
International Forum
Vol. 23, No. 2
December 2020
pp. 5-21

FEATURE

**Financial Policy Compliance and Internal
Control among Adventist Schools in
Thailand: Issues and Reasons**

Wayne Hamra
Samorn Namkote

Abstract. *Improving compliance with financial policies is an initiative that has received increasing scrutiny by denominational leaders recently. This descriptive qualitative study examined policy compliance deficiencies and internal control weaknesses in 4 Adventist schools in Thailand through content analysis of management letters from the General Conference Auditing Service from 2016 to 2018. Interviews with school and denominational administrators explore the reasons behind these problems. The study revealed that their main policy violations were similar to those found in other parts of the world: audit and financial statement review committee shortcomings, insufficient effort to prevent conflicts of interest, and inadequate insurance coverage. However, it was encouraging to note that persistent efforts over these 3 years by boards and school administrators led to increased compliance in most areas. However, internal control weaknesses that underlie policy infractions had deeper roots and proved more resistant to remedial action. To ensure more systematic policy compliance in the future, ways must also be found to strengthen internal control safeguards.*

Keywords: Seventh-day Adventist schools in Thailand, General Conference Auditing Services, internal control, policy compliance

Introduction

In recent years, Seventh-day Adventist (SDA) leaders and members have become increasingly interested in how well church organizations comply with denominational financial and operational policies. At its annual Spring Council

meeting of church leaders held in April 2020, General Conference Auditing Service (GCAS) director Paul Douglas reported that in 2018, over 79% of church organizations violated at least one core policy found in the *General Conference Working Policy* handbook (Adventist News Network, 2020).

Unfortunately, this trend of non-compliance has increased over the past decade. While in 2007, 62% of denominational entities were non-compliant with at least one financial policy, starting in 2011, this number moved steadily upward until reaching a high of 81% in 2016 (Dwyer, 2017). Table 1 shows some violations of church policies that have been commonly cited by Adventist auditors.

Table 1

Denominational Working Policy Compliance Issues

Frequently Cited Violations	% of Organizations
1. Financial Statements	34%
2. Audit Committees	32%
3. Insurance Coverage	31%
4. Prevention of Conflicts of Interest	31%
5. Service Records not Updated	14%
6. Operating Deficits	11%

Source: Adventist News Network (2020)

The most common violation of financial statement standards occurs when they are not reviewed regularly by controlling committees (four times/year) or administrative officers (nine times/year). Audit committees are one of three required financial oversight subcommittees—audit, compensation review, and financial statement review—for institutional boards, and violations occur if a committee has not been appointed or does not function properly. Insufficient insurance coverage for property and equipment and unsigned/uncollected conflict of interest forms are also widespread problems. At an April 2020 meeting, Douglas stated that “if we were to address these top-six violations, overall non-compliance could decrease from 79 to just 8 percent” (Adventist News Network, 2020, para. 10).

Difficulties in complying with Adventist financial policies are not a new phenomenon, particularly among entities that struggle to achieve financial self-support. However, some observers believe that increased scrutiny of this issue has at least partially stemmed from non-compliance by some entities with world church decisions related to women’s ordination. In the latter half of 2018, a system of five oversight committees was unveiled by General Conference leaders to deal with non-compliance related to financial policies, creation/origins, distinctive Adventist beliefs, homosexuality, and ordination practices (GC Executive Committee Newsletter Editorial Team, 2018). However, this controversial enforcement system

was never implemented, and by the latter part of 2019, the work of these committees had been transferred to other bodies (Seibold, 2019).

Nevertheless, it seems that leaders have become less willing to overlook or tolerate ongoing neglect or defiance of policy requirements. Serious and recurring financial irregularities uncovered by GCAS audits, including some church entities that resist even having their books audited at all, signal the vital importance of transparency and accountability to effectively carrying out organizational mission (Seibold, 2019). Ongoing financial mismanagement problems may have provided a backdrop for the recently renewed emphasis on the need to increase compliance with denominational financial policies, which are viewed as one of the most effective ways to prevent such problems from occurring in the first place (Adventist News Network, 2020).

