

CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
PREREQUISITES TO USING THE ATTEST  
FUNCTION: AN EMPIRICAL STUDY  
BY CHURCH CHARACTERISTICS

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## TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION . . . . .	1
Setting of the Problem. . . . .	1
Objectives and Contributions of the Study . . . . .	4
Organization of the Study . . . . .	13
Scope and Limitations of the Study. . . . .	15
Summary . . . . .	15
II. ACCOUNTING PROBLEMS, AUDITING PROCEDURES AND AUDIT REPORTS OF CHURCHES. . . . .	17
Special Problems of Accounting in Churches. . . . .	17
Special Considerations of Church Audits . . . . .	24
Summary . . . . .	32
III. DESIGN OF THE FIELD STUDY. . . . .	34
Selection of Individuals to Receive the Questionnaire . . . . .	34
Design and Testing of the Questionnaire . . . . .	35
Selection of Methods for Statistical Analysis . . . . .	39
Presentation of Questionnaire Results . . . . .	48
Summary . . . . .	48
IV. CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND THE ASSOCIATIONS WITH CHURCH SIZE CHARACTERISTICS. . . . .	49
Church Financial Officers' Attitudes Towards Using Internal Control Procedures . . . . .	50
Church Financial Officers' Attitudes Towards Presenting Financial Information. . . . .	54
Church Financial Officers' Attitudes Towards Selections of Independent Public Accountants. . . . .	58
Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function. . . . .	62
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Number of Church Members . . . . .	65

Chapter	Page
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of the Annual Church Budget. . . . .	68
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and the Current Market Value of the Churches' Fixed Assets . . . . .	71
Summary . . . . .	74
 V. CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND ASSOCIATIONS AND DIFFERENCES BY CURRENT CHURCH AUDIT CHARACTERISTICS. . . . .	77
Differences in the Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function in Churches With and Without Annual Financial Audits . . . . .	77
Differences in the Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function in Churches Requiring and Not Requiring Annual Financial Audits . . . . .	81
Differences in the Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by the Qualifications of the Individuals Per- forming Annual Financial Audit. . . . .	84
Differences in the Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and the Coverage of the Annual Financial Audit. . . . .	89
Differences in the Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and the Expected Benefits of the Annual Financial Audit. . . . .	92
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Church Auditors' Fees. . . . .	95
Summary . . . . .	98
 VI. CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND ASSOCIATIONS AND DIFFERENCES BY OTHER RELEVANT CHURCH CHARACTERISTICS . . . . .	101
Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using Attest Function Classified by Church Denomination. . . . .	102

Chapter	Page
Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Bequeaths, Endowments, Trusts, and Funds Set up for Special Purposes. . . . .	106
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Long-Term Liabilities. . . . .	108
Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Unrelated Business Income . . . . .	111
Differences in Chief Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function in Churches Requiring and Not Requiring Interim and Internal Audits. . . . .	114
Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Financial Statements . . . . .	116
Summary . . . . .	118
VII. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS. . . . .	123
Data Collection . . . . .	123
Analysis of Data. . . . .	126
Summary of Research Results . . . . .	127
Conclusions . . . . .	132
Recommendations . . . . .	133
SELECTED BIBLIOGRAPHY . . . . .	135
APPENDIX A - INTERVIEW SHEET. . . . .	140
APPENDIX B - QUESTIONNAIRE. . . . .	142
APPENDIX C - COVER LETTER I . . . . .	148
APPENDIX D - COVER LETTER II. . . . .	150
APPENDIX E - COVER LETTER III . . . . .	152
APPENDIX F - POST CARD. . . . .	154

LIST OF TABLES

Table	Page
I. Church Financial Officers' Attitudes Towards Using Internal Control Procedures. . . . .	52
II. Church Financial Officers' Attitudes Towards Presenting Financial Information. . . . .	56
III. Church Financial Officers' Attitudes Towards Selecting an Independent Public Accountant . . . . .	60
IV. Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function . . . . .	63
V. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Number of Church Members . . . . .	67
VI. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Annual Church Budgets. . . . .	69
VII. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Fixed Assets. . . . .	73
VIII. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Churches With and Without Annual Financial Audits. . . . .	79
IX. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Churches Requiring and Not Requiring Annual Audits. . . . .	83
X. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by the Individual Performing the Annual Church Audit . . . . .	87



Table	Page
XI. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by the Coverage of the Annual Church Audit. . . . .	90
XII. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by the Benefits Received from the Annual Church Audit. . . . .	94
XIII. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Fees Given to the Church Auditor. . . . .	97
XIV. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Church Denominations. . . . .	103
XV. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Bequeaths, Endowments, Trusts, and Funds for Special Purposes . . . . .	107
XVI. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Long-Term Liabilities. . . . .	110
XVII. Associations Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Unrelated Business Income. . . . .	112
XVIII. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Not Requiring Interim and Internal Audits. . . . .	115
XIX. Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Church Financial Statements . . . . .	119
XX. Summary of Group Tests Significant at the .05 Level. . .	128
XXI. Summary of Kruskal-Wallis Test Response Pairings Which are Significant at the .05 Level . . . . .	130

LIST OF FIGURES

Figure	Page
1. Illustration of the Questions Used to Obtain the Summed Attitudinal Scores Towards: (1) Using Internal Control Procedures, (2) Presenting Financial Information, (3) Selecting an Independent Public Accountant, and (4) Prerequisites to Using the Attest Function. . . . .	6
2. Illustration of the Classification of Church Characteristics as: (1) Church Size Characteristics, (2) Current Church Audit Characteristics, and (3) Other Relevant Church Characteristics. . . . .	10
3. Illustration of Chapters Where Data From the Field Study are Summarized and Analyzed. . . . .	14
4. Illustration of the Church Characteristics Used to Classify and Pair the Summed Attitudinal Scores for Statistical Testing. . . . .	40
5. Illustration of Significant Associations of Summed Attitudinal Scores by Church Size Characteristics. . . . .	75
6. Illustration of Significant Associations and Differences of Summed Attitudinal Scores by Current Church Audit Characteristics . . . . .	99
7. Illustration of Significant Associations and Differences of Summed Attitudinal Scores by Other Relevant Church Characteristics. . . . .	120

## CHAPTER I

### INTRODUCTION

#### Setting of the Problem

Independent audits are frequently used in profit-making businesses. Conversely, church audits by independent public accountants are the exception rather than the rule. Since church financial officers have the primary authority and responsibility for the financial affairs of churches, the attitudes of these church leaders influence whether their churches utilize the independent public accountants' attest function. Before wide support is given to the independent public accountants' attest function in churches, their financial officers must (1) accept its usefulness and (2) willingly permit and facilitate its performance.

The purpose of this dissertation is to study (1) the attitudes of church financial officers toward prerequisites to using the independent public accountants' attest function and (2) the characteristics of churches influencing these attitudes.

Many churches have large-volume cash transactions and significant investments in terms of asset quantity and value. In this country in 1971 a total of \$8.6 billion was given for religious purposes and expenditures for the construction of religious buildings totaled \$813.0

million.<sup>1</sup>

Accountants have given little attention to the attest function in churches and the literature has contained little information on the subject. There has not been a thorough study of church financial officers' attitudes towards prerequisites to using the attest function of the independent public accountant and insights from such a study seem necessary for progress in this area.

The attest function which benefits other segments of the economy should benefit churches too. In general, the attest function has two purposes in our modern society. First, it lends credibility to financial representations as they are communicated to users. Second, the attest function relieves those handling other people's money of some responsibility they would otherwise have to assume.<sup>2</sup> Accordingly, many churches have financial records which should be audited by independent public accountants. These audits should include evaluations of the adherence to internal control principles and to the planned and authorized programs of the churches. Also, these investigations should point out deviations from sound financial goals, as well as indications of stagnation of leadership in the church.<sup>3</sup>

Some churches have operations that are not examined by anyone. In others, inadequately trained individuals conduct minor "audits" covering

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<sup>1</sup>Yearbook of American Churches, 1973 Edition (New York, 1973), pp. 247-266.

<sup>2</sup>Herman W. Bevis, "The CPA's Attest Function in Modern Society," The Journal of Accountancy, Vol. 113 (February, 1962), p. 31.

<sup>3</sup>Arthur L. Walker, Church Accounting Methods (Englewood Cliffs, 1964), pp. 119-126.

only limited transactions, and individuals biased in favor of church financial administrators perform the audits. Thus, church financial records are often audited by individuals having no concept of auditing standards,<sup>4</sup> or by individuals who lack a basic knowledge of accounting,<sup>5</sup> or by individuals who are not independent from the financial administrators of these churches.<sup>6</sup>

There are at least three reasons why many churches do not require annual financial audits. First, church management may have little or no knowledge of the independent public accountants' attest function. Second, many church managers, aware of the attest function, do not consider it appropriate or beneficial. Finally, church management may not require annual audits because of the difficulty in finding an independent public accountant willing to perform the service for a fee the church can afford; i.e., church management makes a judgment that the benefit/cost ratio is less than one.

Attitudes of church financial officers towards using internal control procedures, presenting financial information, and selecting an independent public accountant are significant in determining the officers' attitudes towards prerequisites to using the independent public accountants' attest function. The attitudes of church officers may vary for many reasons. Some, especially the untrained, think that the

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<sup>4</sup>Lowell E. Larsen, "Church Accounting," The Journal of Accountancy Vol. 103 (May, 1957), p. 28.

<sup>5</sup>Ragnar W. Anderson, "Correspondence: Church Accounting," The Journal of Accountancy, Vol. 104 (July, 1957), p. 19.

<sup>6</sup>Richard E. Czarnecki, "Selected Applications of Managerial and Financial Accounting to the Roman Catholic Church" (Unpublished Ph.D. dissertation, Michigan State University, 1965), p. 141.

possibility of error is slight, and that little need for controls over cash is necessary since church people ought to be trustworthy.<sup>7</sup> Some think audits are useful in uncovering errors which have been made in accounting for cash.<sup>8</sup> Some think audits are useful in verifying the dollar amounts appearing on the balance sheet of the church.<sup>9</sup> Some have the opinion that an audit provides useful information for evaluating the overall efficiency of the church operations;<sup>10</sup> e.g., an audit may indicate how the limited funds available to the church were used during a specific period to meet its obligations.

#### Objectives and Contributions of the Study

Additudinal differences of church financial officers are a result of many conditions. The primary objective of this empirical study is to investigate church financial officers' attitudes towards prerequisites to using the attest function and the conditions in churches influencing these attitudes. The basic research hypothesis to be tested is:

Church financial officers' attitudes towards prerequisites to using the independent public accountants' attest function are not related to characteristics of their churches.

More specifically, there are two objectives of this study. First, this

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<sup>7</sup>Larsen, p. 28.

<sup>8</sup>Leroy A. Hewitt, "Aiding Church Administrators by Fund Accounting and Budgeting," NAA Bulletin, Vol. 40 (November, 1958), p. 48.

<sup>9</sup>Eugene H. Cobaugh, "Church Accounting, Auditing and Protection," Selected Papers of Haskins and Sells (1962), p. 68.

<sup>10</sup>"Accounting for Churches and Charities," The Journal of Accountancy, Vol. 103 (May, 1957), p. 26.

study seeks to determine the attitudes of church financial officers towards the prerequisites to using the attest function, which are defined for the purposes of this study as the church financial officers' willingness to: (1) use internal control procedures, (2) present financial information, and (3) select an independent public accountant. Second, this study seeks to determine: (1) whether some church characteristics, which are defined for this study as: (a) church size characteristics, (b) current church audit characteristics, and (c) other relevant church characteristics, are associated with the church financial officers' attitudes and (2) whether some church characteristics cause the officers' attitudes to be different.

Figure 1 exhibits the relationship of twelve attitudinal questions to the first objective of this study. As illustrated by Figure 1, the twelve attitudinal questions are combined to produce a total of four summed attitudinal scores. That is, attitudinal questions one, two, three, and four relate to using internal control procedures. The responses to these questions, which are numbers on a six-point attitudinal scale, are added together resulting in a summed attitudinal score which indicates the respondents' interest in using internal control procedures. Questions five, six, seven, and eight relate to presenting financial information; and questions nine, ten, eleven, and twelve relate to selecting an independent public accountant. Again, a summing procedure similar to that described above produces summed attitudinal scores indicating the respondents' interest in presenting financial information and selecting an independent public accountant. The responses to all twelve questions are added to provide a summed attitudinal score suggesting the respondents' feelings toward prerequisites to using the independent

Question	Summed Attitudinal Scores Towards:			
	Using Internal Control Procedures	Presenting Financial Informa- tion	Selecting an Indepen- dent Account- ant	Prerequisites to Using the Attest Function
1. The church should require that a member of the finance committee of an individual appointed by that committee periodically review the procedures used to account for the church assets.	X			X
2. The church should require fidelity bonds for all individuals exposed to cash receipts and cash disbursements in the church.	X			X
3. The church should establish procedures that prevent individuals handling cash for the church from having access to the accounting records.	X			X
4. The church should designate specific duties and responsibilities for each individual who is a part of the administrative staff of the church.	X			X
5. The church should adjust the cash basis financial records for significant unpaid bills when preparing the annual financial statements.			X	X



Question	<u>Summed Attitudinal Scores Towards:</u>			
	Using Internal Control Procedures	Presenting Financial Informa- tion	Selecting an Indepen- dent Account- ant	Prerequisites to Using the Attest Function
6. The church should include actual and budget comparisons in the financial statements of the church.		X		X
7. The church should prepare financial statements to inform all users; i.e., the congregation, the church management staff, the creditors, and other interested third parties, of the financial affairs of the church.		X		X
8. The church should prepare an annual balance sheet that includes both the total assets and the total liabilities of the church.		X		X
9. The church should require that the annual financial statements be accompanied by a report or an opinion which is prepared by the auditor and which is an attestation of the fairness of the presentation of the church's financial statements.			X	X
10. The church should employ an independent public accountant to perform the annual examination of the financial records of the church.			X	X

Question	Summed Attitudinal Scores Towards:			
	Using Internal Control Procedures	Presenting Financial Information	Selecting an Independent Accountant	Prerequisites to Using the Attest Function
11. The congregation should select the auditor for the church.			X	X
12. The church should ask an independent public accountant to perform a church audit for a lower fee than the fee charged regular clients.			X	X

Figure 1. Illustration of the Questions Used to Obtain the Summed Attitudinal Scores Towards: (1) Using Internal Control Procedures, (2) Presenting Financial Information, (3) Selecting an Independent Public Accountant, and (4) Prerequisites to Using the Attest Function

public accountants' attest function. Thus, the response to each attitudinal question listed in Figure 1 is included in two different summed attitudinal scores; i.e., once in a summed attitudinal score representing the respondents' interest in using internal control procedures, presenting financial information, or selecting an independent public accountant and once in the summed attitudinal score representing the respondents' attitudes towards prerequisites to using the attest function.

Figure 2 illustrates the classification of responses to church characteristic questions, the second objective of the study. Responses to questions one, two, and three are classified as church size characteristics; responses to questions five, six, seven, eight, nine, and ten are classified as current church audit characteristics; and responses to questions four, eleven, twelve, thirteen, fourteen, and fifteen are classified as other relevant church characteristics. Responses to these fifteen questions are either numbers; e.g., dollar amounts, or selections from fixed choices; e.g., yes or no. These responses are used for one of two purposes in this study: (1) the responses to church characteristic questions which are numbers paired with the summed attitudinal scores of each respondent and statistical tests are made on assumed associations with the church characteristics; and (2) the responses to fixed choice church characteristic questions are used to classify the summed attitudinal scores of each respondent and statistical tests are made on assumed differences between such classifications.

This study provides useful information to church financial officers as they evaluate the need for the attest function of the independent public accountant. This research assembles information about church characteristics and church financial officers' attitudes towards

Question	Size Characteristics	Classification of Question Response As:	
		Current Church Audit Characteristics	Other Relevant Church Characteristics
1. What is the number of members in the church congregation?	X		
2. What is the dollar amount of the annual church budget?	X		
3. What is the approximate current market value of the church's fixed assets?	X		
4. What is the denomination of the church?			X
5. Does the church have an annual financial audit?		X	
6. Is the annual audit of the church required?		X	
7. What are the qualifications of the individual auditing the church?		X	
8. What financial records are examined during the annual audit?		X	
9. What are the expected benefits of the annual church audit?		X	

Questions	Classification of Question Response As:		
	Size Characteristics	Current Church Audit Characteristics	Other Relevant Church Characteristics
10. What is the approximate fee given to the church auditor?			X
11. What is the dollar amount of the bequeaths, endowments, trusts, and other special church funds?			X
12. What is the dollar amount of the long-term liabilities?			X
13. What is the dollar amount of the un-related business income?			X
14. Is an interim or internal audit required?			X
15. What financial statements are prepared?			X

Figure 2. Illustration of the Classification of Church Characteristics as: (1) Church Size Characteristics, (2) Current Church Audit Characteristics, and (3) Other Relevant Church Characteristics

prerequisites to using the attest function. These data enable a comparison of attitudes and characteristics with those in their churches, and a decision can be made about the future use of the independent accountants' attest function in their churches. The number of requests for reprints of an article by Lowell Larsen in The Journal of Accountancy is an indication of the need for information related to church accounting. The article was one of the most requested articles ever published in The Journal of Accountancy.<sup>11</sup>

This study also provides beneficial information to the accounting profession as they receive requests for their accounting and auditing services from churches. The need for an increasing interest by accountants in the affairs of churches is indicated by the following statement taken from The Journal of Accountancy.

The American people give billions of dollars each year to religious and charitable organizations. The givers are certainly entitled to a clear accounting of where their money goes. More often than not they fail to get it. It is both natural and inevitable that certified public accountants should concern themselves increasingly with such matters.<sup>12</sup>

Accountants can examine those church characteristics affecting attitudes towards prerequisites to using the attest function. Such information will be beneficial in encouraging appropriate wider use of the attest function.

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<sup>11</sup>"Expanding Fields for Auditing," The Journal of Accountancy, Vol. 104 (July, 1957), p. 23.

<sup>12</sup>"Accounting for Churches and Charities," p. 27.

## Organization of the Study

Chapter I contains the introduction and setting of the problem, and the study's objectives and contributions, organization, scope and limitations. Chapter II reviews the literature relating to accounting and auditing in nonprofit organizations in general, and in churches in particular. Chapter III describes the methodology and design of the field study.

The next three chapters present field study findings as illustrated in Figure 3. Chapter IV gives the responses of the individual church financial officer attitudinal questions, the summed attitudinal scores indicating the church officers' interest in prerequisites to using the independent public accountants' attest function, the responses to the church size characteristic questions, and the statistical test results of associations hypothesized between church size characteristics and summed attitudinal scores.

Chapter V specifies the responses to questions on current church audit characteristics, and the results of statistical tests which suppose an association between summed attitudinal scores and current church audit characteristics or a difference between summed attitudinal scores classified by current church audit characteristics. Chapter VI designates the responses to questions about other relevant church characteristics. Also, Chapter VI reveals the results of the statistical tests which assume an association between summed attitudinal scores and other relevant church characteristics or a difference between summed attitudinal scores classified by other relevant church characteristics. Chapter VII summarizes the study's findings and offers conclusions and recommendations.

