

JOINT AUDIT COMMITTEE of the EXECUTIVE COUNCIL and DFMS

New York, New York

June 5, 2023

Minutes of the Meeting

Ms. Judge called the meeting to order at 10:03 AM EST with prayer. Introductions were made around the room.

Attending the meeting from the committee were: Julian Bivins, Andrea McKellar, Shelly Banner, Phoebe Roaf, and Tess Judge. Regrets: Dan Packard.

Also present: Kent Anker, Kurt Barnes, Margareth Crosnier de Bellaistre, Tanie Oconer, Esther Cohen (ERD), Jane Cislucyis, and Nancy Caparulo.

Attending from Grant Thornton (GT): Ed Miller and Pat Crosby.

The agenda was reviewed and remained unchanged.

Minutes were moved, seconded, and approved as presented.

Grant Thornton Reports

Regarding the TC-201 filing, Mr. Miller explained the need for this annual report on revenue and expenses for the City of NY. GAAP were used yielding no fraud, no inconsistencies, or negative findings. GT's is an unmodified, clean opinion. Mr. Barnes observed this as the first year in filing the TC-201 that the DFMS's tax exemption was received without a challenge.

The Audit Report for 2022 was then reviewed. Mr. Miller said the process went very well and according to the timeline. The report is positive, and the scope of services was looked at. A CFR-200 single audit covers the organization and its compliance with respect to any government contracts. GT looks at most of the individual expenses testing back three years.

Mr. Barnes explained the action regarding Refugee Services of TX, an affiliate that closed because of mismanagement, where administrative funds were used to give more funds to refugees, leaving themselves short on operating cash. Their activities were reviewed. GT is doing a forensic audit of transactions to confirm the monies that RST actually gave to refugees. They interviewed recipients and looked at bank records to get a clear picture. RST made payments to refugees and then sought reimbursement from DFMS; they were reimbursed through April. May remains open. EMM is an area of concern focusing on compliance. Mr. Anker discussed some of the details involved and the allowances of the program. EMM has been very busy putting records in order. EMM has received several additional grants during this process.

Moving along with the audit review, the quality of accounting practices was explained, specifically estimates and disclosures. St. John's School, Guam, was not required to disclose leases.

On Information Technology (IT) GT looked at Financial Edge, password access, and computer operations. One item arose around internal controls, but all other areas were good. Segregation of duties was the issue in internal controls. Joanne and Kurt had access but NXT activity logs are not generated to show the activities of those with access. Mr. Barnes discussed the need for the IT Director to have training for NXT access. Mr. Bivins suggested talking with other owners of NXT to see if they are having the same issue(s). A general discussion about 'fixing' the situation concluded that this is a Blackbaud issue rather than a 'material weakness.' Ms. Cisluycis indicated that it is also an ADT issue, according to Darvin Darling. That is used for payroll.

Mr. Crosby discussed revenue trends, noting that Federal grants had an impact on both the DFMS and ERD where there were increases in donations for Ukraine. They provided a five-year picture. In 2022 net assets declined substantially because of negative investment returns. Increases in expenses correlated with the increase in revenue. He explained the report on cash flows.

As for the consolidated reports, GT rendered an unmodified, clean opinion. Investment activity had an impact across the board, so the posted report was reviewed in some detail along with the notes to the statements, changes in lease accounting, and new accounting standards. Mr. Crosby talked about post-retirement benefits and the endowment review - with and without donor restrictions. There was a discussion about exclusionary trusts and how to deal with them. Trust Funds 35 and 38 fall into the same exclusionary category as the Corbin Fund, where there are terms such as 'white' recipients. The Rittenhouse Fund is more complicated and under research. Mr. Anker has been in touch with the Attorney General's office in this regard.

The detail of income and expenses and how they have changed was looked at. They correlate.

The engagement letter was looked at along with management statements. Ms. Judge asked about the limits of guarantees provided by the FDIC and how we act to protect our assets that exceed the FDIC limit. Short-term Reserves (STRs) are invested through Deutsche and State Street Banks in short to mid-term Government securities or high-grade corporate bonds. They are liabilities on the bank's balance sheets. No equities are held. We would have first access in a bankruptcy. A short discussion occurred around the Signature and Republic bank failures. The DFMS trust assets custodian is BNY Mellon Depository Trust Company. No trusts are in Mellon paper. The checking account balance is \$6 million and represents operating cash (\$3.5 million a month). We make payments for ERD.

At 11:15 the session broke for the committee to meet in executive session with the auditors.

The plenary resumed at 11:40 with the Finance Office Report.

