# EXPERTS' CORNER

## Q

**What is the fiduciary role of the audit committee in private clubs?**

## A

It is the audit committee's job to assist the club's board in fulfilling its oversight responsibilities by monitoring the integrity of the club's financial accounting processes and systems of internal controls regarding finance, accounting and the use of assets.

A club's board of directors (the board) generally establishes the audit committee as a standing committee of the board and approves the Audit Committee Charter, which outlines the purposes, powers and duties of the committee.

In recent years, audit committees have become even more important to ensuring clubs have strong financial practices. Increased scrutiny and demands for accountability and transparency have cemented audit committees as a best practice for all clubs.

### Organization and Composition

The audit committee should consist of three or more members—as determined and appointed by the board—none of which should be club officers. Committee members should be free from any relationship that, in the opinion of the board, would interfere with the exercise of their independent judgment as members of the committee. Furthermore, at least one committee member should have "accounting or related financial management expertise," as determined by the board. The board should also designate one member of the committee as its chairperson.

### Purpose

The purpose of the audit committee is to assist the board in fulfilling its oversight responsibility relating to:

- The integrity of the club's financial statements
- The club's financial reporting practices
- The club's system of internal control
- Independent auditor's qualifications
- The independent auditor's independence
- Performance of the independent auditors

### The Independent Audit

Each year, the club should have an independent, external firm of certified public accountants conduct an external audit of its annual financial statements. A large part of the audit committee's duties is to monitor the independence and performance of the club's external auditors, including approving any related audit or non-audit services provided by the club's external auditing firm.

During the auditing process, the club's independent external auditors are required to communicate certain matters about the scope and results of the club's audit that may assist the audit committee in overseeing the financial reporting and disclosure process. There should be an open line of communication between the audit committee and the independent auditors. In addition, the board, management and the independent auditors should have direct and unrestricted access to members of the committee at any time during the year to discuss issues, should the need arise.

### Meetings

The audit committee should meet at least two times each year or more frequently as circumstances warrant. The committee should conduct a pre-audit meeting prior to the commencement of the annual audit and a post-audit meeting after the conclusion of the annual audit. Prior to the conclusion of each meeting, an executive session should be held with the auditors without management present. After the auditors have left, the committee should hold a separate executive session with just management. This provides an opportunity for both the auditors and management to have a private discussion with the audit committee. Though there is generally nothing additional reported during the executive sessions that has not already been said or discussed, conducting these executive sessions is widely considered a "best practice."

The audit committee should maintain a written record of the committee meetings that should be submitted to the board at its next scheduled meeting. In many cases, the chair of the audit committee may also be invited to provide an oral report to the board.

Audit committees are a crucial part of a club's financial management, helping clubs ensure integrity and accountability in their financial and accounting practices and supporting their growth and success.

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**Q** **What are the nonmonetary top trends in GM compensation packages?**

**A** Over the years, there has been a sea change in compensation for private club general managers. During the 70s, 80s and 90s, GM salaries were typically lower, though many may have included a variety of provisions and allowances for everything from clothing, dining and automobiles to private school tuition, housing allowances and simple interest loans—just to name a few. Though some clubs may still offer some of these benefits, in part because of legacy programs and tradition, they are no longer the norm. As the private club business grew in terms of its complexity and its revenues, compensation and the expectations of leadership grew as well. As the industry matured, compensation trends have largely shifted toward performance-based, incentive-driven models.

This evolution was driven in part by the Sarbanes-Oxley Act of 2002, as it expanded and specified the club board's oversight role. The transparency mandated regarding club finances greatly increased scrutiny of executive compensation. Furthermore, many board members have experience in the corporate world, where pay-for-performance is often the compensation standard for upper-level executives.

Even so, there are many flexible and creative ways to structure compensation packages. Compensation packages can be tailored to benefit both the general manager and the club through opportunities to leverage assets or services provided through the club as well as by members.

## Non-Current Compensation

Non-current compensation trends go beyond the traditional 401(k) and simple IRA. There are non-qualified plans that include the 453b, 453f and other sophisticated tools that can be used depending on the circumstances. They allow both parties to construct a comp plan that provide monies in the future that are currently non-taxable to provide the golden handcuffs top clubs with top managers seek.

## Technology

Technology allowances and provisions that were once considered 'benefits,' such as cell phones, iPads and laptops, are now considered fundamental tools necessary for work in today's business world and are a necessary part of the job. Business tools should not be considered part of a compensation package. For most executives, the use of these tools overlap between personal and professional use. Usually the personal use is limited for legal reasons pursuant to data access and control by the employer. This is a tenuous area as evidenced recently by the access of employee e-mails at Harvard University without prior notification.

## Education

Many GMs highly value ongoing education—not only the educational programs offered by NCA or CMAA, but traditional higher education as well. For example, executive MBA programs at local universities or one- or two-week programs offered by top universities such as Cornell, Harvard or Stanford, enable GM's to interact with other top executives from a broad range of industries and functional areas and gain a broader perspective on leadership and management. Many general managers take these opportunities very seriously and use these programs to stay current on industry trends, adapt to technology shifts, and learn best practices to apply to their respective clubs. As a firm, we recommend that clubs support excellent, ongoing, committed education for the modern club manager (and the entire management team) to remain progressive and fresh. Education dollars should not be construed as compensation and are usually budgeted and spent in the year they are budgeted.

## Striking a Balance

In crafting compensation packages, the challenge is to attract the best talent that fits the requirements of the role as well as the unique culture of the club. Yet, just like the industry in which they operate, the best managers are risk adverse. On one hand, strong managers—many of whom will still be employed during their job search—will try to structure the best deal at the outset of their relationship with the club. On the other hand, club boards will attempt to be fiscally prudent and responsible in terms of executive compensation. To attract and retain the best talent, clubs must balance standard salary with incentive-based compensation and additional perks, all while ensuring that the board effectively and responsibly uses club funds. ■

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