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IRS Form 990 and Opportunity for Improvement

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IRS Form 990 and Opportunity
for Improvement.

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Executive Summary

In the contemporary world, IRS Form 990 returns are increasingly being used to source data about the nonprofit sector, which have critical in enhancing the community's social welfare. However, there has been a considerable debate concerning the adequacy, reliability, and quality of the data contained in the document. This study incorporated a total of 150 nonprofit entities from the US to investigate the adequacy, reliability, and quality of Form 990 returns. I used both quantitative and qualitative research methods to evaluate the consistency in the selected data. Selected entries were used for analysis and compared with those of audited financial statements. The findings show that Form 990 provides adequate and reliable information. However, monitoring of the inaccuracies on the document by the stakeholders requires special attention to increase the confidence of the information on the document. Accounting professionals should be vigilant in ensuring they have a clear understanding of the document's purpose to enable faster interpretation

1.0 Introduction

1.1 Background

In the extant world, nonprofit organizations have been critical in society due to their traits and contribution to community members. Essentially, they work towards improving society's standards of living by engaging in activities that help the needy, programs that enhance community health, supporting education, and environmental projects. They put more effort into supporting such programs focusing on the quality of these services and enhancing equality in the community rather than making profits out of them. There are instances where such organizations generate revenues from the activities, they engage in. In such incidents, the nonprofit organizations plow back the surplus to further their activities rather than distributing it to the founders. Additionally, nonprofit organizations are exempted from taxes in most countries around the world, including the US. Nonetheless, nonprofits are required by the law to file records that show their returns for the period of their operations, and financial transactions to the Internal Revenue Service (IRS). Consequently, it is the duty of the IRS is to regulate and implement the tax regulations on both profit and nonprofit firms according to the federal law. Nonprofit organizations show file their returns to the IRS through Form 990.

Form 990 is one of the essential compliance documents that enables nonprofits that do not pay taxes to the state or federal government to show their periodic returns and other critical financial information annually. The document contains the nonprofit's information, mission, programs, and finances. The purpose of this form is to explain to the IRS their financial practices and management of funds within the firm to ensure transparency in their activities. Furthermore, the form prevents nonprofit organizations from abusing the privileges of being tax-exempted entities by disclosing their operation activities and management of the funds they receive from

various stakeholders. Therefore, Form 990 is an essential tool and compliance document that the management of nonprofit entities must voluntarily file to the IRS.

The government has a duty to oversee the activities of nonprofit organizations in the community through its regulations. Through Form 990, IRS can monitor the adherence to the sole purpose that the organization was formed by evaluating the programs and ensure such entities do not engage in illegal activities that threaten the community wellbeing secretly. Filing of the form accurately and on time annually helps the IRS have updated information in its databases concerning the organization's legal activities. The document is also available to other stakeholders with interest in the nonprofit. Donors and the public often refer to the form to check the programs, activities, revenue sources, short-term and long-term sustainability before committing their resources or cooperating with such organizations. The form ascertains the donors that their charity interests are indeed carried out as part of the nonprofit organizations, thus ensuring that their donations will be utilized effectively. Therefore, Form 990 is an essential tool for both IRS and external stakeholders to refer for critical information from the nonprofit entities.

The management and board have a duty to file Form 990 and make it available for access to the public. Nonprofits should make the form available to the interested groups such as donors, researchers, administrative agencies, the media, and the public through various channels connected to the organizations. Firstly, the external stakeholders can access the form through the nonprofit's official website. This channel is the easiest method since a viewer will only need the internet connected device to access the nonprofit website remotely and gain access without strict procedures on the internet. The second channel that can be used is through its facilities such as headquarter offices or listing places such as Guidestar databases, an agency that gathers

nonprofit organization information and makes it public. This channel enables the stakeholders to obtain more information about Form 990 by asking questions to the organization or obtaining explanation of their performance on Guidestar. Thirdly, viewers can access Form 990 from the IRS website. The public should access filed Form 990 of all nonprofits they are interested in at no cost. IRS has clearly defined the types of organizations that fall need to fill the Form 990 through its publications. Among them are private foundations which file Form 990-PF irrespective of their incomes from their activities (IRS.gov, n.d.). Nonprofit entities with a least \$200,000 in cash or bank or at least \$500,000 value of assets, nonprofits with gross receipts of \$50,000, are other organizations required to file Form 990. Moreover, firms that are registered under Sections 501(c), 527, and 4947(a) (1) of the US taxation act need to file the form annually. Overall, the IR has various Form 990s ranging from PF, EZ, T, and N to help firms comply voluntarily with the federal tax regulations depending on their sizes and nature of their activities.

Some entities are exempted by the law not to file Form 990. Organizations such as churches and religious convections such as missionary organizations with less than \$1000 gross income have been exempted from filing the form. Besides, subsidiaries of a parent nonprofit organization are exempted from filing Form 990. It is essential for those who run these organizations to learn the categories that their firms fall at to understand the IRS tax compliance requirements and the type of Form 990 they are required to fill. This way, the firm will run will few legal complications on tax compliance. This paper aims to evaluate the interpretation of Form 990, reasons for filling it, and both the benefits and disadvantages of firms filling the form.