Data from Field Study:	Presented in Chapter:
1. Responses to individual attitudinal questions.	IV
2. Summed attitudinal scores of feelings towards prerequisites to using the attest function.	IV
3. Responses to church size characteristic questions.	IV
4. Statistical test results of hypothesized associations with church size characteristics and summed attitudinal scores.	IV
5. Responses to current church audit characteristic questions.	V
6. Statistical test results of supposed associations with current church audit characteristics and summed attitudinal scores, and differences between current church audit characteristics and summed attitudinal scores.	V
7. Responses to other relevant church characteristic questions.	VI
8. Statistical test results of assumed associations with other relevant church characteristics and summed attitudinal scores, and differences between other relevant church characteristics and summed attitudinal scores.	VI

Figure 3. Illustration of Chapters Where Data From the Field Study are Summarized and Analyzed



### Scope and Limitations of the Study

The data gathered in this study should be representative of many churches and other organizations with similar characteristics; however, the empirical data were collected from selected Oklahoma churches. This investigation is further limited to the following question categories: (1) questions which relate to church financial officers' feelings about prerequisites to using the attest function, and (2) questions which attempt to identify the most relevant church characteristics affecting church financial officers' attitudes.

The scope of the examination only includes responses from those individuals in the churches which have the primary responsibility for making financial decisions. Further, the primary activities of the churches included in this study are assumed to be worship and related activities.

### Summary

Churches are nonprofit organizations with nominal to large cash receipts and disbursements during normal operating periods. Some churches also have large holdings of noncurrent assets. Although the attest function offered by independent public accountants may be beneficial to many churches, many have not utilized this service of independent public accountants.

This study involves an empirical investigation of a selected sample of Oklahoma churches to determine church financial officers' attitudes toward utilizing the independent public accountants' attest function. The results of the investigation are statistically analyzed to determine

factors which can be related to the respondents' attitudes. The resulting information should benefit religious organizations as they make decisions on the need for utilizing an independent public accountants' services. Also, the information should benefit members of the accounting profession who are called upon to render services to religious organizations.

## CHAPTER II

### ACCOUNTING PROBLEMS, AUDITING PROCEDURES AND AUDIT REPORTS OF CHURCHES

Accounting methods and auditing procedures of churches are similar to but less complex than methods and procedures used in profit-making businesses. An independent public accountant conducting an examination of church financial records uses similar auditing procedures to those used in auditing profit-making businesses, modified where necessary. The purpose of this chapter is to summarize the current status of church accounting and auditing methods and procedures and to identify special problems of church accounting and special considerations of church auditing.

#### Special Problems of Accounting in Churches

Some church accounting methods are different from those of profit-making businesses. These differences are in the following areas: (1) cash basis reporting, (2) fund accounting, (3) types of financial statements, (4) valuation of property, and (5) future tax considerations.

#### The Cash Basis of Reporting

According to Simpson, the accounting records of churches are

essentially on a cash basis,<sup>1</sup> thus avoiding the use of accrual accounting methods. Kerrigan agrees and suggests that the cash basis of accounting is simple and very satisfactory for churches.<sup>2</sup>

Cash basis financial records can easily be transformed into a modified cash basis for financial reporting purposes. In such a system, an inexperienced bookkeeper can record the cash receipts and disbursements during the period, and all noncash transactions; e.g., accrued expenses, can be recorded by an experienced accountant at the end of an accounting period.<sup>3</sup> In his article on church accounting, Gross states that cash basis reporting can be modified; i.e.g, transformed to a modified cash basis of reporting, without converting the accounting records to the accrual basis of reporting.<sup>4</sup> That is, the financial records of churches can merely be adjusted for significant unpaid bills including payroll and other items which do not coincide with the dates of the financial statements.

The independent public accountant must make certain the financial statements prepared from the cash basis financial records reflect the limitations of cash basis reporting. The Technical Services Department of the American Institute of Certified Public Accountants states the following:

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<sup>1</sup>Paul Simpson, "Church Accounting and the CPA," Pennsylvania CPA Spokesman, Vol. 40 (June, 1970), pp. 6-7.

<sup>2</sup>Harry D. Kerrigan, Fund Accounting (New York, 1969), pp. 33-35.

<sup>3</sup>Simpson, pp. 6-7.

<sup>4</sup>Malvern J. Gross, Jr., "Layman's Guide to Preparing Financial Statements for Churches," Price-Waterhouse Review, Vol. II (Winter, 1966), p. 51.

Cash basis statements ordinarily do not purport to present either the financial position of [a church] at a given date or the results of its operation for a given period of time.<sup>5</sup>

Thus, the cash basis of reporting is reflected in the financial statements prepared by the church, because a balance sheet and an income statement are normally not prepared. The cash basis of reporting is also reflected in the audit report or opinion prepared by the independent public accountant, but no such difference exists in audit reports prepared from financial records on a modified cash basis.

#### The Use of Fund Accounting

A church may receive restricted monies which must be separated from other cash receipts of the church. These monies must be put into separate funds for each intended purpose.<sup>6</sup> Accordingly, it is desirable that church accounting records be maintained on a fund accounting basis.

Walker, in his text on church accounting, suggests that the number of separate funds required depends upon the circumstances which exist in the local churches. Separate funds may be established for:

1. General Operating Fund: A fund which includes all budgeted collections and day-to-day activities for the local church.
2. Building Fund: A fund for plant expansion and capital outlay needs.
3. Benevolence Fund: A fund which is the obligation of the stewardship program of the church. For example, the fund could provide for an obligation

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<sup>5</sup>American Institute of Certified Public Accountants, Technical Services Department, Special Reports (New York, 1960), p. 11.

<sup>6</sup>LeRoy A. Hewitt, "Aiding Church Administration and Budgeting," NAA Bulletin, Vol. 40 (November, 1958), p. 43.

accepted from the central church organization or a special program other than a building program which is of interest to the local church.

4. Restricted Gifts and Memorial Funds: Funds which are restricted by the donor for specific purposes.
5. Funds from Wills and Legacies: Funds which are restricted as to principal or proceeds by reason of the bequest.<sup>7</sup>

Separate funds are maintained for each fund as deemed necessary by church management.

Gross asserts that separate funds need not be shown on the monthly financial statements, but such funds could be detailed in quarterly or semi-annual statements. In all cases, however, the church's restricted funds should be shown on annual financial statements.<sup>8</sup> If church management wants to show additional information, the detail of the funds can be shown in a supplementary schedule attached to the statements.

#### Types of Financial Statements

The financial statements of churches vary with size and operations. In his article concerning financial statements of churches, Cannon suggests that medium-sized churches; i.e., churches with approximately \$50,000 in annual expenditures, summarize their accounting information by utilizing:

1. A comparative balance sheet showing changes for two or three accounting periods.
2. A statement of cash receipts and disbursements together with a comparison with the current year's budget.

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<sup>7</sup> Arthur L. Walker, Church Accounting Methods (Englewood-Cliffs, 1964), pp. 73-74.

<sup>8</sup> Gross, Price-Waterhouse Review, Vol. II, p. 53.

3. A letter stating in narrative form the financial situation and the results of the operations for the period.<sup>9</sup>

In addition, MacMillan's list of financial statements for churches includes a statement of adjustments; i.e., a statement showing accrued expenses, made during the accounting period and a statement of endowment funds, if any.<sup>10</sup>

Cobaugh asserts that financial statements for churches vary greatly. He alleges the most common statement prepared by churches shows cash receipts and disbursements, but that comparisons of actual receipts and disbursements with budgeted receipts and disbursements are frequently not included.<sup>11</sup> A balance sheet is unheard of in most churches, and comparisons of the current year with the preceding year's figures are seldom shown in the balance sheets.<sup>12</sup>

Thus, financial statements prepared by churches may be different from those prepared by businesses conducted for a profit, but the statements prepared by churches should give a clear presentation of financial affairs.

### The Valuation of Property

Accounting procedures appropriate for church property present two

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<sup>9</sup> Arthur M. Cannon, "Financial Statements for a Church," The Journal of Accountancy, Vol. 114 (September, 1962), pp. 43-49.

<sup>10</sup> Louis deRosset MacMillan, "Accountant Can Render Community a Service by Offering Aid to His Church," The Journal of Accountancy, Vol. 86 (September, 1948), pp. 228-229.

<sup>11</sup> Eugene H. Cobaugh, "Church Accounting, Auditing, and Protection," Selected Papers of Haskins and Sells (1962), pp. 98-99.

<sup>12</sup> "Today's Sermon: Financial Management of Church Affairs," Management Accounting, Vol. 24 (December, 1972), p. 61.

problems: (1) whether to use original cost, current market value, or replacement cost to indicate the worth of the church property, and (2) whether depreciation should be recorded by the church.

In discussing managerial accounting for churches, Floyd asserts fixed assets are accounted for at cost, or at an appraised value if cost is not known. Further, Floyd observes that no provision is made for depreciation in church records.<sup>13</sup> On the other hand, Daniel alleges that different individuals are interested in different asset values.<sup>14</sup> That is, church administrators are more interested in the replacement value less depreciation. Creditors and members of the congregation are interested in financial statements which show the fixed assets at the current market value.

Henke believes the recording of depreciation is generally not desirable in churches, unless the accrual basis of accounting is being used in accounting for church operations. In addition, he feels that if the church uses the accrual method of accounting, the recording of depreciation is necessary to disclose the resources and financial position of the church.<sup>15</sup> Thus, the most useful valuation method may differ with the intended user.

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<sup>13</sup>Alpha C. Floyd, "Management Accounting for Churches," Management Accounting, Vol. 50 (February, 1969), pp. 56-59.

<sup>14</sup>William I. Daniel, "Church Finance and Accounting--Their Relationship to Church 'Management,'" NAA Bulletin, Vol. 40 (August, 1959), pp. 21-22.

<sup>15</sup>Emerson O. Henke, "Accounting for Nonprofit Organizations: An Exploratory Study," Bureau of Business Research, Graduate School of Business, Indiana University (1965), p. 72.



### Future Tax Considerations

One client demand of profit-making businesses; i.e., the demand for lower income taxes, is currently not a problem of accounting for church operations.<sup>16</sup> Churches are specifically exempt from several rules which govern other nonprofit organizations, and the Internal Revenue Code providing for tax exemption of churches as 501(c) 3 organizations.<sup>17</sup> Future tax considerations, however, may become an increasing consideration of church management.

Churches do not have to comply with registration and annual information return requirements prescribed by the Internal Revenue Service.<sup>18</sup> Registration and an annual filing with the Internal Revenue Service is mandatory for all nonprofit organizations, except churches, with annual gross receipts of over \$5,000.

Churches and virtually every other tax exempt organization must pay normal corporate taxes on unrelated business income; i.e., income which is "unrelated" to the nonprofit organization and is from an activity which is "regularly carried on" by the organization. Churches are currently taxed on income from unrelated business activities acquired after 1969, but churches will be subject to normal corporate income taxes on all unrelated business income after 1976. Unrelated business income has not been well defined by the Internal Revenue Service, but the burden has been placed upon church management and the

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<sup>16</sup> Simpson, p. 6.

<sup>17</sup> Tax Exempt Organizations (Englewood Cliffs, 1972), par. 7041.

<sup>18</sup> Malvern J. Gross, Jr., "A Useful Primer for Nonprofit Organizations to Follow," Taxation for Accountants, Vol. 9 (October, 1972), p. 220.

managers of all other nonprofit organizations to justify exclusions from this tax.

### Special Considerations of Church Audits

Audits of churches differ from audits of profit-making businesses. Areas of differences include: (1) objectives of church audits, (2) internal control in churches, (3) audit programs for churches, and (4) audit reports of churches.

#### The Objectives of Church Audits

If the auditor is to prepare useful financial statements, the objectives of the annual church audit must be defined. Walker feels that an audit of a church is an objective and impersonal evaluation of the church's various procedures and functions relating to financial and programmed activities. Such an audit intends to accomplish: (1) discovery of errors in judgment and organization; (2) detection of careless and unintentional errors; and (3) indication of ways in which future church operations may be improved.<sup>19</sup>

Henke considers an annual audit necessary to provide for the establishment of a sound accounting system. At the same time, both proper internal control and adequate financial records, commonly listed as inadequacies of church accounting systems, are necessary prerequisites for an annual audit.<sup>20</sup>

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<sup>19</sup>Walker, p. 119.

<sup>20</sup>Emerson O. Henke, "Practical Accounting Procedures for Protestant Churches" (Unpublished Ph.D. dissertation, Indiana University, 1953), p. 151.

More specifically, Hewitt lists the objectives of church audits as being:

1. To present an independent view of how the fiduciary responsibility of the stewards of financial affairs has been discharged.
2. To provide for a review of accounting procedures.
3. To provide for a review of internal controls.
4. To offer suggestions for improvement.<sup>21</sup>

Daniel adds the objective of giving the membership of the church a chance to participate in the affairs of the church.<sup>22</sup> It seems desirable, however, to utilize members of the congregation for church audits only if the selected members are public accountants and if these members are free from management bias.

Churches must trade off member participation with the need for audit independence. If the public accountant is not making any church management decisions, he may preserve his independence. The position of the Technical Services Committee of the American Institute of Certified Public Accountants, in connection with independence, is that:

Independent auditors often contribute services [to churches] by serving as directors or furnishing assistance in the installation of records and subsequent record keeping. If they also audit the accounts, it is usually desirable to disclose their connection with the process of policy making and record keeping.<sup>23</sup>

Audits of church financial records by independent public accountants accomplish many objectives. The congregation, as the primary means of support for churches, receive an unbiased accounting on how its money

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<sup>21</sup>Hewitt, p. 48.

<sup>22</sup>Daniel, p. 28.

<sup>23</sup>Special Reports, p. 33.

was spent during the period.

### The Importance of Internal Control

The system of internal control in most churches is weak.<sup>24</sup> According to Keister, internal control is not given adequate consideration in churches for three reasons:

1. Church accounting systems are installed by persons who have no knowledge of the internal control concept.
2. Many people aware of the internal control concept do not believe its application is necessary in churches.
3. Some people claim internal control systems cannot be used in their churches because of limitations of facilities and personnel due to the small size of their organizations.

Keister concludes that an ideal system of internal control may not be feasible but that an adequate system of internal control for churches is possible.<sup>25</sup>

An adequate system of internal control should include both financial and administrative controls, and the system should serve two purposes: (1) the control of cash receipts and disbursements and (2) the control of wastes and inefficiencies. Cobaugh believes there is a direct correlation between churches with a weak system of internal control and fraud.<sup>26</sup> Dishonesty is a potential problem in churches as well as all other organizations handling large amounts of cash, but an even

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<sup>24</sup>Lowell E. Larsen, "Church Accounting," The Journal of Accountancy, Vol. 103 (May, 1957), p. 28.

<sup>25</sup>Orville R. Keister, "Internal Control for Churches," Management Accounting, Vol. 25 (January, 1974), p. 40.

<sup>26</sup>Cobaugh, p. 97.

greater problem is the result of waste and inefficiency in carrying out church programs.<sup>27</sup>

Strong systems of internal control are achieved by design, and internal control systems in churches are designed by using the same principles of control as those which are used by profit-making businesses. Keister presents the following principles of internal control for churches:

1. Responsibility for the performance of each duty must be fixed.
2. The accounting procedures and operations must be separated. An employee should not be in a position in which he has control of the records and at the same time control of the operations giving rise to entries in the records.
3. All available proofs of accuracy should be utilized in order to assure correctness of operations and accounting.
4. No one person should be in complete charge of a business transaction.
5. Employees must be carefully selected and trained.
6. Employees should be bonded.
7. Employees should be rotated on a job, if possible.
8. Operating instructions for each position should be reduced to writing.
9. The protective advantages of a double-entry system of accounting should not be exaggerated.
10. Controlling accounts should be used as extensively as possible.
11. Mechanical equipment should be used, if feasible.<sup>28</sup>

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<sup>27</sup>"Accounting for Charitable Organizations," The Journal of Accountancy, Vol. 104 (July, 1957), p. 32.

<sup>28</sup>Arthur W. Holmes and Wayne S. Overmeyer, Auditing Principles and Procedures (Seventh Edition, Homewood, 1971), pp. 87-88, quoted by Keister, p. 40.

Internal control procedures are an essential part of church accounting systems. Even though there are seldom enough individuals on the church management staff to provide for complete division of duties and responsibilities, the church accounting records are most useful to an independent public accountant when church management provides for the strongest possible system of internal control.

### Audit Programs for Churches

An audit program appropriate for all churches is difficult to prepare because financial activities and programs in churches vary. Henke suggests minimum procedures to justify an accountant's opinion:

1. Receipts and disbursements should be reviewed for internal control weaknesses.
2. Cash balances, as indicated by the books, should be confirmed with the bank.
3. Original receipts and disbursements should be substantially verified with the recorded data.
4. Annual report data should be traced to book records.<sup>29</sup>

Olsen proposes a more detailed audit program for churches. He feels his procedures relate to all churches with record cash receipts and disbursements and control such receipts and disbursements by an annual budget:

1. Obtain a copy of the church's annual reports prepared by the treasurer, financial secretary, or other persons preparing reports.
2. Make a review of the system of internal check and control. Where deficiencies that can be practically remedied are noted, suggestions should be made to install corrective procedures.

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<sup>29</sup> Henke, "Practical Accounting Procedures for Protestant Churches," p. 152.

3. Prepare or review the bank reconcilements. Be certain that all reconciling items are adequately documented and satisfactorily examined. The "book balance" should agree with the financial statements. A subsequent bank statement should be secured to see that all checks and other reconciling items have been cleared or are properly accounted for.
4. Add the disbursements book for the year. Determine that the total agrees with the total in the financial statements.
5. Add the receipts shown by the cash receipts journal for the year and agree to the totals in the financial statements. Reconcile deposits shown by bank statements to amounts shown by the cash receipts journal.
6. Check the disbursements for contractual obligations with the minutes authorizing such payments.
7. Read and check the minutes of the church board for any contracts or other financial transactions, and the disbursements for these items should be agreed with the minutes.
8. Compare actual disbursements to budgeted amounts. Obtain explanations for significant variations.
9. Trace totals of the various account classifications from the disbursements book to the treasurer's report.
10. Examine cancelled checks. Look at the endorsements, dates cleared, etc., and check to see that they are properly signed by persons authorized to sign checks. Trace them to the cash disbursements journal to see that they are properly recorded.
11. Examine paid invoices to see that they are properly approved, where appropriate, and cancelled so that they will not be paid twice.
12. Check to see that payroll tax returns have been properly filed for applicable employees.
13. Determine that the church's insurance policies have been currently reviewed to ascertain that they are in effect and that all church properties are adequately covered.
14. If the church has investments, certificates of deposit, savings accountants, etc., evidence thereof should be examined, and it should be determined that all interest or dividends have been properly credited

to the proper account on a timely basis. Independent confirmation by written request or by other means should be obtained for any items said to be held by banks or other custodians.<sup>30</sup>

If the financial records of the church include such items as current asset, current liability, or fixed asset accounts, these items are audited by utilizing audit programs similar to those used in auditing profit-making organizations with similar accounts.

