

## **Audit Committee Bylaws Article X Section 1 Committee Charter**

### *Article X*

#### **Committees** *Section 1. Audit Committee*

A. There shall be an audit committee consisting of five members, elected by the board of directors from its membership. The term of office shall be for three years, with at least one member being elected each year. A member may not serve for more than two consecutive full or partial terms, and may not serve for more than six years in any nine-year period. The board of directors shall fill a vacant position of an audit committee member whose term has expired through an election at the first meeting of each new board of directors. In the event of a vacancy occurring during the year, the board of directors shall, at its first meeting following the vacancy, elect a person to serve the unexpired term. No present or former officer of the association shall be eligible to serve. Members of the audit committee shall annually elect a chair from among its members at its first meeting following the annual conference. The chair may not serve for more than two consecutive one-year terms, and may only serve as chair for a maximum of two years in any six-year period.

B. The purpose of the audit committee is to assist the board of directors in association oversight of (1) the integrity of the financial statements through quarterly and annual reviews; (2) compliance with legal and regulatory requirements; (3) the independent auditor's qualifications, independence, and performance; and (4) the internal auditor's qualifications and performance.

C. The audit committee shall develop a charter of operations that details the scope of work and responsibility of the committee. The charter of operations for the audit committee shall be presented to the board of directors for its review and approval. Amendments to the audit committee charter of operations may be proposed from time to time, either by the audit committee itself or by a member of the board of directors. Amendments to the charter of operations require approval by the board of directors.

D. The audit committee shall direct an annual independent audit of the association's finances with an auditor selected by and reporting to the committee. The audit firm shall prepare a letter of recommendation, including any comments on deficiencies observed in internal controls and recommendations to improve the efficiency of operations.

E. The audit committee shall also perform such other duties as are assigned in these bylaws or as may be assigned by the board of directors.

## **Audit Committee Bylaws Article X Section 1 Committee Charter**

F. The audit committee shall report to the board of directors at least once during each calendar year.

G. The audit committee may hire staff assistance necessary to accomplish these objectives as approved by the board of directors.

Bylaws as adopted by the membership at the 2010 Annual Conference in Washoe County, NV

### **Charter of Operations**

1. The Committee shall meet prior to any regular meeting of the Board of Directors.
2. Meet with the independent and internal auditors, company management, and other personnel as it deems appropriate and discuss such matters as it considers appropriate, including the matters referred to below. The committee must meet separately with the independent auditors, internal auditors, and CFO periodically but at least once per year.
3. Decide on appointment, compensation, retention, termination and oversight of the company's independent and internal auditors. Conduct a RFP and bid process for the independent and internal auditors at least every five years; rehire of the independent or internal auditor is permitted.
4. Monitor and evaluate the auditors' qualifications, performance and independence on an ongoing basis.
  - a. Conduct an annual review of work conducted by and payments made to the independent and internal auditors; review fee arrangements.
    - Review a report of the auditors internal quality-control review and/or peer review.
    - Review the activities, organizational structure, and qualifications of the independent auditor function and personnel associated with the audit.
    - Take into account the opinions of management and the internal auditor.
  - b. Ensure rotation of the lead audit partner for the independent audit every five years and ensure that the audit is subject to a second or concurring partner to enhance the independence, quality control, and value-added aspects of the audit.
  - c. Review any conflict of interest (employee or client) with the independent auditors.

## **Audit Committee Bylaws Article X Section 1 Committee Charter**

- d. Insure independent auditors have not been engaged in any of the following prohibited activities:
  - Bookkeeping or other services related to the accounting records or financial statements
  - Financial information systems design and implementation
  - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
  - Actuarial services
  - Internal audit outsourcing activities
  - Management functions or human resources
  - Broker or dealer, investment advisor, or investment banking services
  - Legal services and expert services related to the audit
  - Any other service that the Government Accountability Office (GAO) determines, by regulation, to be impermissible.
5. Meet with independent auditors, CFO, and controller at least once per year after the completion of the annual independent audit and report results to the Board.
  - a. Review the scope, risk assessment, and approach taken during the independent audit and matters related to the conduct of the audit under GAAP.
  - b. Conduct a review of the end of the year financial statements and audit findings, including any significant suggestions for improvements provided to management and management's reply ("the management comments letter"), including total impact of audit adjustments made and/or passed and reportable conditions.
  - c. Discuss the auditor's recommendations regarding internal controls. With the internal auditor, review management's assessment of the association's internal controls with regard to the effectiveness of accounting procedures and financial reporting systems.
  - d. Ensure that management has given written assurance and certification of the accuracy of financial statements ("the management representation letter"). Ensures that accounting has given good data to the auditors (general ledgers and schedules).
  - e. Conduct a review of current tax issues and future tax considerations; discuss issues and completion of IRS form 990; insure committee notification of completion of tax returns.

