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*State of New Mexico
Gallup Housing Authority
Annual Financial Report
June 30, 2013*



**Accounting &
Consulting Group, LLP**
Certified Public Accountants

Alamogordo ☐ Albuquerque ☐ Carlsbad ☐ Clovis ☐ Hobbs ☐ Roswell ☐ Lubbock, TX

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
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June 30, 2013

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STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Official Roster
June 30, 2013

<u>Name</u>		<u>Title</u>
	<u>Board of Commissioners</u>	
Alfred Abeita, Sr.		Chairperson
Joe Zecca		Vice-Chairperson
James Seay		Commissioner
James Saucedo		Commissioner
Oscar House		Commissioner, Resident
	<u>Administrative Officials</u>	
Charles England		Executive Director
Danny Garcia		Prior Executive Director, terminated 11/7/2012

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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
To the Executive Director and the Board of Directors
Gallup Housing Authority
Gallup, New Mexico

Report on Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities of Gallup Housing Authority (the "Authority"), a component unit of the City of Gallup, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

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, inventory, accounts receivable, prepaid rent and capital assets presented in the financial statements. There is insufficient evidence available to determine that the account distributions for revenue and expenditure 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, inventory, accounts receivable, deferred revenues and capital assets.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards required by Office of Management and Budget *Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations* and Supporting Schedules I and II required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule III Financial Data Schedule is presented for purposes of additional analysis as required by the 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 Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, 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* in considering the Authority's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
November 26, 2013

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Net Position
 June 30, 2013

Exhibit A-1

ASSETS

Current assets

Cash and cash equivalents	\$	381,944
Accounts receivable - grants		55,076
Accounts receivable - tenants, net of allowance of \$42,075		46,952
Inventory, net of allowance of \$3,264		62,005
Prepaid expenses		7,702
		553,679

Non-current assets

Restricted cash and cash equivalents		122,320
Capital assets		15,165,347
Less: accumulated depreciation		(7,158,934)
		8,128,733

Total non-current assets

Total assets

\$ 8,682,412

LIABILITIES AND NET POSITION

Current liabilities

Accounts payable	\$	14,083
Accrued payroll		12,773
Accrued utilities		19,428
Prepaid rent		5,860
Compensated absences		363
		52,507

Total current liabilities

Current liabilities (payable from restricted assets)

Tenant deposits		45,473
		45,473

Total current liabilities (payable from restricted assets)

Non-current liabilities

Compensated absences		5,935
		5,935

Total non-current liabilities

Total liabilities

103,915

Net position:

Net investment in capital assets		8,006,413
Restricted for:		
Tenant and escrow deposits		4,539
Section 8 housing		72,308
Unrestricted		495,237
		8,578,497

Total net position

Total liabilities and net position

\$ 8,682,412

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2013

Exhibit A-2

<i>Operating revenues</i>	
Rental revenue	\$ 643,544
Other tenant revenue	28,255
Subsidy grants	<u>940,840</u>
<i>Total operating revenues</i>	<u>1,612,639</u>
<i>Operating expenses</i>	
Personnel services	421,447
Contractual services	2,448
Supplies	22,544
Maintenance and materials	272,991
Utilities	307,227
Telephone	4,120
Insurance	67,789
Bad debt	25,558
Housing assistance payments	152,647
Tenant services	60
Allocated overhead	164,932
Depreciation	254,324
Miscellaneous	<u>26,385</u>
<i>Total operating expenses</i>	<u>1,722,472</u>
<i>Operating (loss)income</i>	<u>(109,833)</u>
<i>Non-operating revenues (expenses)</i>	
Capital grants	112,703
Interest income	355
Miscellaneous income	<u>48,796</u>
<i>Total non-operating revenues (expenses)</i>	<u>161,854</u>
<i>Change in net position</i>	52,021
<i>Total net position - beginning of year</i>	<u>8,526,476</u>
<i>Total net position - end of year</i>	<u><u>\$ 8,578,497</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Statement of Cash Flows
For the Year Ended June 30, 2013

<i>Cash flows from operating activities:</i>	
Cash received from tenant rents	\$ 649,069
Cash payments to employees for services	(426,832)
Cash payments to suppliers for goods and services	(1,040,672)
Cash received from subsidy grants	<u>939,623</u>
<i>Net cash provided by operating activities</i>	<u>121,188</u>
 <i>Cash flows from noncapital financing activities:</i>	
Miscellaneous income	<u>48,796</u>
<i>Net cash provided by noncapital financing activities</i>	<u>48,796</u>
 <i>Cash flows from capital and related financing activities:</i>	
Capital grants	112,703
Acquisition of capital assets	<u>(112,703)</u>
<i>Net cash provided by capital and related financing activities</i>	<u>-</u>
 <i>Cash flows from investing activities:</i>	
Interest on cash deposits	<u>355</u>
<i>Net cash provided by investing activities</i>	<u>355</u>
<i>Net increase in cash and cash equivalents</i>	170,339
<i>Cash and cash equivalents - beginning of year</i>	<u>333,925</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 504,264</u></u>

The accompanying notes are an integral part of these financial statements

<i>Reconciliation of operating (loss) to</i>	
<i>net cash provided by operating activities:</i>	
Operating (loss)	\$ (109,833)
Adjustments to reconcile operating (loss)	
to net cash provided by operating activities:	
Depreciation	254,324
Changes in assets and liabilities	
Accounts receivable	(24,546)
Inventory	2,996
Prepaid expenses	18,068
Accounts payable	(12,651)
Accrued payroll expenses	1,168
Accrued utilities	(2,384)
Prepaid rent	831
Accrued compensated absences	(6,553)
Tenant deposits	(232)
	<hr/>
<i>Net cash provided by operating activities</i>	<u><u>\$ 121,188</u></u>

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STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Gallup Housing Authority (the Authority) was organized under New Mexico statutes to provide a conduit for housing funds for disadvantaged citizens of the City of Gallup, New Mexico (the “City”). The Authority is a political subdivision of the State of New Mexico and a component unit of the City of Gallup, New Mexico.

The financial statements present only the financial position, results of operations and cash flows of the Authority and are not intended to present fairly the City’s financial position, results of operations and cash flows of its proprietary fund types in conformity with accounting principals generally accepted in the United States of America.

This summary of significant accounting policies of the 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 are 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 more significant of the Authority’s accounting policies are described below.

During the year ended June 30, 2013, the Authority adopted GASB Statements No. 60 through 63. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The Authority does not have any Service Concession Arrangements. GASB Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

The Authority reports the following major enterprise funds:

- **Low Rent Public Housing Program** – Funded through direct grants from the Department of Housing and Urban Development, 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** – This program, funded through direct grants from the Department of Housing and Urban Development, provides rental assistance to qualified recipients through rent subsidies paid directly to third-party property owners.
- **Homelessness Prevention & Rapid Rehousing Programs (HPRP)** – This program, funded by the Department of Housing and Urban Development passed through the Mortgage Finance Authority, is dedicated to administer the HPRP program in McKinley and Cibola Counties.
- **Public Housing Capital Fund Program** – This program, funded through direct grants from the Department of Housing and Urban Development, accounts for acquisition or modernization of capital assets or construction of capital projects.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and GASB Statement No. 61. 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.

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 the City of Gallup.

The City of Gallup does issue separately audited financial statements. Additional information regarding the City of Gallup may be obtained directly from their administrative office as follows: City of Gallup Finance Department, 110 West Aztec Avenue, Gallup, New Mexico 87301.

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 Statement of Net Position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted; and unrestricted components.

All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. The Authority's 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.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting and Measurement Focus (continued)

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 the U.S. Department of Housing and Urban Development (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.

C. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

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.

For the purpose of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

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.

STATE OF NEW MEXICO
Gallup Housing Authority
 A Component Unit of the City of Gallup
 Notes to the Financial Statements
 June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventories

The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as an expenditure at the time of consumption. Inventory for the Authority is valued at cost. Inventory balances, where appropriate, are reduced by an estimated allowance of 5% due to obsolescence.

Restricted Cash and Cash Equivalents

Certain resources set aside in escrow for security deposits of \$50,012, held as insurance against the non-payment for services rendered, are classified on the Statement of Net Position as restricted because their use is limited. In addition, pursuant to guidance from HUD cash equal to ending Housing Assistance Payments (HAP) equity of \$72,308 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. 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.

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	40 yrs
Equipment - dwelling	5 yrs – 7 yrs
Equipment - administration	5 yrs – 7 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.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

The Authority's policy allows employees to accumulate no more than sixty (60) hours of annual leave. 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. Qualified employees are entitled to earn annual leave at a rate based on length of employment that varies from 6.7 to 13.3 hours per month.

