

REPORT OF THE SIGMA XI COMMITTEE ON AUDIT REVIEW
TO THE
BOARD OF DIRECTORS

Members serving on the 2014 – 2015 Audit Review Committee are listed below:

Kenneth Audus, chair
W. Franklin Gilmore, member
Elizabeth Ambos, member

The Committee met via conference call on Thursday, October 8, 2015 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2015. Joining the Committee on the call were Ms. Jasmine Shah (Interim Co-Director of Operations and Director of Finance and Administration) representing Sigma Xi management and Matt Barnette, Brandon Martin, Stephanie McDonald, and Kevin Leeder of the auditing firm of CliftonLarsonAllen. Copies of the financial statements and associated documents were reviewed by all of the participants prior to the conference call.

Mr. Barnette, Mr. Martin, Ms. McDonald, and Mr. Leeder presented highlights of their report and satisfactorily answered questions posed by the committee.

In sum, the Auditors reported an unqualified opinion stating that "In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sigma Xi, The Scientific Research Society, Inc. and Subsidiary and Affiliate as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America."

The Committee on Audit Review unanimously accepted this opinion of the Auditors.

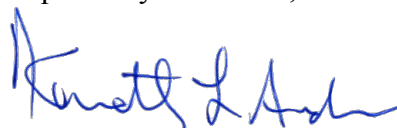
The Audit Review Committee also found great concern in that the auditors did identify, and reported in a separate letter, a number of material weaknesses in internal controls relating to:

- Segregation of duties: This weakness is the result of a continued limitation of staffing in accounting and finance. Although the Audit Review Committee expressed confidence last year that the Society was making progress in ensure adequate internal controls were being put in place, the issue remains in the audit report for at least the third year in succession. *In the strongest terms possible*, the Audit Review Committee recommends that a plan for resolution of staffing and internal controls by the Board and Society Leadership is necessary to preclude the tremendous risks of errors and potentially fraud that may jeopardize Sigma Xi's financial integrity and future existence. The Audit Review Committee holds the opinion that the risk potential is severe enough that staffing of Sigma Xi's accounting department should be the top priority of Sigma Xi's staffing strategic plan this coming year. The financial department must be under the leadership of an individual who does not have other management responsibilities and who reports directly to the Executive Director.
- Accounting Discipline and Year-End Closings Process: This weakness is the result of a lack of review and reconciliation in certain accounting functions. Related in part to staff turnover, however, it is also a result of lack of following through on accepted finance and accounting practices and policies. The Committee acknowledges that this process challenged the auditors in trying to fairly assess and track the Society's financial affairs and could well result in higher costs to Sigma Xi for audits in the future.
- Net Assets and Contribution Documentation: This weakness is the result of the failure to document all contributions, restrictions, and uses of contributions. Management seems to have reacted to this already to ensure proper restrictions are in place per the donor's request(s) and in line with UPMIFA. However, there remains room for improvement.

- Cash Management and Allocation of Resources: There appears to be instances where Sigma Xi's use of endowment funds is not consistent with its mission and charitable purposes, and/or does not match the intent of the donor's gifts. Although management seems to have recognized errors or the poor judgment exercised in certain investments, however, some additional planning and oversight, including proactive consideration of conflict-of-interest and bid processes appear necessary for keeping Board Members who approve these activities more acutely aware of UPMIFA parameters and policies, conflict-of-interest issues, and the need for multiple bids and levels of review for large capital or services expenditures. As representative Sigma Xi members, the Audit Review Committee members feel these policies should be readily available and posted as official documents on the website to remain as transparent as possible external stakeholders with respect to how the Board operates and will make investments in the future.
- Restrictions to Net Assets: To repeat concerns quoted in last year's audit report "The Society has become increasingly reliant on earnings from investments to support operations." We have again observed this reliance in this year's audit; it has been possible in previous years largely due to strong investment returns. As noted previously, that practice will likely not be sustainable in the long term and particularly so since some of the invested principal has been expended and will reduce future returns available to cover operation expenses. Management seems aware of this issue and has to our understanding retained an attorney to address access to the substantial permanently restricted net assets as an alternative to help provide more financial security for the Society.
- Deficit in the Unrestricted Fund Balance: Largely due to significant losses in operations, the Society is running a deficit balance in the unrestricted class of net assets. Survival of Sigma Xi will depend on the leadership's ability to review the budget processes and identify some cost savings.
- TIAA-CREF Retirement Plan for Employees of Sigma Xi: Monitoring the number of participants and account balances is necessary to prevent liability for an audit if the number of participants exceeds 120. Noted was the recommendation by the Auditors for the Society to engage the Plan's third party administrator for assistance in keeping participants under 120. The Committee concurs.

The Audit Review Committee held an executive session to further discuss the audit results. Given the details of the audit report and the very real threat to the future of Sigma Xi, the Audit Review Committee as long-time Sigma Xi members are in unanimous agreement that the Society's Board and Leadership need to develop a 2-3 year plan to fully resolve the fiscal issues and stabilize the overall financial base of the organization. The Committee recognizes immediate hiring of another individual to assist with the financial operations may not be possible, however, it must be part of the plan this coming year to directly address the internal controls and other weaknesses that could result in errors or perhaps even fraud that would threaten both the integrity and perhaps future existence of Sigma Xi.

Respectfully submitted,



Kenneth Audus, Chair
Committee on Audit Review