

North American Division Edition

Top Ten Policy Violations for 2009 Reviewed



It may be of interest and value to identify the most frequently identified North American Division Working Policy non-compliance issues noted by the auditors in 2009. This listing, similar to the top ten list made famous by David Letterman, identifies the 10th most frequent non-compliance policy leading up to the number one most prevalent non-compliance policy. The current NAD Core Policy number is shown in **bold** font.

#10: NADWP Y 24 – Tuition assistance (**26**),

#9: NADWP Y 08 05 and 08 – Remuneration (**22a**),

#8: NADWP Y 36 – Termination settlements (**27**),

#7: NADWP S 04 31 – Monthly financial reports (**1a**),

#6: NADWP S 05 39 – Financial control (**1c**),

#5: NADWP E 70 20 – Service records (**22b**),

#4: NADWP S 85 – Investment of denominational funds (**9**),

#3: NADWP S 71 36 – Financial Audit Review Committee (**2**),

#2: NADWP S 47 10 and 20 – Statement of Acceptance (also known as Conflict of Interest Statements) (**4**),

And the number one most frequent policy non-compliance item noted in 2009:

#1: NADWP S 73 05 – Working Capital (recommendation only – auditors report this in the Audit Communication Letter) (**5**).

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GCAS at GC Session 2010



If you will be attending the General Conference Session 2010 in Atlanta, Georgia, please plan to visit the GCAS booth in the Exhibit Hall. We would be pleased to chat and share with you how we are continually examining ways of “delivering excellence to the Seventh-day Adventist Church.”

Contributed Services



Accounting principles generally accepted by the Seventh-day Adventist denomination require organizations to report as revenue and as assets or expenses the value of contributed services if those services create or enhance a nonmonetary asset (for example, property and equipment) or:

- The service would typically need to be purchased had it not been provided by contribution;
- Requires a specialized skill; and
- Is provided by individuals with skill sets that were needed (such as accounting, construction, lawyers, craftspeople, electrical, etc.).



If your organization has received contributed services, they should be valued at fair value.

A few examples of contributed services that would need to be recorded in the financial statements are:

- A contractor that provides services at a significantly reduced rate or without a fee for the construction of a new building. The fair value of the contractor's services would be recorded

as revenue and capitalized as a cost to construct the building.

- An attorney providing legal services without a fee would be recognized as revenue and expense at fair value (the attorney's regular billable rate).
- Auditing services rendered by GCAS for which the organization is not billed the total cost.

The last example is very common throughout the North American Division. Organizations below the Division level receive a subsidy in the form of a reduced audit cost. The full cost of the audit should be recorded as expense and the subsidized portion should be recorded as income.

For example, Sunny State Conference has an audit that is billed based on 500 hours at a per hour rate of \$100. The total cost of the audit services received is \$50,000. Whether or not the Union Conference bills Sunny State Conference for a portion of the audit costs, Sunny State Conference needs to record \$50,000 as audit service expense and revenue (for the portion subsidized by higher organizations).

If the full cost of your audit is not reported as an expense and offset by revenue, your auditors may propose an adjusting entry if that

unrecorded amount is significant. Should that be the case, the adjustment would be noted in the Audit Communication Letter and may also be an indication of a weakness in your internal controls over financial reporting.

Should you have any questions regarding the full cost of your audit, please contact your GCAS auditor. He or she will be glad to be of assistance.

Employment Eligibility Verification



All employers in the United States of America are required to complete and retain a U.S. Citizenship and Immigration Services Form I-9 for each individual who is hired. This requirement applies to citizens and noncitizens. Though this requirement has been around since 1986, the Form I-9 was revised on August 7, 2009. The Form I-9 previously revised and dated February 2, 2009 is also acceptable for use.

For instructions on completing Form I-9 as well as obtaining a copy of the form, please click on the following web links:

- Form I-9 with instructions (rev. 8/7/09): <http://www.uscis.gov/files/form/i-9.pdf>
- Handbook for Employers: <http://www.uscis.gov/files/form/m-274.pdf>

Financial Audit Review Committee



Organizations both big and small will benefit from having a Financial Audit Review Committee (FARC). This is because all organizations are susceptible to having internal controls over financial reporting overridden by management. Internal controls may appear to be adequately designed and effective, though that would not prevent management overrides or all unintentional errors from occurring.

