
Minutes

**Presbyterian Mission Agency Board Audit Committee Meeting
December 15, 2014**

**Presbyterian Center
Louisville, KY**

Conference Call

ATTENDANCE:

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

PMA STAFF:

Timothy Stepp
Martha Clark
Shawn Ellison
Earline Williams
April Davenport

Monday, December 15, 2014:

Ms. Baskin opened the Audit Committee with prayer.

A motion to enter into closed executive session to consider personnel issues was moved, seconded, and carried.

PMA Staff were dismissed at 4:50 pm from the call and the Audit Committee remained in conference.

The Audit Committee arose from executive session with the following approved action:

The Audit Committee approved its report on the Presbyterian Youth Triennium, which is attached to these minutes.

The Audit Committee adjourned with prayer.

**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
December 15, 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 PMA.

Background:

On April 23, 2014, the Audit Committee was informed of material unbudgeted expenditures associated with the 2013 Presbyterian Youth Triennium (PYT). It reported this information to PC(USA)'s external auditors and (without noting the amount or program) to 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 Internal Audit of the event ("Internal Audit Report") and to report the results to the Audit Committee. The Audit Committee received the Internal Audit Report dated August 29, 2014 showing actual expenses that were \$598,901 (29.2%) in excess of the approved expense budget of \$2,050,813, and a net loss for the event of \$287,213 that was funded out of Presbyterian Mission Program Fund unrestricted operating reserves. As reported to the PMA Board in closed session on September 17, the Internal Audit Report was referred back to the Internal Audit Department and to the Legal/Risk Management Services Office, with the direction to work together to provide the Audit Committee with "specific proposed changes to contracts and procedures for the upcoming Triennium" ("Proposals Report"). The Audit Committee has received the privileged and confidential attorney-client communication and work product Proposals Report dated November 12, 2014. The Audit Committee has not performed an independent investigation; therefore, all conclusions in this Report are based on the internal work performed by PMA staff.

Conclusions from Review and Proposals Reports:

Upon review and discussion of the work of the PMA Internal Audit Department and the Legal/Risk Management Services Office, the Audit Committee concludes that with regard to the 2013 PYT:

- The financial administration and oversight was found to be lacking, evidencing a failure to comply with PCUSA standards of stewardship, transparency, and accountability.

- By a variety of means, the following PMA policies were found to have been ignored, partially observed, or outsourced to non-PCUSA entities, resulting in inadequate and therefore unacceptable financial administration of the program:

- PMA Conference Planning Process

This process requires, among other things, that a designated accountant participate in planning, budgeting, and monitoring of the event. (In this case, there was no such person, resulting in poor controls and reporting.)

- PMA Contract Policies and Guidelines

These policies and guidelines require that a contract signed by an authorized PMA signer be obtained prior to beginning significant work. (In at least one case, work was performed based on a \$25,000 bid without a signed contract.)

- PMA Information Technology Policies

These policies govern such activities as purchase of and accountability for computers and other high value electronic devices. (In this case, both purchasing and accountability requirements were contravened.)

- PMA Communications Ministry Office Policies

These policies include such activities as website creation and hosting. (These policies were bypassed by outsourcing the activities.)

- PMA Personnel Policies

These policies require that a process for requesting a waiver from the Executive Director be followed when the requesting party wishes to hire a PC(USA)-related party. (In this case, PYT arranged for an event partner to bypass this exception process.)

- PMA Financial Accounting Policies

These policies require, among other things, contemporaneous comparisons of expenditures to budgeted/authorized amounts. (This task was outsourced but was performed neither by the outside vendor nor by PMA; in addition, expenses were not coded consistently, so that such comparisons, had they been performed, would have been meaningless.) Note that we are not making any accusation of error or omission with respect to any outside entity; it was PMA's responsibility to ensure that policies and procedures were followed.

The actions in these areas, as detailed for the Audit Committee in the Internal Audit Report and the Proposals Report, indicate an inadequate understanding of the importance of and adherence to the established policies and procedures of the PC(USA) and PMA. The PMA Board and Staff have a solemn fiduciary responsibility to their donors, who expect their gifts to be used wisely and in accordance with (and subject to the restrictions of) approved budgets and established priorities. These policies and procedures are in place to safeguard assets against the risk of misappropriation or loss, and they demand management's diligence in fulfilling its responsibility for financial oversight.

Recommendations and Reporting:

Recommendations:

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

- The Executive Director direct the appropriate Evangelism and Church Growth Ministry Area (ECG) staff to restore the financial and contract administration of the Presbyterian Youth Triennium mission program to PMA staff control (from outsourcing). This action should strengthen financial and legal control, at much lower overall cost.
- The Executive Director direct the Office of Shared Services, working with appropriate ECG staff, to engage a permanent ECG staff person with appropriate financial and business expertise to assist and monitor the ECG ministry work area in these critical functions. The job description should be developed by the ECG and Shared Services, with input from the Legal/Risk Management Services Office and the current ECG Financial Consultant. This person should have a dual reporting relationship: solid line to ECG and dotted line to Shared Services.
- The Executive Director ensure that all financial staff embedded in ministry units have a dual reporting relationship: solid line to the ministry unit and dotted line to Shared Services. This structure will help assure that financial reporting and analysis from the ministry units, while customized to each area's management needs, conform to good financial practices and support reasonably consistent analysis across ministry areas.
- The Executive Director direct the appropriate ECG staff to engage staff (either permanent or temporary) with the necessary skills for financial and legal administration of these particular functions of the PYT Administrative Team, such person to report to ECG. This control needs to be in place at the beginning of planning for PYT 2016 (spring 2015) and must include use of (among other resources) the PMA Conference Planning Process checklist, PMA Contract policies and guidelines, and appropriate budget analyst procedures.
- The Executive Director direct all mission areas that operate events to review their event management procedures to ensure that PMA internal controls, policies and procedures are not being bypassed, either internally or externally, whether intentionally or

unintentionally. PMA Shared Services are to be utilized except in specific unusual cases, as approved by the Deputy Executive Director for Shared Services/Chief Financial Officer.

- The Executive Director direct ECG to work with the Legal/Risk Management Services Office to ensure that there is a contract with the Cumberland Presbyterian Church and any other event partners, clearly stating each party's responsibilities with regard to financial loss, background checks, and other liability risks.
- The Executive Director take appropriate action to reinforce 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 Legal/Risk Management Services Office, in conjunction with the Internal Audit Department, incorporate in their regular staff training, an emphasis on the ethics and stewardship issues surrounding the outsourcing of management responsibilities that result in bypassing PMA internal controls, policies, and procedures. Specific emphasis must be placed upon the use of corporate and personal credit cards (used extensively by the staff of the outsourced organization for PYT expenses) and the purchase of gift cards for use as "cash," both bypassing controls and requirements for PMA staff expense reimbursements.

Reporting:

- The Audit Committee requests that the Executive Director report to the Committee no later than March 31, 2015, the steps taken to implement the above recommendations. The Audit Committee will review progress with the Executive Director at its April, 2015 in-person meeting.
- The Internal Audit Department will provide this Audit Committee Report to PC(USA)'s external auditors.
- The Internal Audit Department will perform follow-up Audits of PYT internal controls compliance in the fall of 2015 and fall of 2016, and report its findings to the Audit Committee for its review.