikely. Second, she explained that only managers who have been through a certain training

process have “access to the drawers daily. Each management position, whether it is a shift lead or manager, has different responsibilities. Managers go to the bank weekly to get change, leads do not. The owner gathers all of the daily reports, checks the sales for the day compared to the register tapes and deposits the money into the bank”. The separate responsibilities of different management positions also reflects how segregation of duties is prioritized and is known to be important. When asked to elaborate about segregation of duties the owner explained that when it comes to placing orders for the bakery there are policies in place to prevent theft. For example, “the owner places the majority of the orders, after an inventory is completed by staff and checked by management. Once the order is received the owner receives all of the invoices to check all inventory, as well as costs”. She also noted that the managers and staff then organize the order and that the rotating order schedule prevents one manager from always having the order related responsibilities. This personal account of internal controls seen within a local small business highlights how common issues that cause fraud are applicable within the community and most likely within the community of students.

### **Common Internal Controls within Small Businesses**

The controls the bakery owner mentioned are reminiscent of strong internal controls seen within the majority of small businesses. Furthermore, common internal controls are described as a competitive advantage, reiterating their importance (Vargas-Hernández, Casas-Cádenaz & Calderón-Campos, 2016). To understand the specifics of internal controls it's important to first establish their purpose and characteristics. Internal controls are employed in order to “safeguard assets, ensure financial reporting is accurate, meet all financial reporting requirements, and ensure compliance with operational requirements” (Pershad, 2018). Since internal controls are meant to accomplish a wide variety of goals there are established factors companies should aim to focus on in order to have effective controls.

The five main factors involved in internal controls are “segregation of duties, policies and procedures, documentation, oversight and review, and user access and rights” (Pershad, 2018). These broad factors can best be explained by looking at specific internal controls that fall under these certain characteristics. For example, segregation of duties is commonly known to be important, as previously established by both the local bakery owner and the report done by the Association of Certified Fraud Examiners. Specific internal controls that fall under segregation of duties include examples previously mentioned, such as a manager doing an inventory count and the owner placing the order or one officer of a student organization completing the paperwork regarding how much money was raised at a fundraiser while another deposits the funds. When it comes to policies and procedures the important aspect is having clearly documented policies, often accomplished in small businesses with an employee handbook (Pershad, 2018). Documentation is important in terms of keeping invoices, receipts, and checks to support all transactions and perform bank reconciliations (Pershad, 2018). When it comes to oversight, management is important since this factor refers to reviewing documentation and properly supervising employees, along with following the procedures set in order to be a good example. Lastly, user access is mentioned as an important aspect in internal controls and discusses how employees should only have access needed for their responsibilities. For example, the bakery that only allows managers access to the bank. All of these factors are essential in internal controls which, in turn, can prevent fraud.

### ***Applying Internal Controls***

#### **Applying Internal Controls to Student Organizations**

Since the documented examples of fraud within a small business owner were also discussed by a local small business owner and treasurers of student organizations it is likely that common internal controls used by small businesses could work for student organizations in order

to prevent the problems they all experience. Student organizations can also learn from managerial practices small businesses promote. For example, the bakery owner said that student groups should have “responsible managers that are trained to your expectations, with rules and regulations in place, as well as mandating weekly follow-ups”. This further establishes the importance of having internal controls and provides a starting point for student organizations.

While the local small business owner provides one idea for implementing internal controls, the most effective internal controls to be applied can be found by looking at the five main factors involved in internal controls of “segregation of duties, policies and procedures, documentation, oversight and review, and user access and rights” (Pershad, 2018).

Segregation of duties has been the element of internal control most emphasized as a reason behind fraud seen in student organizations as well as small businesses, making it one of the most important areas to focus on. This is also an area where student organizations have potential for improvement. All the interviews led to a discussion about separation of duties and the common consensus was that the executive board of the organization tries to do everything not necessarily because they don’t trust other officers, but because they feel as though delegating doesn’t make them perceived as a strong leader. However, it needs to be established that delegating responsibilities and implementing segregation of duties is what’s best for any organization and contributes to leadership skills. When it comes to student organizations there are several tasks that can be segregated. For example, when there is a fundraiser or other activity that involves collecting cash the officer collecting the cash should not also be the one depositing the funds and recording how much was raised. This sequence of steps was most cited by sorority treasurers regarding the problem in segregation of duties and money orders proved to be problematic in publicized cases of fraud. Another important segregation to enforce is that fact

that the officer writing checks or putting money onto a debit card should not also signing the checks or approving the transfer of funds to the card. This process has been listed by several sorority treasurers as a policy that is currently in place which shows that there are certain internal controls evident in student organizations. The fact that student organizations already have some internal controls in place should theoretically make it easier to introduce others since it is not a completely new idea that would require drastic change.

