
Minutes

**Presbyterian Mission Agency Board Audit Committee Meeting
August 13, 2014**

**Presbyterian Center
Louisville, KY**

Conference Call

ATTENDANCE:

Molly Baskin, Chair
Thomas Fleming
Ellen Pearre Cason
Richard Turpen
Kears Pollock, Vice Chair

STAFF:

Timothy Stepp, PMA
Martha Clark, PMA

Wednesday, August 13, 2014:

Ms. Baskin opened the Audit Committee with prayer.

MOVED, SECONDED, and CARRIED: The Audit Committee adopted the agenda.

The audit committee entered executive session with management.

The audit committee arose from executive session with management. The following actions were approved in executive session:

- The audit committee received the confidential report from Legal Services and Internal Audit.
- The audit committee approved its report on the investigation, dated August 13, 2014.
- The audit committee approved the distribution of the approved report.

The audit committee adjourned with prayer.

Respectfully submitted,

Molly Baskin, Chair

Timothy Stepp, Recorder of the Minutes

**Report of the Audit Committee of the
Presbyterian Church (U.S.A.) Mission Agency [PMA] Board
and Presbyterian Church (U.S.A.), A Corporation [PC(USA)]
to the PMA Board of Directors
August 13, 2014**

The Audit Committee:

According to the PMA Manual of Operations and the Audit Committee's charter, among the primary functions of the Audit Committee is to monitor the integrity of the established system of Internal Control regarding finance, accounting, legal compliance and ethics. The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and in this regard, it has direct access to anyone in the PMA¹.

Background:

On April 23, 2014, the Audit Committee was informed of serious infractions and breaches of internal control on the part of certain PMA staff. It reported this information to PC(USA)'s external auditors and the PMA Executive Committee on April 23 and in a closed session to the PMA Board on April 24.

The Audit Committee directed the PMA Internal Audit Department to perform an Investigation (the "Investigation") and to report the results to the Audit Committee. Before the Investigation began, the Legal/Risk Management Services Office was asked to perform such an Investigation with assistance from the Internal Audit Department. The Audit Committee has received the privileged and confidential attorney-client communication and attorney work product report dated August 11, 2014. The Audit Committee has not performed an independent investigation; therefore, all conclusions in this Report (the "Report") are based on the internal Investigation by PMA staff.

Conclusions from Investigation:

Upon review and discussion of the Investigation details, exhibits, and findings, the Audit Committee concludes that:

- An independent corporation was formed by PC(USA) employees, without PMA authorization, using a virtually identical program name and website, transferring grant funding, and planning transfer of PC(USA) employees and further grant funding to the unauthorized separate corporation. The claimed purpose was to ensure the future existence of the program without reliance on PMA budget constraints, without exposure to PMA budget cuts and without potential impact from any changes in PMA leadership.

¹ PMA employees are employed by Presbyterian Church (U.S.A.), A Corporation ["PC(USA)"].

- The effect of this plan, had it not been discovered and stopped and the inappropriately transferred funds reimbursed to PMA, would have been to:
 - Remove PMA restricted funds from PMA oversight (budgetary and internal controls),
 - Remove PMA employees from PMA oversight (personnel policies and performance review), and
 - Remove a major PMA program from PMA and denominational oversight (in a partnership which PMA had not agreed to).

- Further external effects include:
 - Explicit misrepresentation (on the website and elsewhere),
 - Potential harmful confusion of PC(USA) donors, service-users, vendors and banks, and
 - Potential diversion of PC(USA) resources and revenue streams to other denominations.

- Due to failure to follow established and known policies, four named staff members were concluded to have violated the Ethics Policy. In addition, two staff members approved the transfer of restricted funds to this unauthorized separate corporation not under the control of PC(USA), without PC(USA) Board approval or PMA Board approval; and one staff member permitted PC(USA) employees to perform services for this unauthorized separate corporation.

The actions which led to this investigation indicate a serious lack of regard for and adherence to the established policies and procedures of the PC(USA) and PMA. The Board and PMA have a solemn fiduciary responsibility to their donors, who expect their gifts to be used wisely and in accordance with restrictions and with budgets and priorities which have been adopted appropriately. These policies are in place to safeguard these assets.

