

A G E N D A

AUDIT COMMITTEE

REGULAR MEETING

MONDAY, SEPTEMBER 9, 2019, AT 10:00 AM

MULTI-PURPOSE ROOM 3 AT GATEWAY COMPLEX

- 1) MEETING CALLED TO ORDER: Dwight Walker, Chair
- 2) ROLL CALL: Dwight Walker, John Kikuchi, Merek Lipson, Mary Neff (nonvoting), Barbara Rothway, Kathleen Stumpfel, and Christopher Yahng

INTRODUCTIONS: Tim O’Keefe, CEO; Rick Chakoff, CFO; and Bob Kelso, GRF Board President
- 3) APPROVAL OF REPORT: Regular Meeting--August 12, 2019
- 4) RESIDENTS’ FORUM

The Audit Committee will follow Rossmoor custom and limit comments to 3 minutes.
- 5) ANNOUNCEMENTS
- 6) NEW BUSINESS
 - a) Review of Audit Firm 3-year fee proposals from Shea Labagh Dobberstein and BPM (Attachment)
 - b) Consider recommendation to Board for 2019 audit engagement
 - c) Audit Committee Self-Assessment (Attachment)—Committee members were asked to complete in preparation for this meeting. This exercise will assist in developing goals for the upcoming year.
 - d) Discussion regarding moving the Committee agendas and reports to Simbli, which is a web-based meeting management application.
- 7) UNFINISHED BUSINESS
 - a) Code of Conduct DRAFT update--legal review
 - b) Whistleblower Policy—Employee Handbook Update in Process
 - c) MTF Task Force—GRF Management
 - d) Enterprise Risk Management
 - e) Mechanics Bank Sweep Account—Rick Chakoff
- 8) ADJOURNMENT
- 9) NEXT MEETING: Monday, October 7, 2019, at 10:00 a.m. in the Board Room at Gateway Complex.

cc: GRF Board

AUDIT COMMITTEE REPORT
REGULAR MEETING
MONDAY, AUGUST 12, 2019, AT 11:00 A.M.

A regular meeting of the Audit Committee was convened by the Chair, Dwight Walker, at 11:00 a.m. on Monday, August 12, 2019, in the Donner Room at the Event Center.

Members present were Dwight Walker, Chair; John Kikuchi, Merek Lipson, Mary Neff, Roll Call Barbara Rothway, Kathleen Stumpfel and Chris Yahng.

Also attending were Tim O’Keefe, CEO; Rick Chakoff, CFO; and GRF Board member Dale Harrington; and Rossmoor resident Mary England.

1. APPROVAL OF REPORT: Report from the June 3, 2019 meeting, was unanimously approved with a motion from John Kikuchi and seconded by Barbara Rothway.
2. ELECTION OF VICE CHAIR: Nominations from the floor were called for and Merek Lipson nominated John Kikuchi based on his solid leadership, integrity, and handling of several task forces over the past year. No other nominations were put forth.

A motion was made by Merek Lipson, seconded by Barbara Rothway, and CARRIED UNANIMOUSLY to elect John Kikuchi as Vice Chairman of the Audit Committee.

3. RESIDENTS’ FORUM—Mary England commented on the draft document for an updated Code of Conduct Policy and its language of “loyalty”.
4. ANNOUNCEMENTS—
 - Sheldon Solloway passed away on July 28 and condolences were expressed for his family and friends.
5. REVIEW OF AUDIT FIRM PROPOSALS—Rick Chakoff and Chris Yahng
 - Six audit firms were contacted by Rick Chakoff and requested to submit a proposal.
 - Four firms responded: Eide Bailly, Shea Labagh Dobberstein, Moss Adams, and BPM. Proposals were reviewed by Rick Chakoff and the Task Force.
 - Interviews by the Audit Committee and Rick Chakoff with all four firms will be set up in the coming weeks with a goal of determining a recommendation at the 9/9/19 Committee meeting.
 - Tim O’Keefe encouraged the Committee to look for the right level of service, competency and professionalism when interviewing the firms.