Internal control and policy compliance. An important precursor to systematic compliance with regulations and policies is a robust system of internal control. Such controls are necessary for good decision making and assist in mitigating and managing risk. Internal control also aids in ensuring that managers are accountable to stakeholders for their decisions and actions. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), an alliance of accounting professional organizations, was established in 1985 to help combat corporate fraud. COSO defines the aspect of internal control as the procedure for providing assurance in achieving the objectives in the areas of (a) reliability in financial reporting, (b) compliance in following the regulations, and (c) effectiveness as well as efficiency in operations (COSO, 2013).

Thus, internal control processes help to assure organizations that their financial statements provide accurate information for internal decisions and external reporting, their activities comply with applicable laws and regulations, their assets are protected from theft and fraud, and their operations are effective and efficient in accomplishing their strategies. A strong internal control system is a significant deterrent that helps to prevent fraud, while weak control processes allow unauthorized or dishonest activities to take place more easily and remain undetected (Bozkurt, 2009). The main objective of internal control is to provide a reasonable and cost-effective level of assurance that firms' financial reports are trustworthy, their assets are safely protected from internal and external risks, and they are operating efficiently in accordance with their policies and procedures.

Internal control systems in many organizations consist of both accounting and administrative controls (Aguolu, 2004). Accounting controls may include procedures, such as periodic checks of ledger account entries and balances, internal audits of accounting records, and unannounced inspections of assets in employee custody. They may also include a supervisory review of reconciliation statements, as well as discrepancies between general and subsidiary ledgers such as accounts receivable, accounts payable, and equipment. Commonly used administrative controls include prior authorization of expenditures, budgeted sales targets or

expense limits, segregation of duties so that no single individual can control all aspects of a transaction, and organizational working policies (Sambo & Benneth, 2018).

A review of the literature revealed that only a handful of studies on accounting internal control in educational institutions had been done, and most of these were in public higher education institutions (dos Reis Fonseca et al., 2020; Salome & Rotimi, 2012). These studies advocated the implementation of basic internal control principles (Sambo & Benneth, 2018) or internal auditing practices (dos Reis Fonseca et al., 2020; Salome & Rotimi, 2012) to facilitate better usage of public educational funds.

No previous studies on internal control that had been done in Adventist schools were found. Perhaps this dearth of previous studies is because management letters from auditors are considered sensitive information by school administrators, and so gaining access to data for studying this topic is not an easy process. This investigation endeavored to fill this gap in the literature by providing a detailed picture of the issues faced by a relatively small sample of Adventist schools. Hopefully, a clearer picture of these problems may lead to the emergence of potential solutions that improve policy compliance and internal control mechanisms in schools confronted by similar challenges.

General Conference Auditing Service. GCAS was established to provide high quality independent internal financial audit services to Seventh-day Adventist organizations and entities (GCAS, n.d.). It aims to provide administrators and governing boards with assurance regarding essential financial and non-financial information, as well as compliance with professional standards, external regulations, and denominational policies (Douglas, 2011). GCAS is charged with providing world-wide internal auditing services for Seventh-day Adventist organizations. Its client base includes all Adventist organizations, including schools, and its audits lead to the issuance of three main annual reports:

1. an opinion on client financial statements;
2. a policy compliance report; and
3. an assessment of internal control systems.

These results are provided to school audit subcommittees and boards after the close of a school year. The annual letter to audit subcommittees consists of comments about internal control deficiencies, which occur when control is designed or implemented in a way that renders it unable to prevent, detect, or correct misstatements in the financial statements. Internal control deficiencies may lead to fraud, misuse, or theft of school property; thus, they must be prevented or at least reduced as far as possible. Many organizations sadly neglect internal control shortcomings until encountering problems with employee embezzlement or theft of school assets by external parties. The number of internal control weaknesses and how long they persist is a factor that is often linked with partial or unsatisfactory compliance with regulations and policies. Thus, failure to comply with

denominational policies and internal control deficiencies should be highlighted so that administrative bodies may take suitable steps to see that they are corrected.

