

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
TAOS COUNTY HOUSING AUTHORITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012



STATE OF NEW MEXICO
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ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
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June 30, 2012

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STATE OF NEW MEXICO
Taos County Housing Authority
Official Roster
June 30, 2012

<u>Name</u>		<u>Title</u>
	<u>Governing Board</u>	
Della Barrone		Chairperson
Johnny Pacheco		Member
Manuel Pacheco		Member
Pennie Herrera-Wardlow		Member
Roger Chavez		Resident Council Member
Larry Sanchez		Non-Voting Member
	<u>Administrative Officials</u>	
Richard Bellis		Interim Executive Director

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
Executive Director and Board of Directors
Taos County Housing Authority
Taos County, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of Taos County Housing Authority (the "Authority"), a component unit of Taos County, New Mexico (the "County"), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The Authority has not maintained adequate accounting records and has several material weaknesses in internal control. The Authority has insufficient or non-existent internal controls over substantially all of its significant transaction classes and its general ledger postings cannot be relied upon. In addition, the Authority has not established and maintained adequate internal controls over its cash and was unable to reconcile cash balances in total as of June 30, 2012. There are no internal controls in place to mitigate the risk of management override, as numerous nonstandard manual journal entries exist in the general ledger with little or no evidence to substantiate their validity.

As a result of the numerous material weaknesses in the internal control structure of the Authority, the Authority's accounting records are inadequate to substantiate the account balances for revenues, expenditures and cash presented in the financial statements. In addition, the Authority does not have the underlying supporting documentation or reconciliations that provide evidence for numerous nonstandard manual journal entries posted within its general ledger. There is insufficient evidence available to determine that the account distributions for revenue and expenditures amounts are accurate and management assertions cannot be adequately examined to afford a basis for an opinion. The Authority's records do not permit the application of other auditing procedures to its revenues, expenditures and cash.

Because we were unable to obtain adequate supporting documentation and evidence for the Authority's revenues, expenditures, and cash account balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the business-type activities of Taos County Housing Authority as of June 30, 2012, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements.

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying financial information listed as Supporting Schedules I and II in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Authority. The accompanying Schedule III Financial Data Schedule is presented for purposes of additional analysis as required by U.S Department of Housing and Urban Development and is not a required part of the financial statements. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion regarding whether Schedules I through III or the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on that information.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 7, 2012

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Statement of Net Assets
June 30, 2012

Exhibit A-1

	Low Rent Public Housing Program	Housing Choice Vouchers Program	Public Housing Capital Fund Program	Total
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 169,520	\$ 100,105	\$ -	\$ 269,625
Restricted cash and cash equivalents	52,047	236,734	-	288,781
Investments	60,084	-	-	60,084
Accounts receivable - tenants	15,800	-	-	15,800
Accounts receivable - grants	57,705	-	-	57,705
Accounts receivable - other	24,168	771	-	24,939
Prepaid expenses	20,783	1,043	-	21,826
<i>Total current assets</i>	<u>400,107</u>	<u>338,653</u>	<u>-</u>	<u>738,760</u>
<i>Noncurrent Assets</i>				
Capital assets	12,592,282	-	-	12,592,282
Less: accumulated depreciation	(8,391,308)	-	-	(8,391,308)
<i>Total assets</i>	<u>\$ 4,601,081</u>	<u>\$ 338,653</u>	<u>\$ -</u>	<u>\$ 4,939,734</u>
LIABILITIES AND NET ASSETS				
<i>Current liabilities</i>				
Accounts payable	\$ 22,067	\$ 2,310	\$ -	\$ 24,377
Accrued payroll	5,262	2,592	-	7,854
Compensated absences	9,761	4,807	-	14,568
<i>Total current liabilities</i>	<u>37,090</u>	<u>9,709</u>	<u>-</u>	<u>46,799</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	45,453	-	-	45,453
FSS deposits	11,428	13,521	-	24,949
<i>Total current liabilities (payable from restricted assets)</i>	<u>56,881</u>	<u>13,521</u>	<u>-</u>	<u>70,402</u>
<i>Non-current liabilities</i>				
Compensated absences	12,938	6,373	-	19,311
<i>Total non-current liabilities</i>	<u>12,938</u>	<u>6,373</u>	<u>-</u>	<u>19,311</u>
<i>Total liabilities</i>	<u>106,909</u>	<u>29,603</u>	<u>-</u>	<u>136,512</u>
<i>Net assets:</i>				
Invested in capital assets	4,200,974	-	-	4,200,974
Restricted for:				
Section 8 housing	-	223,213	-	223,213
Unrestricted	293,198	85,837	-	379,035
<i>Total net assets</i>	<u>4,494,172</u>	<u>309,050</u>	<u>-</u>	<u>4,803,222</u>
<i>Total liabilities and net assets</i>	<u>\$ 4,601,081</u>	<u>\$ 338,653</u>	<u>\$ -</u>	<u>\$ 4,939,734</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit A-2

Taos County Housing Authority
A Component Unit of Taos CountyStatement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

	Low Rent Public Housing Program	Housing Choice Vouchers Program	Public Housing Capital Fund Program	Total
<i>Operating revenues</i>				
Rental revenue	\$ 282,893	\$ -	\$ -	\$ 282,893
Other tenant revenue	19,129	-	-	19,129
Subsidy grants	511,616	2,935,453	52,368	3,499,437
<i>Total operating revenues</i>	<u>813,638</u>	<u>2,935,453</u>	<u>52,368</u>	<u>3,801,459</u>
<i>Operating expenses</i>				
Personnel services	237,281	195,427	31,802	464,510
Contractual services	8,762	41,541	-	50,303
Supplies	61,912	7,326	-	69,238
Maintenance and materials	202,179	-	18,456	220,635
Utilities	206,853	-	-	206,853
Telephone	11,156	2,572	-	13,728
Insurance	41,940	14,401	-	56,341
Bad debt	199	-	-	199
Housing assistance payments	-	2,429,082	-	2,429,082
Depreciation	307,257	-	-	307,257
Miscellaneous	35,953	17,514	-	53,467
<i>Total operating expenses</i>	<u>1,113,492</u>	<u>2,707,863</u>	<u>50,258</u>	<u>3,871,613</u>
<i>Operating (loss) income</i>	<u>(299,854)</u>	<u>227,590</u>	<u>2,110</u>	<u>(70,154)</u>
<i>Non-operating revenues (expenses)</i>				
Capital grants	-	-	121,640	121,640
Interest income	487	108	-	595
Miscellaneous income	-	2,776	-	2,776
Transfers in	2,110	-	-	2,110
Transfers out	-	-	(2,110)	(2,110)
<i>Total non-operating revenues (expenses)</i>	<u>2,597</u>	<u>2,884</u>	<u>119,530</u>	<u>125,011</u>
<i>Change in net assets</i>	<u>(297,257)</u>	<u>230,474</u>	<u>121,640</u>	<u>54,857</u>
<i>Total net assets - beginning of year</i>	<u>4,669,789</u>	<u>78,576</u>	<u>-</u>	<u>4,748,365</u>
<i>Equity transfers in (out)</i>	<u>121,640</u>	<u>-</u>	<u>(121,640)</u>	<u>-</u>
<i>Total net assets - end of year</i>	<u>\$ 4,494,172</u>	<u>\$ 309,050</u>	<u>\$ -</u>	<u>\$ 4,803,222</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Statement of Cash Flows
For the Year Ended June 30, 2012

	Low Rent Public Housing Program	Housing Choice Vouchers Program	Public Housing Capital Fund Program	Total
<i>Cash flows from operating activities:</i>				
Cash received from tenant rents	\$ 273,353	\$ -	\$ -	\$ 273,353
Cash payments to employees for services	(260,690)	(203,729)	(31,802)	(496,221)
Cash payments to suppliers for goods and services	(573,374)	(2,503,686)	(18,456)	(3,095,516)
Subsidy grants	458,727	2,934,682	52,368	3,445,777
<i>Net cash (used) provided by operating activities</i>	<u>(101,984)</u>	<u>227,267</u>	<u>2,110</u>	<u>127,393</u>
<i>Cash flows from noncapital financing activities:</i>				
Miscellaneous income	-	2,776	-	2,776
Transfers in (out)	2,110	-	(2,110)	-
<i>Net cash provided (used) by noncapital financing activities</i>	<u>2,110</u>	<u>2,776</u>	<u>(2,110)</u>	<u>2,776</u>
<i>Cash flows from capital and related financing activities:</i>				
Capital grants	-	-	121,640	121,640
Acquisition of capital assets	(121,640)	-	-	(121,640)
Transfers in (out)	121,640	-	(121,640)	-
<i>Net cash provided (used) by capital and related financing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash flows from investing activities:</i>				
Purchase of investments	(300)	-	-	(300)
Interest on investments	487	108	-	595
<i>Net cash provided by investing activities</i>	<u>187</u>	<u>108</u>	<u>-</u>	<u>295</u>
<i>Net (decrease) increase in cash and cash equivalents</i>	<u>(99,687)</u>	<u>230,151</u>	<u>-</u>	<u>130,464</u>
<i>Cash and cash equivalents - beginning of year</i>	<u>321,254</u>	<u>106,688</u>	<u>-</u>	<u>427,942</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 221,567</u>	<u>\$ 336,839</u>	<u>\$ -</u>	<u>\$ 558,406</u>

Note: Non cash items were transferred from the Public Housing Capital Fund Program to the Low Rent Public Housing Program.