### Audit Reports for Churches

Audit reports should indicate clearly the conditions under which they were prepared. Examples of audit reports modified for churches are the following:

1. Report on examination of statement of cash receipts and cash disbursements of a church:

We have examined the statement of cash receipts and cash disbursements of \_\_\_\_\_ church and the cash receipts and disbursements by funds, both for the year ended December 31, 19\_\_\_\_. Our examination was made in accordance with generally accepted auditing standards, and accordingly such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. Report on examination of the cash basis statement of a church:

We have examined the statements of assets and liabilities of \_\_\_\_\_ church as of December 31, 19\_\_, resulting from cash transactions, and related statement of cash receipts and disbursements on account of income and expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we

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<sup>30</sup>Leroy V. Olsen, "Audit Program for Churches," Nebraska CPA Magazine, Vol. 4 (Spring, 1969), p. 8.



considered necessary in the circumstances .

As the accounts are kept on a cash basis, pledges receivable, accrued interest receivable on investments, and a minor amount of accrued payroll and other expenses are not taken into account, nor has any allowance been made for depreciation of buildings and equipment.

In our opinion, the accompanying statements present fairly the assets and liabilities of \_\_\_\_\_ church of \_\_\_\_\_ at December 31, 19\_\_\_\_, resulting from recorded cash transactions, and the income collected and expenses disbursed during the year then ended, on a basis consistent with that of the preceding year.<sup>31</sup>

The audit report should indicate clearly a situation where the auditor is not independent; i.e., if the auditor serves as a director of the church management staff. The auditor's independence is covered by Article 1.01 of the Code of Professional Ethics of the American Institute of Certified Public Accountants. The section relevant to auditors who also serve as directors of churches is as follows:

. . . A member or associate will be considered not independent, for example, with respect to any enterprise if he, or one of his partners, (a) during the period of his professional engagement or at the time of expressing his opinion, had, or was committed to acquire, any direct financial interest or material indirect financial interest in the enterprise, or (b) during the period of his professional engagement, at the time of expressing his opinion or during the period covered by the financial statement, was connected with the enterprise as a promoter, underwriter, voting trustee, director, officer or key employee . . . . The word 'director' is not intended to apply to a connection in such a capacity with a charitable, religious, civic or other similar type of nonprofit organization when the duties performed in such a capacity are such to make it clear that the member or associate can express an independent opinion on the financial statements.<sup>32</sup>

The exception noted in the above article is not an exclusion of

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<sup>31</sup>Special Reports, pp. 33-35.

<sup>32</sup>American Institute of Certified Public Accountants, Code of Professional Ethics (New York, 1969).

church directors from the problems of independence. According to Carey and Doherty, the purpose of the exception is to enable a member of a religious organization to audit the records of the church while he is serving on the board of directors in a purely honorary capacity.<sup>33</sup> That is, if the member has some managerial control over the church in his capacity as a director, the member cannot express an independent opinion as an auditor.

Statement on Auditing Procedure Number 42 prescribes the basic form of the auditor's opinion when the auditor lacks independence. This opinion, modified for churches, is as follows:

We are not independent with respect to \_\_\_\_\_ church and the cash basis statements of assets and liabilities as of December 31, 19\_\_, resulting from cash transactions and the related statement of cash receipts and disbursements on account of income and expenses for the year then ended were not audited by us; accordingly, we do not express an opinion on them.<sup>34</sup>

#### Summary

This chapter presented accounting and auditing problems of churches and auditing procedures and audit reports appropriate for churches. There is, however, a lack of literature related to church audits. The American Institute of Certified Public Accountants and previous researchers have indicated an increasing need for church audits, but no empirical studies are available which indicate the extent to this need.

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<sup>33</sup> John L. Carey and William O. Doherty, Ethical Standards of the Accounting Profession (New York, 1966), p. 372.

<sup>34</sup> American Institute of Certified Public Accountants, Committee on Auditing Procedure, "Reporting Where a Certified Public Accountant is Not Independent," Statement on Auditing Procedure No. 42 (New York, 1970), p. 76.

This study is designed, therefore, to determine the attitudes of church financial officers towards using the attest function and to determine which characteristics of the church affect these attitudes.

## CHAPTER III

### DESIGN OF THE FIELD STUDY

The field study was conducted as an empirical examination of church financial officers' attitudes toward prerequisites to using the attest function classified by church characteristics that cause attitudes to differ and by characteristics associated with the attitudes. The procedures of this study included four steps: (1) the selection of individuals to receive the questionnaire; (2) the design and testing of the questionnaire; (3) the selection of methods to analyze the results of the questionnaire; and (4) the presentation of questionnaire results.

#### Selection of Individuals to Receive the Questionnaire

The telephone directories of five Oklahoma cities; namely, Bartlesville, Lawton, Norman, Oklahoma City, and Tulsa, provided a list of churches from which individuals to receive the questionnaire were selected. Five church denominations were chosen from each of the five cities: (1) Christian, (2) Episcopal, (3) Lutheran, (4) Methodist, and (5) Presbyterian. These denominations provided a cross-section of Protestant churches.

The telephone directories provided a universe of 216 churches. Of the total list of churches, a random sample of one church from every nine; i.e., 25 churches, was selected to receive the pretest

questionnaire. A telephone conversation with the minister utilizing an interview sheet; i.e., Appendix A, provided the names and addresses of the chief financial officers from 121 churches. In the remaining 70 churches, which could not be contacted by repeated telephone calls, the questionnaires were mailed to the church addresses in care of the treasurers.

#### Design and Testing of the Questionnaire

The questionnaire contained two groups of questions. One group elicited attitudinal responses towards prerequisites to using the attest function. The second group of questions sought information about characteristics of the respondents' churches.

The 12 attitudinal questions were answered on a Likert-type scale. These attitudinal questions were subdivided into three areas of four questions each; namely, attitudes towards using internal control procedures, attitudes towards presenting financial information, and attitudes towards selecting an independent public accountant. Each of the subdivisions was summed separately providing three different attitudinal scores. All 12 scores were summed providing one overall attitudinal score.

A summing procedure was used because of its advantages in analyzing attitudinal responses. Two strong points achieved by the summing procedure were: (1) the sum of several responses to a group of related questions was a more stable indicator of the respondent's position than his response to a single item, and (2) the sum of several responses enabled a more finely differentiated test score without asking the

respondent to choose between tiny adjacent intervals.<sup>1</sup>

The church financial officers provided insights into their feelings towards using internal control procedures by responding to four questions: (1) provision for internal audits; (2) use of fidelity bonds; (3) provision for administrative controls; and (4) provision for financial controls. The responses to four questions determined the attitudes of the administrators of church financial affairs towards presenting financial information: (1) provision for accrued expenses; (2) comparison of actual and budgeted information; (3) distribution of financial statements; and (4) inclusion of fixed assets and long-term liabilities. Responses to four questions determined the attitudes of financial officers of churches towards selecting an independent public accountant: (1) importance of the auditor's report; (2) importance of auditor's examination; (3) selection of the auditor; and (4) auditor's fees.

The second part of the questionnaire seeking characteristics about the respondents' churches was divided into three subdivisions: (1) church size characteristics, (2) current church audit characteristics, and (3) other relevant church characteristics. Church size characteristic questions were about the number of church members, the dollar amount of the annual budget, and the current market value of the fixed assets. Characteristics which were requested about the current church audit included the occurrence of an annual audit, the requirement for the annual audit, the individual performing the audit, audit coverage, expected benefits from the audit, and audit fees. Other relevant church

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<sup>1</sup>Karl Schuessler, Analyzing Social Data: A Statistical Orientation (Boston, 1971), pp. 302-332.

characteristics were related to: (1) church denomination, (2) long-term liabilities, (3) special church funds, (4) unrelated business income, (5) required internal and interim audits, and (6) financial statements.

A pretest of the mail questionnaire to 25 churches preceded the final mailing of the questionnaire. A random sample providing from 25 to 50 items were thought to be adequate to test the characteristics of the group.<sup>2</sup> The pretest was conducted to determine: (1) an indication of the percentage of the responses to be anticipated from the field study, and (2) an indication of the variability of the responses to be anticipated from the field study.

The twenty-five churches of the pretest sample were telephoned and asked to give the name and address of their church's chief financial officer. Names and addresses were obtained from twenty-one of the twenty-five churches. The questionnaires were mailed to the church financial officers on April 6, 1973, and one followup letter was mailed on April 20, 1973. Nineteen, i.e., 76.0 percent, of the church financial officers in the pretest group responded to the questionnaire.

The pretest results provided evidence that an adequate response could be expected from the selected sample and that the financial officers of churches could understand and would answer the questions included in the study. Two of the twelve attitudinal questions; i.e., one question about financial statement presentation and one question about financial examinations, failed to show any variance in responses. Both questions were replaced with another question from their respective

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<sup>2</sup>Mildred B. Parten, Surveys, Polls, and Samples: Practical Procedures (New York, 1966), pp. 389-390.

areas of interest.

The 191 church officers were mailed the final questionnaire; i.e., Appendix B, on May 21, 1973. The first mailing included a cover letter shown as Appendix C; the second mailing on June 4, 1973, included the cover letter shown as Appendix D; and the third mailing on June 14, 1973, included the cover letter shown as Appendix E. All mailings contained a post card; i.e., Appendix F, and the officers were asked to return the post card separately as evidence of responding to the questionnaire. The questionnaire response cutoff was June 22 when 127 usable responses, i.e., 66.5 percent, had been returned. After the cutoff, an additional eight responses; i.e., 4.2 percent, were returned but only the written comments from these questionnaires were included in this study. Also, eight questionnaires; i.e., 4.2 percent, were usable; i.e., six were returned as undeliverable and two were returned unanswered. In all, one hundred forty-three questionnaires; i.e., 74.9 percent, were accounted for from the final mailing, and one hundred sixty-two questionnaires; i.e., 75.0 percent, were accounted for from the combined pretest and final questionnaire mailings.

Two points of interest can be noted concerning the field study and the respondents. First, although the identity of the respondents was not sought, many respondents signed their names to the questionnaires, included return addresses on the returned letters, or enclosed the post cards indicating their names with the returned questionnaires. Second, ninety of the one hundred twenty-seven respondents; i.e., 70.9 percent, indicated they would like to have a copy of the field study results sent to them.



### Selection of Methods for Statistical Analysis

This study used three statistical analysis techniques. These were the Mann-Whitney, Spearman rank, and Kruskal-Wallis tests. Only non-parametric tests were used in this study since the attitudinal questions provided only ordinal data and, according to Siegel, data measured on ordinal scales should be analyzed by the nonparametric methods.<sup>3</sup> The type of church characteristic question which was used to classify or pair with the summed attitudinal scores determined the appropriate statistical test as summarized on Figure 4.

The analysis of respondents' attitudes characterized by dichotomy utilized the Mann-Whitney test. The result of the Mann-Whitney test is U. The formula for determining U is as follows:

$$U = N_1 N_2 + \frac{N_2 (N_2 + 1)}{2} - R_2$$

where:

$N_1$  = Sample 1 size

$N_2$  = Sample 2 size

$R_2$  = Sum of ranks assigned to Sample 2

The significance of U is determined by the following formula.

$$Z = \frac{U - \mu}{\sigma}$$

where:

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<sup>3</sup> Sidney Siegel, *Nonparametric Statistics for the Behavioral Sciences* (New York, 1956), pp. 29-30.

Question	Number of Possible Answers	Statistical Method Used:
1. What is the number of members in the church congregation?	Equal to the number of respondents.	Each summed attitudinal score was paired with the number of members in the church and a test for an association was made using the Spearman rank test.
2. What is the dollar amount of the annual church budget?	Equal to the number of respondents.	Each summed attitudinal score was paired with the dollar amount of the annual church budget and a test for an association was made using the Spearman rank test.
3. What is the approximate current market value of the church's fixed assets?	Equal to the number of respondents.	Each summed attitudinal score was paired with the current market value of the fixed assets and a test for an association was made using the Spearman rank test.
4. What is the denomination of the church?	5	Each summed attitudinal score was classified by the denomination of the church and a test for differences was made using the Kruskal-Wallis and Mann-Whitney tests.
5. Does the church have an annual audit?	2	Each summed attitudinal score was classified by whether the church does or does not have an annual audit and a test for a difference was made using the Mann-Whitney test.
6. Is the annual audit of the church required?	2	Each summed attitudinal score was classified by whether the audit is or is not required and a test for the difference was made using the Mann-Whitney test.

Question	Number of Possible Answers	Statistical Method Used:
7. What are the qualifications of the individual auditing the church?	6	Each summed attitudinal score was classified by the qualifications of the individual auditing the church and a test for differences was made using the Kruskal-Wallis and Mann-Whitney tests.
8. What financial records are examined during the annual audit?	3	Each summed attitudinal score was classified by the financial records examined during the annual audit and a test for differences was made using the Kruskal-Wallis and Mann-Whitney tests.
9. What are the expected benefits of the annual church audit?	4	Each summed attitudinal score was classified by the expected benefits of the audit and a test for differences was made using the Kruskal-Wallis and Mann-Whitney tests.
10. What is the approximate dollar amount of the fee given to the church auditor?	Equal to the number of respondents	Each summed attitudinal score was paired with the dollar amount of the fee given to the auditor and a test for the association was made using the Spearman rank test.
11. What is the dollar amount of the bequeaths, endowments, trusts, and other special church funds?	Equal to the number of respondents	Each summed attitudinal score was paired with the dollar amount of the special funds and a test for an association was made using the Spearman rank test.
12. What is the dollar amount of the long-term liabilities?	Equal to the number of respondents	Each summed attitudinal score was paired with the dollar amount of the long-term liabilities and a test for an association was made using the Spearman rank test.

Question	Number of Possible Answers	Statistical Method Used:
13. What is the dollar amount of the unrelated business income?	Equal to the number of respondents	Each summed attitudinal score was paired with the dollar amount of the unrelated business income and a test for an association was made using the Spearman rank test.
14. Is an interim or internal audit required?	2	Each summed attitudinal score was classified by whether the church does or does not require interim or internal audits and a test for a difference was made using the Mann-Whitney test.
15. What financial statements are prepared?	8	Each summed attitudinal score was classified by the financial statements prepared and a test for differences was made using the Kruskal-Wallis and Mann-Whitney tests.

Figure 4. Illustration of the Church Characteristics Used to Classify and Pair the Summed Attitudinal Scores for Statistical Testing

$$\mu = \frac{N_1 N_2}{2}$$

$$\sigma = \sqrt{\frac{N_1 N_2}{N(N-1)} \frac{(N^3 - N - \sum T)}{12}}$$

$$N = N_1 + N_2$$

$$T = \frac{t^3 - t}{12}$$

$t$  = Number of observations tied for a given rank.

$\sum T$  = Sum of the T's over all groups of tied observations.

Z approximates a normal distribution; therefore, critical Z values are  $\pm 1.96$  at the .05 significant level.

To illustrate the use of the Mann-Whitney test, assume the following question which is summarized as question five on Figure 4.

Does your local church have an annual financial audit?

( ) A. Yes

( ) B. No

Classifications were made for respondents answering "yes" and respondents answering "no" by attitudinal scores; i.e., the score of attitudes towards using internal control procedures, the score of attitudes towards the presentation of financial information, the score of attitudes towards the selection of an independent accountant, and a combined score of attitudes towards prerequisites to using the independent public accountants' attest function.

The Mann-Whitney test assigned ranks to the observations of the classifications and tested the hypothesis that the medians of the ranked attitudinal scores of the respondents answering "yes" and the ranked scores of respondents answering "no" were equal. The test was considered

significant at the .05 level, and the hypothesis was rejected at the .05 level; i.e., the chance of the medians being the same for the individuals answering "yes" and individuals answering "no" was small. If the hypothesis was rejected, it was concluded that there was a difference between the attitudes of respondents from churches with and without annual financial audits.

The Spearman rank test was used to determine the existence of a correlation between desired variables. The result of the Spearman rank test is rho ( $\rho$ ):

$$\rho = 1 - \frac{6 \sum D^2}{N(N^2 - 1)}$$

where:

D = difference between matched pairs

N = number of pairs of scores.

The significance of rho was determined by the following formula for N larger than 10:

$$t = \rho \sqrt{\frac{N - 2}{1 - \rho^2}}$$

The computed t approximated a Student's t distribution with N - 2 degrees of freedom. If the computed value exceeded the value from the appropriate table at the .05 level, the test was significant.

The Spearman rank test determined the existence of a correlation between the size variable of the respondents' churches and the respondents' attitudes toward prerequisites to using the independent accountants' attest function in churches. The size variables of the respondents' churches included the total members of the congregation, the dollar amount of the annual church budget, and the current market value of the

fixed assets. The respondents' scores were determined by the answers to the attitudinal questions on the questionnaire as follows: (1) a score of attitudes towards internal control procedures, (2) a score of attitudes towards the presentation of financial information, (3) a score of attitudes towards selecting an independent accountant, and (4) a combined score of attitudes towards prerequisites to using the independent accountants' attest function in churches. Thus, each score was matched with a church size variable to determine the existence of a correlation in a separate test.

The Spearman rank test rank-ordered the variables of each observation; e.g., each respondent's attitudes towards the internal control procedures and the church size measured by the number of members in the congregation for each observation. The analysis tested the hypothesis that the rank-ordered data were not correlated; i.e., the attitudinal scores of the respondents and the total members of the congregation have a correlation coefficient equal to zero. The test was significant at the .05 level, and the chance for the correlation coefficient being equal to zero at that level was small. If the hypothesis was rejected, a relationship existed; i.e., the larger attitudinal scores of respondents were associated with the larger churches and the smaller attitudinal scores were associated with the smaller churches. Thus, for each test found to be significant; i.e., for each hypothesis rejected, a factor was identified which was associated with the attitudes of the respondents towards prerequisites to using the independent public accountants' attest function in churches.

The analysis of responses which have three or more possible choices utilized the Kruskal-Wallis test. The result of the Kruskal-

Wallis test is H:

$$H = \frac{\frac{12}{N(N+1)} \left[ \sum_{j=1}^K \frac{R_j^2}{N_j} \right] - 3(N+1)}{1 - \frac{\sum T}{(N^3 - N)}}$$

where:

K = number of samples

$N_j$  = number of observations in  $j^{\text{th}}$  sample

N = total number of observations in all samples

$R_j$  = sum of the ranks in the  $j^{\text{th}}$  sample

$T = t^3 - t$

t = number of observations tied for a given rank

$\sum T$  = summation of the t's for all groups of ties

In the calculation of the Kruskal-Wallis H, all observations from K samples were treated as one series. Each observation in the series was ranked, and the ranks assigned to each of K samples were summed to calculate the Kruskal-Wallis H. Further, all possible pairs of K samples were tested by the Mann-Whitney test to isolate differences between each sample.

The Kruskal-Wallis H approximates a chi-square distribution with K-1 degrees of freedom. The significance of H was determined by a comparison with an appropriate value on a chi-square table. If H was greater than the amount shown on the appropriate table at the .05 level, H was significant.

To illustrate the use of the Kruskal-Wallis test, assume the following question summarized as question nine on Figure 4.

Which of the following is the primary benefit your local church receives from the annual financial audit?



