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## **POLICY COMPLIANCE REPORT**

To the Constituents of  
Chesapeake Conference of Seventh-day Adventists and  
Chesapeake Conference Association of Seventh-day Adventists  
Columbia, Maryland

We have audited, in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination, the combined financial statements of Chesapeake Conference of Seventh-day Adventists (Conference) and Chesapeake Conference Association of Seventh-day Adventists (Association) (collectively, Organizations), which comprise the combined statements of financial position as of December 31, 2016, 2015, 2014, 2013, and 2012, and the related combined statements of changes in net assets and statements of cash flows for the years then ended, and the related notes to the financial statements. We have issued our report thereon dated April 26, 2017.

North American Division Working Policy (NADWP) E 85 10 and 20 require the Organizations to obtain signed statements of acceptance of the conflict of interest policy from designated employees and each board member annually. For 2012, the Organizations obtained 40 of the 50 required statements.

NADWP S 19 05 (formerly S 04 31) requires the Organizations to keep management and the controlling committee informed by providing monthly financial statements showing the actual operating results and budgetary provision to date. Management is to receive at least 9 of the 12 monthly financial reports. Management was provided only seven reports during 2012.

NADWP S 85 50 requires approval be obtained from the Columbia Union Conference of Seventh-day Adventists' investment oversight committee before investing in securities in the "special consideration" category. Qualifying organizations will have: (1) a large enough investment pool to be cost effective to invest in such investments, (2) a current investment policy statement, (3) a professional staff and/or consultants managing such investments, and (4) an action from the governing body to be authorized for such investments. During 2013 and 2012, the Association held investments amounting to \$3,791 and \$4,758, respectively, in the "special consideration" category, but had not obtained approval to invest in this category from the Columbia Union Conference of Seventh-day Adventists' investment oversight committee.

NADWP SA 05 27 (formerly S 72 05, 10, and 15) requires local church and conference institution records to be reviewed at least biennially by competent individuals engaged by the local conference. For the biennium 2016 and 2015, the records of 54 of the 83 local churches and conference institutions were reviewed. For the biennium 2013 and 2012, the records of 63 and the 87 local churches and conference institutions were reviewed. For the biennium 2012 and 2011, the records of 32 of the 82 local churches and conference institutions were reviewed. Management did not provide evidence that this report was submitted to the conference committee or Adventist Risk Management during 2012.

NADWP Y 05 05 is dependent upon a remuneration scale which establishes maximum pay limits for various positions. NADWP S 90 requires any noncompliance with GCWP Y 05 to be reported in the Policy Compliance Report, even if the amounts involved are not significant to the financial statements taken as a whole. For 2015, of the 25 employee files tested, 1 employee was paid at a remuneration rate in excess of the maximum allowed by policy. This employee was paid at 102% of the basic remuneration rate while the maximum allowed for such a position is 95%, which resulted in excess annual salary of \$7,136 for 2015.

NADWP Y 21 10 requires committee approval for employee loans. NADWP Y 21 15 requires all employee automobile loans, all first mortgage housing loans, and second mortgage housing loans over \$5,000 to be secured. At December 31, 2016, the Conference held one loan totaling \$9,000, which was not secured. During 2013 and 2012, the Association granted a new real estate bridge loan, each year, totaling \$31,364 and \$4,843, respectively. Management did not provide evidence that the loan was approved by the Association's Board of Trustees. At December 31, 2013 and 2012, the Association held three and two employee loans totaling \$54,690 and \$30,585, respectively, which were not secured.

In connection with our audits, as internal auditors of the General Conference of Seventh-day Adventists, except for the noncompliance with the policies discussed in the preceding paragraphs, nothing came to our attention that caused us to believe that the Organizations failed to comply with the Working Policy of the General Conference of Seventh-day Adventists, North American Division insofar as it relates to those policies designated as "core" policies. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

Our report is intended solely for the information and use of the officers of the Organizations, their financial audit review committee, their governing committee, the delegates to their constituency meetings, and the officers and their designees of higher denominational organizations. This report is not intended to be and should not be used by anyone other than these specified parties.

*General Conference Auditing Service*

April 26, 2017

