



Brand USA Board of Directors

Audit Committee Meeting

August 20, 2019



Opening Remarks and Approval of Minutes



Tom O'Toole
Chair
Audit Committee

- Call the meeting to order
- Introduction of management, invited guests, and legal counsel
- Approval of the minutes from the February 6, 2019 meeting*

***Vote Required**





Donald Richardson
Chief Financial Officer

Key Topics

- Year-to-Date Financial Results
- FY 2019 Financial Statement Audit
Schedule and Methodology
- Annual Review of Brand USA Audit-
Related Policies
 - Unchanged Policies
 - Modified Policies
- Vendor Risk Management



Year-to-Date Financial Results

- Travel Promotion Fund
 - We have submitted \$103.9M for FY 2019 ESTA Submission and reached our match goal of \$100M on 6/26/2019.
- Partner Revenue YTD
 - Partner Cash Contributions – we received \$24.6M in partner contributions (\$2.1M more than FY 2019 Budget YTD).
 - In-Kind Contributions – we received \$29.0M in in-kind contributions (\$9.0M more than FY 2019 Budget YTD).
 - Partner Programs – we received \$3.4M of Sponsorship revenue and Partner Programs (\$2.4M less than FY 2019 Budget YTD).
- Expenses
 - Expenses are \$1.8M below budget year-to-date, primarily due to a shift of strategy and timing differences in Marketing expenses.
- Cash Flow
 - Cash flow remains strong at \$63.8 million (60% above the reserve requirement of \$40M) as of June 30, 2019.



Brand USA

Presentation of Audit plan and strategy

Financial statements for the year ending September 30, 2019

August 20, 2019

Introduction

To the Audit Committee of Brand USA:

We are pleased to have the opportunity to meet with you on August 20, 2019 to discuss our audit of the financial statements of Corporation for Travel Promotion dba Brand USA as of and for the year ending September 30, 2019.

The audit of the financial statements, prepared in accordance with U.S. GAAP, will be conducted in accordance with auditing standards generally accepted in the United States of America.

We plan to issue an auditors' report on the financial statements of Brand USA. Other planned audit deliverables include material written communications between KPMG and management, and required communications between KPMG and the Audit Committee.

The terms of our engagement, including the objective and scope of our audit, our responsibilities and the responsibilities of management, are recorded in the engagement letter executed on July 9, 2019.

