

The Audit Committee of the Domestic & Foreign Missionary Society

New York, New York

December 10, 2007

Minutes of the Meeting

Present and constituting a quorum were: Anne Bardol, Del Glover, Jerry Keucher, Ernie Petrey and Skip Windsor; from the staff Kurt Barnes, Nancy Caparulo, Esther Cohen (ERD), Alpha Conteh, Margareth Crosnier de Bellaistre, Jose Gonzalez and Linda Watt; from the independent audit firm Frank Kurre and Mark Oster. Absent with notification: Stacy Sauls.

Anne brought the meeting to order at 9:00 AM. and Jerry offered a prayer.

Minutes that had been approved electronically for posting on the church web site were **moved (Ernie) and seconded (Del) for acceptance as presented. Motion Carried.**

Audit Plan

Frank discussed Grant Thornton's 2007 National Board Governance Survey for NFPs, which had been distributed. He noted particularly the tightening up of gift acceptance policies across the country, whistle-blower complaints (where they were made to people outside an organization) and board self-assessment percentages. He added that some of the most successful boards are those that invite others outside the audit committee to participate in the assessment or use the information provided by the audit committee.

Question arose concerning whether the CEO of an organization should sign off on all 990s and 990Ts? Frank agreed that both the board and the CEO should sign off on them.

Proposed audit scope was reviewed. A new auditing standard is effective (SAS 112 and SAS 114) that ask, "what is a material weakness or significant deficiency?" It has been learned that the number of organizations getting qualified OMB 133 reports as a result of these questions has greatly increased. Frank reviewed the last DFMS audit to see if the clean opinion given would hold against closer scrutiny and believes it would. Grant Thornton (GT) will be completing the audit by the May date required, focusing on proper accounting for investments, compliance with donor restrictions, reviewing compliance with the whistle-blower policy, key fraud prevention and controls. Areas of excessive fraud are often found in the area of journal entries so procedures will be closely assessed. GT will spend additional time checking the journal entries and traditional expenses (travel and meals) to make sure there are proper receipts and compliance.

Mark talked about the tech review. GT will come in on an advanced date before the financial audit to alert the team where the potential areas of risk might be.

Matter of record retention was raised. Record retention reviews are typically done separately from the audit. It was noted that MIS has not been invited to an audit committee meeting, when there have been discussions about that department and probably should be in future. Electronic files have made the issue of records retention far more complex.

Frank said the government is looking at requiring management letters to be made public information. Many NFPs file their letters with their tax returns. It may be necessary to do this in the future, whether or not there are significant deficiencies. Now using the management letter as an ongoing tool to see which deficiencies are being corrected.

Linda speculated about making the management letter public. This was discussed at some length with regard to reputation and enterprise risk. It was concluded that some areas of disclosure have ramifications for DFMS that exceed or are different from the NFP organizations in general. Frank is unaware of any major NFP that has disclosed its management letter. While some of the mega Christian churches have been targeted, he does not see a movement in the industry to get ahead of the curve because the issue may not go anywhere significant. He pointed out that those filing OMB reports may have to submit the letter, so the decision of whether or not to continue to accept federal money must be made. In any case, it was agreed that the church needs to be prepared if the whole matter comes to fruition.

Question arose with discussion following concerning filing a 990T return for the bookstore and the newspaper? A 990T is filed for Episcopal Life.

COO's Comments

Linda briefly updated the committee with regard to the reorganization of the church center.

Status of the Audit Firm and Partner Rotation

Audit partner rotation was raised and a request made to put it on the May agenda for more comprehensive discussion. Notations were added to the chart about this. Ernie requested that each document produced for Audit consideration have an author and date. He asked that fees be added to the chart and that the committee discuss it without the auditors present in May. Meanwhile some research should be done about what exists in print about partner and firm rotation.

Attempt was made and was unsuccessful to contact Bishop Sauls by phone so that he could participate in the discussion about legal expenses for property protection. During an executive session of the Executive Council (EC) a discussion was held in regard to the amount of funds spent on legal fees in property issues. The PB and chairs of two committees of EC (Administration & Finance and National Concerns) discussed this, deciding, for a variety of reasons, not to share the amount with EC. Kurt assured A&F that if he didn't know what the exact number was spent on legal fees he would not sign the audit report. Kurt has initiated a review of all the legal bills that have come in; Jose Gonzalez is making the review. Bills come in either to in-house counsel, Suzanne Baille, or to the PB's Canon. They are reviewed and identified by subject matter and presented for payment. Kurt and Suzanne complete a similar review and the dollar amounts are coded appropriately for entry. Kurt has asked what bills might exist that do not go through accounts payable. Discussion covered this issue as well as the difference in reporting 'fees' and 'expenses,' which is an inclusive number apart from the fees – travel, administrative, *pro bono* services, etc.

