



September 12, 2017

To: Members of the Audit Committee
Janet Evans
Gregg Schwind
Edward Berman
James Young

Cc: Milton W. Matthews, President/CEO
Jackie Tuma, Chief Staff Liaison
Members of the Columbia Association Board of Directors

From: Nancy McCord, Audit Committee Chair

The Audit Committee of the Columbia Association, Inc. Board of Directors will meet on September 18, 2017 at the Columbia Association Building, 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 | 5 min |
| 4) Approval of minutes: <u>July 26, 2017</u> | 5 min |
| 5) Review of financial documents: | 30 min |
| a) FY18 first quarter Financial Report | |
| b) FY18 first quarter financial statements | |
| 6) Motions to recommend Board action (no backup) | 5 min |
| a) Motion to provide the FY18 first quarter Financial Report to the Board of Directors | |
| b) Motion to provide the FY18 first quarter financial statements to the Board of Directors | |
| 7) 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) (no backup) | 67 min |
| 8) Review of Office of Internal Audit Charter | 15 min |
| a) Review of Office of Internal Audit Charter (with proposed revisions) | |
| b) Motion to recommend to the Board of Directors that it approve the Office of Internal Audit Charter as amended (no backup) | |
| 9) Committee tracking form (open meeting) | 2 min |
| 10) Review of Audit Committee charter responsibilities | 10 min |
| 11) Adjournment – 9:52 p.m. | |

**Next Audit Committee Meeting:
Monday, December 11, 2017**

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.

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August 7, 2017

**MINUTES
AUDIT COMMITTEE MEETING
Held: Wednesday, July 26, 2017**

Participants: Nancy McCord, Audit Committee Chair
Janet Evans, Audit Committee
Gregg Schwind, Audit Committee
James Young, Audit Committee (via conference call)
Ed Berman, Audit Committee (arrived 7:55pm)
Milton W. Matthews, President/CEO
Jackie Tuma, Chief Staff Liaison and Director of Internal Audit

Also present: Daniel O’Shea, Partner, CohnReznick LLP
Lee Brody, Manager, CohnReznick LLP (via conference call)
Jared Holeman, Senior Accountant, CohnReznick LLP
Andrew Stack, Chair, Board of Directors
Dick Boulton, CA Board of Directors
Virginia Thomas, CA Board of Directors
Susan Krabbe, Vice President/Chief Financial Officer

The meeting was called to order by Ms. McCord at 7:30 p.m.

Mr. Schwind moved to approve the agenda and Ms. Evans seconded. The agenda was approved with a vote of 4-0-0.

For: Ms. McCord, Ms. Evans, Mr. Schwind and Mr. Young
Against: None
Abstain: None

There were no “resident speakout” requests.

Mr. Young moved to approve the draft minutes from the June 26, 2017 meeting and Ms. Evans seconded. The minutes were approved as presented with a vote of 4-0-0.

For: Ms. McCord, Ms. Evans, Mr. Schwind and Mr. Young
Against: None
Abstain: None

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Mr. Berman joined the meeting at 7:55pm.

Ms. Krabbe presented the FY17 fourth quarter Financial Report. Mr. Schwind requested that the definition of “memberships” (page 3) be expanded to clarify that it relates to individual facilities. Ms. Thomas asked how much CA is paid by Howard County for mowing on its behalf.

Mr. Schwind moved to provide the FY17 fourth quarter Financial Report to the Board of Directors. Ms. Evans seconded the motion, and it passed 5-0-0.

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

Mr. O’Shea presented the draft audited financial statements for the year ended April 30, 2017 for Columbia Association, Inc. Mr. Holeman then presented the draft audited financial statements for the year ended December 31, 2016 for the Columbia Association, Inc. Incentive Savings Plan and Trust. For both audits, the independent auditor’s report, statements and footnotes were reviewed, notable line items and changes from the prior year were discussed, and questions from the committee were answered. It was clarified that a limited-scope audit was performed for the Incentive Savings Plan.

Mr. Schwind moved to provide the independent audit reports of CA’s financial statements for FY17 to the Board of Directors. Mr. Berman seconded the motion, and it passed 5-0-0.

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

Mr. Schwind moved to provide the independent audit reports of CA’s Incentive Savings Plan and Trust for the calendar year 2016 to the Board of Directors. Mr. Berman seconded the motion, and it passed 5-0-0.

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

At 9:22 p.m., Mr. Berman moved to close the meeting pursuant to HOA Section 11B-111.(4)(i, iv) to discuss CohnReznick LLP’s review of internal controls and other communication with Internal Audit. Ms. Evans seconded the motion which passed with a vote of 5-0-0.

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

The meeting continued in closed session.

At 10:20 p.m. the open meeting reconvened.

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The committee tracking form was reviewed.

The Audit Committee Responsibilities Checklist was reviewed. Mr. Young asked that at the next meeting, the committee discuss how item #20 (regularly report to the Board of Directors about Audit Committee activities, issues, and related recommendations) is accomplished. Mr. Berman asked that the checklist have an indicator of the tasks that should be accomplished at each meeting.