Seventh-day Adventist schools in Thailand. One ministry of Thailand Adventist Mission (TAM) of Seventh-day Adventists is to provide high-quality educational programs to students who enroll in its school system. Students include both Adventists and non-Adventists of all religions and nationalities. SDA schools are founded on the belief that well-rounded, holistic education must include a moral/ethical component. Thus, Adventist schools utilize curricula that integrate academic knowledge and spiritual principles from a biblical perspective (Adventist Education, n.d.).

Seventh-day Adventist schools in Thailand are registered as private schools under the Seventh-day Adventist Church Foundation and operate as nonprofit organizations. They need effective internal controls to achieve their goals and operate efficiently in the long run. Strong internal controls are needed to ensure that all financial activities are recorded, and cash receipts are collected and properly deposited in the school's bank accounts so that administrators and officers have accurate data on which to make decisions. School administrators may not be accountable to corporate shareholders, but they are answerable to students and the Lord for judiciously carrying out their duties. They are also accountable to the Thailand Adventist Mission, which provides initial capital to establish Adventist schools and also oversees their operations.

Thailand Adventist Mission (TAM) owns and oversees eight primary schools throughout the country, four of which also have secondary programs; only 1 of these schools is a boarding institution. Instruction in five of the eight schools is in the Thai language, while English is the principal medium of instruction in the others, which are referred to as "International" schools. At the time of this study, only four out of the eight schools were being audited by the GCAS. TAM encourages all of its schools to be audited by GCAS because annual financial audits by GCAS are a condition of accreditation by the Accrediting Association of Seventh-day Adventist Schools, Colleges, and Universities.

Study Objectives, Research Questions, and Conceptual Framework

In this study, denominational policy compliance challenges and issues that are faced by Seventh-day Adventist schools in Thailand were identified and explored. An explanation was sought for the problems and reasons that have led to non-compliance or partial compliance with core church financial policies. As part of the examination of compliance, school internal control systems were reviewed and deficiencies identified to see if any evidence could be found linking internal control to policy compliance. To reiterate, the study's objectives were as follows:

1. To study denominational policy compliance issues that are commonly faced by Seventh-day Adventist schools in Thailand.

2. To understand underlying problems that lead to partial or non-compliance with core policies.

Research Questions

In harmony with these objectives, the first part of this study was guided by two research questions:

1. What policy compliance issues do SDA schools in Thailand commonly face?
2. What are the reasons that these schools find it difficult to comply with these policies?

The study evaluated two main parts of internal control systems: their accounting and administrative control systems. Each part was broken into various sub-factors, as shown in Figure 1 below. Of course, some factors related to internal control may seem of minor importance, but they may prevent or allow small amounts of fraud, misuse, or human error. If schools can discover such problems quickly and make determined efforts to resolve them, many such losses or inefficiencies can be prevented. The researchers believe that strong internal control systems are important precursors to systematic compliance with denominational policies.

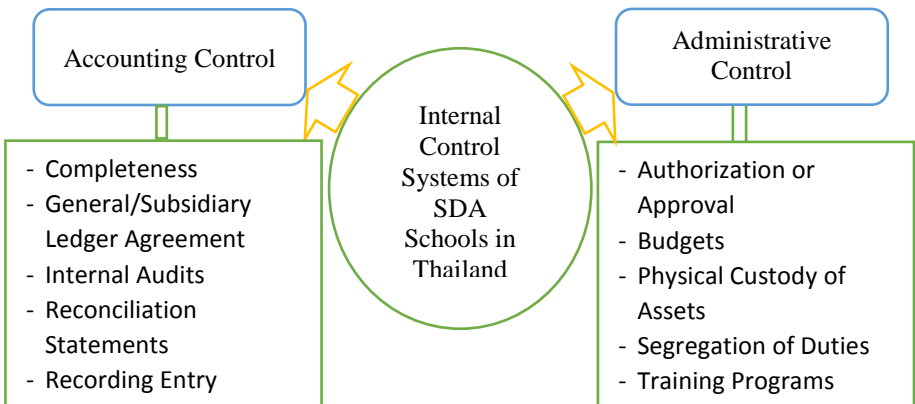


Figure 1. Internal control framework for SDA schools.)Adapted from *International Auditing in Nigeria*, by O. Aguolu, 2004, Mmiridian Associates; Potential red flags and fraud detection techniques, by W. Kenyon & P. Tilton. In T. Golden-Steven & S. Clayton (Eds.), *A guide to forensic accounting investigation* (1st ed., pp. 119–160), 2006, John Wiley & Sons.