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Public Housing Capital Fund Program	Total
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>				
Operating (loss) income	\$ (299,854)	\$ 227,590	\$ 2,110	\$ (70,154)
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:				
Depreciation	307,257	-	-	307,257
Changes in assets and liabilities				
Accounts receivable	(86,586)	(771)	-	(87,357)
Prepaid expenses	(7,283)	7,764	-	481
Accounts payable	2,863	986	-	3,849
Accrued payroll expenses	(21,099)	(9,533)	-	(30,632)
Accrued compensated absences	(2,310)	1,231	-	(1,079)
Tenant deposits	854	-	-	854
FSS deposits	4,174	-	-	4,174
<i>Net cash (used) provided by operating activities</i>	<u>\$ (101,984)</u>	<u>\$ 227,267</u>	<u>\$ 2,110</u>	<u>\$ 127,393</u>

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STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Taos County Housing Authority (the Authority) was established in 1964. The Housing Authority's office is located in Taos, New Mexico. However, the housing units are located in Taos, Questa and Peñasco, New Mexico. The Authority was organized under New Mexico statutes, to provide a conduit for housing funds for disadvantaged citizens of the County of Taos, New Mexico.

The primary goal of the Low Rent Public Housing Program is the provision of a decent home in a suitable living environment for families that cannot afford standard private housing. Under this program, decent, safe and sanitary housing is made available to families having incomes lower than levels established by the federal government by Public Housing Agencies (PHA) which are organized and authorized in accordance with State Law to engage or assist in the development of operation of a Low Rent Public Housing Program. The PHA is a local housing authority (LHA) governed by an appointed board of commissioners who employ an administrative staff headed by an executive director.

This summary of significant accounting policies of Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance. The more significant of the Authority's accounting policies are described below.

The Authority reports the following major enterprise funds:

- **Low Rent Public Housing Program** – Funded through direct grants from HUD, the program is designed to provide adequate living accommodations to qualified families through reduced rate rentals built and owned by the Authority.
- **Section 8 Housing Choice Voucher Program** – These programs, funded through direct grants from HUD, provide rental assistance to qualified recipients through rent subsidies paid directly to third-party property owners.
- **Public Housing Capital Fund Program** – These programs, funded through direct grants from HUD, account for acquisition of capital assets or construction of capital projects.

A. Financial Reporting Entity

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential programs and operations of the Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its residents and participants, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its residents and participants.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority has no component units; however, the Authority is a component unit of Taos County.

Taos County does issue separately audited financial statements. Additional information regarding Taos County may be obtained directly from their administrative office as follows: Taos County Finance Department, 105 Albright Street, Suite I, Taos, New Mexico 87571.

B. Basis of Accounting and Measurement Focus

All activities of the Authority are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All of the Authority's funds meet the requirements for being reported as major funds under GASB Statement No. 34.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Authority's proprietary (enterprise) funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for rent and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. There are no fiduciary funds included in the Authority's financial statements.

Revenue Recognition

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Authority has entered into contracts with HUD to develop, manage and own public housing projects and to administer the federal Section 8 Housing Choice Vouchers Program, whereby monthly housing assistance payments are made to landlords on behalf of eligible lower income individuals and families. HUD makes monthly operating subsidy contributions within the public housing program and monthly contributions for housing assistance payments and administration fees for the Section 8 Housing Choice Vouchers Program. Such contributions are reflected as operating grant revenue. Contributions received from HUD for capital additions and improvements are reported as capital grant revenue.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets

Deposits and Investments

The Authority is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

State regulations require that uninsured demand deposits and deposit-type investments, such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. If the securities pledged are United States government securities, they are pledged at market value; if they are New Mexico municipal bonds, they are pledged at par value.

Accounts Receivable and Accounts Payable

All receivables, including tenant receivables, are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

Restricted Cash and Cash Equivalents

Certain resources set aside in escrow for security deposits of \$45,453, held as insurance against the non-payment for services rendered, are classified on the Statement of Net Assets as restricted because their use is limited. Resources are also set aside for Family Self-Sufficiency (FSS) deposits of \$24,949, as the use of those funds is limited. In addition, pursuant to guidance from HUD cash equal to ending Housing Assistance Payments (HAP) equity is reported as restricted, as the use of those funds is limited.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Authority's financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 yrs – 40 yrs
Equipment	5 yrs – 15 yrs

Accrued Expenses

Accrued expenses are comprised of accrued salaries, wages, related employment taxes and current and noncurrent maturities of compensated absences, discussed more fully below.

Compensated Absences

Qualified employees are entitled to earn annual leave at a rate of 4.615 hours per pay period of 80 hours worked. No more than two hundred forty (240) hours of annual leave may be carried over from one calendar year to the next. All excess annual leave shall be forfeited, if not used, unless extenuating circumstances warrant approval by the Authority management to buy back that portion of an employee’s annual leave that exceeds the allowable carry forward balance.

Vested or accumulated annual leave that is expected to be liquidated with expendable available financial resources is reported as a expenditure and a liability of the program that will pay it. Amounts of vested or accumulated annual leave that are not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components:

- **Invested in Capital Assets** – This component consists of capital assets, net of accumulated depreciation.
- **Restricted Net Assets** – Net assets are reported as restricted when constraints placed on net asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – Net assets that do not meet the definition of “restricted” and “Invested in capital assets.”

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Unrestricted and Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Authority's financial statements include depreciation on capital assets, the current portion of accrued compensated absences and the allowance for uncollectible accounts.

D. Budgets

The Authority's Board is required to obtain approval from HUD for any revisions to the budgets that alter the total expenditures, at the legal level of budgetary control, which is at the grant program level. HUD program budgets are prepared on a regulatory basis which is comparable to the GAAP basis except for the omission of depreciation. Budgetary data for the Authority's programs are prepared on a calendar year basis. HUD does not require the presentation of the budgets in the audit report. The inclusion of the budget in the audit report would be misleading as the audit report is as of June 30, 2012 and the HUD budget period is not complete as of that date.

NOTE 2. DEPOSITS AND INVESTMENTS

State statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, the state investment pool, money market accounts, and United States Government obligations. All invested funds of the Authority properly followed State investment requirements as of June 30, 2012.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

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Taos County Housing Authority
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NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts in all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2012 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

Through July 20, 2012, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

Custodial Credit Risk – Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2012, \$252,416 of the Authority’s bank balance of \$669,234 was subject to custodial credit risk. \$252,416 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the Authority’s name. No amounts of the Authority’s deposits were uninsured and uncollateralized at June 30, 2012.

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states the types of collateral allowed is limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. All depositories had collateral exceeding the amount required by law.

	<u>US Bank</u>	<u>People's Bank</u>	<u>Centinel Bank</u>	<u>Total</u>
Total amount of deposits	\$ 502,416	\$ 60,835	\$ 105,983	\$ 669,234
FDIC Coverage	<u>(250,000)</u>	<u>(60,835)</u>	<u>(105,983)</u>	<u>(416,818)</u>
Total uninsured public funds	<u>252,416</u>	<u>-</u>	<u>-</u>	<u>252,416</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name	<u>252,416</u>	<u>-</u>	<u>-</u>	<u>252,416</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ 126,208	\$ -	\$ -	\$ 126,208
Pledged securities	<u>547,659</u>	<u>-</u>	<u>-</u>	<u>547,659</u>
Over (under) collateralized	<u>\$ 421,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421,451</u>

STATE OF NEW MEXICO
Taos County Housing Authority
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NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to Statement of Net Assets

The carrying amount of deposits and investments shown above are included in the Authority's Statement of Net Assets as follows:

Cash and cash equivalents	\$	269,625
Restricted cash and cash equivalents		288,781
Investments		60,084
 Total cash, cash equivalents, and investments		 618,490
 Add: unreconciled difference in cash		 20,300
Add: outstanding checks		30,925
Less: deposits in transit		(281)
Less: petty cash		(200)
 Bank balance of deposits	 \$	 669,234

Investments consist of certificates of deposit with maturities greater than 90 days for financial reporting purposes, but are being included as deposits for disclosure presentation.

NOTE 3. RECEIVABLES

Receivables as of June 30, 2012, are as follows:

	<u>Housing Authority</u>	
Due from other governments		
Federal sources	\$ 57,705	
Repayment agreements	24,939	
Customer receivables	15,800	
 Total	 \$ 98,444	

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The Authority records transfers in order to reclassify expenditures from one fund to another.

