

Audit Committee Meeting

AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION
To be held at the offices of
Texas State Affordable Housing Corporation
2200 East Martin Luther King Jr. Blvd
Austin, Texas 78702
September 14, 2011 at 9:00 am

CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM

Jo Van Hovel
Chair

The Audit Committee of Texas State Affordable Housing Corporation will meet to consider and possibly act on the following:

PUBLIC COMMENT

ACTION ITEMS IN OPEN MEETING:

- Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 17, 2010.
- Tab 2 Presentation, Discussion and Possible Approval of the Fiscal Year 2012 Operating Budget.
- Tab 3 Presentation, Discussion and Possible Approval of Selection of Independent Financial Auditors.

CLOSED MEETING

Consultation with legal counsel on legal matters – Texas Government Code § 551.071
Deliberation regarding purchase, exchange, lease, or value of real property – Texas Government Code § 551.072
Deliberation regarding prospective gift or donation to the state or Texas State Affordable Housing Corporation – Texas Government Code § 551.073
Personnel Matters – Texas Government Code § 551.074
Implementation of security personnel or devices – Texas Government Code § 551.076
Other matters authorized under the Texas Government Code

OPEN MEETING

Action in Open Meeting on Items Discussed in Closed Meeting

ADJOURN

Individuals who require auxiliary aids or services for this meeting should contact Laura Ross, ADA Responsible Employee, at 512-477-3560 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that the appropriate arrangements can be made.

Texas State Affordable Housing Corporation reserves the right to recess this meeting (without adjourning) and convene at a later stated time, if and to the extent allowed by law. If Texas State Affordable Housing Corporation adjourns this meeting and reconvenes at a later time, the later meeting will be held in the same location as this meeting. Texas State Affordable Housing Corporation also reserves the right to proceed into a closed meeting during the meeting in accordance with the Open Meetings Act, Chapter 551 of the Texas Government Code. If permitted by the Open Meetings Act, Chapter 551 of the Texas Government Code, any item on this Agenda to be discussed in open meeting may also be discussed by the Board (and any other authorized persons) in closed meeting.

**AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION
Held at the offices of
Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Blvd.
Austin, TX 78702
December 17, 2010 at 9:00 am**

Summary of Minutes

**Call to Order, Roll Call
Certification of Quorum**

The Audit Committee Meeting of the Texas State Affordable Housing Corporation (the “Corporation”) was called to order by Bill Dietz, Audit Committee Member, at 9:08 am on December 17, 2010, at the offices of Texas State Affordable Housing Corporation, 2200 E. Martin Luther King Jr. Blvd, Austin, TX 78702. Roll Call certified that a quorum was present.

Committee Members Present

William H. Dietz, Jr., (Board Member) Member
Cynthia Leon, (Board Member) Alternate Member
David Long, (President) Ad Hoc Member
Melinda Smith, (Chief Financial Officer) Ad Hoc Member

Committee Members Absent

Jo Van Hovel, (Vice Chair) Chair

Staff Present

Liz Bayless, Executive Vice President
Nick Lawrence, Controller
Betsy Lau, Accountant
Laura Ross, Corporate Secretary
Cynthia Gonzales, Assistant Corporate Secretary and Office Manager

Special Guests

Don Mikeska, Mikeska, Monahan & Peckham
Chip Rainey, Greenberg Traurig

Public Comment

There was no public comment.

Tab 1 Presentation, Discussion and Possible Approval of the Minutes of the Audit Committee Meeting held on October 21, 2010.

Ms. Smith made the motion to approve the minutes of the board meeting held on October 21, 2010. Ms. Leon seconded the motion. Motion passed.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Financial Report and Independent Auditor's Reports for the Fiscal Year Ending August 31, 2010

Ms. Smith stated that staff was presenting the annual financial audit to the Audit Committee for recommendation to the full Board for approval. She noted that the deadline for submitting the audit to the Comptroller's office was December 20th. Ms. Smith thanked Mr. Lawrence and Ms. Lau for their hard work on the audit this year. She then deferred to Mr. Mikeska with Mikeska, Monahan and Peckham, the Corporation's financial auditor.