Vested or accumulated annual leave that is expected to be liquidated with expendable available financial resources is reported as an 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 Position.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components:

- **Net Investment in Capital Assets** – This component consists of capital assets, net of accumulated depreciation.
- **Restricted Net Position** – Net position is reported as restricted when constraints placed on an 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 Position** – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Unrestricted and Restricted Resources

Certain resources set aside for housing assistance payments, as well as security deposits held as insurance against the non-payment for services rendered, are classified on the balance sheet as restricted because their use is limited.

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.

Inter-program Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as a reduction of expenses in the fund that is reimbursed.

All other inter-program transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-program transfers are reported as operating transfers.

Offsetting inter-program transactions are eliminated for financial statement presentation.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, allowance for obsolete inventory and the allowance for uncollectible accounts.

Budgets

The Authority's Board of Commissioners 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, 2013 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, 2013.

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.

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.

By operation of federal law, beginning January 1, 2013, funds invested in noninterest bearing accounts and transaction accounts will no longer receive unlimited coverage under by the Federal Deposit Insurance Corporation. Beginning January 1, 2013, all of the Authority's accounts at an insured depository institution, including non-interest bearing accounts are insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2013

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

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, 2013, \$275,742 of the Authority’s bank balance of \$526,080 was subject to custodial credit risk. \$275,742 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the Authority’s name. None of the Authority’s deposits were uninsured and uncollateralized at June 30, 2013.

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 equal to or exceeding the amount required by law.

	US Bank	Washington Federal Bank	Bank of Colorado - Pinnacle Bank	Wells Fargo Bank	Total
Amount of deposits	\$ 185	\$ 58	\$ 525,742	\$ 95	\$ 526,080
FDIC coverage	(185)	(58)	(250,000)	(95)	(250,338)
Total uninsured public funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,742</u>	<u>\$ -</u>	<u>\$ 275,742</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,742</u>	<u>\$ -</u>	<u>\$ 275,742</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ 137,871	\$ -	\$ 137,871
Pledged collateral	-	-	387,014	-	387,014
Over (under) collateralization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,143</u>	<u>\$ -</u>	<u>\$ 249,143</u>

The collateral pledged is listed on Schedule I of this report. The types of collateral are 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.

STATE OF NEW MEXICO
Gallup Housing Authority
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Notes to the Financial Statements
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NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to Statement of Net Position

The carrying amount of deposits shown above are included in the Authority’s Statement of Net Position as follows:

Cash and cash equivalents	\$ 381,944
Restricted cash and cash equivalents	<u>122,320</u>
 Total cash and cash equivalents	 504,264
 Add: outstanding checks	 22,422
Less: deposits in transit	(381)
Less: petty cash	<u>(225)</u>
 Bank balance of deposits	 <u><u>\$ 526,080</u></u>

NOTE 3. RECEIVABLES

Receivables as of June 30, 2013, are as follows:

Federal grants receivable	\$ 55,076
Tenant receivables	89,027
Allowance for doubtful accounts - tenants	<u>(42,075)</u>
 Total	 <u><u>\$ 102,028</u></u>

NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for loans. These loans are reported as “due from other funds” or “due to other funds” on the Statement of Net Position - Detail.

<u>Due from</u>	<u>Due to</u>	
Low Rent Public Housing Program - Other Project	Housing Choice Vouchers Program	\$ 17,913
Homeless Prevention & Rapid Rehousing	Housing Choice Vouchers Program	<u>6</u>
	Total	<u><u>\$ 17,919</u></u>

STATE OF NEW MEXICO
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NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES (continued)

Due to temporary cash shortages as a result of reimbursement basis grants, the Authority records temporary interfund receivables and payables to cover temporary negative cash balances. These loans are reported as “due from other funds” or “due to other funds” on the Statement of Net Position – Detail.

Due from	Due to	
Low Rent Public Housing Program - Project 1	Low Rent Public Housing Program - Project 2	\$ 20,367
Low Rent Public Housing Program - Project 1	Low Rent Public Housing Program - Other Project	9,669
	Total	\$ 30,036

The Authority recorded a total of \$47,955 in loans as “due from other funds” or “due to other funds” on the Statement of Net Position - Detail.

All offsetting inter-program receivables, payables, and transfers are eliminated from presentation in the combining Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position.

NOTE 5. CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2013. Land and Construction in Progress are not subject to depreciation.

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not depreciated:				
Land	\$ 1,686,162	\$ -	\$ -	\$ 1,686,162
Construction in progress	376,329	112,703	-	489,032
Total capital assets, not depreciated	2,062,491	112,703	-	2,175,194
Capital assets, depreciated:				
Buildings	12,288,637	-	-	12,288,637
Equipment - dwelling	297,172	-	-	297,172
Equipment - administration	404,344	-	-	404,344
Total capital assets, depreciated	12,990,153	-	-	12,990,153
Less accumulated depreciation:				
Buildings	6,265,327	230,595	-	6,495,922
Equipment - dwelling	297,172	-	-	297,172
Equipment - administration	342,111	23,729	-	365,840
Total accumulated depreciation	6,904,610	254,324	-	7,158,934
Net book value	\$ 8,148,034	\$ (141,621)	\$ -	\$ 8,006,413

The Authority has continued to maintain the cost of its buildings and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2013 totaled \$254,324.

STATE OF NEW MEXICO
Gallup Housing Authority
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NOTE 6. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2013.

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
Compensated absences	\$ 12,847	\$ 9,556	\$ 16,105	\$ 6,298	\$ 363
Totals	<u>\$ 12,847</u>	<u>\$ 9,556</u>	<u>\$ 16,105</u>	<u>\$ 6,298</u>	<u>\$ 363</u>

The liability is typically liquidated by the Public and Indian Housing Program projects.

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

Gallup 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 <http://www.pera.state.nm.us>.

Funding Policy: Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% 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, 2013, 2012 and 2011 were \$35,334, \$43,679, and \$103,565, respectively, which equal the amount of the required contributions for each fiscal year.

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

Plan Description. Gallup Housing 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

Gallup Housing Authority's contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011 were \$7,778 \$4,881, and \$18,998, respectively which equal the required contributions for each year.

STATE OF NEW MEXICO
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June 30, 2013

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, 2013, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 26, 2013, which is the date on which the financial statements were issued. No events requiring disclosure in, or adjustment to the financial statements of the Housing Authority, took place subsequent to year end.

NOTE 13. RESTRICTED NET POSITION

Certain resources are classified on the Statement of Net Position as restricted because their use is limited. Resources are set aside for Housing Assistance Payments (HAP) of \$72,308, as the use of those funds is restricted by enabling legislation. Resources are also set aside of \$4,539 to cover the liability for tenant deposits collected.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS

In March 2012, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* was issued, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In March 2012, GASB Statement No. 66 *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62* was issued, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In June 2012, GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* was issued, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the Authority in upcoming years.

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* was issued, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The Authority will implement this standard during the fiscal year June 30, 2016.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations* was issued, Effective Date: The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The Authority is still evaluating how this reporting standard will affect the Authority.

In April 2013, GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued, Effective Date: The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The Authority is still evaluating how this reporting standard will affect the Authority.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Net Position - Detail
 June 30, 2013