<u>Transfer In</u>	<u>Transfer out</u>	
Low Rent Public Housing Program	Public Housing Capital Fund Program	\$ 2,110

Net equity transfers, made to close out funds, were as follows:

<u>Equity Transfers from other programs</u>	<u>Equity Transfers to other programs</u>	
Low Rent Public Housing Program	Public Housing Capital Fund Program	\$ 121,640

STATE OF NEW MEXICO
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NOTE 5. CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2012. Land is not subject to depreciation.

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not depreciated:				
Land	\$ 167,589	\$ -	\$ -	\$ 167,589
Total capital assets, not depreciated	167,589	-	-	167,589
Capital assets, depreciated:				
Buildings and improvements	11,154,669	121,640	-	11,276,309
Equipment	1,148,384	-	-	1,148,384
Total capital assets, depreciated	12,303,053	121,640	-	12,424,693
Less accumulated depreciation:				
Buildings and improvements	7,636,988	252,734	-	7,889,722
Equipment	447,063	54,523	-	501,586
Total accumulated depreciation	8,084,051	307,257	-	8,391,308
Net book value	\$ 4,386,591	\$ (185,617)	\$ -	\$ 4,200,974

Depreciation expense for the year ended June 30, 2012 totaled \$307,257.

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Taos County Housing Authority
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Notes to the Financial Statements
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NOTE 6. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2012.

	Balance, June 30, 2011	Additions	Retirements	Balance, June 30, 2012	Due Within One Year
Compensated absences	\$ 34,958	\$ 22,681	\$ 23,760	\$ 33,879	\$ 14,568
Totals	<u>\$ 34,958</u>	<u>\$ 22,681</u>	<u>\$ 23,760</u>	<u>\$ 33,879</u>	<u>\$ 14,568</u>

NOTE 7. CONTINGENT LIABILITIES

Legal Proceedings — The Authority is subject to various legal proceedings that arise in the ordinary course of the Authority’s operations. In the opinion of the Authority’s management, the ultimate resolution of the matters will not have a material adverse impact on the financial position or results of operations of the Authority.

Federal Grants — The Authority receives federal grants for various specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowance, if any, will not be material to the financial statements.

NOTE 8. RISK MANAGEMENT

Taos County Housing Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has joined together with other housing authorities throughout the country and obtained insurance through the Housing Authority Insurance Group, a housing authority risk pool currently operating as a common risk management and insurance program for member units. The Authority pays an annual premium to the Housing Authority Insurance Group for its general insurance coverage and all risk of loss is transferred to the risk pool.

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Authority’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 15.65% of their gross salary. The Authority is required to contribute 11.65% of the gross covered salary. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority’s contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$48,742, \$49,042, and \$40,396, respectively, which equal the amount of the required contributions for each fiscal year.

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Taos County Housing Authority
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Notes to the Financial Statements
June 30, 2012

NOTE 10. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$7,646, \$3,476 and \$2,254, respectively, which equal the required contributions for each year.

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June 30, 2012

NOTE 11. CONCENTRATIONS

Substantially all revenues of the Authority are received from programs directed by the United States Department of Housing and Urban Development. Receipt of these funds is contingent upon the Authority's continued compliance with grant provisions and the continuance of the grant programs by this U.S. Governmental agency.

NOTE 12. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2012, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosures is November 7, 2012, which is the date on which the financial statements were issued. No events took place subsequent to year end.

NOTE 13. SUBSEQUENT PRONOUNCEMENTS

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The Housing Authority will implement this standard during fiscal year June 30, 2013. The Authority is still evaluating how this reporting standard will affect the reporting entity.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The Authority is reviewing the effects of the implementation of this statement.

In March 2012, GASB Statement No. 66 *Technical Corrections-2012-an amendment of the GASB Statements No. 10 and No. 62*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority will implement this standard during fiscal year June 30, 2014.

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO

Schedule I

Taos County Housing Authority
A Component Unit of Taos County

Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2012

<u>Name of Depository/Location of Safekeeper</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP No.</u>	<u>Market or Par Value June 30, 2012</u>
Pledged by US Bank:				
Federal Home Loan Bank, Dallas	GNMA REMIC 2011-81 F	6/20/2041	38376LVLO	<u>\$ 547,659</u>
	Total US Bank Pledged Securities			<u>547,659</u>
	Total pledged securities			<u><u>\$ 547,659</u></u>

See independent auditors' report

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Schedule of Deposit and Investment Accounts
June 30, 2012

Schedule II

Bank Name/Account Name	Account Type	Bank Balance	Deposits In Transit	Outstanding Checks	Book Balance
US Bank					
Escrow Acct	Checking	\$ 20,115	\$ -	\$ -	\$ 20,115
General Fund Operational	Checking	145,572	281	16	145,837
Accounts Payable	Checking	-	-	18,466	(18,466)
Section 8 General Fund Operational	Checking	335,050	-	11,732	323,318
Home House by House	Checking	586	-	-	586
Home House by House clearing	Checking	1,093	-	-	1,093
Total US Bank		502,416	281	30,214	472,483
People's Bank					
Low Rent Public Housing	Checking	60,835	-	433	60,402
Total People's Bank		60,835	-	433	60,402
Centinel Bank					
Taos County Housing Authority	Checking	45,731	-	278	45,453
Payroll	Checking	168	-	-	168
Certificate of Deposit	Time	60,084	-	-	60,084
Total Centinel Bank		105,983	-	278	105,705
Unreconciled difference in cash		-	-	-	(20,300)
Petty cash		-	-	-	200
Total		\$ 669,234	\$ 281	\$ 30,925	\$ 618,490
Cash per financial statements					
Cash and cash equivalents per Exhibit A-1				269,625	
Restricted cash and cash equivalents per Exhibit A-1				288,781	
Investments per Exhibit A-1				60,084	
Total cash, cash equivalents and investments					<u>\$ 618,490</u>

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STATE OF NEW MEXICO
Taos County Housing Authority
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Financial Data Schedule
June 30, 2012

Line Item Number	Description	Low Rent Public Housing Program 14.850	Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
111	Cash - Unrestricted	\$ 169,520	\$ 100,105	\$ -	\$ 269,625
113	Cash - Other Restricted	6,594	236,734	-	243,328
114	Cash - Tenant Security Deposits	45,453	-	-	45,453
100	Total Cash	<u>221,567</u>	<u>336,839</u>	<u>-</u>	<u>558,406</u>
121	Accounts Receivable - PHA projects	-	771	-	771
	Accounts Receivable - HUD Other Projects -				
122-020	Capital Fund	57,705	-	-	57,705
125	Accounts Receivable - Miscellaneous	24,168	-	-	24,168
126	Accounts Receivable - Tenants - Dwelling Rents	15,800	-	-	15,800
120	Total Receivables, Net of Allowance for Doubtful Accounts	97,673	771	-	98,444
131	Investments - Unrestricted	60,084	-	-	60,084
130	Total Investments	60,084	-	-	60,084
142	Prepaid Expenses and Other Assets	20,783	1,043	-	21,826
150	Total Current Assets	<u>400,107</u>	<u>338,653</u>	<u>-</u>	<u>738,760</u>
161	Land	167,589	-	-	167,589
162	Buildings	11,276,309	-	-	11,276,309
163	Furniture, Equipment & Machinery - Dwellings	857,588	-	-	857,588
	Furniture, Equipment & Machinery -				
164	Administration	290,796	-	-	290,796
166	Accumulated Depreciation	(8,391,308)	-	-	(8,391,308)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>4,200,974</u>	<u>-</u>	<u>-</u>	<u>4,200,974</u>
180	Total Non-Current Assets	<u>4,200,974</u>	<u>-</u>	<u>-</u>	<u>4,200,974</u>
190	Total Assets	<u>\$ 4,601,081</u>	<u>\$ 338,653</u>	<u>\$ -</u>	<u>\$ 4,939,734</u>

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June 30, 2012

Line Item Number	Description	Low Rent Public Housing Program 14.850	Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
312	Accounts Payable <= 90 Days	\$ 22,067	\$ 2,310	\$ -	\$ 24,377
321	Accrued Wage/Payroll Taxes Payable	5,262	2,592	-	7,854
	Accrued Compensated Absences - Current				
322	Portion	9,761	4,807	-	14,568
341	Tenant Security Deposits	45,453	-	-	45,453
345	Other Current Liabilities	11,428	13,521	-	24,949
310	Total Current Liabilities	<u>93,971</u>	<u>23,230</u>	<u>-</u>	<u>117,201</u>
354	Accrued Compensated Absences - Non-Current	12,938	6,373	-	19,311
350	Total Non-Current Liabilities	<u>12,938</u>	<u>6,373</u>	<u>-</u>	<u>19,311</u>
300	Total Liabilities	<u>106,909</u>	<u>29,603</u>	<u>-</u>	<u>136,512</u>
508.1	Invested in Capital Assets, Net of Related Debt	4,200,974	-	-	4,200,974
511	Restricted Net Assets	-	223,213	-	223,213
512.1	Unrestricted Net Assets	293,198	85,837	-	379,035
513	Total Equity/Net Assets	<u>4,494,172</u>	<u>309,050</u>	<u>-</u>	<u>4,803,222</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 4,601,081</u>	<u>\$ 338,653</u>	<u>\$ -</u>	<u>\$ 4,939,734</u>