Ms. Smith handed out copies of the audit to the Committee and Mr. Mikeska turned the Committee's attention to the Table of Contents. He noted that the financial statements had grown due to the additional schedules related to the single audit of the NSP and NFMC programs. Mr. Mikeska proceeded to go through the audit, beginning with the Management and Analysis. He explained that it was a summarization of the financial statements written by management and was a required part of the audit.

He then turned to page 7, the auditor's report, which this year as in previous years, was an unqualified opinion. He explained that this meant there were no qualifications or exceptions found during the audit. Mr. Mikeska read into the record from the 3rd paragraph: "In our opinion the financial statements referred to above present fairly in all material respects the financial position of TSAHC as of August 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with GAAP, Generally Accepted Accounting Principles".

Mr. Mikeska then turned to the Statement of Net Assets (balance sheet), which could be found on page 8. He noted that it was a classified balance sheet in that the current assets were segregated from noncurrent assets. Comparing current assets and liabilities measured liquidity and based on the Corporation's assets and liabilities, the Corporation was very liquid. He then went over the assets and liabilities listed on the balance sheet.

Mr. Mikeska then turned to the Statement of Revenues, Expenses and Changes in Net Assets (income statement) on page 9. He noted that the top portion showed the operating revenue of which the largest items were interest on investments. He refreshed the Committee's memory that the Corporation was required to carry the bond investments at fair market value. He noted that the next largest item was federal and state grants, referring to NFMC and NSP. Mr. Mikeska turned to expenses, noting that the primary expenses related to interest on bonds and notes payable were the largest items.

He then moved on to page 10 and 11, the Cash Flow Statement. Mr. Mikeska explained that this gave the reader an idea of how cash was generated by the Corporation and how cash was expended. He noted that the Corporation was required by GASB to break it up into operating, noncapital financing, capital financing and investing activities.

Page 11 was a schedule that showed how net cash from operating activities was impacted by current assets and liabilities.

Turning to the footnotes, Mr. Mikeska made a few quick notes, starting with page 40 Subsequent Events. He explained that this footnote discussed what had happened since fiscal year end that

was significant to warrant disclosure. He went over the items that were disclosed, including the payment of the notes receivable, the downgrade of the GIC provider for the 2005A and 2005B bond programs, and information about the Corporation's Sunset review.

Turning to page 43, Additional Information, he referred to the Schedule of Expenditures of Federal Awards. This was the Single Audit of the NFMC and NSP programs. He noted that the Schedule explained who the grantor agency was, as well as the pass through agency. It also laid out the dollar amounts expended under each. Page 44 spoke to how the schedule had been prepared on the accrual method of accounting. It included a description of the NFMC program and the NSP program. Also noted was information that the Corporation and the Department had spent additional non federal money on the NFMC program.

On page 45 was the Yellow Book opinion. Mr. Mikeska noted that the auditor was required to review internal control over financial reporting and compliance. He stated that he had found no material weaknesses or deficiencies in internal control during his review. He cited the statement in the fourth paragraph "We did not identify any deficiencies in internal control over financial reporting that we would consider to be material weaknesses, as defined above." Under compliance, he referred to the last sentence of the paragraph "The results of our tests disclose no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards". Mr. Mikeska stated that the yellow book opinion applied to the entire audit, not just single audit of federal programs.

Turning to page 46, he pointed out that this was the OMB A-133 compliance letter. He went over the various tests for material weaknesses that could be performed. Referring to the third paragraph, he read "In our opinion, Texas State Affordable Housing Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying Schedule of Questioned Findings and Questioned Costs". With reference to the test of compliance, on page 47 it stated "We do not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above."

Turning to page 48, the Schedule of Findings and Questioned Costs, he noted that there were no findings. Mr. Mikeska stated that the Corporation did not qualify as a low risk auditee because we hadn't received a federal audit in the last two years. Once we had received 2 audits with no findings, we would be considered low risk. He explained that if considered high risk, the auditor audited 50% of the federal programs and if low risk, it was only 25%.

Turning to page 49 under the Financial Statement Audit, a section that identified significant deficiencies, material weaknesses and instances of fraud or legal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements. He noted that there were no findings.

Page 50 addressed prior year findings and Corrective Action Plans. Mr. Mikeska noted that there were no prior year findings or corrective action plans.