6. UNFINISHED BUSINESS

- a) John Kikuchi reported that the Task Force for **Code of Conduct Compliance** voted unanimously to submit the attached draft for the Committee's review.

A motion was made by Merek Lipson and seconded by Barbara Rothway to recommend the draft policy for legal review with an emphasis on looking at the "unwelcomed physical contact" area. After discussion, a vote was then taken, and the motion CARRIED UNANIMOUSLY.

Tim O'Keefe will forward to legal counsel.

- b) Tim O'Keefe reported that the Employee Handbook is being updated to be consistent with the **GRF Whistleblower Policy**, along with other items and should be available soon.

c) **Member Transfer Fee Task Force**—Mary Neff.

- The Task Force is now headed up by staff including, Tim O'Keefe, Rick Chakoff, Paul Donner, and Chris Preminger. A Guidance Review Team rounds out the task force with Bob Kelso, Mary Neff, and Dwight Walker.
 - A kickoff meeting was held on 7/19/19 to define roles and responsibilities and the scope of the effort. There were many legal questions, so there was a follow-up meeting on 7/23/19 with Tony Grafals.
 - At the 7/23/19 meeting, Legal Counsel Grafals attempted to clarify legal positions on the MTF as it relates to Bylaws, CA Civil code, etc. No new concepts were resolved that could address the shrinkage in MTF resulting from multiple unit ownership.
 - The Audit Committee will continue to receive updates on this important issue. Mary Neff asked that future updates to the Audit Committee be made by staff.
- d) Merek Lipson and Dwight Walker attended the July GRF Planning Committee Meeting to present the Enterprise Risk Management (ERM) concept for Board/management consideration. At the August Planning Committee Meeting, it was unanimously voted to send the ERM project back to the Audit or Finance Committee. A vigorous discussion ensued citing the independence of the Audit Committee in overseeing and monitoring the ERM best practice. Board goals for the upcoming year call for long-term planning, including risk assessments, but how that is to be accomplished by management/Board is still unresolved. The ERM issue was tabled to the next meeting to allow time for management/Board to determine next steps.
- e) Rick Chakoff reported that Mechanics Bank is ready to implement a program utilizing a sweep account for GRF cash that will provide for FDIC

insured accounts and interest income, albeit just above 1% at this point in time.

- f) 2019 FASB Changes—Rick Chakoff indicated that the new auditors will be addressing this issue.

7. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 12:15 p.m.

8. NEXT MEETING:

Committee members were asked to complete the “Audit Committee Self-Assessment” form handout for the next meeting. The next regular meeting of the Audit Committee will be Monday, September 9, at 10:00am in Multi-Purpose Room #3 at Gateway Complex.

Dwight Walker, Chair
Audit Committee

GRF Audit Committee				
Comparison of 3 year Proposals				
Shea Labagh Dobberstein vs BPM				
				3 year
	2019	2020	2021	Total
SLD				
Audit	63,000	63,000	63,000	
Pension	18,000	18,000	18,000	
401k	12,000	12,000	12,000	
Tax Returns	6,000	6,000	6,000	
Total	99,000	99,000	99,000	297,000
BPM				
Audit	67,000	69,000	71,500	
401k/Pension	25,000	25,750	26,500	
Tax Returns	8,250	8,500	8,750	
Total	100,250	103,250	106,750	310,250
SLD <BPM	(1,250)	(4,250)	(7,750)	(13,250)

▶AUDIT COMMITTEE SELF-ASSESSMENT

This Audit Committee Self-Assessment document may be used by those charged with governance (in particular, audit committees) in performing an annual self-assessment. The following topics and issues to consider have been developed in conjunction with the BDO *Effective Audit Committees for Nonprofit Organizations* publication, review of other widely available self-assessment tools and our knowledge and experience in working with audit committees and other nonprofit organization committees charged with governance.