1.2 Statement of the Problem

Nonprofits have a vital role in the progress of community status as well as the economy. Considering their input, they need close monitoring and proper management to maintain their

impact on society. These organizations are often entrusted with vast amounts of funds to conduct a significant number of community activities and transactions. Despite this vast involvement in critical economic aspects that affect the society, they are exempted from taxation. It is more likely that many nonprofits will abuse their tax exemption status, especially that they are not monitored by paying taxes. Considering these critical arguments, the regulators have a role in collecting all the information at regular prespecified periods through which all the transactions of the organizations are monitored to ensure the community is truly benefiting from their presence.

Several changes need to be initiated in Form 990 to ensure they cover the best interest in tax compliance of nonprofit entities and the beneficiaries in the community. There is a need to ensure that the form covers more than the transactions and financial management of the organizations. The form should accommodate more information such as internal structures, governance, and summary details of daily activities. This type of information not only provide light to the benefits that the society receives from the organization but also enhance the accountability and transparency in their interactions with stakeholders.

Essentially, IRS and other external stakeholders utilize Form 990s to obtain critical information such as financial management about nonprofit organizations. The firms must file the forms timely and accurately every year of their operations. Although these forms act as the annual financial statement, it is not clear whether they are compatible to be audited to represent the financial position of nonprofits. There is a need to carry out more research to evaluate the quality of Form 990 to be used in audits similar to financial statements for profit-making firms.

1.3 Research question

The following research question guides the capstone.

- What is the importance of Form 990, and why is it a requirement by IRS to file it?
- How can we use current data to improve the regulation of the Form 990?

1.4 Significance of the Study

The paper is critical in adding to the pool of knowledge about the benefits of Form 990 and why the IRS requires nonprofit entities to file it. It provides important insights to external stakeholders by disclosing critical information contained in the form and how they can utilize it to evaluate the details of nonprofits of interest. It lays a foundation for further research on tax compliance policy for nonprofits to ensure that they do not abuse the tax exemption status.

The paper also a helpful tool to the federal government and policymakers by referencing the recommendations concluded by extensive research. The aim is to enhance the policy through Form 990 that promotes impactful activities of nonprofits and foster the benefits the community receives from their presences in the long run. This capstone sheds light on nonprofits on how they can ensure they do not interrupt their activities in relation to tax compliance as indicated by the IRS. It also enhances transparency, accountability, and cooperation between the stakeholders. This study evaluates loopholes in Form 990 and provide suggestions for improvement to cover all the needs of stakeholders. At the end of the research, I recommend areas of further research to scholars to provide an extended understanding of tax compliance of nonprofit entities to supplement this study in future.

1.5 Scope of the Study

The paper focuses on discussing Form 990 resources and tools, their importance, and their application in the tax compliance policies of nonprofit entities. In addition, it evaluates the relationship of IRS with Form 990 and how it monitors nonprofits as a federal duty provided by the law. I conducted secondary research on various empirical studies on the topic included in the literature review. Additionally, I obtained

primary data from nonprofit entities to investigate the drawbacks and benefits they have encountered from using Form 990. This data was used to analyze the impact of the policy on nonprofit organizations and the community welfare. After discussing the results from primary study, I provide recommendations to solve the underlying problem or need for this research.

2.0 Literature Review

Form 990 is an Internal Revenue Service form that offers the public financial knowledge about nonprofit organizations in the United States. That is, Form 990 is a federal tax document educating the citizens about financial knowledge. Notably, it is considered the only source of financial information support. Nonprofit organizations are requested to sign Form 990 with Internal Revenue Service (IRS) (Mitchell, 2012). Remarkably, the government agencies use Form 990 to regulate nonprofit organizations from evading their tax-exempt status. The primary aim is for non-profit organizations, tax-exempt nonprofit organizations, and non-governmental organizations to file Form 990 and share their information with Internal Revenue Service as requested by section 6033 (Harris, Petrovits, & Yetman, 2015). Apart from having the financial information to the public, organizations filing the form have to include their mission and all programs achieved every year. As a result, Form 990 can be used as one of the best chances to publicize a nonprofit organization's achievements (Saxton, Neely, & Guo, 2014). The form can elaborate a piece of detailed information concerning the mission's achievements of that particular organization (Saxton, Neely, & Guo, 2014). According to Saxton, Neely, & Guo (2014), these achievements are measured using the accountability models plotted by these organizations. Additionally, apart from accountability, other characteristics, such as governance, capacity, and the environment, highly determine the accomplishments of organizations (Saxton, Neely, & Guo, 2014).

Most organizations, either charitable or non-charitable, are prone to the threat of fraud. Thus there is a need to take adequate precautions to curb this problem. As mentioned earlier, nonprofit organizations are no exemption to this setback. As a result, all nonprofit organizations should implement effective precautions and be careful in segregating reported

revenue filed in Form 990 (Harris, Petrovits, & Yetman, 2015). This action will help these nonprofit organizations separate unrelated businesses from program-related revenues (Harris, Petrovits, & Yetman, 2015).

Nonprofit organizations should reflect the contribution revenue in Form 990.

Indisputably, the contribution revenue directly impacts the public support tests for nonprofit organizations.

