



June 19, 2018

To: Audit Committee Members
Dick Bolton
Gregg Schwind
Ginny Thomas
James Young

Cc: Milton W. Matthews, President/CEO
Members of the Columbia Association Board of Directors

From: Jackie Tuma, Chief Staff Liaison

The Audit Committee of the Columbia Association Board of Directors will meet on June 25, 2018 at Columbia Association Headquarters, 6310 Hillside Court, Columbia, MD 21046 at 7:30 p.m.

AGENDA

- | | |
|--|--------|
| 1. Call to order | 1 min |
| 2. Approval of agenda | 2 min |
| 3. Resident speakout | 10 min |
| 4. Approval of minutes: <u>March 12, 2018</u> | 5 min |
| 5. Election of committee chair and vice chair (no backup) | 5 min |
| 6. Review and reauthorization of Audit Committee Charter and Office of Internal Audit Charter | 10 min |
| 7. Discussion: Recruitment of community member for Audit Committee (no backup) | 15 min |
| 8. Motion to close for the purpose of reviewing several internal audit reports and consultation with staff personnel on legal matters in accordance with HOA Section 11B-111.(4)(i,iv) | 60 min |
| 9. Committee Tracking Form (open meeting) | 5 min |
| 10. Review of Audit Committee charter responsibilities | 10 min |
| 11. Adjournment – Approximately 9:30 p.m. | |

Next Audit Committee Meeting:

Monday, July 23, 2018 at 7:30 p.m.

ARRANGEMENTS FOR AN INTERPRETER FOR THE HEARING IMPAIRED CAN BE MADE BY CALLING 410-715-3111 AT LEAST TWO DAYS IN ADVANCE OF THE MEETING.

DRAFT



March 23, 2018

**MINUTES
AUDIT COMMITTEE MEETING
Held: Monday, March 12, 2018**

Participants: Nancy McCord, Audit Committee
Andrew Stack, Chair, CA Board of Directors
Edward Berman, Audit Committee
James Young, Audit Committee
Milton W. Matthews, President/CEO
Jackie Tuma, Chief Staff Liaison and Director of Internal Audit

Ms. McCord called the meeting to order at 7:32pm.

Mr. Stack moved to approve the agenda and Mr. Berman seconded. The agenda was approved with a vote of 4-0-0.

For: Ms. McCord, Mr. Stack, Mr. Berman, and Mr. Young
Against: None
Abstain: None

There were no “resident speakout” requests.

Mr. Berman moved to approve the draft minutes from the December 11, 2017 meeting and Mr. Young seconded. The minutes were approved with a vote of 3-0-1.

For: Ms. McCord, Mr. Stack, and Mr. Young
Against: None
Abstain: Mr. Berman (did not attend the meeting on December 11, 2017)

Ms. Susan Krabbe, Vice President and CFO, presented the FY18 third quarter Financial Report and FY18 third quarter financial statements and responded to questions from the committee.

Mr. Young made a motion to provide the FY18 third quarter Financial Report to the Board of Directors. Mr. Berman seconded. The motion passed with a vote of 4-0-0.

For: Ms. McCord, Mr. Stack, Mr. Berman, and Mr. Young
Against: None
Abstain: None

DRAFT

Mr. Young made a motion to provide the FY18 third quarter financial statements to the Board of Directors. Mr. Berman seconded. The motion passed with a vote of 4-0-0.

For: Ms. McCord, Mr. Stack, Mr. Berman, and Mr. Young
Against: None
Abstain: None

Ms. Krabbe presented the engagement letters from CliftonLarsonAllen LLP for their FY18 independent audits of CA's financial statements and incentive savings plan.

Ms. Krabbe briefed the committee on CA's 401(k) plan.

At 8:28pm, Mr. Berman moved to close the meeting pursuant to HOA Section 11B-111.(4)(i, iv) to review several internal audit reports and for consultation with staff personnel on legal matters. Mr. Young seconded the motion. The motion passed with a vote of 4-0-0.

For: Ms. McCord, Mr. Stack, Mr. Berman, and Mr. Young
Against: None
Abstain: None

The meeting continued in closed session.

At 9:30pm, the open meeting reconvened.

The committee reviewed the following documents:

- Open tracking form
- Audit Committee charter responsibilities and accomplishments during FY18

At 9:35pm the meeting was adjourned by unanimous consent.



