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Applications of COSO IC Framework to Nashville Public Radio

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Application of COSO IC Framework to Nashville Public Radio

by

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Abstract

This includes an analysis of how the COSO Internal Control - Integrated Framework applies to a relatively small non-profit, compare that radio station's existing internal controls to what COSO says should happen, and discuss if and how the COSO Internal Control - Integrated Framework has to be adjusted for a smaller organization. A direct line of communication has been established with the station for the purpose of gathering information about the station's internal controls. Nashville Public Radio was chosen as a result of familial connections, after determining that a small non-profit is best for this size of project.

This project should result in a better understanding for the student of how internal controls are applied in the real world, while also giving Nashville Public Radio a second look at a very important part of any non-profit's operations. This also tests how far and wide the COSO Internal Control - Integrated Framework can be taken out of the context of a large corporation, which is the usual application of the framework.

I: Introduction

Internal control is an important part of any business. It is defined by COSO as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” This comes from the Internal Control – Integrated Framework, which in turn was created by the Committee of Sponsoring Organizations of the Treadway Commission, the expansion of the COSO acronym. COSO is a group of related professional organizations in accounting and finance that get together every now and then to release important documents that set the standards on internal controls, enterprise risk management, and fraud deterrence. The Internal Control – Integrated Framework is one of these documents, originally released in 1992 and updated in 2013. COSO has structured the Framework around the above definition because it emphasizes certain key aspects about internal control. The work of internal control is always ongoing, building a better organization along the way that is more able to achieve its objectives. Internal control can provide reasonable assurance, but never absolute, in part because it must be created and put into effect by a group of inevitably imperfect humans, who can work towards something greater with the right procedures and controls in place. Most importantly for the purposes of this capstone, internal control must be adapted to the structure and size of the entity that is using it.

This is why it is important that the usefulness of the Framework can sometimes be limited by the context in which it was created. The large public companies that the Framework was primarily made for have immense resources and manpower that allow for the possibility of much more intricate and sophisticated control systems. When the scale of an organization is significantly smaller, the amount of internal controls an organization can have naturally decreases. The less people an organization has, the less people there are to spread financial responsibility between. When there are less employees, the inherent limitations of internal control itself can pop up a lot more often. Internal control is vulnerable to manager overrides, collusion, errors in judgement, breakdowns in systems or communication, external events, and poor preconditions for internal control.

External events and breakdowns do not change much in threat level with scale. Internal control still only affects internal operations no matter the size of the entity. Breakdowns in systems may be less likely to occur in a smaller entity that should have a similarly smaller and less complex control system, but this is balanced out by breakdowns in people. In a system of controls that uses twenty people, one employee's mistakes only accounts for five percent of your operation. When a system of controls uses just five people, that one employee's mistakes can be twenty percent of the operation. However, manager overrides, errors in judgement, collusion, and poor preconditions become significantly larger threats. There are fewer employees required for damaging collusion to occur, fewer employees to catch errors in judgement found in others, and more powerful managers that are more able to ignore policies and procedures with impunity. Poor goalsetting and strategy selection can happen all the same no matter the size, but a lack of established board or inability to attract competent board members can severely limit its ability to oversee and govern the entity as an independent party.

These limitations are particularly important to tackle in the case of a small nonprofit with only a few employees. Unlike the average franchise gas station owner, where the franchisee is only financially responsible to the franchisor and possibly a bank's loan officer, a small nonprofit's biggest stakeholders are the donating public and the people it serves, who may even be one and the same. This broadens the number of vital stakeholders significantly, which make breakdowns of internal control that much more impactful.

One such small nonprofit is Nashville Public Radio, an NPR member station that serves the entire Middle Tennessee area on multiple frequencies, primarily through 90.3 WPLN and 91.1 WNXP. 90.3 WPLN focuses on national news segments with local stories mixed in, self-produced shows such as This Is Nashville, and supplements these with other radio talk shows commonly found on NPR stations nationwide. 91.1 WNXP, the sister signal, focuses on music. The signal was originally bought to be a classical station, but now broadcasts a variety of genres. To avoid any confusion from this point forward, NPR, the acronym, refers to National Public Radio, and any reference to "the Station," refers to Nashville Public Radio. 50 employees work for the Station, five of which deal with internal controls.