Research done by Calabrese (2012) indicated that nonprofit organizations should compare the revenue of unrelated businesses with program-related revenue, thus eliminating any hindrances to achieving the intended primary agenda. The use of operating reserves permits nonprofit organizations to rectify the imbalances found between revenues and expenses, thus allowing these organizations to maintain the program output despite the existence of fiscal shock (Calabrese, 2012). However, Calabrese (2012) concluded that most nonprofit organizations do not maintain operating reserves. One reason for not maintaining the operating reserve is that most of these organizations intend to spend more than they save (Calabrese, 2012). Nonprofit organizations should use the allocation methodology when differentiating between unrelated businesses with program-related revenues (Kerlin & Pollak, 2018). The allocation methodology ought to be reliable and accurate during the segregation of program-related businesses, fundraisings, management, and ordinary expenses (Kerlin & Pollak, 2018). As a result, the operating expenses ratios are determined as benchmarks.

The majority of nonprofit organizations are responsible for filing annual information with Internal Revenue Service. During the filling process, Form 990 requires the organizations to fully disclose all information, such as the total reimbursements for their trustees, directors, significant employees, officers, and the most paid organizational officials (Burks, 2015). The information provided should also include the salaries of all the individuals

mentioned above and the taxable and non-taxable benefits (Burks, 2015). Part VII of Form 990 requires the compensation information based on annual tax. Consequently, organizations are authorized to provide procedures and implemented policies without excluding their compensation and conflict of interest (Saxton & Guo, 2009). According to Saxton & Guo (2009), organizations should practically devote themselves to policy review in order to achieve their envisioned objectives. According to Burks (2015), the information about the compensation and the conflict of interest can be used to determine the challenges affecting these organizations. The report can also help managers and auditors of these nonprofit organizations understand the type of error existing and encourage the implementation of measurable strategies to eliminate existing problems.

Form 990 has additional requirements for organizations filling it. Section 6033 of the International Revenue Code obligates tax-exempt nonprofit organizations to file an annual report including the receipts, revenues, disbursements, and other necessary documents (Butler & Butler, 2016). Notably, Butler & Butler (2016) suggest that charitable organizations use this compliance requirement to educate their donors. Besides, it can be useful in marketing charitable organizations and their programs (Petrovits, Shakespeare, & Shih, 2011). Also, it can help to identify how donors and government agencies impact either directly or indirectly the capital source for nonprofit organizations (Petrovits, Shakespeare, & Shih, 2011). However, some public members merely depend on Form 990 to get information about a particular organization. For that reason, the information available in Form 990 describes how the public members comprehend a particular nonprofit organization.

The number of nonprofit organizations has steadily increased globally. Notably, the number of non-profit organizations performing related programs has increased (Lee & Joseph, 2013). This has

resulted in stiff competition between these not-for-profit organizations, aiming to stand and grow (Lee & Joseph, 2013). This forces organizations to be more strategic regarding communicating their intentions, mission, agendas, fundraising, and marketing. Generally, organizations that transparently reveal high-quality financial and performance reports are considered accountable and trustworthy by the general public (Lee & Joseph, 2013). Indisputably, communication is one of the key contributors to the success of an organization. Form 990 acts as a major component to ensure a smooth and successful communication plan for these organizations. Lee & Joseph (2013) suggests that using a digitalized informative strategy can also help organizations thrive and become successful. In addition to public trust, the use of web disclosure principles and perfect practices can help organizations develop.

Nonprofit organization widely relies on donation sources to fulfill their needs and plans. That is, the more the donors, the higher the chances of the nonprofit organization's success. The information about the nonprofit organization's intention, aim, and a plan is requested in Form 990. However, Shon, Hamidullah, & McDougale (2018) encourages all nonprofit organizations filing Form 990 to include their financial report and include a narrative section with precise information about their plan on achieving the mission and objectives. A well-prepared narrative section helps attract potential donors and marketing the organization to the clients and general public.

Form 990 has other beneficial advantages than just providing tax return information about organizations. Arguably, Form 990 differs from financial statements. Upon filing Form 990, it is made available to the general public, permitting organizations to clearly express their plans, missions, and objectives (Vermeer, Edmonds, & Asthana, 2014). Moreover, it allows these nonprofit organizations to market themselves to their target clients and the public.

Vermeer, Edmonds, & Asthana (2014) avers that different people use Form 990 for various reasons. For instance, nonprofits use the information to market themselves to the public, while grantors and donors use it to establish whether the mission of these nonprofit organizations aligns with their set goals and objectives (Vermeer, Edmonds, & Asthana, 2014). Indisputably,

Form 990 benefits both the nonprofit organizations and donors/grantors.

Internal Revenue Service Form 990 helps govern how specific mechanisms affect decisions made by nonprofit organizations. Nonprofit organizations use Form 990 to evaluate policies, administer structures, and conform the entire organization (Yetman & Yetman, 2011). Additionally, Form 990 helps organizations easily monitor their programs' achievement in line with their set mission and objectives. On the one hand, the Internal Revenue Service (IRS) depends on Form 990 to supervise and determine whether organizations comply with their intended activities and programs. On the other hand, stakeholders rely on Form 990 to evaluate the existence of funding alternatives (Harris, Petrovits, & Yetman, 2014). Organizations that seem to be transparent and successful in their activities and programs receive many donors. Yetman & Yetman (2011) stated that transparent not-for-profit nonprofit organizations receive more donations, hence having higher managerial salaries and reduced risk of losing their tax-exempt status.

