

# **JOINT AUDIT COMMITTEE of the EXECUTIVE COUNCIL and DFMS**

**New York, New York**

**June 14, 2021**

## **Minutes of the Zoom Meeting**

Attending the meeting from the committee: Bryan Krislock, Del Glover, William Haas, Patty Downing, Phoebe Roaf, and Tess Judge; from the staff, Kent Anker, Kurt Barnes, JoAnne Brockway, Tanie Oconer, Margareth Crosnier de Bellaistre, Geof Smith, and Nancy Caparulo; from Episcopal Relief and Development, Esther Cohen; from the GCO, Michael Barlowe and Gay Jennings; from external audit firm, Grant Thornton (GT), Ed Miller, David Bronfman, Pat Crosby, and Matt Lerner.

Mr. Krislock called the meeting to order at 11:02 AM EDT with the roll and Mr. Glover offered a prayer.

The meeting began with responses to a check-in question.

The agenda was reviewed and the addition made for consideration of the minutes from April, which were moved, seconded and approved as presented.

### Finance Report

Mr. Barnes discussed the report he had posted to the Extranet. Spending is within budget and savings are anticipated through the end of September. Diocesan payments are in line with expectations as are refugee loan collections. The government had increased admission of refugees to 56,000 this governmental fiscal year and 125,000 in the next. Balance sheet and portfolio performance are very strong. The Office of Development has raised \$550 K this fiscal year. The draft audit was posted a week ago. Work is ongoing with software for grants and scholarship tracking that will allow greater understanding in this area.

Ms. Judge asked for clarification of the status of the term loan. Amortization is on a 30-year basis at \$1.48 million annually. An annual 1.6% interest rate was locked in; and plans are to stick with that schedule.

The status of the PPP loan taken by DFMS was looked at. The loan has not yet been forgiven. US Bank opened the forgiveness program in the middle of April. Mr. Barnes has repeatedly tried to supply the information for the application and keeps getting a 'Server error.' He will continue to pursue.

Mr. Barnes has been working with the Finance Committee on the budget for 2022. Parochial reports are beginning to come in, hopefully providing help in forecasting diocesan income. He is thinking of forecasting a 2% reduction for the budget. The Assessment Review Committee will meet tomorrow. No emergency applications for waivers have been received since January.

Looking at other economic forecasts and the economic recovery gives cause for optimism, he believes.

About 55 dioceses have asked for the \$40K relief grant approved by EC. Mr. Barnes discussed the diocesan report for 2020 for the Diocese of Cuba, which was received already. Their income is about \$158K of which \$116K is the DFMS grant, eliminating the need for a waiver.

### COO Report

Mr. Smith went through the highlights of his report, which was posted to the Extranet.

- The Archives construction of the interim site is nearly complete. There is a Certificate of Occupancy and the work has come in about \$10K less than anticipated. The City of Austin has increased property taxes by about 50% (\$10K annually), which was a surprise. Mr. Smith has meetings scheduled to explore that move further.
- Building services at 815: The 5<sup>th</sup> floor conference room is completed and the production studio is as well. There are many possible uses for the use of that space.
- In September IT Director, Darvin Darling, will join the Audit meeting for Q&A. Both a training and assessment process are being used to help staff identify phishing e-mails and fraud. IT has met with the PB and the Archives and is integrating the Archives into the DFMS infrastructure, which should be completed in the fall.

A question about staff morale and what reopening looks like for the staff was asked. Mr. Smith opined that morale depends on who you talk to. Some staff are anxious to return to the church center and others are reluctant. Primary fear is about traveling to and from 815 on public transportation. An EAP (employee assistance program) consultant will be meeting with staff with the aim of alleviating tensions. The current intent is to resume work in the offices after Labor Day in New York, Austin and Washington DC.

The expectation is that staff returning to the office will be fully vaccinated unless there is a medical reason for not being able to do so. This will apply to visitors and to remotely deployed staff members. Those who have demonstrated their ability to work from home will not be required to return to 815. Roughly one third of staff worked remotely prior to the pandemic. That number may increase and change over the course of a year. Thus far, no push-back about the vaccination requirement has been encountered to date.

At 11:45 the meeting moved executive session to hear the legal report and broke at 12:08 PM.

### General Convention Office (GCO) Report

Mr. Barlowe discussed the changes around the General Convention. Many renegotiations were accomplished without additional contract costs. Much creative work has been done by the GCO staff to pivot the work of the church into electronic platforms during the pandemic. The work being done is to guarantee the safety of the people who will gather. DFMS has banned any travel other than essential until after Labor Day 2021. Physical distancing will continue into 2022, which will impact the space requirements for GC.

