

**Minutes of the Audit Committee of the  
Presbyterian Mission Agency Board and  
Presbyterian Church (U.S.A.), A Corporation**

**The Brown Hotel  
Louisville, Kentucky  
April 14, 2015**

**CALL TO ORDER AND OPENING PRAYER** The meeting of the Audit Committee was called to order at 1:00 p.m. by the chair of the Committee, Molly Baskin. Ms. Baskin opened the meeting with prayer.

**ATTENDANCE** Those present for all or a portion of the meeting were:

*Members* Molly Baskin – Chair, Audit Committee  
Ellen Cason  
Thomas Fleming  
Eileen Lindner  
Kears Pollock  
Richard Turpen

*Others Present* Tim Stepp  
Shawn Ellison  
Martha Clark  
Earline Williams  
Denise Hampton  
Linda Valentine  
Chip Hardwick  
Simon Park  
Cynthia Pierce  
Kristin McDonner

*Recorder* Kathie Lyvers

**Quorum** A quorum was declared present for transaction of business.

**Action 1-AC-041415 Agenda** The Chair presented, and upon motion made and seconded, the agenda was unanimously approved (Appendix 1).

**Action 2-AC-041415** The Audit Committee has reviewed and approved and recommends that the Presbyterian Mission Agency Board receive and forward to the General Assembly the audit report of the Presbyterian Church (U.S.A.), A Corporation Consolidated Financial Statements, December 31, 2014.

**Action 3-AC-041415 Minutes Approved** The Chair presented, and upon motion made and seconded, the minutes of the May 22, 2014, September 16, 2014 (as amended), October 7, 2014, and January 26, 2014 Audit Committee meeting were unanimously approved. Eileen Lindner abstained from the vote.

The Chair entertained a motion to move into closed session to discuss personnel, property and litigation matters.

**Action 4-AC-041415  
Closed Session**

On motion made and seconded, the Audit Committee unanimously approved a motion to convene in closed session to discuss personnel, property and litigation matters with only the voting members of the Audit Committee to attend the closed session, and the following individuals invited to attend portions or all of the meeting:

1. Cynthia Pierce;
2. Kristin McDonner;
3. Linda Valentine;
4. Chip Hardwick;
5. Simon Park;
6. Earline Williams;
7. Tim Stepp;
8. Shawn Ellison;
9. Martha Clark; and
10. Kathie Lyvers

The Chair called the closed session to order.

Discussion ensued.

**Action 5-AC-041415  
End Closed Session**

The Chair called for a motion to arise from closed session, and upon motion made, seconded and unanimously approved, stated the Audit Committee rose from closed session.

**Plenary**

The Chair reconvened in open session and announced the following actions were taken:

**Action 6-AC-041415  
2015 Audit Plan**

The Audit Committee accepted and approved the Internal Audit Plan for 2015 (Appendix 2).

**Action 7-AC-041415**

The Committee voted unanimously to approve the nomination of Kears Pollock as Chair of the Audit Committee and Molly Baskin as Vice Chair of the Audit Committee.

**Action 8-AC-041415  
Report Approval**

The Committee voted unanimously to approve its Report (Appendix 3), for submission to the April 16-17, 2015 Presbyterian Mission Agency Board meeting.

**Prayer and Adjournment**

The meeting was closed with prayer by Eileen Lindner.

Respectfully submitted,

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Molly Baskin,  
Chair, Audit Committee

Appendix 1  
April 14, 2015 Agenda

Appendix 2  
2015 Internal Audit Plan

Appendix 3  
Report of the Audit Committee

**APPENDIX 1**

**ITEM G.100**

**Presbyterian Church (USA) Mission Agency  
Audit Committee  
of the Board of Directors**

**Brown Hotel  
Broadway Room A  
Louisville Kentucky**

**MEETING AGENDA**

**Tuesday, April 14, 2015  
1:00 p.m. EDT**

**1:00 PM WELCOME BASKIN  
OPEN WITH PRAYER**

**1:05 PM 2014 AUDIT PRESENTATION BY CROWE HORWATH  
MCDONNER/PIERCE**

**1:45 PM MOVE INTO CLOSED SESSION**

**5:00 PM ARISE FROM CLOSED SESSION AND ANNOUNCE ACTIONS  
BASKIN**

**APPROVE MINUTES FOR JANUARY 26, 2014 MEETING**

**FUTURE MEETING SCHEDULE**

**ELECT COMMITTEE CHAIR AND VICE CHAIR FOR 2015-2016**

**CLOSE WITH PRAYER**

APPENDIX 2



**2015 Internal Audit Plan  
April 14, 2015**

**Audit Department**

Timothy W. Stepp, CPA - Associate Director of Internal Audit  
Shawn Ellison, CPA - Senior Internal Auditor