Gordon, Khumawala, Kraut, & Meade (2007) emphasizes that Internal Revenue Service Form 990 is a critical instrument that ensures public accountability to all tax-exempt organizations. This form provides detailed information about these nonprofit organizations to IRS officials, donors, grantors, sector supporters, taxing authorities, and the attorney general. (Gordon, Khumawala, Kraut, & Neely, 2010) conducted research to assess the reliability and quality of the information provided in Form 990. In their research, Gordon, Khumawala, Kraut, & Neely (2010) compared the financial leaks and audited financial statements of 39 nonprofit organizations. The study

results indicated several problems, such as inaccurate functional expenditures, program service inconsistencies, differences between revenue and expenses, and a discrepancy of profits and losses. Mitchell (2012) avers that the existence of these errors might be a result of the difference between the rules of Form 990 and those governing nonprofit organizations. Gordon, Khumawala, Kraut, & Neely (2010) suggest that organizations should ensure their annual reports are complete, transparent, accessible, and relevant for accuracy purposes. As a result, they will be in a better position to achieve their responsibility and portray accountability to their donors and the public in general.

The literature review included detailed research and an approximate 17 academic sources assessment. All the sources cited pinpoint the importance of Internal Revenue Service Form 990 to the nonprofit organizations from the information gained. The articles articulate the importance of Form 990 to not-for-profit nonprofit organizations, including additional benefits to communication, marketing, and informing the public of its mission and objectives. Remarkably, the information disclosed in Form 990 permits the donors, grantors, and the public to have a deep understanding of the organization's plan and thus influence their perception of the nonprofit organization. These articles stress how organizations should make use of Form 990. Also, the form guides nonprofit organizations to become transparent, thus attracting as many donors and clients as possible. Besides, the articles emphasize how Form 990 helps businesses become successful and popular at the same time.

However, despite the compliments and the praise of using Form 990, there exist some disadvantages of using this document. According to Ozmeral, Reiter, Holmes, & Pink (2012), there is an existing variation between Audited Financial Statements (AFS) and Form 990, despite providing itemized financial accounting reports. (Ozmeral, Reiter, Holmes, & Pink, 2012) highlighted several drawbacks of using Form 990. Firstly, there is a time difference between Form 990 and Audited Financial Statements due to variations in dates. Secondly, the reporting format of Form 990 varies with that of Audited Financial Statements and thus leading

to improper classification or omission of AFS. Another fact is that the Form 990 has a lower cash frequency than Audited Financial Statements.

3.0 Methodology

3.1 Research Design

Choosing an appropriate research design was critical in ensuring the capstone findings answered the research question. I chose to utilize quantitative method since most of the data involved evaluation was financial data, although it integrates qualitative data to assess the content of Form 990. A correlational research design was used to complete this capstone. The primary rationale to choosing this research design is to evaluate the situation of the phenomenon question accurately and systematically by relating more than one variable in the research paper. Through the design, I was also able to conduct surveys and observations to collect data only on the most important variables related to Form 990 and the nonprofit entities from participants.

3.2 Data Collection Methods

The study collected secondary data of past empirical studies from academic databases containing articles related to the topic under research. One of the past studies that were critical and significantly related to this study was by Froelich, Knoepfle, and Pollak (2000). The authors conducted a study engaging 350 nonprofit entities from Minnesota, US registered under IRS 501(c)(3) intending to evaluate the precision, validity, and correct interpretation of Form 990 and its contents. The Form 990 data of charitable foundations was between 1988 and 1998 of their operation was obtained from Minnesota's Office of the Attorney General. Afterwards, the researchers emailed more than 900 organizations requesting for their audited financial statements. 363 replies were received, where the sample was trimmed to 350 nonprofits. The evaluation entailed comparing Form 990 and equivalent metrics on the nonprofits incorporated in the study with an aim of providing a consensus on the topic in question. Similar to my study, the authors utilized both qualitative and quantitative data methods to analyze the financial data and assess the consistency in data from the forms. Froelich, Knoepfle, and Pollak (2000) also provided a bases in which I referenced for their primary study and the analysis of the data obtained from the participant. However, I speculated there could be huge difference in the results

from this study due to changes in nonprofit industry space and change in mindset and attitude towards Form 990 validating the importance of conducting my primary research. As seen in the literature review, the topic has many other critical research studies related to the topic that was also utilized in secondary research.

The primary data was collected using various methods of quantitative research. These include observation and interviews. A sample size of 46 contacts from nonprofit organizations in the US was incorporated in the study. Interviews were conducted to obtain direct responses from participants about the topic and the effects of Form 990 on the organizations they work in. On the other hand, observations helped find new developments and obtain information on new aspects of the participant's understanding of the topic. Rutberg and Bouikidis (2018) discusses that the importance of a researcher seeking to incorporate surveys in primary data collection helps them to generate reliable data in a more precise way to measure the variables. The choice of the correlational research design enabled me to conduct comparisons with various case studies and variables in the experiment.

3.3 Measurement

A questionnaire was used to combine the data collected to identify the existence of any visible trend. I used the questionnaire in generating data during the survey. According to Internal Revenue Service, three crucial measures are used to establish the best management that this research included: the satisfaction of the consumer, the employee, and the final success or failure of the entire business.

The measurement tools were also essential in analyzing the collected data. For instance, measurement tools like the questionnaire assisted in establishing valid and reliable research results. The questionnaires helped to gain information accuracy from the sources to complete this study. Arguably, the accuracy of the information generated after analyzing the collected data needs to be created from the original crowd and not samples. The generalization of research would interfere with the production of a survey, resulting in the formation of similarity

in accuracy. Thus, I sought to utilize research designs included qualitative, quantitative, and correlational research designs. Both qualitative and quantitative research designs used varying methodologies during the analysis of data. On the other hand, the correlational research design was used throughout the research process. I used a correlational design to collect data, analyze, and present information. According to Wullur, Senduk, & Maramis (2019), correlational research design can also be used to analyze data by establishing and analyzing the presence of a similar relation between elements or variables while avoiding the use of assumption or experimenting.

