

Rhode Island Housing and Mortgage Finance Corporation

Minutes of the Audit Committee

June 15, 2010

Board Attendees: Kevin Flynn (Chair), Perry Clough, Mark Noble, Michael Solomon
Staff Attendees: Richard Godfrey, Thomas Hogg, Kara Lachapelle
Outside Attendees: Reed Risteen, Stacy Nobitz, Vanessa Rossitto, from Blum Shapiro

The Audit Committee of the Board of Commissioners convened at 9:30 on June 15, 2010, to interview Blum Shapiro regarding their response to Rhode Island Housing's Request for Proposal (RFP) for External Audit Services for the fiscal years ending June 30, 2010 and 2011.

Prior to the outside attendees joining the meeting, the Committee discussed concerns from the Auditor General and Director of Administration regarding selection of a firm that was not the lowest bidder in the RFP process. Staff's reasons for not including Blum Shapiro in the prior round of interviews were reviewed, including their lack of experience with Rhode Island regulations and laws, their lack of Rhode Island clients, the belief that the firm significantly underestimated the hours required to complete the single audit, and the location of the firm.

The staff of Blum Shapiro then joined the meeting for a presentation and interview. The interview covered a range of subjects including the firm's understanding of Rhode Island Housing's bond and program related activities, the firm's knowledge and experience relevant to Rhode Island governmental clients, the firm's ability to give full diligence to the audit considering the significant discounting of their fee, the additional travel time and charges they will incur and the larger scope of work with regard to Rhode Island Housing compared to their experience with their less diversified housing agency client in Connecticut.

After the presentation and interview questions were concluded, the outside attendees were excused. The Committee discussed at length the firm's responses to the above questions and reached consensus on the following strengths and challenges regarding Blum Shapiro:

Strengths:

- Blum Shapiro is one of the largest accounting firms in New England
- Blum Shapiro fulfills all of the regulatory requirements to perform accounting and auditing services in Rhode Island
- Blum Shapiro has an extensive government accounting practice in Connecticut providing services to many state and local agencies including the Connecticut HFA
- The CFO of the Connecticut HFA is satisfied with the firm's performance as their auditor and is changing firms only because it is good practice to change audit firms from time to time
- With the loss of CHFA as a client, Blum Shapiro has staff resources available to serve the needs of Rhode Island Housing.
- Blum Shapiro will absorb all of the costs of travel associated with serving Rhode Island Housing
- The estimated cost of services proposed by Blum Shapiro was about 10% lower than the next lowest cost respondent

Challenges

- Blum Shapiro has no government clients outside of Connecticut
- Blum Shapiro significantly under-estimated the work required to perform the federally required A-133 audit at Rhode Island Housing and noted that they assumed that Rhode Island Housing's federal program work was similar in scope to CHFA
- Blum Shapiro did not demonstrate an understanding of the differences in the financial structures between CHFA and Rhode Island Housing and noted that their obligations under various securities laws did not change with the nature of the issuer
- The proposed hourly rate of Blum Shapiro was substantially higher than other respondents but their total price estimate was substantially lower
- While Blum Shapiro must absorb the financial responsibility for underestimating the costs associated with the work, there is concern that the level of service may be affected.

The Committee carefully considered the concerns and preferences raised by the Auditor General and the Director of the Department of Administration. The Committee also noted the deep economic crisis in Rhode Island and the benefits that would inure to the state by selecting a firm that has a significant presence in the state. The Committee also discussed the possible risk of non-compliance with the strict deadlines required by the state for submission of financial statements by selecting a firm that is at a disadvantage in terms of local experience and knowledge of Rhode Island Housing. After weighing all the factors discussed above the Committee expressed strong affirmation for its initial recommendation to engage the firm of CCR, LLC.

After a motion was duly made and seconded, the following resolution was unanimously adopted:

Resolved: That the Audit Committee recommend engaging the previously selected firm of CCR, LLC as External Auditor for the fiscal year ending June 30, 2010,^a with extension possible through 2011.

The Committee further discussed options in the event that the selected firm of CCR, LLC was not approved by state officials as before. Michael Solomon, designee for General Treasurer Frank Caprio, stated that if CCR was not approved, he could not vote for an out of state firm.

After a motion was duly made and seconded, the following resolution was adopted, with Mr. Solomon abstaining from the vote:

Resolved: That the Audit Committee recommends the engagement of Blum Shapiro as External Auditor for the fiscal year ending June 30, 2010, with extension possible through 2011, if the Auditor General does not approve the engagement CCR, LLC as External Auditors.

There being no further business the meeting was adjourned at 11:00 a.m.

Respectfully submitted:

Kevin Flynn
Chairperson