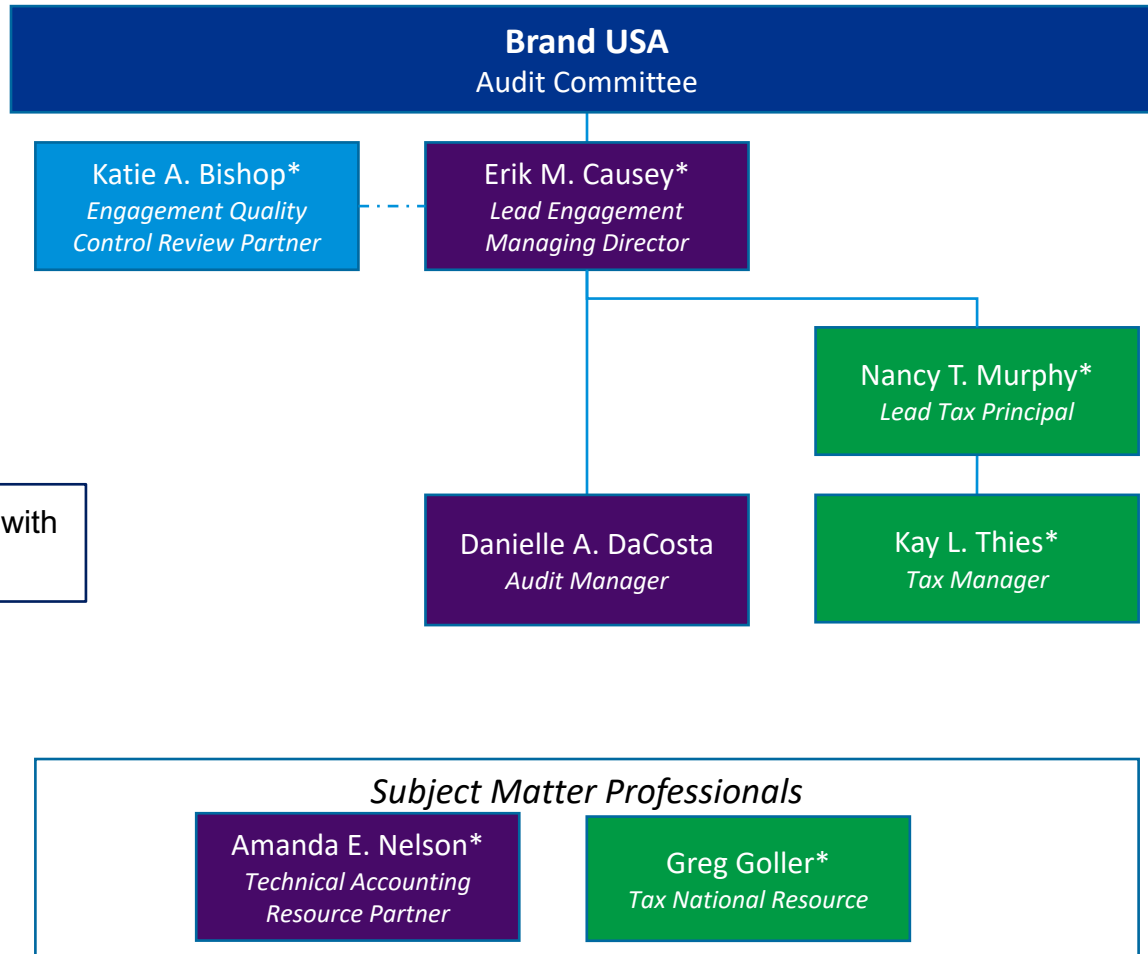
This document, which outlines our risk assessment and planned audit strategy, is being provided to you in advance of the meeting to allow you sufficient time to consider the key matters and enhance the quality of our discussions.

We believe the contents of this document should provide a good platform for our discussions when we do meet. We will be pleased to elaborate further on matters covered in this document at the meeting.

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Client service team



Audit approach required communications and other matters summary

Communication topic	Response
Scope of audit	<p>Our audit of the financial statements of Brand USA as of and for the year ended September 30, 2019, will be performed in accordance with auditing standards generally accepted in the United States of America.</p> <p>Performing an audit of financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.</p>
Risk assessment – Significant risks	<p>In addition to management override of controls, the following significant risk has been identified:</p> <ul style="list-style-type: none"> — Revenue recognition risk over the accuracy and valuation of in-kind revenue <p>We expect to test controls and review assessments made by management's external valuation firms.</p>
Audit participants	No involvement in the audit by other independent public accounting firms or persons.
Audit strategy	Refer to slides 6 – 8 for an overview of our overall audit strategy.
Materiality	Refer to slide 8 for considerations related to the determination of materiality.

Audit approach required communications and other matters summary (continued)

Communication topic	Response
Involvement of others	KPMG tax: for review of Brand USA's tax status
Planned deliverables and timeline	Refer to slides 9 – 10 for an overview of our planned deliverables and timeline.
New accounting pronouncements	Refer to slide 11 for further detail.
Independence	Refer to slides 12 – 13 for detail pertaining to independence communications.
Audit quality & transparency	Refer to slide 14 for links to our 2018 Audit Quality and Transparency Reports.

Required inquiries

The following inquiries are required in accordance with AU-C 260:

Audit Committee inquiries	<ul style="list-style-type: none">— Is the Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations?— What are the Committee's views about fraud risks in Brand USA?— Does the Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting Brand USA?— Who is the appropriate person (Audit Committee chair or full committee) for communication of audit matters during the audit?— How are responsibilities allocated between management and the Audit Committee?— What are the entity's objectives and strategies and related business risks that may result in material misstatements?— Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?— Is the Committee aware of any significant communications with regulators?— What are the Committee's attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?— Is the Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters?— Have there been any actions taken based on previous communications with the auditor?
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[These inquiries will be discussed in the executive session with the Audit Committee]

Audit strategy - Risk assessment

Relevant factors affecting our risk assessment:

Potential risk, key process or significant account/ disclosure	Susceptibility to		Recent key developments	Complexity	Related parties	Degree of subjectivity	Mgmt use of expert
	Error	Fraud					
Potential for management override of controls, policy and/or procedure (potential risk)	✓	✓					
Revenue: In-kind contributions (significant account)	✓			✓		✓	✓
Revenue: Travel promotion fund proceeds for ESTA process (significant account)				✓			✓
Accounts/ pledges receivable (significant account)	✓				✓	✓	
Fair value of investments (significant account)						✓	

✓ Yes

Audit strategy - Risk assessment (continued)

Relevant factors affecting our risk assessment:

Potential risk, key process or significant account/ disclosure	Susceptibility to		Recent key developments	Complexity	Related parties	Degree of subjectivity	Mgmt use of expert
	Error	Fraud					
Intangible assets (significant account)				✓		✓	
Financial reporting process (key process)	✓		✓			✓	
Commitments and contingencies (significant disclosure)						✓	
Related party relationships/ transactions (significant disclosure)					✓		



Yes

Audit strategy - Materiality in an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.

Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Judgments about the size of misstatements that will be considered material provide a basis for

- a) Determining the nature and extent of risk assessment procedures;
- b) Identifying and assessing the risks of material misstatement; and
- c) Determining the nature, timing, and extent of further audit procedures.

Planned deliverables and timeline

July – August 2019

- Obtain signed engagement letter from management
- Identify key members of the engagement team
- Determine materiality
- Plan audit approach for upcoming year-end audit
- Obtain an understanding of the entity and its environment
- Consider information from client acceptance and retention evaluation, audit planning activities, past audits, and other engagements performed for the Brand USA
- Perform analytical procedures
- Inquire of the Audit Committee, management, and others within the Brand USA about risks of material misstatement
- Conduct a discussion among engagement team members regarding the risks of material misstatement
- Review board minutes
- Evaluate experts
- Determine involvement of specialists
- Evaluate design and implementation of entity-level controls
- Perform process walkthroughs, identification of process risk points
- Evaluate design and implementation of process level controls
- Identify risks of misstatement
- Assess risks of material misstatement and plan audit response

August – September 2019

- Communicate audit plan
- Identify and understand service organizations
- Identify IT applications and environments
- Perform tests of operating effectiveness of relevant process level and entity-level controls
- Perform process walkthroughs, identification of process risk points for remaining processes

Planned deliverables and timeline (continued)

December 2019 – Beyond

- Perform remaining substantive audit procedures
- Complete control testing for remaining process level and entity-level controls
- Review financial statement disclosures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Obtain written representations from management
- Present audit results to the Audit Committee and perform required communications (February)
- Issue audit report
- Prepare IRS Form 990 for management's review, performed by KPMG Tax (March/ April 2020)

New accounting standards

Readiness for new standards (FY 2019, 2020, or 2021)

— ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*

Fully implemented  Continued attention needed

— ASC 606, *Revenue from Contracts with Customers*

Fully implemented  Continued attention needed

— ASU 2018-08, *Clarifying Scope and Accounting Guidance for Contributions Received and Made*

Fully implemented  Continued attention needed

— ASC 842, *Leases*

Fully implemented  Continued attention needed

General industry implementation challenges

— **Challenge A:** Identifying all sources of revenue

— **Challenge B:** Evaluating requirements and disclosures

— **Challenge A:** Evaluating system requirements

— **Challenge B:** Completeness and volume of leases

KPMG independence quality controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence and to comply with regulatory and professional requirements.

- Submission of all worldwide engagements through Sentinel, a KPMG independence and conflict checking system (includes services for/relationships with the audit client, its affiliates, and its affiliated persons)
- Tracking partner rotation requirements using PRS (Partner Rotation System), the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs, including a required annual independence training deployed globally
- Annual independence confirmation required for all existing partners and employees and for all new individuals who subsequently join the firm
- Independence Confirmation Work Paper required to be completed by audit engagement teams which addresses a variety of independence matters and requires review by the Engagement Quality Control Reviewing partner
- Compliance testing programs
- Formal disciplinary policy and process

Independence of mind and appearance

- Independence consists of independence of mind and in appearance. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of the firm or members of the audit engagement team is compromised.
- Close personal relationships between firm personnel and audit client personnel can impact the appearance of independence or an auditor's independence of mind.
- KPMG has issued reminders and conducted training regarding KPMG's existing policies that require interactions between firm personnel and audit client personnel (including client entertainment) be directly related to a business purpose, reasonable, and infrequent (i.e., generally no more than four times a year). Additionally, firm policies prohibit the receipt or granting of any gift with a value in excess of \$100 between firm and audit client personnel.