Discussion briefly followed about auditing procedure. To conclude his presentation, Mr. Mikeska stated that there had been no findings in the audit this year. He thanked Ms. Smith and her staff, Mr. Lawrence and Ms. Lau, for all their hard work and thanked the whole staff for their help and cooperation.

Ms. Leon stated that having worked at HUD for so long and having looked at audits of this nature, it was a pleasure to work with an organization that had no audit findings and what a tremendous statement that was for the organization. She applauded staff on their fantastic job and wanted it noted in the record.

Mr. Dietz asked for clarification about the Management Letter and Mr. Mikeska explained that there was no Management Letter included in the audit because there were no findings or deficiencies to address.

Mr. Mikeska informed the board that he had communicated with Ms. Van Hovel, chair of the Audit Committee, in October with regard to the engagement letter and the requirements of both staff and the auditor. It was required that the Auditor communicate directly with a member of the Audit Committee so he had in October and then again yesterday as a follow-up.

Ms. Smith made a motion to approve the annual financial audit report and independent auditor's reports for the fiscal year-end August 31, 2010 and recommended the audit report, financial statements and management discussion be presented to the Corporation's Board of Directors for ratification and approval. Ms. Leon seconded the motion. Motion passed unanimously.

Tab 3 Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.

Ms. Smith explained that the Audit Committee Guidelines were required to be reviewed on an annual basis. She stated that staff proposed changes on page 3 where the Auditing Standards numbers had changed. On page 3, number 4 – Auditing Standards Number 112 was changed to 115. Under independent auditors, number 3, Auditing Standard numbers 112 and 114 had changed to 114 and 115.

Mr. Dietz inquired about the hiring of the Auditor and Ms. Smith read from the Guidelines that the Audit Committee reviewed the performance of the auditor and annually recommended to the Board of Directors the appointment of the auditor. Discussion followed about changing the Guidelines so that the Audit Committee was fully responsible for that duty. Discussion also followed about whether it was in the Audit Committee's power to make changes to the Guidelines or whether those changes needed to be approved by the full board. It was agreed that paragraph 1 under Independent Auditors should be changed to say "The Audit Committee shall review the independence, qualifications and performance of the auditors and annually appoint the independent auditors or approve of any discharge of auditors when circumstances warrant". Turning to language regarding the makeup of the Audit Committee, Mr. Long suggested that it be reworded and after discussion it was decided that the language should be changed to read that the Audit Committee be made up of at four members, at least two of which must be board members.

Mr. Long made a motion to approve the Audit Committee Guidelines as amended with the changes to the language regarding what constituted a quorum of the Audit Committee, as well as changes to how the auditor was hired. The motion was reviewed and the original changes proposed by staff regarding the number changes was included in the list of changes to be approved. Ms. Smith seconded the motion. Motion passed unanimously.

Tab 4 Presentation, Discussion and Possible Approval of Request for Proposal for Independent Financial Auditor.

At the Audit Committee's request, staff had put together a Request for Proposal (RFP) for independent financial auditor to do our financial audit, as well as our investment audit and tax return for the next 3 fiscal years. After discussion, the original deadline was changed to a later date. Ms. Smith pointed out that language was included in the RFP regarding the single audit for the NSP and NFMC programs and OMB-133 requirements. The Committee determined after discussion that more general information should be used regarding those items so as to avoid having to revise the agreement if Auditing Standard numbers changed again as they had in the Guidelines. Turning to section 2(a), Mr. Rainey suggested changing the language so that the field work was done by the auditor and the report was ready to be issued no later than the December board meeting. Mr. Rainey also added the language "subject only to the subsequent event analysis" to the sentence "Draft financial statements and footnotes must be completed by November 20 of each year for submission to the Comptroller of Public Accounts". Ms. Smith further changed the statement so that it read, "must be reviewed by November 20", explaining that staff actually put the information together and the auditor reviewed it.

Mr. Dietz made a motion to approve the RFP for independent financial auditor with the proposed changes that were discussed. Ms. Leon seconded the motion. Motion passed

Open Meeting

There was no further discussion or comments in Open Meeting.

Adjournment

Mr. Dietz declared the Audit Committee Meeting adjourned at 10:00 a.m.

