We serve God by delivering excellent audit services to the Seventh-day Adventist Church!

2009 Annual Report

Presented at Annual Council 2010
Silver Spring, Maryland
U.S.A.
The reason GCAS exists can be summed up in a single word. Confidence!

As a unique ministry of the Church, GCAS has approximately 200 professionals operating from 45 country offices and each audit engagement is designed to enhance the credibility of financial reporting made to church leadership and their constituent stakeholders. However, many church members sitting each week in the pews, may not be aware that there is such a professional audit program in place. GCAS plans to tailor its corporate communications to close this information gap about our professional activities and we believe with this knowledge each church member will be encouraged to give with confidence!

Since October 2009, GCAS refocused its activities toward a global brand and not the borders associated with the 13 world divisions of the Church; reorganized its service areas while providing centralized strategic support and oversight; rebalanced the ratio of senior leadership positions to engagement team positions; and redefined job descriptions to provide more opportunities for professional advancement. We are committed to the global delivery of excellence and expect that in service to God our employees must perform at the highest professional standards, our expenditures must produce the highest professional value, and our engagements must present the highest professional quality.

Our 2009 Annual Report provides an insight on our professional activities by presenting the summarized results of audit engagements performed from office locations around the world. These results were provided in detail to church leaders and their constituent stakeholders as a part of administering their respective organizations.

This Report, to be presented at the 2010 Annual Council, not only highlights the role and activities of GCAS during the past year, but, more importantly, invites Church leadership to celebrate a Church organization that inspires confidence from its worldwide membership.

Jack
Jack L Krogstad, PhD CPA  
GCAS Board Chair

Let me challenge the leaders of our Church to build on this strong platform they have established and create a culture of credibility that is modeled by church leaders and maintained by church workers at every level and in every activity. It is in this environment of credibility that the confidence of every church member will flourish.

On behalf of the Board, I salute the approximately 200 professionals who have a shared mission of serving God by delivering excellent audit services to the Seventh-day Church. It is indeed a high calling to be in service to God and His Church.

IN EVERY ACTION OF LIFE  
THE TRUE CHRISTIAN IS JUST  
WHAT HE DESIRES THOSE  
AROUND HIM TO THINK HE  
IS. HE IS GUIDED BY TRUTH  
AND UPRIGHTNESS. HE  
DOES NOT SCHEME;  
THEREFORE HE  
HAS NOTHING  
TO GLOSS OVER.  
HE MAY BE  
CRITICIZED, HE MAY  
BE TESTED; BUT THROUGH  
ALL, HIS UNBENDING  
INTEGRITY SHINES OUT LIKE  
PURE GOLD.  

—Ellen G. White,  
Heavenly Places, pg 243

Paul
Paul H Douglas, MBA CPA  
GCAS Director
**THE CREDIBILITY CYCLE** summarizes the journey of each contribution as it becomes part of the church’s ministry. The auditing and consulting services that GCAS provides shape the financial activities of church ministries at every stage in the cycle ensuring that transparency is maintained, credibility firmly established, and most of all, that donor confidence is earned instead of taken for granted.

- **Church organizations** present audited information to stakeholders.
- **Stakeholders** provide financial resources.
- **GCAS** performs audits of this financial information.
- **Church organizations** use these resources for their mission.
- **Church organizations** prepare financial information.
AS ORGANIZATIONS USE RESOURCES within the context of church ministry, they do so with the knowledge that an account must be given and that transparency and credibility are utterly essential. GCAS oversees the financial audits of nearly 2,700 church organizations around the world, enabling each ministry to uphold the scriptural value of stewardship and abide by legal requirements. Ultimately, as with each church member, the ministries of the church answer to Jesus for their stewardship of His blessings. The role of GCAS is not to be a financial police force, or another cog in the machinery of bureaucracy. Our important role is to ensure that when Jesus asks for an account, we can answer Him with confidence!

**Our Responsibility**

1. Client Base—The General Conference Auditing Service shall be the Seventh-day Adventist Church’s preferred provider of auditing or financial review services. The client base includes all denominational organizations such as world divisions, unions, and local conferences and missions, unions of churches, institutions, organizations or services above the level of a local congregation.

