

**NATIONAL RIFLE ASSOCIATION OF AMERICA
REPORT OF THE AUDIT COMMITTEE**

Arlington, Virginia

September 8 - 9, 2018

TO: NRA BOARD OF DIRECTORS

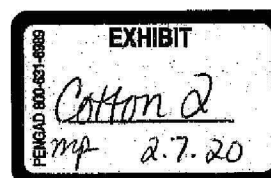
The Audit Committee met at NRA Headquarters, Fairfax, Virginia, July 30, 2018. Committee members present were: Charles L. Cotton, Chairman, David G. Coy, Vice Chairman, Curtis Jenkins, Herbert A. Lanford, Jr. and Carolyn Meadows. Others in attendance were: John Frazer, NRA Secretary; Wilson H. Phillips Jr., NRA Treasurer, Joshua Powell, Executive Director of General Operations; Craig Spray, Chief Financial Officer; Rick Tedrick, Committee Secretary and NRA Managing Director of Finance; Emily Cummins, Managing Director of Tax and Risk Management; Sonya Rowling, Director of Accounting Operations and Financial Reporting; Michael Erstling, Director of Budget and Financial Analysis; and Lisa Supernaugh, Managing Director of Executive Operations. Other Board members were also in attendance. Steve Hart, outside counsel, and William A. Brewer III, Partner and Sarah Rogers, Partner, from Brewer Attorneys and Counselors were also in attendance.

The Committee discussed many areas of interest and while not rising to the level of Board action, the following items were addressed:

1. The minutes from the March 7, 2018 meeting were approved.
2. Emily Cummins provided an update on the NRA's risk management framework and reviewed the NRA's 990/990T and retirement plan audits.
3. Al Weber reviewed the auditor/audit committee relationship, the overview of the audit process to include the planning and fieldwork processes, and required communications including independence, internal controls, materiality and audit timing.
4. The Committee met in executive session with counsel and staff, and independently.

The Audit Committee met at The Westin Arlington Gateway, Arlington, Virginia, September 6, 2018. Committee members present were: Charles L. Cotton, Chairman, David G. Coy, Vice Chairman, Curtis Jenkins, Herbert A. Lanford, Jr. Committee member Carolyn Meadows attended by telephone. John Frazer, NRA Secretary and General Counsel, served as committee secretary. Others in attendance were: NRA Directors Scott Bach, Pete Brownell, and Todd Rathner; Wilson H. Phillips Jr., NRA Treasurer, Joshua Powell, Executive Director of General Operations; Craig Spray, Chief Financial Officer; Emily Cummins, Managing Director of Tax and Risk Management; Christy Majors, NRA Foundation Director of Finance; Sonya Rowling, Director of Accounting Operations and Financial Reporting; Michael Erstling, Director of Budget and Financial Analysis; and Lisa Supernaugh, Managing Director of Executive Operations. Steve Hart, outside counsel from J. Steven Hart, PLLC, and Sarah Rogers, Partner,

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and Travis Carter, Managing Director, Public Affairs from Brewer Attorneys and Counselors were also in attendance. Al Weber, Engagement Partner; Steve Marconi, Audit Manager; and Zack Fortsch, Partner, from RSM US LLP were also in attendance.

The committee heard presentations from the RSM US LLP audit team regarding the scope and methodology of the upcoming audit. Updates on revisions to the draft 2017 Form 990 were presented by Emily Cummins, Managing Director of Tax and Risk Management, and Zack Fortsch from RSM.

The committee went into executive session at 12:40 p.m., and rose from executive session at 2:33, having adopted the following resolutions:

I. Oliver North

WHEREAS, on or about May 15, 2018, Lieutenant Colonel Oliver North entered into a contract with Ackerman McQueen, Inc. ("AMC") (the "AMC Contract") which remains in force at this time, and in which Lieutenant Colonel North has a substantial financial interest; and

WHEREAS, because Lieutenant Colonel North has at all relevant times been a director and officer of the NRA, the Audit Committee undertook to analyze whether the AMC Contract gave rise to an improper conflict of interest; and

WHEREAS, factors considered by the Committee in its analysis included (i) Lieutenant Colonel North's unique leadership qualities, proven fundraising record, and experience in the field of television reporting and production, and (ii) in light of the foregoing, the absence of alternative candidates for Lieutenant Colonel North's role; and

WHEREAS, the Audit Committee has therefore determined that it is fair, reasonable, and in the best interest of the NRA to approve and ratify Lieutenant Colonel North's continued participation in the AMC Contract during his service on the NRA Board and as an NRA officer; now, therefore, be it

RESOLVED that Lieutenant Colonel North's continued participation in the AMC Contract during his service on the NRA Board and as an NRA officer is hereby approved and ratified, subject to the following provisos:

1. That Lieutenant Colonel North shall abstain from participating in any deliberations or votes regarding Ackerman McQueen; and
2. That any material change in the terms of the AMC Contract, or duties under the AMC Contract, be disclosed to the Committee and approved prior to execution.

