

## INSPECTION REPORT

In April 2017, the South Florida Region requested an inspection of certain Narcotics Anonymous World Service records per the *Fellowship Intellectual Property Trust (FIPT)*. The inspection of the records and activities of the Trust was held at the Narcotics Anonymous World Service Office in Chatsworth, California and was scheduled from Monday May 21 to Friday, May 25, 2018. The actual inspection concluded on Wednesday, May 23.

The inspection team consisted of three members: a representative selected by the South Florida Region and two World Board members who could also have been selected by the South Florida Region in accordance with the Operational Rules of the *FIPT*. The representative selected by the South Florida Region was Jeffrey Paul. The South Florida Region selected World Board member Jack Hovenier and requested the World Board to select the other member. The World Board selected World Board member Mark Hersh.

In April 2018, the South Florida Region and NA World Services agreed on a process and scope for the inspection. The letter of agreement is attached as an addendum. Per the agreement and prior to the inspection, the South Florida Region provided a list of documents they wished to inspect for the period of fiscal year 2016 (the 2016 fiscal year is July 1, 2015 through June 30, 2016). This was the period used for all records except for those related to the World Convention held in Brazil. The list of documents requested in advance was not intended to be comprehensive, but the South Florida Region furnished it in advance in a good faith effort to make the best use of everyone's time.

To address the concern that literature margins, developmental literature, developmental subsidies, and allowances are being overstated by recording the developmental items and allowances at values greater than cost, the inspection team reviewed a random sample of records selected by the South Florida representative. The review confirmed that donated literature is recorded at amounts higher than cost. In all records examined, donated literature was recorded at retail value. NA World Service auditors confirmed it is an acceptable practice for a non-profit to record donated literature as an in-kind contribution at retail value. A letter from the auditors confirming this was provided to the inspection team and is included as an addendum to this report. Based on that letter, the inspection team agreed that donated literature is not being overstated.

To address the concern that all World Board expenses are not being reported accurately and completely, a general ledger detail report of all World Board expenses for the inspection period was provided to the inspection team. The total reconciled to the amounts reported in the *NA World Services Annual Report*. A random sample of non-travel expenses were selected by the South Florida representative and the supporting documents were inspected. The South Florida representative chose to select non-travel expenses as World Board travel expenses are the bulk of World Board expenses. The inspection team reviewed World Board travel expenses separately. After an examination of the records, the inspection team agreed that no further sampling was necessary and that all World Board expenses are being reported accurately.

To address the concern that not all commercial interests in literature distribution centers outside of the United States have been disclosed or reported to the Fellowship, the inspection team researched the background of the situation. Based on local realities in Russia, a system was put into place in Russia that relied on the efforts of local members to sustain a regular supply of literature. The inspection team concluded that the South Florida Region had some valid concerns and NA World Services could have communicated this topic in a way that led to less confusion.

To address the concern that customer discounts are not being applied equally to Fellowship and non-Fellowship sales, two Fellowship and two non-Fellowship customer sample sets were selected at random by the South Florida representative. A list of all transactions and discounts for the customers in the sample set during the inspection period was provided and examined for consistency. The records examined showed that discounts were consistently applied for Fellowship and non-Fellowship customers. The inspection team agreed that no further sampling was necessary and that customer discounts are being applied equally to Fellowship and non-Fellowship sales.

To address the concern that all travel expenses are not being reported correctly to the Fellowship, a general ledger detail report of all travel for the inspection period was provided to the inspection team. A random sample of travel expenses was selected by the South Florida representative, and the supporting documents were inspected. After examining the records, it was discovered that one travel reimbursement for funds advanced and not used, in the amount of \$200 was repaid a year after the travel took place. The inspection team reviewed all other advance payments to that traveler, and all other reimbursements were done in a timely manner. The inspection team agreed that no further sampling was necessary and that travel expenses are being recorded accurately.

The inspection team assessed the concern that Trust-financed travel is not being reimbursed according to the guidelines outlined in *A Guide to World Services in NA* (GWSNA). Part of those guidelines state, "Reimbursement for lodging is typically for double occupancy. Single accommodations may be arranged to accommodate individual needs or concerns, if presented and approved by the EC." The inspection team recognized that the World Board had reported to the 2014 World Service Conference (WSC) that it had exempted Board Members from double occupancy rooming and that there were motions made at the 2014 and 2016 WSC's regarding the occupancy issue. By prior agreement between the South Florida Region and NA World Services, a World Board member on the inspection team reviewed the Executive Committee notes and did not find any written record that the Executive Committee approved single occupancy rooming during the inspection period.

