

Statement of Michael Psaros, Treasurer

Archdiocesan Council Meeting

October 20, 2017

Your Eminences, Your Graces, most Reverend Clergy, brother Archons of the Order of St. Andrew, and fellow members of the Archdiocesan Council,

One year ago at this meeting, Vice Chairman Archon George Tsandikos, Secretary Ms. Cathy Walsh and I were elected by this Archdiocese Council to serve as Officers. We serve only with the blessing of, and under the direction of, His Eminence, Archbishop Demetrios, Geron of America.

INTRODUCTION: GOALS AND OBJECTIVES

We agreed to the following goals:

- The GOA had to fully realize, that it is by its nature and mission, an institution that must have accountability and transparency.
- From an accountability standpoint, the GOA must create a culture where every single dollar donated by every single member of the Faithful is treated with respect and humility. We understand that thousands of people donate hundreds of thousands of hours volunteering for our Parishes, often on their feet for days at Church festivals in order to satisfy their assessment to the GOA. We recognize that there is a general feeling of disappointment at the local Parish level with what has been interpreted as “broken trust” with the GOA as a result of its current financial position and circumstance. The GOA’s response must be both practical and cultural in order to rebuild the sacred trust between the GOA, the Metropolises and the Parishes. This specific healing process has started already.
- From a transparency standpoint, the GOA is willing and must provide the Faithful with comprehensive knowledge of its finances with total transparency. While the GOA has made verifiable progress towards this critical objective, please understand that a material amount of time and resources will be required to achieve true transparency. In the future, the GOA’s Annual Audit must be completed in a timely manner, then reviewed by a newly created independent audit committee that will brief the Executive Committee. Thereafter, the GOA’s Annual Audit will be posted online on the GOA’s website and published in the *Orthodox Observer*. A copy will be mailed to every Metropolis and Parish.

- Further, we recognize that Parishes have been asked to increase their GOA assessments for the next two years. The Parishes will not be asked to increase their assessments any more specifically as a result of the GOA's current financial situation.

INTERNAL CONTROLS

The foundation for proper financial management in any organization is clear internal controls, practices and procedures. Every Government, every Church, every business and every not-for-profit institution is governed by rules, processes and procedures. This is the only way to ensure proper order, accountability and control. Further, these internal controls, practices and procedures must be documented, transparent, actively monitored and enforced.

The reason for the GOA's structural operating deficit, accumulated financial obligations and the current acute cash funding issues it is experiencing today is very simple: a deficiency in proper internal controls.

Prior to even discovering the GOA's financial difficulties, the Officers realized the GOA was deficient in internal controls, practices and procedures with respect to controlling expenditures. The discovery came in two forms. First, in the beginning of 2017, we reviewed the deficiency reports in the Grant Thornton audit reports from recent years. Second, we asked basic questions of management and staff. A logical question is why were the deficiency reports not addressed before? We do not have a concrete answer because this period predates our work, but we do have an observation: The reason is a problem of weak internal controls and processes. It is our understanding that the primary contact with Grant Thornton was the former Director of Administration and an audit committee that included the Chair of the Finance Committee, a breach of basic financial practices. The auditor should have met with an independent committee, or with the Finance Committee as a group, not staff or insiders. That is not done and will not happen again. This practice will be corrected promptly. Specifically, a new audit committee comprised of qualified Archdiocesan Council members will be appointed to serve through the end of July 2018. Improvements to the Regulations to establish a completely independent committee will be proposed to the 2018 Clergy-Laity Congress.

With the blessing of His Eminence, Archbishop Demetrios, we started the process of implementing internal controls beginning in April 2017. Concurrently in May 2017, the GOA engaged Grant Thornton to conduct a thorough operations review intended to provide recommendations on how to create a world-class ecclesiastical not-for-profit institution from an internal controls perspective. This report cost \$150,000, and was paid for by a private donor. The final report is expected to be received next month and will be shared with the Executive Committee.

Creating and implementing internal controls is a complex process that must be implemented with care. External resources will be required. Each process and procedure will need to be documented, implemented, communicated and enforced. This difficult and complex process

will require time and resources, but is essential for order, structure and integrity in the operations of the Archdiocese.

In furtherance of establishing proper governance and internal controls, processes and procedures, with the blessing of his Eminence, Archbishop Demetrios, the following actions were taken:

- His Grace, Bishop Andonios, the GOA's Chancellor, assumed key administrative responsibilities after the resignation of the former Director of Administration in September 2017.
- The Chairman of the Finance Committee was relieved of his duties in October 2017. Mr. Louis Kircos was named as the new Chair of the Archdiocesan Council's Finance Committee.
- The Director of Finance of the GOA was relieved of his duties in September 2017.
- His Eminence, Archbishop Demetrios, appointed Fr. Soterios Baroody as Chief Financial Officer (CFO) of the Archdiocese in April 2017. Prior to his appointment, the GOA did not have the position of CFO. Father Baroody holds a Bachelor in Business Administration, a Master of Divinity Degree and a Master of Accounting Degree.
- Prior to the creation of the CFO office, the former Director of Administration had control of Administration and Finance. There has now been a clear separation of these functions.
- The Archbishop will appoint new members, with appropriate backgrounds in accounting and finance, to serve on the Archdiocesan Council Audit Committee through the end of July 2018. Thereafter, with the approval of the next Clergy-Laity Congress, a new Independent Audit Committee will be appointed. Members of the new committee will be required to have a professional background as CPAs and auditors. A vote of the Clergy-Laity Congress and the approval of the Ecumenical Patriarchate will be required to amend our GOA regulations to create this new Independent Audit Committee. Until the regulations can be amended, we will attempt to include as many independent and qualified members as possible on the standing Audit Committee. No longer will the auditor present its findings to GOA staff and insiders, but rather to this committee. This is similar to the conduct of publicly traded companies in the U.S. in respect of these matters.
- The GOA will engage an accounting firm to perform a consulting study of the GOA when practicable. Precatory accounting and booking work is required prior to beginning this process. The accounting firm will be asked, among other things, to verify the size of the GOA's operating deficit and the current total obligations of the Archdiocese. This study will be funded by a private donor.
- PWC and Baker Hostetler have been retained to conduct an independent forensic audit of St. Nicholas. PWC will perform this service at a greatly reduced amount, and Baker

