

InterAct Ministries, Inc.
Finance & Audit Committee

Country Inn and Suites, Portland Airport
July 26, 2019

Members Present: Chuck Schaap (Chairman), Daryl Kroeker, Ray Prigodich, Mike Hubbard (CFO), and Dale Smith (CEO).

Call to Order and Opening Prayer

Chairman Schaap called the meeting to order at 4:00 PM, after which Daryl Kroeker led in prayer.

Approval of Previous Minutes

Dale Smith **moved** and Daryl Kroeker **seconded** his motion that the minutes from the meeting of January 31, 2019, be approved as amended. The motion was **approved** without any objection.

- To clarify something Chuck Schaap said at our last meeting, the sentence under “Business from the Floor” on page 2 of the minutes has been modified.
 - The sentence had originally read as follows: “Chuck Schaap urged that despite the decline in our assets over the last year, we not be overly focused on preserving those assets, rather than continuing to invest in critical ministry projects.”
 - The sentence now reads: “Chuck Schaap urged that despite the decline in our assets over the last year, we not be overly focused on preserving those assets, but rather continue to invest in critical ministry projects.”

Audit Report and Letter to Management

With Dale and Mike out of the room, Cheryl Morgan of Kern & Thompson walked through the letter to management and the audit report for the fiscal year that ended on March 31, 2019, a copy of which had previously been distributed to the members of the committee. Among her comments were the following:

- As she had done at least year’s summer meeting, Cheryl again expressed concern regarding the spending down of our investment assets. While this is acceptable in the short term, she said, it could, of course, put the organization into jeopardy if it continues over the long term. She recommended therefore that we find ways to achieve a balance each year between income and expenditures.
 - In response to this, we discussed at some length how InterAct might address this concern. Since people these days are generally more interested in supporting projects than in underwriting salaries for missionaries, we wondered, for example, if it might be feasible to include at least a portion of missionaries’ salaries in the total cost of certain projects, such as the planting of churches in specific locations. We also noted the importance of strengthening InterAct’s development efforts. We agreed that Dale

should give some additional thought to possible alternative approaches to fund-raising and then report back to us.

- In her letter to management, Cheryl made two comments related to internal control, which we then discussed at some length:

- **CD-1: Appropriate Policy and Budgeting for Transfers from Investment Account:**

InterAct Ministries, Inc., is maintaining a policy of allowing the Finance Director to propose and transfer necessary funds from its investments to its administrative fund each year. In addition, a journal entry moves funds from one unrestricted net asset account to another unrestricted net asset account but does not involve the actual transfer of cash. During the year ending March 31, 2019, the monthly transfer entry was \$8,825 per month. The policy states that additional disbursements require specific board approval.

Separately from this, there is a policy that allows \$50,000 “per transaction” to be transferred from the investment account to [the] operating checking account. This policy does not convey a monthly or annual transfer limit.

The budget suggests \$84,000 in investment income, which could be inferred to mean \$7,000 per month is the budgeted transfers to checking per month. In a small organization where one person is primarily in charge of the accounting and reporting functions, compensating controls must be developed to document oversight and review of key processes and documents. This would include support for draws of federal source funds, as well as journal entries involved in recording grants revenues.

No one currently documents their review of the actual activity in the investment accounts.

Recommendation: *InterAct Ministries, Inc., should revisit its policy for showing who should review investment account activity if the Finance Director is allowed to facilitate cash transfers.*

The board should make an annual determination of the amount that can be transferred from investment accounts with no specific board approval. Withdrawals beyond this allotment would require documented approval from the board or at least a committee of the board.

- **CD-2: Appropriate Separation of Duties between Accountant Roll [Role?] and Donation Recording in Razor’s Edge Database:**

Currently the Finance Director has full access to the Razor’s Edge database which could allow manipulation of donation data. The information in the donor database serves as an internal control over the completeness of donation revenue in the accounting software. Therefore, the individuals who make entries into the donor database should be separate and distinct from those who access accounting records. This insures that donations are not easily manipulated to perpetrate fraud or misappropriation.

Recommendation: *We recommend that the Finance Director have access to Razor’s Edge only for the purpose of rendering.*

Cheryl emphasized that the issues reflected in the above comments are not mistakes, but only concerns.

After Cheryl left and Dale and Mike returned to the room, we asked Dale, in consultation with other staff members, to recommend to us ahead of our next meeting a reasonable policy that would address the concerns Cheryl expressed in CD-1. We also all agreed that for Mike's own protection, he should not have the authority to make any changes in the Razor's Edge database, but only to read what is there.

Finance Director's Report

Mike Hubbard commented briefly on the various documents included in the Finance Director's Report, copies of which had previously been distributed to the members of the committee:

- With regard to the recent pattern of having to dip into reserve funds to meet current expenses, Mike noted that InterAct lost a considerable amount of income when Roy retired as Finance Director, since most of his salary had been covered by donations from his personal supporters. Also, since Thomas was just getting his feet wet as Development Director this past year, his financial support ended up costing InterAct more than his efforts produced.
- We also noted that InterAct's income has been dropping because of the number of retirements and resignations in recent days, as well as the fact that many missionaries lack full support.

Appointment of Auditor

Ray Prigodich **moved** and Daryl Kroeker **seconded** his motion that we recommend to the Board that Kern & Thompson be appointed as auditor for the 2019-2020 fiscal year. The motion was **approved** without any objection.

Clergy Housing Allowance

Ray Prigodich **moved** and Dale Smith **seconded** his motion that we recommend to the Board that \$30,000 of the compensation paid to each of the following individuals and others who may become eligible be designated as a housing allowance for the year ended December 31, 2020: Russ Arnold, Gary Brumbelow, Charlie Cook, Dave Henry, David Joseph, Robert Moffat, Ted Mole, Dennis Richardson, George Richardson, Gale Van Diest, and Bruce Walters. The motion was **approved** without any objection.

Review and Sign IRS Form 990 for Fiscal Year Ended March 31, 2019

Dale Smith signed this form, which is available for inspection on the Board website. It was unclear at the time of our meeting if any members of the Board should also be signing this document each year. We requested that Dale and Mike look into this and report back to us.

Adjournment

Chairman Schaap adjourned the meeting at 6:00 PM.

Ray Prigodich, Recorder
July 26, 2019