To address the concern that the Trustee is not performing its duties noted in the *Fellowship Intellectual Property Trust* as it relates to the designation and separation of Trust and non-Trust property, the inspection team referred back to the August 29, 2017 World Board response to the South Florida Region inspection request. The World Board said, "Other than the financial report designations that distinguish between 'Recovery Literature' and 'Other Income' and a summary adopted each cycle as part of the corporate resolutions, there are no lists, designations, and

separations...[t]he one page [summary] adopted each year could be provided." That summary was provided to the inspection team and is included as an addendum to this report. The inspection team agrees that this explanation and list satisfy the concern.

Agreement was reached prior to the inspection relating to the concern about the distribution/issuance of credit card not meeting the guidelines in the *Guide to World Services in NA*. NA World Services acknowledged that the concern was valid based on the fact that these guidelines are outdated and have not been followed for a long time. The guidelines were created in 1993 and included in the *Temporary Working Guide to our Service Structure* (the policy guidelines at that time); they became outdated as soon as World Services was restructured and a unified budget was put in place in 1998. In the 2014 *Conference Approval Track (CAT)*, the World Board reported to the Conference Participants on the subject of "Proposed Revisions to the Guide to World Service in NA (GWSNA)." The communication lists several outdated policies (including WSC taping and Newsflash) and then states "This should not be considered a complete list of outdated policies. There are many other items in GWSNA that are outdated." While this communication didn't specifically list the distribution/issuance of credit card policies, it did note that the GWSNA was in need of revision. The inspection team understands how the South Florida Region or others could question why this policy wasn't being followed as they weren't aware that this was considered an outdated policy. As part of this inspection report the inspection team recommends that the guidelines related to distribution/issuance of credit cards be updated to reflect current practices.

To address the concern regarding the NA World Services bank account in Brazil, the inspection team reviewed the bank account records and researched the background of the situation. NA World Services, in cooperation with the Brazilian Service Office of Narcotics Anonymous [Associação para Comitês de Serviços (ACS)] agreed that the ACS office would assist NA World Services in transacting the business necessary to hold the World Convention in Brazil. A bank account for the benefit of NA World Services was opened by the ACS office, and the account was used for some of the income and expenses of the World Convention in Brazil. Following the World Convention in Brazil approximately \$120,000 was left in the ACS account until it could be returned to the US. It is an unusual, and an undesirable circumstance for NA World Service funds to be in the name of another entity, in this case the ACS. The inspection team agrees that this issue should be considered during site selection for future World Conventions and that this bank account should have been disclosed to the Fellowship.

To address the concern that all World Service Conference expenses are not being reported accurately and completely, a general ledger detail report of all World Service Conference expenses for the inspection period was provided to the inspection team. The total reconciled to the total reported in the NA World Services Annual Report. A random sample of expenses was selected by the South Florida representative and the supporting documents were inspected. After an examination of the records, the inspection team agreed that no further sampling was necessary and that all World Service Conference expenses are being reported accurately.

To address the concern that there is an appearance that NA World Services is targeting NA service bodies over non-NA entities in the enforcement of the *FIPT* as it relates to the online

posting of our copyrighted literature, the inspection team examined all DMCA (Digital Millennium Copyright Act) notices issued by NA World Services during the 12-month inspection period. There was no distinguishable pattern of targeting NA service bodies over non-NA entities in the enforcement of the *FIPT*. All related records were examined and showed that it is the practice of NA World Services to send an informal "friendly" letter, not a DMCA "takedown" notice, to known Fellowship websites; this approach resulted in agreeable resolution for most of the records examined. The inspection team agreed that NA World Services is not targeting NA service bodies over non-NA entities in the enforcement of the *FIPT* as it relates to the online posting of our copyrighted literature.

### Summary


The inspection team reached unanimous consent on all the conclusions and recommendations contained in this report and agrees that this inspection request is complete. The inspection team makes the following recommendations to NA World Services:

The inspection team recommends that the policies in *A Guide to World Services for NA* for the distribution/issuance of credit cards, travel and all other outdated guidelines be updated to reflect current practices.

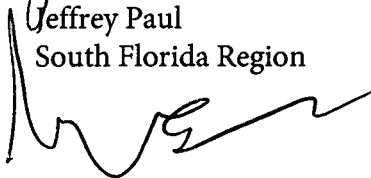
The inspection team recommends that the issue of site selection for World Conventions include greater consideration of local banking, business and finance regulations.