	Low Rent Public Housing Program			
	Project 1	Project 2	Project 3	Other Project
	NM006000001	NM006000002	NM006000003	
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 195,834	\$ -	\$ 131,348	\$ -
Accounts receivable - grants	55,076	-	-	-
Accounts receivable - tenants, net of allowance	34,947	1,421	10,584	-
Due from other funds	30,036	-	-	17,913
Inventory, net of allowance	44,643	6,821	10,541	-
Prepaid expenses	5,453	974	1,275	-
<i>Total current assets</i>	<u>365,989</u>	<u>9,216</u>	<u>153,748</u>	<u>17,913</u>
<i>Non-current assets</i>				
Restricted cash and cash equivalents	40,121	3,263	6,628	-
Capital assets	9,596,912	1,294,039	2,515,700	1,743,894
Less: accumulated depreciation	(3,695,468)	(553,242)	(1,205,466)	(1,689,956)
<i>Total non-current assets</i>	<u>5,941,565</u>	<u>744,060</u>	<u>1,316,862</u>	<u>53,938</u>
<i>Total assets</i>	<u>\$ 6,307,554</u>	<u>\$ 753,276</u>	<u>\$ 1,470,610</u>	<u>\$ 71,851</u>
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Accounts payable	\$ 11,072	\$ 978	\$ 1,014	\$ 1,008
Accrued payroll	5,245	852	1,264	5,292
Accrued utilities	19,428	-	-	-
Prepaid rent	3,408	844	777	831
Compensated absences	204	31	48	64
Due to other funds	-	20,367	-	9,669
<i>Total current liabilities</i>	<u>39,357</u>	<u>23,072</u>	<u>3,103</u>	<u>16,864</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	<u>35,582</u>	<u>3,263</u>	<u>6,628</u>	<u>-</u>
<i>Total current liabilities (payable from restricted assets)</i>	<u>35,582</u>	<u>3,263</u>	<u>6,628</u>	<u>-</u>
<i>Non-current liabilities</i>				
Compensated absences	<u>3,330</u>	<u>509</u>	<u>786</u>	<u>1,048</u>
<i>Total non-current liabilities</i>	<u>3,330</u>	<u>509</u>	<u>786</u>	<u>1,048</u>
<i>Total liabilities</i>	<u>78,269</u>	<u>26,844</u>	<u>10,517</u>	<u>17,912</u>
<i>Net position:</i>				
Net investment in capital assets	5,901,444	740,797	1,310,234	53,938
Restricted for:				
Tenant deposits	4,539	-	-	-
Section 8 housing	-	-	-	-
Unrestricted	<u>323,302</u>	<u>(14,365)</u>	<u>149,859</u>	<u>1</u>
<i>Total net position</i>	<u>6,229,285</u>	<u>726,432</u>	<u>1,460,093</u>	<u>53,939</u>
<i>Total liabilities and net position</i>	<u>\$ 6,307,554</u>	<u>\$ 753,276</u>	<u>\$ 1,470,610</u>	<u>\$ 71,851</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ 54,704	\$ 58	\$ 381,944
-	-	55,076
-	-	46,952
-	6	47,955
-	-	62,005
-	-	7,702
54,704	64	601,634
72,308	-	122,320
14,802	-	15,165,347
(14,802)	-	(7,158,934)
72,308	-	8,128,733
\$ 127,012	\$ 64	\$ 8,730,367
\$ 11	\$ -	\$ 14,083
120	-	12,773
-	-	19,428
-	-	5,860
16	-	363
17,919	-	47,955
18,066	-	100,462
-	-	45,473
-	-	45,473
262	-	5,935
262	-	5,935
18,328	-	151,870
-	-	8,006,413
-	-	4,539
72,308	-	72,308
36,376	64	495,237
108,684	64	8,578,497
\$ 127,012	\$ 64	\$ 8,730,367

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Revenues, Expenses and Changes in Net Position - Detail
 For the Year Ended June 30, 2013

	Low Rent Public Housing Program			
	Project 1	Project 2	Project 3	Other Project
	NM006000001	NM006000002	NM006000003	
<i>Operating revenues</i>				
Rental revenue	\$ 493,458	\$ 74,090	\$ 75,996	\$ -
Other tenant revenue	24,880	-	3,375	-
Subsidy grants	615,303	54,323	182,705	-
<i>Total operating revenues</i>	<u>1,133,641</u>	<u>128,413</u>	<u>262,076</u>	<u>-</u>
<i>Operating expenses</i>				
Personnel services	295,684	47,370	65,107	-
Contractual services	1,728	317	403	-
Supplies	15,777	2,884	3,616	-
Maintenance and materials	192,843	37,902	42,246	-
Utilities	272,199	28,400	6,628	-
Telephone	2,733	610	777	-
Insurance	46,533	9,353	11,903	-
Bad debt	17,973	-	7,585	-
Housing assistance payments	-	-	-	-
Tenant services	-	-	-	-
Allocated overhead	115,892	18,550	25,407	-
Depreciation	161,062	30,105	58,504	4,653
Miscellaneous	18,599	3,628	4,158	-
<i>Total operating expenses</i>	<u>1,141,023</u>	<u>179,119</u>	<u>226,334</u>	<u>4,653</u>
<i>Operating (loss) income</i>	<u>(7,382)</u>	<u>(50,706)</u>	<u>35,742</u>	<u>(4,653)</u>
<i>Non-operating revenues (expenses)</i>				
Capital grants	101,148	-	11,555	-
Interest income	254	45	49	-
Miscellaneous income	25,874	855	12,016	-
<i>Total non-operating revenues (expenses)</i>	<u>127,276</u>	<u>900</u>	<u>23,620</u>	<u>-</u>
<i>Change in net position</i>	119,894	(49,806)	59,362	(4,653)
<i>Total net position - beginning of year</i>	<u>6,109,391</u>	<u>776,238</u>	<u>1,400,731</u>	<u>58,592</u>
<i>Total net position - end of year</i>	<u>\$ 6,229,285</u>	<u>\$ 726,432</u>	<u>\$ 1,460,093</u>	<u>\$ 53,939</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ -	\$ -	\$ 643,544
-	-	28,255
88,509	-	940,840
88,509	-	1,612,639
13,286	-	421,447
-	-	2,448
267	-	22,544
-	-	272,991
-	-	307,227
-	-	4,120
-	-	67,789
-	-	25,558
152,647	-	152,647
-	60	60
5,083	-	164,932
-	-	254,324
-	-	26,385
171,283	60	1,722,472
(82,774)	(60)	(109,833)
-	-	112,703
7	-	355
10,051	-	48,796
10,058	-	161,854
(72,716)	(60)	52,021
181,400	124	8,526,476
\$ 108,684	\$ 64	\$ 8,578,497

STATE OF NEW MEXICO
 Gallup Housing Authority
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 Statement of Cash Flows - Detail
 For the Year Ended June 30, 2013

	Low Rent Public Housing Program			
	Project NM006000001	Project NM006000002	Project NM006000003	Other Project
<i>Cash flows from operating activities:</i>				
Cash received from tenant rents	\$ 501,351	\$ 72,907	\$ 73,980	\$ 831
Cash payments to employees for services	(298,041)	(47,729)	(65,663)	(2,102)
Cash payments to suppliers for goods and services	(676,228)	(100,530)	(106,693)	748
Cash received from subsidy grants	608,308	54,323	188,483	-
<i>Net cash provided (used) by operating activities</i>	<u>135,390</u>	<u>(21,029)</u>	<u>90,107</u>	<u>(523)</u>
<i>Cash flows from noncapital financing activities:</i>				
Miscellaneous income	25,874	855	12,016	-
Settlement of interfund balances	(30,036)	20,367	-	(8,606)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(4,162)</u>	<u>21,222</u>	<u>12,016</u>	<u>(8,606)</u>
<i>Cash flows from capital and related financing activities:</i>				
Capital grants	101,148	-	11,555	-
Acquisition of capital assets	(101,148)	-	(11,555)	-
<i>Net cash provided by capital and related financing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash flows from investing activities:</i>				
Interest on cash deposits	254	45	49	-
<i>Net cash provided by investing activities</i>	<u>254</u>	<u>45</u>	<u>49</u>	<u>-</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	131,482	238	102,172	(9,129)
<i>Cash and cash equivalents - beginning of year</i>	<u>104,473</u>	<u>3,025</u>	<u>35,804</u>	<u>9,129</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 235,955</u>	<u>\$ 3,263</u>	<u>\$ 137,976</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ -	\$ -	\$ 649,069
(13,297)	-	(426,832)
(157,909)	(60)	(1,040,672)
88,509	-	939,623
<u>(82,697)</u>	<u>(60)</u>	<u>121,188</u>
10,051	-	48,796
18,281	(6)	-
<u>28,332</u>	<u>(6)</u>	<u>48,796</u>
-	-	112,703
<u>-</u>	<u>-</u>	<u>(112,703)</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>7</u>	<u>-</u>	<u>355</u>
<u>7</u>	<u>-</u>	<u>355</u>
(54,358)	(66)	170,339
181,370	124	333,925
<u>\$ 127,012</u>	<u>\$ 58</u>	<u>\$ 504,264</u>

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Cash Flows - Detail
 For the Year Ended June 30, 2013

	Low Rent Public Housing Program			
	Project 1 NM006000001	Project 2 NM006000002	Project 3 NM006000003	Other Project
<i>Reconciliation of operating (loss) income to net cash provided (used) by operating activities:</i>				
Operating (loss) income	\$ (7,382)	\$ (50,706)	\$ 35,742	\$ (4,653)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:				
Depreciation	161,062	30,105	58,504	4,653
Changes in assets and liabilities				
Accounts receivable	(22,279)	(1,421)	(846)	-
Inventory	2,158	329	509	-
Prepaid expenses	12,716	2,286	2,989	-
Accounts payable	(6,453)	(25)	(6,932)	748
Accrued payroll expenses	245	38	59	819
Accrued utilities	(372)	(1,476)	(536)	-
Prepaid rent	-	-	-	831
Accrued compensated absences	(2,602)	(397)	(615)	(2,921)
Tenant deposits	(1,703)	238	1,233	-
<i>Net cash provided (used) by operating activities</i>	<u>\$ 135,390</u>	<u>\$ (21,029)</u>	<u>\$ 90,107</u>	<u>\$ (523)</u>

