

## Audit Committee Charter

### Orange County Community Housing Corporation (OCCHC)

#### **Purpose, Function, Authority, Reporting and Duties**

The responsibilities of the Board of Directors of OCCHC include oversight of the Corporation's systems of internal control, of preparation and presentation of financial reports and of compliance with applicable laws, regulations and Corporation policies. Through this Charter, the Board delegates certain responsibilities to the Audit Committee to assist the Board in the fulfillment of its duties to the Corporation. As more fully set forth below, the purpose of the Audit Committee is to assist the Board in its oversight of:

- the integrity and reliability of the Corporation's financial statements, disclosures and reports;
- the Corporation's compliance with legal and regulatory requirements;
- the qualifications, independence and performance of the Corporation's independent auditors; and
- the operations and activities of the corporation are subjected to appropriate measures of accountability.

**Membership.** The Committee shall consist of three or more directors, who shall be appointed for a term of **Three years** and subject to removal at any time, by the Board of Directors.

All Audit Committee members shall be financially literate, having a basic understanding of financial controls and reporting. At least one Audit Committee member shall also have accounting or related financial management expertise.

**Procedures.** The Audit Committee shall meet at least four times a year and may call special meetings as required. Meetings may be called by the Chair of the Audit Committee or the Chairman of the Board. The presence in person or by telephone of a majority of the members shall constitute a quorum. Meetings may be held at any time, any place and in any manner permitted by applicable law and the Corporation's Bylaws. Minutes of the Audit Committee's meetings shall be kept. To the extent practicable, the meeting agenda, draft minutes from the prior meeting and supporting materials shall be provided to Audit Committee members prior to each meeting to allow time for review. The Audit Committee shall have authority to create and delegate specific tasks to such standing or ad hoc subcommittees as it may determine to be necessary or appropriate for the discharge of its responsibilities. The results of the meetings shall be reported regularly to the full Board.

**Responsibilities.** The Corporation's Executive Director and management team bear primary responsibility for the Corporation's financial and other reporting, for establishing the system of internal controls and for ensuring compliance with laws, regulations and Corporation policies. The Audit Committee's responsibilities and related key processes are described below. From time to time, the Audit Committee may take on additional responsibilities, at the request of the Board.

#### **Function**

- *Accountability.* The audit committee advises on and reviews recommendations regarding systems of accountability in the operations and conducts of the business of the corporation and monitors whether the financial information, disclosures and reports by management personnel satisfy applicable standards of accountability and applicable laws.
- *Auditor Selection and Independence.* The audit committee selects, or recommends the selection of the independent auditors; monitors and evaluates the performance of the auditors; meets periodically with the auditors; and reviews and approves or recommends the contracts with the auditors selected.

- *Internal Systems.* The audit committee oversees the criteria for selection and accountability of internal financial and management personnel who are responsible for financial information, disclosures and reporting, oversees procedures for appropriate certifications by management and financial personnel with respect to periodic reports, and, with input from the outside auditor, reviews the accountability of management and financial personnel.
- *Self Dealing and Conflicts of Interest.* The audit committee makes appropriate inquiries, investigates, if necessary, and evaluates acts of officers, directors, management and financial personnel with respect to the existence of self-dealing and/or conflicts of interest and adequacy of disclosures.

## Reporting

The audit committee reports directly to the Board of Directors and/or to the Executive Committee as it sees fit.

## Authority

The audit committee may request the resources and assistance necessary to discharge its responsibilities, including appropriate funding, as determined by the Committee, unrestricted access to Corporation personnel and documents and the Corporation's independent auditors, and may request the authority to investigate any matter or activity that involves financial accounting, controls, reporting and accountability. Officers and members of the board should refer any questions regarding the independent audit, the independent auditor or the reliability or competence of any internal personnel to the audit committee. The audit committee may consider any matters delegated to it by the Board of Directors, Executive Committee or the Executive Director.

## Duties

The following is a list of examples of regular duties of the audit committee.

- 1) *Self Assessment.* The audit committee should annually assess its own performance and make recommendations to the board of directors for revisions or modifications in the organization, function, authority and duties of the committee.
- 2) *Accountability Controls.* The audit committee should annually review the internal accounting and financial reporting process, including internal controls with management (executive director) and the scope and adequacy of internal controls with the independent auditor. And inquire of management, and the Corporations' independent auditors concerning any deficiencies in the Company's policies and procedures that could adversely affect the adequacy of internal controls and the financial reporting process and review any special audit steps adopted in light of any material control deficiencies and the timeliness and reasonableness of proposed corrective actions.
- 3) *Principles and Practices.* The audit committee should annually review with management (executive director) and independent auditor significant accounting and reporting principles, practices and procedures as reflected in the accounting and financial reports and information disclosures and systems of accountability.
- 4) *Independent Audit.* The audit committee should periodically determine an appropriate process for selecting the independent auditor, and should select or recommend the selection of the independent auditor for the annual audit to the board of directors for approval or ratification.
- 5) *Annual Audit.* The audit committee should annually determine with the independent auditor the scope, including the risk factors considered in determining the audit scope, and general extent of the annual audit, and review the annual audit with the auditor and management (executive director) and report to the board. The audit committee should (as often as needed) review with the independent auditor any findings or recommendations regarding the audit process and internal accountability.