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Taos County Housing Authority
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Financial Data Schedule
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Line Item Number	Description	Low Rent Public Housing Program 14.850	Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
70300	Net Tenant Rental Revenue	\$ 282,893	\$ -	\$ -	\$ 282,893
70400	Tenant Revenue - Other	19,129	-	-	19,129
70500	Total Tenant Revenue	302,022	-	-	302,022
70600	HUD PHA Operating Grants	511,616	2,910,996	52,368	3,474,980
70610	Capital Grants	-	-	121,640	121,640
71100	Investment Income - Unrestricted	487	8	-	495
71400	Fraud Recovery	-	1,660	-	1,660
71500	Other Revenue	-	25,573	-	25,573
72000	Investment Income - Restricted	-	100	-	100
70000	Total Revenue	814,125	2,938,337	174,008	3,926,470
91100	Administrative Salaries	141,567	121,079	31,802	294,448
91200	Auditing Fees	7,000	3,165	-	10,165
91310	Book-keeping Fee	8,762	2,637	-	11,399
	Employee Benefit Contributions -				
91500	Administrative	69,071	59,045	-	128,116
91600	Office Expenses	7,013	4,571	-	11,584
91800	Travel	21,773	4,002	-	25,775
91900	Other Operating - Administrative	48,858	18,839	-	67,697
91000	Total Operating - Administrative	304,044	213,338	31,802	549,184
92100	Tenant Services - Salaries	15,975	10,607	-	26,582
	Employee Benefit Contributions - Tenant				
92300	Services	6,946	4,696	-	11,642
92400	Tenant Services - Other	3,722	-	-	3,722
92500	Total Tenant Services	26,643	15,303	-	41,946
93100	Water	73,798	-	-	73,798
93200	Electricity	21,986	-	-	21,986
93300	Gas	100,883	-	-	100,883
93800	Other Utilities Expense	10,186	-	-	10,186
93000	Total Utilities	206,853	-	-	206,853
94100	Ordinary Maintenance & Operation - Labor	145,063	-	11,161	156,224
	Ordinary Maintenance & Operation - Materials				
94200	& Other	32,249	-	7,295	39,544
94300	Ordinary Maintenance & Operation Contracts	47,061	-	-	47,061
94000	Total Maintenance	224,373	-	18,456	242,829
96110	Property Insurance	41,940	14,401	-	56,341
96100	Total Insurance Premiums	41,940	14,401	-	56,341
96200	Other General Expenses	-	35,739	-	35,739
96400	Bad Debt - Tenant Rents	199	-	-	199
96000	Total Other General	199	35,739	-	35,938
96900	Total Operating Expenses	\$ 804,052	\$ 278,781	\$ 50,258	\$ 1,133,091

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Financial Data Schedule
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Line Item Number	Description	Low Rent Public Housing Program 14.850	Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872	Total
	Excess Operating Revenue Over Operating				
97000	Expenses	\$ 10,073	\$ 2,659,556	\$ 123,750	\$ 2,793,379
97100	Extraordinary Maintenance	2,183	-	-	2,183
97300	Housing Assistance Payments	-	2,406,702	-	2,406,702
97350	HAP Portability-In	-	22,380	-	22,380
97400	Depreciation Expense	307,257	-	-	307,257
90000	Total Expenses	<u>\$ 1,113,492</u>	<u>\$ 2,707,863</u>	<u>\$ 50,258</u>	<u>\$ 3,871,613</u>
10010	Operating Transfers In	\$ 2,110	\$ -	\$ -	\$ 2,110
10020	Operating Transfers Out	-	-	(2,110)	(2,110)
10100	Total Other Financing Sources (Uses)	<u>2,110</u>	<u>-</u>	<u>(2,110)</u>	<u>-</u>
	Excess (Deficiency) of Operating Revenue				
10000	Over (Under) Expenses	(297,257)	230,474	121,640	54,857
11030	Beginning Equity	<u>4,669,789</u>	<u>78,576</u>	<u>-</u>	<u>4,748,365</u>
1040-070	Equity Transfers	<u>121,640</u>	<u>-</u>	<u>(121,640)</u>	<u>-</u>
11040	Prior period Adjustments, Equity Transfers and Correction of Errors	<u>121,640</u>	<u>-</u>	<u>(121,640)</u>	<u>-</u>
	Ending Equity (deficit)	<u>\$ 4,494,172</u>	<u>\$ 309,050</u>	<u>\$ -</u>	<u>\$ 4,803,222</u>
11190	Unit Months Available	<u>2,016</u>	<u>5,364</u>	<u>-</u>	<u>7,380</u>
11210	Number of Unit Months Leased	<u>1,780</u>	<u>4,536</u>	<u>-</u>	<u>6,316</u>
11270	Excess Cash	<u>\$ 211,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,755</u>
11620	Building Purchases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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COMPLIANCE SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
Executive Director and Board of Directors
Taos County Housing Authority
Taos County, New Mexico

We were engaged to audit the financial statements of the business-type activities of the Taos County Housing Authority (the “Authority”) as of and for the year ended June 30, 2012, which collectively comprise the Taos County Housing Authority’s basic financial statements and have issued our report thereon dated November 7, 2012. We rendered a disclaimer of opinion due to a scope limitation not allowing us to obtain sufficient evidence to support account balances and related disclosures presented within the Authority’s financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as items FSHA 12-01, FSHA 12-02, FSHA 12-03, FSHA 12-04, FSHA 12-05, FSHA 12-06, FSHA 12-07, FSHA 12-09, FSHA 12-10, FSHA 12-12, FSHA 12-13, FSHA 12-14, FSHA 12-15, FSHA 12-16 and FSHA 12-17 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tested disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items FSHA 12-01, FSHA 12-03, FSHA 12-04, FSHA 12-06, FAHA 12-04, FAHA 12-05 and FAHA 12-06.

We noted certain matters that are required to be reported under Government Auditing Standards January 2007 Revision paragraphs 5.14 and 5.16, and section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings FSHA 12-08 and FSHA 12-11.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the organization, the New Mexico Department of Finance and Administration, the Office of the State Auditor, the New Mexico Legislature and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 7, 2012

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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
Executive Director and Board of Directors
Taos County Housing Authority
Taos County, New Mexico

Compliance

We have audited Taos County Housing Authority's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular *A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

We were not able to obtain sufficient evidence to substantiate the account balances of cash, revenues and expenditures of each major program, nor were we able to satisfy ourselves as to the Authority's compliance with other auditing procedures.

As described in items FAHA 12-04, FAHA 12-05, and FAHA12-06, in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding eligibility and reporting requirements that are applicable to all major programs. Compliance with such requirements is necessary, in our opinion, for the Authority, to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Authority did not comply in all material respects, with the requirements referred to above that could have a direct and material effect all major programs.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal controls over compliance that we considered to be material weaknesses, and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FAHA 12-02, FAHA 12-03, FAHA 12-05, and FAHA 12-06 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirements of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item FAHA 12-01 to be a significant deficiency.

The Authority's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them

This report is intended solely for the information and use of management, others within the organization, the New Mexico Department of Finance and Administration, the Office of the State Auditor, the New Mexico Legislature and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 7, 2012

STATE OF NEW MEXICO
 Taos County Housing Authority
 A Component Unit of Taos County
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Grant or State Number	Federal CFDA Number		Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs:</i>				
Public and Indian Housing	NM03800000109D	14.850	*	\$ 511,616
Section 8 Housing Choice Vouchers	N/A	14.871	*	2,910,996
Public Housing Capital Fund	NM02P038501-10	14.872		102,819
	NM02P038501-11	14.872		71,189
Total U.S. Department of Housing and Urban Development				<u>3,596,620</u>
Total Expenditures of Federal Awards				<u><u>\$ 3,596,620</u></u>

* Major program

Notes to Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Taos County Housing Authority, New Mexico (Authority) and is presented on the full accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133*, Audits of States, Local Governments and Non-Profit Organizations.

Subrecipients

The Authority did not provide any federal awards to subrecipients during the year.