Policies and procedures are another aspect of internal controls, and while they are generally in place with student organizations, there are still related issues that further controls could address. For, many organizations have a handbook or operations manual, even on a national level, but as mentioned by student treasurers, these aren't often referred to when chapter officers are making decisions. Furthermore, the treasurers interviewed did not think their national organization could introduce a policy to further prevent fraud. Therefore, it is on an organizational basis that policies and procedures need to be clearly outlined. It's especially important to outline financial procedures that a treasurer thinks are most effective. Having all officers sign a set of policies could also act to hold leaders more accountable and if leaders are dedicated to the organization, and would feel more guilty committing fraud, as interviewed treasurers said, there should be no problems in asking them to agree to certain policies. These agreed upon policies should also list controls within the other four main areas in order to ensure newly implemented controls are effective.

Documentation is an area of control that the student organization's interviewed were familiar with, but that doesn't make it any less important because the fact that some organizations have policies in place doesn't speak for all student organizations and instead provides examples for others to learn from. Certain controls concerned with documentation that



were disclosed include keeping receipts for all purchases. This is important no matter who is making the purchase for any member or officer should be able to dictate how the purchase was meant for the organization. Other controls that fall into this category include having documented bank reconciliations for every month. Bank reconciliations are also a control that incorporates oversight and review, another important aspect.

Even if all processes and transactions are documented it is still possible for fraudulent activity to occur, which is why there needs to be appropriate supervision. Oversight and review controls can serve to address the role of third parties when it comes to student organizations. There should be advisors that work with student organizations that are able to supervise activities and review receipts of purchases, budgets, transactions, and the previously mentioned bank reconciliations. This process enables a third party to see if there is any noticeable fraudulent activities or if budgeted plans will serve to benefit just the planning officer and not the organization as a whole. When ensuring there is proper oversight it is important that the advisor does not have excessive personal interest in the organization that would lead them to be the one stealing funds, which was the reason behind one publicized case of fraud within a student organization (“Carmel based fraternity”, 2019). It is also important that the advisor still is thought about when segregating duties so that their level of control does not lead to opportunities to commit fraud. In order to prevent this element there is the possibility, as mentioned by one of the sorority treasurers interviewed, to use a third party when it comes to all finance related elements and have an advisor from the third party review transactions and statements in order to discourage fraudulent behaviors. However, this might be harder for smaller organizations that simply use a bank account. In that case it is even more important to have an impartial advisor that doesn’t have free reign over financial activities. Another way documentation and review

could be expanded is if organizations were to perform audits of each other every few years. For example, different sorority treasurers could audit other sororities since they are operating in similar capacities with similar organizations. One professor conducted an experimental class project that involved having his students perform audits of student organizations so it is an applicable idea for those organization's treasurer's to do the same (Lambert & Main, 1998). Furthermore, at USC the office of Fraternity and Sorority Life hosts annual conferences where social sorority and fraternity treasurers are able to meet and learn relevant skills for their positions. The office also hosts periodic "roundtables" for officers of fraternities and sororities so there is potential for them to facilitate organizations auditing each other. There could be challenges if certain treasurers don't have accounting experience, however this could then introduce another role the advisor could play. There also may be challenges when it comes to professional fraternities or sports teams auditing each other since there is not an overarching office that could help facilitate the process. Even the professional fraternity treasurer interviewed emphasized how her organization is not considered a school organization therefore this auditing process could be more difficult in those situations. However, this further demonstrates how an organization may not be able to implement all recommended controls but they should still aim to implement as many as they can, and to make them strong in order to compensate for deficiencies.

