

**Audit Committee Report**  
**Diocese of the South – Orthodox Church in America**  
**Diocesan Assembly - July 21 & 22, 2014**  
**Dallas TX**

**Audit Committee Mandate:** The Audit Committee (AC) was elected at the 2013 DOS Assembly in Jacksonville and was asked to organize a review of the accounts of the Diocese. The Audit Committee consists of Father David Bozeman, Christopher Naughton and Rudy Reudelhuber.

**Audit Committee Activities:** The Audit Committee held regular conference calls, interviewed members of the Diocese, reviewed Diocese of the West practices, established a scope of work for the internal review and authorized Matushka Carissa Avant to conduct the internal review and make recommendations going forward. M Carissa is a CPA with expertise in examining non-profit organizations. M Carissa is a non-independent, interested member of the Diocese whose husband is a priest employed by the Diocese.

**Dallas Meeting:** On March 30<sup>th</sup> and April 1<sup>st</sup> the members of the Audit Committee along with Chancellor Father Marcus Burch met in Dallas with M Carissa Avant and DOS Treasurer Milos Konjevich to launch the internal review process. Milos was fully accommodating of all questions. We discussed current financial work flow and practices and we discussed the mechanics of gathering all necessary documentation and implementation of the internal review.

**Completed Scope of Work:** Following the meetings in Dallas M Carissa provided the committee with a detailed internal review proposal, which the committee authorized. According to the internal review report, the following procedures were completed:

1. For all treasurer's financial reports submitted for the 2014 Assembly, except for the "Managed Debt Program (MDP) Performance Analysis" report, 2013 and 2012 balances reported to the balances according to the Diocese's Quicken accounting file. No significant discrepancies were found. There were two insignificant discrepancies totaling \$378.
2. For the Diocese's Compass and Chase Bank accounts, the internal review reconciled the bank balances to the Quicken balances as of December 31, 2013 and 2012. No significant errors were found. One insignificant error relating to a December 31<sup>st</sup> checking clearing that was recorded for January 1 was noted.
3. Banking activity was inspected per the bank statements and the Quicken file for each month in 2013 and also for December 2012 and January 2014, looking for any transactions that appeared strange or unusual. The Treasurer provided reasonable explanations for any such transactions noted.

## **Audit Committee Recommendations**

### **Complete the remaining scope of work from the internal review proposal.**

- Several examples of remaining internal review procedures include:
  1. review and agree MDP and subordinated loan balances to ledgers;
  2. agree real estate valuations;
  3. review equity in non-owned church properties; review supporting documentation and payment of church friendly loans;
  4. review OCA assessments and tithes credited to loans and advances;
  5. test approximately 5 selected parishes and deposits, loans and flows between DOS and parishes;

### **Set up a lockbox.**

- Currently there is little segregation of duties or oversight of the cash receipts process (the receipt, processing, recording, and depositing of checks).
- A lockbox account at the bank would provide strong internal control over the cash receipts process without needing to add personnel, and it also may reduce the workload of the Diocesan accounting office.

### **Implement a month-end reconciliation and review process**

- In a one-person accounting office, establishing controls in the disbursements process is particularly challenging.
- A month-end review by someone other than the treasurer could provide some control in this area.

### **Regular oversight responsibility of the audit committee should be an integral part of the Diocese's internal controls.**

- The Audit Committee recommends annual internal reviews
- The Audit Committee recommends more rigorous reviews than the one accomplished this year due to time constraints.

### **Prepare the Diocese for an attestation engagement (such as a review or audit) by an independent public accounting firm.**

- An annual attestation engagement may become necessary in the future in order for the Diocese to continue obtaining and guaranteeing loans to support parish growth.
- Implementation of the AC recommendations should prepare the Diocese for such an attestation.

### **Improve the Diocese's document retention and filing system.**

- The Diocesan accounting office should be retaining all monthly bank statements, cancelled checks, invoices received, batch deposit slips/details along with check copies, loan agreements for all loans payable, loan guarantees, monthly loan statements, statements of title, insurance policies and renewal declaration pages, support for expense reimbursements, and documented approvals by the bishop and/or chancellor for significant or unusual transactions.

**Transition to different accounting software.**

- Quicken is not a true double-entry accounting software and is not intended to be used for organizations of the Diocese's size and complexity.
- However, as long as the current treasurer is doing all of the bookkeeping, we recommend staying with Quicken.
- New accounting software needs to be accompanied by new personnel as described below.

**Arrange for another check signer.**

- This should be the bishop and/or the chancellor, neither of which are currently local to the Diocesan accounting office

**Hire an additional accounting staff member.**

- The volume of work and the amount of responsibilities and activities being accomplished by a single individual is truly impressive.
- The AC believes it will not be possible to implement most of its recommendations without providing the Treasurer with additional support.
- The AC has a job description for a part time accounting and bookkeeping position to provide this support.

**Custodial Funds and Lending Program Recommendations****Prepare a template of stress test metrics or financial health analysis worksheets.**

- One set of metrics could be used for the analysis of all individual loans under consideration on a stand-alone basis
- One set of metrics to be used for the analysis of the health of the DOS loan portfolio.
- Consideration of parish support should include an understanding of how the new loan will affect the overall DOS loan portfolio.

**Consider changing reference from "Deposits" to "Custodial Funds" or other term.**

- Parishes should understand that placing funds to be held by the diocese is different from placing them with a federally insured bank.

**Consider resetting the interest rates periodically.**

- Articulate a rationale behind the interest rates both paid on deposits and charged on new loans.
- Review periodically: either quarterly, biannually or annually.

**Consider setting liquidity/reserve ratio standards.**

- At any given time there should be a statement on hand as to why the Diocesan administration believes that liquidity on hand is sufficient to meet Diocesan obligations.

This report is respectfully submitted by the Audit Committee,

In Christ,

Rudy Reudelhuber

Chris Naughton

Fr David Bozeman