June 18, 2018

To: CA Audit Committee Members
Dick Bolton
Gregg Schwind
Ginny Thomas
James Young

From: Jackie Tuma, Director of Internal Audit

Cc: Milton W. Matthews, President/CEO

Re: Review of the Audit Committee Charter and the Office of Internal Audit Charter

In accordance with best practices and the Institute of Internal Auditors' Professional Standards, the charters for the Audit Committee and Office of Internal Audit must be reviewed and approved periodically. CA's Office of Internal Audit fulfills this requirement by presenting the documents to the Audit Committee at the first meeting of each fiscal year. Both documents are attached for your review.

I will provide a master copy for your signatures, which reflect the Audit Committee's acknowledgement in FY19, at the June 25, 2018 Audit Committee meeting.



Audit Committee Charter

I. Purpose:

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the ethics program.

II. Composition:

The Audit Committee is to be comprised of at least three voting members as follows:

- Financial experts: Two committee members appointed by the Columbia Association Board of Directors shall be community members meeting the criteria of a “financial expert” as defined by the Sarbanes Oxley Act of 2002. Customarily, the community members will serve three year terms (beginning in alternating years). However, they serve at the pleasure of the board and may be removed from the committee’s membership by the board.
- Board of Directors: Three committee members will be independent, non-management members of Columbia Association’s Board of Directors. It is strongly preferred that any Board member(s) with financial expertise serve on the Audit Committee. In addition, at least one of the Board Committee members should remain consistent from year to year.
- The position of committee chair or vice chair will be held by one of the Board members.
- A majority of the Committee’s membership, with at least two of them being Board members, is required to be present at a meeting to constitute a quorum.
- Each member shall have one vote. A vote of the majority of the quorum present at a meeting shall be sufficient to constitute action upon a matter that properly comes before a meeting.

III. Duties and Responsibilities:

A. External Audit

- Recommend to the Board the appointment and discharge of the external auditors. Review and confirm the independence of the external auditors before finalizing the recommendation by

obtaining statements from the auditors on relationships between the auditors and CA, including non-audit services.

- Review external audit fees and engagement letters.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with Internal Audit.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements and footnotes with the external auditors and management and consider whether they are complete and consistent with information known to the committee members and reflect appropriate accounting principles.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with the external auditors and management all matters required to be communicated to the committee under Generally Accepted Auditing Standards (i.e. management letter, internal control weaknesses, audit adjustments, any disagreements with management, etc.). Resolve any disagreements between management and the external auditors.
- Review the results of other external/investigative audits (i.e. report findings, recommendations, observations, etc.).
- If necessary, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- Ensure that the audit engagement partners are rotated every five years.

B. Internal Audit

- Obtain and review reports on significant internal audit findings and recommendations, together with management's responses.
- Review and recommend changes to the Office of Internal Audit's Mission Statement and Charter.
- Review and approve the biannual Audit Plan.
- Review the Office of Internal Audit's performance relative to its audit plan.
- Meet on a quarterly basis (or as considered necessary) with the Office of Internal Audit and President. All committee members are expected to attend each meeting in person or via teleconference.

C. Internal Control and Other Responsibilities

- Consider the effectiveness of the organization's controls surrounding accounting, financial reporting, operations and information technology.

- Understand the scope of internal and external auditors' review of internal control over financial reporting.
- Review and provide to the Board the quarterly financial statements.
- Review and provide to the Board the quarterly Financial Report.
- Regularly report to the Board of Directors about Audit Committee activities, issues, and related recommendations.
- Monitor CA's ethics program
- Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.
- Review and recommend for approval the annual IRS Form 990 (Return of Organization Exempt From Income Tax) and IRS Form 990T (Exempt Organization Business Income Tax Return) before it is filed with the IRS.
- Review and assess the adequacy of the Audit Committee Charter annually, requesting Board approval for proposed changes.
- If necessary, meet separately with the Director of Internal Audit to discuss any matters that the committee or the Director of Internal Audit believes should be discussed privately.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Review the Office of Internal Audit's compliance with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

IV. Closed Meetings

In the event that the Audit Committee holds a meeting in closed session for one of the purposes enumerated in Section 11B-111(4) of the Maryland Homeowners Association Act ("HOA"), the Chairperson of the Committee shall report such closed session to the Chairperson of the Board in a writing that provides (a) the date of the closed meeting, (b) the approximate beginning and ending times of the meeting, (c) the record of the vote of each committee member by which the meeting was closed, (d) the specific section number of the HOA pursuant to which the meeting was closed (which may be one or more of HOA section 11B-111(4) (i) through (viii)), and (e) a brief statement as to why the meeting was closed. Such report must be provided to the Chairperson of the Board by 5:00 p.m. on the day preceding the next Board meeting following the committee meeting.

