

## **Audit Committee Meeting Minutes**

**June 10, 2011**

**Sarasota, FL, USMS offices**

Attendees: Jill Gellatly, Chair, Phil Dodson, Jeanne Ensign, Elyce Dilworth

Nonvoting: Ralph Davis, Susan Kuhlman, USMS Controller, Rob Butcher

- Brief informal discussion of 2010 tax return
  - AC to review and modify descriptions in the tax return that describe USMS mission and program services in order to be updated and consistent with Strategic Task force recommendations
  - AC discussed posting the tax return on the web site. It was decided not to recommend posting. Instead, AC will recommend posting of audited Financial Statements on web site.
  - Committee suspended further detail review of the return until all members have reviewed.
- Ralph recommended the AC submit its annual executive summary required by the charter for the July BOD meeting. The focus should be the results of the 2010 audit and the auditor's findings. Included will be discussion surrounding the AC's process for reviewing the report and results of its annual meeting with auditing firm.
- Review of Draft Financial Statements based on a page by page analysis. Highlights and discussion included:
  - AC asked and Susan explained how in-kind services and merchandise were accounted for in the accompanying statements
  - Discussed which donated professional services were treated as in-kind and which were not. It was decided to defer question to auditors.
  - Discussed whether outside services for fund raising development should be classified as fund raising expenses. It was decided to defer question to auditors.
  - Presentation of the Cash Flow statement was discussed including the additional reference to the change in cash equivalents.
  - Discussed the nature of related party disclosures and reference to Board member donations. AC to request reference to donations be deleted. Auditors agreed.
  - Numerous wording, presentation and format changes were discussed and agreed upon.
  - Pledge Receivables were renamed to Promises to Give in order to be more consistent with not-for profit accounting presentation.
  - Reviewed the Supplemental Functional Expense Summary. Several inquiries were made and Susan has agreed to further research certain items included in the "Miscellaneous Category".
  - Discussed the Indiana Community Foundation which holds the USMS contributions endowment. It was determined no changes to the footnotes are necessary.
  - It was noted that the contract for the Omaha facility 2012 summer nationals was not completely processed according to FOG. The summary report to the Finance Committee was erroneously omitted. It was decided that to prevent this oversight from recurring, both the Controller and Legal Counsel will be asked to include this FOG step in a newly created "contract review checklist".

- Audit Management Letter comment was discussed. (At this point Rob Butcher joined the meeting). The only comment was a recommendation for a formal Disaster Recovery Plan. There are disaster recovery procedures in place, but a formal written plan does not yet exist and should include plans for picking up and continuing operations at a different facility. Ralph asked that the level of security encryption should be looked into. It was asked whether Club Assistant has a disaster plan and the answer is yes. Susan explained there were other potential management letter comments that management and the auditors discussed, but none was considered material enough for a written recommendation (Rob B left the meeting).
- Susan briefly discussed the current systems and the newly implemented Blackbaud chart of accounts. No significant difficulties were encountered in the conversion to the Blackbaud system and implementation of the new chart of accounts. She indicated she is seeking bids for fund raising software, hosted solutions only. She currently has two bids and would like three.
- The Committee inquired with Susan regarding her satisfaction with the work of the audit firm Kerkering and Barberio (K&B). She noted the auditors were flexible, timely and worked well with her. She also agreed the current year timing was appropriate.
- Jill pointed out that our current agreement with the auditors has one more year. She asked whether we should try to renew early to lock in a better long term fee. FOG does not permit a single bid for a cost in excess of \$1,500. The AC will ask for a FOG change to permit the AC to renew audit services with current auditors without competitive bidding. It is in the best interest of any organization, ours included, to not jump from firm to firm. Another result of doing so is that eventually no firm will bid or want the job if we change every 1-3 years. Susan indicated she wants to keep the auditors. Ralph reminded us that one factor in selecting K&B was their fund raising capabilities which we will soon be in position to utilize.
- Discussion of whether a member serving on both the AC and Finance Committee was a conflict of interest. Ralph commented that our Committee is composed of members with the proper expertise to serve USMS and due to the size of resources no changes should be made. The Committee agreed and determined no conflict exists and no further action will be taken.
- The Committee deferred the discussion of AC member rotation to convention.
- Discussion ensued about a Committee member's proposing changes to the "Segregation of Duties" section of FOG. MSA to accept proposed changes to the "Segregation of Duties" section of FOG. AC will make recommendation to the Finance Committee. See attachment for revised wording.
- Discussion regarding the organization's lack of formal procedures surrounding significant accounting internal control policies. MSA to ask Finance Committee to work on development of additional procedures for key areas. Currently, only a cash disbursement policy exists. The AC would request these procedures to commence prior to December 31, 2011.
- AC went into Executive Session with K&B to discuss the performance of USMS staff during the audit. In summary, we received a very satisfactory report on Controller and USMS management."

- Meeting was adjourned at 3:30 p.m.; the next meeting will be in Jacksonville at convention.
  
- Action items include:
  - Final review of draft financial statements by all AC members to ensure all comments/changes were made
  - Review and comments of 990 tax return to Susan
  - Preparation of annual executive summary for July BOD meeting in Sarasota
  - Susan to provide detail of Miscellaneous fees as requested and noted above
  - Controller and Legal Counsel will be asked to include Finance Committee review (a FOG requirement) in their contract review checklist (as denoted above)
  - AC to ask Finance Committee for exception to FOG related to audit bid process of 3 bids (discussed above)
  - AC will notify Finance Committee regarding motion for Segregation of Duties in MAP.
  - AC will notify Finance Committee prior to or at convention regarding motion to complete MAP for significant accounting areas.

## **Attachment- Proposed wording for Segregation of Duties in MAP**

1. Segregation of Duties procedures are denoted with a small “s” at the end of each procedure.
2. The Controller has primary responsibility to ensure segregation of duties are maintained as specified in MAP. Systematic break downs in segregation of duties procedures will not be tolerated. The Controller will take immediate action to return segregation of duties procedures to compliance with MAP.
3. If the Controller cannot reinstate corrective measures, he/she must immediately notify the Executive Director, Treasurer, Finance Chair and Audit Chair.
4. Operating procedures, not critical to Segregation of Duties are denoted with a small “o” at the end of each procedure.
5. Occasional lapses in operating procedures are tolerable for limited periods of time. If an operating procedure remains out of compliance for an extended period of time, the Controller must codify the new procedure and present it to the Audit Chair with an explanation why the new procedure is preferred.