

Subject: Response to 2014 Audit
To: Finance Committee
From: Bill Graffius
Date: 8 September 2015

For your consideration to the 2014 Diocesan Audit:

"We encountered no significant difficulties in dealing with management in performing and completing our audit." - Greenawalt & Company. P.C.

Audit of Combined Financial statements:

1. Corrected and Uncorrected Misstatements:
There were several audit adjustments made to the original trial balance during the course of the audit. Total fund balances were changed by only \$4,007.00 as immediate corrections were made by staff. Per the audit report none of the uncorrected misstatements, individual or aggregate were material (to the audit).
2. Disagreement(s) with Management:
A disagreement with management is relative to financial accounting, reporting or an auditing matter. No such disagreements arose during the audit.
3. Other Audit Findings and Issues:
Normal exiting interview from Auditor and Management would include such a discussion to include the application of accounting principles and standards. However, these discussion occur during the course of the audit year as a result of the relationship with organization/management and auditing firm. Requests for suggestions on improving management/financial process are sought and offered beyond the scope of the audit on an ongoing basis.
4. Other matters:
Supplementary information submitted with attendant financial information were subject to inquiries of management and form and content complies with the modified cost basis of accounting. Information prepared and submitted is appropriate and complete in relation to the audit of the financial statements.

Significant of Deficiencies in Internal Controls:

1. Segregation of Duties:

- Areas lacking complete segregation of duties include;

Recoding keeping of the ECW: *Diocesan Finance Committee will meet with ECW*

Accounting functions related to transactions within the investment portfolios:

All transactions that require prior approval for transfers of money from investment portfolios to Parishes have a control process established, and in place since the beginning of 2015. Also, the Finance Committee reviews and approves all monies invested and transferred to other accounts.

Reconciliation of payments from Parish for Heistand Loans: *Now a Quarterly Review as of end of first quarter of 2015.*

Duties related to approvals of staff salaries: *Now a function of the Finance Committee in relation to Council of Trustees. A non- church related wage and hour survey was completed and a request has been made for a Province III analysis. Findings will be presented to the Council of Trustees through the Finance Committee.*

Recommendation is moving forward that Finance Committee receive salary request from Bishop and/or Canon-to-the Ordinary for approval by Council of Trustees.

Although, this approval arguably falls within the purview of the Bishop.

2. Trust Duties:

Control procedures for approvals for withdrawals of funds in excess of \$10,000.00.

Although proper authorities were sought to transfer funds in excess of \$10,000.00 controls have been established to ensure readily available compliance records for approvals – or not – from Finance Committee members.

Trust reports not being reviewed and initialed as read. All Trust reports have been read but initialing procedure now implemented.

3. Payroll:

Payroll records were inconsistent with pay records on file in office and in payroll service. Pension payments were incorrect as well as incomplete personnel files. *A separate audit was call for by the Canon-to-the Ordinary in early 2015 in order to effect a reconciliation based on past inaccuracies and/or complaints of same. All staff has reviewed past salary compensations computations and "signed- off" as to accuracy and correctness. Wage and salary payment records are reviewed by Canon-to-the Ordinary as well as the bookkeeping assistant. Complete breakdown of salaries, pensions and all other allowances are, and have bee, provided to Finance Committee for approval as part of our annual budgeting process in place. Shortfalls in pension payments (ordained as well as laity) were reconciled with CPG and proper payments made. Personnel records in compliance with wage and hour (Labor Laws) standards. Another review is intended prior to end of fy 2015. Leave records have been formalized with controls established with benefits staff in house. Per a prior verbal recommendation of Auditor a quarterly review of these records has been requested.*

4. Youth Revenues:

A receipt book process was implemented in early 2015. Each staff member was given a receipt book with instructions to “turn-in” receipts (monies collected) with receipts. An accounting is to be done at that level. *The Children and Youth Committee has undergone a program revision as to staffing authority. Volunteer system will be managing the process. Receipt book is in possession of Youth Committee oversight volunteer staff*

5. Heistand Loans:

Receipts from payment reimbursement did not agree to the loan amortization schedules. *Cash receipts have been monitored but not on a monthly basis. This will be done. In part, the lack of full reconciliations is from the fact that some loans are paid inconsistently; e.g. payments of two or more months to make up for a repayment shortfall from prior months.*

6. Financial Reporting:

Diocesan financial reporting involves two separate reports. Financial which reflects transactions via bank accounts and secondly transactions via BNY Mellon. *Finance Committee will review and set requisite standards and controls*

Other matters:

1. National Church Annual Fair Share: Amount paid in 2014 did not change from amount paid in 2013. 2014 Fair Share was calculated in the fall of 2013. *Amounts paid were amounts inherited in the 2014 budget without any cause for review noted. 2015 Fair Share calculated in 2014 with the assistance of our accounting firm so as to better comply and do so accurately (this process was also used in initial calculations for 2016 Fair Share or DFMS)*

2. Finance Committee and Council of Trustee meeting minutes did not include copies of materials and documents approved at the meeting and referenced in the meeting minutes. *This has been resolved.*

3. Widow’s Corporation Wellness Fund:

It does not appear that an audit of the Wellness Fund can be found on record. *Does this audit exception pertain to the grant monies approved by the Wellness Fund for the Clergy Wellness initiative or by grants requests processed by the Canon to the Ordinary, on behalf of the Bishop, for help for relief from medical, etc. bills? Records for the Wellness Group are kept by the Widow’s Corporations as well as by the program head. Herein is the area of responsibility. Diocese will follow-up with Wellness Fund initiative. The Diocese processes payroll on behalf of this group but has no direct program responsibilities. A recommendation to the finance Committee is we clarify our role and then implement such programs so as to maintain fiduciary responsibility. The medical relief funds records are kept in the Canon-to-the Ordinary’s office duly signed and processed. The Widow’s Corporation is responsible for this audit*

4. Estate Bequests:

Records for two estate payouts received in 2014 not maintained in office. *These records were forwarded to the Chancellor for review. Diocese will retrieve these records and keep on file in office.*

5. Employee vs. Independent Contractor:

The issue of an independent contractor has been fully discussed and arbitrated with the Dean of the School of Christian Studies. *The Dean fully understands the difference between an independent contractor and employee and has adjusted all relationships accordingly. As the "School" is a function of the Diocese all staff hiring – including an "independent contractor" shall be approved by the Bishop and/or Canon-to-the-Ordinary who shall be the signatory on the contractor employee agreement. The Dean has been requested to ensure the independent contractor in question is not listed on the Diocesan website as an employee.*

6. Stephenson School for Ministry, cont. Contract for services not explicit: *A detailed agreement for the independent contractor so far as work to be performed is on file. This remedy should mitigate any IRS exceptions. The "School" and the Diocese realize the authority of the Diocese over the "School" concerning financial and administrative authorities and the relationship with the "School" board of directors.*

7. Episcopal Towers of Shippensburg: *No board meetings for several years and questionable by-laws. This issue was brought to the auditor for advice and guidance as this auditing firm likewise is the auditor of record for the Episcopal Home of Shippensburg, PA. Several meetings have been held with the Episcopal Home Board, the "Towers" management firm, Diocesan staff and Attorney for the "Home." It has been determined that old by-laws must prevail until new by-laws are approved and established. Solutions to the administrative issues are on hand and in process of implementation. This will result in compliance with HUD rules and regulations and Commonwealth and Federal reporting and filing mandates.*