Methodology

Thailand Adventist Mission (TAM) owns and oversees the operations of eight primary schools throughout the country, four of which also have secondary programs; only one school is a boarding institution. Instruction in five of the eight schools is in the Thai language; English is the principal medium of instruction in three others, which are referred to in Thailand as “International” schools.

At the time of the study, only four out of the eight schools were audited by the General Conference Auditing Service (GCAS). Each year, the schools receive numerous comments in their annual management letters from GCAS auditors regarding internal control weaknesses and policy compliance issues. These observations and suggestions are to help schools improve their quality of financial management, regardless of whether they receive unqualified or qualified audit opinions. So, a purposive sample was selected consisting of these four schools audited by GCAS. Of this sample, two schools were International schools, and two used the Thai language as the medium of instruction. Schools operated by Thai Adventist lay members, denominational entities other than TAM, or self-supporting ministries were excluded from this study. A brief profile of these schools may be found in Table 2.

A qualitative descriptive research design was developed involving the examination and content analysis of GCAS internal audit reports to obtain an accurate picture of current problems and to enable answers to be provided for the first research question about policy non-compliance issues. Permission to analyze the four schools’ GCAS policy compliance and internal control reports for three fiscal years from 2016 to 2018 was requested and received from each school board, a process that took about six months. Because audit reports are sensitive documents, it was agreed that schools would not be identified by name. School administrators reviewed and approved a draft of this article to ensure that confidential data had been adequately protected. For two schools (Schools A and C), combined policy compliance and internal control letters were issued covering both the 2016 and 2017 school years; this indicated that annual audits during these 2 years were not conducted for these two schools.

Table 2
Brief Profile of Selected Seventh-day Adventist Schools in Thailand

School	Enrolment	Finance Office Employees	Years of Operation	Language of Instruction
School A	< 1,000	5	< 40	Thai
School B	< 1,200	8	< 70	English
School C	< 200	3	< 10	English
School D	< 400	4	< 80	Thai

The purpose of the study was to analyze and classify common internal control weaknesses and policy compliance problems that affect Thai SDA schools, providing an overview of systemic issues rather than assessing the administrative effectiveness or financial performance of specific organizations. Since the study primarily focused on policy compliance and internal control issues, audit opinions of the schools' financial statements were not examined. Special attention was paid to unresolved issues that were mentioned in multiple reports or affected more than one school. From this classification of weaknesses or problems found by GCAS auditors in multiple locations or years, themes emerged that indicated which policy compliance and internal control issues were experienced by Thai SDA schools.

To answer the second research question, analysis of these internal audit letters was supplemented by confidential interviews with school and TAM financial administrators who were familiar with their contents. In these discussions, attempts were made to identify and understand underlying reasons for policy violations and internal control weaknesses, as well as exploring possible remedies that would improve compliance levels.

Findings

Policy compliance. After reading the GCAS policy compliance letters to the schools during the three years, each item mentioned was categorized using a simple classification system developed by the researchers. An overview of most items may be seen in Table 3. Violations of policies overseen by school boards were labeled *Governance Issues*, while those about decisions made by school administrators were classified as *Management Issues*. Since many comments involved employee wages and benefits, which are overseen by a Compensation Review Subcommittee, such items were grouped in a separate subcategory called *Employee Wages and Benefits*.

