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T E X A S
State Affordable Housing Corporation

June Audit Committee Meeting
To be held at the offices of
Texas State Affordable Housing Corporation
2200 East Martin Luther King Jr. Blvd.
Austin, TX 78702

Thursday, June 12, 2014
9:00 a.m.

**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
June 12, 2014 at 9:00 am**

**CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM**

Gerry Evenwel

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 12, 2013.
- Tab 2 Presentation, Discussion and Possible Approval of the Selection of Independent Financial Auditors.
- Tab 3 Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.

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 12, 2013 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 Chair, at 9:07 am on December 12, 2013, 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

Bill Dietz, (Board Vice Chair), Chair
Gerry Evenwel (Board Member), Member
David Long, (President) Ad Hoc Member
Melinda Smith, (Chief Financial Officer) Ad Hoc Member

Staff Present

Betsy Aldrich, Senior Accountant
Liz Bayless, Executive Vice President
Nick Lawrence, Controller
Laura Ross, Corporate Secretary

Special Guests

Katy Livingston, Greenberg Traurig, LLP
Don Mikeska, Mikeska, Monahan & Peckham

Public Comment

There was no public comment.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 15, 2013.

Mr. Evenwel made a motion to approve the minutes of the Audit Committee Meeting held on August 15, 2013. Mr. Long seconded the motion. A vote was taken and the motion passed unanimously.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2013.

Every year, the Corporation is required to undergo an independent financial audit, which is due to the Comptroller of Public Accounts by December 20th. Because the Corporation is a component unit of the State of Texas, our audit report appears as a column in the State of Texas Annual Audit Report issued in February.

Mr. Mikeska, the Corporation's independent auditor with Mikeska Monahan & Peckham, stated that the field work for the audit had been completed and the draft of the Audit had been provided to the members of the Committee and the Board. Management had prepared the financial statements and he had audited them in accordance with auditing standards acceptable under United States Government Auditing Standards and in accordance with OMB Circular A-133.

Mr. Mikeska explained that the opinion included was unmodified and unqualified, a clean opinion. In accordance with governmental audit procedures, he tested for abuse and fraud, as well as noncompliance with any laws, regulations, contracts and grant agreements that could have a directly material effect on the financial statements. Mr. Mikeska concluded that no such noncompliance had been found.

The single audit, which focused on the two federal programs, the National Foreclosure Mitigation Counseling (NFMC) Program and the Neighborhood Stabilization Program (NSP), Mr. Mikeska explained that he was responsible for testing certain attributes found under OMB Circular A-133. He reported that the major program tested this year had been NFMC. Over 50% of all NFMC expenditures were tested and there were no findings or questioned costs.

Mr. Evenwel observed that the audit before the board was different than the one mailed out, and Mr. Mikeska confirmed this while noting that only typographical errors had been changed along with one reclassification with regard to the revenue set aside for the Affordable Communities of Texas Veteran's program (ACT-Vet). Mr. Mikeska confirmed that nothing material had changed.

Mr. Mikeska explained that the "Management, Discussion and Analysis" (MD&A), included in the audit report, was a document required by Government Auditing Standards that explained in a narrative format what had happened financially that year.

Following the MD&A was the Auditor's opinion letter on pages 8 and 9. He stated that it was different than opinions provided in the past in how it was structured. The first paragraph defined the financial statements and the second paragraph defined management's responsibility to produce the financial statements and the auditor's responsibility to find fraud or errors that were material in nature. Mr. Mikeska read into the record "In our opinion, the financial statements referred to above present fairly and in all material respects the financial position of the Texas State Affordable Housing Corporation as of August 31". The document also discussed the supplemental information included in the report such as the scheduled expenditures of federal awards. The last paragraph discussed other reporting required by Government Auditing Standards, noting that the yellow book opinion was attached as part of the financial statements.

Mr. Mikeska then reviewed each statement and related notes in the audit, including the Statement of Net Position, Statement of Revenue, Expenses and Changes in Net Position, Cash Flow Statement, Schedules and the footnotes to the Financial Statements.

Mr. Mikeska continued his review and provided an overview of the Scheduled Expenditures of Federal Awards on page 44 of the audit, which covered both NFMC and NSP. He further explained that this section of the audit discussed the accounting principles used to create the

schedule and included the auditor's opinion on control over financial reporting and compliance based on Government Auditing Standards. This opinion was commonly referred to as the Yellow Book opinion. He noted that it was a clean opinion and explained that for this portion of the audit, he had looked at internal control over financial reporting as it related to compliance with the laws, regulations, contracts and other agreements. He found no deficiencies or significant deficiencies in internal control. He also added that he was required to look at compliance with laws, regulations, contracts, and grant agreements, and had found no instances of noncompliance that would have a direct material effect on the financial statements.

The Single Audit as required by OMB-133 was also completed and included the auditor's opinion stating "In our opinion, TSAHC complied in all material respects with the compliance requirements referred to that could have a direct material effect on its major federal programs". The opinion also talked about internal control over compliance. Mr. Mikeska noted that no deficiencies or significant deficiencies or material weaknesses in compliance were found with the single audit.