Hostetler's services are pro-bono. We thank both firms. This audit will also be funded by a private donor. These firms will report to an Independent Committee. Please understand that the Officers had no knowledge of, or participation in, the process involving the construction of St. Nicholas. The GOA will not have a comment, beyond the statement in its recent press release, regarding St. Nicholas until the forensic audit is completed. I can assure you, most personally, as the first \$1 million cash donor to this project, that His Eminence, Archbishop Demetrios, and the GOA remain committed to the construction of this National Shrine.

ACTIONS TAKEN REGARDING STRUCTURAL OPERATING DEFICIT

Upon becoming CFO in April 2017, Father Baroody conducted a ninety-day review of the GOA's finances between April and the end of June. In July, less than four months ago, Father Baroody presented his initial report to His Eminence, Archbishop Demetrios, and the Officers. In July, we were extremely disappointed when Father Baroody informed us that the GOA had an estimated structural operating deficit of approximately \$4 to \$5 million for 2017. Historically, a portion of that structural deficit was funded by gracious benefactors, some of whom have fallen asleep in the Lord.

With the blessings of His Eminence, Archbishop Demetrios, and under the leadership of His Grace, Bishop Andonios, immediate and decisive actions were taken to reduce operating costs to bring revenues and expenditures into balance.

Beginning in August actions were taken to reduce the GOA's operating cash costs by approximately \$6.5 to \$6.7 million. These actions included:

- Reducing staff across the board,
- Reducing general administrative costs, including staff cell phones, credit cards, travel and expense accounts which have been restricted and/or eliminated, and
- Implementing new vendor management protocols and controls
- Depending on the GOA's receipt of assessments from the Parishes, additional cost reductions may be required in 2018.

I ask you, humbly and respectfully, to consider the magnitude of the cost and spending reductions that occurred within a month of discovering the scope of the structural operating deficit, and I ask you to reflect on how quickly and decisively we reacted to this discovery.

I can confirm that we are exceedingly disappointed that Father Baroody discovered transfers involving funds in restricted and custodial accounts of approximately \$4.75 million. We believe that the funds in these accounts were transferred to fund the GOA's legacy operating deficit. We are proceeding with an examination of all transfers, and will engage an accounting firm to confirm the specific nature of those transactions. We understand it is imperative that all avenues be explored to restore the proceeds to these accounts as soon

as possible. We will pursue all options to do so. In the meantime, we believe that proper internal controls have been established to prevent this practice from occurring again.

FINANCE COMMITTEE AND THE BUDGET

The issue of the GOA's "Official Budget" needs to be addressed. Every two years, the Clergy-Laity Congress approves the "Official Budget". Speaking as the GOA's Treasurer and as directly as I can, the facts demonstrate that this "Official Budget" does not reflect the actual financial status of the GOA. Anyone familiar with how organizations operate from a financial perspective, understands that budgets must be established from the ground up, and then monitored month-by-month, quarter by quarter and annually, for variances, in order to have any integrity. There is a strong recommendation that the Finance Committee meet with the CFO regularly to monitor variances in the new budget that is being developed relative to actual performance. Had that exercise occurred over the past two years, a more realistic and timely understanding of the GOA's financial position would have been known 18-24 months ago.

REVENUE

The only way for the GOA's operations and ministries to continue to operate is for the Parishes to fulfill their assessments. I pray that the combination of all the actions taken in the past few months, actions taken to ensure accountability and transparency will provide our Parishes with the level of trust and confidence required to fulfill their critical obligations to the GOA. These actions include new leadership, new people in critical senior management positions, a plan to implement new internal controls, practices and procedures, the establishment of new independent committees, the retention of accounting firms for various audits and reports, and very significant and immediate cost reductions. While we are working hard to transform the GOA, if the Parishes refrain from funding their assessments, the present and future of the Greek Orthodox Church of America will be impacted.

CONCLUSION

In a short period of time, by the Grace of God, the GOA has made strides to achieve its objectives of accountability and transparency necessary for its mission to proclaim the Gospel of Christ in the U.S.A and beyond.

The Officers, with the blessing of His Eminence, Archbishop Demetrios, and the most Revered Hierarchs of our Holy Eparchial Synod, are working hard to bring order, structure and integrity to the operations of the Archdiocese.

We are people of faith and hope.

While our efforts may take time, we are making great progress.

Now is the time for all of us to work together for our future and the future of our children.

I ask for your prayers as we proceed with our endeavors.
Everything I have said today is with respect and humility.

Respectfully submitted,
Michael Psaros, Treasurer