Acknowledging that this is a sensitive issue, opinion was expressed that there should be a body, either of EC or EC and Staff, that should know exactly what the fees and expenses are. Without such oversight an environment of distrust is inevitably created. It was agreed that Audit needs to

ask EC with confidence and conviction to take care how they deal with the matter; Audit wants to support EC and has fiduciary responsibility for accuracy.

Budget Process 2008

Kurt reported that spending is below budget and revenue is in line. Anticipating 2008's budget, some measures have been taken to protect savings achieved in the first 10 months of 2007. Planned expenses are being carefully reviewed and staff has been asked to identify required, mandatory, critical travel and program that would be conducted throughout the calendar year.

Clergy Housing Allowances

Requests have been submitted and question raised about housing allowances exceeding an annual salary number. Apparently this is possible but it is up to the individual clergy to justify the expense to the IRS if an audit is done. EC was delegated the review of these expenses effective 1/2008. It was **moved (Jerry) and seconded (Ernie) to accept the allowances requested up to 100% of compensation. Motion carried without opposition.**

Financials

Alpha reported that diocesan commitments at the end of October represent 79% of the total budgeted amount; the 4% difference (what the diocese has committed and what they paid) is accrued. Diocesan payments are examined closely, especially at dioceses that did not make commitments. Letters are sent in January asking if payments can be expected so there are no surprises. Investment income is good. We are ahead with the Government contract revenue but this will be offset by higher expenses. Overall expenses are running behind budget but this is the time of year when expenses come in. Staff have been asked to be very careful about expenditures.

Discussion ensued with regard to legal expenses, both Title IV and property related. \$800K was budgeted and at end of October nearly that amount had been spent. The appropriate amount will have to be reviewed for the next triennial budget. It will be informed by the internal review of the legal expenses. Ernie suggested the expense may increase threefold as time passes. Suggestion was made to show the amount billed before any discount is applied.

From a budgetary standpoint, we are ahead more than \$3 million, much of which has been savings realized from unfilled staff positions. The planned use for this is to balance the triennium and meet the re-organization expenses. Alpha said notification was sent to St. John's School in Guam about completing their audit on time so that their drafts can be used to complete our audit. Last year the delay in their audit affected the completion of our own audit.

Invested Funds

Margareth reported that in spite of a volatile market, our investments continue to perform well against the benchmarks. In October the value of the total endowment was \$378.1 million but had dropped to \$363.8 Million at the end of November. Year to date DFMS investments performed at 11.5% against 6.3% benchmarks. Kurt added that the budget assumes there will be 5% draw (payout per share) with a goal of 8% to 8.5% return. He observed that 11.5% would allow us to produce a budget with a higher value to the draw without increasing the percentage.

Grant Auditor

José went to Venezuela and Ecuador Central. In both places the accounting was so poor he made many recommendations to improve the procedures. He will review various legal matters in Ecuador Central in January. In November he conducted a Latin American business workshop, at which Kurt, Margareth and members of the Church Pension Group presented. The workshop was very successful. José was thanked for the diligence applied to this work.

Charter

Amendment or rewrite of the existing charter was postponed to May 2008. Staggered terms of 6 years (three year term, re-appointable for the membership) was suggested to provide an unbroken line of membership, most of whom would meet in September after a General Convention for the first time in the triennium. Ernie will provide a red-line edition of a proposed rewrite, indicating where EC by-laws changes need to be made, for review before the next meeting. Nancy will collect feedback, suggestions, comments and collate them for the May discussion.

In Stacy's absence, Skip reported about their policy work on grants accountability and complemented José on the work he does with the dioceses. Key for Skip moving forward is the scope of the report. Kurt noted the number of grants that are not assigned to the Caribbean and inquired about timing for a review of those. Linda responded that there is work in progress on policies and procedures regarding accountability and review with the goal of ongoing improvement in the reporting.

Linda also stated that the Archives is working now on a records retention schedule for the various Church Center departments. There is a need to go forward and this issue is extremely complex. GT has provided some helpful material on the subject of records retention.

It was felt that future December meetings should be scheduled to accommodate closing the November books and that meetings should run from 11AM-3:00 PM so members can travel in one day.

Risk assessment.

Ernie expressed concern about property litigation and the extent of legal expenses. He asked: What is the risk if you lose? What is the risk if you win? If lose, you have legal bills and possible counter suits for which you can't plan. Issue of churches leaving dioceses is one thing; dioceses leaving the Church is another matter. Del will take this to A&F so that EC will discuss it.

Anne officially adjourned the meeting and Jerry offered a closing prayer. An executive session followed. Self-assessment was completed and given to Frank to collate and report. Stacy will be asked to provide his assessment electronically. Ernie will provide a list to Frank about items that should be included in future assessment tools. Observed: there is no conflict of interest policy for Audit Committee.

Anne adjourned the meeting at 12:36 PM with thanks to all.

Respectfully submitted,
Nancy Caparulo, Staff support to the committee