*General Conference Working Policy SA 05 25*

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**Client Base - 2676**

- **Divisions**
- **Unions**
- **Conferences/Missions**
- **Educational Institutions**
- **Healthcare Institutions**
- **Publishing Houses/ABCs**
- **ADRA Entities**
- **Trust Operations**
- **Other**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Divisions</td>
<td>23.4%</td>
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<tr>
<td>Unions</td>
<td>13.5%</td>
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<tr>
<td>Conferences/Missions</td>
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<td>Educational Institutions</td>
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<td>Healthcare Institutions</td>
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<td>31.8%</td>
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<tr>
<td>Trust Operations</td>
<td>0.5%</td>
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<tr>
<td>Other</td>
<td>3.2%</td>
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</tbody>
</table>

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*Figure: Client Base Distribution*
Our Resources

The engine for delivering excellence is fueled by the revenue we receive from billing our services to clients in North America Division and an allocation from the General Conference World Budget for our services to clients in the remaining world divisions. We provide these services with a highly qualified team which is diverse in its composition and dedicated to the commitment of obtaining the highest professional qualifications.

Professional Certifications

Demographics
ACCURATE FINANCIAL RECORD KEEPING

is perhaps the most important financial activity a church ministry performs. Accurate records allow for a more efficient function with greater transparency, prevent misunderstandings and complications that can impair a ministry from achieving its spiritual mandate, or create a crisis of public confidence in the credibility and morality of the church. GCAS works with each ministry to assist them in planning for the financial audit process, which includes analysis of the policies and procedures each entity uses when creating financial records as well as a verification of the figures they contain. The audit process can result in improvements to the strategies and activities related to record keeping and financial planning. As a result, ministries often find themselves in a better position to perform their mission after an audit is completed.

Our Audit Process

1. **Agree**
   - Develop and agree on written terms of engagement with the client

2. **Obtain**
   - Obtain information about client’s accounting and financial reporting system

3. **Assess**
   - Assess the risk of material misstatement, whether due to error or fraud

4. **Perform**
   - Design and perform audit procedures based on assessed risk of material misstatement

5. **Conclude**
   - Analyze results, draw conclusions, and form an opinion about the financial statement

6. **Report**
   - Prepare and issue audit opinion and other communications to prescribed recipients
**Types of Opinions**

The auditor concludes that the overall financial statements are fairly presented.

The auditor concludes that the overall financial statements are fairly presented, but the scope of the audit has been materially restricted or generally accepted accounting principles were not followed in preparing the financial statements.

The auditor concludes that the financial statements are not fairly presented.

The auditor concludes that he or she is unable to form an opinion as to whether the financial statements are fairly presented, or he or she is not independent.

**Types of Policy Compliance Reports**

The policy compliance report does not mention any instances of non-compliance with denominational policy.

The policy compliance report does mention instances of non-compliance with denominational policy.
AN AUDIT IS AN ACT OF PARTNERSHIP
between GCAS, the organization being audited, and the individual donors whose contributions make the audit both possible and necessary. Audits are performed with the intent to protect donor confidence and ensure legal compliance, but our larger purpose is driven by the desire to see the work of God advanced with integrity and effectiveness worthy of His name. We believe every ministry shares this desire, and as a result, even though we provide auditing services as an independent entity intent on utilizing the highest standards of financial professionalism, we conduct our business as an equal partner in His service. The specifics of our activities are governed by the financial audit process.

GCAS has been reorganized to deliver its services based on a global brand rather than being confined to the borders associated with the 13 world divisions of the Church. This focus on brand will allow GCAS to position its people to best deliver audit services more economically and efficiently around the world.

**OUR SERVICE AREAS**

North America Area
- Trans America Area
- Trans Euro Asia Area
- Trans Africa Area
- Trans Asia Pacific Area

Serving God by Delivering Excellent Audit Services
Our Report Analysis

An analysis of our reports reveals a frequency to certain findings which we would like to highlight. Each organization that is audited receives a written report to which denominational policy requires a response.