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## **I. INTRODUCTION**

### **INTERNAL AUDIT ESTABLISHMENT:**

The *Organization for Mission of the Presbyterian Church (U.S.A.)* identifies the internal audit function as a significant factor in good administrative practice. The *Organization for Mission* further assigns to the Presbyterian Mission Agency the responsibility for establishing an internal audit function with the following responsibilities:

- Reviewing the reliability and integrity of financial information and how that information is identified, measured, classified, and reported;
- Reviewing the effectiveness and efficiency of particular financial management functions;
- Reviewing established internal control systems for efficiency and compliance;
- Reviewing compliance with internal policies and procedures;
- Reviewing financial statements contained in the annual report with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements;
- Reviewing and recommending to the Presbyterian Mission Agency Audit Committee the independent auditors to be selected to audit the financial statements of the corporation; and
- Reporting of the Internal Audit Committee directly to the Presbyterian Mission Agency.

### **GENERAL OBJECTIVES:**

The following general objectives have been established for the Office of Internal Audit:

- To provide information through the audit function that will effectively aid in the development of financial management decisions.
- To provide the Audit Committee with assistance and timely information that will enhance the ability of the Audit Committee to function as intended.
- To work independently of the external auditors, yet in conjunction with some of their concerns.
- To provide assistance throughout the Church consistent with the roles and responsibilities of the internal audit function.

- To focus the majority of the internal audit work on areas or projects that could materially affect the financial position of the Church.

## **PROFESSIONAL REQUIREMENTS:**

Within the *International Standards for Professional Practice of Internal Auditing (Standards)*, the Institute of Internal Auditors (IIA) provides specific professional guidance related to the execution of the internal audit function. As it relates to the Presbyterian Church (U.S.A.) internal audit function, three Performance Standards were selected to support this year's Internal Audit Plan. The selected Performance Standards are as follows:

- **2010 – Planning** – *The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.*<sup>1</sup>
- **2040 – Policies and Procedures** – *The chief audit executive must establish policies and procedures to guide the internal audit activity.*<sup>2</sup>
- **2130 – Control** – *The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.*<sup>3</sup>

The following audit plan has been developed in order to assist the Audit Committee and Associate Director of Internal Audit in the fulfillment of these responsibilities, general objectives and professional requirements.

**Please note that this document is meant to be a flexible working plan. As other priorities arise throughout the year, the plan will be revised to reflect current needs.**

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<sup>1</sup> International Standards for Professional Practice of Internal Auditing (Standards), October 2012, page 9 of 23

<sup>2</sup> International Standards for Professional Practice of Internal Auditing (Standards), October 2012, page 10 of 23

<sup>3</sup> International Standards for Professional Practice of Internal Auditing (Standards), October 2012, page 12 of 23



## **II. AUDIT PLAN**

### **A. ROUTINE AUDITS**

Determination of routine audit performance is driven by management request and / or risk assessment results. To assist with the assessment of risk, the following three “areas of consideration” were analyzed:

- Presbyterian Mission Agency (PMA) Offices;
- Office of the General Assembly (OGA);
- Financial Processes.

It should be noted that a separate risk analysis was performed for each of these three “areas of consideration”. Information and methodology utilized for each analysis are detailed below.

#### **PMA Offices:**

Analysis for this assessment involved two review segments: 2014 “Budget versus Actual” (BVA) reporting and employee turnover.

#### **BVA Reporting:**

For BVA reporting, 2014 financial results were obtained from the Budgeting office. These reporting results were first compiled into 11 groups (e.g. Compassion, Peace & Justice; Shared Services; etcetera). From these 11 groups, the data was further sub-divided into 142 offices (e.g. 051 – Executive Administrator; 100 – Deputy Executive Director; etcetera). Finally, further granularity was achieved by dividing each Group / Office data element into one of 27 account segments (e.g. Salary & Benefits; Information Technology; etcetera). The resulting data matrix identifies each BVA reporting line by:

- A unique Group / Office / Accounting Segment combination;
- Budgetary data of:
  - Unrestricted – Budget, actual and variance;
  - Restricted – Budget, actual and variance;
  - Total – Budget, actual and variance.

For each BVA reporting line, a percentage was obtained (for each of the nine budgetary data fields) utilizing the following four comparison points:

- Percent of Office totals;
- Percent of Account Segment totals;
- Percent of Group totals;
- Percent of Overall totals.

Finally, each percentage point was converted to a risk score (1% point = 1 risk point).

