

JOINING AUDIT COMMITTEE OF THE EXECUTIVE COUNCIL AND THE DFMS

Membership

Mr. Bryan W. Krislock, Esq., <i>Chair</i>	Olympia, WA, VIII	2018
The Rt. Rev. Jeff W. Fisher	Texas, VII	2018
Dr. Delbert C. Glover	Rhode Island, I	2018
Mr. G. William Haas, Esq.	New York, II	2018
Ms. Nancy Koonce	Idaho, VIII	2018
The Rev. Michele Ann Racusin	San Joaquin, VIII	2018
The Most Rev. Michael Bruce Curry, <i>Ex-Officio</i>	North Carolina, IV	2018
The Rev. Gay Clark Jennings, <i>Ex-Officio</i>	Ohio, V	2018

Mandate:

To regularly review the financial statements relating to all funds under the management or control of the Council and the Society and to report on at least annually to the Council.

Summary of Work

MEETINGS

The Audit Committee's role is to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations on behalf of Executive Council. New York State law, and industry best practices, recommend (and in some cases require) that an organization appoint an audit committee comprised of independent, non-employee members to provide oversight of the organization. To exercise this oversight, the committee is given broad authority to discuss issues of concern with staff members, employees, board members, and other individuals as needed. The Committee may, with the approval of Executive Council, hire such independent investigators and firms as may be necessary to review allegations that come to the Committee's attention.

The Committee as currently constituted was appointed in Fall of 2015 and the terms of its members commenced in 2016 and will serve through the end of 2018. In addition to The Domestic and Foreign Missionary Society ("DFMS") Annual Statements, Episcopal Relief and Development's Statements are consolidated with the DFMS financial statements. Due to this relationship, a representative from Episcopal Relief and Development attends all meetings of the Committee.

The Committee met six (6) times during 2016 through 2017— three (3) times each year—at the Church Center. As provided in the Committee’s Charter, the previous members served until successors were appointed. As a regular practice of the Committee, it met with senior staff members in executive session to ensure that candid conversations could occur regarding any legal, financial, or other risks to the organization and receive regular updates on pending litigation. The Committee also continues to monitor reputational risks to the organization.

According to its chartered responsibilities, the Committee reviewed:

- quarterly and annual financial statements and the judgments and assumptions underlying them;
- the adequacy of the Society’s internal controls;
- the administration and activities of the grants auditor;
- the performance, and subsequent recommendation for the appointment, of the external auditing firm;
- the nature and scope of the proposed audit with the independent auditing firm;
- the final audit report of the Society’s financial statements and the independent auditors’ recommendations to management for improvements in any areas of weakness; and,
- in cooperation with the Society’s legal counsel, any potential liability exposure that could directly affect the Society’s financial statements.

Unqualified opinions were received from the independent auditing firm Grant Thornton for the 2015 and 2016 financial years. The Executive Council accepted these reports upon recommendation from the Audit Committee. The results of the 2017 audit are expected to be received at the Committee’s May 2018 meeting, in time for the Committee to provide it to the General Convention.

Major projects in this triennium include:

REVISIONS TO THE AUDIT COMMITTEE CHARTER

The Committee reviewed its charter and recent changes to New York State Law—where the DFMS is incorporated—on the role of the Audit Committees in Corporate Governance. After conducting the review, the Committee recommended changes to the Charter that included responsibility for reviewing the DFMS’s risk management program, reputational and other, non-financial risks to the organization. The Executive Council accepted the recommended revisions to the Audit Committee’s charter.

APPOINTMENT OF EXTERNAL AUDITOR

In 2017, the Audit Committee conducted a comprehensive request for a proposal process for the selection of a new auditor for the 2018-2021 triennium. A selection criteria was prepared and firms were invited to submit proposals. The criteria that the firms were evaluated by criteria such as: price, capability, financial stability, expertise, staff turnover, and industry reputation. Given the international nature of the church, with operations in multiple countries, the ability of a firm to handle international issues was a priority.

Five (5) firms submitted proposals and based upon the selection criteria, they were invited to prepare and present to the Committee. The Committee then reviewed the proposals and recommended Grant Thornton, LLP. This recommendation was forwarded to Executive Council.

INTERNAL AUDITOR AND ENTERPRISE RISK ASSESSMENT

The Committee continued a discussion regarding the need for an internal auditor at the DFMS. An internal auditor is an employee who independently reports to the Audit Committee and can review specific areas of concern or risk to the organization. For example, if the Committee were concerned about abuses involving travel expenses and the travel policy, the internal auditor could review whether volunteers and staff are complying with the travel policy adopted by the Executive Council.

After consulting with the independent audit firm, the Audit Committee decided that an enterprise risk assessment was necessary to identify what areas of risk to the organization may exist. This step is necessary to understand how an internal auditor may help reduce those risks to the organization and would help provide a job description for this. The Committee is working with the new Chief Operating Officer and that process is under way.

Other areas of concern:

In addition to the above work, the Committee has identified the following areas of concern to the organization and future areas of work:

DEVELOPMENT OF POLICIES AND PROCEDURES MANUAL

Currently, neither the Council nor the General Convention maintains a codification of the policies and procedures adopted by the General Convention and Council. As a result, there is a significant risk that adopted policies and procedures will be lost, misremembered, or forgotten. Included within this policy manual would be an updated whistleblower policy, travel policy, conflict of interest policy, and other operational policies.

SHORT TERM RESERVES AND DRAW ON INVESTMENT PORTFOLIO

Over the past several triennia, there has been a larger draw on the investment portfolio than is recommended. Although these are made for valuable and important missional needs, and the returns on our portfolio have been large enough to support these draws, there is still considerable risk to the Church if these draws continue. Because of the excessive draw, the portfolio is less able to absorb future crises and to provide for future generations of the church.

In addition, short term reserves have been used for several unexpected needs, resulting in the need to rebuild these reserves to handle unexpected events. The Committee strongly recommends that the

next budgeting cycle include a provision to rebuild these reserves and ensure that the Church is able to weather any future economic downturn or crisis.

Continuance Recommendation

SUCCESSION PLANNING

There are currently several long-term, key staff who contain significant institutional knowledge about the operations of the DFMS. In addition, key elected and volunteer positions have regular turn over due to the nature of their terms and positions. The Committee has recommended the creation of succession plans for key positions to ensure that in the event of an unexpected, or expected turnover, there is a strong transition plan in place.

INTERNALIZED STRATEGIC PLANNING

In conducting its audit and review of the staff, the Committee reviewed the current operations and decision making processes. Through this review, the Committee recommends that the current structure and governance procedures of the board be evaluated to ensure that there is a regular review of the strategy to ensure decisions to allocate resources are done based upon this plan.