3.4 Analysis

I used a mixed-method approach of various analysis research methods to conduct an analysis used to generate information to answer the research question. Often, I engaged trained professionals at DMS-Q to help analyze data obtained from the participants (Mariagrazial et al., 2019). The choice of the analysis methods to be used had to consider both the qualitative and quantitative research methods to enhance the ability to provide more expansive results of the study. DMS-Q is an online data analysis tool. Dealer management software- Quantech. It is like a financial portal used in analysis of financial data. So, the professionals in that tool helped me to analyze data financial data collected to get the results. Thus, a choice of mixed-method research was a practical approach, especially since the study included complex study areas

*9-. Among the techniques utilized is the Cohort analysis. This technique aims to provide information about the variables in question and how they are affected over time. The variables such as social-political, educational, and other factors may be included in this type of analysis. This data collected must have happened over time. It is grouped into related sets that share common characteristics over a specified period. Cohort analysis is an effective method to analyze data or processes that happen over time.

Prior to analysis of data obtained from Knoepfle, and Pollak (2000), I conducted a statistical testing to verify the data was credible to be used for this study. First, any

miscalculation or errors were inspected throughout the data. This inspection uncovered very few errors on the figures of IRS returns. The errors found were extra digits or last two digits in the figures. However, these errors made negligible impact to the final outcomes although those

uncorrectable figures were dropped from this analysis.

Before analyzing the data collected, I made several assumptions. I assumed that all the data obtained from the study was unbiased. The respondents were assumed to have given their utmost frank answers to the questions asked. A relationship between the assumed and final generated data was conducted. The results generated from the study were also assumed to be reliable, and the processes applied the standards needed for obtaining the information.

The data obtained from Form 990 were recorded following the IRS instructions. About 11 entries were used for analysis, where 9 of them were coded with revenues and expense data while the other two entries; the assets and liabilities. Essentially, the ratios of interest were fundraising and program expenses ratios. These are the essential variables in nonprofit organizations that evaluate management performance-related issues in the economy.

The entries on Form 990 were analyzed at different financial performance angles to determine its wholeness, reliability, and interpretation to be used as a financial statement tool for nonprofits. In this analysis, I evaluated adequacy by examining the data on revenue and expenses with their respective sources. On reliability, I examined the correlation coefficient of the firms in the last two years. The higher the correlation coefficient is closer to one between Form 990 and financial statements, the higher the firms' consistency over the years.

I also conducted statistical analysis on the phone interviews to gain more insights into the study's qualitative data. The data obtained was on people who prepared the Form 990 returns and the audited financial statements. A series of open-ended questions were examined based on the respondents' replies on the financial structure that Form 990 portrayed on nonprofits. Analysis of the pattern of responses was conducted to obtain insights about the interpretation of Form 990 and requirements from IRS filing.

The statistical program for Social Sciences (SPSS) was the main tool used for analysis. The software helped me to code the data in Form 990s and audited financial statements from non profit

organizations and responses from contacts made. Through the analysis I generated correlational coefficients between variables in tabular and simplified form. My peers were helpful in coding of the data as well as making me understand how to initiate various commands to generate results.

3.5 Limitations of the Study

There were several limitations experienced during the research:

- i. Minimal time to conduct the research. Currently, there exist many nonprofit organizations in the world. This means that it may take more time to conduct detailed and effective research on all of them. The study was able to make limited contacts of 46 respondents only. However, data was supplemented by secondary research.
- ii. Lack of enough money to carry out the research. Thus, it needed traveling costs to interview the management and staff members. conducting interviews using phone calls was expensive. The cost of conducting research such as this with in-person interviews is expensive. The costs of travel and other considerations. limited the investigation to phone interviews
- iii. Lack of cooperation from some of the organizations. Most of the management staff in some organizations did not show much concern about the research. Thus, they kept postponing the meeting claiming to be busy.
- iv. Limited access to data as some nonprofit organizations blocked access to their data.

4.0 Findings

4.1 Quantitative Results

An analysis of data adequacy was conducted showing the entries of expenses and revenues reported by the nonprofits from the Form 990 and financial statement to derive the relationship. The results are represented in Table 1.

Table 1: Percentages of financial statement and Form 990 return details for revenues and expenses in 2019 and 2020.

Variable	Financial Statements		IRS Form 990 returns		Difference	
	2019	2020	2019	2020	2019	2020
Revenues						
Total contribution	92.0	92.7	98.9	97.5	6.9	4.8
Program service revenue	70.5	71.2	68.3	62.0	-2.2	-9.2
Net rental income	13.4	12.3	18.2	14.9	4.4	2.6
Gross profit from sales	10.5	8.2	22.9	19.0	12.4	10.8
Total revenue	100.0	100.0	100.0	100.0	0.0	0.0
Expenses						
Program service expenses	95.0	98.2	97.8	96.4	2.8	-1.8
Management expenses	82.6	83.2	98.3	93.7	15.7	10.5
Fund-raising expenses	53.7	45.5	70.0	63.4	16.3	17.9
Total expenses	99.7	99.1	99.7	99.1	0.0	0.0