Internal controls are vital to Nashville Public Radio's purpose and operations. 41% of the Station's funding comes from the average listener donating or setting up a recurring membership, which makes public trust in where that money is going paramount. The public trust aspect becomes doubly important when considering that the main signal, 90.3 WPLN, is an important local news source, and is the main way NPR delivers its national news broadcasts to Middle Tennessee. Public trust, in an era of politicized news outlets such as CNN or Fox News, is crucial for not just keeping donors, but keeping listeners too. Any kind of financial scandal or misappropriation of funds would be detrimental to the Station's donations as well as viewership, and internal controls are the safeguard against such possible problems.

The aim of this capstone is to analyze what the guidebook on internal controls, the COSO Internal Control - Integrated Framework, says to do, and apply that as best as possible to the Station's situation, while comparing that to the Station's existing practices. This is not an audit, and this does not cover any financial records or statements; rather, it is an attempt to see how well a one-size-fits-all glove actually fits a uniquely sized hand.

II: The Framework and The Station

The COSO Internal Control - Integrated Framework is based around 5 categories of internal control, which are then applied across 3 objectives and all levels of the entity's structure. COSO has found that the best visual representation of this is a cube.

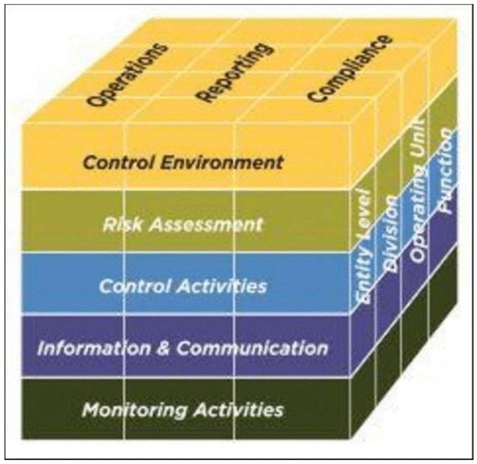

Illustration 1: COSO's Internal Control Cube. On top are IC objectives, on the right are levels of entity's structure, and on the front face are the components of IC.

Within the 5 categories are 17 principles, divided unevenly among the categories. By applying these principles, the entity using the framework should end up with a decent set of internal controls. Each category and principle are addressed in terms of both the Framework and the Station in this section. To keep the scope of this capstone manageable, only reporting and compliance objectives are fully covered. Operational objectives, while important, can cover almost everything an organization does, resulting in too broad of a scope to fully cover in this setting. Instead, operational objectives as they relate to accounting and financial information will be covered instead, so as to integrate with the reporting objective.

To obtain information related to the Framework for this section, the Framework itself was consulted. To obtain information related to the Station for this section, documents produced by the Station's auditor, Kraft CPAs, as well as answers to questions posed directly to the Station's

Vice President of Finance & Technology, Carl Pederson, were used. These two are the main sources of information, and they are supplanted by communications with a long-time employee of the station, Nina Cardona, for a different perspective. Of these sources, only the Framework is publicly available, and only by buying it from one of the organizations that makes up COSO.

Important employees relating to internal controls are: Keri, Accounting Specialist; Carl, VP of Finance and Technology; Michael, Director of Finance. These three are mentioned frequently in the auditor's documents and make up the Finance Department of the Station, so this serves to establish who they are and what their position is whenever they are mentioned. An entity, Chazin and Company, is an outside accounting firm that specializes in nonprofit accounting to provide assistance. They are also mentioned as currently helping with separation of duties.

A: Control Environment

The control environment sets the domain within which each other component resides and defines the structures that internal controls must be designed for. If there is no commitment to ethics, employees are not competent enough, or information cannot flow freely to the people that need it, not even the best processes and controls can work effectively. That is why the principles for this first component focus so much on how the people in the entity act and are managed, to emphasize the need for a strong organizational structure and competent people within it.

A-1: The organization demonstrates a commitment to integrity and ethical values.