User access and rights is the last main category of internal controls and it is another area where interviewed treasurers explained controls in place that fit into this category. For example, multiple treasurers explained that they cannot write checks to themselves, sign checks they write, or approve requests the made to load funds to a debit card. Many also explained how it is often only the treasurer and president who have access to bank accounts or financial information which limits the potential for other officers to commit fraud but further demonstrates the need to have

other controls in place. For, in this case the president and treasurer could work together to commit fraud if they had the same motivation and as a result it is clear that there should be oversight and review to prevent that. Another internal control mentioned by a sorority treasurer in terms of user access is the fact that she cannot have purchasing cards in her names. This certainly helps to prevent unauthorized purchases but may not be feasible across the board. For example, the professional fraternity treasurer interviewed explained how even though their PayPal account isn't in her name she is the only officer to check the balance and transactions. Therefore, while user access and rights should be controlled it is clear that there should still remain segregation of duties and oversight as well in order to prevent one person from having sole control over any element related to financing. This further demonstrates the need to have internal controls that both fit within all main five factors and integrate them together. However, there will likely be challenges faced as student organizations attempt to implement internal controls.

#### **Difficulties likely to be encountered when implementing controls to student organizations**

Because student organizations have similar vulnerabilities to fraud as small businesses, they not only stand to benefit from implementing the same internal controls, but will also face similar challenges when it comes to implementation. For example, some recommended internal controls aren't feasible for small businesses due to their cost, a problem student organizations may also face. Therefore, it is important for student organizations to understand that even if they can't financially implement all recommended controls it is still important to have functional controls in the main five areas. Another potential challenge in implementing student controls is resistance to change. With many student organizations older members are used to established policies and resist change. However, even if implementing controls may be difficult at first, once they become normalized they won't be questioned. A key point here is attempting to implement

change the semester after new members become part of the organization, or during the summer or winter break before new members join, so the next group of new members don't have any changes to adapt to. Along with these highlighted behavioral challenges, such as adaptation to change, other obstacles are the cost implications associated with implementing internal controls.

Cost implications are an important element of implementing controls in order to determine if the benefits outweigh them. With the previously mentioned controls the major cost implications aren't monetary but are labor related. For example, requiring that cash collecting processes involve at least two people requires more labor involved. Other internal controls that would only require increased labor include policies such as enforcing the fact that a treasurer can't write checks to themselves or reimburse themselves. This might be changing a setting in a billing system or introducing an added responsibility for a checking officer such as the president but neither option should introduce extreme added costs. However, most student organizations already have the labor needed to implement these policies and the new controls could just be a matter of giving current officers further responsibilities. Furthermore, if student organizations have a relatively few number of people serving as leaders, the cost would simply be them taking on more of a role. Leaders of student organizations are already volunteering their time, and while the costs involved in implementing internal controls may directly impact them, they could also directly benefit. For example, if there are strong internal controls in place, leaders have the benefit of a much lower likelihood in being implicated in any potential cases of fraud. The fact that one benefit of internal controls could be a higher level of perceived ethics of student leaders is especially relevant due to the fact that most student organizations are built on core values and integrity along with ethical decision making places their own role within the context of fraud. Therefore, the fact that the costs are so minimal further demonstrates the importance of

implementing internal controls, and the fact that it is a strong possibility due to having the strong benefit of preventing fraud and improving perceived ethics of student leaders.

### **The Role of Ethical Decision Making**

Yet another difficulty with implementing common internal controls in a student organization is the fact that these organizations are often built on trust. Especially when it comes to Greek life, officers are elected by their peers and volunteering to do these jobs. Furthermore, these organizations are built on core values and philanthropic missions and those members that get extremely involved, such as treasurers, typically attempt to promote these values and missions. This point was further emphasized in conversations with multiple treasurers, all of whom also discussed the fact that despite having the opportunity to commit fraud they would feel too guilty. Integrity was also discussed when talking to the treasurer of a professional fraternity since they are promoting professionalism to their members and emphasize doing the right thing over the easy thing. Therefore, it is clear that ethics play a strong role in student organizations, making ethical decision making another important element to look at in student organizations.

When applying the fraud triangle to both academic settings and fraud in student organizations the specific motivations, opportunities, and rationalizations may be different. However, one element applicable to both is the role of ethics and perceived ethics, making ethical decision another role behind cheating and stealing. In order to better gauge if students perceive stealing from their student organization to be unethical they were asked in the survey to compare that situation with cheating in an academic setting.