The findings show that all the organizations included the revenues and expenses in the

financial statements and Form 990. Nearly all the organizations show their contributions from external sources. Only 70% of the firms include their service revenue in the financial statements. However, a much lower percentage on reporting of the rental incomes or profits can be recognized. One of the critical observations made from this table is that IRS entries have a higher percentage of nonzero values than financial statement entries except for the service income. Additionally, the percentages are higher in 2019 than in 2020. However, the difference in these percentages is not much significant, which could suggest a timely improvement in reporting of revenues on Form 990 in the years examined

A similar observation can be made on the expense entries on the table. Few organizations were denoted not to include expenses in their two examined sources. Consequently, the percentages of nonzero values from Form 990 were higher than those from financial statements. A key observation is that only 50% of the firms examined report fundraising expenses on financial statements compared to 70% on Form 990. Moreover, more organizations report management expenses on Form 990 compared to financial statements. No significant difference can be denoted on the program service expense reporting. Ultimately, we can deduce that Form 990 has more percentage of nonzero values than financial statements on both revenue and expense entries, which is a massive improvement in the data adequacy on Form 990.

Next, I examined the consistency of financial statements and Form 990 using the Spearman correlation coefficient. The results are displayed in Table 2

Table 2: Spearhead correlation coefficients of different groups of firms

	Total Sample		Small firms ^a		Large Firms ^b	
	2020	2019	2020	2019	2020	2019
Variables	N=350	N=221	N=88	N=72	N=89	N=58
Total revenues	.86	.83	.86	.69	.64	.55
Total contribution	.82	.80	.82	.65	.64	.72
Program service revenue	.72	.72	.54	.63	.72	.78
Net rental income	.53	.45	.43	.71	.43	.34
Gross profit from sales	.34	.37	.37	.11	.44	.41
Total expenses	.86	.83	.86	.69	.66	.47
Program service expense	.81	.76	.69	.57	.64	.44
Management expenses	.60	.56	.59	.37	.42	.35
Fund-raising expenses	.70	.72	.75	.50	.76	.81
Total assets	.87	.88	.95	.94	.67	.62
Total liabilities	.87	.85	.72	.66	.68	.54

a. Total revenues <60 million

b. Total revenues > 5.5 million

The correlation coefficient clustering of the entries varies between .70 and .87, which indicates a high degree of consistency between Form 990 and the audited financial statements.

However, gross profit from sales and net income shows a significant level of inconsistency with

.34 and .54 correlation coefficients, respectively. These results can be justified by the fact that the organizations receive revenues from unrelated activities of the nonprofit. The correlation coefficients between the two years are almost similar.

Although it is believed that the small firms are less reliable than large firms' inconsistency of reporting, significant results can be derived from the table. For instance, the correlations on smaller firms are generally higher in most variables, and only two are lower than the total sample. Only two variables have lower correlations. More than half of the variables have more than 0.65 correlation coefficients. Overall, there is increased consistency among the reporting of expenses and revenues.

The consistency level of different categories that nonprofits engage in was also analyzed using Spearman correlation Coefficient.

Table 3: Spearhead correlation coefficients for level of consistency of different categories of program

Variable	Arts ^a		Education ^b		Health ^c		Health services ^d		Public Benefits ^e	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	N=24	N=16	N=40	N=28	N=63	N=39	N=126	N=82	N=60	n=32
Total revenues	.76	.89	.72	.60	.85	.71	.92	.95	.83	.84
Total contribution	.68	.74	.79	.70	.84	.73	.80	.89	.82	.72
Program service revenue	.76	.85	.56	.43	.76	.63	.75	.82	.52	.70
Net rental income	.36	.58	.38	.19	.60	.38	.56	.56	.10	.70
Gross profit from sales	.32	.70	.43	.48	.19	.28	.52	.47	.84	.15
Total expenses	.76	.95	.76	.56	.83	.76	.90	.96	.76	.80

Program service expense	.75	.64	.76	.62	.76	.69	.88	.67	.70	.66
Management expenses	.70	.80	.64	.42	.36	.32	.58	.76	.68	.58
Fund-raising expenses	.18	.38	.62	.59	.75	.72	.70	.60	.70	.62
Total assets	.18	.26	.69	.66	.60	.78	.66	.60	.76	.66
Total liabilities	.60	.38	.73	.55	.52	.47	.67	.98	.89	.53
Total revenues	.77	.95	.82	.77	.92	.83	.86	.92	.82	.80
Total contribution	.69	.87	.89	.86	.88	.76	.92	.93	.84	.76

- a. 2020 mean total revenue= \$6.53 million, median = \$0.45 million.
- b. 2020 mean total revenue= \$4.67 million, median = \$0.68 million.
- c. 2020 mean total revenue= \$15.89 million, median = \$2.35 million.
- d. 2020 mean total revenue= \$7.56 million, median = \$1.92 million.
- e. 2020 mean total revenue= \$5.58 million, median = \$1.46 million.

From Table 3, we can observe a high correlation between the entries of the different categories of programs. The least correlation among total revenue, expenses, assets, and liabilities is .69. The correlation for total contribution is significantly high. However, a low correlation between net rental income and gross profit can be noted. In addition, human services have a high correlation among the programs examined. Nonetheless, it has declined over time, similar to the arts program. There is also an extremely low correlation between fundraising expenses and a high correlation for program service for the arts category. Low correlations are more frequent in the education category. Health and public benefit categories exhibit low correlations on gross profit. Health category also has a low correlation on management expenses.