Non-Cash Federal Assistance

The Authority received no non-cash assistance during the year.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 3,596,620
Total expenditures funded by other sources	<u>274,993</u>
Total expenditures	<u><u>\$ 3,871,613</u></u>

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STATE OF NEW MEXICO
 Taos County Housing Authority
 A Component Unit of Taos County
 Schedule of Findings and Questioned Costs
 June 30, 2012

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Disclaimer |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| c. Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | | | | | | |
|---|-----------------------------------|-----------------|--------|---------------------------|--------|-----------------------------------|--|
| 1. Internal control over major programs: | | | | | | | |
| a. Material weaknesses identified? | Yes | | | | | | |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes | | | | | | |
| 2. Type of auditors' report issued on compliance for major programs | Adverse | | | | | | |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes | | | | | | |
| 4. Identification of major programs: | | | | | | | |
| <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">CFDA
Number</td> <td style="text-align: center; border-bottom: 1px solid black;">Federal Program</td> </tr> <tr> <td style="text-align: center;">14.850</td> <td style="text-align: center;">Public and Indian Housing</td> </tr> <tr> <td style="text-align: center;">14.871</td> <td style="text-align: center;">Section 8 Housing Choice Vouchers</td> </tr> </table> | CFDA
Number | Federal Program | 14.850 | Public and Indian Housing | 14.871 | Section 8 Housing Choice Vouchers | |
| CFDA
Number | Federal Program | | | | | | |
| 14.850 | Public and Indian Housing | | | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | | | |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | | | |
| 6. Auditee qualified as low-risk auditee? | No | | | | | | |

SECTION II – PRIOR YEAR AUDIT FINDINGS

Prior Year Audit Findings

None

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FSHA 12-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/Material Noncompliance

Condition: The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- During testwork, we noted instances of fraud and illegal acts occurring by previous management of the Housing Authority, however at June 30, 2012 the results of investigations are still ongoing and no results have been released. The actual amount of fraud and illegal acts is undeterminable at the date of the issuance of this report.
- There is not a fraud risk assessment done at the Housing Authority
- There is inadequate segregation of duties in receipts, disbursements, and payroll
- There are inadequate internal controls over bank reconciliations
- There are inadequate internal controls to mitigate management override to perpetrate fraud
- There are inadequate internal controls to mitigate management override to manipulate bid awards
- There are inadequate internal controls to monitor projects as follows:
 - Ensure proper licensing by contractors
 - Ensure proper monitoring of project completeness per specifications before payment
 - Ensure proper filing of supporting documentation
- There is inadequate internal controls to ensure proper quotes for purchases
- There is inadequate internal controls over travel and per diem
- There is a lack of proper monitoring of mileage records for travel and per diem
- There is a lack of proper mileage records for service department
- There is a lack of proper monitoring and safeguarding of gas cards
- There is no proper conflict of interest policy maintained by the Housing Authority
- There is a lack of proper monitoring over vendor master files
- There is a lack of monitoring over the HDS system
- There is a lack of internal controls to ensure that there are no duplicate names in the HDS system
- There is a lack of internal controls over capital assets

Criteria: As required by NMSA 1978 Section 6-6-3, the Housing Authority should design and maintain an internal control structure that enables it to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Under SAS 115, the internal control and financial reporting process should have adequate oversight provided by the body charged with governance.

Effect: Because there is not an adequate internal control structure or oversight by the governing body, complete and accurate financial data cannot be verified, assets are not properly safeguarded, reconciliations are not performed, or at a minimum not performed on a timely basis, and adequate controls are not in place to prevent or detect intentional misstatements of accounting information due to errors or fraud.

Cause: For the fiscal year 2012 management, the body charged with governance, and staff did not have expertise and/or training to implement an adequate internal control structure.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/Material Noncompliance (continued)

Auditors' Recommendation: The Housing Authority should ensure that a comprehensive internal control structure is designed, documented and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Additionally, Housing Authority management should give annual consideration to how fraud might occur in their organization; develop procedures to address fraud risk and document those risks and procedures.

Management's Response: Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification. The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well as advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

Fraud: In addition to oversight by an independent Fee Accountant and an independent auditor, the management and Advisory Board of the Authority will conduct an annual risk, fraud, internal controls and liability assessment. The agency has been the subject of several investigations, some at the request of the County, in which extensive assessment by HUD, the Office of the Inspector general, the FBI, the Justice department and the HUD national recovery center will be providing findings and recommendations that will be reviewed and incorporated by the County.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-02 Internal Controls/Segregation of Duties – Material Weakness

Condition: The Housing Authority is lacking adequate internal controls over its accounting processes. During review of internal control procedures, we noted that the prior Executive Director had the ability to perform all major functions of the Housing Authority related to the accounting processes.

Criteria: Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: The Housing Authority's books or records contain misstatements related to fraud, and was not detected within a timely manner.

Cause: The Housing Authority and Oversight Committee did not assess risks or implement internal controls to segregate duties.

Auditors' Recommendation: We recommend that the Board provide extensive oversight, and implement limited segregation to the extent possible to reduce the risk of errors or fraud.

Management's Response: It should be stated that the current evidence indicates that in addition to the inappropriate concentration of too many powers within the Executive Director, the fraud was able to occur because of either the complicity or failure of the fee Accountant and Independent Auditors to perform their contracted duties, which would have made it nearly impossible for any oversight board to detect a problem. This was compounded by HUD failing to provide proper oversight, deeming the agency a "high performer".

Secondly, the County staff actually did detect potential problems at the agency, as well as with the Fee Accountant and Audit, once we began actively participating on the Board.

Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification. The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-03 Internal Control Deviations – Disbursements – Material Weakness/Material Noncompliance

Condition: During our review of internal controls over disbursements, we noted the following:

- a. The Housing Authority created invoices for payment to vendors for goods or services without requiring the vendor to supply an invoice.
- b. Management override of purchase requisitions – where requisitions were signed by the requestor, authorizing purchase with no other authorization.
- c. In 3 out of 4 disbursements reviewed, there was a lack of supporting documentation, as purchase requisitions were not signed
- d. In several disbursements reviewed, there were no quotes on file for purchases as required by the Housing Authority’s policy.
- e. 1 out of 5 disbursements tested, the check was released before authorization of management.

Criteria:

- a. Good internal controls and sound business practice require that the Authority develop policies and procedures for internal controls over disbursements.
- b. Good internal controls and sound business practice require that the Authority exercise due diligence and ensure that all transactions are properly posted and to the correct account.
- c. Good internal controls and sound business practice require that the Authority establish and implement internal control procedures over cash disbursements. The Authority should ensure that all checks are printed with all required information and should be reviewed for accuracy, completeness and reasonableness before signing.

Effect: Internal controls over disbursements are not sufficiently monitored and maintained to prevent or detect accidental or intentional misappropriation of the Authority’s assets. This may result in many issues, including but not limited to, purchase of unauthorized or unnecessary items. Furthermore, in the case of improperly posted transactions, this could result in incorrect balances being reflected that could adversely affect decision making and in this specific case of tenant security deposit, an incorrect reflection of a tenant’s security deposit balance.

Cause: The Authority has failed to established policies and procedures over the internal control structure over disbursements.

Auditors’ Recommendation: The Authority should establish policies and procedures to ensure that the proper internal controls are in place over its disbursements. Additionally, the Authority should ensure that all supporting documentation is adequately maintained and available for inspection. Lastly, the Authority should review all postings to the general ledger on a regular basis to ensure all postings are reasonable and accurate.

Management’s Response: Internal Controls: As all operations of the Authority are being taken over by the County, existing County internal control policies and procedures have been imposed on the Authority and are being enforced. In theory, these procedures were already available to the Authority and should have been followed, but because the Authority was a standalone entity, there was no direct oversight by the County as the Authority had its own financial staff, director and governing board. Those have since been abolished.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-03 Internal Control Deviations – Disbursements – Material Weakness/Material Noncompliance (continued)

While the County policies and procedures are now in place in the Authority, full control of all Authority functions has been migrating to the County since July 1st, consistent with a HUD, County and Authority approved plan and timetable, with full control transferred to the County and the dissolution of the old Authority format no later than 12/31/12.

FSHA 12-04 Insufficient Documentation on Credit Cards – Material Weakness/Material Noncompliance

Condition: During our testwork we noted the following:

- a. In 3 out of 3 credit card disbursements related to gas cards travel logs, we noted there was insufficient documentation for mileage and purposes of trips.
- b. In 3 out of 3 credit card disbursements relate to travel logs, we noted there was insufficient sign off by employees.
- c. In 3 out of 3 credit card disbursements related to travel logs, we noted insufficient review by management to ensure proper documentation and use.

Criteria: New Mexico Procurement Code 13-1-1 to 13-1-99, NMSA 1978, states that payments must be supported by valid receipts and that payment may only be made for valid charges.

Effect: The Authority may be paying for unallowable expenses. Inconsistent monitoring of compliance with requirements could result in abuse or fraud.

Cause: Employees and management are not tracking where gas cards are kept at all times, and management is not reviewing mileage logs to ensure employees are completing and signing travel log.

Auditors' Recommendation: We recommend that the Housing Authority require gas card holders to keep track of the gas cards, to turn in receipts as charges are incurred, and to fill out the travel logs completely and sign off on the travel log. In the case of an occasional lost receipt, the Authority should have the gas card holder sign and date an explanation as to the amount of the charge as well as the purpose of the charge.