Cheating in an academic setting was thought to be something students are familiar with on a personal basis, therefore providing a basis for comparing it with fraud in student organizations. It was found that of the respondents not only had 78% seen or heard of someone

cheating on an exam, but 45.8% had cheated on an exam themselves. Even more than that, 74.6% of respondents, had cheated on an assignment before, making cheating in an academic setting something students are very familiar with. Reasons students have cheated in the past include the desire to get better grades, not having had time to study due to work in other classes, the fact that cheating was made easy due to the exam or assignment being done online on their own time, or lacking integrity. Not only do these results compare to reasons people listed as why leaders steal from their student organization, such as having the opportunity or lacking integrity, but they provide a baseline where students can compare the two situations. When asked whether students found cheating in an academic setting or stealing from their student organization to be more ethical, 73% of respondents said they found cheating in an academic setting to be more ethical. However, only 24% of respondents had personal knowledge of a leader stealing from their student organization; so, while people may have more experience with cheating, they still find it to be more ethical. This could be because many student organizations have core values and philanthropic or professional interests that require integrity. Furthermore, people are volunteering to participate in their organizations and as a result the leaders are both volunteering to put even more time into the organization and elected by their peers. Because these peers are likely to find stealing from an organization much less ethical than cheating in an academic setting they may also see less of a need to have policies in place that would prevent such theft.

The fact that the majority of respondents find stealing from an organization to be less ethical than cheating reflects how many students hope for ethical leaders. Having ethical leaders that will employ ethical decision making is another element that would help prevent fraud within the organization. Even the bakery owner shows that ethical decision making is another way to combat fraud when she discussed the importance of hiring employees she believes show

integrity. However, as previously discussed, simply the fact that treasurers ideally would be ethical doesn't mean that their morals will never waver. After all, ethical decision making can be influenced by strong emotions that may occur when frustrating situations arise. This further emphasizes how important it is to have strong internal controls within student organizations. For, while there may be challenges encountered within implementation, also due to the hope that leaders are ethical, it is clear that the elements of the fraud triangle are very present and simply hoping to have leaders that are ethical is not enough to combat fraud.

**An overview of the best internal controls to implement within student organizations**

The best internal controls that can be implemented in a student organization are listed below and categorized based on the five main factors behind internal controls. The best internal controls to be implemented are also documented on a flyer so student organizations have a more usable reference point. (Appendix C).

1. Segregation of duties

- a. Ensure the officer collecting cash at a fundraiser or other event is not also depositing the funds and recording what amount was raised.
- b. Ensure that the officer writing the check is not signing the check.
- c. Ensure the officer requesting funds be loaded to a debit card is not approving that request.

2. Policies and Procedures

- a. Have clear procedures outlined that all officers sign to adhere to
  - i. Even if there is a set of policies used nationwide for the entire organization it is important for each chapter at each university to outline

their most effective policies since procedures might differ based on the campus or size of the organization.

### 3. Documentation

- a. Record receipts for every purchase made using a debit card that requires a request for loading funds, in order to show the purchase was related to organizational matters.
- b. Record all invoices related to checks written, in order to show it was for a purpose related to the organization's operating activities.

### 4. Oversight and Review

- a. Talk with other student treasurers working within a similar kind of organization about auditing each other every few years
  - i. For Greek organizations, the office of Fraternity and Sorority Life could help to facilitate this process.
- b. Ensure that advisors have no personal interest in the organization
  - i. Advisors should then review all receipts and financial statements to ensure there is no fraudulent activity
  - ii. Treasurers should also perform monthly bank reconciliations that advisors review to show that all transactions were approved.
- c. Conduct all cash flow transactions through a third party (such as OmegaFi or Billhighway) and work with a specific member of said third party to review financial statements
  - i. For smaller organizations that may simply use a bank account, an advisor with no personal interest should review financial statements



## 5. User Access and Rights

- a. Attempt to have the fewest number of officers (ideally the President, Treasurer, and Advisor) have access to bank accounts and financial records, while still maintaining oversight and segregation of duties.
- b. Ensure purchasing cards are not made out in the name of the treasurer but instead in the name of the organization.
- c. Ensure treasurers don't have the right to write checks to themselves or provide a reimbursement to themselves.

