

General Conference Auditing Service

A Stunning Experience at Headquarters

It was the spring of 2011 and I was assigned as audit coordinator for a local conference audit. I had a team of three other auditors with me at the client's offices for a period of two weeks. The role of audit coordinator is not supervisory but administrative, and includes coordinating the timing of the audit with the client, making travel arrangements, planning the extent of audit procedures to be performed, determining which auditor would work on certain areas of the audit, ensuring proper review of the work performed, tracking results and keeping the client informed of progress and any issues noted, writing and processing the final reports, wrapping up the workpapers and completing required checklists. The audit coordinator role does require a certain degree of professional judgment, which is why the General Conference Auditing Service (GCAS) procedure manual states that to act as audit coordinator one must be a Senior Auditor. As I was only a Staff Auditor, my assignment was in direct violation of GCAS policy.

After the Enron implosion of 2001 and the subsequent fatal indictment of the company's auditors Arthur Andersen & Co., the auditing profession endured a great deal of criticism and scrutiny. In the aftermath of new legislation and revised auditing standards, additional fraud detection procedures are now required during the planning phase of any financial statement audit performed in accordance with Generally Accepted Auditing Standards (GAAS). One such procedure is for the audit team to make specific inquiry of management as to their knowledge of any fraud or allegations of fraud during the audit period. This I did, and received an affirmative response from the treasurer. This compelled me, according to GAAS, to ask more questions and design additional audit procedures which I did. The concern was that one of the conference department heads was circumventing the treasury department by taking his check requests directly to the president who would sign just about anything for this individual. This effectively eliminated the key internal business control provided by the treasury department's disbursement approval process and budget tracking. Our additional testing confirmed the treasurer's suspicions of "double dipping". We noted checks made out directly to this individual. When we questioned the president we were told that it was just easier to give the individual the money up front and let him pay his own expenses directly. Of course, no subsequent receipts were collected to support the disbursement. We also noted expense reports which included mileage charges for trips that should have been covered by the area travel allowance (a set allowance added to each paycheck to compensate the employee for local travel). In addition, we noted disbursements to compensate this individual for rental of his own personal equipment to various conference entities. Our audit detected a major override of internal controls by the president, as well as numerous unsupported and even fraudulent disbursements to this department head. GAAS required me to report my findings.

My GCAS regional manager arrived on site the next to last day we were to be in the field. I was preparing my notes for the closing meeting which was scheduled for the following day. As audit coordinator, it was my job to chair that meeting which would include the auditors and the local conference management for the purpose of presenting our findings and preparing the local

conference management for what would be in our final written reports which are received up through the SDA hierarchy. I had shared my concerns with the regional manager via telephone so there were no surprises. Then for reasons still unknown to me, the regional manager announced that enough of the audit work was completed so we could pull the audit closing meeting up - it would be held that day and could I please print out my closing notes just as they were to use as an agenda for the meeting. The regional manager then went off to collect the local conference attendees...including the department head who was the subject of concern. My notes were fairly explicit in noting what we had found, who was involved and how I intended to report our findings but the regional manager had not seen them.

The meeting was called to order and opened with prayer. I worked my way through my list as we discussed other audit issues, but we finally reached the item which discussed the apparent fraud and management circumvention of controls. I read the item to the group to open the discussion. **My regional manager began fidgeting and appeared very uncomfortable, finally taking the floor with some generic comments about what sometimes looks wrong really is not wrong at all and that this really was not something that GCAS would include in our reports! I did not know whether to protest or climb under the table. Before I could collect myself, the regional manager instructed the attendees to return their printed agendas, including their notes, for destruction so no one would know the issue had ever been memorialized.**

Back in the GCAS office, before I was able to complete the reports and wrap up the audit as assigned, my scheduled summer vacation arrived. When I returned, I found that my regional manager had completed the reports in my absence without mention of the fraud and management override.

The difference between internal and external auditors is simple. Internal auditors are accountable to their employers while external auditors are accountable to the stakeholders – those with a financial interest in the organization. In a Fortune 500 company, the stakeholders are the stockholders. In a small business, the stakeholders are the owners. In a church, the stakeholders are the donors. GCAS, as a department of the General Conference (GC), is an internal audit department, in spite of the myriad of legal entities that make up the SDA hierarchy. GCAS takes its direction from the GC and audits according to policies set forth by the GC or entities under the GC umbrella. Donors would do well to obtain an external, independent audit opinion instead of placing full reliance on an internal audit that stifles, rather than reports, distasteful findings.

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