A FARC that is adequately designed and functioning properly may reduce the risk of material misstatement in the financial statements that could occur due to fraud perpetrated by management. However, there will always remain the inherent risk that management can override internal controls.

The governing committee and the FARC are responsible for overseeing the actions of management. It is of paramount importance that the governing committee design a FARC that is comprised of members with adequate financial experience as well as having terms of reference that allow the FARC to perform their duties on a timely basis.

FARC members have the responsibility and duty to make appropriate inquiries regarding the adequacy of the organization's internal controls to minimize the

possibility that material undetected fraud involving management has occurred. It is important to note that the FARC should look at internal control in both theory and practice. Organizations may have appropriately documented internal control procedures, but in practice, those procedures may not be functioning as designed.



Fraud caused by management override of internal controls can be difficult to detect. Thus, it is important for the FARC to concentrate its efforts to minimize this risk. There are several techniques that the FARC can implement to help it oversee management and to reduce the risk of management override. Those procedures are:

- Maintaining an appropriate level of skepticism.
- Improving the FARC's understanding of the

organization's mission, goals and operations.

- Identify fraud risks.
- Assessing the organization's "tone at the top" and its trickledown effect.
- Developing a "whistleblower" mechanism for employees to anonymously provide information.

Maintaining an appropriate level of skepticism requires the FARC members to be vigilant in their approach towards overseeing management. Members should not rely on personal or other preconceived notions about management. For instance, members should not assume that since management has been at the organization for many years and there has never been a problem, controls are adequate and management can be

implicitly trusted. When the FARC convenes a meeting, all members should spend a few minutes developing "what if" scenarios that focus on the possibility that management has overridden controls and perpetrated fraud. Most management perpetrated fraud is done by individuals that were considered by the oversight committees to be of high integrity and moral turpitude.

Improving the FARC's understanding of the organization's mission, goals

and operations allows the FARC to perform effective oversight. Understanding these basic principles allows the FARC to properly evaluate the business and financial risk that can contribute to the likelihood of fraud. In addition, the FARC should be aware of the fraud triangle – the incentives or pressures, opportunities, and attitudes or rationalizations that may instigate management fraud.

An easy and effective approach towards identifying fraud risks is to periodically conduct a brainstorming session. Each FARC member should feel free to voice their ideas of how management could override controls to perpetrate fraud and lead to fraudulent financial reporting or the misappropriation of the organization’s assets. To be most effective, the brainstorming session should be conducted in a closed session without the presence of management. The

simple fact that management understands that the FARC conducts brainstorming and “what if” scenarios can be a fraud deterrent.

The FARC should evaluate the “tone at the top.” Management that evokes a positive ethical behavior in all aspects of the business operations will benefit from the trickle-down effect within the organization. If an organization has deficiencies in its “tone at the top,” this should raise red flags for the FARC to more closely monitor management and the financial reporting process.

A whistleblower program can aid the FARC in identifying management override of controls. A study done by the Association of Certified Fraud Examiners in 2004 revealed that the leading method of detecting fraud was via tips from employees and customers. It may be interesting to note that the Sarbanes-Oxley Act of 2002

requires organization’s to develop a whistleblower hotline (see Client Connection – 1st Quarter, 2008 on www.gcasconnect.org). To be most effective, the whistleblower program should be anonymous and employees should be encouraged to participate with the understanding that management retribution will not be tolerated. The FARC should primarily be concerned with tips that identify accounting, financial reporting and internal control issues.

As noted in the “Top Ten Policy Violations for 2009 Reviewed” article on page 1, the third most frequent policy noncompliance issue pertained to the FARC. Some organizations have yet to establish a FARC and have chosen to rely on a finance committee. The following chart identifies the responsibilities, both individually and shared, between a FARC and finance committee.

Audit Committee	Shared Responsibility	Finance Committee
Reviews the financial statements and audit reports.	Finance committee ensures budgets and financial statements are prepared; audit committee has oversight for ensuring the reports are received, monitored, and disseminated appropriately.	Oversee the preparation of the annual budget and financial statements.
Overseeing the system of internal controls.	Finance committee monitors financial transactions; audit committee makes sure things are done according to organization policy and with adequate controls.	Oversee the administration, collection, and disbursement of financial resources of the organization.
Considers the annual audit reports and works with management to ensure the audit items are adequately addressed.	Finance committee provides guidance about what can be done; audit committee ensures that independent oversight occurs.	Advises the governing committee with respect to significant financial decisions.