### **Most effective level of change implementation**

Along with having clearly established controls that are important to implement it is also beneficial for the University to have a role in terms of implementing internal controls within student organizations. As previously discussed, certain challenges that come with implementing change is the fact that leaders fear this would make them seem less trustworthy or efficient. While it has been demonstrated that leaders can greatly benefit from these controls due to them making organizations more efficient and providing a level of protection for leaders, there is still a role Universities can play to ease the burden on student organizations. For example, if a policy is university mandated not only would there be less backlash involved in introducing the policy but there would be a much higher incentive to follow the policies. Furthermore, the level of University involvement would not need to be extremely high to be effective. For most student organizations to be recognized as a school sanctioned organization there is paperwork that involves listing officers and their responsibilities, committing to follow GPA requirements and other school rules, and documenting achievements of the organization. There could simply be a section added that involves agreeing to commit to implementing the most important internal

controls which would incentivize student organizations to follow through on implementation and would further emphasize the importance of these controls.

### ***Conclusion***

In conclusion, through conducting a survey and interviewing local student organization's treasurers it's been demonstrated that fraud occurs even if it is not always publicized.

Furthermore, the reasons found behind fraud discussed in both the survey and national cases are similar to the reasons fraud occurs in small businesses. Since student organizations often have similar characteristics with small businesses they have the potential to learn from ways small businesses combat fraud. By interviewing a local small business owner and researching common internal controls seen in small businesses the best internal controls to implement in student organizations were determined and listed. And, while there are challenges that might arise in implementing more internal controls, such as the fact that leaders feel uncomfortable delegating, once the internal controls become the standard the benefits will outweigh the costs. Lastly, ethical decision making was reviewed as another aspect that can combat fraud. While students found it less ethical to steal from their student organization than to cheat in an academic setting, something most students have personal experience with, simply trusting leaders in making ethical decision making is not enough to combat fraud on its own. For, ethical decision making can be influenced by frustrating situations that arise which further demonstrates the need to have internal controls in place that can prevent fraud if student leaders are not consistently ethical.

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**Appendix A:**

Survey that was distributed:

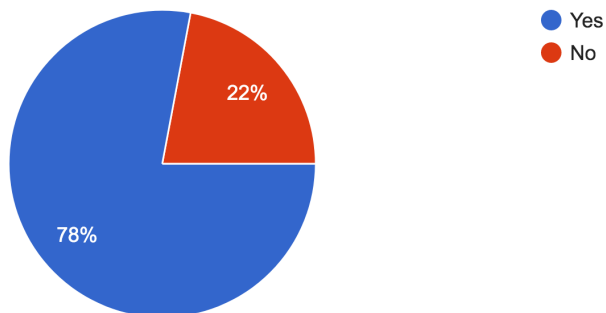
- Age:
- Class level
  - Freshman
  - Sophomore
  - Junior
  - Senior
  - Graduate Student
- Major:
- Have you or someone you know seen someone cheating on an exam before?
  - Yes
  - No
- If so, was the class required for your major?
  - Yes
  - No
- Have you ever cheated on an exam before?
  - Yes, recently
  - Yes, a long time ago
  - No, never
- Have you ever cheated on an assignment before?
  - Yes, recently
  - Yes, a long time ago
  - No, never
- What do you believe to be the main motivation in cheating in an academic setting?:
- Please check all the organizations you are, or have ever, been involved with
  - Social sorority
  - Social fraternity
  - Service sorority
  - Profession fraternity
  - Student government

- Intramural sports
  - Club sports
  - Other:
- Have you ever heard of someone in your organization stealing funds or other items
  - Yes
  - No
- If you have heard of someone stealing, what role did they play within the organization
  - President
  - Treasurer
  - Other officer
  - General member
- What do you believe to be the main motivation in regards to someone stealing from their organization?
- Do you find it more ethical to cheat in an academic setting or steal from your organization?
  - Cheat in an academic setting
  - Steal from your organization
  - Other:

**Appendix B:**

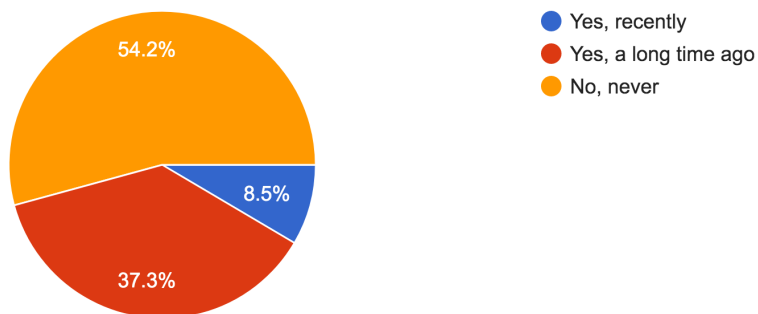
Have you or someone you know seen anyone cheating on an exam?