- ( ) A. Uncovers errors made by the bookkeeper during the accounting period.
- ( ) B. Lends credibility to the local church's financial statements.
- ( ) C. Decreases some of the responsibility which must be taken on by those people handling other people's money for the church.
- ( ) D. Other (Describe) \_\_\_\_\_.

The respondents' test scores were classified according to those respondents answering, "A", "B", "C", or "D" by attitudinal scores; i.e., the score of the attitudes towards internal control procedures, the score of the attitudes toward the presentation of financial information, the score of attitudes towards the selection of an independent accountant, and a combined score of attitudes towards prerequisites to using the independent public accountants' attest function.

The Kruskal-Wallis test assigned ranks to the observations of each classification and tested the hypothesis that the medians of the ranked classifications were equal. The test was considered significant at the 5.0 percent level, and the hypothesis was rejected at that level; i.e., the chance of the medians of the ranked attitudinal scores being the same for the respondents answering "A", "B", "C", or "D" was small. If the hypothesis was rejected, it was concluded that there was a difference in the attitudes of respondents from churches which currently have different individuals auditing the financial records of the church. Each of the four samples; i.e., answers "A", "B", "C", or "D", used in the calculation of the Kruskal-Wallis test were paired separately and tested by the Mann-Whitney test. That is, the sum of the ranks assigned to respondents answering "A" and "B" were tested for significant differences using the Mann-Whitney test, and the test was repeated for

all possible pairings of the four responses.

#### Presentation of Questionnaire Results

The results of the field study are presented by a series of tables and a narrative; i.e., Chapters (IV-VI). The tables were interpreted and generalizations made whenever possible, giving appropriate consideration to the limitations of the study.

#### Summary

This chapter presented the research methods utilized to obtain and analyze church financial officers' attitudes towards prerequisites to using the attest function. The chapter detailed the selection of the sample, procedures used to collect the data, and the statistical tests used in the data analysis. The results of these tests are presented in the following chapters.

CHAPTER IV  
CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
PREREQUISITES TO USING THE ATTEST FUNCTION  
AND THE ASSOCIATIONS WITH CHURCH  
SIZE CHARACTERISTICS

This chapter presents the results obtained from the questionnaires sent to chief financial officers of selected churches. The chapter is divided into two parts. First, the chapter puts forth the attitudes of chief financial officers towards prerequisites to using the attest function. Second, the chapter examines hypothesized associations between church financial officers' attitudes towards prerequisites to using the attest function and church size characteristics.

The responses which financial administrators of church affairs marked for the twelve attitudinal questions represented the administrators' willingness to agree or disagree with using the attest function. The twelve questions included four from each of the following areas: (1) the use of internal control procedures, (2) the presentation of financial information, and (3) the selection of an independent public accountant. The combined answers to these twelve questions provided a summed attitudinal score of conditions which should precede the use of the attest function by independent public accountants in churches.

The church size characteristics examined in this chapter were the number of church members, the dollar amounts of the annual church

budgets, and the current market value of the fixed assets. Each church size characteristic was tested for an association between the summed attitudinal scores; i.e., each church size characteristic was paired with a summed attitudinal score of the church officer which indicated the officers' interest in using internal control procedures, presenting financial information, selecting an independent public accountant, and prerequisites to using the attest function. Then, each set of pairings was tested by the Spearman rank test to determine the significance of the association.

#### Church Financial Officers' Attitudes Towards Using Internal Control Procedures

Strong internal control procedures underlie all effective accounting systems. The combined financial and administrative controls provide a base from which an auditor can evaluate the reliability of the church financial records. Accordingly, if the church financial managers provide for a strong system of internal control, these managers are providing one necessary prerequisite for an annual financial audit in the church.

The responses to four questions about internal control determined the attitudes of chief financial officers of churches. These attitudinal questions were:

1. The church should require that a member of the finance committee or an individual appointed by that committee particularly review the procedures used to account for the church assets.
2. The church should require fidelity bonds for all individuals exposed to cash receipts and disbursements in the church.

3. The church should establish procedures that prevent individuals handling cash for the church from having access to the accounting records.
4. The church should designate specific duties and responsibilities for each individual who is part of the administrative staff of the church.

All responses to the first question connoted agreement; i.e., all respondents marked either strongly agree, moderately agree, or slightly agree, for their feelings towards the appointment of individuals to review the church accounting procedures as illustrated in Table I.

Responses of 101 church officers, 79.5 percent of the total responses, indicated that the church should require fidelity bonds of all individuals exposed to cash receipts and disbursements. The respondents of some Lutheran churches disclosed that fidelity bonds were required of local churches by the central church organization, and the attitudes towards using fidelity bonds in these churches were agreeable. The attitudinal responses of 20.5 percent of the financial officers indicated disagreement with the use of fidelity bonds in churches.

Considering only responses to internal control questions, the smallest number of respondents agreed with the question about separating the duties of receiving and recording cash in churches as revealed in Table I. The respondents to question three marked only 73.2 percent agreement responses. Church financial officers' comments written in the margins of the returned questionnaires indicated that some churches, especially smaller churches, could not separate the functions of receiving and recording cash.

A majority of the responding church officers; i.e., 94.4 percent, expressed the opinion that specific duties and responsibilities should

TABLE I  
 CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
 USING INTERNAL CONTROL PROCEDURES

	Number	Percentage
1. The church should require that a member of the finance committee or an individual appointed by that committee periodically review the procedures used to account for the church assets.		
Strongly Agree	85	66.9
Moderately Agree	35	27.6
Slightly Agree	7	5.5
Total Agree	127	100.0
Slightly Disagree	0	0.0
Moderately Disagree	0	0.0
Strongly Disagree	0	0.0
Total Disagree	0	0.0
2. The church should require fidelity bonds for all individuals exposed to cash receipts and cash disbursements in the church.		
Strongly Agree	54	42.5
Moderately Agree	21	16.5
Slightly Agree	26	20.5
Total Agree	101	79.5
Slightly Disagree	12	9.5
Moderately Disagree	8	6.3
Strongly Disagree	6	4.7
Total Disagree	26	20.5
3. The church should establish procedures that prevent individuals handling cash for the church from having access to the accounting records.		
Strongly Agree	41	32.3
Moderately Agree	28	22.0
Slightly Agree	24	18.9
Total Agree	93	73.2
Slightly Disagree	15	11.8
Moderately Disagree	9	7.1
Strongly Disagree	10	7.9
Total Disagree	34	26.8

TABLE I (Continued)

	Number	Percentage
4. The church should designate specific duties and responsibilities for each individual who is a part of the administrative staff of the church.		
Strongly Agree	76	59.8
Moderately Agree	33	26.0
Slightly Agree	11	8.6
Total Agree	120	94.4
Slightly Disagree	3	2.4
Moderately Disagree	4	3.2
Strongly Disagree	0	0.0
Total Disagree	7	5.6

be given to each individual on the church administrative staff. A total of seven respondents; i.e., 5.6 percent, checked disagreement with the church designating specific duties and responsibilities for individuals.

#### Church Financial Officers' Attitudes Towards Presenting Financial Information

The willingness of the church management staff to fairly present financial information to third parties; i.e., the congregation and creditors, must precede the independent public accountant's service to churches. The congregation and other third parties to church financial statements rely upon the financial information presented to them by the church management staff or by some individual designated by the staff. If church financial officers are willing to present relevant financial information to interested parties, independent public accountants can assist with the effective presentation of this information.

The chief financial officers of churches were asked four questions to determine their interest in presenting financial information for their churches. These questions were:

1. The church should adjust the cash basis financial records for significant unpaid bills when preparing the annual financial statements.
2. The church should include actual and budget comparisons in the financial statements issued by the church.
3. The church should prepare financial statements to inform all users; i.e., the congregation, the church management staff, the creditors, and other interested third parties, of the financial affairs of the church.
4. The church should prepare an annual balance sheet that includes both the total assets and the total liabilities of the church.



The majority of respondents indicated agreement with all questions relating to the presentation of financial information as shown by Table II. Agreement responses were marked by 82.7 percent of the respondents on the question concerning the adjustment of cash basis financial statements for significant unpaid bills when preparing financial statements of the church. Total responses which manifested disagreement with adjusting the cash basis financial statements were 17.3 percent of the respondents. One respondent suggested that footnotes were adequate for disclosing unpaid bills of the church.

The greatest percentage of total agreement responses given by any question asked about presenting financial information was given in response to the question about including actual and budget comparisons in church financial statements. That is, agreement responses were checked by 95.3 percent of the respondents. Comments written on the returned questionnaires revealed that some of the respondents' churches presented this financial information. Six respondents or 4.7 percent of the total respondents disagreed with presenting actual and budget comparisons in churches.

Agreement responses towards preparing financial statements for all users were 82.7 percent of the total responses while disagreement responses were specified by 17.3 percent. Some church financial officers wrote comments disclosing that they did not think anyone other than the congregation should receive the churches' financial statements. One church officer implied that only the church management staff should receive the financial statements, because church laymen were easily disturbed by finances.

Agreement responses were designated by 87.4 percent of the

TABLE II  
 CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
 PRESENTING FINANCIAL INFORMATION

	Number	Percentage
1. The church should adjust the cash basis financial records for significant unpaid bills when preparing the annual financial statements.		
Strongly Agree	58	45.7
Moderately Agree	27	21.3
Slightly Agree	20	15.7
Total Agree	105	82.7
Slightly Disagree	11	8.7
Moderately Disagree	2	1.6
Strongly Disagree	9	7.0
Total Disagree	22	17.3
2. The church should include actual and budget comparisons in the financial statements issued by the church.		
Strongly Agree	75	59.1
Moderately Agree	35	27.6
Slightly Agree	11	8.6
Total Agree	121	95.3
Slightly Disagree	3	2.4
Moderately Disagree	2	1.5
Strongly Disagree	1	0.8
Total Disagree	6	4.7
3. The church should prepare financial statements to inform all users; i.e., the congregation, the church management staff, the creditors, and other interested third parties, of the financial affairs of the church.		
Strongly Agree	60	47.2
Moderately Agree	19	15.0
Slightly Agree	26	20.5
Total Agree	105	82.7

TABLE II (Continued)

	Number	Percentage
Slightly Disagree	6	4.7
Moderately Disagree	8	6.3
Strongly Disagree	8	6.3
Total Disagree	22	17.3
4. The church should prepare an annual balance sheet that includes both the total assets and the total liabilities of the church.		
Strongly Agree	74	58.3
Moderately Agree	23	18.1
Slightly Agree	14	11.0
Total Agree	111	87.4
Slightly Disagree	7	5.5
Moderately Disagree	7	5.5
Strongly Disagree	2	1.6
Total Disagree	16	12.6

respondents when asked whether the church should prepare an annual balance sheet which included both total assets and liabilities. Some financial officers of churches; i.e., 12.6 percent, marked disagreement responses when asked about preparing such a balance sheet.

#### Church Financial Officers' Attitudes Towards

#### Selections of Independent

#### Public Accountants

The church financial officers' willingness to select an independent public accountant is a prerequisite to using the attest function. Independent public accountants are unbiased evaluators of church management and can indicate whether church managers are fulfilling their stewardship responsibilities to the other members of the church. Also, only the independent auditor can issue an audit opinion at the conclusion of his examination.

Church financial officers were asked four questions to determine their willingness to select an independent public accountant for their churches. These questions were:

1. The church should require that the annual financial statements be accompanied by a report or an opinion which is prepared by the auditor and which is an attestation of the fairness of the presentation of the church's financial statements.
2. The church should employ an independent public accountant to perform the annual examination of the financial records of the church.
3. The church congregation should select the auditor for the church.
4. The church should ask an independent public accountant to perform a church audit for a lower fee than the fee charged regular clients.

These questions were answered by all 127 respondents as shown in Table III.

The question concerning whether an auditor should attest to the fairness of the church's financial statements evoked the greatest percentage; i.e., 77.9 percent, of agreement responses of any question asked about the selection of an independent accountant. The same question received disagreement responses from 22.1 percent of the financial officers.

As disclosed by Table III, 46.5 percent of the respondents agreed that the church should employ an independent public accountant to examine church financial records. Sixty-eight church financial officers or 53.5 percent of the respondents disagreed with such employment of an independent public accountant. Some church financial officers' comments on the returned questionnaires suggested that they were reluctant to agree with employing such an individual because of the cost associated with utilizing the services of an independent public accountant. One church officer wrote,

The financial committee of our church includes lawyers, presidents of major corporations, and partners of national accounting firms. In my opinion, both their judgment and their technical ability surpass any audit that could be performed [by an independent public accountant].

Some financial managers of churches; i.e., 39.4 percent, checked agreement responses when they were asked whether churches should permit the congregation to select the auditor. Conversely, other respondents; i.e., 60.6 percent, indicated disagreement with this means of selection. Some church officers asserted that such a selection process would not be possible under the operating rules of the church; and one officer observed, "At times it is difficult to get the whole congregation to

TABLE III  
 CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
 SELECTING AN INDEPENDENT PUBLIC ACCOUNTANT

	Number	Percentage
1. The church should require that the annual financial statements be accompanied by a report or an opinion which is an attestation of the fairness of the presentation of the church's financial statements.		
Strongly Agree	38	29.9
Moderately Agree	31	24.4
Slightly Agree	30	23.6
Total Agree	99	77.9
Slightly Disagree	17	13.4
Moderately Disagree	5	3.9
Strongly Disagree	6	4.8
Total Disagree	28	22.1
2. The church should employ an independent public accountant to perform the annual examination of the financial records of the church.		
Strongly Agree	17	13.4
Moderately Agree	19	15.0
Slightly Agree	23	18.1
Total Agree	59	46.5
Slightly Disagree	32	25.2
Moderately Disagree	16	12.6
Strongly Disagree	20	15.7
Total Disagree	68	53.5
3. The church congregation should select the auditor for the church.		
Strongly Agree	24	18.9
Moderately Agree	10	7.9
Slightly Agree	16	12.6
Total Agree	50	39.4

TABLE III (Continued)

	Number	Percentage
Slightly Disagree	28	22.0
Moderately Disagree	18	14.2
Strongly Disagree	31	24.4
Total Disagree	77	50.6
4. The church should ask an independent public accountant to perform a church audit for a lower fee than the fee charged regular clients.		
Strongly Agree	10	7.9
Moderately Agree	9	7.1
Slightly Agree	17	13.4
Total Agree	36	28.4
Slightly Disagree	31	24.4
Moderately Disagree	19	15.0
Strongly Disagree	41	32.2
Total Disagree	91	71.6

agree on going to heaven."

The question on whether an independent public accountant should perform a church audit for a lower fee than the accountant charges his regular clients elicited the greatest percentage of disagreement responses from church financial officers. Respondents marking agreement and disagreement responses were 28.4 and 71.6 percent, respectively. The comments which were written on the returned questionnaires suggested that the church officers did not disagree with accountants providing services to churches at lower fees than those charged regular clients. Rather, the church officers disagreed with asking an independent public accountant to perform a church audit.

Church Financial Officers' Attitudes Towards  
Prerequisites to Using the  
Attest Function

The church financial officers' attitudes towards prerequisites to using the attest function were determined by summing the attitudinal responses given by the questionnaires, as exhibited by Table IV.

The total respondents who agreed that churches should use internal control procedures were 86.8 percent, and the responses which were given by church financial officers indicated that 13.2 percent disagreed with using internal control procedures in churches. Many church financial officers marked agreement responses which indicated their attitudes towards presenting financial information for churches. That is, the total agreement and disagreement responses indicating the officers' attitudes towards presenting such information were 87.1 and 12.9 percent, respectively. The majority of the financial managers of churches



TABLE IV  
 CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
 PREREQUISITES TO USING THE ATTEST FUNCTION

	Number	Percentage
1. Attitudes towards the use of internal controls in churches.		
Strongly Agree	256	50.4
Moderately Agree	117	23.0
Slightly Agree	68	13.4
Total Agree	441	86.8
Slightly Disagree	30	5.9
Moderately Disagree	21	4.1
Strongly Disagree	16	3.2
Total Disagree	67	13.2
2. Attitudes towards the presentation of financial information in churches.		
Strongly Agree	267	52.6
Moderately Agree	104	20.5
Slightly Agree	71	14.0
Total Agree	442	87.1
Slightly Disagree	27	5.3
Moderately Disagree	19	3.7
Strongly Disagree	20	3.9
Total Disagree	66	12.9
3. Attitudes towards selecting an independent public accountant in churches.		
Strongly Agree	89	17.5
Moderately Agree	69	13.6
Slightly Agree	86	16.9
Total Agree	244	48.0
Slightly Disagree	108	21.3
Moderately Disagree	58	11.4
Strongly Disagree	98	19.3
Total Disagree	264	52.0

TABLE IV (Continued)

	Number	Percentage
4. Attitudes towards prerequisites to using the independent accountants' attest function in churches.		
Strongly Agree	612	40.2
Moderately Agree	290	19.0
Slightly Agree	225	14.8
Total Agree	1127	74.0
Slight Disagree	165	10.8
Moderately Disagree	98	6.4
Strongly Disagree	34	8.8
Total Disagree	397	26.0

indicated disagreement responses when they evoked their attitudes towards selecting an independent public accountant. Respondents who tended to agree with the questions about selecting an independent public accountant were 48.0 percent of the total respondents while 52.0 percent of the respondents disagreed.

The results from Table IV implied that 74.0 percent of the total responses agreed with the prerequisites to using the independent public accountants' attest function in churches. Conversely, respondents marking disagreement with the prerequisites to using the attest function were 26.0 percent of the total respondents.

#### Associations of Church Financial Officers' Attitudes

##### Towards Prerequisites to Using the Attest

##### Function and Number of Church Members

Hypothesis 1: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the number of church members.

Churches with large congregations may encounter financial reporting problems when they attempt to inform their members about church financial affairs. Also, churches with larger memberships may utilize the attest function, and the church financial officers' attitudes in such churches may be different from those church financial officers' attitudes in churches with fewer members.

Data for testing the hypothesis were obtained by asking each church financial officer the question that follows:

The number of members in your local church congregation  
is \_\_\_\_\_.

The Spearman rank test was utilized to determine the significance of

the association between the number of church members and the chief financial officers' summed attitudinal scores.

#### Summary of Findings

According to the information summarized in Table V, the question was answered by 123 church financial officers; i.e., 96.9 percent of the total respondents. The largest congregation of the churches indicated in this study measured by the number of members had 6,400 members and the smallest congregation had 18 members.

The Spearman rank correlation coefficients between church financial officers' attitudes towards using internal control procedures, presenting financial information, and selecting an independent public accountant and the number of congregation members were not significant. The Spearman rank correlation coefficient between such attitudes towards prerequisites to using the attest function and the number of church members; i.e., the summed attitudinal scores compared with the number of church members, was not significant at the .05 level. Thus, the hypothesis of no association between attitudes of church officers and the number of church members was accepted.