At 10:35 p.m., the meeting was adjourned by unanimous consent.



Date: September 12, 2017

To: Members of the Columbia Association Audit Committee

From: Jackie Tuma, Chief Staff Liaison

Cc: Milton W. Matthews, President/ CEO
Susan Krabbe, Vice President and CFO
CA Board of Directors

Re: First quarter Financial Report and financial statements

The backup for agenda items #5a and #5b (FY18 first quarter Financial Report and financial statements) will be provided by Susan Krabbe prior to the Audit Committee meeting.

September 11, 2017

To: CA Audit Committee Members
Janet Evans
Nancy McCord
Gregg Schwind
Edward Berman
James Young

From: Jackie Tuma, Director of Internal Audit

Cc: Milton W. Matthews, President/CEO

Re: Review of the Office of Internal Audit Charter

In response to your feedback at the June 2017 Audit Committee meeting, I revised the draft Office of Internal Audit Charter and included a list of documents provided to the committee. The updated draft charter reflects the authority and responsibilities of the Office of Internal Audit and incorporates recent recommendations from the Institute of Internal Auditors.

Attached for your review is a draft with tracked changes (substantive changes only) as compared to the most recent charter approved by the Board of Directors in July 2015. Following the tracked copy is a clean draft incorporating all of the proposed changes.

If the committee agrees with the revised charter, a motion will be taken to recommend that the document be approved by the Board of Directors.



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 in order to evaluate the accuracy and effectiveness of CA's operations, financial reporting, internal controls, and policies and procedures. by offering a systematic, disciplined approach to evaluate and improve the 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.

~~Independence requires that the auditors' work be performed freely and objectively~~—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.
- ~~Quality and continuous improvement are fostered in the organization's control processes.~~

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 limitation 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.
- ~~Establishing a quality assurance program by which the Director of Internal Audit assures the operation of internal auditing activities and communicating the results of internal and external assessments.~~
- Issuing quarterly reports to the Audit Committee and management 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 June 26, 2017.
Approved by CA's Board of Directors on _____.*

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

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



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- Allocate resources, set frequencies, select subjects, determine scopes of work, apply the techniques required to accomplish audit objectives and issue reports.

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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.

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

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- Issuing a report to management following each internal audit engagement.
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- 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.
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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 _____.*

Revision history:

*Created: 7/27/06
Revision 1 9/24/09
Revision 2 7/14/11
Revision 3 7/9/15*

DRAFT

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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	Mr. Berman	3/20/2017	In the capital budget section of the Financial Reports, include a general description of category 1, 2 and 3 expenditures.	Ms. Krabbe to provide.	July 2017 AC meeting			Y - Included beginning with FY17 4th quarter Financial Report.
2	Audit Committee	6/26/2017	Amend the draft Office of Internal Audit Mission Statement and Charter to 1) modify the internal audit scope and responsibility sections, 2) add a list of standing reports, and 3) expand the description of the quality assurance program requirements.	Ms. Tuma to do.	September 2017 AC meeting			Y - Amended draft was provided with backup materials for the Sept. 2017 AC meeting.
3	Mr. Young	6/26/2017	Provide a checklist of the Audit Committee Charter's requirements at each meeting.	Ms. Tuma to do.	Beginning July 2017 AC meeting			Y - The checklist was provided with the backup documents for the July 2017 meeting and will be provided at each AC meeting going forward. (A sample checklist was also attached to the tracking log provided with the draft minutes from the June 2017 AC meeting.)
4	Mr. Young	6/26/2017	At the end of each fiscal year, provide a list of the Audit Committee's accomplishments for review.	Ms. Tuma to do.	Beginning March 2018 AC meeting			
5	Mr. Schwind	7/26/2017	Expand the definition of "memberships" on the Financial Report (pg. 3) to clarify that it relates to individual facilities.	Ms. Krabbe to do.	Sept 2017 meeting			Y - Done.
6	Ms. Thomas	7/26/2017	How much is CA paid by Howard County for mowing on its behalf?	Ms. Krabbe to respond.	Sept 2017 meeting			Y - Response was attached to the tracking log provided to the AC with the July 2017 draft meeting minutes. Ms. Krabbe also distributed the response to the Board on 8/7/17.
7	Mr. Young	7/26/2017	At the next meeting, discuss how item #20 on the committee's checklist of responsibilities is accomplished.	Ms. Tuma and AC members to discuss.	Sept. 2017 meeting			
8	Mr. Berman	7/26/2017	On the committee's checklist of responsibilities, indicate which tasks should be completed at each meeting.	Ms. Tuma to do.	Sept. 2017 meeting			Y - The revised checklist was provided with the backup materials for the Sept. 2017 meeting. (A checklist will be provided at each AC meeting going forward.)

Audit Committee Responsibilities Checklist

Key:

Task expected to occur.

Ad hoc responsibility; not regularly scheduled.

Area of Responsibility	Audit Committee Meeting – FY 2018				
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.).		✓ (7/14/17)			
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.	-	-	Review of IRS forms postponed until Dec mtg		-
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.