59 responses



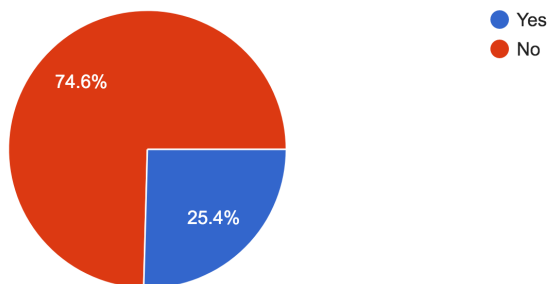
Have you ever cheated on an exam before?

59 responses



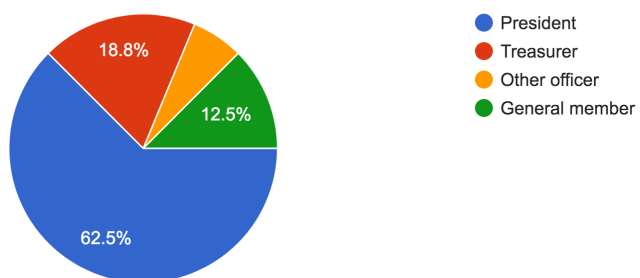
Have you ever heard of anyone involved in your organization stealing funds or other items?

59 responses



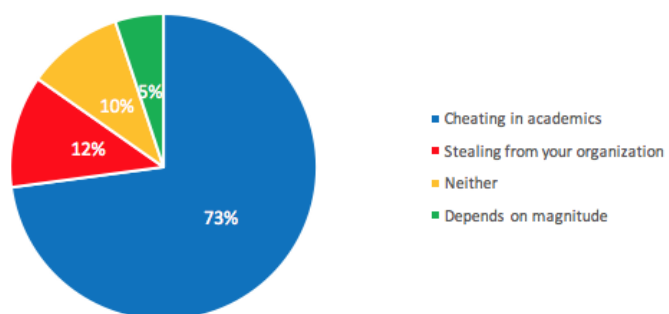
If you have heard of someone stealing, what role did they play within the organization?

16 responses



Do you believe it's more ethical to cheat on an exam/ assignment or steal from your student organization?

59 responses





**Appendix C:**

Flyer that student organization treasurers can use as a reference point:

*The best  
internal  
controls to  
implement in  
a student  
organization*



**MADISON BRINKMAN**  
brinkmam@email.sc.edu

**PREVENTING  
FRAUD**

### Internal Controls to always have in place

- Making sure any officer collecting cash is not the sole officer counting and depositing the cash
- Ensuring no officers can write a check to themselves or reimburse themselves
- Keeping invoices for all checks written and receipts for all transactions made on the organization's behalf

### Controls to enforce on a monthly basis

- Perform bank reconciliations that an advisor reviews

### Controls to enforce annually

- Have newly elected officers agree to follow local chapter policies and procedures by signing a copy of them


### Controls to implement if financially possible

- Conduct all cash flow transactions through a third party system and have an employee of the third party review all transactions on a monthly basis

### How to Best Implement

- Explain that these controls will help the organization run more efficiently and are not a reflection on leaders' abilities or trustworthiness

Flyer that universities can use to help serve their student organizations:



**Helping your student  
organizations run  
effectively and  
ethically**

**Madison  
Brinkman**

[brinkmam@email.sc.edu](mailto:brinkmam@email.sc.edu)



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**Preventing  
Fraud**

## **Controls student organizations should have in place**

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- No officer collecting cash should also be counting and depositing the cash alone
- No officers should be able to write a check to themselves or reimburse themselves
- Newly elected officers should agree to follow local chapter policies and procedures by signing a copy of them
- Organizations should perform monthly bank reconciliations that an independent advisor reviews
- Organizations should keep invoices for all checks written and receipts for all purchases made on the organization's behalf

## **What the University can do to help enforce these controls**

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- Ensure preventing fraud and implementing internal controls are discussion points when there are university led conferences for leaders of student organizations
- Require a section of paperwork regarding internal controls within paperwork required for student organizations to be school sanctioned
  - This should list important controls and have organizations commit to implementing them