4.2 Qualitative Results

The qualitative research involved phone interviews. Ten phone interviews were conducted with senior persons in various organizations' financial reporting departments.

Four of the ten interviews involved certified public accountants from nonprofits appointed for audited financial statements and internal revenue service 990 return preparation. The other interviews were done with nonprofit employees. From the total number of employees interviewed, twelve percent of the organizations signified in the subsample had no accounting staff. Twenty-three percent of the remaining nonprofits had no expert trained accountants. Additionally, almost one-quarter of the nonprofits arranged their IRS 990. However, these organizations got the IRS 990 from CPA firms conducting regular annual audits. Nevertheless, it was astonishing to understand that almost half of the nonprofit organizations managed to prepare their own IRS Return with no professionally trained accountants. This was compared to 20 percent of the remaining nonprofits with trained personnel who also managed to prepare their own IRS Return.

The interview acquired responses concerning the guidelines on the preparation of Form 990. Critical responses were gained from organizations with professionally trained staff. The expertise offered adequacy and clarity information about the guidelines provided in Form 990. The majority of the professionals claimed the form entries took a lot of time to compute. This contradicted their opinions, as they thought it should be easy and less complex to calculate. One of the professionals stated that "despite the instructions on Form 990 being detailed if you had a question, it was clear that it could not be addressed in the book." Thus, due to the complexity and time needed, most organizations were forced to request assistance from external experts to prepare Form 990 on their behalf. According to an interview with one external expert, firms requested them to complete the request as soon as possible. Besides, he stated how junior accountants with less experience used previous financial statements as guides to complete the requested tasks.

Concerning the general impression about IRS Form 990, varying comments were noted.

Some of these comments were;

- "We do not look at it."
- "It is not that important, it's just a government requirement."
- "It is complex and a waste of organization's time."
- "Most of the work is handled by external professionals."

However, some responses overwhelmed these statements. Some believed that IRS Form 990 was a useful source of financial information to most organizations. Compared to IRS Form 990 Return, audited statements were regarded as more specific to personal situations. This was derived from assumptions and additional facts illustrated in the attached notes. Most of the staff interviewed suggested that audited statements were more descriptive and representative of the financial status of nonprofits, while IRS Form 990 was merely seen as just a standard government requirement form.

The interview also involved a description of the differences between audited financial statements and IRS Form 990. The majority of the staff highlighted that the information in these documents is similar. Their defense suggested that IRS Form 990 entries were generated from either audited or internal financial statements. However, the difference between these forms comes from their varying purposes. Some of the staff acknowledged the existence of differences in purpose in terms of perspectives and focal points. The audited financial statements seem to be detailed and essential to internal matters. The IRS Form 990 is viewed as a protection mechanism to the donors or grantors and indicates the general public's organizational purpose, mission, and responsibility. Nonetheless, the financial statement was cited to be the most influential and essential document that is regularly requested by most of the outside entities.

There also exists a common problem between the two documents. The most common problem highlighted was allocating expenses required in Form 990. The total expense for program activities listed is compared to overall raised expenses and total management expenditures. The process of transferring necessary information from financial statement-which has discrete expenses on various items- to IRS Form 990 preparation was described as a challenge by most of the staff interviewed. Also, inconsistency between IRS 990 Return and the audited financial statements resulted in a challenge during the filing process. Professional accountants complained of a lack of adequate guidelines for distributing expense items. Also, there was a confusion of whether to treat management expenses, such as salaries, as direct expenses or overheads, to allocate more on programs than outlook and existence of unclear definitions, like "what exactly is management?" Generally, all these problems affect the entries of income statements of these organizations. However, professionals indicated no problem with filing basic balance sheets. They stated that the process was easy and straightforward.

The respondents offered efficient advice on the use of IRS Form 990. Most of them averred that the use of Form 990 was essential to most organizations' development. Despite the existence of various problems during the preparation of financial statements and Form 990, the organization reaped beneficial advantages after filing it. In their reasoning, most of the grantors and donors evaluated organizations using Form 990 before offering their financial support. Suppose they get convinced with the information provided, then the nonprofits benefit. The transparency noted during filing Form 990, the likely the nonprofits is to find more grantors and donors. Additionally, Form 990 helps an organization market itself to the public. Organizations provide precise information concerning their purpose, mission, and objectives during the filing.

From this, nonprofits reach out to the public, especially its target clients, hence increasing its service life.

5.0 Discussions and Recommendations

The knowledge about IRS Form 990 is essential to spot the difference in its traits and interpretation from financial statements. The results proved to be significantly cohesive in the preparation and structuring of the types of sources of data. Financial statements are not often flexible on activities in the firms, while Form 990 has fixed entries that must be present that only change from one year to another. The second difference is that Form 990 provides more details about the contributions in various categories, unlike financial statements, which give only a general summation. The categorization of different forms of revenues can also be challenging, such as grants and program service revenues. This way, there can be significant inconsistencies exhibited among the two data sources.

Form 990 showed significant reliability and adequacy as a source of financial information about nonprofits. The total income, expenses, assets, and liabilities showed consistency. Other variables of interest to Form 990 include contributions, program service revenue, program service expenses, and fundraising were also consistent with financial statements. However, variables of low interest such as management expenses, gross profit from sales, and rental income exhibited low consistency levels. The results showed that small firms have a high level of consistency in reporting between the two sources than large firms. Health services showed a greater consistency than other variables such as education and arts category of nonprofit activities.