The accompanying notes are an integral part of these financial statements

<u>Housing Choice Vouchers Program</u>	<u>Homeless Prevention & Rapid Rehousing</u>	<u>Total</u>
\$ (82,774)	\$ (60)	\$ (109,833)
-	-	254,324
-	-	(24,546)
-	-	2,996
77	-	18,068
11	-	(12,651)
7	-	1,168
-	-	(2,384)
-	-	831
(18)	-	(6,553)
-	-	(232)
<u>\$ (82,697)</u>	<u>\$ (60)</u>	<u>\$ 121,188</u>

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO

Schedule I

Gallup Housing Authority
A Component Unit of the City of Gallup
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2013

<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, 2013</u>
Pledged by Bank of Colorado - Pinnacle Bank:				
Federal National Mortgage Association	FNMA 03	6/25/2023	31393DP47	<u>\$ 387,014</u>
	Total Bank of Colorado - Pinnacle Bank Pledged Securities			<u>387,014</u>
	Total pledged securities			<u><u>\$ 387,014</u></u>

See independent auditors' report

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Schedule of Deposit Accounts
 June 30, 2013

Schedule II

Bank Name/Account Name	Account Type	Bank Balance	Deposits In Transit	Outstanding Checks	Book Balance
US Bank					
Business	Checking	\$ 185	\$ -	\$ -	\$ 185
Total US Bank		<u>185</u>	<u>-</u>	<u>-</u>	<u>185</u>
Washington Federal Bank					
Homeless Prevention and Rapid Rehousing	Checking	58	-	-	58
Total Washington Federal Bank		<u>58</u>	<u>-</u>	<u>-</u>	<u>58</u>
Bank of Colorado - Pinnacle Bank					
Section 8	Checking	130,336	-	3,324	127,012
Security Deposit	Checking	50,012	-	-	50,012
Operational	Checking	345,394	381	19,098	326,677
Total Bank of Colorado - Pinnacle Bank		<u>525,742</u>	<u>381</u>	<u>22,422</u>	<u>503,701</u>
Wells Fargo Bank					
Business - Capital Fund	Checking	95	-	-	95
Total Wells Fargo Bank		<u>95</u>	<u>-</u>	<u>-</u>	<u>95</u>
Petty cash		<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>
Total		<u>\$ 526,080</u>	<u>\$ 381</u>	<u>\$ 22,422</u>	<u>\$ 504,264</u>
Cash and cash equivalents per financial statements					
Cash and cash equivalents per Exhibit A-1				\$ 381,944	
Restricted cash and cash equivalents per Exhibit A-1				<u>122,320</u>	
Total cash and cash equivalents					<u>\$ 504,264</u>

See independent auditors' report

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Financial Data Schedule
 June 30, 2013

Low Rent Public Housing Program

Line Item Number	Description	Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
111	Cash - Unrestricted	\$ 225,870	\$ (20,367)	\$ 131,348	\$ 8,244
113	Cash - Other Restricted	-	-	-	-
114	Cash - Tenant Security Deposits	40,121	3,263	6,628	-
100	Total Cash	<u>265,991</u>	<u>(17,104)</u>	<u>137,976</u>	<u>8,244</u>
122	Accounts Receivable - HUD Other Projects	55,076	-	-	-
126	Accounts Receivable - Tenants - Dwelling Rents	66,472	1,421	21,134	-
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(31,525)	-	(10,550)	-
120	Total Receivables, Net of Allowance for Doubtful Accounts	<u>90,023</u>	<u>1,421</u>	<u>10,584</u>	<u>-</u>
142	Prepaid Expenses and Other Assets	5,453	974	1,275	-
143	Inventories	46,993	7,180	11,096	-
143.1	Allowance for Obsolete Inventories	(2,350)	(359)	(555)	-
150	Total Current Assets	<u>406,110</u>	<u>(7,888)</u>	<u>160,376</u>	<u>8,244</u>
161	Land	1,486,872	75,593	116,825	6,872
162	Buildings	7,289,886	1,166,515	2,283,777	1,548,459
163	Furniture, Equipment & Machinery - Dwellings	210,992	35,661	50,519	-
164	Furniture, Equipment & Machinery - Administration	161,204	16,270	23,505	188,563
166	Accumulated Depreciation	(3,695,468)	(553,242)	(1,205,466)	(1,689,956)
167	Construction in progress	447,958	-	41,074	-
160	Total Capital Assets, Net of Accumulated Depreciation	<u>5,901,444</u>	<u>740,797</u>	<u>1,310,234</u>	<u>53,938</u>
180	Total Non-Current Assets	<u>5,901,444</u>	<u>740,797</u>	<u>1,310,234</u>	<u>53,938</u>
190	Total Assets	<u>\$ 6,307,554</u>	<u>\$ 732,909</u>	<u>\$ 1,470,610</u>	<u>\$ 62,182</u>

See independent auditors' report

Housing Choice Vouchers Program 14.871	Homeless Prevention & Rapid Rehousing 14.257	Total
\$ 36,785	\$ 64	\$ 381,944
72,308	-	72,308
-	-	50,012
109,093	64	504,264
-	-	55,076
-	-	89,027
-	-	(42,075)
-	-	102,028
-	-	7,702
-	-	65,269
-	-	(3,264)
109,093	64	675,999
-	-	1,686,162
-	-	12,288,637
-	-	297,172
14,802	-	404,344
(14,802)	-	(7,158,934)
-	-	489,032
-	-	8,006,413
-	-	8,006,413
\$ 109,093	\$ 64	\$ 8,682,412

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Financial Data Schedule
June 30, 2013

Low Rent Public Housing Program

Line Item Number	Description	Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
312	Accounts Payable <= 90 Days	\$ 11,072	\$ 978	\$ 1,014	\$ 1,008
321	Accrued Wage/Payroll Taxes Payable	5,245	852	1,264	5,292
	Accrued Compensated Absences -				
322	Current Portion	204	31	48	64
331	Accounts payable - HUD PHA programs	-	-	-	-
341	Tenant Security Deposits	35,582	3,263	6,628	-
342	Deferred Revenues	3,408	844	777	831
346	Accrued Liabilities - Other	19,428	-	-	-
		<u>74,939</u>	<u>5,968</u>	<u>9,731</u>	<u>7,195</u>
	Accrued Compensated Absences - Non-				
354	Current	3,330	509	786	1,048
		<u>3,330</u>	<u>509</u>	<u>786</u>	<u>1,048</u>
350	Total Non-Current Liabilities	<u>3,330</u>	<u>509</u>	<u>786</u>	<u>1,048</u>
300	Total Liabilities	<u>78,269</u>	<u>6,477</u>	<u>10,517</u>	<u>8,243</u>
508.1	Net investment in capital assets	5,901,444	740,797	1,310,234	53,938
511	Restricted Net Position	4,539	-	-	-
512.1	Unrestricted Net Position	323,302	(14,365)	149,859	1
		<u>6,229,285</u>	<u>726,432</u>	<u>1,460,093</u>	<u>53,939</u>
513	Total Equity/Net Position	<u>6,229,285</u>	<u>726,432</u>	<u>1,460,093</u>	<u>53,939</u>
	Total Liabilities and Equity/Net				
600	Position	<u>\$ 6,307,554</u>	<u>\$ 732,909</u>	<u>\$ 1,470,610</u>	<u>\$ 62,182</u>

See independent auditors' report

Housing Choice Vouchers Program 14.871	Homeless Prevention & Rapid Rehousing 14.257	Total
\$ -	\$ -	\$ 14,072
120	-	12,773
16	-	363
11	-	11
-	-	45,473
-	-	5,860
-	-	19,428
147	-	97,980
262	-	5,935
262	-	5,935
409	-	103,915
-	-	8,006,413
72,308	-	76,847
36,376	64	495,237
108,684	64	8,578,497
\$ 109,093	\$ 64	\$ 8,682,412

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Financial Data Schedule
 June 30, 2013