Demonstrating a commitment to integrity and ethical values is an important part of any entity's goals, but especially that of a local news outlet. The Station meets this principle primarily through establishing standards of conduct, an important point of focus from the

Framework. The auditor's documents list several DEI (diversity, equity, and inclusion) seminars that had a focus on integrity and ethical values. However, the long-time employee spoke about the importance of equitable representation of the community in their programming. Precisely because of the need for public trust in a publicly funded local news outlet, the employees are in turn driven to provide robust, timely, and factual information to the people of Middle Tennessee. She stated, "It's absolutely vital that we live up to the trust they place in us, and we take that very seriously."

A-2: The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

This is an aspect of the Framework that the Station fits perfectly into. The Framework asks that the organization it is being applied to has a board of directors that has independence from management, can exercise oversight, and is made up of qualified members. As a nonprofit radio station, Nashville Public Radio has no owner, but does have a board of directors. With a for-profit enterprise of similar size to the Station, there may not be a board of any kind. The board is currently made up of nineteen non-managers and one manager, the President/CEO of the Station. This makes the board largely independent from management. Board members are typically business and community leaders in their day-to-day lives, including but not limited to CEOs, law firm partners, professors, and writers. This is a good mix of individuals that would have the requisite knowledge of internal controls to exercise oversight on that, while not excluding members who may be more focused on the journalistic and artistic ideals of public radio. The Board also makes its meetings available to the public, the Station's website simply asks that individuals email ahead of time.

The responsibilities of the board are mentioned frequently throughout the auditor's documents, as they meet quarterly and "get involved in issues with respect to organization governance and high-level decision making." This involvement naturally includes internal control, which is important for following the Framework's focus on oversight in this principle.

One important factor that applies specifically to smaller entities is the struggle to attract competent and appropriate board members. However, while some smaller entities may struggle more with this, the Station, in part because of the national NPR name, does not encounter this issue the same way. NPR is a nationally known and respected name, so important people in local communities naturally want to get involved with the local NPR station. The Nashville Public Radio Board boasts representatives from the Tennessee Titans Foundation, Ascension St. Thomas, HCA Healthcare, Live Nation, Ancestry, United Talent Agency, Belmont University, and Vanderbilt University. Each of these organizations are known either nationally or as major parts of the Nashville economy to the locals, not to mention the writers, law partners, and representatives of lesser-known businesses. It would be bold to say the Station struggles in finding board members who aren't qualified or don't have the right background.

A-3: Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

This is a relatively easy principle to meet for any organization applying the Framework and is highly individualized to each business or nonprofit. The Station's method is to split out major parts of the organization to work under Vice Presidents, which in turn work under a CEO and COO. There is a VP of Finance & Technology, VP of Audience Engagement, and VP of Development. The VP of Finance & Technology, along with the CEO and COO, are the people most in contact with the Board, while also forming the core of the leadership team along with the other VPs, the Director of Finance, and the Director of Corporate Support. Each other employee fits under a VP, with the Board having oversight over the whole thing. This creates a clear and understandable structure for everyone involved with good reporting lines.

A-4: The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

The Station partially outsources for this, by employing a consultant, Cushion Employer Services, to help update all employee compensation plans in 2022. The same consultant was also used to update the Station's human resources policies and procedures. Raises are issued to employees that meet their work requirements after review with a direct supervisor. Employees belong to professional organizations related to their positions and are trained as needed. The Station fully outsources the actual human resources functions and did have to change providers after the previous HR provider accidentally disclosed an employee's personal information to people it should not have. As a result, the Station has since changed HR providers.

All these examples fit under what the Framework calls for in this principle, by using its resources to bring in competent employees, but also by addressing significant issues as they come up. The HR incident was a major sign of incompetence. While some organizations might not be willing to go through all the effort of changing providers over one incident, the Station did the right thing, which is what the Framework asks for. The only part of this principle in the Framework that doesn't entirely apply is related to succession planning, because the Station has only had one major employment change related to internal controls in recent years, when the Controller left the organization, and was replaced by outsourcing.

A-5: The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

The few employees that do have work relating to internal controls have defined a separation of duties within themselves and hold each other accountable. Some of these processes for separation of duties are detailed in the Control Activities section. The way they are held to those responsibilities is as simple as having defined what each other's duties are and holding each other to them. The Framework talks a lot about creating rewards and enforcing pressures to adhere to the organization's internal controls, but the Station simply appears to make internal control responsibilities a part of job responsibilities, which then touches back what the Station does to attract and retain quality employees. If an employee meets their responsibilities, they get a raise.