Management's Response: Gas and vehicle policy: The County policy with regards to the issuance, use and documentation of use of gas cards and vehicles has already been put in place at the Authority, with all cards having been collected, identified, and redistributed, along with the new policies.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-05 Lack of Internal Controls Over Voided Checks – Material Weakness

Condition: During our testwork over cash, we noted that the Housing Authority does not have internal controls over voided checks to ensure all voided checks are properly tracked and voided properly, both physically and in the accounting system.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 115 paragraph 15 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Good internal control policy dictates that the Housing Authority shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect: This results in an increased risk of theft of voided checks and potential for misappropriation of Housing Authority’s funds.

Cause: Management is not implementing internal controls to ensure checks are properly voided.

Auditors’ Recommendation: The Housing Authority should review cash management procedures with the responsible individuals monthly to ensure that all areas of cash have sufficient internal controls, including accounting for all voided checks residing at the entity as well as a documented policy that states who is responsible for voided checks in the system.

Management’s Response: The County internal controls and policies and procedures for financial management have been instituted at the Authority and full control of all financial functions will be transferred in their entirety to the County no later than 12/31/12.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-06 Capital Assets Listing – Material Weakness/Material Noncompliance

Condition: During our audit procedures we found the following related to capital assets:

- a. The Housing Authority did not perform an annual inventory of capital assets
- b. The Housing Authority did not provide sufficient audit evidence for capital assets in their listing to prove accuracy and completeness of their capital asset listing.

Criteria: Per section 2.20.1.10 of NMAC, capital assets acquired through purchase shall be recorded at cost. Capital assets include assets constructed by agency personnel. Per Section 2.20.1.14 of NMAC, repairs and maintenance on capital assets which are routine and necessary for continued, safe, and productive operation, should be charged to maintenance expense in the period in which they occur. GASB 34 paragraph 20 requires capital assets to be reported, net of accumulated depreciation, in the statement of net assets. Section 12-6-10, NMSA 1978, requires all agencies to conduct a physical inventory of their capital assets inventory at the end of each fiscal year. Section 12-6-10, NMSA 1978 also changed the capitalization threshold to items that cost more than \$5,000, effective June 17, 2005.

Effect: There are more assets included on the capital assets listing than are allowed by the State's capitalization policy. While not material to the financial statements, in continuing with this capitalization policy the Authority is overstating its capital assets and depreciation expense while understating actual expenses because the expenses are being capitalized rather than expensed.

Cause: The Housing Authority has not ensured compliance with the State Auditor requirements related to capital assets.

Auditors' Recommendation: We recommend that the Housing Authority maintain capital assets records and record depreciation only for those assets with a cost in excess of \$5,000. For accountability purposes, the Housing Authority should track assets in accordance with the existing policy, although these assets should not be included in the capital assets reported on the financial statements.

Management's Response: A full inventorying of all Authority assets is underway in order to provide an accurate accounting of all equipment, vehicles and buildings. Accordingly, upon its completion, the agency's records will be adjusted to accurately reflect items disposed of, items on inventory, correct value and correct depreciated values.

The County's Assets manager will then maintain the updated perpetual inventory, as required.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-07 Preparation of Financial Statements – Material Weakness

Condition: The financial statements and related disclosures are not being prepared by the Agency.

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures.

Effect: When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Cause: The Agency's personnel do not have the time and have not been adequately trained in understanding the elements of external financial reporting, including the preparation of financial statements and related footnote disclosures.

Auditors' Recommendation: We recommend the Agency's management and personnel receive training on understanding the requirements of external financial reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
 - Governmental Accounting Standards Board (GASB)
 - Generally Accepted Accounting Principles (specifically as applied to governmental units)
 - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
 - Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

In addition, we recommend that the Agency develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Management's Response: It is not unusual, given their limited resources and eligible personnel budgets allocated by HUD as part of the annual operational subsidy, for housing authorities to contract with fee accountants to perform some or all of their accounting. Such was the case with the TCHA.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director.

Upon the transfer of all accounting functions to the County, fully trained and experienced personnel of the County Finance Department and County Treasurer's Office will be performing the accounting functions of the Housing Authority, including the preparation in-house of the agency financial statements.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-08 Travel and Per Diem – Other Matter

Condition: During testwork we noted the following conditions:

- In 2 out of 5 transactions tested, employees were over-reimbursed one day for travel. This over-payment totaled \$178.
- In 1 out of 5 transactions tested, employees did not turn in proper supporting documentation for travel and the Housing Authority reimbursed for these expenditures.

Criteria: NMAC 6.20.2.19 requires the Housing Authority to comply with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-4, for all per diem.

Effect: Unauthorized travel and per diem expenditures may be processed and paid without proper approval and rate calculation. Noncompliance with statutes may subject officials and employees to punishment as defined by state statutes. The Authority has also overpaid monies for reimbursements using public funds.

Cause: The Housing Authority did not maintain policies and procedures to ensure that documentation is properly reviewed to ensure compliance with the Authority's policies which follow State Statutes.

Auditors' Recommendations: We recommend the Authority review State Statute NMAC 2.42.2 periodically to ensure compliance as well as use preformatted forms to ensure proper reimbursement rates.

Management's Response: The County internal controls and policies and procedures for financial management have been instituted at the Authority and full control of all financial functions will be transferred in their entirety to the County no later than 12/31/12.

The County reviews, adopts and enforces NMAC 2.42. as well as the federally established mileage reimbursement formula, and uses federally and state compliant standardized policies, procedures and forms issued by the Finance Department to ensure proper reimbursement rates for mileage and per diem.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-09 Lack of Oversight by Board – Material Weakness

Condition: The Board of the Housing Authority did not exercise appropriate oversight over operations of the Housing Authority.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect: The Housing Authority's governing body did not provide effective oversight of internal control and financial reporting processes.

Cause: Board members did not ensure proper internal controls over the financial reporting process of the Housing Authority.

Auditor's Recommendation: The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Management's Response: Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well as advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-10 Security Deposits and FSS Escrow Not Matching the Restricted Cash Accounts – Material Weakness

Condition: The restricted tenant deposits account does not match the liability account balances for the respective deposits. The tenant deposits account is specifically set up for tenants' deposits that are owed to the individual upon cancellation of service.

Criteria: Good accounting practices require that security deposit liabilities should be reconciled to the related security deposit bank account.

Effect: The deposit liability balance for the Public Housing tenant account is overstated by \$4,834.

Cause: The monies in the bank are not being reconciled to the deposit listings maintained by the Housing Authority.

Auditors' Recommendation: The tenant deposits liability account should be reconciled with the tenant deposits account throughout the year.

Management's Response: Management believes that this is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-11 RHC Reports and the General Ledger – Other Matter

Condition: The amount in the general ledger for employer's contribution to RHC does not tie to the reported amount.

Criteria: Per Section 10-7C-15 NMSA 1978, each state agency or affiliated public employer shall be responsible for deducting the applicable contribution from the salary or wages paid to each member for each payroll period.

Effect: The amount of RHC being withheld from employee paychecks could be incorrect and not be detected due to the lack of the reconciliation process

Cause: The Housing Authority did not properly reconcile the RHC reports to the General Ledger.

Auditors' Recommendation: We recommend that the Housing Authority implement a process for reconciling amounts sent to RHC and amounts recorded in the general ledger.

Management's Response: Management believes that this is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

The Authority Financial Analyst simply failed to follow the direction of the County Finance department Personnel Officer in reconciling biweekly payroll deduction estimations with actual figures reported by the Personnel officer back to the Authority.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-12 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Appetite – Material Weakness

Condition: “Risk appetite,” or the amount of risk the entity is willing to accept, associated with each new activity is not discussed and influenced by the Housing Authority’s culture and operating practices. Management’s philosophy and operating style are not consistent with a sound control environment and have a negative pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that ensure safeguard of assets.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 115 paragraph 15 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information or fraud.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors’ Recommendation: The Housing Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Management’s Response: The County and agency management agree with the Auditor’s conclusions as to a “culture” that began with the Authority Executive Director and other program managers in place at the time, as well as a lack of oversight or training/awareness by the Board and the complicity or failure to provide appropriate oversight by the fee Accountant, possibly the prior Auditors, and to some degree the failure of both HUD and the County to provide oversight and direction.