Perhaps unsurprisingly, the most common policy compliance problems were the same as the top four items mentioned in the GCAS director's 2020 Spring Council report (Table 1). All four schools were cited for infrequent reviews of their financial statements by the oversight subcommittees; in fact, three schools violated this requirement during all three years of the study! In these same schools, audit subcommittee reviews and conflict of interest precautions had not been satisfactorily

Table 3

2016-2018 GC4S Reported Policy Compliance Deficiencies, SD4 Schools in Thailand

No.	Compliance Issue	School A		School B			School C		School D			No. of Schools
		2016-17	2018	2016	2017	2018	2016-17	2018	2016	2017	2018	
1	Governance Issues Audit Committee Appointments	•	○	•			•	•	•		•	3
2	Budget Not Approved by Board											1
3	Compensation Review Com Appoint			•			•	•	•		•	2
4	Financial Statements Regular Review	•	○	•	•	•	•	•	•	•	•	4
5	Provision for Prior Year Losses						•	•				1
6	Unsigned Conflicts of Interest	•	○	•			•				•	3
- Employee Waives & Benefits												
7	Employees Paid Too Much/Too Little			1 58	7 9	6 4			4	4	1	2
8	Excessive Rental Assistance											1
9	Excessive Tuition Assistance	+40%	➔ +40%	+15%	➔ +15%	+15%						3
10	Excessive Medical Assistance			Parents			+24%	➔ +24%				2
11	Unorthodox Vacation Policy			○		○					•	2
Management Issues												
12	Cash Deposits Over Insurance Ceiling			○	•	•			9			1
13	Excessive Employee Act Receivable											1
14	Inadequate Building/Equip Insurance	22 of 23	13 of 24	5 of 17	5 of 17	Equip	None	Equip				3
15	Long-term Fixed Deposits								○		•	1
16	Termination Settle on Service Record			1	6	8						1
	Total No of Issues	5	6	11	6	8	9	5	1	4	3	

• Major Issue ○ Minor Issue
 ➔ = Higher than policy ➔ = Lower than policy

followed, nor had adequate insurance for all buildings and equipment been provided. It should be noted that repeated mention of non-compliance seems to have moved school administrators and boards to action, and varying levels of improvement were noted over the three years. The number of policy violations detected by GCAS at the two schools with the highest totals had markedly decreased by 2018. Moreover, for some items still cited (e.g., inadequate insurance coverage), improvements were seen; for example, two schools that lacked building/ equipment insurance in 2016 had insured their buildings by 2018, though the equipment was still uninsured.

Difficulties in convening regular meetings of financial oversight subcommittees—audit, compensation review, and financial statement review—was the most common explanation given for non-compliance in this area. The policy requires at least four financial statement reviews annually by school boards and nine reviews by administrative committees. Key members of school boards are officers of higher Adventist organizations with busy schedules, and generally, about six board meetings are scheduled annually. Surprisingly, however, violations of this standard were generally for insufficient reviews by local administrative committees. Reasons given included that the financial statements had not been completed in time or that the statements were sometimes reviewed, but this was not recorded in the minutes. However, organizing regular reviews by an internal committee should not be too difficult.

While fulfilling protocols to prevent conflicts of interest is not difficult, purchasing adequate insurance coverage presents an ongoing financial challenge for schools that struggle to break even. This is why, despite repeated warnings, only one out of the four schools had fulfilled this requirement.

Surprisingly, most violations of employee salary and benefit policies involved providing benefits that exceeded policy limits. Three out of four schools furnished tuition assistance to employee families that surpassed the denominational standard of 60%. The reason given for such largesse was that it partially offset below-market salaries, thereby helping schools to retain valuable teachers who might otherwise seek outside employment. As educational institutions, providing this benefit did not lead to cash outlays, and so it was viewed as a cost-effective and compassionate strategy. Other unorthodox benefits included extending medical assistance to parents of employees, as is the practice in Thailand for public school teachers, and excessive rental assistance in urban locations with high housing costs.

Aside from the difficulty in purchasing enough insurance, policy violations by school administrators tended to be isolated rather than recurring events and were often resolved in the following year. However, one school had unapproved long-term deposits, while another had bank accounts that exceeded deposit insurance limits; both violations were mentioned in multiple compliance reports.