This is also an area where being a nonprofit is a significant factor in how the Framework applies. The Framework talks about the risks of what economic pressures can do to push managers in a for-profit enterprise to cut costs, push employees to the brink, or sacrifice their morals in order to create a better profit. At the Station, there are obviously pressures to not exceed their budget and to stay within expected funding levels, while still creating quality content that brings in donations. However, there is no potential for an owner to push management to squeeze every last dollar of profit out of the organization. The pressure to maximize profit are replaced by pressure to serve the community and not run afoul of the Board, which gives little incentive to employees or managers to lie or cheat, unless solely for personal profit at the expense of the Station. This partially eliminates the need for an extensive set of incentives and pressures created by the Station to get internal controls right, because the existing pressures already do that.

B: Risk Assessment

The risk assessment component of internal control is all about the entity being able to identify and understand adversities that could stand in the way of the organization's objectives. When an organization can adequately see problems and understand them before or as they happen, it becomes that much easier to design a process or control that will effectively tackle the issue. It is difficult to address a problem that you do not understand.

B-1: The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

As far as financials are concerned, the main objectives of the organization are to keep accurate financial records for reporting to the board. The public often also can access this information, as the most recent audited financial statements for Nashville Public Radio are available via their website. For compliance, it is filing an accurate Form 990 with the IRS, which is similar to a business tax return, but for a nonprofit, as well as working within the FCC's rules. Just like the audited financial statements, a past Form 990 is also available on the Station's website. The Framework offers quite a lot of guidance for how these objectives should be set, although this guidance often comes down to adhering to GAAP, or using SMART (Specific, Measurable, Achievable, Relevant, Time-Bound) goals. Overall, it fits into the Station's needs, and can likely be applied to almost any business. GAAP and SMART goals are important for any entity to follow, whether they are required to or not.

B-2: The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

The Framework has a lot of detail on how it wants entities to approach risk identification and analysis, categorizing risk responses and types, but the Station doesn't have any formal process in place for risk assessment. Instead, it is ad hoc, so almost all the Station's risk assessment has to come from the vigilance of the three people in the finance department on a case-by-case basis. There is no process indicated in the auditor's documents, and there isn't room for that. Two people, Michael and Carl, do almost all risk assessment, and all control activities involve one of them at some point. Risk assessment and analysis therefore become integrated with control activity in terms of job responsibilities, which is a necessary way to adapt the Framework to the Station's size. So, this principle does apply, but not to the level of detail that the Framework asks for, and with significant adaptation.

B-3: The organization considers the potential for fraud in assessing risks to the achievement of objectives.

The Station itself does assess fraud here and there but does not have a specific internal process for it. The Station largely leaves the responsibility of fraud assessment to the auditors, which is appropriate given that there are only five employees that deal with internal controls, and the people who would be making that assessment would also be the most able to commit the fraud. This is one of the clearest principles where size of the organization matters; the Station is simply not big enough to adequately consider the potential for fraud on their own and on a regular basis. Even then, the Station's other controls are structured to minimize the risk of it as much as possible.

B-4: The organization identifies and assesses changes that could significantly impact the system of internal control.

The Framework uses this principle to focus on changes in the external environment, business model, and leadership. Each part of this principle can fit into what the Station does, but does not always have a significant role to play with the Station's internal controls. The most relevant aspect for the Station is leadership because the leadership and the workers with significant responsibility regarding internal controls are one and the same. Any change in leadership will have a direct and significant impact on internal controls.

However, the business model of the Station has been the same for years and is unlikely to need significant change as it relates to internal controls. At its core, the Station is largely funded by public donations, whether they are one-time or recurring. The content changes from time to time and the AM frequency was offloaded, but those have hardly affected how the money gets handled. Much the same can be said about the external environment, as society has settled quite comfortably into how modern media functions. A decade ago, there might be a lot to say about how important this section is in regard to the rise of podcasts and YouTube. Nowadays, local station broadcasts are integrated into the NPR phone app, and the Station recently began a new daily podcast. On top of that, regulatory changes from the FCC that would apply to Nashville Public Radio are infrequent. Even if they do occur, the FCC has practically zero financial regulations on radio stations.

