

**Report F.001  
General Assembly Council  
Audit Committee  
March 13, 2007**

**I. ACTION ITEM:**

**Subject: Occupational Fraud Presentation**

**Recommendation:**

**GAC ACTION: Approved**

The audit committee recommends that the General Assembly Council receive the Occupational fraud presentation, presented by Internal Audit, at the September General Assembly Council Meeting.

**Background:**

Internal Audit was directed, by the Audit Committee, to develop a fraud training presentation to better inform staff on the issues of fraud and internal controls. This presentation is being presented to all staff members of The Presbyterian Church USA, and has been presented to the audit committee. The Audit Committee believes it would be informative if all council members received this presentation.

**Financial Implications:**           None

**II. FOR INFORMATION:**

- A. The General Assembly Council Audit Committee reports for information that during its March 13, 2007 meetings, the Committee:
1. Reviewed and approved the Administrative Record of September 28, 2006.
  2. Reviewed and approved the updated General Assembly Council Audit Committee Charter.
  3. Received the Internal Control Review report completed by Crowe Chizek
  4. Received an update and presentation on Fraud Training prepared and presented by Internal Audit.
  5. Received an update on Presbytery of Mississippi review.
  6. Discussed the Risk Assessment and Audit Plan for 2007 – 2008.
  7. The committee reelected Mary Lynn Walters as the Audit Committee Chair for 2007-2008

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**Audit Committee**  
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**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE GENERAL ASSEMBLY COUNCIL**  
**PRESBYTERIAN CHURCH (U S A)**

*Approved by the General Assembly Council Audit Committee at the March 13, 2007 Meeting.*

## I PURPOSE

The primary function of the Audit Committee is to assist the General Assembly Council {GAC} in fulfilling its oversight responsibilities and duties as follows:

- Monitor the integrity of the financial reporting process and system of Internal Control regarding finance, accounting, legal compliance and ethics that have been establish.
- Monitor the independence and performance of the Corporation's independent auditors, internal auditing unit and management.
- Provide an avenue of communication among the independent auditor, internal auditing unit, management and the GAC.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and in this regard, it has direct access to the independent auditors as well as anyone in the organization.

## II COMPOSITION & MEMBERSHIP

The Committee shall be compose of five (5) GAC voting members, of which two are at-large members, nominated by the GAC nominating committee and elected by the GAC for four (4) years, and maybe eligible for an additional term.

Each member of the Committee shall be independent and may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Presbyterian Church USA. All members of the Committee shall have a working familiarity with basic finance and accounting practices and the two at-large members of the Committee shall have accounting or related financial management expertise determined by Shared Services and the Audit Committee Chair.

The Committee will meet in conjunction with the scheduled GAC meetings or more frequently as circumstances may require. The Committee meets annually,

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usually in April, to review the audited financial statements. Also, if the Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership (40% of the voting members present shall constitute a quorum as described in the General Assembly Council Manual of Operations, June 2006, Appendix 1, Section IIB).

The Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary. The Committee shall meet periodically with management, the independent auditors and Internal Audit in separate executive sessions.

### III DUTIES & RESPONSIBILITIES

The Committee is to assist the GAC in fulfilling its oversight responsibilities by reviewing and reporting on:

- The system of internal controls over financial reporting,
- The integrity of the financial statements,
- Processes to ensure compliance with legal and regulatory requirements, and
- Ethics Policy violation reports

The Committee will also assist with oversight of the independent auditors' qualifications, independence, performance and compensation and the performance of the Internal Audit function and the Associate Director of Internal Audit.

The Committee will pre-approve all auditing services and be directly responsible for the appointment, compensation, retention, dismissal and oversight of the work of any public accounting firm engaged. The Committee will resolve any disagreements between management and the auditor regarding financial reporting.

The Committee shall be provided appropriate funding for payment of compensation to the independent auditors, compensation to any advisor employed by the Committee and ordinary administrative expenses of the Committee, also, the Committee will carry out the following specific duties and responsibilities:

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A. Internal Control

1. Review with management, internal auditors and independent auditors the adequacy and effectiveness of policies for assessing and managing risk.
2. Examine any findings of weaknesses and recommendations for the improvement of the internal controls. Monitor management's response to and implementation of internal control recommendations.
3. Review with management, internal auditors and independent auditors the adequacy of computerized systems controls, the security of such, and the contingency plan for processing financial information in the event of a system breakdown.

B. Financial Reporting

Review with management, the internal auditors and the independent auditors:

1. The interim and year-end financial statements and related footnotes considering their completeness, consistency, and reflection of appropriate accounting principles.
2. The independent auditors' audit of the financial statements and their report thereon.
3. Any significant changes in accounting principles, significant judgment areas and significant or complex transactions (including any off-balance sheet structures) that occurred and the independent auditors' judgments about the quality, not just the acceptability, of the accounting principles as applied in financial reporting.
4. Management's handling of proposed audit adjustments identified by the independent auditors.
5. Any significant changes required in the independent auditors audit plan.
6. All written communications between the independent auditors and management, such as any management letters or schedule of unadjusted differences.
7. Any serious difficulties or disputes between management and the independent auditors.

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8. All matters required to be communicated to the Committee under generally accepted auditing standards (SAS-61).