Employee Turnover:

Employment data was obtained from the Payroll department and analyzed for each of the 142 offices utilizing the following methodology:

- *# of Employees at Beginning of Year* – Based upon hire date being prior to January 1, 2014;
- *# of Employees Added During Year* – Based upon hire date being within the range of January 1, 2014 through December 31, 2014;
- *# of Employees Terminated During Year* – Based upon termination date being within the range of January 1, 2014 through December 31, 2014;
- *Employee Level Change* – Summation of new hires and terminations during 2014;
- *# of Employees at End of Year* – Derived data field equaling *# of Employees at Beginning of Year*, plus additions, less terminations;
- *% Change* – Derived data field equaling *Employee Level Change* divided by the summation of *Employee Level of Change* and *# of Employees at Beginning of Year*.

Finally, the *% Change* data field was converted to a risk score (1% point = 1 risk point).

Overall Risk:

The overall risk for PMA offices was determined by combining the risk scores associated with the BVA reporting and Employee Turnover analysis results. All calculations and supporting analysis documentation is maintained within the workbook *2015 Risk Assessment Revised – PMA.xlsx*.

**OGA:**

As with the risk assessment associated with the PMA offices, the OGA office risk assessment involved two review segments: 2014 “Budget versus Actual” (BVA) reporting and employee turnover. However, it should be noted that the OGA BVA reporting format is different than that of the PMA offices (e.g. the use of “schedules” versus “offices” for expenditure classification), and as such, a slightly different analysis technique was utilized.

BVA Reporting:

For BVA reporting, 2014 financial results were obtained from the Assistant Treasurer. These reporting results were first compiled into 10 expenditure schedules (e.g. Schedule 4 – Office of the General Assembly). Each of the 10 expenditure schedules were then sub-divided further into sub-schedules (e.g. Schedule 4B – Office of the Stated Clerk; NOTE: Sub-schedules were not presented / required for all schedules). Finally, further granularity was achieved by dividing each Schedule / Sub-schedule data element into applicable categories (e.g. Salary & Benefits). The resulting data matrix identifies each BVA reporting line by:

- A unique Schedule / Sub-schedule / Category combination;
- Restricted budgetary data (budget, actual and variance).

For each BVA reporting line, a percentage was obtained utilizing the following two comparison points:

- Percent of Schedule totals;
- Percent of Overall totals.

Finally, each percentage point was converted to a risk score (1% point = 1 risk point).

Employee Turnover:

Employment data was obtained from the Payroll department and analyzed utilizing the same methodology as was described in the PMA process above.

Overall Risk:

The overall risk for OGA was determined by combining the risk scores associated with the BVA reporting and Employee Turnover analysis results. All calculations and supporting analysis documentation is maintained within the workbook *2015 Risk Assessment Revised – OGA.xlsx*.

**Financial Processes:**

Financial data processed by Shared Services was categorized into one of the following five general financial processes:

- Cash Disbursement;
- Cash Receipt;
- Financial Close and Reporting;
- Fixed Assets;
- Payroll.

Each of these processes was assessed for risk, utilizing the following qualitative factors:

- *Manual vs. Automated (Manual / Automated / NA)* – Process evaluated as a whole to determine if the majority of the process steps are manual or automatic.
- *Complexity of Process (Simple / Complex / NA)* – Consideration given to the flow of data within the process, as well as the complexity and homogeneity of the individual transactions processed. In addition, consideration also given to inputs/sources of information, not broadly understood sections / activities within the process, legal/contractual stipulations, and/or reliance upon automated inputs.

- *Segregation of Duties (Adequate / Not Adequate / NA)* – Process segregation of duties (SoD) evaluated at key points of data input / review.
- *Turnover of Personnel (Minimal / Significant / NA)* – Consideration given to the number of personnel changes coupled with position description of critical versus non-critical.
- *Policies and Procedures (Documented / Not Documented / NA)* – Verification of a comprehensive policy and procedure program being in place with required documentation updates, approvals, and periodic reviews.
- *Susceptibility to Fraud / Neglect (High / Medium / Low / NA)* – Evaluation of the various points within the process where there is ability for an individual to manipulate financial statements and / or financial results.
- *Volume of Activities (High / Medium / Low / NA)* – Consideration given to the number of activities or transactions (both manual and automatic) occurring on a frequent basis, especially during the actual closing process.
- *Subjectivity & Estimation Required (High / Medium / Low / NA)* – Consideration given to instances where significant judgments and / or estimation is required (e.g. reserve accounts).
- *Volatility (High / Medium / Low / NA)* – Consideration given to the degree or % of change of the process from closing period to closing period.
- *Changed from Prior Period (High / Medium / Low / NA)* – Consideration given as to how the process, people, and technology have changed from the prior annual period.
- *System Stability (Stable / Not Stable / NA)* – Evaluation of the overall process using the previous year as a benchmark. In addition, consideration given to any qualitative factor not specifically mentioned above.