C: Control Activities

This is where the rubber meets the road, and all previous work done to assess risk and create a good environment for internal control comes to fruition. Now, the entity can create policies, controls, and procedures that address those identified risks and put those ethical employees to work. There is not much use in figuring out what the problems are if nothing is created to address them.

C-1: The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

The basis of much of the Station's internal controls is separation of duties, authorizations, and approvals, which each get some focus from the Framework. Everything involving money gets double checked by a person who didn't work on it, or, if possible, the task is split into pieces for different people to complete. If a financial statement is sent to the board or a bank reconciliation is put together, it goes through at least two hands before being approved. Between Chazin and Company, Carl, Michael, and Keri, there are just enough people to look things over that it becomes safe, especially for the size of the Station.

Supporting the control activities established by policy and separation of duties are four accounting and payroll software, Bill.com, Intaact, Proliant, and Allegiance. These cover bill payments, employee timesheets, donation entries, and other general functions related to money. Some of the approval or separation of duties processes happen with the assistance of these software, and they are integrated with each other to a certain degree to assist with the automatic transferring of information to Intaact, which is the final collection point of the financial information when financial statements are put together.

C-2: The organization selects and develops general control activities over technology to support the achievement of objectives.

This principle might sound like it has been addressed with the previous paragraph about how technology is integrated into the Station's control activities, but in actuality, the Framework is talking about the specific controls within the technology. Since the only in-house technology for financial internal controls would be the computers the work is completed in, the Framework's applicable points of focus are largely based in security management within the technology and controls over the process of changing software. The best example of how this applies to the Station is Bill.com's security features, which offer the ability to give users certain permissions to complete certain tasks. For example, the employee with the Clerk role would only be capable of entering invoices, while the employee with the Payer role would only be able to pay the bills once approved. Software changes have happened, such as when the Station changed their accounting system over to Intaact, but that was in 2022 and there would be no need for the same controls until they have another major software change, making this only necessary ad hoc.

The importance of using commercial software to meet the Station's information technology needs cannot be understated, because that is what renders the other points of focus in this principle obsolete. It is an important adaptation of the Framework that must be made for a smaller entity, as the Station is entirely incapable of developing financial software on their own, nor should they be expected to do so.

C-3: The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

This principle is where the previously created ideas for control activities are put into action. One control activity relates to corporate withdrawals. In one of the auditor's documents, it is specifically stated that for a corporate withdrawal of up to $10,000 requires the approval of one corporate financially responsible position or a Board Officer. For $10,000 to $45,000, it takes two of those sorts of people. For $45,000 and above, it takes three, one of which must be a Board Officer. This is a great way to have a specific approval process for taking money out of the organization.

Another control activity relates to separation of duties for billing. Keri opens all invoices and enters them into Bill.com. Through Bill.com, those invoices are routed to any relevant department heads, and subsequently to Michael for final approval. Carl then reviews all this and generates the actual payment within Bill.com. This process shows how the Station, despite the small staff, can adequately separate financial responsibilities, maximizing the capabilities of the Finance Department. In any smaller of a business, all of those billing functions might get rolled into one job, creating a significant risk for fraud or misstatement.

Processes like these two are used consistently throughout the Station's operations, which means the Framework can be applied extremely well in this instance.

D: Information and Communication

Internally, this component asks the entity to ensure that information flows freely, and that the information is indeed useful to achieving organizational objectives. If an organization cannot provide quality information about control activities, it can be difficult to understand how to fix those controls. Maybe a risk is identified and assessed, but the information about that risk must be accurate enough to effectively address said risk. Externally, the entity cannot be an informational island, it needs to be able to interact with people, organizations, and entities that are not itself.

D-1: The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

The Framework uses this principle to focus on collecting internal information about what is and is not getting done within the entity for internal control, but the Station doesn't quite have the manpower to put whole employees on pure analysis duty in-house. It makes a lot more sense for the Station to take financial information that already exists in the accounting programs and simply work with that, especially because the internal controls for financial operations and reporting are all just processes, the most that the Station could do in this aspect is simply to have people like Keri, Michael, and Carl keep an eye on what each other are doing. As it happens, that's exactly how the Station's control activities and risk assessment already work; check what the other is doing and make sure things are okay. It all just ends up getting wrapped together.