Internal Control

Commonly-mentioned internal control weaknesses in the GCAS letters during these three years were categorized using a simple classification system. An overview of most items may be seen in Table 4. Internal control deficiencies were divided into two categories, previously introduced as *Accounting Control Issues* and *Administrative Control Issues*. The total number of GCAS comments for each year was counted, as were the adjusting accounting entries mentioned in the letters. A subset of adjusting entries characterized as *significant* or relatively large entries was also noted because these errors, if uncorrected, could potentially affect the accuracy of financial statements. For two schools, about half of adjusting entries were characterized as *significant*, meaning that they involved material or relatively large amounts. The largest adjusting entry was for 3.4 million Thai Baht, or about US\$ 110,000.

The most serious *Accounting Control* weakness was erroneous presentations of Cash/Cash Equivalents in financial statements. Mistakes invariably inflated these totals by including funds not considered as Cash according to Generally Accepted Accounting Principles. Examples included refundable damage/development deposits, fixed deposits, long-term investments, cash overdrafts, and bank letters of guarantee. Since such funds are restricted and may not be used for a firm's operations, they may not be included in Cash totals because they are not considered current assets.

Another frequently mentioned *Accounting Control* problem was the insufficient review by colleagues of important financial documents. Systematic second checks of important documents by co-workers or supervisors are vital in reducing human error and maintaining accuracy. Documents not reviewed included bank and denominational account reconciliations, equipment and inventory subsidiary/ master accounts, journal vouchers, and calculations supporting the provision of doubtful accounts and severance allowances. Over-reporting departmental income or expenses was also frequently cited; inaccurate reports of departmental revenue occur when internal income from other departments is aggregated in institutional-level financial statements. When departmental accounts are consolidated, such amounts must first be eliminated to avoid overstating total income and expenses at the organizational level.

Table 4
2016–2018 GCAS Reported Internal Control Deficiencies: SD4 Schools in Thailand

No.	Internal Control Deficiency	School A			School B			School C			School D			No. of Schools	
		2016-17	2018	A/E	2016	2017	2018	A/E	2016-17	2018	A/E	2016	2017		2018
1	Accounting Control Issues	0	0	0	0	0	0	0	0	0	0	0	0	0	3
2	Bank Reconciliations Not Reviewed	0	0	6	0	0	0	1	0	0	0	0	0	0	2
3	Departmental Income Expense Over-reported	0	0	1	0	0	0	19	0	0	0	0	0	0	3
4	Erroneous Calculation of Cash Position	0	0	1	0	0	0	3	0	0	0	0	0	0	3
5	Inadequate Allowance for Doubtful Accounts	0	0	1	0	0	0	3	0	0	0	0	0	0	4
6	Journal Vouchers Not Reviewed	0	0	0	0	0	0	0	0	0	0	0	0	0	4
7	Reconciliation Reports Not Reviewed	0	0	2	0	0	0	2	0	0	0	0	0	0	4
8	Receivables and/or Payables Misstated	0	0	2	0	0	0	2	0	0	0	0	0	0	1
9	Severance Allowance Lacking, Not Reviewed	0	0	2	0	0	0	3	0	0	0	0	0	0	2
10	Administrative Control Issues	0	0	0	0	0	0	0	0	0	0	0	0	0	3
11	Authorization Problems	0	0	(6)	0	0	0	(5)	0	0	0	0	0	0	(1)
12	Equipment General/Subsidiary Discrepancies	0	0	4	0	0	0	1	0	0	0	0	0	0	2
13	Inadequate Internal Control of Cash	0	0	0	0	0	0	0	0	0	0	0	0	0	4
14	Incompatible Duties/No Segregation of Duties	0	0	0	0	0	0	0	0	0	0	0	0	0	3
15	More Frequent (Daily) Cash Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	3
16	Misc. Problems with Bank Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	3
17	Misc. Problems with Bank Accounts	0	0	1	0	0	0	1	0	0	0	0	0	0	4
18	Physical/Recorded Inventory Values Differ	0	0	1	0	0	0	1	0	0	0	0	0	0	4
19	Policies: Asset Purchase/Disposal, Capitalization	0	0	1	0	0	0	1	0	0	0	0	0	0	1
20	Total No. of Issues in Table	14	10	10	12	9	7	13	9	9	6	8	5	3	3
21	Total No. of Comments in GCAS Letters	(18)	(19)	(19)	(22)	(12)	(9)	(17)	(17)	(17)	(6)	(7)	(3)	9/4	3
22	No. of Specific Adjusting Entries Significant	10	8	18/11	11	11	9	31/8	5	8	4	4	1	9/4	3