As there is always room for improving quality and performance, we recommend that this document be used in conjunction with your organization's Audit Committee Charter (or similar document) to ensure that governance responsibilities are adequately aligned with the charter and are being fulfilled appropriately. You may choose to customize this self-assessment further to reflect specific attributes of your organization and develop specific action steps and estimated completion dates to enhance your committee's performance.

Note: Audit Committees may find it useful to first take the self-assessment individually and have the chairman or designee consolidate the results for discussion purposes.

Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
COMPOSITION AND CHARACTER								
The audit committee has the appropriate qualifications and integrity to serve the board of directors and satisfy the audit committee charter.								
The audit committee has the appropriate number of members to address risk adequately and efficiently.								
All members of the audit committee understand their roles and responsibilities.								
The audit committee has at least one financial expert member. This is sufficient given the complexities of the organization's current and/or proposed business operations.								
The audit committee has the appropriate operational and industry expertise to allow a solid understanding of the risks faced by the organization.								

▶AUDIT COMMITTEE SELF-ASSESSMENT continued

Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
All of the audit committee members are independent in both form and appearance so that impartiality may be applied in its decision-making.								
The audit committee has completed and continues to periodically perform background checks on all audit committee members.								
The audit committee considered whether a change in composition of the audit committee was needed in order to provide a "fresh" perspective of the organization.								
CHAIRMAN								
The chairman has adequate time scheduled to fulfill his/her responsibilities.								
The chairman takes time to meet independently with management, internal and external auditors, etc.								
The chairman solicits input for meeting agendas from other audit committee members, management and both the internal and external auditors.								
INDEPENDENCE								
The audit committee has a process that allows it to remain current on independence requirements.								
The audit committee annually confirms its independence to the board of directors.								
CONTINUING EDUCATION								
The audit committee has an effective process for keeping current on accounting and reporting matters.								

Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
SETTING TONE AT THE TOP								
The audit committee has ensured that management clearly communicates to all employees that financial misreporting is absolutely unacceptable and this policy is being appropriately enforced.								
The audit committee requires management to communicate "bad" news promptly and fully and management is in compliance with this requirement.								
The audit committee is able to ask difficult questions of management, the internal auditors and the external auditors.								
The audit committee is appropriately skeptical in its analysis of issues.								
The audit committee is able to react quickly to effect change and take preventative measures for the future.								
The audit committee uses the audit committee charter to guide its responsibilities and assist in setting agendas.								
The audit committee updates the audit committee charter as necessary based on regulatory requirements and/or circumstances particular to the organization.								
The audit committee presents its annual assessment to the board of directors.								
OVERSIGHT AND INTERNAL CONTROL OVER FINANCIAL REPORTING								
The audit committee's role as a function of the overall board of directors is clear and concise.								

Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
The audit committee understands the strategic direction of the organization.								
The audit committee reports timely and adequately to the board of directors and solicits appropriate feedback from the board.								
The audit committee has allocated adequate meeting time throughout the year.								
The audit committee conducts its meetings efficiently and is able to focus on significant issues.								
All audit committee members receive and read materials in advance of audit committee meetings and come prepared.								
The audit committee maintains adequate meeting minutes.								
Audit committee members are able to speak freely during audit committee meetings.								
The audit committee reviews materials outside of the financial statements (e.g., industry reports, trend analysis, budget to actual, financial ratios, etc.) and encourages management to provide this information on a timely basis.								
The audit committee reviews and understands risk assessments developed by management and the auditors (including the risks of fraud and management override of controls).								
The audit committee has a good understanding of the internal controls of the organization and management's assessment of the effectiveness of internal controls								