However, externally, there is the auditor. The auditor's documents, which are information about the Station's internal controls. KraftCPAs goes through every single point of focus that the Framework calls for. The auditors have specifically identified information requirements, they have captured data about internal control, they have processed it into responses to their requirements, and they have maintained quality throughout. It may not be Nashville Public Radio doing it, but it is the closest thing to what this principle calls for that the Station has.

D-2: The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

This principle is, for the most part, already covered by other principles with Nashville Public Radio. By informing the people in the finance department of what their job responsibilities are, they are also being informed what their internal control responsibilities are. The Framework talks about having communication with the Board of Directors in this section, which was already covered in the Control Environment section of this capstone; sufficient communication occurs between the Board and the rest of the entity.

However, the one point of focus that the Framework has here that is not covered elsewhere, is alternate modes of communication, such as whistle-blower or ethics hotlines. This is difficult to justify as a need within the Station because of the size. When there's only one or two layers of management between the typical employee and the head of the entire entity, there is little separation between the manager who might be doing something wrong and the top of the organization. Email addresses for all employees are public information on the Station's website, so even a non-employee could email Steve, President & CEO. Beyond this, it is difficult to see the use in more lines of communication than that.

D-3: The organization communicates with external parties regarding matters affecting the functioning of internal control.

This principle is practically the same in treatment from the Framework as the previous one but concerning external parties instead. The main communication that the Station engages in for this would be with Chazin and Company and Kraft CPAs. Chazin has to be communicated with regarding what its roles in control activities are, and Kraft CPAs has to get information on just about everything the Station does in order to complete its audits. It is very difficult to argue that Kraft CPAs does not have strong communication lines with the Station when most of the information in this capstone comes from documents they created about the functioning of the Station. One might believe that the FCC could play a role here, but not with internal controls.

If an unrelated party has a reason to contact their station, those public email addresses mentioned in Principle D-2 are still there. It is exceedingly easy to contact important people at the Station, and as mentioned in Principle A-2, board meetings are open to the public. All the necessary lines of communication exist.

E: Monitoring Activities

In this final component, the entity must double check itself to ensure that the rest of the components are working as intended. These activities are a control for the controls, and they are used to address any deficiencies that the entity is experiencing with the other components. If the entity cannot effectively do this, it may not understand whether any changes it makes in relation to the other components are actually effective and appropriate.

E-1: The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Ongoing evaluations are handled internally by Michael and Carl, while separate evaluations occur with each audit. The auditor's documents note that the Station will swiftly address any issues the auditors raise, which is important because the Framework wants to assign separate evaluations to the internal auditors, which the Station is not big enough for. Much like other principles, there are adaptations that have to be made for size, but overall, it still functions within the Framework. Ongoing evaluations fit directly into the risk assessment and control activities that the Station already does, and just like the first principle of Information and Communication, it all just gets wrapped together.

Ideally, separate evaluations would also happen internally and be completed by someone who does not take part in the control activities, but only the CEO and COO could be separate enough and knowledgeable enough to complete such activities, and it would take away from the time devoted to the other 45 employees. And yet, because the Station is still on the small end of entities, the current setup of Michael and Carl is enough. The only other way around this is hiring a new employee focused solely on monitoring activities and possibly risk assessment if monitoring activities does not fill their time, which incurs the cost of bringing in a whole new person with adequate experiencing and training. This may not be entirely feasible given the Station's resources, but if expansion can be on the horizon, this should be the first step for the finance department. The board is of course existent and independent, but they only meet quarterly, and it is impossible for them to monitor on the level of detail that the Framework calls for.

E-2: The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

The Framework asks in this principle that results of the separate and ongoing evaluations are assessed, that any deficiencies are communicated to the correct people, and that management tracks the correction of deficiencies. At the Station, all these tasks are completed by Michael and Carl, which means, once again, that the same people who created the controls are in charge of everything this principle asks for. If the theoretical new employee I talked about in Principle E-1 were to exist, this would fall under their purview. Instead, the people who create and execute the control activities are also the ones doing the monitoring, so it all just becomes part of the same job. The only part of this principle that is not just Michael and Carl managing internal control as a whole is communication with the CEO, the COO, and the board as needed. Carl handles that as part of his VP role, so that one part of this principle can apply as COSO intended.

