



Revised: Board of Directors – 8/5-6/00

Revised: Board of Directors – 7/28/01

Revised: Board of Directors – 11/4/06

Revised: Board of Directors – 8/1/09

AUDIT COMMITTEE PROCEDURES POLICY

The work of the American Academy of Dermatology and the American Academy of Dermatology Association (AAD/A) Audit Committee represents the final activity associated with the AAD/A's annual financial plans. It is the function of the Committee to meet at least once each year and:

1. Conduct, on behalf of the Board of Directors, an in-depth review of the AAD/A's financial documents of the most recently ended fiscal year. These documents include those prepared by the AAD/A's independent auditors and staff.
2. Conduct an in-depth audit of particular segments of the AAD/A's budget. The selection of these areas of review is at the discretion of the Committee. However, each major expense area of the budget shall be reviewed at least every three years, in two different ways:
 - a) Investigate any variances (either over or under expense) that are greater than 20% and having a dollar value greater than \$10,000 (ten thousand dollars).
 - b) Review the applicable units/projects of the selected functions from a cost/benefit analysis perspective in order to evaluate resource allocation. The assessment should consider the member benefit derived or pertinence to a strategic objective versus the resources committed. The reviewer may identify programs for the entire committee to assess and, if warranted, make recommendation to the Priorities Committee.
 - c) Perform a detailed variance analysis of any/all individual unit/project(s) that have in aggregate \$1,000,000 in either budgeted revenues or expenses.
3. Assure the Board of Directors and the membership that the funds of the AAD/A are being prudently managed, and that expenditures were consistent with the purposes and levels intended at the time that the financial plan (budget) for the fiscal year was prepared and approved by the Board.
4. Conduct an in-depth financial review of all special member assessment programs that may have been active during the fiscal year under consideration.

5. Review the status of the Industrial Revenue Bond (IRB) through an analysis of principal and interest payments during the year, the outstanding debt obligation at year end, audit report classification, status of collateral, review of the principal covenants (of the Commitment Letter) the AAD/A must maintain to enable the credit arrangement to continue and an assessment of current financial conditions of the AAD/A and the markets to determine if early retirement of the debt should occur.

To carry out these functions, the Committee will:

1. Review in detail with the AAD/A's independent auditors the audited financial statements. Meet independent of staff with auditors.
2. Review the auditing firm's management control recommendations and staffs' responses to same.
3. Review the following reports and documents as they relate to the fiscal year being considered:
 - a. Priorities Committee summation report.
 - b. The AAD/A's long-range plan that was in effect for that year.
 - c. Reports and analyses from staff.
 - d. Reports and analyses from council chairmen whose budgets are undergoing in-depth review.
4. Through its role of governance, guidance and oversight, the Committee will participate in management's efforts to provide for effective and efficient systems of internal controls. The Committee will evaluate AAD/A's system of internal controls via review of external auditor's reports on these areas and review management's responses to and actions on recommendations in these reports. Through discussion with management, the Committee will obtain an awareness of key risks to effective financial reporting.
5. Report the Committee's findings and recommendations regarding the AAD/A's financial management to the Board of Directors.
6. Prepare a summary of the Committee's findings and recommendations covering the financial status and management of the AAD/A for publication in *Dermatology World* as a report to the membership.

Committee meetings shall be held at least once a year following the completion of the annual audit of the AAD/A's financial records.