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	0	1	2	3	4	5		
The audit committee is alert to "red flags" which may signal improper earnings management, fraudulent financial reporting, and misappropriation of funds or illegal acts.								
The audit committee has a process in place for reacting to alleged fraud.								
The audit committee engages experts and advisors, as circumstances warrant.								
EVALUATION OF AND COMMUNICATION WITH MANAGEMENT								
The audit committee understands the pressures faced by management that could impact the financial reporting of the organization and maintains skepticism.								
The audit committee holds executive sessions with key members of management (including operations) as often as necessary to understand business risks.								
Management communicates significant deficiencies or material weaknesses directly to the audit committee along with plans for remediation.								
The audit committee adequately follows up on management's remediation plans.								
The audit committee has an adequate succession plan in place for key financial management personnel (e.g., CFO).								
The audit committee is alert to fraud risk factors, particularly potential for management override of internal controls.								
EVALUATION OF AND COMMUNICATION WITH INTERNAL AUDIT, IF APPLICABLE								
The audit committee is responsible for and has adequate knowledge of the selection and retention of the internal audit function.								

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Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
The audit committee meets often enough with the internal auditors and understands the scope of their work.								
The internal auditors report directly to the audit committee providing it with unfiltered information.								
The audit committee periodically assesses the adequacy of the internal audit department.								
EVALUATION OF AND COMMUNICATION WITH EXTERNAL AUDITORS								
The audit committee specifically considered the technical, industry and financial reporting knowledge, including geographic reach of the auditors.								
The audit committee is satisfied with the auditors' independence.								
The audit committee has inquired of and is satisfied that the auditors have adequate quality control policies and procedures in place to ensure services rendered meet professional and regulatory requirements as well as the audit committee's expectations.								
The audit committee has obtained sufficient information to ensure that the audit fee is in line with expectations and the scope of the audit.								
The audit committee is satisfied with the on-going technical training of the auditors.								
The audit committee has adequate access to the auditors.								
The audit committee is satisfied that communications with the auditors are meaningful and occur often enough.								

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Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
The audit committee has approval of services (both audit and non-audit) policies and procedures, if required, and is satisfied that these are operating effectively.								
The audit committee has discussed the overall scope and audit plan with the auditors and suggested adjustments as appropriate.								
The audit committee understands the critical accounting policies and practices employed by management and has discussed these with the auditors. The audit committee has discussed with the auditors all significant findings from the audit. [This includes but is not limited to: critical accounting policies; changes in accounting principles; management judgments and estimates; corrected and uncorrected misstatements; other information in documents containing audited financial statements (e.g., selected financial data, annual reports, etc.); disagreements with management; consultation with other accountants; major issues discussed with management, including those held prior to retention; significant difficulties encountered in performing the audit; fraud and potential illegal acts involving senior management and those that cause a material misstatement of the financial statements; and quality, not just the acceptability, of the entity's accounting principles as applied in its financial reporting].								
The audit committee has discussed with the auditors all alternative accounting treatments within GAAP related to material items that have been discussed with management.								

Topic/Issues	N/A	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Action Steps Required/ Comments	Estimated Completion Date
	0	1	2	3	4	5		
The audit committee has reviewed and discussed with the auditor any material written communications made to management (e.g., management and engagement letters) and the status of recommendations made.								
FINANCIAL STATEMENTS AND OTHER INFORMATION								
The audit committee has adequate procedures in place to ensure that review of draft financial statements and tax returns occur <i>prior</i> to public release.								
The audit committee is satisfied with the quality and transparency of disclosures within the financial statements.								
The audit committee understands the status of any major litigation or compliance matters encountered by the organization (including results of regulatory reviews/reports) and how management is addressing and responding to these matters.								
ETHICS AND CODE OF CONDUCT								
The organization has adequate whistle-blower policies and procedures established and the audit committee adequately oversees this process.								
The audit committee ensures that management adheres to the organization's code of conduct.								
AUTHORITY AND FUNDING								
The audit committee has the authority and adequate resources to retain and compensate auditors and independent counsel and advisors and to fund ordinary administrative expenses.								
OVERALL ASSESSMENT								
The audit committee function is operating efficiently and effectively in fulfillment of its oversight responsibility.								