- 6) *Financial and Accounting Personnel.* The audit committee should (as often as needed) review with management (executive director) and with the independent auditor the credentials, reliability, competency and accountability of the financial and accounting personnel of the corporation; and resolve any disagreements between management and the auditors regarding financial reporting.

*Appropriate Investigations.* The audit committee should (as often as needed) initiate investigations of issues involving accountability, accounting and financial reporting disclosure, internal controls, and issues of self-dealing or conflicts of interest. The Audit Committee will also be responsible for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters; and will oversee the confidential, anonymous submission by employees of the Corporation regarding questionable accounting or auditing matters.

- 7) *Private Sessions.* As a best practice the Audit Committee will meet periodically with the independent auditors in private session (without the participation of the Executive Director or a member of the management team); and will also meet periodically in private with the Corporation's Executive Director, or a member of management.
- 8) *Specifically.* The OCCHC fiscal year is the calendar year. Audits begin on January 1 and should be completed by March 15, however, the function of the audit committee continues on to recommend or oversee a management response to the audit management letter.
- 9) *Timing.*
- a) List of proposed auditors approved by audit committee, July 1
  - b) RFP for 3 year audit mailed by July 1
  - c) Bids received by 2<sup>nd</sup> week in October
  - d) Bids reviewed and selected by November 15
  - e) Auditor selection recommended and approved by Board in November
  - f) Audit scoping meeting 2<sup>nd</sup> Thursday in December
  - g) Audit commences on January 1
  - h) Audit exit briefing on 2<sup>nd</sup> Thursday in March
  - i) Audit delivered to Board 3<sup>rd</sup> Thursday in March
  - j) Management Letter delivered to Board on 3<sup>rd</sup> Thursday in March
  - k) Management Letter response to Board on 3<sup>rd</sup> Thursday in April
  - l) Taxes filed May 15

The following does have a substantive impact on how our audits are conducted.

## SAS No. 99

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### Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit Summary

The following is an overview of the organization and content of SAS No. 99:

- *Description and characteristics of fraud.* This section describes fraud and its characteristics.
- *The importance of exercising professional skepticism.* This section discusses the need for auditors to exercise professional skepticism when considering the possibility that a material misstatement due to fraud could be present.
- *Discussion among engagement personnel regarding the risks of material misstatement due to fraud.* This section requires, as part of planning the audit, that there be a discussion among the audit team members to consider how and where the entity's financial statements might be susceptible to material misstatement due to fraud and to reinforce the importance of adopting an appropriate mindset of professional skepticism.
- *Obtaining the information needed to identify risks of material misstatement due to fraud.* This section requires the auditor to gather information necessary to identify risks of material

misstatement due to fraud, by

- a. Inquiring of management and others within the entity about the risks of fraud.
  - b. Considering the results of the analytical procedures performed in planning the audit.
  - c. Considering fraud risk factors.
  - d. Considering certain other information.
- *Identifying risks that may result in a material misstatement due to fraud.* This section requires the auditor to use the information gathered to identify risks that may result in a material misstatement due to fraud.
  - *Assessing the identified risks after taking into account an evaluation of the entity's programs and controls.* This section requires the auditor to evaluate the entity's programs and controls that address the identified risks of material misstatement due to fraud, and to assess the risks taking into account this evaluation.
  - *Responding to the results of the assessment.* This section emphasizes that the auditor's response to the risks of material misstatement due to fraud involves the application of professional skepticism when gathering and evaluating audit evidence. The section requires the auditor to respond to the results of the risk assessment in three ways:
    - a. A response that has an overall effect on how the audit is conducted, that is, a response involving more general considerations apart from the specific procedures otherwise planned.
    - b. A response to identified risks that involves the nature, timing, and extent of the auditing procedures to be performed.
    - c. A response involving the performance of certain procedures to further address the risk of material misstatement due to fraud involving management override of controls. The procedures include
      - Examining journal entries and other adjustments for evidence of possible material misstatement due to fraud.
      - Reviewing accounting estimates for biases that could result in material misstatement due to fraud.
      - Evaluating the business rationale for significant unusual transactions.
  - *Evaluating audit evidence.* This section requires the auditor to assess the risks of material misstatement due to fraud throughout the audit and to evaluate at the completion of the audit whether the accumulated results of auditing procedures and other observations affect the assessment. It also requires the auditor to consider whether identified misstatements may be indicative of fraud and, if so, directs the auditor to evaluate their implications.
  - *Communicating about fraud to management, the audit committee, and others.* This section provides guidance regarding the auditor's communications about fraud to management, the audit committee, and others.
  - *Documenting the auditor's consideration of fraud.* This section describes related documentation requirements.

In addition, SAS No. 99 amends SAS No. 1, *Codification of Auditing Standards and Procedures (AICPA, Professional Standards, vol. 1, AU sec. 230, "Due Professional Care in the Performance of Work")*, and SAS No. 85, *Management Representations (AICPA, Professional Standards, vol. 1, AU sec. 336)*.

SAS No. 99 is effective for audits of financial statements for periods beginning on or after December 15, 2002. Early application of the provisions of this Statement is permissible.