Low Rent Public Housing Program

Line Item Number	Description	Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
70300	Net Tenant Rental Revenue	\$ 493,458	\$ 74,090	\$ 75,996	\$ -
70400	Tenant Revenue - Other	24,880	-	3,375	-
70500	Total Tenant Revenue	518,338	74,090	79,371	-
70600	HUD PHA Operating Grants	609,212	53,392	181,267	-
70610	Capital Grants	-	-	-	-
70800	Other Governmental Grants	-	-	-	-
71100	Investment Income - Unrestricted	254	45	49	-
71400	Fraud Recovery	5,155	-	9,925	-
71500	Other Revenue	20,719	855	2,091	-
70000	Total Revenue	1,153,678	128,382	272,703	-
91100	Administrative Salaries	80,253	13,491	14,910	-
91200	Auditing Fees	16	3	4	-
	Employee Benefit Contributions -				
91500	Administrative	16,125	2,739	2,996	-
91600	Office Expenses	18,510	3,494	4,393	-
91700	Legal Expense	370	68	86	-
91800	Travel	946	172	212	-
91810	Allocated Overhead	115,892	18,550	25,407	-
91900	Other Operating - Administrative	18,995	3,702	4,259	-
91000	Total Operating - Administrative	251,107	42,219	52,267	-
93100	Water	71,149	4,579	1,121	-
93200	Electricity	77,314	9,875	1,318	-
93300	Gas	71,613	10,425	2,241	-
93600	Sewer	39,790	2,199	564	-
93800	Other Utilities Expense	12,333	1,322	1,384	-
93000	Total Utilities	272,199	28,400	6,628	-

See independent auditors' report

Public Housing Capital Projects Fund					
Project 1 NM006000001 14.872	Project 2 NM006000002 14.872	Project 3 NM006000003 14.872	Housing Choice Vouchers Program 14.871	Homeless Prevention & Rapid Rehousing 14.257	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 643,544
-	-	-	-	-	28,255
-	-	-	-	-	671,799
6,091	931	1,438	88,509	-	940,840
101,148	-	11,555	-	-	112,703
-	-	-	-	-	-
-	-	-	7	-	355
-	-	-	-	-	15,080
-	-	-	10,051	-	33,716
107,239	931	12,993	98,567	-	1,774,493
-	-	-	10,674	-	119,328
-	-	-	-	-	23
-	-	-	2,612	-	24,472
-	-	-	267	-	26,664
-	-	-	-	-	524
-	-	-	-	-	1,330
-	-	-	5,083	-	164,932
-	-	-	-	60	27,016
-	-	-	18,636	60	364,289
-	-	-	-	-	76,849
-	-	-	-	-	88,507
-	-	-	-	-	84,279
-	-	-	-	-	42,553
-	-	-	-	-	15,039
-	-	-	-	-	307,227

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Financial Data Schedule
 June 30, 2013

Low Rent Public Housing Program

Line Item Number	Description	Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
94100	Ordinary Maintenance & Operation - Labor	164,449	25,664	38,828	-
94200	Ordinary Maintenance & Operation - Materials & Other	132,554	24,876	26,116	-
94300	Ordinary Maintenance & Operation Contracts	60,289	13,026	16,130	-
94500	Employee Benefit Contributions - Ordinary Maintenance	34,857	5,476	8,373	-
94000	Total Maintenance	<u>392,149</u>	<u>69,042</u>	<u>89,447</u>	-
96110	Property Insurance	25,835	4,736	6,028	-
96120	Liability Insurance	9,541	2,571	3,271	-
96130	Workmen's Compensation	5,117	938	1,194	-
96140	All Other Insurance	6,040	1,108	1,410	-
96100	Total Insurance Premiums	<u>46,533</u>	<u>9,353</u>	<u>11,903</u>	-
96400	Bad Debt - Tenant Rents	17,973	-	7,585	-
96000	Total Other General	<u>17,973</u>	-	<u>7,585</u>	-
96900	Total Operating Expenses	<u>\$ 979,961</u>	<u>\$ 149,014</u>	<u>\$ 167,830</u>	<u>\$ -</u>
97000	Excess Operating Revenue Over Operating Expenses	<u>173,717</u>	<u>(20,632)</u>	<u>104,873</u>	-
97300	Housing Assistance Payments	-	-	-	-
97350	HAP Portability-In	-	-	-	-
97400	Depreciation Expense	161,062	30,105	58,504	4,653
90000	Total Expenses	<u>\$ 1,141,023</u>	<u>\$ 179,119</u>	<u>\$ 226,334</u>	<u>\$ 4,653</u>
10010	Operating Transfers In	6,091	931	1,438	-
10020	Operating Transfers Out	-	-	-	-
10091	Inter Project excess Cash Transfer In	-	-	-	-
10092	Inter Project excess Cash Transfer Out	-	-	-	-
10100	Total Other Financing Sources (Uses)	<u>6,091</u>	<u>931</u>	<u>1,438</u>	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	18,746	(49,806)	47,807	(4,653)

See independent auditors' report

Public Housing Capital Projects Fund						
Project 1 NM006000001 14.872	Project 2 NM006000002 14.872	Project 3 NM006000003 14.872	Housing Choice Vouchers Program 14.871	Homeless Prevention & Rapid Rehousing 14.257		Total
-	-	-	-	-	-	228,941
-	-	-	-	-	-	183,546
-	-	-	-	-	-	89,445
-	-	-	-	-	-	48,706
-	-	-	-	-	-	550,638
-	-	-	-	-	-	36,599
-	-	-	-	-	-	15,383
-	-	-	-	-	-	7,249
-	-	-	-	-	-	8,558
-	-	-	-	-	-	67,789
-	-	-	-	-	-	25,558
-	-	-	-	-	-	25,558
\$ -	\$ -	\$ -	\$ 18,636	\$ 60	\$	1,315,501
107,239	931	12,993	79,931	(60)		458,992
-	-	-	134,601	-		134,601
-	-	-	18,046	-		18,046
-	-	-	-	-		254,324
\$ -	\$ -	\$ -	\$ 171,283	\$ 60	\$	1,722,472
-	-	-	-	-	-	8,460
(6,091)	(931)	(1,438)	-	-	-	(8,460)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(6,091)	(931)	(1,438)	-	-	-	-
101,148	-	11,555	(72,716)	(60)		52,021

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Financial Data Schedule
 June 30, 2013

Low Rent Public Housing Program

Line Item Number	Description	Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
11030	Beginning Equity	4,585,877	516,912	896,124	58,592
	Ending Equity (deficit)	\$ 4,604,623	\$ 467,106	\$ 943,931	\$ 53,939
11190	Unit Months Available	2,304	348	552	-
11210	Number of Unit Months Leased	2,113	320	506	-
11620	Building Purchases	\$ -	\$ -	\$ -	\$ -

See independent auditors' report

<u>Public Housing Capital Projects Fund</u>					
<u>Project 1</u> <u>NM006000001</u> <u>14.872</u>	<u>Project 2</u> <u>NM006000002</u> <u>14.872</u>	<u>Project 3</u> <u>NM006000003</u> <u>14.872</u>	<u>Housing</u> <u>Choice Vouchers</u> <u>Program</u> <u>14.871</u>	<u>Homeless</u> <u>Prevention &</u> <u>Rapid Rehousing</u> <u>14.257</u>	<u>Total</u>
<u>1,523,514</u>	<u>259,326</u>	<u>504,607</u>	<u>181,400</u>	<u>124</u>	<u>8,526,476</u>
<u>\$ 1,624,662</u>	<u>\$ 259,326</u>	<u>\$ 516,162</u>	<u>\$ 108,684</u>	<u>\$ 64</u>	<u>\$ 8,578,497</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,204</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,939</u>
<u>\$ 101,148</u>	<u>\$ -</u>	<u>\$ 11,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,703</u>

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COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the financial statements of the business-type activities of the Gallup Housing Authority (the "Authority"), a component unit of the City of Gallup, New Mexico (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Gallup Housing Authority's basic financial statements and have issued our report thereon dated November 26, 2013. 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

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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 as items FSHA 08-07, FSHA 12-01, FSHA 12-02, FSHA 12-03, FSHA 12-04, FSHA 12-06, FSHA 12-07, FSHA 12-11, FSHA 12-12, and FSHA 13-01 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FSHA 12-15 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 tests 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 12-04, FSHA 12-05, FSHA 12-08, FSHA 12-09, FSHA 12-10, and FSHA 12-14.

Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 26, 2013

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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Gallup Housing Authority's (the "Authority") compliance with the types of compliance requirements described in the *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, 2013. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Adverse Opinion on CFDA 14.850 Public and Indian Housing

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.850 Public and Indian Housing as described in findings FAHA 12-03 for Equipment and Real Property Management; FAHA 12-04 for Reporting; and FAHA 12-05 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Adverse Opinion on CFDA 14.850 Public and Indian Housing

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, the Authority did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 14.850 Public and Indian Housing for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 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 13-01 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 requirement 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 internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 26, 2013

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STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2013

Schedule IV

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	NM006-00000112D	14.850 *	\$ 318,294
Public and Indian Housing	NM006-00000113D	14.850 *	290,918
Public and Indian Housing	NM006-00000212D	14.850 *	24,009
Public and Indian Housing	NM006-00000213D	14.850 *	29,383
Public and Indian Housing	NM006-00000312D	14.850 *	98,617
Public and Indian Housing	NM006-00000313D	14.850 *	82,650
Total Public and Indian Housing			<u>843,871</u>
Section 8 Housing Choice Vouchers	N/A	14.871	<u>88,509</u>
Public Housing Capital Fund	NM02P006501-09	14.872	5,000
Public Housing Capital Fund	NM02P006501-10	14.872	2,500
Public Housing Capital Fund	NM02P006501-11	14.872	69,805
Public Housing Capital Fund	NM02P006501-12	14.872	43,858
Total Public Housing Capital Fund			<u>121,163</u>
<i>Total U.S. Department of Housing and Urban Development - Direct Programs</i>			<u>\$ 1,053,543</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 1,053,543</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,053,543</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 Gallup 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.

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

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 1,053,543
Total expenditures funded by other sources	<u>668,929</u>
Total expenditures	<u><u>\$ 1,722,472</u></u>

See independent auditors' report
 The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Schedule of Findings and Questioned Costs
 June 30, 2013

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? | Yes |
| 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="width: 100px;"></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></td> <td style="text-align: center;">Public and Indian Housing</td> </tr> </table> | CFDA
Number | | Federal Program | 14.850 | | Public and Indian Housing | |
| CFDA
Number | | Federal Program | | | | | |
| 14.850 | | Public and Indian Housing | | | | | |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | | | |
| 6. Auditee qualified as low-risk auditee? | No | | | | | | |

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Schedule of Findings and Questioned Costs
June 30, 2013

Schedule V
Page 2 of 25

SECTION II – PRIOR YEAR AUDIT FINDINGS

FSHA 08-07 Internal control over Financial Reporting – Material Weakness – Repeated

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

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

FSHA 12-03 Internal Control Deviations – Disbursements – Material Weakness – Repeated and Modified

FSHA 12-04 Capital Assets Listing – Material Weakness/Material Noncompliance – Repeated

FSHA 12-05 RHC Reports and the General Ledger – Other Matter – Repeated and Modified

FSHA 12-06 Incomplete Trial Balance – Material Weakness – Repeated and Modified

FSHA 12-07 Internal Control Deficiencies – Payroll – Material Weakness – Repeated and Modified

FSHA 12-08 Noncompliance with Procurement Code – Noncompliance – Repeated

FSHA 12-09 Cash Deposits not Made Timely – Other Matter – Repeated and Modified

FSHA 12-10 Stale Dated Transactions Not Cancelled – Noncompliance – Repeated and Modified

FSHA 12-11 Inventories – Material Weakness – Repeated

FSHA 12-12 Inadequate Review of Manual Journal Entries – Material Weakness – Repeated

FSHA 12-13 Late Filing of Audit Report – Noncompliance – Resolved

FSHA 12-14 Violations of Open Meetings Act – Noncompliance – Repeated

FSHA 12-15 Procurement Code (Related Parties) – Other Matter – Repeated

FAHA 12-01 Excluded Parties List – Significant Deficiency – Repeated

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

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

FAHA 12-04 Reporting – Noncompliance – Repeated

FAHA 12-05 Circular A-87 Cost Principles and Allowable Activities – Material Weakness/Noncompliance – Repeated and Modified

FAHA 12-06 Late Data Collection Form Submission – Noncompliance – Resolved

FAHA 12-07 Inter Project Excess Cash Transfer Out – Noncompliance – Resolved

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FSHA 08-07 Internal Control Over Financial Reporting – Material Weakness – Repeated and Modified – Repeated

Condition: The financial statements and related disclosures are not being prepared by the Authority. Also, the Authority failed to propose all necessary adjustments to fairly present the financial statements in accordance with Generally Accepted Accounting Principles.

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 Authority'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' Recommendations: We recommend Authority 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 Authority develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency's Response: The previous management always maintained that this finding had been taken care of. The Authority has made arrangements to have the Albuquerque HUD office help the staff to learn about the requirements and begin preparing the required financial statements. A new Policies and Procedures manual is also in the works, but still needs finalizing and Board approval.

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

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

Condition: The 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 allegedly perpetrated by previous management of the Authority; however at June 30, 2013 the results of investigations have not yet been released by the Office of the Inspector General. The actual amount of fraud and illegal acts is undeterminable at the date of the issuance of this report, but testwork revealed 85 purchases totaling \$7,812 that are believed to be fraudulent in nature.
- There is not a fraud risk assessment done at the Authority.
- There are inadequate internal controls over bank reconciliations.
- There are inadequate segregation of duties in accounting personnel at the Authority.
- There are inadequate internal controls to mitigate risks of management override to perpetrate fraud.
- There are inadequate internal controls to mitigate risks of 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 are inadequate internal controls to ensure proper quotes for purchases.
- There is a lack of proper monitoring and safeguarding of debit card purchases.
- There is no proper conflict of interest policy maintained by the Authority.
- There is a lack of proper monitoring over vendor master files.
- There is a lack of internal controls over capital assets.
- There is a lack of internal controls over voided checks.
- There is a lack of internal controls over journal entries.
- The Board of the Housing Authority did not exercise appropriate oversight over operations of the Housing Authority.
- “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 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.
- 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 Authority’s control processes to support the achievement of financial reporting objectives.
- Data underlying the financial statements are not captured completely, accurately, and timely, in accordance with the 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 Authority’s control processes to support the achievement of financial reporting objectives.
- In 2 cash receipts transactions totaling \$493 out of 5 tested totaling \$1,390; the supporting documentation was not accompanied by a validated deposit receipt.

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

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

Criteria: As required by NMSA 1978 Section 6-6-3, the 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.

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 circumstance as a 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 as a strong indicator of a material weakness in internal control.

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. Also, the Authority’s governing body did not provide effective oversight of internal control and financial reporting processes.

Cause: For the fiscal year 2013 management, the body charged with governance and staff did not have expertise and/or training to implement an adequate internal control structure. As a result, management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of the requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors’ Recommendations: The 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, 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.

Agency’s Response: The previous management is currently under investigation by the HUD Inspector General's office and the FBI. There was alleged fraud and embezzlement. Some of the “policies and procedures” were changed by the previous management and governing body. The Authority is currently in the process of writing a new policies and procedures manual to define the internal control processes utilizing policies already in place at other Authorities as a template. Once completed the new policy manual will be approved by the new governing body.

Many files, especially Capital Fund files were destroyed by the previous management, leaving the personnel unable to provide the necessary documentation. The Authority has made changes to ensure that all records are accurate and complete going forward.

Because of the physical absence of an Executive Director, many of the current policies and procedures were not followed due to lack of personnel to implement the required division of duties properly. The Authority has an Interim Executive Director who is not involved in the day-to-day operations but is in the process of hiring a new, permanent Executive Director. The internal control structure has been temporarily altered to provide the most safeguards to Authority assets until the new policies can be put into place. In addition the new governing body is providing significantly more oversight in the day to day operations of the Authority and providing staff with the necessary training to better complete their tasks and safeguard Authority assets.

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

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

Condition: The Authority lacks 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 management override over all major functions of the 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 the authority 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 Authority's books or records contain misstatements related to alleged fraud, which were not detected within a timely manner.

Cause: The 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 segregation of duties to the extent possible to reduce the risk of errors or fraud.

Agency's Response: Since the Authority has had an Executive Director that was physically absent for most of the time for the last two years, it has been almost impossible to have proper segregation of duties because of lack of personnel. The previous Board was fired in November 2012 and the new Board is not very familiar with HUD rules and regulations. They will be trained as soon as feasible training is available.

The previous management approved any and all purchases made by the Asset Manager. This is part of the investigations being performed by the HUD Inspector General's office and the FBI.

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

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

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

- In 5 disbursements totaling \$35,326 out of 60 disbursements tested totaling \$72,919, purchase orders were not created and authorized prior to the purchase being made.

Criteria: Per section 6-6-3 NMSA 1978 every local public body shall: keep all the books, records and accounts in their respective offices in the form prescribed by the local government division; make all reports as may be required by the local government division; and conform to the rules and regulations adopted by the local government division. Also, good internal controls and sound business practice require that the Authority develop policies and procedures for internal controls over disbursements. Good internal controls and sound business practice also 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.

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

Auditors' Recommendations: 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.

Agency's Response: The previous management, primarily the Asset Manager, created all of his own purchase orders. He would bypass the internal control process for purchase orders to be created prior to the purchase by completing them from the receipts of items already purchased. The staff at the Authority now asks for a purchase order for each purchase. The Authority does not have an Executive Director to approve them at this point, but the Authority is currently searching for a knowledgeable replacement.