Respectfully submitted by _____
Laura Ross, Corporate Secretary

**Texas State Affordable Housing Corporation
Proposed Operating Budget
Fiscal Year 2012**

	<u>Fiscal Year 2012</u>
Revenues	
Single Family Revenue	\$ 2,678,000
Grants & Donations	1,770,000
Principal & Interest from Multifamily Loan Programs	1,115,000
Principal & Interest from Single Family Loan Programs	47,000
Multifamily Asset Oversight, Compliance & Issuer Fees	291,000
Servicing Revenue	275,000
Investment Revenue	30,000
Tenant Income	24,000
	<u>\$ 6,230,000</u>
 Expenditures	
Salaries & Payroll Related Expenditures	\$ 1,553,000
Professional Services - Legal, Audit & Information Technology	248,000
Foundation Fund Grants	300,000
Principal & Interest on Notes Payable	172,000
Travel & Meals	51,000
Furniture, Equipment, & Software	35,000
Building Maintenance	25,000
Insurance	30,000
Marketing	24,000
Professional Dues & Training	24,000
Communication	19,000
Sponsorships	12,000
Printing & Office Supplies	12,000
Freight, Delivery, Postage & Storage	7,000
Publications, Subscriptions & Other Office Expenditures	6,000
Bank Fees & Charges	5,000
Single Family/Multifamily Program Expenditures	1,423,000
Federal Grant Expenditures	1,276,000
Single Family Bond Program Expenditures	880,000
	<u>\$ 6,102,000</u>
	<u><u>\$ 128,000</u></u>

Background:

The Texas State Affordable Housing Corporation's (Corporation) enabling legislation and the General Appropriations Act require that the Corporation obtain an annual audit of its financial statements. Due to the receipt of federal grant funding under the Neighborhood Stabilization Program the Corporation is required to obtain an audit in compliance with the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Public Funds Investment Act (PFIA) requires that the Corporation obtain an audit for compliance with the PFIA every other fiscal year. Finally, as a 501(c)(3) non-profit corporation, the Corporation is required to file certain informational and unrelated business income tax returns with the Internal Revenue Service.

The Corporation customarily seeks these professional services through a Request for Proposal (RFP) every three to four years. In August 2011 the Texas State Affordable Housing Corporation published an RFP for audit, tax and accounting consulting services for the three fiscal years ending August 31, 2011, 2012 and 2013. The RFP was published in the Texas Register and on the Corporation's Website. The Corporation received four responses to the RFP from the following Certified Public Accounting firms.

Brown, Graham & Company
Martinez, Rosario & Company, LLP
Mikeska, Monahan & Peckham, PC
Padgett Stratemann & Company

Corporation staff scored the proposals based on factors listed in the RFP giving weight to the respondents understanding of the engagement and their experience performing comparable engagements, the expertise and availability of key personnel, the respondent's conformance with the terms of the RFP and cost.

Recommendation:

Based on the staff scoring of responses to the RFP the Corporation is asking the Audit Committee to engage the firm of Mikeska, Monahan and Peckham, PC to perform the Corporation's audit, tax and accounting consulting services for the three fiscal years ending August 31, 2011, 2012, and 2013.



The Texas State Affordable Housing Corporation is requesting proposals for audit, tax and accounting consulting services for the three fiscal years ending August 31, 2011, 2012 and 2013.

I. Background of Corporation

The Texas State Affordable Housing Corporation (“Corporation”) was incorporated in May 1994 under the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon’s Annotated Texas Civil Statutes, as amended. The Corporation does not receive State appropriated funding. Under Government Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, the Corporation is a component unit of the State of Texas for financial reporting purposes.

The Corporation’s primary purpose is to facilitate the provision of affordable housing for low income Texans who do not have comparable housing options through conventional financial channels. A five-member board of directors appointed by the Governor with the advice and consent of the Senate oversees the business of the Corporation. All operations of the Corporation are conducted within the State of Texas and corporate offices are located in Austin, Texas. Enabling legislation, as amended, may be found in the Texas Government Code, Chapter 2306, Subchapter Y, Sections 2306.551 et seq.