It is the conclusion of management and likely HUD, as the agency’s sole source of funding, based on our mutual findings as well as those of Eastern Regional Housing Authority and the FBI as independent investigators, that the culture was so pervasive as to make it would be more difficult to fix the systems and attitudes than to disengage the Authority and absorb all its programs and functions into the already established and functioning structure and staffing of the County. Therefore, the County, with the consent of HUD and the TCHA Board of Directors, is implementing the following:

Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification. The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-12 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Appetite – Material Weakness (continued)

Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well as advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

Fraud: In addition to oversight by an independent Fee Accountant and an independent auditor, the management and Advisory Board of the Authority will conduct an annual risk, fraud, internal controls and liability assessment. The agency has been the subject of several investigations, some at the request of the county, in which extensive assessment by HUD, the Office of the Inspector general, the FBI, the Justice department and the HUD national recovery center will be providing findings and recommendations that will be reviewed and incorporated by the County.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

**FSHA 12-13 Deficiencies in Internal Control Structure Design, Operation and Oversight – Process Procedures–
Material Weakness**

Condition: Process procedures are not sufficiently formal such that management can determine whether the control objective is met, documentation supporting the procedures is in place, and personnel routinely know the procedures that need to be performed. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the Housing Authority’s control processes to support the achievement of financial reporting objectives.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 115 paragraph 15 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors’ Recommendation: The Housing Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Management’s Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality. The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the County, State and Federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

They simply chose in some instances as a matter of convenience or in an attempt to commit fraud to either ignore or evade those requirements and, in some instances, knew them so well as to devise very elaborate mechanisms to appear to meet them will still committing fraudulent acts.

The actual causality is the lack of oversight to enforce those policies on the management (not staff) by the Board, Fee Accountant, Auditors and others.

Therefore, the County, with the consent of HUD and the TCHA Board of Directors, is implementing the following actions, consistent with the mutually agreed upon timetable for the absorption by the County of the existing functions of the Authority, its Board and staff:

Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification. The TCHA Finance Specialist job description has

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

**FSHA 12-13 Deficiencies in Internal Control Structure Design, Operation and Oversight – Process Procedures–
Material Weakness (continued)**

been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer’s Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well s advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

FSHA 12-14 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Data – Material Weakness

Condition: Data underlying the financial statements are not captured completely, accurately, and timely, in accordance with the Housing Authority’s policies and procedures and in compliance with laws and regulations. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the Housing Authority’s control processes to support the achievement of financial reporting objectives.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 115 paragraph 15 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-14 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Data – Material Weakness (continued)

Auditors' Recommendation: The Housing Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Management's Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality.

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

They simply chose in some instances as a matter of convenience or in an attempt to commit fraud to either ignore or evade those requirements and, in some instances, knew them so well as to devise very elaborate mechanisms to appear to meet them will still committing fraudulent acts.

The actual causality is two-fold:

- (1.) The lack of oversight to enforce those policies on the management (not staff) by the Board, Fee Accountant, Auditors and others.
- (2.) Management believes that this is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

Therefore, the County, with the consent of HUD and the TCHA Board of Directors, is implementing the following actions, consistent with the mutually agreed upon timetable for the absorption by the County of the existing functions of the Authority, its Board and staff:

Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well as advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-15 Cash Activity Not Recorded – Material Weakness

Condition: Cash recorded in the general ledger did not tie to cash per Housing Authority bank reconciliations at June 30, 2012 by \$20,300. The Housing Authority did not record all bank accounts in their general ledger system. The Home House by House checking accounts at US Bank were not recorded.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good accounting policies require that the bank statements be reconciled on a timely basis to the Village's general ledger, at least monthly.

Effect: The Housing Authority's cash balances and resulting activity are at risk of being misstated at June 30, 2012.

Cause: There is a lack of internal controls being designed and implemented by management to ensure all cash transactions are recorded in the general ledger.

Auditors' Recommendation: The Housing Authority should implement policies and procedures and provide adequate training to ensure that internal controls over cash are adequately designed and effectively implemented.

Management's Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality(s).

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

Management believes that this deficiency is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

Therefore, all financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-16 Journal Entries – Material Weakness

Condition: The Housing Authority does not have proper internal controls over Journal Entries.

Criteria: *The Codification of Statements on Auditing Standards (SAS AU)* paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 115 paragraph 15 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: An adequate accounting system is not in place to ensure proper posting and review.

Auditors’ Recommendation: We recommend that the Housing Authority ensure that a comprehensive internal control structure is designed, documented, and implemented.

Management’s Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality(s).

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

Management believes that this deficiency is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

Therefore, all financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer’s Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS (continued)

FSHA 12-17 Incomplete Trial Balance – Material Weakness

Condition: During our fieldwork, we noted that the Housing Authority's trial balance was neither complete nor accurate.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect: As a result, the Housing Authority's trial balance did not represent an accurate picture of the Housing Authority's operational transactions or equity position at year end. Also, due to the severe condition of the financial data, several audit procedures could not be performed to obtain reasonable assurance over account balances which can lead to a high risk of not identifying fraudulent, erroneous, or unusual transactions.

Cause: Due to the lack of internal controls and monitoring, the trial balance was inaccurate and incomplete.

Auditors' Recommendation: We recommend the Housing Authority incorporate processes and internal controls to ensure account balances are properly posted in order to be able to produce a complete and accurate trial balance.

Management's Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality(s).

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

Management believes that this deficiency is less a reflection of inadequate policies or oversight than the level of competency of the staff member performing these functions.

Therefore, all financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FAHA 12-01 — Excluded Parties List – Significant Deficiency

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development

Title: All major programs

CFDA number: All major programs

Condition: During our review of the procurement process, for all major programs tested, it was noted the Housing Authority does not reference the Excluded Parties List System contracts of goods or services in which more than \$25,000 is expended.

Criteria: OMB A-133 stipulates non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered Transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction that is expected to equal or exceed \$25,000 or meet other certain specified criteria.

Questioned Costs: Undeterminable

Effect: The Housing Authority could be contracting with vendors for services or goods that are included on the suspension and debarment listing which potentially decrease federal funding received since this is considered non-compliance.

Cause: The Housing Authority has not implemented checking the Excluded Parties List System website into their purchasing process.

Auditors’ Recommendation: We recommend that the Housing Authority implement procedures to ensure all vendors for services and goods over \$25,000 be verified that they do not exist on the suspension and debarment listing.

Management’s Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality.

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

They simply chose in some instances as a matter of convenience or in an attempt to commit fraud or bid rigging, preferring for a number of reasons to use preferred vendors that the County in some instances identified as ineligible multiple times, to either ignore or evade those requirements.

There was a clear lack of oversight to enforce those policies on the management.

Therefore, the County, with the consent of HUD and the TCHA Board of Directors, is implementing the following actions, consistent with the mutually agreed upon timetable for the absorption by the County of the existing functions of the Authority, its Board and staff:

Internal controls: All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations have been transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

The TCHA Finance Specialist job description has been revised to reflect an increased salary range, a higher level of experience and training, a degree in accounting or business management and prior experience in housing and/or government finance. The position has also been transferred to the oversight of the County Finance Department, supervised by the County

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-01 — Excluded Parties List – Significant Deficiency (continued)

Finance Director. The functions of the TCHA Finance Specialist have also been divided amongst a number of experienced staff in the County Finance Department and Treasurer's Office to provide a full segregation of duties. The job description and qualifications for the Executive Director have also been increased to include a degree, certification from HUD/NAHRO in both Public Housing and Section 8, as well as a minimum of 5 years experience.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well s advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

FAHA 12-02 — Deficiencies in Internal Control Structure Design, Operation and Oversight – Mechanisms to Identify Risks of Inaccurate Financial Reporting – Material Weakness

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development
Title: All major programs
CFDA number: All major programs

Condition: The Housing Authority does not have the mechanisms in place to identify risks of faulty reporting caused by items such as lack of current knowledge, inconsistent application, or carelessness or disregard for standards and reporting requirements of federal awards.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Good internal controls require mechanisms to identify risks of faulty reporting be established.

Questioned Costs: Undeterminable

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) that require management to establish and maintain internal controls over Federal awards.

Auditors' Recommendation: The Housing Authority should ensure that a comprehensive internal control structure, including mechanisms to identify risks of faulty reporting, is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-02 — Deficiencies in Internal Control Structure Design, Operation and Oversight – Mechanisms to Identify Risks of Inaccurate Financial Reporting – Material Weakness (continued)

Management's Response: While management agrees with the relative conclusion of the Auditors, we are not in agreement as to the causality.

The Housing Authority, including the Executive Director, Fee Accountant and Independent Auditors, clearly were aware of the existence of the county, state and federal financial policies and procedures in place and that they equally governed the actions of the Authority and its staff.

The prior management simply chose to either ignore or evade those requirements.

The actual causality is two-fold:

- (1.) The lack of oversight to enforce those policies on the management by the Board, Fee Accountant, Auditors, County and HUD.
- (2.) A lack of knowledge, training or expertise by the Board to be able to know their responsibilities, how to read financial statements and programmatic reports provided to them, and a lack of persistence with management to get their questions answered.

Therefore, the County, with the consent of HUD and the TCHA Board of Directors, is implementing the following actions, consistent with the mutually agreed upon timetable for the absorption by the County of the existing functions of the Authority, its Board and staff:

Internal controls: County financial policies and procedures have already been put in place and are being enforced. All financial functions, including purchasing, procurement, payroll, accounts payable, accounts receivable, inventory control, general ledger and account reconciliations are being transferred to the County Finance Department, with the County Treasurer serving as an independent source of verification.

All financial, internal control and management responsibilities will be fully transferred and operate under Taos County policies no later than 12/31/12.