**C. Independent Auditors**

1. Serve as the authority to which the independent auditors report.
2. Appoint the independent auditors to be engaged, establish the audit fees of the independent auditors, pre-approve any non-audit services provided by the independent auditors.
3. Review, at least annually, the latest internal quality-control or peer review of the independent auditors' firm, any material issues raised, and the steps taken to resolve such.
4. Review, at least annually, all relationships between independent auditors and Presbyterian Church (USA) and otherwise assess the independence of the independent auditors and the turnover rates of the lead and concurring partners.
5. Review and evaluate the performance of the independent auditors and review with the GAC any proposed replacement of the independent auditors.

**D. Internal Auditors**

1. Review the objectivity, effectiveness, budget and staffing of the Internal Audit Department.
2. Concur with GAC in the appointment, replacement, reassignment or dismissal of the Associate Director of Internal Audit.
3. Review the Internal Audit Plan for the current year, the risk assessment procedures used to identify projects included in the plan and any changes required in its scope.
4. Review the Internal Audit Policy and compliance with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing.
5. Review with management and the internal auditors:
  - a. Significant findings on internal audits during the year and management's responses thereto.
  - b. Any difficulties the internal auditors have encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
  - c. Any changes required in the scope of their internal audits.

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E. Ethics Policy Violation Reports

1. Review all Ethics Policy violation reports (Whistleblower Reports) submitted by Investigative Committee(s).
2. Review all responses to Ethics Policy violation reports submitted by the accused and accuser.
3. Issue reports to the GAC Executive Committee and the Executive Director or the Committee of the General Assembly (COGA) and the Stated Clerk (as appropriate) stating the committee's response to Ethics Policy violation reports.

F. General

1. Review the Committee's charter annually, reassess the adequacy of this charter and, considering any new laws or regulations, recommend any proposed changes to the GAC.
2. Ensure that a Code of Conduct and Ethics is formalized in writing, adequate and up-to-date. Review with legal counsel and the Associate Director of Internal Audit the processes for communicating the importance of the Code of Conduct, monitoring compliance therewith and any changes to or waivers of the Code of Presbyterian Church (USA).
3. Review legal and regulatory matters that may have an internal impact on the financial statements and the related compliance policies and procedures.
4. Review the procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters, including procedures for confidential, anonymous submissions of such by employees. Review any submissions that have been received, the current status, and the resolution if one has been reached.
5. Institute and oversee special investigations as needed.
6. Perform other activities related to this charter as requested by the GAC.
7. Confirm annually that all responsibilities outlined in this charter have been carried out.
8. Evaluate the performance of the Committee and its individual members on a regular basis.

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**ADMINISTRATIVE RECORD**

General Assembly Council Audit Committee Meeting  
March 13, 2007  
Brown Hotel

Louisville Kentucky

**Broadway B Room**

**ATTENDANCE:**

Mary Lynn Walters, Chair  
Jesse Swanigan  
Gordon Nielson  
Conrad M. Rocha  
Choong Jeong Kim

**STAFF:**

Timothy Stepp, GAC  
Kenneth Bryan, GAC

**GUEST:**

Nicole Durban, Crowe Chizek  
Douglas Allen, Crowe Chizek

**EXCUSED:**

**Tuesday March 13, 2007:**

Mary Lynn Walters opened the meeting with prayer.

**MOVED, SECONDED, And CARRIED:** The Audit Committee adopted the agenda as revised.

**MOVED, SECONDED, And CARRIED:** The Audit Committee approved the administrative records of September 28, 2006.

**MOVED, SECONDED, And CARRIED:** The audit committee approved the updated General Assembly Council Audit Committee Charter.

The audit committee entered Executive Session at 11:00 a.m.

The audit committee arose from Executive Session at 11:30 a.m. with no action taken.

The audit committee received an update of the Presbytery of Mississippi Katrina Construction Fund audit.

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Louisville Kentucky

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**Broadway B Room**

**Tuesday March 13, 2007:**

The audit committee received the results of the Internal Control Review performed by Crowe Chizek. The audit committee noted that the Internal Audit staff should perform a follow-up with management regarding management's responses to the findings associated with the Internal Control Review, and that the results of the follow-up should be presented to the audit committee during the September 2007 meeting.

The audit committee received external audit communications from Crowe Chizek regarding the 2006 Financial Statements Audit of The Presbyterian Church USA. Douglas Allen, of Crowe Chizek, explained that the results of the Financial Statements Audit would be available in July 2007.

The audit committee received occupational fraud training presented by the Internal Audit staff. The training was presented to the audit committee in the same manner as presented to the staff of The Presbyterian Church USA.

**MOVED, SECONDED, And CARRIED:** The audit committee recommended that the occupational fraud training be presented to the General Assembly Council.

The audit committee received an update regarding the Risk Assessment and Audit Plan for 2007-2008. The Internal Audit staff explained that the 2007 budget is not yet available, and that the Risk Assessment and Audit Plan will be completed as soon as possible. The audit committee noted that the Risk Assessment and Audit Plan could be emailed to the members for review when completed.

**MOVED, SECONDED, And CARRIED:** The audit committee elected Mary Lynn Walters as the Audit Committee Chair for 2007-2008.

**Adjourned** with prayer at 3:30 p.m.