- Source: NonProfit Risk Management Center Website (www.nonprofitrisk.org)



North American Division Working Policy has required denominational entities to establish a Financial Audit Review Committee since 1995. That policy is shown below:

NADWP S 71 36 (GC SA 15 05) Financial Audit Review Committee

1. Function—Each organization’s governing committee and/or board shall appoint a Financial Audit Review Committee to study the auditor’s reports and audit communication letter, and management’s response to the auditor. The Financial Audit Review Committee shall submit recommendations based on its study to the governing committee and/or board.

2. Composition—The Financial Audit Review Committee shall consist of not less than three members, having appropriate financial expertise, typically from the membership of the governing committee who are not employees of the entity being

audited or reviewed. If possible, a majority shall be persons not denominationally employed.

3. Invitation to Auditor—The auditor shall be invited to attend the Financial Audit Review Committee meeting at which the audit reports and audit communication letter are studied, and the governing committee and/or board meeting at which the Financial Audit Review Committee makes its recommendations, if any, to the committee. Under circumstances where legal requirements permit and conferencing facilities are deemed satisfactory to the client and the auditor, the auditor may choose to attend, via teleconference or

videoconference, the meetings mentioned above. Attendance by the auditor at such meetings is not mandatory. If there are representatives from the higher organization present who are not members of the Financial Audit Review Committee, they would be considered invitees with voice but no vote.

4. Copy of Recommendations—A copy of the recommendations of the Financial Audit Review Committee, as approved by the governing committee and/or board shall be sent to the auditor and to appropriate officers of higher organizations.

For more information on how you can establish a better FARC, the American Institute of Certified Public Accountants has several resources available on its website. This link will take you directly to the AICPA website: <http://www.aicpa.org/AudCommCtr/toolkitsnpo/homepage.htm>

Resources for Accountants, Business Managers and Treasurers



Accounting and treasury personnel may benefit from having a small library of resource information available to assist them with the various aspects of their jobs. The following items are recommended:

- Seventh-Day Adventist Accounting Manual (January 2009 edition). As of the release date of this newsletter, the NAD website had the October 2008 edition available for download.
- Not-For-Profit Entities - AICPA Audit & Accounting Guide, http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/Bestsellers/Bestsellers_Publications/PRD-PC-012645/PC-012645.jsp

- PPC’s Guide to Preparing Nonprofit Financial Statements, <http://ppc.thomson.com> (use the search feature to locate the guide)
- Intermediate Accounting Textbook used by most second year accounting majors in College or University.
- Research accounting items online – <http://asc.fasb.org>
- Network with your colleagues
- Inquire of your auditors
- As any high school student would say, “Google it.” Use the internet to find information on an issue.

Items of Interest



The following website links may be of interest to you:

- Union and Conference Regular Constituency Sessions – listing of dates: <http://www.plusline.org/article.php?id=1775>
- General Conference Session 2010 – general information: <http://www.gcsession.org/>

Fun Information



Businesses hiring individuals were polled by CareerBuilding.com in 2009 and some very odd requests were received, such as:

- More time off to pursue side business as a clown
- Request to institute bikini Fridays.
- Request that jail time be covered under family medical leave.
- Request to have the team meeting held in Hawaii.
- Request to add a tanning bed to the break room.
- Request to install a swimming pool for employees to use.
- Request to allow people to change clothes in their cubicle.



FACTOID

45%

Percentage of employees over the age of 35 who report that they work for a supervisor who is younger than they are.

Source: Watson Wyatt, www.watsonwyatt.com

This newsletter is published quarterly by General Conference Auditing Service. It is provided without cost to administrators of Seventh-day Adventist organizations within the North American Division.

Please send any comments, questions, suggestions, or contributions (or articles, not money) to:

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This newsletter is intended to provide general information about a variety of topics. Before acting upon any information provided in this newsletter, we suggest that you study further and seek counsel to clarify your understanding before taking action. This is a complicated world, please be careful.