

**MHMRA OF HARRIS COUNTY
AUDIT COMMITTEE CHARGE**

(Approved MHMRA Board of Trustees: May 28, 2002)

(Revised Dates: December 6, 2007, January 26, 2010)

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity and quality of the financial statements of the organization, as well as the risks and controls underlying financial reporting, (2) the organization's compliance with legal and regulatory requirements as they affect the financial statements and (3) the independence and performance of the organization's internal and external auditors.

The members of the Audit Committee shall meet the independence and experience requirements as established by the Board of Trustees with at least two members having basic knowledge about financial statements "financial literacy". The members of the Audit Committee shall be appointed by the Board.

The Audit Committee shall have the authority to retain special legal, accounting, or other consultants to advise the Committee consistent with Board policies. The Audit Committee may request any officer or employee of the organization or the organization's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of or consultants to the Committee.

The Audit Committee shall make regular reports to the Board, no less than quarterly, and more frequently as needed or requested.

The Audit Committee shall:

1. Review and reassess the adequacy of this charge annually and submit it to the Board for review and consideration for approval at the next regular Board meeting following the presentation by the independent audit firm employed by the Agency and acceptance by the Board of the annual Fiscal Year Audit and Management Letter.
2. Review the annual audited financial statements with management, including major issues regarding accounting principles and audit processes as well as the adequacy of internal controls that could significantly affect the organization's financial statements along with those of the directly related Corporations to MHMRA.
3. Review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the organization's financial statements along with those of the directly related Corporations to MHMRA.

4. Review with management and, as needed, the independent auditor the organization's monthly unaudited financial statements as presented during the regular scheduled meetings of the Board Audit Committee.
5. Meet periodically with management to review the organization's major financial risk exposures and the steps management has taken to monitor and control such exposures.
6. Review major changes, if any, to the organization's accounting principles and internal audit practices as suggested by the independent auditor, internal auditor, or management.
7. Recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Board through the Audit Committee and, have the annual Audit Engagement Letter from the external audit firm addressed to the Board Audit Committee.
8. Review and recommend approval of fees to be paid to the independent auditor.
9. Receive periodic reports from the independent auditor regarding the auditor's independence, discuss such reports with the auditor, if considered necessary, and if so determined by the Audit Committee, recommend that the Board take appropriate action to insure the independence of the auditor.
10. Evaluate the performance of the independent auditor each year of a three-year term of engagement and, if so determined by the Audit Committee, recommend that the Board replace the independent auditor, or, at the conclusion of the three-year term recommend one additional three-year term, if performance warrants.

This evaluation will include obtaining and reviewing a written report by the independent auditor that address:

- (a) the Independent Auditor's quality-control procedures;
- (b) any material issues raised by the most recent internal quality-control review, or peer review, of the Independent Auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Independent Auditors, and any steps taken to deal with any such issues; and
- (c) the Independent Auditors' independence with respect to the Agency, which will delineate all relationships between the Independent Auditors and the Agency.

In evaluating the report, the Committee will discuss with the Independent Auditors whether any disclosed relationship or service could impact the Independent Auditors' objectivity and independence. The Committee will recommend to the Board that the Board take appropriate action in response to the report to ensure the independence of the Independent Auditors.

11. Approve the appointment and replacement of the Agency internal auditor position prior to action by management.
12. Review the significant reports to management prepared by the internal auditor position and management's response(s) to key findings.
13. Meet with the independent auditor prior to the audit to review the planning and staffing of the audit, and overall scope of the Agency's annual audit.
14. Obtain from the independent auditor assurance that Section 10A of the Private Securities Litigation Reform Act of 1995¹ has not been implicated.
15. Obtain reports from management, the organization's internal auditor position, and the independent auditor that the organization's related or affiliated entities are in conformity with applicable legal and regulatory requirements and consistent with Board approved policies and procedures.
16. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61² related to the conduct of the audit, as it may be amended.
17. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the organization's response to that letter. Such review should include:
 - (a) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
 - (b) Any changes required in the planned scope of the audit.
 - (c) The internal audit department's responsibilities, budget, and staffing.
18. Review the report(s) required by the major funding entities for the fiscal year prior to submission.
19. Advise the Board with respect to the organization's policies and procedures regarding compliance with applicable laws and regulations and with the organization's operating policy and procedures.