The Corporation is organized, operated and administered as a non-profit organization in accordance with Section 501(c)(3) of the Internal Revenue Code.

The Corporation engages in the following primary types of business.

1. Loan Servicing
2. Asset Oversight & Compliance Monitoring
3. Issuance of Tax Exempt Single Family Mortgage Revenue Bonds
4. Issuance of Tax Exempt Multifamily Mortgage Revenue Bonds
5. Multifamily Direct and Interim Construction Lending
6. Administration of Federal Neighborhood Stabilization Program Grant

II. Scope of Services – the Corporation is requesting proposals for:

- A. Performance of the annual financial audit for the three (3) fiscal years ending August 31, 2011; August 31, 2012 and August 31, 2013. The audits should be conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Consolidated Audit Guide for Audits of HUD Programs*, and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

All audit field work must be completed and the final audit report issued no later than December 7th of each year. Draft financial statements and footnotes must be completed by November 20th of each year for submission to the Comptroller of Public Accounts.

- B. Performance of review for compliance with the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) using the guidelines provided by the Texas State Auditor’s Office for the two (2) fiscal years ending August 31, 2011 and August 31, 2013.
- C. Preparation of the Corporation’s annual Form 990 tax return for the three (3) fiscal years ending August 31, 2011; August 31, 2012 and August 31, 2013.
- D. Provision of consultation and technical assistance on general accounting and tax issues.

III. Proposal Format and Content - Firms are directed to organize their proposals as follows:

- A. Proposal information should be numbered and sequentially ordered so that it corresponds to the numbering and order of this RFP.
- B. Narrative answers to questions are to be limited to one side of a single 8 ½ by 11 typed page.
- C. Each page must be numbered consecutively and identify the firm's name.
- D. All proposals must contain the following information and/or address the following issues:
 1. A cover letter stating the name of the firm, address, telephone number and contact person.
 2. A description of the firm's understanding of the work to be done.
 3. Evidence of the firm's ability to provide the specified services in a professional and timely manner, including:
 - a. Documentation that the firm is properly licensed for public practice in the State of Texas.
 - b. Evidence of the firm's experience in performing financial audits of non-profit organizations and audits in compliance with *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Consolidated Audit Guide for Audits of HUD Programs*; and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 4. Describe the proposed audit team in terms of job position within the firm.
 5. List names of firm member(s) who will direct the audit including educational background and professional licenses held.
 6. Describe the level of assistance that will be expected from Corporation personnel.
 7. State and describe the type of the firm's most recent peer review and provide a copy of the most recent peer review report.
 8. Provide at least three client references, preferably non-profit organizations.
 9. Include a projected time-line covering major audit events, including delivery of the final audit report.
 10. A statement of the firm's affirmative action policy.
 11. If the firm does not desire proprietary information in its proposal to be disclosed, the firm must identify all proprietary information in the proposal, at the time the proposal is submitted. If a firm fails to identify information as proprietary, the firm agrees by submission of its proposal that information contained therein is nonproprietary and may be made available upon public request.
 12. Provide a detailed cost proposal, including estimated hours and hourly rates by level of personnel. Also include other itemized direct costs, printing and out-of-pocket costs and any anticipated travel costs. Rates for nonrecurring work should also be itemized.

This RFP does not commit the Corporation to award a contract to an Offeror or to pay any costs incurred in the preparation or mailing of an Offeror's Response or in participating in this RFP process. In addition, the Corporation reserves the right to accept or reject any or all Responses received as a result of this RFP, to obtain information concerning any or all Offerors from all sources, and to request an oral presentation from any or all Offerors. In addition, the Corporation expressly reserves the right to negotiate with some, all, or none of the Offerors with respect to any term or terms of the responses or contracts.

Responses that do not comply with the conditions specified in this RFP may be rejected. The Corporation also may reject a Response that does not include all requested information.

PLEASE DELIVER 2 COPIES TO:	TEXAS STATE AFFORDABLE HOUSING CORPORATION 2200 EAST MARTIN LUTHER KING JR. BLVD. AUSTIN, TX 78702 ATTN: MELINDA SMITH, CHIEF FINANCIAL OFFICER 512-904-1399
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RESPONSE DEADLINE

**AUGUST 19, 2011
3:00 P.M.**