Governing Board oversight: The TCHA Board of Directors in place during the period of the audit has ceded control to the Board of County Commissioners, who will serve as the new housing authority board. A Housing Advisory Board will be established to provide independent community monitoring of the Authority. That Board will be made up of community and governmental experts in housing, accounting, law, finance and other fields of expertise that can provide informed and independent oversight to the Authority and management, as well as advise the County Commission. HUD and Southwest NAHRO have already provided training to some members of the Advisory Board on ethics, duties of a Housing Commissioner, reading financial statements and conflicts of interest. Training will also be scheduled for the County Commissioners.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-03 — Deficiencies in Internal Control Structure Design, Operation and Oversight – Tracking Property and Equipment Purchased with Federal Award Funds – Material Weakness

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing
CFDA number: 14.850

Condition: During FY 2012, management did not track any capital assets, including property and equipment purchased with federal awards.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Good internal controls require that management track any property and equipment purchased with federal award funds.

Questioned Costs: None

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) that require management to establish and maintain internal controls over Federal Awards.

Auditors' Recommendation: The Housing Authority should ensure that a comprehensive internal control structure, including tracking of property and equipment purchased with federal award funds, is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Management's Response: A full inventorying of all Authority assets is underway in order to provide an accurate accounting of all equipment, vehicles and buildings. Accordingly, upon its completion, the agency's records will be adjusted to accurately reflect items disposed of, items on inventory, correct value and correct depreciated values.

The County's Assets manager will then maintain the updated perpetual inventory, as required.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Schedule of Findings and Questioned Costs
June 30, 2012

Schedule V
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SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-04 — Reporting – Noncompliance

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development

Title: All major programs

CFDA number: All major programs

Condition: The required report was not submitted within the required time frame for the year ended June 30, 2012.

Criteria: For each public and Indian housing grant that involved development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

Questioned Costs: None

Effect: Form HUD 60002 was not submitted timely and the Authority is not in compliance with reporting requirements for its federal programs.

Cause: Procedures were not in place to ensure that the Housing Authority submitted this form within the required time frame set forth by HUD.

Auditors' Recommendation: The Housing Authority should establish procedures ensuring that reports are completed and submitted in a timely manner and in compliance with HUD requirements.

Management's Response: Management agrees with the conclusion. Taos County and the Housing Authority had retained Eastern Regional Housing Authority to serve as management agent of the Authority on its behalf during the investigation. It appears the consultant failed to file the required form in a timely basis.

The reporting deadline has been noted on the Authority "Due dates" calendar for future management.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-05 — Lack of Proper Documentation in Tenant Files – Low Rent – Material Weakness/Noncompliance

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing
CFDA number: 14.850

Condition: During testwork the following documentation was found to be missing from tenant files:

- In 3 out of 60 tenants selected for testwork, no third party income verification could be located
- In 3 out of 60 tenants selected for testwork, no supporting documentation could be provided.

Criteria: In accordance with 24 CFR part 5, subpart F (24 CFR sections 5.601 et seq., and 24 CFR sections 960.253, 690.255, and 960.259), the Housing Authority is required to determine income eligibility and calculate the tenant's rent payments using the documentation from third-party verification.

Questioned Costs: None

Effect: The Housing Authority could be providing services to tenants who are not eligible for the program. As a result, it could affect funding for the program.

Cause: Files from Taos County Housing Authority lacked proper documentation and the files were not periodically reviewed to ensure that all necessary documentation was on file.

Auditors' Recommendation: Management should implement and internal control structure to ensure that all files have the necessary supporting documentation to comply with eligibility and special reporting requirements as identified by the Department of Housing and Urban Development.

Management's Response: Management agrees with the conclusion. Taos County and the Housing Authority retained Eastern Regional Housing Authority to serve as management agent of the Authority on its behalf during the investigation and to perform a full review for completeness of all client files. While our most recent SEMAP report indicates that the task is not yet complete, substantial progress on full compliance has been made and the balance of files are being reviewed and corrected, where needed, as annual recertification's come due.

We are therefore expecting full compliance by 12/31/12 when the County assumes full management of the Authority.

Management believes that sufficient testing and reporting requirements, such as the SEMAP reporting and Independent Auditor and HUD sampling exist going forward that the problem should be detected and reported if it reoccurs. It appears that in the past there was simply a total lack of oversight of the prior Executive Director and program management.

The certification, training and experience requirements for all management and program staff have been reviewed by the County and its consultants and upgraded where needed, including the replacement of unqualified staff.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (continued)

FAHA 12-06 — Lack of Proper Documentation in Tenant Files – Section 8 – Material Weakness/Noncompliance

Federal Program Information:

Funding agency: U.S. Department of Housing and Urban Development
Title: Section 8 Housing Choice Vouchers
CFDA number: 14.871

Condition: During testwork the following documentation was found to be missing from tenant files:

- In 1 out of 60 tenants selected for testwork, no signed privacy notice was on file.
- In 5 out of 60 tenants selected for testwork, annual recertification was not performed annually.

Criteria: In accordance with 24 CFR sections 5.230, 5.609, and 982.516, as a condition of admission or continued occupancy, the Housing Authority must require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility. The Housing Authority is also required to re-examine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification.

Questioned Costs: None

Effect: The Housing Authority could be providing services to tenants who are not eligible for the program. As a result, it could affect funding for the program.

Cause: Files from Taos County Housing Authority lacked proper documentation and management of the Housing Authority did not provide sufficient monitoring to ensure that tenant files and eligibility determinations were being performed timely.

Auditors' Recommendation: Management should implement an internal control structure to ensure that all files have the necessary supporting documentation to comply with eligibility and special reporting requirements as identified by the Department of Housing and Urban Development.

Management's Response: Management agrees with the conclusion. Taos County and the Housing Authority retained Eastern Regional Housing Authority to serve as management agent of the Authority on its behalf during the investigation and to perform a full review for completeness of all client files. While our most recent SEMAP report indicates that the task is not yet complete, substantial progress on full compliance has been made and the balance of files are being reviewed and corrected, where needed, as annual recertification's come due.

We are therefore expecting full compliance by 12/31/12 when the County assumes full management of the Authority.

Management believes that sufficient testing and reporting requirements, such as the SEMAP reporting and Independent Auditor and HUD sampling exist going forward that the problem should be detected and reported if it reoccurs. It appears that in the past there was simply a total lack of oversight of the prior Executive Director and program management. The certification, training and experience requirements for all management and program staff have been reviewed by the County and its consultants and upgraded where needed, including the replacement of unqualified staff.

STATE OF NEW MEXICO
Taos County Housing Authority
A Component Unit of Taos County
Other Disclosures
June 30, 2012

OTHER DISCLOSURES

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of Taos County Housing Authority from the original books and records provided to them by the management of the Authority. The responsibility for the financial statements remains with the Authority

B. EXIT CONFERENCE

The contents of the report for Taos County Housing Authority were discussed on November 7, 2012. The following individuals were in attendance.

Taos County Housing Authority

Dayna D Duran, Taos County Finance Director

Evangeline S. Romero, Taos County Treasurer

Della Barrone, Taos County Housing Authority Board Chair

Daniel Barrone, Taos County Commissioner

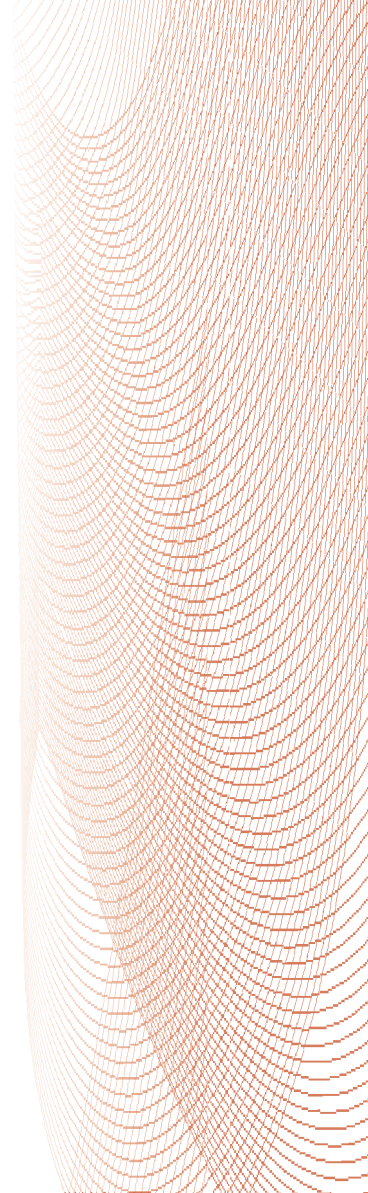
Richard Bellis, Taos County Housing Authority Interim Executive Director

Johnny F. Pacheco, Taos County Housing Authority Board Member

Andrew D. Chavez, Taos County Commissioner

Accounting and Consulting Group, LLP

Robert Gonzales, Senior



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