

February 28, 2019

To: CA Audit Committee Members

From: Jackie Tuma, Director of Internal Audit

Cc: Milton W. Matthews, President/CEO

Re: Updated revisions to the Audit Committee Charter

CA's Audit Committee charter is required to be reviewed periodically in accordance with the Institute of Internal Auditors' (IIA's) professional standards. In December, I proposed revisions to 1) define the committee's authority and 2) clarify the terms of office for the committee's community members.

In response to your request for clarification of the protocol for providing confidential information to the Audit Committee, I have revised Section II (which addresses the committee's authority).

A copy of the charter (with all proposed changes tracked in red) is attached. Once the committee reviews and agrees with the proposed changes, a vote will be taken to recommend to the Board of Directors that it approve the amended document.



## 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. Authority:**

In carrying out its responsibilities, subject to the limitations stated below, the Audit Committee will have unrestricted access to:

- Communicate with management.
- Review relevant information it considers necessary to fulfill its duties, subject to accountability for the safeguarding of such documents.

In the case of information and communications which are protected by the attorney-client privilege or are otherwise legally recognized as privileged information or communications, the Audit Committee shall not disclose such communications or information to anyone other than the Board of Directors, President/CEO, Vice President/Chief Financial Officer, Director of Internal Audit, General Counsel, or to any party outside of Columbia Association unless the Board has voted to waive the privilege.

The General Counsel may determine that certain highly confidential information should not be disclosed to the Audit Committee because doing so would create a significant business risk. In such cases, the General Counsel will explain to the Committee why the information should not be provided. If necessary, the Committee will meet with the General Counsel to discuss alternatives to meet the need for the requested information and/or to clarify why the information is critical to discharging the Committee's responsibilities. If the General Counsel and Audit Committee are unable to reach an agreement about disclosure of the requested information, the Audit Committee will bring the matter to the Columbia Association Board of Directors for resolution.

The Audit Committee may engage independent counsel and/or other advisors it deems necessary to carry out its duties.

### **H.III. 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 described by the Sarbanes Oxley Act of 2002. ~~Customarily, t~~The community members will initially serve three year terms (beginning in alternating years), and continuance will be reviewed annually thereafter. 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.

### **H.IV. 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 Columbia Association, 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/CEO. 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 Columbia Association'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.V. 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~~ in time for the next Board meeting following the Committee meeting.

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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

| *Reviewed by Columbia Association's Audit Committee on ~~December 10, 2018~~ March 11, 2019.*  
| *Approved by Columbia Association's Board of Directors on \_\_\_\_\_.*