Mr. Barnes noted the GC budget is a cash budget which the EC modifies annually as needed. If less income is anticipated an adjustment is made. The 2022 actuals were reviewed. Income was in line with budget even in an odd year after a delayed General Convention where expenses and income should have happened in 2021. Savings from that became a carry-over that was used for the 2022 budget. The only shortage was in the refugee loan program, a residual from the previous presidential policy that limited refugees. The pick-up is very slow. The increased EMM income was from gov't programs for Afghan and Ukrainian parolees. A question arose about the reduced numbers of GOEs which stimulated a discussion about the need for them.

Mr. Barnes continued with a look at spending. 2023 YTD was looked at. Both income and expenses are in line with the budget; 4-5 dioceses have waivers. A conversation about reducing the 15% Assessment ensued. The JBC is looking at the budget with that in mind. Each reduction in percentage means \$2 million annually. The balance sheet remains strong. The \$19 million debt is reduced by \$1.48 million per year. The liquidity ratio is 1.2 x debt. EC agreed that it was prudent to keep short-term reserves at \$10 million; it is \$11.9 million now.

OOD continues its work with a successful annual appeal. There has been a good response to the Absalom Jones appeal for two HBCUs. The OOD will talk with FIN next week about a fund to honor Bishop Curry's work, a fund for his successor, so OOD is putting together a campaign to raise money for an incoming PB. A consultant will be hired for this work.

The endowment disbursement rate has been 5% for years and is reviewed annually with a 5-year look-back. There was a brief chat about Guam and TEC in Micronesia. St. John's School, Guam, is in the consolidated audit. As of April the endowment shows improved performance.

COO Report

Ms. Cislucyis discussed the use of the Church Center building post Covid. Work is ongoing regarding the hybrid/remote staff policies for work. A value statement about that from the chiefs and canons is in the offing. Ms. Cislucyis continued that the 6th floor has been vacant for a year and there is a firm helping to find a new tenant. Kennedy Lyceum is on the second floor and may expand to the 3rd floor. The 4th floor is very unused and the 5th floor is spotty. Some tenants are not using their spaces and there may be a big change for some of them. On May 11 the Covid protocols were lifted in the city and at the building but a clear HR policy is needed.

Ms. Cislucyis visited the Archives in Austin 3 weeks ago. They are using off-site storage where they have a lease that ends in 2½ years with option to renew. There is insufficient space now but a possible solution is in the hopper. A permanent solution is needed. Still.

Regarding HR, a search is under way for a new director. A consultant was hired and Ms. Cislucyis will meet this week with them to discuss progress. She meets weekly with the two remaining HR staff along with Mr. Anker.

Dark Scan has been hired by IT to increase cyber-security. IT and the Archives are leading the press for data retention. Ms. Cislucyis said she needs to learn more about security needs. She took a duty of care workshop which was inspirational in helping on new areas of responsibility.

A half-hour break was taken for lunch at 12:30.

The discussion resumed a little after 1:00 PM with a look at future meeting dates. Virtual meetings were decided for Thursday, September 14 at 10:00 AM for 90 minutes and Thursday, December 7th in the same time frame. In September the 2024 dates will be discussed. All agreed that it was important to meet in person with the auditors.

Ms. Judge then raised the need for this committee to have a Vice Chair in the event she was involved in a fatal bus accident. Julian, by acclamation, agreed to be that person.

Legal Report

Kent provided an overview of the work in the legal department.

- Trust Funds review is in process with Kurt, Margareth, Suzanne Baillie and Kent. Trusts have been flagged for reformation.
- The conflicts policy is currently under review with an eye toward covering corporate and interim bodies covered. GO is spiriting a revision.
- Data retention is under scrutiny along with the Archives policy. Kent discussed the nature of the Archives as a corporate file room as well as historical repository along with the time frame involved in moving files from current to history.
- Changes are on the way for how data is reported on the website. Phishing matters are of particular concern.
- The employee handbook has been updated and HR issues (and all that encompasses) continue to be works in progress, including safe church and policies for young adults and children. GO is reviewing agencies and affiliates of TEC as the liability umbrella extends quite far.
- Lifestyle management software will help to centralize workflow.
- There is a reach-out to the larger church on law.
- EMM risk is owing to its \$40 million revenue from Federal Programs.
- Forensic Audit of DFMS funds has been undertaken, asked by A129, a GC resolution focused to identify funds built on slavery as sources. There are language tests going on in those trusts. The endowment is diffuse and there is a reach-out to others - Georgetown, Trinity, and the church of England benefitted from the 'triangle trade. The DFMS trusts originated around 1840. Was her endowment based on slavery? Julian recommended a series of articles in the Guardian as valuable sources of information.

Respectfully submitted,
Nancy Caparulo, Staff support to the committee

Executive session concluded the meeting at 1:48 PM

Note: The committee discussed an RPF going out in 2024 for the n2025 audit at the close of its meeting. All concurred about this action.