#### Interpretation of Findings

The results of the Spearman rank test suggested that the hypothesis of no significant association between the number of church members and chief financial officers' attitudes towards conditions which should precede using the attest function in churches was not significant; i.e., the hypothesis of no significant association was accepted. Thus, no evidence from this study associated attitudinal scores with the number

TABLE V

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND NUMBER OF CHURCH MEMBERS<sup>a</sup>

	<u>Summary of Summed Attitudinal Scores Towards:</u>				
	Number of Members	Use of Internal Control Procedures	Presentation of Financial Information	Selection of an Independent Accountant	Prerequisites to Using the Attest Function
Sum	91,944	2,464	2,459	1,708	6,631
Mean	747.51	20.03	19.99	13.89	53.91
Standard Deviation	848.95	2.68	3.43	3.91	7.48
Spearman Rank Correlation Coefficient with Number of Members	1.00	.09	.04	.13	.16

Number of Respondents--123

Percentage of possible respondents--96.9%

<sup>a</sup>The question asked is as follows:

The number of members in your local church congregation is: \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level

of church members .

## Associations of Church Financial Officers' Attitudes

### Towards Prerequisites to Using the Attest

#### Function and Dollars of the

#### Annual Church Budget

Hypothesis 2: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the dollars of the annual church budget.

Churches with larger total planned expenditures may have a greater need for the services of an accountant. Also, these churches may utilize the attest function, and the utilization of such services may be reflected in the financial managers' interest in providing for conditions which should precede the use of the attest function.

To test the hypothesis of no significant association between the summed attitudinal scores and dollars of annual church budgets, the financial administrators in churches were asked the following question:

The approximate amount of your local church's annual budget is \_\_\_\_\_.

The data obtained from church financial officers were tested for significant associations utilizing the Spearman rank test.

### Summary of Findings

One hundred twenty-six respondents, 99.2 percent of the total respondents, provided information about the dollar amounts of their churches' annual budgets as illustrated by Table VI. The church with the largest budget planned annual expenditures of \$565,000, and the church with the smallest budget planned annual expenditures of \$4,000.

TABLE VI

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND DOLLARS OF ANNUAL CHURCH BUDGETS<sup>a</sup>

	Summary of Summed Attitudinal Scores Towards:				
	Dollars of Annual Budget	Use of Internal Control Procedures	Presentation of Financial Information	Selection of an Independent Accountant	Prerequisites to Using the Attest Function
Sum	\$9,849,721	2,521	2,514	1,747	6,782
Mean	78,172.39	20.01	19.95	13.87	53.83
Standard Deviation	80,272.06	2.69	2.44	3.91	7.50
Spearman Rank Correlation Coefficient with Dollars of Annual Budget	1.00	0.18 <sup>b</sup>	0.08	0.19 <sup>b</sup>	0.23 <sup>b</sup>

Number of Respondents--126

Percentage of Possible Respondents--99.2%

<sup>a</sup>The question asked is as follows:

The approximate amount of your local church's annual budget is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

The average budget for a church included in this study was \$78,172. The Spearman rank correlation coefficients from Table VI were significant between dollar amounts of annual church budgets and church financial administrators' attitudes towards using internal control procedures, selecting an independent accountant, and prerequisites to using the attest function at the .05 level. The Spearman rank correlation coefficient between attitudes towards presenting financial information and dollar amounts of annual budgets was not significant at the .05 level. Thus, the Spearman rank test was significant between dollars of annual church budgets and chief financial officers' attitudes towards using internal control procedures, selecting an independent accountant, and prerequisites to using the attest function. The Spearman rank correlation coefficient was not significant between dollars of annual church budgets and financial administrators' interest in presenting financial information.

#### Interpretation of Findings

The test statistics illustrated by Table VI were sufficient to reject the hypothesis of no significant association between dollar amounts of church budgets and summed attitudinal scores. These results suggested that an association existed between these variables using the Spearman rank test. For example, the data implied that chief financial officers in churches with large annual budgets tended to have high attitudinal scores towards conditions which should precede the use of the attest function of independent accountants.

Church financial officers' attitudes towards presenting financial information did not show a significant association with the dollars of



church budgets. A reason for this lack of significance may have resulted from the high percentage of total respondents which agreed with the presentation of financial information in the selected sample of churches, 87.1 percent of all respondents were agreeable with presenting financial information in churches.

#### Associations of Church Financial Officers' Attitudes

##### Towards Prerequisites to Using the Attest

##### Function and the Current Market Value

##### of the Churches' Fixed Assets

Hypothesis 3: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the current market value of the churches' fixed assets.

If the current market value of the church's fixed assets is relatively large, the church may have more problems safeguarding the fixed assets than if the current market value of the church's fixed assets is relatively small. Churches with high valued fixed assets may utilize the services of an accountant to help safeguard these fixed assets. Further, these churches may have financial officers with attitudes which are different from those attitudes of financial officers in churches with lower valued fixed assets.

Association characteristics which were used to test the hypothesis of no significant association between chief financial officers' summed attitudinal scores and the current market value of the churches' fixed assets were obtained by asking the following question:

The approximate current market value of the local church's fixed assets; e.g., land, buildings, furniture, and fixtures is:

---

The Spearman rank test determined whether a significant association existed between the variables.

#### Summary of Findings

The responses provided by the church financial officers in reply to the question about the current market value of their churches' fixed assets implied that the church with the largest investment in fixed assets had an investment of \$8,500,000 and the church with the smallest investment in fixed assets had an investment of \$20,000. Ten respondents, 7.9 percent, did not answer the question.

Summaries of the Spearman rank tests were shown on Table VII. The Spearman rank correlation coefficients between the current market value of the churches' fixed assets and church financial officers' attitudes towards using internal control procedures, presenting financial information, and selecting an independent accountant were not significant at the .05 level. The association between the current market value of fixed assets and the combined attitudinal scores was not significant at the .05 level. Thus, none of the Spearman rank correlation coefficients shown on Table VII was significant.

#### Interpretation of Findings

The data in Table VII failed to reject the hypothesis of no significant association between the current market value of the churches' fixed assets and the church financial officers' attitudes towards conditions necessary for using the attest function. Thus, the financial officers of churches with high valued fixed assets may have attitudes which either agree or disagree with the prerequisites to using the

TABLE VII

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND DOLLARS OF FIXED ASSETS<sup>a</sup>

	<u>Summary of Summed Attitudinal Scores Towards:</u>				
	Dollars of Fixed Assets	Use of Internal Control Procedures	Presen- tation of Financial Information	Selection of an In- dependent Accountant	Prerequi- sites to Using the Attest Function
Sum	\$56,505,957	2,347	2,338	1.620	6,305
Mean	482,956.90	20.06	19.98	13.85	53.90
Standard Deviation	910,402.55	2.69	3.44	4.05	7.61
Spearman Rank Correlation Coefficient with Dollars of Fixed Assets	1.00	0.05	0.00	0.13	0.12

Number of Respondents--117

Percentage of Possible Respondents--92.1%

<sup>a</sup>The question asked is as follows:

The approximate current market value of the local church's fixed assets; e.g., land, buildings, furniture and fixtures, is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

independent public accountants' attest function.

#### Summary

This chapter has presented part of the data collected from the chief financial officers of selected Oklahoma churches. The summed attitudinal scores towards prerequisites to using the attest function have been presented, and these data revealed the following:

1. The responses from 86.8 percent of the chief financial officers suggested that churches should use internal control procedures while 13.2 percent of such officers suggested that churches should not use internal control procedures.
2. The percentages of church financial officers marking agreement and disagreement responses with presenting financial information were 87.1 and 12.9 percent, respectively.
3. The percentage of financial administrators in churches marking agreement responses with examining financial records was 48.0 percent, and the percentage of those officers marking disagreement was 52.0 percent.
4. The responses of church financial officers marking agreement with utilizing the attest function indicated that 74.0 percent of the responses agreed, and responses marking disagreement with utilizing the attest function indicated that 26.0 percent disagreed.

Thus, a total of 74.0 percent of the church financial officers included in this study agreed with the prerequisites to using the attest function. A majority of the respondents agreed with using internal control procedures and with presenting financial information, but a majority of the respondents disagreed with selecting an independent public accountant.

Figure 5 illustrates the significant associations of summed attitudinal scores and church size characteristics. A significant association was shown to exist between the summed attitudinal scores and

		<u>Significant Tests of Summed Attitudinal Scores</u>			
Hypothesis	Test	Using Internal Control Procedures	Presenting Financial Information	Selecting an Inde- pendent Accountant	Prerequi- sites to Using the Attest Function
1. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the number of church members.	Spearman rank				
2. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollar amounts of the annual church budgets.	Spearman rank	X		X	X
3. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the current market value of the churches' fixed assets.	Spearman rank				

X indicates the test was significant at the .05 level.

Figure 5, Illustration of Significant Associations of Summed Attitudinal Scores by Church Size Characteristics

dollars of annual church budgets. The other tests for associations were not significant at the .05 level.

The following chapter continues to present the data analyses and implications gathered from the field study. Chapter V illustrates data which were used to test for differences between summed attitudinal scores and associations with summed attitudinal scores by classifications of current church audit characteristics.

CHAPTER V

CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS  
PREREQUISITES TO USING THE ATTEST FUNCTION  
AND ASSOCIATIONS AND DIFFERENCES BY  
CURRENT CHURCH AUDIT  
CHARACTERISTICS

The current church audit characteristics which are assumed to be different or associated with church financial officers' attitudes towards prerequisites to using the attest function are presented in this chapter. The audit characteristics included in this chapter are: (1) whether the church has an annual financial audit; (2) whether the church is required to have an annual audit; (3) the individual or individuals performing the annual audit; (4) the financial records examined during the annual financial audit; (5) the expected benefits of the annual financial audit; and (6) the fees paid to the church auditor. The statistical methods used in this chapter were the Mann-Whitney, Kruskal-Wallis, and Spearman rank tests.

Differences in the Church Financial Officers'  
Attitudes Towards Prerequisites to Using  
the Attest Function in Churches With  
and Without Annual Financial Audits

Hypothesis 4: There is no significant difference between church financial officers' attitudes towards prerequisites

to using the attest function classified by churches with and without annual financial audits.

Churches should have an annual financial audit by an independent public accountant. Some churches, however, do not have annual financial audits. The attitudes of financial administrators from churches using any type of audit may differ from attitudes of financial officers from churches which are not audited. Also, the difference in such attitudes may reflect the effect which the annual church audit has on the officers' tendencies to agree or disagree with conditions which should precede using the attest function.

To test the hypothesis, data were obtained from financial officers by asking them the following question.

Does your local church have an annual financial audit?

( ) Yes

( ) No

The Mann-Whitney test was used to analyze the data.

#### Summary of Findings

As illustrated by Table VIII, all 127 financial officers answered the question with 82 church officers noting that their churches had annual financial audits. Thus, 45 church officers, 35.4 percent, indicated that their churches did not have annual financial audits.

The Mann-Whitney test of attitudes towards using internal control procedures and such test of attitudes towards presenting financial information classified by churches with and without annual financial audits was not significant at the .05 level. The Mann-Whitney test of attitudes towards selecting an independent public accountant classified by churches with and without annual audits was significant at the .05



TABLE VIII

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION CLASSIFIED BY CHURCHES WITH AND WITHOUT ANNUAL FINANCIAL AUDITS<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Presentation of Financial Information	Selection of an Independent Accountant	Prerequisites to Using the Attest Function
Yes	82	64.6	67.5	65.1	69.3	67.9
No	45	35.4	57.7	62.0	59.4	56.9
Total	127	100.0				
Mann-Whitney Test Score			-1.44	-0.45	-2.19 <sup>b</sup>	-1.62

<sup>a</sup>The question asked is as follows:

Does your local church have an annual financial audit? ( ) Yes ( ) No

<sup>b</sup>Significant at the .05 level.

level. The Mann-Whitney test of church financial officers' attitudes towards using the attest function classified by churches with and without annual financial audits was not significant at the .05 level. Thus, a statistically significant difference existed between church financial officers' attitudes towards selecting an independent public accountant in churches with and without annual financial audits.

#### Interpretation of Findings

As summarized by Table VIII, the hypothesis of no significant difference in church financial officers' attitudinal scores from churches with and without annual financial audits was not rejected at the .05 level. These results showed that many respondent churches, 64.6 percent, did have annual financial audits. Also, these results suggested that those financial managers from churches which had annual audits tended to approve the practice. That is, the data illustrated that the average rankings of summed attitudinal scores were greater than such scores from churches without church audits. To the extent that church financial officers' attitudes reflected their past experiences and knowledge of the attest function, the higher average rankings of the summed attitudinal scores suggested a positive reaction towards church audits from the financial administrators when such scores were compared with the summed attitudinal scores from churches without annual financial church audits.

Differences in the Church Financial Officers'  
 Attitudes Towards Prerequisites to Using  
 the Attest Function in Churches Re-  
 quiring and Not Requiring Annual  
 Financial Audits

Hypothesis 5: There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by churches which require and do not require annual financial audits.

One fundamental principle of church administration is that effective church management inevitably depends upon personal leadership rather than externally applied restrictions. Restrictions are difficult to impose upon church administrations and, if restrictions are imposed, they may cause church financial officers' attitudes to differ. One such restriction may be the requirement for an annual church audit.

The hypothesis of no difference in church financial officers' attitudes towards utilizing the attest function was tested using the answers given to the following question:

Is the annual financial audit of your local church required?

Yes, the audit is required because:

\_\_\_\_\_

No

Financial administrators of churches which do not have an annual financial audit were asked to omit this question. Thus, of the 82 church financial officers which marked that their churches had annual financial audits, 72 church officers; i.e., 88.8 percent, stated that the audit was not required. The church financial officers indicating that the audit was required in their churches were also asked to designate why

the audit was required. A summary of these responses, each from one respondent, was:

1. An annual financial audit is a good business practice.
2. An annual financial audit checks out the treasurer.
3. An annual financial audit is required by the central church organization or the denominational office.
4. An annual financial audit is required by the local church congregation and church by-laws.
5. An annual financial audit is required to qualify for a fidelity bond.
6. The annual financial audit is required by Church Discipline.
7. The annual financial audit is required by Cannon Law.

The Mann-Whitney test determined significant differences in attitudes between respondents answering "yes" and respondents answering "no" to the question.

#### Summary of Findings

The Mann-Whitney tests for differences in church financial officers' attitudes towards using internal control procedures, presenting financial information, and selecting an independent public accountant dichotomized by churches which require and do not require annual financial audits were not significant at the .05 level as illustrated by Table IX. The Mann-Whitney test of financial administrators' tendencies to agree and disagree with prerequisites to using the attest function classified by churches requiring and not requiring annual financial audits was not significant at the .05 level. Thus, none of the Mann-Whitney test statistics shown on Table IX was significant at the .05 level.

TABLE IX

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING  
THE ATTEST FUNCTION CLASSIFIED BY CHURCHES REQUIRING  
AND NOT REQUIRING ANNUAL AUDITS<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Presen- tation of Financial Informatin	Selection of an In- dependent Accountant	Prerequi- sites to Using the Attest Function
Yes	71	88.8	67.3	66.5	71.0	69.2
No	9	11.2	65.7	58.6	63.7	65.2
Total	80	100.0				
Mann-Whitney Test Score			-0.19	-0.63	-0.55	-0.41

<sup>a</sup>The question asked is as follows:

Is the annual financial audit of your local church required?

( ) Yes, the audit is required because: \_\_\_\_\_.

( ) No

<sup>b</sup>Significant at the .05 level.

### Interpretation of Findings

The data summarized on Table IX did not reject the hypothesis of no significant difference in attitudes towards prerequisites to using the attest function in churches requiring and not requiring annual audits. Thus, these findings implied that requirements for annual financial audits did not affect the independent public accountants' willingness to facilitate the use of the attest function.

The average rankings of summed attitudinal scores from church financial officers which stated that their churches required annual financial audits were higher than such rankings from officers that stated their churches did not require annual financial audits. The requirement that a church have an annual audit seemed to have a positive effect upon the summed attitudinal scores rather than an adverse effect. However, since the differences between rankings were not statistically significant, the differences might have occurred by chance rather than as a result of the requirement for an annual financial audit.

#### Differences in the Church Financial Officers'

#### Attitudes Towards Prerequisites to Using

#### the Attest Function Classified by

#### the Qualifications of the

#### Individuals Performing

#### Annual Financial Audit

Hypothesis 6: There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by the qualifications of the individuals performing the annual financial audit.

Church auditors may have different characteristics which qualify

them to serve as examiners of the church financial records. That is, some churches have only members of their congregation examine their financial records regardless of whether their membership includes an accountant or, if an accountant is a member, whether the accountant is independent from the church management staff. The church financial officers' appreciation of conditions which should exist before using the attest function may differ in churches using independent public accountants to examine their financial records when compared with church officers' attitudes in churches using non-accountants or non-independent public accountants to make such examinations.

The church financial officers indicating their church had an annual financial audit were asked to respond to the following question.

Which of the following best describes the individual or individuals auditing your local church?

- ( ) A. The church's financial records are audited by individuals from the central church organization.
- ( ) B. The church's financial records are audited by members of the church who are not accountants.
- ( ) C. The church's financial records are audited by members of the church who are public accountants.
- ( ) D. The church's financial records are audited by public accountants who are also members of the church management staff.
- ( ) E. The church's financial records are audited by public accountants who do not serve as members of the church management staff.
- ( ) F. Other (Describe) \_\_\_\_\_,

The question sought information about the characteristics of the individuals auditing the church financial records; i.e., whether a non-accountant, an accountant who was not independent, or an independent public accountant audited the church financial records. Thus, the

question responses were regrouped for purposes of statistical analysis.

Which of the following best describes the individual or individuals auditing your local church?

- ( ) A. The church's financial records are audited by members of the church who are not accountants.
- ( ) B. The church's financial records are audited by members of the church who are accountants.
- ( ) C. The church's financial records are audited by public accountants who do not serve as members of the church management staff.

That is, responses "A", "C", "D", and "F" were combined for the purpose of analysis. The Kruskal-Wallis and Mann-Whitney tests were used to test for differences in the classified responses.

#### Summary of Findings

The results in Table X indicated that 80 church officers of the 82 churches with annual financial audits responded to the question. The responses disclosed that eighteen churches, 22.5 percent, were audited by non-accountants; forty-nine churches, 61.3 percent, were audited by non-independent accountants; and thirteen churches, 16.2 percent, were audited by independent public accountants.

The Kruskal-Wallis tests of financial officers' attitudes towards using internal control procedures, presenting financial information, and selecting an independent public accountant classified by the characteristics of the individuals performing the annual audit were not significant at the .05 level. The Kruskal-Wallis test of attitudes towards prerequisites to using the attest function classified by such individuals was not significant at the .05 level. Mann-Whitney tests of attitudes towards using internal control procedures, presenting financial



TABLE X

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING  
THE ATTEST FUNCTION CLASSIFIED BY THE INDIVIDUAL  
PERFORMING THE ANNUAL CHURCH AUDIT<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Presen- tation of Financial Information	Selection of an In- dependent Accountant	Prerequi- sites to Using the Attest Function
A	18	22.5	43.1 <sup>d</sup>	43.2 <sup>d</sup>	38.2 <sup>d</sup>	40.9 <sup>d</sup>
B	49	61.3	37.3 <sup>d</sup>	37.9 <sup>d</sup>	39.3 <sup>d</sup>	37.6 <sup>d</sup>
C	13	16.2	49.0 <sup>d</sup>	46.5 <sup>d</sup>	48.4 <sup>d</sup>	50.8 <sup>d</sup>
Total	80	100.0				
Kruskal-Wallis Test Scores			2.96	1.73	1.85	3.33

<sup>a</sup>The question asked is as follows: (Regrouped for Purposes of Analysis)  
Which of the following best describes the individual or individuals auditing your local church?  
( ) A. The church's financial records are audited by members of the church who are not accountants.  
( ) B. The church's financial records are audited by members of the church who are accountants.  
( ) C. The church's financial records are audited by public accountants who do not serve as  
members of the church management staff.