II. Marion Hammer

WHEREAS, due to her unique experience and celebrated accomplishments over decades of service as a lobbyist for Second Amendment rights in Florida, the NRA has for several years engaged one of its directors, Marion Hammer, as a consultant; and

WHEREAS, the NRA and the Audit Committee have determined that no other available individual possesses comparable knowledge and competencies in Ms. Hammer's field; and

WHEREAS, the NRA has determined that an increase in Ms. Hammer's annual consulting fee from \$168,000 to \$220,000 is therefore appropriate, and the Audit Committee concurs that such an increase is fair, reasonable, and in the best interest of the NRA; now, therefore, be it

RESOLVED that the foregoing increase is hereby approved and ratified. The Committee further notes that any material change in the terms of the contract, or duties under the contract, shall be disclosed to the Committee and approved prior to execution.

III. Julie Golob

WHEREAS, due to Julie Golob's unique stature as a competitive shooting champion and resulting high social media profile, her ongoing work as a host and production consultant for video programming under contract with Ackerman McQueen (at an annual rate of \$30,000), and her authorship of articles for NRA Publications at standard author rates, are fair, reasonable, and in the best interests of the NRA; now therefore, be it

RESOLVED that the foregoing arrangements are approved and ratified accordingly. The committee further notes that any material change in such arrangements shall be disclosed to the Committee and approved prior to execution of any contract.

IV. Woody Phillips**A. July 2018 Sailing Trip**

WHEREAS, upon review of material facts regarding the participation by the NRA's Treasurer, Wilson H. Phillips, in a July 2018 sailing trip that involved a vessel owned by the shareholder of an NRA contractor, Membership Marketing Partners ("MMP"), the Audit Committee determines that it is fair, reasonable, and in the best interest of the NRA to approve and ratify Mr. Phillips' participation in the trip; and

WHEREAS, factors considered in this determination include:

- (i) that participants in the trip included high-net-worth individuals with prominent conservative connections who have contributed to the expansion of the NRA's donor network in the Dallas/Fort Worth area, and fostering relationships with these individuals can reasonably be expected to further enhance the NRA's donor network;
- (ii) that the trip imposed no cost upon the NRA;
- (iii) that there were no alternative vessels presented for Mr. Phillips' consideration;
- (iv) that Mr. Phillips paid for his participation in the trip by making a \$25,000 donation to Race to Erase MS [multiple sclerosis];
- (v) that Mr. Phillips disclosed the trip to outside counsel before embarking upon it, and formally disclosed the trip to the Audit Committee shortly upon his return; and
- (vi) that the circumstances surrounding the trip do not otherwise give rise to an appearance of improper influence; now therefore, be it

RESOLVED that Mr. Phillips' participation in the July 2018 sailing trip disclosed pursuant to his September 2018 conflicts questionnaire is hereby ratified and approved.

B. HomeTelos

WHEREAS, upon review of material facts concerning the NRA's engagement of an information technology contractor, HomeTelos L.P. ("HomeTelos") whose chairman and founder maintains a personal relationship with the NRA's Treasurer, Wilson H. Phillips, the Audit Committee has determined that the engagement was fair, reasonable, and in the best interest of the NRA when undertaken; and

WHEREAS, factors considered in the foregoing determination include:

- (i) that although Mr. Phillips maintains a longstanding personal relationship with a HomeTelos executive, that person is not a relative of Mr. Phillips as defined by the NRA's Conflict of Interest and Related Party Transaction Policy; thus, this transaction was disclosed to the Audit Committee out of an abundance of caution;
- (ii) that although Mr. Phillips maintains a longstanding personal relationship with a HomeTelos executive, that person is not a relative of Mr. Phillips as defined by the NRA's Conflict of Interest and Related Party Transaction Policy; thus, this transaction was disclosed to the Audit Committee out of an abundance of caution;

- (iii) that the NRA's Managing Director of Information Services, Tony Hayes, advised counsel that he had interviewed HomeTelos before engaging it, and determined that the vendor's proposal was satisfactory and its pricing was reasonable relative to the pricing of similar services;
- (iv) that Mr. Hayes was unaware, when he agreed to engage HomeTelos, of the relationship between Mr. Phillips' friend and HomeTelos;
- (v) that Mr. Hayes reports that HomeTelos satisfactorily performed the service for which it was engaged; and
- (vi) that the HomeTelos contract was discontinued for unrelated business reasons (the obsolescence of particular software needs) in 2017; and

WHEREAS, the Audit Committee therefore determines that it is fair, reasonable, and in the best interest of the NRA to ratify and approve the HomeTelos engagement; now, therefore, be it

RESOLVED that the NRA's engagement of HomeTelos for the period from September 2014 to May 2017, for total compensation of approximately \$1.36 million, is hereby ratified and approved.