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

FSHA 12-04 Capital Assets Listing – Material Weakness/Material Noncompliance

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

- The Authority did not perform an annual inventory of capital assets.
- The 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 position. 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. The balances are material to the financial statements, in continuing with this capitalization policy the Authority is materially overstating its capital assets and depreciation expense while materially understating actual expenses because the expenses are being capitalized rather than expensed.

Cause: The Authority has not ensured compliance with the State Auditor requirements related to capital assets by updating its capitalization policy to reflect the State Auditor requirement that does not allow for capitalization thresholds which are more restrictive than the applicable law. In addition the Authority has not maintained or updated capital assets records to ensure accuracy or accountability of the Authority's assets due to disregard of applicable state law by Authority management.

Auditors' Recommendations: We recommend that the Authority maintain capital assets records and record depreciation only for those assets with a cost in excess of \$5,000. For accountability purposes, the 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.

Agency's Response: The previous management hired an Asset Manager, who was entirely in charge of all Inventories and Capital Assets listings. It became immediately obvious that he did not have any knowledge of what he was supposed to do. Items were being capitalized that were below the Authority threshold for capitalization and items were not being depreciated in line with Authority policy. The Authority is currently seeking applicants for new maintenance personnel with knowledge of inventories and fixed assets. The current policy is that capital assets costs are in excess of \$5,000 for capitalization.

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

FSHA 12-05 RHC Reports and the General Ledger – Other Matter

Condition: The amount reported in the general ledger for employer's contribution to Retiree Health Care of \$5,781 does not tie to the reported expense of \$7,778 resulting in a difference of \$1,997.

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 reconciliations.

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

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

Agency's Response: The Authority is working with Tenmast (the accounting software company) to repair the error in the software. The system has not accepted the new rates entered.

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

FSHA 12-06 Incomplete Trial Balance – Material Weakness

Condition: During our fieldwork, we noted that the Authority's trial balance was neither complete nor accurate. Audit adjustments were necessary to record payables, accrued payroll liabilities, allocate cash between each project, and to record transfers.

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 Authority's trial balance did not represent an accurate picture of the 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 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.

Agency's Response: The Authority personnel were not aware that so many audit adjustments were necessary. The Authority personnel will discuss the matter with the Fee Accountant and the software provider to see how these changes in the procedures can be made.

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

FSHA 12-07 Internal Control Deficiencies – Payroll – Material Weakness

Condition: During our walkthrough and review of the payroll transaction cycle, we noted the following deficiency:

- Management does not review payroll reports for accuracy or irregularities.

Criteria: A review of employee timesheets, a review of payroll reports, and proper authorization and approval for wages, as indicated in NMSA 1978 Section 6-6-3, are required to be maintained in order to have proper and sufficient internal controls to reduce the risk of fraudulent activities.

Effect: Internal controls over payroll are not monitored and maintained to prevent or detect intentional misappropriation of Authority assets.

Cause: For the fiscal year 2013 management did not follow its own policies to ensure internal controls were in place and working properly.

Auditors' Recommendations: The Authority should follow its internal controls over payroll that are in place and perform periodic reviews of the supporting documentation to ensure that they are operating effectively.

Agency's Response: The previous administration was not physically present on most days for the last two years. The Executive Director was not available to approve the payroll. Also most of the checked time sheets belong to the previous administration and he was not physically present to sign them. He was typically only physically present to collect them after office closing time when the checks were on his desk to be signed. Since the termination of the previous Executive Director in November 2012, the Authority has since began the search for a replacement and are expecting to fill the position in the near future.

The Authority is looking at applicants with previous management experience and is familiar with the operations of Housing Authorities and the ability to provide structure and oversight.

The Authority is currently in the process of writing a new policies and procedures manual to define the internal control processes utilizing policies already in place at other Authorities as a template. Once completed the new policy manual will be approved by the new governing body. In the meantime the Authority has changed the internal controls over payroll and is having the Program Manager approve all time sheets and approve the payroll before it is completed. Management is ensuring that all employee time sheets are being signed by the employees and are utilizing the "Time Pilot" system to track the hours worked of all hourly employees.

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

FSHA 12-08 Noncompliance with Procurement Code – Noncompliance

Condition: During our test work regarding compliance with the NM Procurement Code, we noted that the Authority made purchases over \$5,000, but failed to maintain sufficient records to support the assertion that management complied with the required level of documentation for procurement. During our testwork over bids, no supporting documentation was maintained supporting the existence of bids.

Criteria: The New Mexico Procurement Code, Section 13-1-125, NMSA 1978, was amended effective July 1, 2005 to increase the maximum value of small purchases from \$10,000 to \$20,000 in Subsection A; increase the maximum value of professional services from \$20,000 to \$30,000 in Subsection B; and increase the maximum value of purchases at best obtainable prices from \$1,500 to \$5,000 in Subsection C. Therefore, purchases over \$1,500 up to \$5,000 should have three oral quotes documented, and purchases over \$5,000 and up to \$20,000 should have three written quotes documented.

Effect: The Authority did not comply with the Procurement Code requirement to document three quotes for purchases over \$5,000. The Authority may have paid more than necessary in order to obtain the goods and services that the Authority needed.

Cause: The Authority did not have policies and procedures requiring the proper maintenance of procurement documentation.

Auditors' Recommendations: We recommend that the Authority adopt procurement policies and procedures that are in compliance with the New Mexico Procurement Code and update them as the laws are amended.

Agency's Response: The Procurement Code internal controls have now been put in place. However, the now terminated Asset Manager was not familiar or interested in learning the code. Purchases of \$60.00 and over were capitalized and depreciated over 10 years. The paperwork on the one purchase greater than \$5,000 was destroyed prior to his termination. With new management providing oversight of internal controls this finding should be remedied.

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

FSHA 12-09 Cash Deposits not Made Timely – Other Matter

Condition: During testwork performed over cash receipts 5 out of 5 receipts tested totaling \$1,390 were not deposited in a timely manner.

Criteria: Good accounting practices require cash deposits to be made in a timely manner.

Effect: The Authority is not maintaining adequate controls over cash, which increases the risk of misappropriation of assets.

Cause: The Authority does not have procedures in place requiring staff to make deposits in a timely manner. In addition, supervisors are not overseeing the process.

Auditors' Recommendation: We recommend that the Authority establish policies and procedures for making timely cash deposits from department receipting locations.

Agency's Response: During the last two years of the previous administration, the Executive Director would make the bank deposits. He was not physically present in the office and the deposits sat on his desk until he came in or until someone noticed they were still sitting there. At the point deposits were made, he would have his wife make the deposit. We are presently making the deposits in a timely manner.

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

FSHA 12-10 Stale Dated Transactions Not Cancelled – Noncompliance

Condition: The Authority is in violation of state statutes regarding stale-dated checks. The Authority maintained eight checks totaling \$1,640 and two deposits totaling \$380 on its bank reconciliations that were dated over one year old at June 30, 2013.

Criteria: Chapter 7 Article 8A, NMSA 1978, and related regulations require that the Authority provide information about the payees and the related funds to Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Effect: Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds. Also, the Authority could be subject to penalty for failure to follow and comply with state regulation.

Cause: The Authority did not implement an internal control policy to account for stale dated outstanding checks and deposits and did not clear these items on a timely basis.

Auditors' Recommendations: We recommend that the Authority implement a procedure to review the outstanding check and deposit listings for all bank accounts and track stale-dated items. If items on the outstanding check and deposit listings are greater than one year old we recommend these items be voided. Also, we recommend that the Authority provide the information to the Property Division of the New Mexico Taxation and Revenue Department as required.

Agency's Response: The Authority will start voiding all stale dated/outstanding checks. All manual transactions (like recording automatic withdrawals, etc.) will have to be voided by Tenmast.

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

FSHA 12-11 Inventories – Material Weakness

Condition: Authority inventories were not available for the fiscal year ending June 30, 2013.

Criteria: Section 6-6-3 NMSA, 1978 states that every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Effect: Without proper inventory controls, the Authority cannot be sure about what inventory they have on hand in case of an emergency. The Authority may also suffer an opinion modification on the financial statements.

Cause: The turnover in the accounting department has transpired without the employees being trained which resulted in a lapse of duties and proper training. This turnover has also created a situation in which there is a backlog of work, making it difficult for current employees to catch-up.

Auditors' Recommendation: The Authority should, at a minimum, complete a year end inventory and adjust the accounting records for any differences noted.

Agency's Response: Since the departure of the Asset Manager, new inventories were taken and most inventories have been updated for the first time since about 2003.