<sup>b</sup>Significant at the .05 level.

<sup>c</sup>Significant at the .05 level between response A and response B.

<sup>d</sup>Significant at the .05 level between response A and response C.

<sup>e</sup>Significant at the .05 level between response B and response C.

information, and selecting an independent public accountant were significant at the .05 level between audits performed by non-accountants and audits performed by independent public accountants. Also, the Mann-Whitney test of expressed opinions about prerequisites to using the attest function was significant at the .05 level between audits conducted by non-accountants and independent public accountants.

#### Interpretation of Findings

The responses given to the question did not indicate that significant differences existed between attitudinal scores of officers from churches audited by individuals with different qualifications. Thus, the hypothesis of no significant difference in attitudes was accepted. However, two points should be noted about these responses. First, the average rankings of the summed attitudinal scores from churches with annual financial audits conducted by independent public accountants were always higher than the average rankings from churches with annual audits conducted by non-accountants and by non-independent accountants. Second, no significant differences were found to exist individually or as a group between the average rankings of attitudes from churches utilizing non-accountants and non-independent accountants. Thus, the results of the average rankings summarized on Table X seemed to give some positive support to church audits which were conducted by independent public accountants.

Differences in the Church Financial Officers'  
 Attitudes Towards Prerequisites to Using  
 the Attest Function and the Coverage  
 of the Annual Financial Audit

Hypothesis 7: There is no significant difference in church financial officers' attitudes towards prerequisites to using the attest function in churches with different coverages of the annual financial audit.

The audit coverage of the churches' financial records may have an effect upon the church financial officers' attitudes towards the attest function. For example, churches which had few or no financial records examined may have church officers with low attitudinal scores towards prerequisites to using the attest function.

To test this hypothesis, chief financial officers were asked the following question:

Which of the following best describes the audit of your local church?

- ( ) A. An examination of the cash receipts and cash disbursements.
- ( ) B. An examination of all financial records of the local church.
- ( ) C. Other (Describe) \_\_\_\_\_.

The responses to the question were used to classify the summed attitudinal scores and tested for significant differences in responses.

Seventy-nine of the eighty-two church officers who marked that an annual financial audit was conducted in their churches answered the question as summarized by Table XI. These responses were analyzed by using the Kruskal-Wallis and Mann-Whitney tests.

TABLE XI

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING  
THE ATTEST FUNCTION CLASSIFIED BY THE COVERAGE  
THE ANNUAL CHURCH AUDIT<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Presen- tation of Financial Information	Selection of an In- dependent Accountant	Prerequi- sites to Using the Attest Function
A	36	45.6	31.7 <sup>c</sup>	39.7	38.4	35.9
B	41	51.9	47.9 <sup>c</sup>	41.2	41.8	44.5
C	2	2.5	28.5	20.8	31.5	22.8
Total	79	100.0				
Kruskal-Wallis Test Scores			10.3 <sup>b</sup>	1.55	0.73	3.84

<sup>a</sup>The question asked is as follows:  
Which of the following best describes the audit of your local church?  
( ) A. An examination of the cash receipts and cash disbursements?  
( ) B. An examination of all financial records of the local church.  
( ) C. Other (Describe) \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

<sup>c</sup>Significant at the .05 level between response A and response B.

<sup>d</sup>Significant at the .05 level between response A and response C.

<sup>e</sup>Significant at the .05 level between response B and response C.

### Summary of Findings

The Kruskal-Wallis test of church financial officers' attitudes towards using internal control procedures classified by churches with full or partial annual audits was significant at the .05 level. However, the Kruskal-Wallis tests of such classifications of attitudes towards presenting financial information and selecting an independent public accountant were accepted with at least 95 percent confidence. The Mann-Whitney test of attitudes towards using internal control procedures classified by churches examining only cash receipts and disbursements and churches examining all financial records was significant at the .05 level. None of the other Mann-Whitney tests was significant at the .05 level. Thus, only the difference between the church financial officers' attitudes towards using internal control procedures classified by the coverage of the annual financial audit was significant at the .05 level.

### Interpretation of Findings

The test results did not provide sufficient evidence to reject the hypothesis of no significant difference between attitudes of financial administrators from churches with full and partial annual financial audits. The hypothesis of no significant difference, however, was rejected for church financial officers' attitudes towards using internal control procedures when such attitudes were classified by churches with full and partial examinations.

Two points were concluded from the information in Table XI. First, the average rankings of attitudinal scores of churches with annual financial examinations of all financial records were always higher,

although not significantly higher, than such scores of churches with annual financial audits covering only cash receipts and cash disbursements. Thus, the churches with more complete annual financial audits tended to have chief financial officers with higher attitudes, but it should be noted that the differences may have occurred by chance.

Second, the significance of the test between churches with complete and partial financial audits lended evidence to the importance of internal control procedures. That is, churches with complete annual audits had chief financial officers with higher attitudes towards using internal control procedures than such attitudes from churches with annual financial audits covering only the cash receipts and disbursements.

Differences in the Church Financial Officers'  
Attitudes Towards Prerequisites to Using  
the Attest Function and the Expected  
Benefits of the Annual Financial  
Audit

Hypothesis 8: There is no significant difference in church financial officers' attitudes towards prerequisites to using the attest function classified by the expected benefits of the annual financial audit.

Some church officers believe an annual church audit gives different benefits to the church. The expected benefits of the church audit may cause the chief financial officers' prejudgments of the attest function to vary.

To obtain information to classify attitudinal scores and test the hypothesis, church officers were asked:

Which of the following is the primary benefit your local church receives from the annual financial audit?

- ( ) A. Uncovers errors made by the bookkeeper during the accounting period.
- ( ) B. Lends credibility to the local church's financial statements.
- ( ) C. Decreases some of the responsibility which must be taken on by those people handling other people's money for the church.
- ( ) D. Other (Describe) \_\_\_\_\_.

Seventy-nine of the eighty-two churches with annual audits responded to the question.

A summary of results as shown by Table XII indicated the following: (1) four respondents, 5.1 percent, thought the audit would uncover bookkeeping errors, (2) thirty-one respondents, 39.2 percent, thought the audit would lend credibility to the financial statements, (3) twenty-nine respondents, 36.7 percent, thought the audit would decrease responsibility, and (4) fifteen respondents, 19.0 percent, marked "other". The descriptions written in the space provided with the "other" response suggested that church officers expected more than one of the responses; e.g., response "A" and "B". The Mann-Whitney and Kruskal-Wallis tests were used to determine significant differences between attitudes.

#### Summary of Findings

The Kruskal-Wallis tests of attitudes towards using internal control procedures, presenting financial information, and selecting an independent public accountant which were classified by the expected benefits from annual audits were not significant at the .05 level. The Kruskal-Wallis test of such attitudes towards the attest function classified by the expected benefits of annual audits was not significant

TABLE XII

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION CLASSIFIED BY THE BENEFITS RECEIVED FROM THE ANNUAL CHURCH AUDIT<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Presen- tation of Financial Information	Selection of an In- dependent Accountant	Prerequi- sites to Using the Attest Function
A	4	5.1	42.8	45.1	22.0	32.9
B	31	39.2	41.9	37.7	37.1	38.6
C	29	36.7	37.6	41.6	41.8	40.8
D	15	19.0	40.0	40.4	47.4	43.3
Total	79	100.0				
Kruskal-Wallis Test Scores			0.62	0.67	4.81	0.85

<sup>a</sup>The question asked is as follows:

Which of the following is the primary benefit your local church receives from the annual financial audit?

- ( ) A. Uncovers errors made by the bookkeeper during the accounting period.
- ( ) B. Lends credibility to the local church's financial statement.
- ( ) C. Decreases some of the responsibility which must be taken on by those people handling other people's money for the church.
- ( ) D. Other (Describe) \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

<sup>c</sup>Significant at the .05 level between response A and response B.

<sup>d</sup>Significant at the .05 level between response A and response C.

<sup>e</sup>Significant at the .05 level between response A and response D.

<sup>f</sup>Significant at the .05 level between response B and response C.

<sup>g</sup>Significant at the .05 level between response B and response D.

<sup>h</sup>Significant at the .05 level between response C and response D.



at the .05 level. The Mann-Whitney test between officers from churches which thought the annual audit uncovered bookkeeper errors and "other"; i.e., response "D", was accepted with 95 percent confidence. The Mann-Whitney test between attitudes of church financial officers which expected the benefits of the annual financial audit to be that of discovering bookkeeping errors and the attitudes of those officers that expected the response "other" indicated the attitudes were not significantly different at the .05 level; however, the average rankings of attitudinal scores were higher in churches which expected the responses "other" when compared to the average rankings in churches which expected the annual audit to uncover bookkeeper errors.

#### Interpretation of Findings

The findings in Table XII tended to indicate that the chief financial officers' expected benefits from the annual audit had no overall effect upon the officers' summed attitudinal scores. The hypothesis of no significant difference in church financial officers' attitudes, therefore was accepted.

#### Associations of Church Financial Officers'

#### Attitudes Towards Prerequisites to Using

#### the Attest Function and Church

#### Auditors' Fees

Hypothesis 9: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the fees paid to the church auditors.

Some church auditors donate their services to their churches or offer their services to churches at a price which is less than they

would charge their regular clients. The dollar amount of the fees paid to the church auditor may affect the attitudes of church officers towards the attest function

To test the assumed relationship, church financial administrators were asked the question that follows:

The approximate amount your local church pays for its annual financial audit is: \$ \_\_\_\_\_.

Thirteen of the eighty-two churches, 15.9 percent, which marked their churches had annual financial audits indicated they paid the church auditor for his services. The data obtained from the thirteen respondents were summarized in Table XIII. The Spearman rank test was used to analyze the data.

#### Summary of Findings

The Spearman rank correlation coefficients between church financial officers' attitudes towards using internal control procedures, presenting financial information, and selecting an independent public accountant and the fees paid to auditors were not significant at the .05 level. The Spearman rank correlation coefficient between attitudes towards prerequisites to using the attest function and fees paid to the church auditor was not significant at the .05 level. Thus, no associations which were significant at the .05 level were shown to exist between attitudes and dollar amounts of fees given to the church auditor.

#### Interpretation of Findings

No evidence from this study sustained an association between church financial officers' tendencies to react favorably or unfavorably

TABLE XIII

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND FEES GIVEN TO THE CHURCH AUDITOR<sup>a</sup>

	Summary of Summed Attitudinal Scores Towards:				
	Dollars of Auditors' Fees	Use of Internal Control Procedures	Presentation of Financial Information	Selection to an Independent Accountant	Prerequisites to Using the Attest Function
Sum	\$5,870	289	291	231	811
Mean	419.29	20.64	20.79	16.50	57.93
Standard Deviation	657.67	2.92	3.45	3.32	7.43
Spearman Rank Correlation Coefficient with Dollars of Auditors' Fees	1.00	0.17	0.48	0.03	0.10
Number of Respondents--13	Percentage of Possible Respondents--15.9%				

<sup>a</sup>The question asked is as follows:

The approximate amount your local church pays for its annual financial audit is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

to the attest function and fees paid to church auditors. Thus, the hypothesis was accepted with 95 percent confidence. It was concluded that the dollar amount of the fees given to the church auditor did not affect the church financial officers' attitudes towards the attest function.

### Summary

This chapter presented evidence about differences and associations between church financial officers' attitudes towards prerequisites to using the attest function and current church audit characteristics. All of the hypotheses of differences and associations between church financial officers' summed attitudinal scores and current church audit characteristics as summarized by Figure 6 were accepted with 95 percent confidence.

Some Mann-Whitney tests between attitudes classified by the coverage of the annual audits and the individuals performing the annual audits were significant at the .05 level. Also, the Mann-Whitney test of attitudes towards selecting an independent public accountant in churches which require and do not require annual financial audits and the Kruskal-Wallis test of attitudes towards using internal control procedures classified by the coverage of annual financial audits were significant at the .05 level.

The following chapter concludes the presentation of the remaining data collected from the church financial officers in the field study. In Chapter VI, other relevant church characteristics are used to classify and to pair with church financial officers' attitudes to determine the existence of significant differences and associations.

Significant Tests of Summed Attitudinal Scores

Hypothesis	Test	Using Internal Control Procedures	Presenting Financial Information	Selecting an Inde- pendent Accountant	Prerequi- sites to Using the Attest Function
4. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by churches with and without annual financial audits.	Mann-Whitney			X	
5. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by churches which require and do not require annual financial audits.	Mann-Whitney				
6. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by the qualifications of the individuals performing the annual financial audits.	Kruskal-Wallis  Mann-Whitney	X	X	X	X

		<u>Significant Tests of Summed Attitudinal Scores</u>			
Hypothesis	Test	Using Internal Control Procedures	Presenting Financial Information	Selecting an Inde- pendent Accountant	Prerequi- sites to Using the Attest Function
7. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by the coverage of the annual financial audits.	Kruskal-Wallis	X			
	Mann-Whitney		X		
8. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by the expected benefits of the annual financial audits.	Kruskal-Wallis				
	Mann-Whitney				
9. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and the fees paid to the church auditors.	Spearman rank				

X indicates the test was significant at the .05 level.

Figure 6. Illustration of Significant Associations and Differences of Summed Attitudinal Scores by Current Church Audit Characteristics

## CHAPTER VI

### CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND ASSOCIATIONS AND DIFFERENCES BY OTHER RELEVANT CHURCH CHARACTERISTICS

This chapter concludes the presentation of data obtained from the questionnaires sent to church financial officers selected for this study. The chapter presents, in general, data from the field study concerning other relevant church characteristics. More specifically, the chapter includes information which pertains to: (1) church demoninations, (2) dollars of bequeaths, endowments, trusts, and funds for special purposes, (3) dollars of total liabilities, (4) dollars of unrelated business income, (5) requirements for interim and internal audits, and (6) financial statements.

The summed attitudinal scores were classified by or matched with the other relevant church characteristics, and the scores were tested for statistical associations and differences. The statistical methods used to test the data were the Mann-Whitney, Kruskal-Wallis, and the Spearman rank tests.

Differences Between Church Financial Officers'  
 Attitudes Towards Prerequisites to Using  
 Attest Function Classified by Church  
 Denomination

Hypothesis 10: There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by church denomination.

The churches which were selected for this study included five denominations. Each church denomination may have some aspect; i.e., some requirement or restriction, which is unique to its operations. These restrictions may require the use of an accountant's services, and the attitudes of the financial administrators of these churches may differ when classified by church denominations.

To test the hypothesis of no difference in attitudes by church denominations, the following question was asked the financial officers:

The denomination of your church is: \_\_\_\_\_.

The Kruskal-Wallis test was used to analyze the differences in summed attitudinal scores of all denominations considered as a group, and the Mann-Whitney test was used to analyze the differences in such scores grouped by all possible pairings of the five church denominations.

Summary of Findings

The church denomination classifications of the 126 responding officers were those five listed in Table XIV. The Kruskal-Wallis test for differences between church financial officers' attitudes towards using internal control procedures classified by church denominations were significant at the .05 level. Thus, the test rejected the hypothesis of no



TABLE XIV

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION CLASSIFIED BY CHURCH DENOMINATIONS<sup>a</sup>

Responses	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Present-ation of Financial Information	Selection of an In-dependent Accountant	Prerequi-sites to Using the Attest Function
A. Christian	10	7.9	32.2 <sup>cef</sup>	44.8 <sup>cf</sup>	45.2	34.0 <sup>cdef</sup>
B. Episcopal	8	6.4	62.9 <sup>c</sup>	82.1 <sup>c</sup>	55.6	72.1 <sup>c</sup>
C. Lutheran	18	14.3	77.6	62.9	70.8	72.1 <sup>d</sup>
D. Methodist	64	50.8	59.7 <sup>e</sup>	50.9 <sup>l</sup>	63.4	60.4 <sup>e</sup>
E. Presbyterian	26	20.6	75.4 <sup>f</sup>	76.6 <sup>fl</sup>	68.1	73.9 <sup>f</sup>
Total	126	100.0				
Kruskal-Wallis Test Scores			13.76 <sup>b</sup>	9.18	4.10	10.60 <sup>b</sup>

<sup>a</sup>The question asked is as follows: The denomination of your church is: \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

<sup>c</sup>Significant at the .05 level between response A and response B.

<sup>d</sup>Significant at the .05 level between response A and response C.

<sup>e</sup>Significant at the .05 level between response A and response D.

<sup>f</sup>Significant at the .05 level between response A and response E.

<sup>g</sup>Significant at the .05 level between response B and response C.

<sup>h</sup>Significant at the .05 level between response B and response D.

<sup>i</sup>Significant at the .05 level between response B and response E.

<sup>j</sup>Significant at the .05 level between response C and response D.

<sup>k</sup>Significant at the .05 level between response C and response E.

<sup>l</sup>Significant at the .05 level between response D and response E.

difference between attitudes towards using internal control procedures classified by church denominations.

The Mann-Whitney tests of such attitudes classified by church denominations were significant between Christian and Episcopal churches; Christian and Methodist churches; and Christian and Presbyterian churches. The other Mann-Whitney tests for differences between attitudes towards using internal control procedures classified by church denominations were not significant at the .05 level level.

The Kruskal-Wallis test for differences between attitudes towards presenting financial information classified by church denominations was not significant. Thus, the hypothesis of no difference between such attitudes was not rejected at the .05 level.

Mann-Whitney test by church denomination classifications of attitudes towards presenting financial information indicated differences significant at the .05 level in three tests. Significant differences of attitudes existed between Christian and Episcopal churches; Christian and Presbyterian churches; and Methodist and Presbyterian churches. The other Mann-Whitney tests of attitudes towards presenting financial information classified by church denominations were not significant.

The differences between the church financial officers' attitudes towards selecting an independent accountant classified by church denominations and tested by the Kruskal-Wallis tests were not significant at the .05 level. None of the Mann-Whitney tests of attitudes towards examining financial records classified by church denominations was significant at the .05 level. Thus, the hypothesis of no difference in such attitudes was accepted.

Chief financial officers' attitudes towards prerequisites to using

the attest function in churches which were classified by church denominations and which were tested by the Kruskal-Wallis test were significant at the .05 level. Thus, the hypothesis of no difference between such attitudes classified by church denominations was rejected. The Mann-Whitney tests of attitudes towards conditions which should precede the use of the attest function classified by church denominations were significant at the .05 level between Christian and Episcopal churches; Christian and Lutheran churches; Christian and Methodist churches; and Christian and Presbyterian churches. The other Mann-Whitney tests for differences between attitudes classified by church denominations were accepted.