Audit Committee Chair	Date
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Audit Committee Vice Chair	Date
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Audit Committee Member	Date
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Audit Committee Member	Date
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Audit Committee Member	Date
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Reviewed by CA's Audit Committee on June 27, 2016.
Approved by CA's Board of Directors on September 22, 2016.



Office of Internal Audit Charter

Purpose and Mission

The purpose of Columbia Association (CA)'s Office of Internal Audit is to provide independent and objective assurance and consulting services designed to add value and improve CA's operations. Internal Audit's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of Internal Audit helps CA to accomplish its objectives by offering a systematic, disciplined approach to evaluate and improve governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The Office of Internal Audit will adhere to the mandatory elements of the Institute of Internal Auditor's International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing ("Standards").

Authority

The Director of Internal Audit shall report administratively to the President/CEO and functionally to the President/CEO and the Audit Committee.

The director and other staff of the Office of Internal Audit are authorized to:

- Have unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information. In the case of records and communications which are protected by the attorney-client privilege or are otherwise legally recognized as privileged documents or communications, the Office of Internal Audit may not further disclose such documents or communications to any party outside of CA unless the Board has voted to waive the privilege.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply the techniques required to accomplish audit objectives and issue reports.

The Director of Internal Audit will have unrestricted access to and communicate and interact directly with the Audit Committee, including in private meetings without management present.

Independence and Objectivity

The Director of Internal Audit will ensure that the Office of Internal Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.

Internal auditors will have no authority over or direct operational responsibility for any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Where the Director of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal audit, safeguards will be established to limit impairments to independence or objectivity.

The Director of Internal Audit will confirm to the Audit Committee, at least annually, the independence of the Office of Internal Audit and whether any interference in determining the scope of internal auditing, performing work, and/or communicating results was experienced.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of CA's strategic objectives are appropriately identified and managed.
- The results of operations or programs are consistent with established goals and objectives for the organization.
- Operations or programs are carried out effectively and efficiently.
- Processes and systems enable compliance with applicable policies, procedures, laws, and regulations.
- Information provided is reliable and has integrity.
- Resources are acquired economically, used in the most productive manner, and adequately protected.

The Director of Internal Audit coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The Office of Internal Audit may perform advisory and consultative services, provided the Office of Internal Audit does not assume management responsibility.

Responsibility

The responsibilities of the Director of Internal Audit include:

- Developing a flexible biannual audit plan (subject to adjustment to accommodate higher priorities) using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the President/CEO for feedback and the Audit Committee for review and approval.
- Implementing the biannual audit plan, as approved, including special projects as appropriate.
- Communicating to the President/CEO and the Audit Committee any significant interim changes to the internal audit plan and the impact of resource limitations on the plan.
- Issuing a report to management following each internal audit engagement.
- Communicating engagement results to the Audit Committee and appropriate parties as needed.
- Conducting appropriate follow up on engagement findings and recommendations and reporting quarterly to the President/CEO and the Audit Committee any unresolved findings.
- Keeping the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Establishing and ensuring adherence to policies and procedures designed to guide the Office of Internal Audit.
- Issuing quarterly reports to the President/CEO and the Audit Committee summarizing audit activities.
- Maintaining an audit staff with relevant professional backgrounds, to include knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Monitoring CA's ethics hotline.

Quality Assurance and Improvement Program

The Office of Internal Audit will maintain a quality assurance and improvement program that covers all aspects of its operations. The program will include an evaluation of its conformance with the Standards and the IIA's Code of Ethics. The program will also assess the productivity of the Office of Internal Audit and identify opportunities for improvement.

The Director of Internal Audit will report annually to the President/CEO and the Audit Committee regarding the Office of Internal Audit's conformance with the Standards, based on results of both internal and/or external assessments. (Internal assessments will be conducted annually. External assessments will be conducted at least once every five years by a qualified independent assessor or assessment team).

A summary of documents provided to the Audit Committee is attached.

President/CEO

Date

Director of Internal Audit

Date

Audit Committee Chair

Date

Reviewed by CA's Audit Committee on September 18, 2017.

Approved by CA's Board of Directors on September 28, 2017.