## **Audit Committee Bylaws Article X Section 1 Committee Charter**

- f. Review any legal matters that could have a significant effect on the organization's financial statements.
  - g. Consider notice requirements: a list of issues the Committee would like auditors to report on a regular basis.
  - h. After completion of the review of the annual independent audit, the committee and auditors must meet to determine any significant disagreement between management and the auditors and to review the performance of the CFO and controller with regard to their management of the financial statements and internal controls.
6. Meet with internal auditor as appropriate to review progress, and after the completion of the annual internal audit.
- a. Determine the scope of the annual internal audit(s). Conduct an internal audit of any program, function, processes, or responsibility, to insure (or maintain) compliance with internal policies, the IRS, or other external agencies, or to review their efficiency or effectiveness.
  - b. Review Executive committee and managing directors expense reports to determine compliance with internal and IRS policies and determine whether any individual has engaged in an excess benefit transaction. (An excess benefit transaction is generally any payments for personal expenses that are not reported as compensation.) (This review required by Board action in March 2004).
7. Ensure that clear and effective policies and procedures are established in the following areas:
- a. conflict of interest
  - b. fraud
  - c. document retention
  - d. executive and staff expense reporting
  - e. purchasing
  - f. accounting
8. Report regularly to the Board:
- a. On any issues that arises regarding the quality or integrity of the financial statements or compliance with legal or regulatory requirements.
  - b. Following all meetings of the Committee.

## **Audit Committee Bylaws Article X Section 1 Committee Charter**

- c. With respect to other matters relevant to the Committee's discharge of its responsibilities.
  - d. With the findings of the annual independent audit and the annual internal audits.
9. Provide an annual performance evaluation to the Board. This evaluation shall compare the performance of the Committee with the requirements of this charter. The performance evaluation shall also include a review of the adequacy of this charter and shall recommend to the Board any revisions that Committee deems necessary or desirable, although the Board shall have the sole authority to amend this charter.
  - a. Review this charter at least every two years and solicit suggestions for change from company management and the independent and internal auditors.
  - b. The performance evaluation shall be conducted in such a manner as the Committee deems appropriate.
10. The Committee shall have the power to conduct or authorize investigations into any matters within the scope of its responsibilities. The committee shall retain independent counsel, accountants, or others to assist it in the conduct of any investigation at the approval of the Board.
11. Other responsibilities:
  - a. Insures association has appropriate fraud and D&O insurance.
  - b. Reviews the findings of any examinations by regulatory agencies.
  - c. Performs other oversight functions as requested by the Board.
  - d. Annual review of Form 990
  - e. Quarterly review of corporate American Express Membership Rewards Statement
12. Insure that at least one member of the Audit Committee has an accounting background or related financial management expertise. This may include an understanding of GAAP and financial statements, experience in the preparation or auditing of financial statements, experience with internal accounting controls, and an understanding of audit committee functions. Prior to each election, the Committee should notify the Board as to the necessity for such a member.

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While the Audit Committee has the authority, duties and responsibilities set forth in the Bylaws and this Charter, the Committee's function is one of oversight. The association's management is responsible for preparing financial statements and for developing and maintaining accounting standards and financial controls, while the internal and independent auditors will assist the Audit Committee in fulfilling their responsibilities of monitoring and reporting to the Board. The Audit Committee expects the internal and independent auditors to call to their attention any accounting and financial reporting process, internal control, regulatory or other related matter that they believe warrant consideration by this committee. The Committee recognizes that the auditors have considerably more knowledge and information about the financial management and internal controls of the association than do the Audit Committee members and that they rely on the auditors to assist them in their oversight responsibilities.