#### Interpretation of Findings

The results from Table XIV illustrated a difference in chief financial officers' attitudes towards utilizing the attest function in churches classified by denominations. If average rankings of church financial officers' attitudes were examined separately, the attitudes of the officers in the Presbyterian denomination ranked highest; the attitudes of the officers in the Episcopal and Lutheran denominations tied for the second highest ranking; the attitudes of the officers in the Methodist denomination ranked third highest; and the attitudes of the officers in the Christian denomination ranked lowest. These data implied that the church financial officers' attitudes towards prerequisites to using the attest function were different when classified by denominations.

## Associations Between Church Financial Officers'

### Attitudes Towards Prerequisites to Using

the Attest Function and Dollars of

Bequeaths, Endowments, Trusts,

and Funds Set up for Special

Purposes

Hypothesis 11: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of bequeaths, endowments, trusts, and other funds set up for special purposes.

Churches may have audit restrictions imposed upon them by bequeaths, endowments, trusts, and funds set up for special purposes. The greater the dollar amounts involved, the more likely the church will be subjected to restrictions. One restriction in churches could require the use of an accountant's services. Thus, the dollar amounts of such funds may be related to church financial officers' feelings about the attest function.

To obtain information about special church funds, the financial officers were asked the following question:

The approximate amount of your local church's funds set up by bequeaths, endowments, trusts, or for special purposes is:

\_\_\_\_\_.

Fifty-two chief financial officers of the 127 church officers responding to the questionnaire stated that special funds existed within their churches. The Spearman rank test was used to determine significant associations between responses.

### Summary of Findings

As shown in Table XV, none of the suggested associations was

TABLE XV

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND DOLLARS OF BEQUEATHS, ENDOWMENTS, TRUSTS, AND FUNDS FOR SPECIAL PURPOSES<sup>a</sup>

	<u>Summary of Summed Attitudinal Scores Towards:</u>				
	Dollars of Special Funds	Use of Internal Control Procedures	Presentation of Financial Information	Selection to an Independent Accountant	Prerequisites to Using the Attest Function
Sum	\$1,428,500	1,046	1,021	705	2,772
Mean	27,471.15	20.12	19.63	13.56	53.31
Standard Deviation	77,982.08	2.71	3.27	4.07	6.88
Spearman Rank Correlation Coefficient with Dollars of Special Funds	1.00	0.21	0.06	0.11	0.17

Number of Respondents--52

Percentage of Possible Respondents--40.9%

<sup>a</sup>The question asked is as follows:

The approximate amount of your local church's funds set up by bequeaths, endowments, trusts, or for special purposes is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

significant at the .05 level. That is, no association was shown to exist between church funds and officers' interest in using internal control procedures, presenting financial information, selecting an independent accountant, and prerequisites to using the attest function.

### Interpretation of Findings

These results did not support an association between church financial officers' attitudes towards the attest function and dollar amounts of church funds. Thus, the hypothesis of no association between such funds and attitudes was not rejected, and no evidence existed that restrictions were imposed upon churches with special funds and that tendencies to agree and disagree with the attest function in churches were associated with these church funds.

#### Associations of Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function and Dollars of Long-Term Liabilities

Hypothesis 12: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of long-term liabilities.

Church creditors may impose audit restrictions upon churches and as church liabilities increase the restrictions upon churches may increase too. That is, church financial officers' attitudes towards prerequisites to using the attest function may be associated with dollar amounts of long-term liabilities.

The chief financial officers were asked the following question about their long-term liabilities to test the hypothesis of no

association between attitudes towards the attest function and dollar amounts of long-term liabilities.

The approximate amount of your local church's long-term liabilities; e.g., notes payable, bonds or mortgages is:

\$ \_\_\_\_\_.

On the returned questionnaires, 107 financial administrators marked the dollar amount of their churches long-term liabilities. The Spearman rank test was used to determine the significance of the differences in the data.

#### Summary of Findings

The Spearman rank tests summarized by Table XVI were not significant at the .05 level between dollars of long-term liabilities and attitudes towards using internal control procedures, presenting financial information, selecting an independent public accountant, and prerequisites to using the attest function in churches. Thus, no associations existed between summed attitudinal scores and dollars of long-term liabilities.

#### Interpretation of Findings

Since no associations were shown to exist between church financial officers' attitudes towards prerequisites to using the attest function and dollars of long-term liabilities, the hypothesis of no association was accepted. That is, churches with high dollar amounts of long-term liabilities did not show any associations with either high or low summed attitudinal scores.

TABLE XVI

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND LONG-TERM LIABILITIES<sup>a</sup>

	<u>Summary of Summed Attitudinal Scores Towards:</u>				
	Dollars of Liabilities	Use of Internal Control Procedures	Present-ation of Financial Information	Selection of an In-dependent Accountant	Prerequi-sites to Using the Attest Function
Sum	\$9,592,106	2,129	2,136	1,490	5,755
Mean	89,645.85	19.90	19.96	13.93	53.79
Standard Deviation	109,202.24	2.70	3.44	3.82	7.64
Spearman Rank Correlation Coefficient with Dollars of Liabilities	1.00	-0.01	0.01	0.03	0.02

Number of Respondents--107

Percentage of Possible Respondents--84.3%

<sup>a</sup>The question asked is as follows:

The approximate amount of your local church's long-term liabilities; e.g., notes payable, bonds or mortgages is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.



Associations of Church Financial Officers'  
Attitudes Towards Prerequisites to Using  
the Attest Function and Dollars of  
Unrelated Business Income

Hypothesis 13: There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of unrelated business income.

Unrelated business income may cause the need for accounting services in churches to increase, and independent public accountants can efficiently fulfill this need. Also, unrelated business income, if in a significant amount, may give a reason for utilizing the attest function. If the attest function is utilized, the attitudes of the financial managers of church affairs may differ according to the dollar amounts of the unrelated business income.

Financial officers of churches selected for this study were asked the dollar amount of their churches' unrelated business income. The question was as follows:

The approximate amount of your local church's unrelated business income; e.g., income from investments or profit-making enterprises owned by the church, is: \$ \_\_\_\_\_.

Twenty-five church financial officers responded to the question, and the responses were analyzed utilizing the Spearman rank test.

Summary of Findings

A summary of the data and the Spearman rank test results was illustrated by Table XVII. The Spearman rank tests of assumed relationships between dollar amounts of unrelated business income and the church financial officers' attitudes towards using internal control procedures,

TABLE XVII

ASSOCIATIONS BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION AND DOLLARS OF UNRELATED BUSINESS INCOME<sup>a</sup>

	<u>Summary of Summed Attitudinal Scores Towards:</u>				
	Dollars of Unrelated Income	Use of Internal Control Procedures	Present-ation of Financial Information	Selection of an In-dependent Accountant	Prerequi-sites to Using the Attest Function
Sum	\$319,450	503	516	365	1,384
Mean	12,778.00	20.12	20.64	14.60	55.36
Standard Deviation	32,384.03	2.40	2.97	3.30	6.11
Spearman Rank Correlation Coefficient with Dollars of Unrelated Income	1.00	-0.01	-0.35	-0.33	-0.39 <sup>b</sup>

Number of Respondents--25

Percentage of Possible Respondents--19.7%

<sup>a</sup>The question asked is as follows:

The approximate amount of your local church's unrelated business income; e.g., income from investments or profit-making enterprises owned by the church, is: \$ \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

presenting financial information, and selecting an independent accountant were not significant. The combined attitudinal score indicated willingness to facilitate the attest function and unrelated business income was significant at the .05 level, but a negative correlation was shown by the sign of the correlation coefficient. That is, the high attitudinal scores were associated with the churches with low dollar amounts of unrelated business income, and the low attitudinal scores were associated with the churches with high dollar amounts of unrelated business income.

#### Interpretation of Findings

The hypothesis of no association between church financial officers' attitudes towards utilizing the attest function and dollar amounts of unrelated business income was rejected, but a negative correlation was shown to exist. A review of the questionnaires suggested, however, that the churches with unrelated business income showed some different characteristics from the churches in the total group of responding churches. First, no close relationship existed between annual budget expenditures and unrelated business income of the churches. Second, a greater percentage of the respondents with unrelated business income stated that their churches were not audited, namely 38.9 percent of the total churches were audited while only 35.4 percent of the churches with unrelated business income were audited. Third, few churches with unrelated business income were audited by independent public accountants; i.e., 12.5 percent of the churches with unrelated business income were audited by independent public accountants compared with 16.3 percent of the total churches. Thus, some churches with unrelated business income

did not typify the total group of churches.

Differences in Chief Financial Officers'  
Attitudes Towards Prerequisites to Using  
the Attest Function in Churches  
Requiring and Not Requiring  
Interim and Internal Audits

Hypothesis 14: There is no significant difference in church financial officers' attitudes towards prerequisites to using the attest function in churches requiring and not requiring interim and internal audits.

The difference in church financial officers' attitudes towards utilizing the attest function dichotomized by churches requiring and not requiring internal and interim audits may suggest the success of one procedure related to the attest function in churches. That is, tests of such attitudinal scores may suggest differences in attitudes.

The financial administrators of churches were asked the following question concerning internal and interim audits in their churches.

Does your local church require either an internal audit or interim audit of the financial records?

Yes                       No

One hundred nineteen responses were marked, and the responses were analyzed by the Mann-Whitney test.

Summary of Findings

Thirty-five percent of the chief financial officers marked that their churches required internal or interim audits and sixty-five percent of the respondents marked their churches did not require such audits as summarized by Table XVIII. The data suggested that the Mann-

TABLE XVIII

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION CLASSIFIED BY CHURCHES REQUIRING AND NOT REQUIRING INTERIM AND INTERNAL AUDITS<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Prese-ntation of Financial Information	Selection of an In-dependent Accountant	Prerequi-sites to Using the Attest Function
Yes	42	35.3	68.7	62.1	66.6	65.8
No	77	64.7	60.9	64.8	60.2	61.1
Total	119	100.0				
Mann-Whitney Test Score			-1.11	-0.39	-0.91	-0.64

<sup>a</sup>The question asked is as follows:

Does your local church require either an internal audit or an interim audit of the financial records?

( ) Yes ( ) No

<sup>b</sup>Significant at the .05 level.

Whitney tests of church financial administrators' attitudes towards using internal control procedures, presenting financial information, and selecting an independent accountant classified by churches which require and do not require internal and interim audits were not significant. The test of attitudes towards prerequisites to using the attest function classified by churches which require and do not require internal and interim audits was not significant at the .05 level. Thus, no significant differences between attitudes towards the attest function prerequisites and the requirement in churches for internal and interim audits were shown to exist when tested by the Mann-Whitney test.

#### Interpretation of Findings

Since there was no significant difference between attitudinal scores classified by churches requiring and not requiring internal and interim audits, the hypothesis was accepted. That is, these data did not imply that the tendencies to agree or disagree with conditions which should precede the use of the attest function were different in churches which required and did not require internal and interim audits.

#### Differences Between Church Financial Officers' Attitudes Towards Prerequisites to Using the Attest Function Classified by Financial Statements

Hypothesis 15: There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by church financial statements.

The financial statements of churches may be an indication of the needs of users for financial information from churches, and the

financial statements may reflect the church administrations' willingness to make financial information available to users. The number and types of financial statements prepared by the church may be the result of using an accountant's services in the church. Also, the church financial officers' attitudes towards the attest function may vary with the number and types of financial statements prepared by their churches.

The chief financial officers were asked to indicate the annual financial statements prepared by their churches. The following question was asked:

Mark all of the following that are prepared at least annually by your church.

- A. Statement of cash receipts and cash disbursements.
- B. Balance sheet, including total assets and total liabilities.
- C. Statement of special and restricted funds of the church.
- D. Statement of accrued revenues and accrued expenses.
- E. Operating budget.
- F. Comparison of actual results with the budget.
- G. Explanatory remarks, comments, and recommendations on the church's financial statements.
- H. Other (Describe) \_\_\_\_\_.

A total of 601 financial statements were checked as prepared by the responding churches selected for this study. A number of statements larger than the total number of respondents resulted, because many churches prepared several financial statements. The Kruskal-Wallis and Mann-Whitney tests were used to determine differences in church financial officers' summed attitudinal scores classified by financial statements.

### Summary of Findings

The Kruskal-Wallis tests for differences in attitudes towards using internal control procedures, presenting financial information, selecting an independent public accountant, and prerequisites to using the attest function were not significant at the .05 level as exhibited on Table XIX. Neither the Kruskal-Wallis test nor the Mann-Whitney tests for differences between interests in conditions which should precede the use of the attest function classified by financial statements was significant.

### Interpretation of Findings

The data illustrated by Table XIX presented no evidence of differences in attitudinal scores classified by the financial statements prepared by churches. Thus, the hypothesis of no significant difference was accepted. The conclusion was that attitudinal scores of chief financial officers in churches preparing different financial statements were not significantly different.

### Summary

This chapter included data related to other relevant church characteristics of the selected sample of Oklahoma churches. These characteristics were used to classify the attitudes of chief financial officers in churches and to test for the significant differences and associations. The results of these statistical tests are summarized by Figure 7.

A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal



TABLE XIX

DIFFERENCES BETWEEN CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION CLASSIFIED BY CHURCH FINANCIAL STATEMENTS<sup>a</sup>

Response	Number of Responses	Percent of Responses	Average Rankings of Summed Attitudinal Scores Towards:			
			Use of Internal Control Procedures	Present-ation of Financial Information	Selection of an In-dependent Accountant	Prerequi-sites to Using the Attest Function
A	122	20.3	295.8	295.8	300.5	297.4
B	75	12.5	317.9	325.7	319.3	327.0
C	80	13.5	308.1	291.4	295.4	295.9
D	47	7.8	282.7	296.6	296.3	286.6
E	119	19.8	300.8	303.2	302.9	304.9
F	100	16.6	302.6	300.8	300.1	301.6
G	54	8.9	294.7	300.5	291.2	290.3
H	4	.6	266.5	185.8	239.0	208.4
Total	601	100.0				
Kruskal-Wallis Test Scores			1.73	3.74	1.67	3.54

<sup>a</sup>The question is as follows:

Mark all of the questions that are prepared at least annually by your local church.

- ( ) A. Statement of cash receipts and cash disbursements.
- ( ) B. Balance sheet, including total assets and total liabilities.
- ( ) C. Statement of special and restricted funds of the church.
- ( ) D. Statement of accrued revenues and accrued expenses.
- ( ) E. Operating budget.
- ( ) F. Comparison of actual results with the budget.
- ( ) G. Explanatory remarks, comments, and recommendations on the church's financial statements.
- ( ) H. Other (Describe) \_\_\_\_\_.

<sup>b</sup>Significant at the .05 level.

Significant Tests of Summed Attitudinal Scores

Hypothesis	Test	Using Internal Control Procedures	Presenting Financial Information	Selecting an Inde- pendent Accountant	Prerequi- sites to Using the Attest Function
10. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by church denominations.	Kruskal-Wallis	X			X
	Mann-Whitney	X	X		X
11. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of bequeaths, endowments, trusts, and funds set up for special purposes.	Spearman rank				
12. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of long-term liabilities.	Spearman rank				

		<u>Significant Tests of Summed Attitudinal Scores</u>			
Hypothesis	Test	Using Internal Control Procedures	Presenting Financial Information	Selecting an Inde- pendent Accountant	Prerequi- sites to Using the Attest Function
13. There is no significant association between church financial officers' attitudes towards prerequisites to using the attest function and dollars of unrelated business income.	Spearman rank				
14. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by churches which require and do not require interim and internal audits.	Mann-Whitney				
15. There is no significant difference between church financial officers' attitudes towards prerequisites to using the attest function classified by church financial statements.	Kruskal-Wallis Mann-Whitney				
X indicates the test was significant at the .05 level.					

Figure 7. Illustration of Significant Associations and Differences of Summed Attitudinal Scores by Other Relevant Church Characteristics

control procedures classified by church denominations. A significant difference was shown to exist between such attitudes towards the prerequisites to using the attest function classified by church denominations. Also, some individual pairings of the attitudinal scores towards using internal control procedures, presenting financial information, and prerequisites to using the attest function were shown to be significant at the .05 level. A negative association which was significant at the .05 level was shown to exist between the summed attitudinal scores towards prerequisites to using the attest function and dollar amounts of unrelated business income in churches.

This chapter has concluded the presentation and interpretation of data obtained from the questionnaires sent to church financial officers. The following chapter contains the summary, conclusions, and recommendations of this study.

## CHAPTER VII

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This study was undertaken to gain insights into prerequisites to using the attest function in churches. Information on the attest function was obtained from the chief financial officers of a selected sample of Oklahoma Protestant churches. The individuals making the major financial decisions for the churches were asked to indicate their willingness to provide for internal control procedures, present financial information, and select an independent public accountant. The attitudinal scores for each of the three areas of interest were added together to provide a summed attitudinal score indicating the tendencies of church financial officers to agree and disagree with conditions necessary for use of the attest function in churches. Also, the church officers were asked to provide information about size characteristics, current church audit characteristics, and other relevant church characteristics. These characteristics established the framework for the statistical analysis of church financial officers' summed attitudinal scores.

#### Data Collection

A mail questionnaire was utilized to obtain information about the church financial officers' feelings towards the attest function and about characteristics of their churches. The questionnaire contained two types of questions. First, twelve questions which were to be

answered on a Likert-type scale were asked about conditions which should precede the use of the attest function in churches. Second, fifteen questions were asked about characteristics of the respondents' churches.

The summed attitudinal score indicating a willingness to use internal control procedures in churches resulted from asking questions about: (1) internal audits, (2) fidelity bonds, (3) financial controls, and (4) administrative controls. The summed attitudinal score towards using internal control procedures was obtained by combining the responses to all questions about internal control procedures.

The chief financial officers' interest in presenting financial information in churches was determined by asking questions related to areas as follows: (1) adjusting cash basis financial statements, (2) including budgeted comparisons in financial statements, (3) distributing financial statements, and (4) including fixed assets and long-term liabilities in financial statements of the church. Combined attitudinal responses resulted from adding together all responses related to the presentation of financial information.

A summed attitudinal score indicating the church financial officers' feelings towards selecting an independent accountant was determined by asking questions related to the following: (1) including an audit report with financial statements, (2) employing an independent public accountant, (3) selecting the auditor, and (4) paying the auditor. Combined attitudinal responses from each officer's questionnaire gave an attitudinal score towards selecting an independent public accountant.

Responses of church financial officers indicated 74.0 percent agreed with using internal controls, presenting financial information, and selecting an independent accountant in churches. The officers of financial

affairs in churches responded with the greatest percentage of total agreement; i.e., 87.1 percent, in answering questions relating to the presentation of financial information. The total agreement responses given in answering questions about using internal control procedures represented 86.8 percent of the total responses. Less than a majority of the total responses; i.e., 48.0 percent, indicated agreement with questions relating to selections of independent accountants in churches.