The inspection team recommends more timely communication from NA World Services regarding local Fellowship literature distribution that is done in partnership with NA World Services.

In service,



Jeffrey Paul  
South Florida Region



Mark Hersh  
World Board



Jack Hovenier,  
World Board

### ADDENDA

Auditor Letter  
*FIPT* Property Designation List  
South Florida Request  
Agreement to Inspect

May 17, 2018

Ms. Debbie Hall-Carnahan  
N A World Services, Inc.  
**VIA EMAIL**

Dear Debbie:

I am writing to provide information supporting the appropriate treatment of free literature for financial reporting purposes.

As a public charity, Narcotics Anonymous World Services, Inc. (NAWS) is subject to the nonprofit reporting rules of U.S. generally accepted accounting principles (GAAP), set forth in the Financial Accounting Standards Board's Accounting Standards Codification (ASC). It is not uncommon for a nonprofit organization to contribute goods and services to the community it serves, consistent with its mission. In nonprofit literature, the term *gifts in kind* is used broadly to refer to all noncash gifts. When a donor contributes gifts in kind directly to a nonprofit organization that sells them as inventory or consumes them as the end user, such gifts comprise contributions.

In accordance with ASC 958-605-30-11, gifts in kind that can be used or sold should be measured at fair value. ASC 820 defines fair value and establishes a framework for measuring fair value. As explained in ASC 958-605-25-5, contributed tangible property worth accepting generally possesses the common characteristic of all assets—future economic benefit or service potential. The future economic benefit or service potential of a tangible item usually can be obtained by exchanging it for cash. The highest level of the fair value hierarchy is a quoted price in an active market for an identical asset. Accordingly, the sale price of any given item is the best measure of its fair value, and the appropriate basis for recording contributions by both donor and recipient. By using retail prices to establish the value of free literature for financial reporting purposes, NAWS properly records these transactions in accordance with GAAP.

Please do call or email if you have questions about the information provided above or would like to discuss it further.

Sincerely yours,



Jenny Bolsky, CPA  
MILLER KAPLAN ARASE

cc) RESOLVED FURTHER, that the following list of NAWS Inc. Literature reflect the FIPT designations as of July 2017

Item	Fellowship Approved Recovery material	Non-adaptable Service material	Adaptable Service material
Basic Text	X		
Just For Today	X		
It Works, How and Why	X		
Introductory Guide to NA	X		
White Booklet	X		
The Group Booklet		X CA	
12 Concepts for NA Service		X CA	
Behind the Walls	X		
In Times of Illness	X		
Working Step Four in NA	X		
The Narcotics Anonymous Step Working Guides	X		
Sponsorship	X		
Living Clean	X		
Guiding Principles	X		
IP #1 Who, What, How, and Why	X		
IP #2 The Group (IP)	X		
IP #5 Another Look	X		
IP #6 Recovery & Relapse	X		
IP #7 Am I an Addict?	X		
IP #8 Just For Today (IP)	X		
IP #9 Living the Program	X		
IP #11 Sponsorship	X		
IP #12 Triangle of Self-Obsession	X		
IP #13 By Young Addicts for Young Addicts	X		
IP #14 One Addict's Experience...	X		
IP #15 PI and the NA Member	X		
IP #16 For the Newcomer	X		
IP #17 For those in Treatment	X		
IP #19 Self Acceptance	X		
IP #20 H&I and the NA member	X		
IP #21 The Loner	X		
IP #22 Welcome to NA	X		
IP #23 Staying Clean on the Outside	X		
IP# 24 Money Matters: Self Support in NA	X		
IP #26 - Accessibility for Those with Additional Needs	X		X FA
IP #27 For Parents or Guardians of Young People in NA	X		X FA
IP# 28 Funding NA Services		** CA	
IP#29 An Introduction to NA Meetings	X**		
NA: A Resource in Your Community		** CA	
Hospitals & Institutions Handbook			X CA
Guide to World Services in NA		X CA	
A Guide to Local Services in NA		X CA	
Public Relations Handbook			X CA
Literature Committee Handbook			X CA
Handbook for NA Newsletters			X CA
A Guide to Phoneline Service			X CA
Treasurer's Handbook			X CA
Outreach Resource Information			X CA
Institutional Group Guide			X CA
Additional Needs Resource Information			X CA

\*\* - Statistics and local information for these items can be amended with notification to the WSO. The 'fellowship approved' seal identifies recovery literature and the 'conference approved' seal identifies service material

RESOLVED FURTHER, that the following list of NAWS Inc. Literature reflect the FIPT designations as of July 2016