• Major Issue ◦ Minor Issue A/E = No. of Adjust. Entries

Notable *Administrative Control* issues reported consisted of proper authorization procedures and inadequate segregation of employee duties. Authorization problems involved administrators making decisions that required committee approval and voting employee allowances from which they would personally benefit; the number of such incidents specifically mentioned in GCAS letters was counted and shown in Table 4. Examples of other violations included authorizing asset purchases, allocating student scholarships, and approving their responsibility allowances and travel reports. Another problematic area that was cited frequently involved inadequate control of cash; violations included infrequent bank deposits of cash, using collections in operations, taking cash home for safekeeping on weekends, issuing receipts to parents before payment was received, cash payments for interdepartmental purchases, and lack of a formal system to control the use of cash.

Incompatible duties included situations where a single staff member could initiate a transaction, record it in the accounting records, have physical custody of the asset, and reconcile activity in the accounting records. For example, this would occur if a student receivables accountant received payments from students, issued official receipts, and posted payments to student accounts. This could allow an employee to make an error or perpetrate a fraud that would not usually be discovered promptly by other employees in the course of their regular duties. This was an ongoing problem at several schools, particularly smaller ones with only a few finance office staff members.

Discussion

The Policy Compliance area with the most violations by SDA schools in Thailand was the *Governance* category. This was consistent with the 2020 GCAS Spring Council report, in which three out of the four most frequently cited violations—audit committees, conflict of interest protocols, and financial statement reviews—were matters overseen by school boards. Since key positions on boards are usually held by high-ranking denominational officers who have busy schedules, perhaps time pressure prevents them from carrying out the detailed follow-up work that is necessary to ensure compliance with all policy requirements. Nevertheless, during the 3 years examined in this study, substantial improvement was found in many *Governance* issues, except regular financial statement reviews. The only widespread problem in the *Employee Benefits* category was excessive tuition assistance, while the most persistent *Management* compliance problem was inadequate building and equipment insurance.

The relatively large number of Internal Control deficiencies reported by GCAS auditors is a matter that should cause concern. The most worrisome areas are those which could potentially lead to losses from undetected fraud or theft; these included inadequate control of cash, incompatible employee duties, insufficient review of financial documents, and improper authorization of financial decisions. While some improvement was seen over the three years that were studied, these weaknesses seemed more resistant to correction than policy compliance violations. Today's internal control deficiencies may contain the seeds of tomorrow's policy compliance problems.

The reason that internal control problems often defied easy resolution may stem from the fact that successful remedies usually involve more work than is required for policy compliance. Splitting up incompatible duties and reassigning them to other employees means reorganizing workloads, with a need for additional training and closer coordination. Frequent reviews of financial documents add complexity to work processes; ensuring that master and subsidiary accounts for inventory, equipment, and receivables are regularly kept in balance takes more time and effort than occasional checks. While accounting software may facilitate resolving some of these challenges, setting up and customizing systems to meet local needs often takes significant experience and an enormous amount of energy. Thus, maintaining good internal control may lead to requests for more employees, which in turn raises cost-benefit questions about how to balance organizational effectiveness and efficiency.

Conclusion and Recommendation

A review and analysis of the 2016-2018 GCAS policy compliance and internal control reports for four Adventist schools in Thailand found that the main policy compliance deficiencies were similar to those reported in other denominational organizations. Inadequate work by audit and financial statement review committees, failure to carefully follow conflict of interest protocols, and lack of insurance coverage for school assets were the most frequently cited problems. However, it was encouraging to note that persistent efforts by boards and school administrators led to increased compliance over these three years, except in the area of financial statement reviews.