III: Conclusion

Most of the components and principles of the Framework absolutely apply to and work well with the Station's size and functions. For operational and reporting goals, the Framework often fits like a glove. Due to the importance of the board of directors in the Station's operations, and the usage of multiple outside firms and software, there's lots of ways for the Station to spread around responsibility and have different people checking on each other's work. Especially because the Station isn't entirely miniscule, there's just enough people and flexibility to meet a high standard of control, despite the fact that the components of internal control themselves are not being spread around. This would not be the case for any significantly smaller organization, such as a high school sports team's booster club, or a homeowner's association. However, in any significantly larger organization, which might have room for a dedicated internal auditor or data analyst, the Framework has much more work outlined that can be filled out.

A recurring theme in what the Station is able to do when meeting what the Framework calls for, is rolling multiple components together into a few different people's jobs. Risk Assessment, Control Activities, and Monitoring Activities end up being the same things done by the same people, with just enough different employees so that risk of misstatement and fraud are the least they can be. In a larger company, there could be an internal audit office, or people more dedicated to one component of internal control or another, such as the hypothetical employee mentioned in Monitoring Activities. Instead, at the Station, it all gets mixed with each other, and that is entirely appropriate for the size of Nashville Public Radio.

However, the part where the Framework misses the mark is compliance. Unlike a public company, Nashville Public Radio's structure and existence are not fully dictated by a powerful federal agency like the SEC does for public companies. Yes, the FCC gets involved with the

Station simply because it is a radio station, and when the Station sold the 1430 AM signal and accompanying space on an antenna, the FCC had to approve the sale and be notified of the process. In the average year, this just isn't the case. Most radio stations, not just Nashville Public Radio, aren't constantly selling and buying new signals or rebranding them on a whim. There is certainly movement from time to time, as the Station's sale of its AM signal represents, but these things are relatively constant. The FCC doesn't dictate which accounting firms can and cannot audit your organization, and it does not require standardized and specific filings of financial information like a 10k. The Station is not required to, and does not have, a dedicated audit committee on its board, instead opting to have the finance committee double as an audit committee. This is perfectly fine for the Station, but an expected feature of any public company. The IRS Form 990 also exists, but there is little more compliance work to be done there than any other nonprofit or business. On top of all that, it isn't the mid-20th century anymore where broadcasters must adhere to the Fairness Doctrine. Nobody at the FCC is making a fuss about what Nashville Public Radio airs. The Station simply has less to do in terms of compliance than the Framework expects, and it makes a significant application of the Framework less important than the rest of it.

There is an appendix in the Framework that lays out a few things to consider when applying this Framework to a smaller entity and is worth acknowledging here. Some of its suggestions, such as those relating to segregation of duties, information technology, monitoring activities, and the board of directors, are already integrated into the analysis of the appropriate principles. However, a topic not covered by the main framework is management override. Smaller entities are much more likely to be dominated by a single founder or leader at the top who knows everything about the entity forwards and backwards but is also able to simply bypass controls at will. When one person can say no to whatever they perceive as unhelpful, problems arise. The adaptations the Framework suggests involve having a strong board for oversight, strong internal auditing, a whistle-blower program, and a strong corporate culture. The Station's adaptation is that when there was a CEO change some years ago to the current, Steve Swenson, Steve was an outsider. Nashville Public Radio's CEO is nowhere close to being the longest tenured employee in terms of years, and the board is strong enough to counter this sort of problem regardless. Steve does of course understand the entity he heads, he just does not dominate it in the dangerous way that the Framework is concerned about.

At the end of the day, the Framework still functions at this level. It might need some retooling here or adaptation there, but it still works, and it still applies. Nonprofits that are not Nashville Public Radio but do have a board of directors will find that the same is largely true for them as well, but small for-profit businesses without a board may find it a bit harder to meet what the Framework expects for internal controls. Having a board of directors, and the independence that it brings, can be a massive boost to an entity's internal controls, and is a major factor in what makes the Framework function. The Station, however, fits in well, and already does almost all of what the Framework can reasonably expect from it.

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