Seventh-day Adventist Church Organizations: Defining Roles and Expectations for Financial Oversight

Ann Gibson, CPA, PhD
On completion of this course the participant will be able to:

• Define financial oversight.
• Understand the framework for financial oversight in the Seventh-day Adventist Church.
• Describe the various roles and expectations for the principal participants in financial oversight.
• Highlight the special role and expectations of audit committees.
• Determine how auditors can communicate value as a participant in financial oversight.
A. Financial Oversight Defined
B. Financial Framework Oversight in the SDA Church
C. Principal participants in financial oversight:
   • The role of the Board
   • The role of the Board sub-committees
   • The role of management
D. The Special Role of the Audit Committee
   • Comparing the Audit and Finance Committees
   • Membership of the Audit Committee
   • Challenges faced by the Audit Committee
E. Auditors’ role in communicating value in financial oversight
What is Financial Oversight?

• Accountability (or follow-through)
• Seeing sustainability (financial health, not just financial status)
• Avoiding trouble (aka legal compliance)

National Council of Non-Profits
The organization’s Board of Directors or Executive Committee has the ultimate responsibility for overseeing the organization’s financial affairs. These duties include:

1. Establishing and ensuring the organization’s compliance with proper financial systems and controls.
2. Regularly evaluating the organization’s financial health.
3. Ensuring that the organization is on a financially sustainable path.
The Transparency and Accountability document provides the following recommended best practices for board/executive governance:

1. Consult the compass, which is the organization’s statement of mission vision, and values. These define the organization’s core business and reason for existence.

2. Know where the organization fits into the global church structure, and the organization’s responsibility and authority.
3. **Get the right people on the board/executive committee, ones who have the level of expertise required by the organization.**

4. **Educate board members regarding their fiduciary duties.**

5. **Address the whole range of governance responsibilities, which include ensuring adequate financial resources and providing adequate risk management.**
6. Create and maintain good social dynamics in the boardroom.

7. Keep both eyes open. While reviewing the past and noting the present, the board must specifically deal with the organization’s strategy and positioning for the future.
The denomination recommends three additional financial oversight sub-committees of the Board/Executive Committee:

1. The Audit Committee (formerly known as the financial audit review committee). This committee’s task is to promote transparency and full disclosure on audit matters.
2. The Compensation Review Committee (formerly known as the salary audit committee). This committee’s task is to be fully informed about the compensation practices within the organization and ensure compliance with policies.
3. *The Financial Statement Review Committee.* This committee’s task is to be fully informed about the financial health of the respective subsidiary and affiliated organizations of the Division or Union.
Managing the day-to-day finances is the job of an organization’s senior management.

To assist with responsibility, the denomination has identified its core financial policies in GC WP S 90
A Special Responsibility: Audit Committees

1940s: McKesson & Robbins

1967: AICPA encourages committees composed of outside directors

1978: Legislation tied to FCPA; NYSE required audit committees for all listed firms

1987: Treadway Commission/SEC required audit committees be composed of outside directors

1989: Treadway Commission requirement extended to Nasdaq
A Special Responsibility: Audit Committees

1999: Blue Ribbon Committee recommended a written audit charter and audit committee reports filed with the SEC, beginning Jan, 2000.

2002: Sarbanes-Oxley codified under federal law the requirement for public companies to establish an audit committee consisting solely of independent members. Not-for-profits have followed this best practice.
The “financial audit review committee” was established in Working Policy in 2003.

The term “audit committee” first officially appears in Working Policy in 2011 when the name changed from the former “financial audit review committee.”
The Audit Committee is responsible for the:

- Integrity of the organization’s financial statements
- Integrity of the financial reporting process (internal control)
- Oversight of the independent auditor
- Oversight of the internal audit function
- Oversight of risk management
### Audit Committee?