However, internal control weaknesses seemed to have deeper roots and have proved to be more resistant to remedial actions. Only one school received less than 10 comments on average each year from the auditors about such weaknesses, and many adjusting entries—some of which were quite large—were necessary for financial statements to portray a school’s true financial condition accurately. A follow-up study was deemed necessary and is already underway that is exploring what practical actions by denominational leaders and school administrators might lead to more consistent improvement in these areas.

Acknowledgments

The authors would like to sincerely thank the administrators of the four schools that were studied for their kind cooperation and for permitting these findings to be shared with a wider audience. They are also grateful for suggestions made by Mr. Francis Tion, a Regional Manager of GCAS, regarding an earlier draft of this paper.

References

- Adventist Education. (n.d.). The approach and philosophy of Adventist education. *North American Division Education Department*. <https://adventisteducation.org/abt.html>
- Adventist News Network and Adventist Review. (2020, April 29). *Adventist leaders move toward greater compliance with core governance policies*. <https://news.adventist.org/en/all-news/news/go/2020-04-29/adventist-leaders-move-toward-greater-compliance-with-core-governance-policies/>
- Aguolu, O. (2004). *International auditing in Nigeria*. Mmiridian Associates.
- Bozkurt, N. (2009). *Enterprise black hole fraud: Employee frauds*. Alfa Publications.
- Committee of Sponsoring Organizations of the Treadway Commission. (2013, May 14). *COSO issues updated Internal Control–Integrated Framework and related illustrative documents*. <https://www.coso.org/Documents/COSO-Framework-Release-05142013.pdf>
- dos Reis Fonseca, A., Jorge, S., & Nascimento, C. (2020). The role of internal auditing in promoting accountability in higher education institutions. *Brazilian Journal of Public Administration* 54(2), 243–265. <http://dx.doi.org/10.1590/0034-761220190267x>
- Douglas, P. (Ed.). (2011). *Transparency and accountability: A global commitment of Seventh-day Adventist church leaders*. General Conference Auditing Service.
- Dwyer, B. (2017). Annual Council 2017: The unity vote. *Spectrum Magazine* 45(4), 5–8.
- General Conference Auditing Service. (n.d.). *Mission and values*. <https://www.gcasconnect.org/mission-and-values>
- GC Executive Committee Newsletter Editorial Team. (2018, September 7). Prayerful process continues: GC ADCOM embraces unity. *Adventist News Network*. <https://news.adventist.org/en/all-news/news/go/2018-09-07/prayerful-process-continues-gc-adcom-embraces-unity/>
- Kenyon, W., & Tilton, P. (2006). Potential red flags and fraud detection techniques. In T. Golden-Steven & S. Clayton (Eds.), *A guide to forensic accounting investigation* (1st ed., pp. 119–160). John Wiley & Sons.
- Salome, E., & Rotimi, O. (2012). Auditing as a tool for accountability for efficient and effective school administration. *Arabian Journal of Business and Management Review (Oman Chapter)* 2(5), 48–55. [https://www.arabianjbm.com/pdfs/OM_VOL_2\(5\)/7.pdf](https://www.arabianjbm.com/pdfs/OM_VOL_2(5)/7.pdf)
- Sambo, F., & Benneth, U. (2018). Internal control system as a mechanism for effective fund management of universities in Bayelsa State, Nigeria. *Global Journal of Social Sciences*, 17, 77–91. <https://doi.org/10.4314/gjss.v17i1.8>

Seibold, L. (2019, October 22). How we got the compliance committee news so wrong. *Adventist Today*. <https://atoday.org/how-we-got-the-compliance-committee-news-so-wrong/>

*Wayne Hamra, DBA
Principal Lecturer, Faculty of Business Administration
Asia-Pacific International University
Muak Lek, Thailand
whamra@apiu.edu*

*Samorn Namkote, MBA
Treasurer
Thailand Adventist Mission
Bangkok, Thailand
samorn@adventist.or.th*