

ARTICLE IV. INTERNAL CONTROL COMMITTEE
Amended December 13, 2011
Amended May 16, 2018

A. Authority and Jurisdiction

On March 15, 1994 the KPOA Board of Directors established the Audit Committee. On October 9, 2007, the name of the Committee was changed to Internal Audit Committee to reflect current concepts of accounting and auditing. Effective with Board approval of this Article, the Committee name is changed to Internal Control Committee to comply with RCW requirements and prohibitions.

B. Committee Mission

The Committee's mission is to:

- Analyze the accounts, business transactions and assets of the Association.
- Observe the actions of the Finance Committee to ensure compliance with established policies and procedures.
- Report any findings to the Board and KPOA membership.
- Make recommendations to the Board and KPOA Membership of external audit needs.

C. Committee Organization and Reporting

The Committee shall be composed of three or more members including one Board Liaison (voting) and one Board Representative (non-voting), and the members shall be approved by the Board.

The Committee shall be reorganized and elect its chair annually following the Association's Annual Meeting in July. The Committee shall meet at least quarterly.

Written minutes of the meetings shall be submitted to the Board.

D. Committee Objectives and Action Plan

The Committee objectives include:

- Ensuring that adequate internal controls exist and are executed to safeguard against fraud;
- Examining all accounts, records, assets and procedures;
- Analyzing procedures for handling cash and checks and actions taken in performing those procedures for income and expenses. Also evaluating procedures and actions in Payables and Receivables.
- Analyzing procedures for handling taxes, including income and payroll and actions taken in performing those procedures.
- Evaluating annual Budget preparation and development. Assuring compliance with applicable laws, rules, CC&R's, etc.
- Determining that required insurance policies are in effect and active;
- Inspecting securities and investments and management processes of investments;
- Inspecting buildings and equipment and ensuring they are being adequately maintained;
- Checking bank records to assure updating of signature cards following the annual KPOA Membership Meeting and election of new Directors and Officers of the Board.
- Reporting Committee findings in writing to the Board and membership for inclusion in the annual report (the report shall include a description of the areas evaluated, the findings, and any recommendations for change or improvement);
- Developing specific procedures for accomplishing all objectives above.

E. External Audit

NOTE: Revisions made to this section must be duplicated concurrently in APP Article VII. – Finance Committee, Section F.

The State of Washington requires the financial statements of home owner associations with annual assessments of fifty thousand dollars or more be audited at least annually by an independent certified public accountant. The audit may be waived, if a resolution to do so is put to a vote of the membership, and sixty-seven percent (2/3rds) of the votes are cast are in favor of the waiver.

An external audit is required if any of the following apply:

1. Three years have elapsed since the last external audit;
2. There is a change of: Chief Financial Officer, General Manager, Bookkeeper, and/or accounting system or procedures;
3. There is suspicion of malfeasance.

The Board may request an audit, and notify both the Finance and Internal Control Committees.

A recommendation for or against an external audit is made first by the Internal Control Committee (ICC), and brought to the Finance for concurrence.

If the ICC and the Finance Committee disagree about whether an audit should be performed, then the KPOA Board will decide, based on the recommendations and justification of each committee.

If the recommendation by the ICC and Finance Committees is to waive the annual audit, ICC will prepare and present to the Board, no later than the April meeting, a resolution waiving the external audit for the prior year. If approved by the Board, the resolution will be placed on the ballot of the Annual Membership Meeting for a vote by the members of KPOA in accordance with the State of Washington requirements.

If the recommendation is have an external audit, a motion to do so is made to the Board by ICC. If the Board approves the motion for an external audit, the Finance Committee, if required modifies budgets, and obtains proposals from external audit firms.

In collaboration, members of Finance and ICC review the audit proposal(s), and select the audit the firm.

In making the selection, the following criteria will be used: the audit firm should 1) specialize in homeowners' associations in the State of Washington, 2) have been in continuous existence for at least five years, and 3) be staffed by individuals qualified in auditing and Federal Income Tax preparation of homeowners' associations. The principals of the audit firm must be licensed Certified Public Accountants in good standing in the State of Washington. Preference will be given to audit firms located within Western Washington. Prior to making a recommendation to the Board, the Committee shall check appropriate references of the selected audit firm and the CFO shall meet with at least one principal of the audit firm.

Upon selection of an audit firm, the CFO will be the primary point of contact and provide the audit firm with instructions as needed.

Selected members of Finance and ICC will be kept apprised of audit execution, meet with the external auditors as required, review audit findings and recommendations, if required prepare a response to the audit firm. Also, if required as a result of the audit, suggestions for changes to KPOA policies and procedures will be suggested to the appropriate committee(s) and the Board.

APP IV-1
Policy Regarding Review of KPOA's Accounts
Adopted December 14, 2010
Amended May 16, 2018

PURPOSE

To verify that the proper account codes have been utilized and provide assurance regarding the integrity of KPOA financial statements.

POLICY

The Internal Control Committee Chairman will designate at least one member of the Committee to make a monthly review of the codes used for posting of KPOA's check (and/or cash) expenditures for each month. The review will be done near the end of the month, when a maximum of the monthly transactions have been posted, before the books are closed for the month. If some monthly transactions are not reviewed before the month-end, they will be reviewed during the next monthly review, for possible prior period adjustments, if corrections are needed.

After the coding review is completed the books may be closed, and the Finance Committee representative who reviews the reconciliation of the accounts may proceed.