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

FSHA 12-12 Inadequate Review of Manual Journal Entries – Material Weakness

Condition: During the 2013 fiscal year, the Authority did not have procedures in place for authorization and review of manual journal entries. Multiple journal entries were posted to reconcile revenues and expenditures of the Authority without proper supporting documentation and management review.

Criteria: Good accounting practice requires that manual adjusting entries be authorized and reviewed by someone other than the person initiating the adjusting entry.

Effect: Without proper review processes, there is a greater risk that improper adjustments could be made. Improper adjustments result in balances being materially misstated. Also, the risk of fraudulent acts increases without proper review.

Cause: The Authority was unaware of the significance of internal controls needed for manual journal entries.

Auditors' Recommendation: We recommend that all journal entries require a second person's review prior to posting to the accounting records.

Agency's Response: The previous administration did not have any knowledge of the journal entry process or its purpose. The new Administration should be more knowledgeable and provide the necessary oversight.

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

FSHA 12-14 Violations of Open Meetings Act – Noncompliance

Condition: For the first half of the fiscal year, the Authority did not properly record how the Commissioners voted on action items during open meetings and did not properly record the minutes of the Board of Commissioners meetings.

Criteria: Section 10-15-1G, NMSA 1978, states that "...The minutes shall include at a minimum the date, time and place of the meeting, the names of the members in attendance and those absent, the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted..."

Effect: Not properly recording how each commissioner votes could result in Authority Commission actions, such as contracts, bid awards and disbursement approvals, being challenged and possibly overturned for noncompliance with the aforementioned statute.

Cause: The Authority has not instituted and implemented proper internal policies related to how the Commission meetings are to be recorded.

Auditors' Recommendations: The Authority should implement policies pertaining to the recording of open meetings held by the Commission. Each commissioner's vote should be chronicled in accordance with the New Mexico Statutes. In addition, the approved minutes should be signed by the Chairman of the Board of Commissioners or his/her designee and attested to by his/her designee.

Agency's Response: The new board has begun complying with the Open Meetings Act, once they were put in place in December, 2012. Every meeting has been advertised in a Legal Notice since the first meeting and the Open Meeting Act was officially adopted by Board Resolution No. R-2013-01 on May 10, 2013.

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

FSHA 12-15 Procurement Code (Related Parties) – Significant Deficiency

Condition: The Authority did not have proper segregation of duties in relation to related party transactions. The governing body allowed the prior Executive Director to have full control over the finances of the Authority, and from review, there were related party transactions that were not properly procured. In addition, the Authority has no evidence that the work billed was actually performed.

Criteria: Section 6.20.2.11 of NMAC requires each Authority to develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

Effect: Not following the procurement code while purchasing items from a related party can promote favoritism within the organization and set a bad example for employees. This condition can also open the Authority to potential litigation.

Cause: There was an oversight and lack of segregation by management while purchasing these items and did not review to ensure proper policy compliance.

Auditors' Recommendation: We recommend the Authority develop an internal control policy for procurement that incorporates internal controls to monitor the policy to ensure that all procurement, including related party transactions, follows procurement codes.

Agency's Response: The previous administration had several vendors hired as Contractors that were only approved by the Executive Director. The Board always took the Director's word and never questioned anybody else regarding the issue. When asked, the Director would say that everything was legal and on the "up and up". Since his termination there have been no purchases from "Related Parties" and purchases with Capital Funds have ended.

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

FSHA 13-01 Tenant Rent Receivables and Prepaid Rents – Material Weakness

Condition: During our testwork over the tenant receivables, we noted the following:

- The Authority failed to reconcile the outstanding balance per the General Ledger to the outstanding balance to the Tenant Accounting software for tenant rent receivable and prepaid rents presented as deferred revenues.
- The Authority was unable to present a consistent listing of tenant rent receivables outstanding at year end. The Authority presented 2 reports to during the audit. The first indicated a receivable balance of \$165,787 and the second indicated a receivable balance of \$53,911.

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: 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 misstatements of accounting information. Also, the Authority received an opinion modification over the account balances.

Cause: An adequate accounting system is not in place to ensure proper collection, posting, and review. Authority personnel believe the variances are due to prior year write-off's not being entered into the Tenant Accounting system.

Auditors' Recommendations: We recommend that the Authority incorporate processes and internal controls to ensure account balances and amounts written off are properly posted and that the outstanding balances are collected in a timely manner. We also recommend that the Authority evaluate the outstanding balances and remove items that are known to be uncollectible.

Agency's Response: The Authority is working on a set of policy and procedures to ensure internal controls administratively and accounting measures to safeguard against waste, fraud and inefficiency. The establishment of new policy and procedures will promote the accuracy and reliability in operations and accounting systems.

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: Public and Indian Housing
CFDA Number: 14.850

Condition: During our review of the procurement process, it was noted the 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 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 due to noncompliance with Federal regulations.

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

Auditors’ Recommendation: We recommend that the 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.

Agency’s Response: The last contract of \$25,000 or more was entered into under the previous administration and was not approved by HUD because of number of deficiencies. The next contract will be in fiscal year 2014 and will be properly executed and the Excluded Parties List system will be checked.

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

Federal Program Information:

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

Condition: The 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 2013 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' Recommendations: The 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.

Agency's Response: The staff of the Authority has been working without a supervisor for about 3 years now. We are expecting to have a qualified director within the next few months.

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/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 FY 2013, 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 2013 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' Recommendations: The 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.

Agency's Response: Since terminating the prior Executive Director and Asset Manager, the Authority has had no problems tracking capital assets purchased with federal monies. In addition the Authority will be performing an annual inventory of all capital assets.

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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: Public and Indian Housing
CFDA Number: 14.850

Condition: The required report Form HUD 60002 was not submitted within the required time frame for the year ended June 30, 2013.

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 Authority submitted this form within the required time frame set forth by HUD.

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

Agency's Response: Since the previous administration totally insisted that the prior Executive Director was performing all necessary reporting requirements, the Authority staff was not aware of any deadlines or reports due. The Albuquerque HUD office has helped the staff in showing how to complete the reports and meet the necessary deadlines. Also, once a new Executive Director is hired, the Authority will be able to provide oversight on all reporting when due.

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

FAHA 12-05 Circular A-87 Cost Principles and Allowable Activities – 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 our review of the procurement process, it was noted the Authority does not reference the Cost Principles contained in Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, applicable to costs charged to federal programs and that Authority staff were unaware of this document. Also, during testwork performed on internal controls over compliance with compliance requirements that could have a direct and material effect on major programs, we noted that 85 expenditures totaling \$7,812 for the Public and Indian Housing Program were missing evidence of review by an individual familiar with allowable costs and activities, the supplement not supplant requirement, and did not contain proper management approval or adequate supporting documentation.

Criteria: OMB Circular A-133 stipulates that non-federal entities must follow the Cost Principles as applicable to their entity for all costs charged to federal programs. Also, 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 staff reviewing federal expenditures be familiar with federal program compliance requirements.

Questioned Costs: \$7,812

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: The Authority has not implemented a review of Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, into its procurement processes for federal awards. Also, for the fiscal year 2013 management did not have a documented policy to ensure internal controls were in place and working properly. Lastly, 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' Recommendations: We recommend that the Authority implement procedures to ensure that all staff charged with administration of federal programs be made aware of the Cost Principles contained in Circular A-87 and understand the importance of abiding by the Cost Principles. The Authority should ensure that a comprehensive internal control structure, including procedures for ensuring that all federal program expenditures are reviewed and approved by management personnel familiar with the applicable compliance requirements, is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Agency's Response: The previous Asset Manager had complete disregard for any rules, regulations or laws. The previous management supported him completely and provided excuses to cover up any of his questionable actions. As a result there has been a federal investigation ongoing. The new Management will be able to correct the situation.

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

FAHA 13-01 Lack of Proper Documentation in Tenant Files – 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 testwork over tenant files we noted that in 4 tenant files out of 60 tested, the Authority did not perform a recertification of family income as least 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 Gallup 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.

Agency's Response: The Authority is continually working on policy and procedures for administration and accounting to ensure proper internal controls, however, HUD form 50058 have been sent to HUD Field Office on a timely basis. PIC database system has not informed the Authority of any errors or discrepancies regarding our housing inventory. Should any errors or problems appear the Authority identifies and corrects all reports.

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OTHER DISCLOSURES

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of Gallup 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 Gallup Housing Authority were discussed on November 27, 2013. The following individuals were in attendance.

Gallup Housing Authority
Joe Zecca, Vice-Chairperson
James Saucedo, Commissioner
Charles England, Executive Director
Natalynne Tsosie, Receptionist

Accounting and Consulting Group, LLP
Ray Roberts, Partner