Payment of fees – Audit and all other professional services

Professional standards require that fees for any previously rendered professional service provided more than one year prior to the date of the current year audit report have been paid.

Audit committee resources

KPMG's audit quality control documents are available at:

<https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html>

For additional information and Audit Committee resources, including upcoming events, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.



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Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICOFR	<ul style="list-style-type: none"> — Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> (1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; (2) additional information that the auditor may request from management for the purpose of the audit; and (3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that Brand USA complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> (1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect Brand USA's financial reporting (2) acknowledgement of their responsibility for the design and implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICOFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements.

The audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements (i.e., the annual report), excluding required supplementary information — The auditor's responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report relevant date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement — We plan to perform the following procedures with respect to other information: <ul style="list-style-type: none"> - Obtain and read the documents - Compare information in documents to the audited financial statements to identify material inconsistencies - Communicate results to management and to the Committee



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Brand USA Policy Review: Unchanged Policies

- Accepting Gifts and Gift Report Form
- Business Ethics & Standards of Conduct
- Cash Management, Operating Reserves & Investment
- Conflict of Interest Policy
- Record Retention Policy & Schedule
- Whistleblower Policy
- Cash and In-Kind Policies and Guidelines

Brand USA Policy Review: Proposed Modification

- Travel & Expense Management Policy
- "Economy class"
- Rental Cars
- Itemized Receipts
- Procurement Manual
- Episodic content

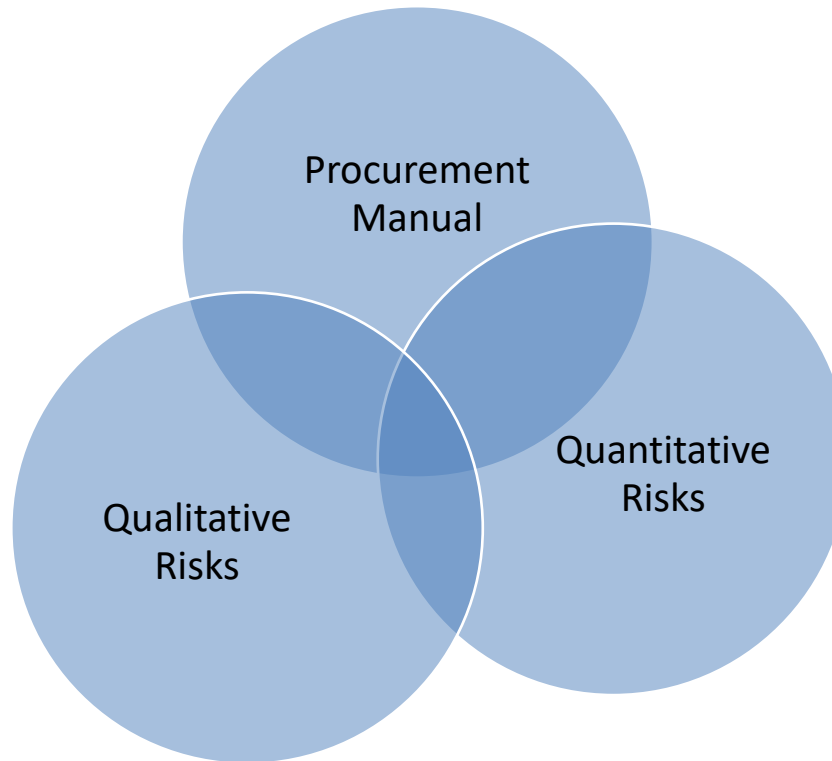
Vendor Risk Management

Brand USA Activities

- Public Searches
- Price Quotes
- RFPs
- AP Procedures

Considerations

- Total Spend
- Contract Type
- Geography



Considerations

- External Risks
- Business Continuity
- Access to Data
- Use of Third Parties or Sub-Contractors
- Billing structure