The church characteristics were obtained from responses of church financial officers to questions related to the following: (1) church size, (2) current church audit, and (3) other relevant church characteristics. Questions about the church size included the following: (1) the number of members, (2) the dollar amount of the church budget, and (3) the dollar amount of the fixed assets. The information about the churches' current audits was obtained from questions related to areas that follow: (1) whether the church currently has an annual audit, (2) whether the annual audit is required, (3) what individuals audit the church, (4) what financial records are examined during the annual audit, (5) what benefits result from the annual audit, and (6) what fees are paid to the church auditor. Data about other relevant church characteristics were obtained from responses to questions in areas as follows: (1) the denomination, (2) the dollar amounts of bequeaths, endowments, trusts, and special purpose funds, (3) the total liabilities, (4) the unrelated business income, (5) the internal or interim audits required, (6) the types of financial statements prepared.

The questionnaire was mailed to the chief financial officers of a selected sample of Oklahoma churches. The sample was selected by the steps as follows:

1. The names, addresses, and telephone numbers of all Christian, Episcopal, Lutheran, Methodist, and Presbyterian churches in the cities of Bartlesville, Lawton, Norman, Oklahoma City, and Tulsa were selected.
2. A church officer or the minister of each church was telephoned and asked to give the name and address of the chief financial officer of their church.
3. The questionnaire for those churches which could not be reached by telephone was mailed directly to the church treasurers.

A pretest of the questionnaire preceded the mailing of the final questionnaire. The pretest questionnaire was mailed to twenty-five church financial officers and nineteen questionnaires; i.e., 76.0 percent, were completed and returned within a three week period.

The final questionnaire was mailed to 191 church financial officers. The analysis of the questionnaire results was completed when 127 responses; i.e., 66.5 percent, had been returned. An additional eight responses; i.e., 4.2 percent, were received after the cutoff date. In addition, unusable responses; i.e., responses which were refused, undeliverable, or sent to the wrong address, were returned from eight churches; i.e., 4.2 percent. Neither the questionnaires received after the cutoff date nor the pretest results were included in the statistical analysis; however, written comments from these questionnaires were included in the study where the comments were considered relevant. The results of the pretest questionnaire were similar to the results of the final questionnaire. The study accounted for 162 responses; i.e., 75.0 percent, from the 216 churches which were included in the selected sample of Oklahoma churches.

#### Analysis of Data

Four types of data were obtained from the church financial officers,



and each type of data utilized a different statistical analysis method. The first type of data was the responses given to the attitudinal questions about utilizing the independent public accountants' attest function. These data were presented by number of responses and by frequency distributions.

The second type of data was responses to questions which had only two answers. These data were analyzed using the Mann-Whitney test for differences in average rankings of attitudinal scores between groups.

A third type of data was the responses to questions with three or more possible choices. The Kruskal-Wallis test for differences between responses was used to analyze the group responses, and the Mann-Whitney test was used to analyze individual pairings of responses within the group.

Finally, number and dollar data were obtained in response to questions about church characteristics. These data were tested using the Spearman rank for correlations between responses.

#### Summary of Research Results

The analysis of data resulted in the rejection of eight hypotheses at the .05 level as summarized by Table XX. An association significant at the .05 level was shown to exist between dollar amounts of annual church budgets and church financial officers' attitudes towards (1) using internal control procedures, (2) selecting an independent public accountant, and (3) prerequisites to using the attest function.

A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by church denominations and church financial

TABLE XX  
SUMMARY OF GROUP TESTS SIGNIFICANT  
AT THE .05 LEVEL

- 
1. An association significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures and dollar amounts of the annual church budgets.
  2. An association significant at the .05 level was shown to exist between church financial officers' attitudes towards selecting an independent public accountant and dollar amounts of the annual church budgets.
  3. An association significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function and dollar amounts of the annual church budgets.
  4. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards selecting an independent public accountant classified by churches with and without annual financial audits.
  5. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by the coverage of the annual financial audits.
  6. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by church denominations.
  7. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function classified by church denominations.
  8. A negative association significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function and dollar amounts of unrelated business income.
-

officers' attitudes towards prerequisites to using the attest function classified by church denominations.

A negative association significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function and dollar amounts of unrelated business income. The churches with unrelated business income, however, were different from the total group of churches making up the study. No other significant associations or differences were shown to exist in overall or group tests between church characteristics and financial officers' tendencies to agree with conditions which should precede the use of the attest function.

Further analysis of the Kruskal-Wallis test response pairings resulted in the rejection of eight hypotheses at the .05 level as illustrated by Table XXI. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards (1) using internal control procedures, (2) presenting financial information, (3) selecting an independent public accountant, and (4) prerequisites to using the attest function classified by churches in which the financial records are audited by members of the church who are not accountants and churches in which the financial records are audited by public accountants who do not serve as members of the church management staff.

A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by churches which examine cash receipts and disbursements and churches which examine all financial records of the local church. Also, a difference significant at the .05 level was shown to exist between (1) church financial officers' attitudes towards

TABLE XXI  
SUMMARY OF KRUSKAL-WALLIS TEST RESPONSE  
PAIRINGS WHICH ARE SIGNIFICANT AT  
THE .05 LEVEL

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1. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by churches in which the financial records are audited by members of the church who are not accountants and churches in which the financial records are audited by public accountants who do not serve as members of the church management staff.
2. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards presenting financial information classified by churches in which the financial records are audited by members of the church who are not accountants and churches in which the financial records are audited by public accountants who do not serve as members of the church management staff.
3. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards selecting an independent public accountant classified by churches in which the financial records are audited by members of the church who are not accountants and churches in which the financial records are audited by public accountants who do not serve as members of the church management staff.
4. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function classified by churches in which the financial records are audited by members of the church who are not accountants and churches in which the financial records are audited by public accountants who do not serve as members of the church management staff.
5. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by churches which examine the cash receipts and disbursements and churches which examine all financial records of the local church.
6. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards using internal control procedures classified by (a) Christian and Episcopal churches, (b) Christian and Methodist churches, and (c) Christian and Presbyterian churches.

TABLE XXI (Continued)

- 
7. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards presenting financial information classified by (a) Christian and Episcopal churches, (b) Christian and Presbyterian churches, and (c) Methodist and Presbyterian churches.
  8. A difference significant at the .05 level was shown to exist between church financial officers' attitudes towards prerequisites to using the attest function classified by (a) Christian and Episcopal churches, (b) Christian and Lutheran churches, (c) Christian and Methodist churches, and (d) Christian and Presbyterian churches.
-

using internal control procedures classified by (a) Christian and Episcopal churches, (b) Christian and Methodist churches, and (c) Christian and Presbyterian churches; (2) church financial officers' attitudes towards presenting financial information classified by (a) Christian and Episcopal churches, (b) Christian and Presbyterian churches, and (c) Methodist and Presbyterian churches; and (3) church financial officers' attitudes towards prerequisites to using the attest function classified by (a) Christian and Episcopal churches, (b) Christian and Lutheran churches, (c) Christian and Methodist churches, and (d) Christian and Presbyterian churches. No other tests of pairings of Kruskal-Wallis test question responses were significant at the .05 level.

#### Conclusions

On the basis of the research findings it is concluded that church financial officers were found to be agreeable with prerequisites to using the attest function. The financial officers of churches indicated that accountants should volunteer their services to the church either without payment or at a reduced rate. No evidence suggested that financial managers of church affairs were searching for independent public accountants to serve as auditors in their churches, if accountants were not already providing this service.

The church characteristic which contributed most to the need for and the success of the attest function in this study was that of large annual planned operating expenditures. The evidence for churches using the attest function supported the use of independent public accountants in churches, and no church officer familiar with the independent accountants' attest function evoked unfavorable attitudes or comments.

Church imposed restrictions which could increase the use of the attest function in churches will probably not accomplish this objective. The literature review suggested the current and future tax laws covering unrelated business income may increase the need for accounting services in churches. Federal tax laws; e.g., laws covering unrelated business income or information disclosures, may increase the use of accountants' services or the attest function more than internal church restrictions.

#### Recommendations

The recommendations of this study are applicable to three groups of individuals. The groups are: (1) the accounting profession, (2) the general church management, and (3) individuals choosing to do further research in the area of church accounting and auditing.

In church denominations where no general requirement exists for an annual financial audit, the church financial managers should encourage such examinations where expected benefits exceed costs. Church financial managers should consider both financial and non-financial costs when computing the benefit/cost ratio. If the financial and the non-financial costs exceed the benefits, the annual financial audit should not be encouraged.

Further research should be conducted in the area of auditing for nonprofit institutions. First, a study of other individuals' attitudes; e.g., Certified Public Accountants or members of the churches' congregations, towards utilizing the attest function may provide additional insights into the problems associated with expanding the attest function into church organizations. Second, a study of the attest function in

other nonprofit organizations; i.e., civic clubs and fraternal organizations, may give insights which will lead to expanding the attest function into several nonprofit organizations.



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A P P E N D I X E S .

APPENDIX A

INTERVIEW SHEET

Code: \_\_\_\_\_ Telephone Number: \_\_\_\_\_

Church: \_\_\_\_\_

Introduction:

I am calling in connection with a research project currently being done at Oklahoma State University. I would like the name and address of the chief financial officers of your church. Can you give me this information?

Answers to Questions Frequently Asked:

Question #1: Do you want the name of the financial secretary or the treasurer?

Answer: I want the name of the individual that has the responsibility for making the major financial decisions for your church. The chief financial officer may be the treasurer or the financial officer of the church board.

Question #2: What kind of information do you want from the chief financial officer of our church?

Answer: The research being conducted will determine the feelings of church financial officers towards prerequisites to using the services of independent public accountants in churches. His feelings will be determined as I ask him a few questions by a mail questionnaire. He will be able to answer the questions in between five and ten minutes, and his response will be confidential and completely anonymous.

Address:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Closing: What is the title of the individual you have given?

- ( ) Treasurer  
 ( ) Financial officer of church board  
 ( ) Other (specify) \_\_\_\_\_

APPENDIX B

QUESTIONNAIRE



Instructions: Please circle the number which best indicates the way you feel about each statement given below. Whenever possible let your personal experience in your local church determine your answer. If you are in doubt, circle the number which most nearly expresses your present feeling about the statement.

1. The church should require that a member of the finance committee or an individual appointed by that committee periodically review the procedures used to account for the church assets.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

2. The church should require fidelity bonds for all individuals exposed to cash receipts and cash disbursements in the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

3. The church should establish procedures that prevent individuals handling cash for the church from having access to the accounting records.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

4. The church should designate specific duties and responsibilities for each individual who is a part of the administrative staff of the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

5. The church should adjust the cash basis financial records for significant unpaid bills when preparing the annual financial statements.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

6. The church should include actual and budget comparisons in the financial statements issued by the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

7. The church should prepare financial statements to inform all users; i.e., the congregation, the church management staff, the creditors, and other interested third parties, of the financial affairs of the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

8. The church should prepare an annual balance sheet that includes both the total assets and the total liabilities of the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

9. The church should require that the annual financial statements be accompanied by a report or an opinion which is prepared by the auditor and which is an attestation of the fairness of the presentation of the church's financial statements.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

10. The church should employ an independent public accountant to perform the annual examination of the financial records of the church.

6	5	4
Strongly Agree	Moderately Agree	Slightly Agree
3	2	1
Slightly Disagree	Moderately Disagree	Strongly Disagree

11. The church congregation should select the auditor for the church.

	6		5		4
	Strongly Agree		Moderately Agree		Slightly Agree
		3		2	
	Slightly Disagree		Moderately Disagree		Strongly Disagree

12. The church should ask an independent public accountant to perform a church audit for a lower fee than the fee charged regular clients.

	6		5		4
	Strongly Agree		Moderately Agree		Slightly Agree
		3		2	
	Slightly Disagree		Moderately Disagree		Strongly Disagree

Instructions: Please answer the following questions about your local church. Whenever possible use the information dealing with the most recent year. If you are in doubt, answer the question using the best information currently available to you.

1. The number of members in your local church congregation is: \_\_\_\_\_.
2. The approximate amount of your local church's annual budget is:  
\$ \_\_\_\_\_.
3. The approximate current market value of the local church's fixed assets; e.g., land, buildings, furniture and fixtures, is:  
\$ \_\_\_\_\_.
4. The denomination of your church is: \_\_\_\_\_.
5. Does your local church have an annual financial audit?  
  
 Yes                       No
6. Is the annual financial audit of your local church required?  
  
 Yes, the audit is required because: \_\_\_\_\_.  
 No
7. Which of the following best describes the individual or individuals auditing your local church?  
  
 A. The church's financial records are audited by individuals from the central church organization.  
 B. The church's financial records are audited by members of the church who are not accountants.  
 C. The church's financial records are audited by members of the church who are public accountants.  
 D. The church's financial records are audited by public accountants who are also members of the church management staff.  
 E. The church's financial records are audited by public accountants who do not serve as members of the church management staff.  
 F. Other (Describe) \_\_\_\_\_.
8. Which of the following best describes the audit of your local church?  
  
 A. An examination of the cash receipts and cash disbursements.  
 B. An examination of all financial records of the local church.  
 C. Other (Describe) \_\_\_\_\_.

9. Which of the following is the primary benefit your local church receives from the annual financial audit?
- A. Uncovers errors made by the bookkeeper during the accounting period.
  - B. Lends credibility to the local church's financial statements.
  - C. Decreases some of the responsibility which must be taken on by those people handling other people's money for the church.
  - D. Other (Describe) \_\_\_\_\_.
10. The approximate amount your local church pays for its annual financial audit is: \$ \_\_\_\_\_.
11. The approximate amount of your local church's funds set up by bequeaths, endowments, trusts, or for special purpose is: \$ \_\_\_\_\_.
12. The approximate amount of your local church's long-term liabilities; e.g., notes payable, bonds or mortgages is: \$ \_\_\_\_\_.
13. The approximate amount of your local church's unrelated business income; e.g., income from investments or profit-making enterprises owned by the church, is: \$ \_\_\_\_\_.
14. Does your local church require either an internal audit or an interim audit of the financial records?
- Yes                       No
15. Mark all of the following that are prepared at least annually by your local church.
- A. Statement of cash receipts and cash disbursements.
  - B. Balance sheet, including total assets and total liabilities.
  - C. Statement of special and restricted funds of the church.
  - D. Statement of accrued revenues and accrued expenses.
  - E. Operating budget.
  - F. Comparison of actual results with the budget.
  - G. Explanatory remarks, comments, and recommendations on the church's financial statements.
  - H. Other (Describe) \_\_\_\_\_.

APPENDIX C

COVER LETTER I



*Oklahoma State University*

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74074  
(405) 372-6211, EXT. 258

May 21, 1973

Dear

Will you please help me gather information for my doctoral dissertation by answering the short questionnaire enclosed with this letter? The completed questionnaire will provide information which will indicate how much churches, such as yours, should utilize the attest function of independent public accountants. Also, will you please return the enclosed post card separately from your return of the questionnaire? The return of your post card will provide evidence of your response but will make your response anonymous.

Your response will be held in strict confidence, and your response will not be presented individually or identified with you in any way. The return of your completed questionnaire, however, will be crucial to the success of this study. When your opinions are combined with the opinions of other church financial officers, the statistical tabulation of the results will provide information which will be useful to churches and to accountants.

I will appreciate your completed questionnaire regardless of the extent to which your church currently uses the auditing services of an independent public accountant. In appreciation of your assistance and cooperation, if you will check the appropriate box on the enclosed post card when you return it, I will be happy to send you a copy of the results of my study.

Sincerely yours,

Jerry L. Haugland  
Ph.D. Candidate in Accounting

Milton F. Usry  
Regents Professor of Accounting  
and Chairman of the Dissertation  
Committee

JLH:MFU:my

Enclosures: (3)

APPENDIX D

COVER LETTER II





*Oklahoma State University*

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74074  
(405) 372-6211, EXT. 258

June 4, 1973

Dear

You were recently mailed a questionnaire concerning your feelings toward some aspects of utilizing the independent public accountants' attest function in churches. If you have not yet returned the questionnaire, will you please take a few minutes and complete the enclosed copy?

You, as the chief financial officer of your church, are in a position to express a meaningful opinion on the financial matters related to your church. Your completed questionnaire is desired regardless of your opinion towards utilizing the attest function of the independent public accountant, and the return of your completed questionnaire is crucial to the success of the study.

Your opinion will be held in strict confidence and will only be combined with the opinions of other church financial officers for presentation in my study. Since I must follow up all unanswered questionnaires, will you please return the enclosed post card separately as evidence of your response? If you will check the appropriate box on the post card when you return it, I will be happy to send you a copy of the results of the study. If you have already returned the questionnaire, I sincerely appreciate your cooperation.

Sincerely yours,

Jerry L. Haugland  
Ph.D. Candidate in Accounting

Milton F. Usry  
Regents Professor of Accounting  
and Chairman of the Dissertation  
Committee

JLH:MFU:paf

Enclosures: (3)

APPENDIX E

COVER LETTER III



*Oklahoma State University*

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74074  
(405) 372-6211, EXT. 258

June 14, 1973

Dear

Before I can complete my Ph.D. dissertation on church financial officers' feelings toward utilizing the independent public accountants' attest function in churches, I need your assistance. Your completed questionnaire is necessary to make the results of my study significant. If you have not already completed and returned your questionnaire, will you please take a few minutes to complete and return the enclosed copy? Also, will you please return the enclosed post card as evidence of your response?

Your response will be held in strict confidence, and your response will be used only for statistical tabulations in my study. If you will check the appropriate box on your post card when you return it, I will be happy to send you a copy of the results of my study. If you have already returned your questionnaire, I sincerely appreciate your co-operation.

Sincerely yours,

Jerry L. Haugland  
Ph.D. Candidate in Accounting

Milton F. Usry  
Regents Professor of Accounting  
and Chairman of the Dissertation  
Committee

JLH:MFU:paf

Enclosures: (3)

APPENDIX F

POST CARD

Mr. Jerry L. Haugland  
Department of Accounting  
College of Business  
Oklahoma State University  
Stillwater, Oklahoma 74074

I have completed and returned your questionnaire.

I would like a copy of the results of your study.

Name of Respondent  
Address  
City, State

VITA

Jerry Lee Haugland

Candidate for the Degree of

Doctor of Philosophy

Thesis: CHURCH FINANCIAL OFFICERS' ATTITUDES TOWARDS PREREQUISITES TO USING THE ATTEST FUNCTION: AN EMPIRICAL STUDY BY CHURCH CHARACTERISTICS

Major Field: Business Administration

Biographical:

Personal Data: Born in Sutherland, Nebraska, August 26, 1941, the son of Mr. (Deceased) and Mrs. Jacob Haugland.

Education: Graduated from Sutherland High School, Sutherland, Nebraska, in May, 1958; received a Bachelor of Science in Business Administration degree from the University of Nebraska, Lincoln, Nebraska in 1962; received the Master of Arts degree from the University of Nebraska, Lincoln, Nebraska in 1966 with a major in finance; completed requirements for the Doctor of Philosophy degree at Oklahoma State University in May, 1975.

Professional Experience: Graduate assistant, Department of Accounting, University of Nebraska, Lincoln, Nebraska, 1963-1966; instructor, Department of Business Administration and Business Education, Southeast Missouri State University, Cape Girardeau, Missouri, 1966-1970; part-time instructor, Department of Accounting, Oklahoma State University, Stillwater, Oklahoma, 1970-1973; assistant professor, Department of Business Administration and Business Education, Southeast Missouri State University, Cape Girardeau, Missouri, 1973-1975.