20. Review with the organization's General Counsel at least yearly, legal matters that may have a material impact on the financial statements, the organization's compliance policies, and any material reports or inquiries received from regulators or governmental agencies. This review may be accomplished by an annual written report from the organization's General Counsel or during a regular or special called meeting of the Board Audit Committee.
21. Meet at least annually with the Agency internal auditor and the independent auditor in separate executive sessions.
22. Establish such procedures that are considered cost effective and implement as many provisions of the Sarbanes-Oxley Act of 2002 applicable to 'governmental type' audit committees, including, but not limited to, procedures for:
 - (a) the receipt, retention, and treatment of complaints received by the Agency regarding accounting, internal accounting controls or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Agency of concerns regarding questionable accounting or auditing matters.
23. The Agency shall not engage a registered public accounting firm to perform any audit service, if the Chief Executive Officer, Controller, Chief Financial Officer, Chief Accounting Officer, or any person serving in an equivalent position for the Agency, was employed by that registered independent public accounting firm and participated in any capacity in the audit of the Agency during the 1-year period preceding the date of the initiation of the audit.
24. The Board Audit Committee may form and/ appoint subcommittees when appropriate with the approval of the Chairman of the Board of Trustees of MHMRA.

While the Audit Committee has the responsibilities and powers set forth in this Charge, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the organization'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 and the Organization's Statement of Operating Policy and Procedures.

The Audit Committee may be comprised of up to seven (7) members of whom a minimum shall be four (4) Board of Trustee members, approved by the Board of Trustees at the next regular meeting of the Board following Board Officer elections.

The Officers of the Board will collaborate with the Executive Director in recommending members and the Chair of the Audit Committee for Board consideration and approval. Members and the Chair shall be recommended based on:

1. Interest and willingness to serve
2. Expertise as it pertains to the Committee carrying out its charge
3. Diversity of the Committee

The members shall serve for two-year terms, staggered to assure continuity. An individual may serve additional terms on the Committee should the member and the Board so desire.

The Chair shall serve a one-year term, or may serve additional terms should the member and the Board so desire. The Chair shall be a member of the MHMRA Board.

Additional members or replacement members to fill vacancies shall be recommended under the same policy and approved at the next Full Board meeting.

The Audit Committee shall meet no less than quarterly, and more frequently as needed. These meetings may be conducted at times other than the Full Board's meetings and may be conducted at onsite locations determined by the Committee.

A majority of the Committee members will constitute a quorum for the transaction of business. The action of a majority of those present at a meeting in which a quorum is present will be the act of the Committee.

Minutes of all Committee meetings shall be maintained by the Executive Director's Office and distributed to all Board members.

¹ Section 10A of the Private Securities Litigation Reform Act deals with the procedures of the independent auditor and communications by the auditor to management, the audit committee and/or the board in the event the audit discovers that an illegal act has or may have occurred.

² As a result of new rules adopted by the Securities and Exchange Commission and the New York Stock Exchange, audit committees will be required to disclose that they have reviewed and discussed the audited financial statements with management and have discussed with the independent auditors the matters required to be discussed by SAS No. 61. The SAS No. 61 communications, which have been required for several years, include matters such as significant adjustments, management judgments and accounting estimates, significant new accounting policies, and disagreements with management. The new required discussions relate to the independent auditors' judgments about the quality, not just the acceptability, of the company's accounting principles, which previously was considered a "best practice". Also new in the year 2000, SAS No. 61 was amended by SAS No. 89, *Audit Adjustments*, to require the auditors to inform the Audit Committee about the uncorrected misstatements pertaining to the current period whose effects management believes are immaterial to the financial statements taken as a whole.