V. Josh Powell

A. McKenna

WHEREAS, since July 2016, the NRA has purchased consulting and fundraising services from McKenna & Associates ("McKenna") totaling approx. \$2.44 million; and

WHEREAS, beginning December 15, 2017, Colleen Gallagher, the wife of NRA officer Josh Powell, has been subcontracted by McKenna as a Senior Advisor; and

WHEREAS, the Audit Committee has therefore reviewed material facts concerning the NRA's transactions with McKenna and any interest therein by Mr. Powell or Ms. Gallagher; and

WHEREAS, the Committee has determined that the NRA's transactions with McKenna were fair, reasonable, and in the best interest of the NRA at the time each transaction was undertaken; and

WHEREAS, the Committee further determines that it is fair, reasonable, and in the best interest of the NRA to continue the NRA's present business relationship with McKenna subject to the below provisos; and

WHEREAS, factors considered in reaching this determination include:

- (i) That the NRA's engagement of McKenna preceded Ms. Gallagher's business relationship with McKenna;
- (ii) McKenna's success at the development of key donor relationships, and the lack of equally effective alternative conduits to such relationships; and
- (iii) The present status of a strategically significant project involving McKenna;

now, therefore, be it

RESOLVED that the NRA's transactions with McKenna are hereby approved and ratified, and that the NRA may continue to transact with McKenna during the period from September 2018 to January 2019, subject to the following provisos:

1. That Mr. Powell continue to be "walled off" from any negotiation or determination regarding the scope or pricing of McKenna's services;
2. That the NRA solicit competitive bids for the services provided by McKenna wherever feasible, including with respect to purchases of services directly related to political strategy, public relations, membership, fundraising, or marketing, which ordinarily may be exempt from the NRA's competitive bidding requirement;
3. That to avoid any appearance of impropriety, the NRA limit its engagement of McKenna to services and projects for which there are no available, comparably suited, alternative service providers; and
4. That the NRA's business relationship with McKenna be re-evaluated by the Audit Committee at its January 2019 meeting.

B. Jim Powell Photography

WHEREAS, Jim Powell, the father of NRA officer Josh Powell, owns and operates a photography service known as Jim Powell Advertising Photography ("JPAP"); and

WHEREAS, during 2017 and 2018, Ackerman McQueen engaged JPAP for various event-photography projects and invoiced the NRA approximately \$93,000 for JPAP's services; and

WHEREAS, in June 2018, the NRA directly executed a purchase order with JPAP for additional event photography services totaling \$49,300, of which \$9,976.45 worth of services and expenses were subsequently rendered and invoiced; and

WHEREAS, the NRA cancelled the remainder of the foregoing purchase order to avoid any appearance of impropriety; and

WHEREAS, the Audit Committee has reviewed the material facts of the foregoing transactions, and related-party interests therein, in order to assess whether such

transactions were fair, reasonable, and in the best interest of the NRA when undertaken; and

WHEREAS, the Audit Committee has considered the following factors:

- (i) The fact that disinterested NRA personnel reviewed the photography produced by JPAP, along with prices invoiced by Ackerman for similar event photography services, and determined that the NRA appears to have received reasonably fair value for the amounts paid.

Now, therefore, be it

RESOLVED that the NRA's engagement of JPAP is determined to have been fair, reasonable, and in the best interest of the NRA when undertaken, and is therefore ratified and approved; however, be it further

RESOLVED that to avoid any appearance of impropriety, the NRA will forbear from any transactions with JPAP in the future.

The Audit Committee noted several instances in which transactions that posed potential conflicts of interest (and, thus, should have been disclosed and approved in advance) were disclosed after the fact. Specifically, disclosures should have occurred prospectively (rather than retrospectively) with respect to the matters involving: Lt. Colonel North and Ackerman McQueen; Ms. Hammer's consulting agreement; Mr. Phillips' sailing trip and his relationship with an executive at an information technology vendor; and Josh Powell's relationships with respect to McKenna & Associates and Jim Powell Advertising Photography. The Audit Committee's review of circumstances surrounding these transactions suggests that while there has been no intentional wrongdoing in these issues, there has been a misperception, shared by several directors and officers, that conflicts questionnaires need only be submitted annually. As of the date of this meeting, the NRA's officers have held the first of several "Compliance Refresher" seminar sessions for upper management, addressing this misperception and other key points. In addition, the NRA Secretary has provided a written reminder to the Board regarding the ongoing duty to disclose potential conflicts. The Audit Committee directs the NRA's officers to continue these sessions, and to strengthen other internal communications and processes as necessary to ensure that disclosures of potential conflicts are timely submitted.

The Committee returned briefly to executive session from 2:40 to 2:45 p.m. The committee then met briefly with the audit team. There were no further action items for the board.

Respectfully submitted,



Charles L. Cotton, Chairman