

ASSOCIATION OF DESK AND DERRICK CLUBS
**2022 Proposed Bylaws and Standing Rules
 Amendment**

Proposed Bylaws Amendment 1	Article X, Section 4, Paragraph 1
<p>Currently Reads: The Treasurer shall supervise the collection and disbursements of all funds of the Association as directed by the Association Board of Directors; shall furnish the Board of Directors with a quarterly statement of income and expenditures; shall submit the Association books for review by an independent certified public accounting firm and the ADDC Finance Review Committee at the close of each fiscal year or more frequently as directed by the Board of Directors; and shall submit a written quarterly report with highlights (budget to actual variances and significant expenditures) of both ADDC operating funds and ADDC convention funds to the clubs. The Treasurer shall furnish a surety bond in an amount fixed by the Board of Directors, the cost of which shall be borne by the Association.</p>	
<p>Proposed Change: Delete paragraph in its entirety and replace with: <i>The Treasurer shall supervise the collection and disbursement of all funds of the Association as directed by the Association Board of Directors; shall submit a quarterly statement of income and expenditures to the Board of Directors; shall submit a written quarterly report with highlights (budget to actual variances and significant expenditures) of both ADDC operating funds and ADDC convention funds to all clubs; and shall submit the Association books to the ADDC Finance Review Committee for review at the close of each fiscal year or more frequently as directed by the Board of Director. A majority of the clubs or board members may request a review by a certified public accountant, if economically feasible. The Treasurer shall furnish a surety bond in an amount fixed by the Board of Directors, the cost of which shall be borne by the Association.</i></p>	
<p>Amend to Read: The Treasurer shall supervise the collection and disbursement of all funds of the Association as directed by the Association Board of Directors; shall submit a quarterly statement of income and expenditures to the Board of Directors; shall submit a written quarterly report with highlights (budget to actual variances and significant expenditures) of both ADDC operating funds and ADDC convention funds to the clubs; and shall submit the Association books to the ADDC Finance Review Committee for review at the close of each fiscal year or more frequently as directed by the Board of Director. A majority of the clubs or board members may request a review by a certified public accountant, if economically feasible. The Treasurer shall furnish a surety bond in an amount fixed by the Board of Directors, the cost of which shall be borne by the Association.</p>	

Rationale: ADDC currently has robust internal controls that ensure that the association finances are being handled with the utmost diligence. The Finance Review Committee currently does a financial review of the books and provides guidance and direction frequently. When this bylaw was first created it was at a time when we had over 1000+ members. We are now at a crucial point in our organization where we must balance the robust safeguards we have and the financial health of ADDC. Those who made these bylaws, recommendations and amendments were done to accommodate the organization at that moment in time and what worked in the best interests of ADDC then.

The last amendment to the bylaws in this section in 2009, at the recommendation of Mike Grey, was to change the verbiage from an Independent Audit to an Independent Review, this was a change that was done due to cost and necessity. Fast forward 14 years and our organization is once again at a crossroads.

We are now tasked with trying to make sure we maintain the robust safeguards we have and not bankrupt this organization trying to do so. In order to continue to cover these types of operating costs, and if membership does not increase, the association will be "borrowing" money to maintain our operating expenses from Convention. It is not due to mismanagement of funds, it is because we do not have the membership numbers to support these practices.

We reached out to several CPA's that deal with Non-profits and the quotes we received ranged from \$3k-\$4k. This type of audit required by our bylaws also only covers the following: during a review, the auditor examines the financial statements but does not conduct an examination of the nonprofit's internal controls (which is normally included in the scope of an independent audit). Instead the review provides a limited level of assurance that the financial statements are free of misrepresentations. The auditor's report after a review will note whether the auditor is aware of any "material modifications" that should be made to the financial statements. The report after a review is not considered to provide a professional opinion about the nonprofit's financial statements as a whole." Once again the ADDC Financial Review Committee is doing this for us and at no burden or cost to the association.

The CPA recommended the following "It may be good to consider revising those bylaws, because it's my opinion that a review does not provide good feedback to an organization that they are following internal policies and reporting in accordance with US GAAP. A review is only accompanied by a set of financial statements and there is no report to management and the board about the results of the review. That would only come in an audit (\$6K) or an AUP (\$3K-\$4K) that is tailored to address the specific areas of concern."

Submitted by: Desk and Derrick Club of Farmington

Board: Yes 5/No 4/Abstain 0 - Rules Yes 2/No 1

BOARD Comments For:

- Saves Money and we have procedures in place if an audit is requested
- In my humble opinion and drawing on my experience as the Executive Assistant to the CFO of a large company, I whole heartily agree with the information you described and that contained within the National Council of Non-Profits. Working directly with Ernst & Young, as well as the staff of accountants in our office during the course of my employment, has taught me that the BEST review of financials for discrepancies or indications of fraud is done by those with the MOST INTEREST in the wellbeing of the organization. Therefore, between the Financial Review committee, the ADDC Board and membership, it is in OUR best interest to make sure that all questions are asked and answered. The oversight of finances for this organization has tightened significantly in the past several years and I feel very comfortable that the safeguards in place will both catch non-approved/frivolous spending and provide our members with a transparency to make them comfortable as well.
- Honestly, the fiduciary responsibility of the Board would be best served protecting the assets, including the reduction of expenses that may not serve the duty membership thinks it will, i.e. if membership is under the impression that a financial review by a CPA will eliminate fraud, they would be mistaken. The amendment will allow a majority of the Clubs or the Board to vote for conducting a review. This as needed/desired basis is more feasible than requiring a review every year.
- A financial review conducted by a third-party CPA only examines if the Association is using “generally accepted accounting principles.” A review does not check for mistaken entries, evaluate the appropriateness of spending, or assess for fraudulent manipulations. Those tasks are to be primarily controlled through internal procedures and reviews. The internal procedures we have in place are robust and include strong involvement of the Financial Review Committee throughout the year and they conduct an annual year-end review, provision of monthly financial reports to the Board, and provision of quarterly financial reports to membership. Additionally, expenditures must be accompanied by receipts and require at least two approvals before they are paid.
- The Association only has operational revenue of about \$50k depending on membership, and roughly that same amount for convention revenue, with another roughly \$100k tied up in annuities. We do not receive any funding from federal or political sources and do not have any paid employees, making our accounting fairly simple. If a financial review costs \$3k, is it worth the dues of about 54 members to check if we are keeping to good accounting principles every year?
- A review by an Independent CPA is conducted by performing inquiries of management (Board) and performing analytical procedures and analyzing the results of those procedures. The accountant does not have to obtain an understanding of the internal controls, they do not assess fraud risk, they do not test accounting records, they do not review tax filings. A review is only accompanied by a set of financial statements and there is no report to management and the board about the results of the review. That would only come in an audit or an AUP that is tailored to address the specific areas of concern. ADDC currently has a very robust set of internal controls and internal auditing that occurs by the FRC, committee of members not serving on

the board, that was put in place at the members request that do check for accounting errors, fraudulent transactions, mismanagement of funds. Why would we want to continue to use ADDC money to pay for a service that is not necessary and does not serve the purpose of the association other than to verify that we have internal controls, which we do. An audit, different than a review, can be requested by a member at any time that would give the board authority to spend \$10,000 for a more robust dive into our financials. The membership, FRC and the board are the best auditors of all and know this organization and would catch any fraudulent or mismanagement of funds that could lead to a request for an audit.

- The CPA doesn't perform in-depth "testing" as they do in an audit. They review for material issues and obvious deviations from GAAP, but they won't go in and test unique individual transactions in the same way as in an audit. A review provides some assurance but does not independently validate transactions. GAAP is only a set of standards. Although these principles work to improve the transparency in financial statements, they do not provide a guarantee that a company's financial statements are free from errors or omissions that are intended to mislead investors.

BOARD Comments Against:

- I understand we have a Treasurer and the Finance Review Committee, but these individuals are part of ADDC, thus it does not give us the outside independent review which any organization should have, whether they are For-Profit or Non-Profit.
- The original Bylaws needs to remain the same in that an annual review by an independent CPA, of our financial status needs to be continued each year.
- We, as the Board must continue to be fiscally responsible for the Associations' funds for which we have been charged - to be sure that all of the Associations' finances are in order and accurate. Although we have a Finance Review Committee, who are very capable individuals and who are responsible for the correctness of our Financials, they are not always accountants or CPA's. The Independent review would continue to be a safeguard of any errors that may be mistakenly made in our financials.
- With the amount of funds that we have in ADDC, it is prudent that we continue to undergo an outside review as a safeguard for our Association and in order that we continue to retain our status with the IRS.
- Feels rushed
- Need to research more and get more quotes from CPA's across the whole nation, I believe there is a CPA somewhere that won't charge outrageous fees.
- Still feel an outside party do the review for a safeguard for any IRS issues that could arise.
- This review was meant to be a safeguard against financial data being entered incorrectly, that might cause harm to the association in our financial standing. With an outside review, errors may be caught that our "inside" accounting may not have realized. This is NOT a reflection on anyone, only again a safeguard.
- I believe we have the fiduciary responsibility as board members to require an independent third-party accounting firm to complete a review or audit of the organization's financial records. This would give some assurances to the board and the members that our financial data conforms to GAAP for that period.
- An independent CPA review for a Non-Profit with the amount of financial means that ADDC has, should not cost more than \$1500.00. This is the amount budgeted for the RY2021 taxes.

RULES Comments For:

- I do see the need for this amendment. We need to maintain our internal controls but also be financially responsible in doing so.
- An annual review by an independent CPA only advises if our accounting practices are sound, they do not verify that our financials are accurate, they do not advise if mismanagement of funds is occurring or fraudulent transactions. Only a full blown audit would catch those things. Currently ADDC has very robust accounting practices and processes in place to ensure we are meeting the General Accepted Accounting Practices. In the event a member, club or board member feels an audit is needed it can be requested upon the Association to have one conducted. Spending 3000-6000\$ annually for an independent CPA to advise that our accounting principles are sound is not a wise use of our funds, and also not something this Association can continue to cover at the rate of membership decline.

RULES Comments Against:

- I think we still need an external review. Maybe not every year but maybe every other year, if a thorough internal review is done and a copy of that report is provided to an audit/review professional.