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Basic Text	X		
Just For Today	X		
It Works, How and Why	X		
Introductory Guide to NA	X		
White Booklet	X		
The Group Booklet		X CA	
12 Concepts for NA Service		X FA	
Behind the Walls	X		
In Times of Illness	X		
Working Step Four in NA	X		
The Narcotics Anonymous Step Working Guides	X		
Sponsorship	X		
Living Clean	X		
Guiding Principles	X		
IP #1 Who, What, How, and Why	X		
IP #2 The Group (IP)	X		
IP #5 Another Look	X		
IP #6 Recovery & Relapse	X		
IP #7 Am I an Addict?	X		
IP #8 Just For Today (IP)	X		
IP #9 Living the Program	X		
IP #11 Sponsorship	X		
IP #12 Triangle of Self-Obsession	X		
IP #13 By Young Addicts for Young Addicts	X		
IP #14 One Addict's Experience...	X		
IP #15 PI and the NA Member	X		
IP #16 For the Newcomer	X		
IP #17 For those in Treatment	X		
IP #19 Self Acceptance	X		
IP #20 H&I and the NA member	X		
IP #21 The Loner	X		
IP #22 Welcome to NA	X		
IP #23 Staying Clean on the Outside	X		
IP# 24 Money Matters:Self Support in NA	X		
IP #26 - Accessibility for Those with Additional Needs	X		X FA
IP #27 For Parents or Guardians of Young People in NA	X		X FA
IP# 28 Funding NA Services		** CA	
IP#29 An Introduction to NA Meetings	X**		
NA: A Resource in Your Community		** CA	
Hospitals & Institutions Handbook			X CA
Guide to World Services in NA		X CA	
A Guide to Local Services in NA		X CA	
Public Relations Handbook			X CA
Literature Committee Handbook			X CA

Handbook for NA Newsletters			X CA
A Guide to Phonenumber Service			X CA
Treasurer's Handbook			X CA
Outreach Resource Information			X CA
Institutional Group Guide			X CA
Additional Needs Resource Information			X CA

\*\* - Statistics and local information for these items can be amended with notification to the WSO. The 'fellowship approved' seal identifies recovery literature and the 'conference approved' seal identifies service material



**SOUTH FLORIDA REGION OF NARCOTICS ANONYMOUS**  
**PO BOX 5842**  
**LIGHTHOUSE POINT, FL 33074**

April 17, 2017

Narcotics Anonymous World Services, Inc.  
19737 Nordhoff Place  
Chatsworth, CA 91311

Dear World Board,

As per the Fellowship Intellectual Property Trust (updated May 2012) pages 16-17, in accordance with Article V: Rights and Responsibilities of the Beneficiary, and by motion made and approved by the South Florida Region at our December 16, 2016 RSC meeting, we herewith request an inspection of the records and operations of the Trust as well as Trustee activities. The following is a list of our concerns and particular areas of Trust operations we wish to inspect (unless otherwise noted, the period of the records requested are the fiscal years ending June 30, 2015 and June 30, 2016):

Concern: That literature margins, developmental literature, developmental subsidies, and allowances are being overstated by recording the developmental items and allowances at values greater than cost. We wish to inspect all financial records, documents, and general ledger postings to developmental literature, subsidies, and allowances accounts. We also wish to inspect all records/calculations relating to the cost of literature.

Concern: That all World Board expenses are not being reported accurately and completely. We wish to inspect all financial records for the World Board posted to World Board or other general ledger accounts, and any reconciliations to World Board expenses in the financial statements included in annual reports.

Concern: That all commercial interests in literature distribution centers outside of the United States have not been disclosed or reported to the fellowship. We wish to review all documents, minutes (internal WB and EC) and financial records relating to ownership or interests in distribution centers around the world.

Concern: Customer discounts are not being applied equally to fellowship and non-fellowship sales. We wish to inspect a list of the twenty largest (in terms of annual sales) fellowship and non-fellowship customers as well as invoices to those customers.

Concern: That all travel expenses are not being reported correctly to the fellowship, and Trust financed travel is not being reimbursed according to the guidelines outlined in the Guide to World Services (GWSNA). We wish to examine all travel-related financial documents (general ledger details, expense reports, reimbursement request forms, travel receipts, etc.) as well as all Executive Committee minutes where decisions were made to exempt room-sharing.

Concern: That the Trustee is not performing its duties noted in the Fellowship Intellectual Property Trust as it relates to the designation and separation of Trust and non-Trust property. We wish to inspect all lists, designations and separations of Trust and non-Trust properties.