Given the increased reliability and adequacy of Form 990 overtime, accessibility of data from nonprofits is easier. Nonetheless, several nonprofits are not ready to utilize Form 990 to provide more information to stakeholders due to the low monitoring rate. The views on taxation policies, penalties, and low audits make stakeholders pay special attention to the document. The relaxation of Form 990 filing monitoring by IRS has led to poor attitudes directed on the

utilization of the document. IRS should be stiff to recognize the inaccuracies in Form 990 entries. Moreover, accounting professionals should realize and take up their extended role to inform the public about nonprofits' activities.

Although there are positive outcomes about the confidence raised on Form 990, much more has to be done to expand the number of variables it shows in entries. In this study, only a few variables were examined. Additionally, the sample incorporated in the study was concentrated in a small region in the US. More research needs to be conducted on more variables and national samples to enable the generalization of the results.

6.0 Conclusion

Currently, there has been an increase in the number of nonprofit organizations. Besides, their impact and contribution to society have gradually been noted. They have put pressure and emphasized supporting the public on various factors, such as community health, education, and environmental maintenance. Arguably, they help accomplish governmental objectives to ensure that the public is enjoying and living their lives to the fullest. As a result, these not-for-profit organizations are exempted from tax. However, they are required by the law to file records showing their returns during the period of operation. Internal Revenue Service Form 990 is an essential document that helps nonprofit organizations not pay taxes. The document requires organizations to provide precise information about their mission, programs, objectives, and finances. From the information provided in Form 990, the IRS can monitor an organization's sole purpose and evaluate its effectiveness towards accomplishing its objectives. The significance of the study was to add a pool of knowledge about the benefits of Form 990 and the reasons for filing it. Through using quantitative and qualitative research designs, it was evident that organizations benefit in various ways from filing Form 990. Firstly, Form 990 protects

organizations from being taxed by providing information about their purpose. Secondly, through Form 990, nonprofit organizations provide detailed information on their primary intention, mission, and objectives. Besides, they provide financial statements, which indicate their transparency and accomplishments. This information helps them gain more donors and grantors. Thirdly, filing Form 990 helps an organization market itself to the target audience. Their intention, mission, objectives, and accomplishments are open to the public. Thus, people can evaluate and seek services from these nonprofit organizations. Lastly, grantors and donors evaluate the accomplishments through reading Form 990. It is from this form that they decide on which organizations to support. Most charitable nonprofit organizations, established as tax-exempt, are required to file an annual information return with the IRS. As mentioned in the study, the primary aim is to guide, evaluate, and monitor the functioning of these nonprofit organizations. The qualitative research design involved observation and interviewing. The study's quantitative design used survey, interview, and experimental interventions. Additionally, the research involved a research question, which guided the primary aim of the entire project.

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8.0 Appendices

8.1 Human Subject Training

IRB Process Summary

The research on filling of Form 990 by nonprofit organizations fits the application of institutional Review Board (IRB) process since it engages collecting primary data form respondents. IRB is a body mandated to review research that involve human subjects to ensure their protection and safety is maintained throughout the research. Specifically, the procedure must be integrated in the process that involve human subjected being interviewed or engaged in surveys. The IRB Process involves a series of steps that are aimed to protect the welfare of human subject as outlined on the Code of Federal Regulation (CFR). Since research involves knowledge development through analysis, evaluation, and testing, humans may be subjected to situations that interfere with their wellbeing or rights. The main steps of IRB method ensures that the researchers understand the value of human subject in research include training, frequently asking questions, identifying the review of human subject types, filling the IRB form for submission and identifying the criteria for achieving the standards of the research (Office of Research Integrity, n.d.). Additionally, it is critical to emphasize on the importance of informed consent and encouraging voluntary participation. Survey and experimental studies are the most critical types of research where researcher must ensure that all human subjects are given informed consent before they participate (Josephson and Smale, 2021). Ultimately, the IRB process was essential to this research to ensure that submission of the findings was approved and that the study upheld ethical principles.

Following the IRB process made was critical in protecting the human subjects incorporated in the research at different levels. I was also informed on the review and the frequently asked questions to the human subjects. I was also acquainted with the benefits of obtaining informed consent to the participants such as providing them with adequate information on the primary purpose of this research study. The review types and criteria for validation of

human subjects provided me with critical skill to save time when exploring who to include in the study. The IRB process also provided me with insights to ensure my ORI submission was reviewed for feedback to start the collecting data and conducting an analysis. The human subjected were promised safety and informed consent before being incorporated in the study. The IRB process aims at safeguarding participants before, during, and after research. This helps in reducing the risks by ensuring a smooth operation during the review process. Also, the IRB process helps check the quality of the research-based upon ethical and rights considerations. The IRB analysis the research methods, the procedure used, engagement, data collection, and evaluation, thus promoting the integrity of the research. Notably, reliable information from the research results to the results to a knowledge of submission of Form 999 with other IRS in nonprofit organizations.

Remarkably, the IRB process applies to all research work relating to human subjects. The type of research determines the submission of medical or non-medical IRB. For researchers that involve Form 999, the IRB process is important for completing E-IRB staged to the non-medical IRB. It is important to note that the IRB process is essential in clinical or non-clinical research involving human participants for data collection and other involved processes.