The actions created and highlighted risks for the PMA and PC(USA), including potential financial misappropriation or loss, general reputational risk, reputational (“headline”) risk of another group using the PMA’s and PC(USA)’s names and logos without permission or oversight, and breakdown of management structure by abdicating responsibility with respect to oversight.

Recommendations:

The Audit Committee, in extensive consultation with PMA’s Internal Audit Department and PMA’s Legal/Risk Management Services Office, recommends that:

Personnel:

- The Executive Director take appropriate personnel actions regarding Ethics Policy violations and management overrides and lack of management oversight in the identified Ministry area, ensuring individual and corporate consequences, including further ethics investigations if needed.

- The Executive Director, after appropriate legal review, place the 11-page Investigation Report (exclusive of the 322 pages of exhibits) in the personnel files of the four staff

members named in the privileged report's conclusions. In doing so, PMA and PC(USA) assert that they do not waive the attorney work product privilege.

- The Executive Director place her report and disciplinary action in each of these staff members' personnel files.
- The Legal/Risk Management Services Office, in conjunction with the Internal Audit Department, conduct a training session of senior management. This is to take place before September 10, 2014, on these sole topics and for no less than one hour, using the general facts of this case as an example, and providing management training on its explicit responsibility for creating and maintaining an environment of ethical stewardship. Further, senior management will report the attendance at this session, and alternative training for senior management not in attendance, to the Audit Committee.

Policies and Procedures:

- The Executive Director evaluate the relationship with the subject organization and take appropriate actions with regard to the unauthorized use of a name similar to PMA's program name by the subject organization.
- The Executive Director communicate with others outside the PMA who were involved in the incorporation of the subject organization in an appropriate manner to:
 - Explain actions being taken in a manner to preserve missional relationships;
 - Make clear that it is to cease any use of the PMA or related logo;
 - Inform the subject organization that it must be clear with vendors, donors, and employees that it is not owned or controlled by the PMA, the Presbyterian Church (U.S.A.) General Assembly or PC(USA); and
 - Require that the subject organization submit amendments to correct its 501(c)(3) application to remove its current web address and to remove any misrepresentation as to its relationship with Presbyterian Church (U.S.A.), PC(USA), or the General Assembly.
- The Executive Director instruct PMA staff to follow current policies and procedures for grants by:
 - Placing a reminder of policies and procedures for grants on CenterNet; and
 - Ensuring trainings on grant policies and procedures are conducted periodically.
- The Executive Director take appropriate action to re-enforce an organizational culture, supported by the Leadership Cabinet and all levels of management throughout the PMA, that values, promotes and supports adherence to established internal controls of the PMA.
- The Executive Director instruct the Ministry areas to appropriately use and rely upon the PMA's Common Services offices, which include but are not limited to, Accounting and Finance, Human Resources and the Legal/Risk Management Services Office.
- The Executive Director take appropriate actions to strengthen the grant process by:
 - Requiring grant applications be processed through the Mission Development and Resources Committee or another appropriate Board-appointed and authorized committee;

- Requiring that any new grant processes must first be approved by the PMA Leadership Cabinet and then submitted through the appropriate PMA Board Committee to the PMA Board for approval;
 - Adding a statement to the Accounts Payable voucher for payment of grants requiring employees to disclose known conflicts of interest; and
 - Requiring that adequate and timely documentation be submitted with reports from grant recipients on use of funds.
- The Executive Director instruct the Ministry Directors that no new corporations are to be formed absent working with the Legal/Risk Management Services Office and in compliance with the PMA Board Incorporation Criteria which requires prior approval of the PMA Board and the General Assembly of the Presbyterian Church (U.S.A.).

Reporting:

- The Executive Director report to the Audit Committee, Personnel Committee, and Executive Committee, steps taken to implement the above recommendations by September 10, 2014, with a follow-up report by December 15, 2014.
- The Internal Audit Department provide this Audit Committee Report to PC(USA)'s external auditors, as discussed.
- The Internal Audit Department perform a follow-up review of the internal audit compliance of the subject Ministry area in the summer of 2015 and report to the Audit Committee in August, 2015 for its review. The Audit Committee will then report the findings to PC(USA)'s external auditors.