Mr. Barlowe discussed the creation of hybrid meetings and the implications around that. Many costs associated with hybrid and virtual meetings have escalated. No DFMS-sponsored meetings

will occur before September; the first is likely to be the HOB meeting at the end of September (likely a hybrid meeting owing to the ongoing nature of international travel). The hope is the first major meeting will be the October meeting of EC at the Maritime Center outside of Baltimore.

Mr. Barlowe described two ongoing concerns: existing staff cannot handle all the work required in the hybrid setting. Additional staff will be required for hybrid meetings. No determination has been made regarding vaccination requirements for meeting attendees.

The software development company that rewrote all the code for legislative software and its underpinnings is shutting down. Successors are being determined. Mr. Barlowe talked about this at length.

#### PHOD Report

There was nothing critical to report today from President Jennings.

#### Ongoing Projects

Raphaëlle Sondak joined the meeting at 12:12 PM. An executive session was begun at 12:26 PM for the discussion of succession planning. This executive session broke at 12:33.

#### Audit Report – Grant Thornton Team

Mr. Miller gave a recap of conversations in the past about risk management.

Mr. Lerner shared GT's Enterprise Risk Management (ERM) presentation, describing the strategy and its scope as well as the desired outcome with a given organization. He defined risk, levels of risk and risk-management. He discussed the objectives of the ERM perspective and how strategy and framework lead to strategic risk assessment via action planning and risk response (ongoing communication, reporting and monitoring). The process is revisited periodically throughout the year with the idea to manage fewer risks but those that are important to the organization and that align with strategic planning.

ERM processes in NFPs are developing with increased focus on strategic risk. Many NFPs are looking at risks in the post pandemic environment. Oversight varies widely.

Board and senior management leadership are key in both involvement and oversight. Mr. Lerner advocated for selecting a strong leader and for establishing a risk management committee that begins with education to provide context, introductions to key concepts and starting risk assessment to identify and prioritize key areas of risk. He shared a sample NFP risk universe and categories of risk along with documents for management and a heat map showing the top risks and how to manage them. Discussion covered planning around the pandemic in risk management.

Mr. Miller took over the discussion to talk about the 2020 Audit, which he described as 'nearly painless.' The report is positive. The information being captured digitally in the Finance Office was extremely helpful. He discussed the scope of services and the elements within the audit. There were no finding of fraud or non-compliance and no material weaknesses were identified. There were clean internal controls. No disagreements with management arose nor were any

significant issues to investigate identified by Management prior to commencing the audit. There are no findings to merit attention and GT has given the cleanest opinion they can render as external auditors. Accounting estimates are clean. Footnote disclosures are looked at annually and action taken if needed. Ledger analytics, which identify items that are most likely to have error, were reviewed in detail. The Post-retirement benefits, once a year entries, were tested and nothing untoward found.

IT procedures are also audited; the examination yielded no significant findings.

Mr. Crosby took over to talk about financial highlights. Revenue trends were relatively consistent over the last 4 years except for Federal Grant revenue. Investment trends looked at as well, both DFMS investments and those held for others.

Mr. Bronfman then walked the committee through the draft audit report, financial statements and footnotes. GT's opinion is unmodified and is the best opinion they can offer. Assets increased in the period. Liabilities increased with PPP loans of \$5 million; post-retirement benefits increased \$1.6 million. Net assets increased. Travel expense decreased \$3 million; direct ministry expenses decreased \$5 million owing to the refugee program changes. There was an increase in cash in 2020 and an increase in net assets of \$8 million.

Footnotes focused on two subsequent events: legal matters under a confidential settlement agreement; and the extension of the Society's term loan from 2021 to 2026. . A new footnote is the CARES Act loans of \$5 million, that may be converted, but until they are they are liabilities.

Other items mentioned were:

- Net assets with donor restrictions – the most significant are endowment funds where only income may be spent. There are also board designated funds.
- Details of the decreases in 2020 expenses.
- Consolidation of DFMS, ERD and Guam. \$1.2 million contributed services to ERD from DFMS.
- DFMS has a well-diversified portfolio with the majority of investments level 1.
- All footnotes are substantiated. No material findings identified. Questions about PPP forgiveness will be reflected in the next audit.

Executive session with the auditors was next on the agenda along with an executive session with Kurt and Joanne.

The plenary session concluded at 1:42 PM. The vote on a motion to accept the audit would be reported via e-mail.

Respectfully submitted,  
Nancy Caparulo  
Staff support to the Committee