Concern: Credit card guidelines as outlined on pages 34-35 of the 2016 GWSNA are not being followed. Records requested include all EC minutes approving the issuance of credit cards for WSC responsibilities; All signed condition of use forms; Invoices or other accompanying documentation for temporarily issued credit cards, credit card receipts, expense statement(s), and accompanying invoice(s) resulting in card use; and all EC reports resulting from their quarterly audits and/or reviews of WSC credit card activity.

Concern: That World Convention (WCNA) costs are not being reported accurately and completely due to the combining of non-WCNA expenses into them. We wish to review all financial records and backup receipts for all expenses reported for the world convention in Brazil.

Concern: That all commercial interests in literature distribution centers outside of the United States have not been disclosed or reported to the fellowship. We wish to review all documents, minutes (internal WB and EC) and financial records relating to ownership or interests in distribution centers around the world.

Concern: That all World Service Conference expenses are not being reported accurately and completely. We wish to inspect all financial records for World Service Conference expenses posted to World Service Conference or other general ledger accounts, and any reconciliations to World Board expenses in the financial statements included in annual reports.

Concern: There is an appearance that NAWS is targeting NA service bodies over non-NA entities in the enforcement of the FIPT as it relates to the online posting of our copyrighted literature. We wish to inspect all Digital Millennium Copyright Act (DMCA) takedown notices sent by NAWS over the course of the inspection period.

The South Florida Region designates its Regional Delegate, Jeffrey Paul to be included on the inspection team, and selects Jack Hovenier as one of the two World Board members on the inspection team. The South Florida Region authorizes and allows the World Board to select the second World Board member on the inspection team.

We estimate the inspection could take a week to perform and would like to schedule it for some time in either July or August of 2017.

Sincerely,

Jeffrey Paul  
Regional Delegate  
South Florida Region

## Results of a Meeting with the South Florida Region

3 May 2018

At 6:00 pm, May 2, 2018, representatives from NA World Services, Arne H and Anthony E, met with representatives from the South Florida Region, Jeff P, Regional Delegate; Kevin D, Alternate Delegate; and Mat S., Regional Chair, met to discuss the request for inspection of the *FIPT* records. The purpose of the meeting was to see if it was possible to reach a compromise, so that the region could receive the information they desire in a manner that NA World Services could accommodate.

Following are the points discussed with South Florida related to the ten concerns that were addressed in NA World Services letter dated March 16, 2018 to the South Florida delegate. This inspection will focus on fiscal year 2016, except where otherwise noted below.

- a) Both parties agree that the inspection shall be five working days beginning May 21, 2018 at 9:00 am at the World Service Office main headquarters at 19737 Nordhoff Place, Chatsworth, California 91311. If it is determined by the requestor that NAWS is purposely attempting to delay the completion of the inspection, then South Florida will be allowed to negotiate the possibility of additional time with the assigned Board members.
- b) South Florida is willing to focus on financial records for expenses reported for the world convention in Brazil, in whichever fiscal year they are posted. This includes records for the account opened for NAWS by the ACS in Brazil.
- c) South Florida agrees to remove the records from Iran, Canada, India, and Belgium from the inspection request.
- d) South Florida maintains its concern #1 regarding donated literature being reflected as a decrease of retail value as opposed to replacement cost.
- e) South Florida maintains both of its concerns that World Board general expenses as well as World Board travel are not being reported accurately.
- f) South Florida agrees to allow the assigned Board members to conduct the review of internal World Board minutes and Executive Committee notes for the period of inspection, to determine that no such undisclosed locations exist as it relates to Concern #3. The assigned Board members can also conduct a review of World Board minutes and Executive notes to identifying any discussion regarding the exempting of double occupancy that exists in those records.
- g) South Florida maintains its concern #4 regarding the equal application of literature discounts.
- h) Both parties agree that NA World Services will provide the designations of *FIPT* properties as it relates to concern #6.

As it relates to concern #10, South Florida desires to see any communications to any internet service providers connected to the Digital Millennium Copyright Act, issued during the inspection period

- i) Both South Florida and NAWS acknowledge that NA World Services has, on multiple occasions, reported to the WSC that the Credit Card guidelines, along with several other policies, located in *A Guide to World Services in NA* are no longer utilized. This will be acknowledged in the final inspection report.
- j) South Florida requests that the World Board conduct a future examination of the communication processes between a requestor for inspection and NA World Services to see if there is a way to improve for the future, led by a new board member who was not seated during the current process.

Signed:

Jeff Paul  
South Florida

Arne H-G  
World Board