**Most Frequent Reasons for a Qualified Opinion**
- Assets not recorded on financial statements
- State of the accounting records
- Unable to obtain sufficient appropriate audit evidence
- Unable to verify numerous outstanding items on account reconciliations
- Inadequate provision for bad debts

**Most Frequent Working Policy Violations**
- Missing or improperly constituted Financial Audit Review Committee
- Inappropriate use of tithe and ingathering funds
- Missing Conflict of Interest Statements
- Adequacy of insurance coverage
- Employee service records not updated and signed
- Monthly financial statements not prepared and presented
- Investments made in instruments not allowed
- New corporations formed without approval
- No budget provision to recover losses/deficits

**Most Frequent Internal Control Deficiencies**
- Management Override
- Inadequate segregation of duties
- Client personnel lack understanding of accounting principles
- Inadequate oversight and review of financial reporting system
- Opening of unauthorized bank accounts
- Bank and inter-organizational accounts not reconciled
- Tithe reporting from local churches not monitored
- Lack of authorizations for transactions
what is done with the resources they entrust to the Church. The results of their generosity and stewardship must be reported with transparency and accuracy. As Christians, we want to believe, and rightly so, that even without the efforts of GCAS, the ministries of the church would report their finances with unwavering integrity. The fact that GCAS is actively auditing church ministries is not a sign that impropriety or carelessness are commonplace. In fact, the vast majority of our audits prove the opposite to be true. Our church’s ministries are indeed faithful stewards of the resources with which they are entrusted. The fact that audits are performed should serve only to increase each member’s confidence in the ministries of their church. The efforts of GCAS ensure that the financial information reported to each ministry’s stakeholders, and published for the world at large to see, meets the highest professional standards.

**Statistics**

- **Status of Audit Engagements**
  - Clients NOT Audited: 37%
  - Audits Reports Issued: 63%
  - Total Clients = 2,676
  - Total Audit Reports Issued = 1,676

- **Policy Compliance Reports Issued**
  - Standard/Clean: 48%
  - Non-Standard: 52%

- **Types of Opinions Rendered**
  - Standard/Clean: 64%
  - Qualified: 24%
  - Adverse: 8%
  - Disclaimer: 4%
  - Total Opinions Rendered = 1,676

- **Total Assets Per Types of Opinions Rendered**
  - Standard/Clean: $9,170,519,244
  - Qualified: $2,693,089,121
  - Adverse: $189,000,000
  - Disclaimer: $154,000,000
  - Total Assets Audited = $12,206,608,365

**Audits Reports Issued**

- 63% of clients were audited
- 37% of clients were not audited
- Total Clients = 2,676
- Total Audit Reports Issued = 1,676

**Clients NOT Audited**

- 37% of clients were not audited
Emerging Issues

The landscape of professional standards and denominational policies are in constant change. To remain on the leading edge of these changes, we highlight them here as emerging issues so Church leaders and their respective organizations can be prepared for implementation.

Professional Standards

**Accounting**

The convergence of country specific accounting standards to globally recognized International Financial Reporting Standards (IFRS) continues. All major economies have established timelines to converge with or adopt IFRSs in the near future.

**Conceptual Framework**

The International Accounting Standards Board (IASB) has initiated a project to create a sound foundation for future accounting standards to ensure that they are principle-based and internally consistent.

**Leases**

IASB also is in the process of developing a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position.

**Auditing**

The International Federation of Accountants is developing guidance related to the amount of reliance that external auditors can place on the work of internal auditors including when, where, and how to use their work. Also, auditors continue to refine their implementation of the internal control and risk assessment standards that are now in effect.

Denominational Requirements

**Accounting Manual**

The General Conference voted to implement the new Seventh-day Adventist Accounting Manual (SDAAM) beginning January 1, 2009, with all entities expected to be in conformity with SDAAM on January 1, 2011. Educational seminars have been provided. Refinements to the illustrated financial statements in the SDAAM are being drafted to reflect the increased disclosure requirements, IFRS for small and medium-sized entities, and to illustrate financial statements for providers of health care services.

**Working Policies**

**Addition to Core Policies**

GCAS is now testing for compliance with policy in the context of the “core” policies designated in the 2009-2010 edition of General Conference Working Policy. The 2009 Annual Council voted to include in these core policies the requirement for each denominational entity to have a functioning Financial Audit Review Committee. GCAS will be testing for compliance with this core policy during 2011.

**Financial Reporting**

The General Conference is in the process of revising policies which incorporate best practices related to the receipt, response and resolution of issues identified in audit reports provided by GCAS or by an external audit firm. This revision to policy is intended to develop a common expectation of transparency and accountability for all denominational organizations.

**Financial Reviews**

GC Working Policy now makes provision for GCAS to conduct financial reviews. This is a lower level engagement than a financial audit. General Conference Treasury is developing criteria to determine which denominational organizations would receive this level of service from GCAS.
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Trans Africa Area

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