Revision history:

Created: 7/27/06

Revision 1 9/24/09

Revision 2 7/14/11

Revision 3 7/9/15

Attachment to Office of Internal Audit Charter

Summary of Documents Provided to the Audit Committee

Document	Frequency/timing provided to Audit Committee
1. Confirmation of independence of Office of Internal Audit	Annually (June meeting)
2. Biannual internal audit plan (draft)	Annually (June meeting)
3. Internal audit reports, including audit follow up reports	Dependent on completion of reports.
4. Overview of open internal audit findings	Quarterly (June, September, December & March meetings)
5. Office of Internal Audit progress reports	Quarterly (June, September, December & March meetings)
6. Report on compliance with professional standards	Annually (June meeting)
7. Quality self-assessment with independent validation	Every five years (December meeting)

**Tracking Form - Audit Committee
Open Meeting Items**

	Submitted to Committee by (name):	Date sent to Committee	Description of Topic	Action to be Taken	Date Due to AC	Extensions	Revised Due Date to AC	Item Complete? (Y/N)
1								
2								
3								

Audit Committee Responsibilities Checklist

Key:

Task expected to occur.

Ad hoc responsibility; not regularly scheduled.

Area of Responsibility	Audit Committee Meeting – FY 2019				
External Audit	JUN	JUL	SEPT	DEC	MAR
1. Recommend to the Board the appointment and discharge of the external auditors. Review and confirm the independence of the external auditors before finalizing the recommendation by obtaining statements from the auditors on relationships between the auditors and CA, including non-audit services.	-	-	-	-	
2. Review external audit fees and engagement letters.	-	-	-	-	
3. Review the external auditors’ proposed audit scope and approach, including coordination of audit effort with Internal Audit.	-	-	-	-	
4. Review with management and the external auditors the results of the audit, including any difficulties encountered.	-		-	-	-
5. Review the annual financial statements and footnotes with the external auditors and management and consider whether they are complete and consistent with information known to the committee members and reflect appropriate accounting principles.	-		-	-	-
6. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.	-		-	-	-
7. Review with the external auditors and management all matters required to be communicated to the committee under Generally Accepted Auditing Standards (i.e. management letter, internal control weaknesses, audit adjustments, any disagreements with management, etc.). Resolve any disagreements between management and the external auditors.	-		-	-	-
8. Review the results of other external/investigative audits (i.e. report findings, recommendations, observations, etc.).					
9. If necessary, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.	-		-	-	-
10. Ensure that the audit engagement partners are rotated every five years.	-		-	-	

Audit Committee Responsibilities Checklist, continued

Area of Responsibility	Audit Committee Meeting – FY 2018				
Internal Audit	JUN	JUL	SEPT	DEC	MAR
11. Obtain and review reports on significant internal audit findings and recommendations, together with management’s responses.	-	-			
12. Review and recommend changes to the Office of Internal Audit’s Mission Statement and Charter.					
13. Review and approve the biannual Audit Plan.	✓	-	-	-	-
14. Review the Office of Internal Audit’s performance relative to its audit plan.	✓	-	-	-	-
15. Meet on a quarterly basis (or as considered necessary) with the Office of Internal Audit and President. All committee members are expected to attend each meeting in person or via teleconference.	✓				

Area of Responsibility	Audit Committee Meeting – FY 2018				
Internal Control and Other Responsibilities	JUN	JUL	SEPT	DEC	MAR
16. Consider the effectiveness of the organization’s controls surrounding accounting, financial reporting, operations and information technology.	✓				
17. Understand the scope of internal and external auditors’ review of internal control over financial reporting.	✓				
18. Review and provide to the Board the quarterly financial statements.	-	-			
19. Review and provide to the Board the quarterly Financial Report.	-				
20. Regularly report to the Board of Directors about Audit Committee activities, issues, and related recommendations.	✓				
21. Monitor CA’s ethics program.	✓	-			
22. Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.	✓				
23. Review and recommend for approval the annual IRS Form 990 and IRS Form 990T before it is filed with the IRS.	-	-		-	-
24. Review and assess the adequacy of the Audit Committee Charter annually, requesting Board approval for proposed changes.	✓	-	-	-	-
25. If necessary, meet separately with the Director of Internal Audit to discuss any matters that the committee or the Director of Internal Audit believes should be discussed privately.					
26. Confirm annually that all responsibilities outlined in this charter have been carried out.	-	-	-	-	
27. Review the Office of Internal Audit’s compliance with the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing.	✓	-	-	-	-

Note: Responsibilities listed in this checklist are excerpted from the Audit Committee Charter approved by CA’s Board of Directors on September 22, 2016.