For each process listed, each qualitative factor listed above was converted to a risk score, with the highest possible process risk score being 27, and the lowest being 11. All calculations and supporting analysis documentation is maintained within the workbook *2015 Risk Assessment Revised – Process.xlsx*.

Conclusion:

Using the quantitative and qualitative analysis techniques detailed above, specific management requests, past audit experience, and input from the Audit Committee, the following offices / areas were selected for a routine audit in 2015:

➤ *Self Development of People*

➤ *World Mission*

## **B. INTERNAL AUDIT GUIDELINES**

As described in section I above, the IIA provides a specific Performance Standard to highlight the need for internal audit policies and procedures. In an effort to comply with the stated guidance, the Presbyterian Church (U.S.A.) Internal Audit department created (as part of the 2015 Audit Plan) “Internal Audit Guidelines” as a means to facilitate a standard audit approach to all *routine* audits performed. Areas considered within the Internal Audit Guidelines include the following:

- *Determination of audit need;*
- *Determination of audit objective and scope;*
- *Affected management consultation;*
- *Audit announcement;*
- *Audit Plan development;*
- *Performance of detailed audit procedures;*
- *Development of draft audit report;*
- *Exit conference;*
- *Final audit report.*

In addition to routine audit guidance, the Internal Audit Guidelines addresses the review of internal controls. An internal control overview is discussed in section C below. It should be noted that sample guidance contained within the “Internal Audit Guidelines” may need to be modified in order to align with the current practice of the new external auditors (Crowe Horwath).

## C. INTERNAL CONTROL QUESTIONNAIRES

Compliance with section 404 of the Sarbanes-Oxley Act of 2002 is not required for Presbyterian Church (U.S.A.). In addition, past internal control reviews / considerations have been limited in scope to the specific area being reviewed during the performance of routine audits. These limitations have left management without a clear “snapshot” of the Presbyterian Church (U.S.A.) all-inclusive internal control environment, which in turn, results in higher risk associated with financial statement inaccuracies and fraud.

To assist in this risk mitigation, in 2015, the Internal Audit department will perform a comprehensive internal control environment review by completing the following internal control review packages:

- *Ongoing review of the Internal Audit Opportunity Improvement Log* – This log assists management and the Audit Committee by tracking noted internal control deficiencies. It should be noted that “tracking” includes the period of time from when the deficiency was noted through implementation of the agreed upon (management / Internal Audit / Audit Committee) remediation recommendation.
  
- *Financial Close & Reporting (FCR)* – Review of current FCR process controls utilizing a basic RCM (Risk Control Matrix) obtained from PWC (PriceWaterhouseCoopers);
  
- *Cash Receipts (CR)* – Review of current cash receipt process controls utilizing a basic RCM obtained from PWC;
  
- *Fixed Assets (FA)* – Review of current fixed asset process controls utilizing a basic RCM obtained from PWC;
  
- *Determination of future review periodicity* – Through discussions with the Audit Committee and senior management, a determination will be made as to the periodicity of internal control reviews (e.g. annual review of ELC and ITGC; biannual reviews of process controls).

## **D. SPECIAL PROJECTS**

During the course of year, management and / or the Audit Committee may request the assistance of Internal Audit in the form of a special project / review. As of the preparation date of this Audit Plan, the following special projects / reviews are in place for 2015:

- Continuation of Legal Department support related to corporate ethics policy investigations.
- Big Tent Review
- Follow-up Review of 1001 program

Any additional approved special project / review requests that occur during the year will be added to the Audit Plan and communicated to the Audit Committee.

**APPENDIX 3**

**Report G.001  
Audit Committee  
Presbyterian Mission Agency Board  
April 14, 2015**

**The Audit Committee met on April 14, 2015, at the Brown Hotel in Louisville, KY and forwards the following to the Presbyterian Mission Agency Board:**

**I. Consent Agenda:** None

**II. For Action:**

- A. The Audit Committee has reviewed and approved and recommends that the Presbyterian Mission Agency Board receive and forward to the General Assembly the audit report of the Presbyterian Church (U.S.A.), A Corporation Consolidated Financial Statements, December 31, 2014.

**III. For Information:**

- A. The Audit Committee approved the minutes of the May 22, 2014, September 16, 2014, October 7, 2014, and January 26, 2015 meetings.
- B. The Audit Committee accepted and approved the Internal Audit Plan for 2015.
- C. The Committee voted unanimously to approve the nomination of Kears Pollock as Chair of the Audit Committee and Molly Baskin as Vice Chair of the Audit Committee.