<table>
<thead>
<tr>
<th>Audit Committee</th>
<th>Financial Statement Review Committee</th>
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<tbody>
<tr>
<td>Reviews the financial statements of the entity and other official financial</td>
<td>Oversees the preparation of the financial statements and the annual budget (and in SDA policy, reviews</td>
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<td>information provided to the public.</td>
<td>the financial statements from subsidiary and affiliated organizations—i.e., higher organizations review</td>
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<td></td>
<td>lower organizations)</td>
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<td>Gives oversight for ensuring that reports are received, monitored and</td>
<td>Oversees administration, collection and disbursement of the financial resources of the entity. In SDA</td>
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<td>disseminated appropriately.</td>
<td>policy, specifically identifies adverse financial trends and working capital and liquidity status.</td>
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<td>Provides oversight of the entity’s system of internal controls.</td>
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<td>Oversees the annual independent audit process and engages the independent</td>
<td>Advises the board with respect to making significant financial decisions.</td>
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<td>auditor (in SDA policy this is true if GCAS is not involved). Receives all</td>
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<tr>
<td>reports and management letters from the auditors.</td>
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<tr>
<td>Audit Committee</td>
<td>Financial Statement Review Committee</td>
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<tr>
<td>Reviews the entity’s procedures for reporting problems (i.e., may review whistle-blower policy and practice). In SDA policy, oversight for the conflict of interest policy and associated risks is specifically mentioned in the role of the Audit Committee.</td>
<td>In the AICPA audit guide, the responsibilities for overseeing the preparation of the conflict of interests statements, the whistle-blower program, and the review of executive compensation, endowments and investments are assigned to the Finance Committee rather than to the Audit Committee.</td>
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<td>Unique to SDA policy: Understand emerging trends in accounting standards and their impact on financial reporting, and reviewing any serious difficulties encountered during the audit.</td>
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<tr>
<td>Unique to SDA policy: Discuss with management their procedures for compliance with core denominational working policies relating to financial matters.</td>
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Membership of the Audit Committee

Audit committee must have a minimum of three independent directors, at least one of whom is a “financial expert.”

Denominational policy (S 34 05.1) allows for these individuals to not be members of the board if the reason for having these individuals on the audit committee has been approved by the organization’s board.
The “financial expert” must have the following attributes:

1. An understanding of GAAP and financial statements.
2. The ability to assess the general application of such principles in connection with accounting for estimates, accruals, and reserves.
3. The audit/accounting experience generally comparable to the breadth and complexity of issues expected to be raised by the organization’s financial statements.
4. An understanding of internal controls and procedures for financial reporting.

5. An understanding of audit committee functions.
Audit Committee Challenges

The Toshiba Experience

The WorldCom Experience
References

AICPA Audit Committee Toolkit for Not-for-Profit Entities, 3rd edition

General Conference Working Policy, 2016-17


Transparency and Accountability: A Global Commitment of SDA Church Leaders. 2015 edition

Communicating Value
1. In the SDA Working Policy, the Audit Committee was formerly known as:

A. The salary audit committee
B. The financial audit review committee
C. The financial oversight committee
D. The policy compliance committee
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https:// api.cvent.com/polling/v1/api/polls/sp-qwre16

Note: Many popular websites allow secure access. Please click on the preview button to ensure the web page is accessible.
2. The audit committee must have a minimum of _____ independent directors:

A. Two  
B. Three  
C. Four  
D. Five
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3. A “financial expert”

A. Must be a CPA.
B. Must be an auditor.
C. Must have an understanding of GAAP and financial statements.
D. All of the above.
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4. If among the independent directors there is no “financial expert” to serve on the audit committee, denominational policy allows, with board approval, for a “financial expert” to be selected for the audit committee from outside of board membership.

A. True
B. False
C. Denominational policy does not address this situation.
D. Denominational policy does not require a “financial expert” to be a member of the audit committee for SDA organizations.
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Answers:

Question 1: B
Question 2: B
Question 3: C
Question 4: A
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