

Summary of Paper: [Internal Controls and Operational Performance of Nonprofit Organizations](#)

What is this Study About?

Investigating how auditor-reported internal control deficiencies (ICDs) affect nonprofit organizations, this study examines the relationship between ICDs in financial reporting and compliance and nonprofit operational performance. It assesses whether deficiencies are linked to operational measures, such as surplus and the charitable expense ratio, and offer insights into how control environments influence a nonprofit's ability to fulfill its charitable mission.

What are the major findings of the study?

The research identifies negative associations between ICDs and key operational performance metrics—surplus and charitable expense ratio—indicating that weaknesses in internal controls can significantly impact a nonprofit's operational efficiency. It suggests that the control environment, encompassing both financial reporting and compliance, plays a critical role in the nonprofit's effectiveness, potentially affecting its capacity to carry out mission-related activities. Moreover, the study finds that the market for nonprofit funding is competitive, suggesting that investments in internal controls could indirectly support a nonprofit's mission by enhancing operational performance.

Why is the study important?

Highlighting the pivotal role of internal controls within nonprofits, this study provides valuable evidence for stakeholders of the importance of a robust control environment. It suggests that strong internal controls are not just regulatory requirements but also are essential for efficiently operating and fulfilling the charitable mission, thereby benefiting the organization in the competitive funding market. For policymakers, practitioners, and academics, these findings underscore the need for rigorous internal controls and their careful examination to ensure nonprofits can effectively manage resources and achieve their objectives.