Mr. Mikeska then reviewed the Schedule of Findings and Questioned Costs, noting that it was an unmodified, clean opinion with no material weaknesses identified or significant deficiencies to be reported. He pointed out the last sentence which referenced the Corporation was a low risk Auditee, which meant for the last 2 years there had been no findings. As a low risk Auditee, the auditor was only responsible for looking at 25% of the total federal dollars. The schedule of findings and questioned costs listed no findings or questioned costs. He also noted where it said there were no prior year findings.

Following his review of the Schedule of Findings and Questioned Costs, Mr. Mikeska provided a brief summary of the Scheduled Revenues and Expenditures by Individual Activity. He explained that this schedule focused on each individual program area (single family, multifamily). He noted that this was an unaudited statement that had been included for additional information. It would also be included in the final package sent to the State Auditor.

Mr. Mikeska completed his presentation of the audit and explained that he would be reporting directly to the State Auditor the results of the audit, as the Corporation was an entity of the State.

In conclusion, Mr. Mikeska noted two additional documents that were handed out with the audit; first, the Management Letter, which stated there were no material weaknesses, questioned costs or deficiencies in internal control, was being supplied even though it wasn't required, because grantors liked to see one when reviewing an organization's financial statements.

The second document was a letter to the Audit Committee and Board of Directors. The letter was a follow-up to the meeting held in August where he informed the Corporation's Audit Committee on his process for conducting the audit and the responsibilities of management and the auditor. Mr. Mikeska noted under Qualitative Aspects of Accounting Practices, it stated that all significant transactions had been recognized. There were no new accounting policies adopted during the year and accounting estimates were being used to prepare the financial statements.

In addition, the letter explained what significant accounting estimates were and noted the auditor had encountered no difficulties in dealing with management. There were no corrected or uncorrected mistakes resulting in adjustments.

Mr. Mikeska thanked the staff for their help and assistance during the audit. He made one final note about a small issue that would be reported to the State Auditor's Office regarding one of the Corporation's CDs. It was worth \$250,000 and fully collateralized, and the bank that held the CD had reinvested interest earned that totaled \$99. This put the CD amount over \$250,000 so the \$99 was uncollateralized or covered by FDIC. Mr. Mikeska noted that the State Auditor didn't allow for the use of materiality when determining what should be reported of this nature. When the issue was reported, Mr. Mikeska stated that it would also be noted that staff had instructed the bank not to reinvest interest; however they had done it anyway. The \$99 had since been moved from that bank.

Mr. Dietz inquired as to the classification of the donated properties being listed as assets of the Corporation, and if they were marked at fair market value like the securities. Mr. Mikeska noted that only if the portfolio were to lose value would it be marked as such.

Mr. Mikeska further explained that with any gain on sale of the properties, a portion would be reinvested into the program and a portion would go to the local partner that managed the property and provided any improvements. Mr. Long clarified that of the 500 properties owned by the Corporation, a portion were acquired under the NSP program. Those NSP properties were pass-through transactions, meaning any and all gains from sale above administration costs and reimbursements to the local partner would be paid to the State. Mr. Mikeska noted that of the \$9.95 million in owned real estate, \$4.1 million was under the NSP program. Mr. Long added that no more properties would be acquired under NSP because the deadline for acquisition activity under the program had passed.

Mr. Evenwel asked for clarification on the funds marked as restricted. Mr. Mikeska noted that this meant there was a restriction in place, such as a bond indenture or donor restriction designating a specific use for the grant funds. Mr. Long provided an overview of the grants received by the Corporation and the board's involvement in reviewing and accepting those grants and the applicable restrictions.

At the end of discussion, Mr. Long informed the board that Mr. Mikeska was retiring and would no longer serve as the Corporation's auditor. He thanked Mr. Mikeska for his service and noted his and staff's appreciation of Mr. Mikeska's willingness to learn and understand the Corporation's programs. He thanked him for the job he had done over the years and the open communication he had maintained with staff and the board. Ms. Smith added that it had been a privilege to work with Mr. Mikeska over the years.

Mr. Evenwel made a motion to approve the annual independent financial audit for the Fiscal Year Ending August 31, 2013. Ms. Smith seconded the motion. A vote was taken and it passed unanimously.

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

Ms. Smith recalled that in August, the Committee had requested the Guidelines be amended to include the specific duty of reviewing the operating budget. Ms. Smith noted the changes being added to the Guidelines being reviewed today.

Mr. Evenwel inquired if it was staff's intention that the Committee and Board approve all amendments or changes to the budget after its initial approval. Ms. Smith noted that amendments

to the budget were usually always brought to the board for approval. Mr. Long added that if a significant change to a budgeted line item was recommended that exceeded existing approval authority, staff brought the change as an amendment to the board and Audit Committee for approval.

