

JOINT AUDIT COMMITTEE of the EXECUTIVE COUNCIL and DFMS

December 7, 2023

Minutes of the Virtual Meeting

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

Also present: Kent Anker, Kurt Barnes, Michael Barlowe, Jane Cislucyis, Joanne Brockway, Tanie Oconer, and Nancy Caparulo.

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

Ms. Judge called the meeting to order at 10:02 AM with prayer.

The minutes from the September meeting were moved, seconded and approved as presented.

Grant Thornton Audit Plan

Ed Miller went through the work plan for the 2023 Audit. The scope of services remains the same as it has been and includes a federal compliance audit. The GT document that had been posted for the meeting was reviewed. A TC-201 separate audit is done for the City of New York.

Pat Crosby discussed the timeline's 4 phases of the audit work. Significant risk was defined – a potential management override of controls to be identified and procedures put in place to prevent same. This covers DFMS and ERD income (contributions, grants and contracts). Net assets are included in the work as well to ensure the categories are presented accurately. The balance sheet and statement of financial position are included. The endowment/trusts are a major portion of the audit work. GT works with the tax team to understand the tax exemption for the DFMS.

Ed talked about uniform guidance and the testing that has been done in the past. The church is a low-risk auditee. GT looks at compliance and control matters, testing reporting and evidence. Audits have been clean in terms of compliance. The post-retirement plan requires actuarial involvement. No new significant accounting requirements are in place for this year.

GT looks at technology support as it relates to the audit. They assess IT risks and test IT controls. The committee was invited to report to GT any areas of concern before the audit is started.

The independence of the auditors was briefly discussed. The matter of a committee self-evaluation was looked at. Ed Miller will email the questions to the committee, compile the answers and report back as he has done previously.

Committee reports

Jane Cisluycis described a level of anxiety within the staff owing to the PB's health concerns and the new budget process for the upcoming triennium. The return to the office has been successful with only a little push-back. Leadership is trying to promote more togetherness for the staff.

Kingswood Security consultants has been hired to do a security risk assessment for the building and operations. They will look also at OGR and the OBAS. Kingswood will help with grant applications to FEMA and HSA.

Buildingwise, serious conversations are afoot with Lyceum Kennedy School, which is interested in 3rd floor occupancy in addition to the 2nd floor. Cushman and Wakefield is involved with their process. If it goes forward, it would require the 3rd floor offices to move to 6 or elsewhere.

GCO

Michael Barlowe said planning is going well for the 81st GC. He discussed the impact of COVID and contract cancellations yielding difficulty in obtaining favorable contracts in the hospitality industry. Terms are tighter and no flexibility is offered. He touched on the concern about reputation of the church in meeting its obligations since it was necessary to cancel and renegotiate contracts for the last past GC. New vendors are aware of the changes that were made. However, TEC has led the way in contracting additional clauses internally in contracts regarding meetings where the values we have as a church serve very well (antiracism training for staff, HR awareness, etc.) and have changed the industry. TEC was the first entity of any size to insist on modern slavery and human trafficking awareness. We added a clause that the hotels do mitigation training regarding those areas.

Kent Anker and GCO are working on whistle blower issues. None have material consequences. Many issues arise and all are taken seriously.

Legal

Kent reported nothing new in the whistle blower area. He has talked with a securities counsel to look at the endowment. All is well after the review was completed and he is happy with the consultant that was used.

Changes to consulting agreement were made to add a line to make sure a chief or canon sees the consulting agreement, regardless of its size. A clearer confidential clause was added to encompass the use of social media, conflict of interest policy, payment of travel expenses and dating all agreements so that the most current contract will be the one that is honored.

The implementation of the contract management system has required translation. Setup has been somewhat a challenge but, now, contracts will be routed appropriately for signatures in a consistent manner.

TEC has oil and gas rights on a small tract of land in Western Pennsylvania. CPG has some interest as well. Kent has been working with them to get dispatch that property and realizing \$50K. EC passed a resolution in Puerto Rico about church ownership of property there that retains our interest. The value of those properties is very low owing to depreciation.

Treasurer's Report

Kurt went through the report he had posted to TEAMS. Budgetary income statement is in line with budget for the year. Commitments are ahead and dioceses are paying in line with their schedules. 2021 ended with a significant surplus. \$5 million was set aside to use in 2023-2024 to achieve a balanced budget but that will not be used until 2023 closes (end of January). Kurt thinks we will need to use the reserves in the 2023-24 budget. Rental income is down. \$130K owed by a tenant who had miscalculated is in the pipeline. The refugee loan program is picking up after being very slow and EMM is looking at a return to the positive results of the past. 230 new refugee loans were reported, bigger than in the past three years. The Department of State tripled the number of refugee contracts to Episcopal Migration Ministries. Over time this is a break-even activity.

Through October EC approved grants for church planting and redevelopment that will be paid in the 4th quarter. The PBO is in line overall as are other budget areas. \$17 million long-term debt interest is paid at the end of each year. Kurt observed that TEC is well respected in terms of our balance sheet. Net assets to total debt is almost 9 times and the only covenant with the bank that requires a ratio of 1.25 times.

TF performance has picked up over the 19% loss of last year. Preliminary results for October suggest a ytd return of 10%. The 2025-2027 budget was based on income from a 10% return to the trust funds.

Office of Development (OOD) work requires that Kurt will propose to FIN in January amended guidelines for gifts and bequests that TEC will accept. Real estate is not accepted now but that will be looked at that again as there have been offers. TEC needs clear title, clear of brown fields, clear of creation care problems. Those will be added to the gift acceptance policy.

The Joint Budget Committee has two more listening sessions and will meet in Baltimore in early January to complete the budget for recommendation to EC at the end of the month.

Tess suggested, based on experience, that there be no time-shares allowed as gifts.

FIN

Andrea said FIN will meet in January and work on the budget, do some ongoing work on racism, and work with other committees on currently unknown issues. She revisited the matter of anxiety about the PB's health status and the budget, noting there will be reductions that increase anxiety. Significant cuts needed to be made to achieve balance. Andrea heard a lot of rumors

about the budget, none of which were accurate. Kurt noted a 6% reduction in staff costs to be determined.

Review was then made of the Audit Committee Work Plan that had been posted. It has been 5 years since there was a review of the external auditors. Audit partners have changed but it is time to issue an RFP in 2024. Kurt will update past RFPs and share with the committee for input and to determine which outside firms to approach.

Future Meeting Dates

EC meets in April in Raleigh to bid farewell to the PB. GC is earlier than usual in 2024, so the proposal is to have a face-to-face meeting on a Monday to enable Sunday travel to NYC to receive the audit and associated activities with GT.

There is also a proposal for September 16, 2024, another face-to-face meeting all day to interview potential auditors (three firms). Michael noted 9/16 is a bad date in New York City. Another date needs to be found at the beginning of October. EC meets November 7-11. December 9 the audit committee meets again. Kurt will look at a date for October and notify.

At 11:26 AM an executive session was held to discuss legal and COO matters.

Respectfully submitted,
Nancy Caparulo
Staff support to the Committee