Mr. Evenwel made a motion to approve the Audit Committee Guidelines. Mr. Dietz seconded the motion. He noted that the proposed changes clarified the Committee's role where it was not clear in the past. A vote was taken on the motion and it passed unanimously.

Adjournment

Mr. Dietz adjourned the meeting at 9:53 am.

Respectfully submitted by _____
Laura Ross, Corporate Secretary

Agenda Item:

Presentation, Discussion and Possible Approval of the Selection of Independent Financial Auditors.

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 through the U.S. Department of Housing and Urban Development and the U.S. Department of Treasury the Corporation may be 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, 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 April 2014 the Texas State Affordable Housing Corporation published an RFP for audit, tax and accounting consulting services for the three fiscal years ending August 31, 2014, 2015 and 2016. The RFP was published in the Texas Register and on the Corporation's Website. The Corporation received five responses to the RFP from the following Certified Public Accounting firms.

- Darilek, Butler & Associates, PLLC
- Maxwell Locke & Ritter, LLP
- Padgett, Stratemann & Company, LLP
- PMB Helin Donovan, CPAs
- Weaver and Tidwell, LLP

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 Maxwell Locke & Ritter, LLP to perform the Corporation's audit, tax and accounting consulting services for the three fiscal years ending August 31, 2014, 2015, and 2016.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
AUDIT COMMITTEE GUIDELINES
(Submitted for Approval June 12, 2014)

These guidelines are intended to define the purposes, membership and responsibilities of the Audit Committee of the Texas State Affordable Housing Corporation (“the Corporation”).

I. PURPOSES

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

1. Monitor the integrity of the Corporation’s budgeting process, financial reporting process and systems of internal controls regarding finance, accounting, legal and ethics compliance.
2. Monitor the independence and performance of the Corporation’s independent financial auditors who shall report directly to the Audit Committee.
3. Facilitate communication among the independent auditors, management, the CFO and the Board of Directors.
4. Monitor compliance by the Corporation and its directors, officers and employees with all applicable laws, regulations, contracts, agreements, and grants and the Corporation’s code of ethics and conflict of interest policies.
5. Establish procedures for the receipt, retention and treatment of financial matters complaints and the confidential anonymous submission by employees regarding questionable accounting, fraud or abuse.
6. Report on its activities to the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the independent auditors as well as anyone at the Corporation. The Audit Committee has the ability to retain, at the Corporation’s expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. However, it is not the duty or responsibility of the Audit Committee or its members to conduct auditing or accounting review or procedures, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations.

II. COMPOSITON AND MEETINGS

The Audit Committee shall be comprised of four members, as determined by the Board of Directors, two of whom shall be directors of the Corporation. Any other board member will be eligible to serve as an alternate member of the Audit Committee and will serve if one of the other member Board directors is absent from the meeting. The Corporation's President and Chief Financial Officer will serve as Ad Hoc members of the Committee. The two member board directors shall be free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Audit Committee shall have accounting or related financial management expertise.

Audit Committee members shall be appointed on recommendation by the full Board of Directors. If a Chair of the Audit Committee is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee.

A quorum for a meeting of the Audit Committee shall consist of at least three committee members, two of which must be Board members.

Audit Committee members will be reimbursed for travel and other actual and reasonable expenses incurred in the conduct of official Audit Committee business. No member of the Audit Committee may accept any additional consulting, advisory or other compensatory fee from the Corporation or other organization.

The Audit Committee shall meet a minimum of two times annually or more frequently if circumstances dictate.

III. RESPONSIBILITIES AND DUTIES

To carry out its purposes, the Audit Committee shall have the following duties and responsibilities:

Review Procedures

1. Review and assess the adequacy of these guidelines at least annually and submit any proposed changes to the Board of Directors for approval.
2. Review and approve the Corporation's proposed fiscal year operating budget and any amendments thereto for the submission to the Board of Directors for approval.

3. Review and approve the audited financial statements and any amendments thereto for submission to the Board of Directors for approval. The review should include discussion with management and independent auditors of significant issues regarding accounting and auditing principles, practices and judgments.
4. In consultation with the management, the CFO and independent auditors, consider the integrity of the company's financial reporting processes and controls. Discuss significant financial and non-financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
5. Consider and approve, if appropriate, major changes to the Corporation's accounting principles as suggested by the independent auditors, management or CFO and any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 115.

Independent Auditors

1. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence, qualifications and performance of the auditors and annually appoint the independent auditors or approve any discharge of auditors when circumstances warrant.
2. On an annual basis, the Audit Committee should review and discuss with the independent auditors all significant relationships they have the Corporation that could impair the auditors' independence.
3. Prior to releasing the audit report, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to the Audit Committee in accordance with Statement on Auditing Standards No. 114 and No. 115, OMB Circular A-133, and any other standards required by applicable federal or state law or regulation.
4. Review with the independent auditor any management letter provided by the auditor and the Corporation's response to that letter.

While the Audit Committee has the responsibilities and powers set forth in these guidelines, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.