

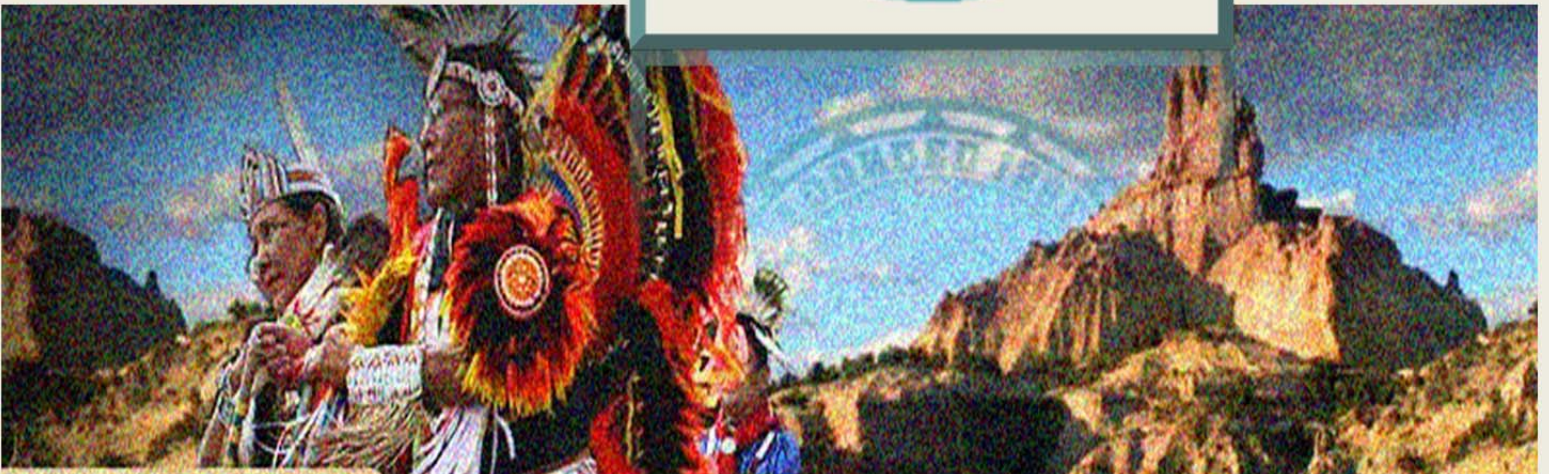
STATE OF NEW MEXICO

GALLUP HOUSING AUTHORITY

A COMPONENT UNIT OF THE CITY OF GALLUP

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



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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, 2014

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STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Official Roster
June 30, 2014

<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
Chris Kenny		Commissioner, Resident
	<u>Administrative Officials</u>	
Richard Kontz		Executive Director

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
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, 2014, 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 and the fraud perpetrated at the Authority, the Authority's accounting records are inadequate to substantiate the account balances for revenues, expenses, and capital assets presented in the financial statements. There is insufficient evidence available to determine that the beginning account balances and account distributions for revenue and expenses amounts are accurate and management assertions cannot be adequately examined to afford a basis for an opinion.

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 section 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 28, 2014, 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 28, 2014

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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, 2014

Exhibit A-1

ASSETS

Current assets

Cash and cash equivalents	\$ 190,417
Accounts receivable - grants	138,093
Accounts receivable - tenants, net of allowance of \$21,416	33,581
Accounts receivable - other	5,320
Inventory, net of allowance of \$27,282	60,588
Prepaid expenses	23,252
	<u>451,251</u>

Non-current assets

Restricted cash and cash equivalents	118,016
Capital assets	15,791,125
Less: accumulated depreciation	(7,476,359)
	<u>8,432,782</u>
<i>Total non-current assets</i>	<u>8,432,782</u>
<i>Total assets</i>	<u>\$ 8,884,033</u>

LIABILITIES AND NET POSITION

Current liabilities

Accounts payable	\$ 58,359
Accrued payroll	12,682
Prepaid rent	3,204
Compensated absences	600
	<u>74,845</u>

Current liabilities (payable from restricted assets)

Tenant deposits	45,708
	<u>45,708</u>

Non-current liabilities

Compensated absences	9,818
	<u>9,818</u>
<i>Total liabilities</i>	<u>130,371</u>

Net position:

Net investment in capital assets	8,314,766
Restricted for:	
Section 8 housing	72,308
Unrestricted	366,588
	<u>8,753,662</u>
<i>Total net position</i>	<u>8,753,662</u>
<i>Total liabilities and net position</i>	<u>\$ 8,884,033</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 Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Exhibit A-2

<i>Operating revenues</i>	
Rental revenue	\$ 685,300
Other tenant revenue	30,548
Subsidy grants	<u>719,302</u>
<i>Total operating revenues</i>	<u>1,435,150</u>
<i>Operating expenses</i>	
Personnel services	413,066
Contractual services	17,283
Supplies	23,622
Maintenance and materials	305,215
Utilities	344,176
Telephone	4,668
Insurance	81,383
Bad debt	36,387
Housing assistance payments	125,336
Tenant services	64
Allocated overhead	195,930
Depreciation	317,424
Miscellaneous	<u>73,013</u>
<i>Total operating expenses</i>	<u>1,937,567</u>
<i>Operating (loss) income</i>	<u>(502,417)</u>
<i>Non-operating revenues (expenses)</i>	
Interest income	38
Miscellaneous income	42,508
Fraud loss	(63,726)
Loss on disposal of assets	<u>(30,000)</u>
<i>Total non-operating revenues (expenses)</i>	<u>(51,180)</u>
<i>Income (loss) before contributions and transfers</i>	(553,597)
Capital grants	<u>728,762</u>
<i>Total contributions and transfers</i>	728,762
<i>Change in net position</i>	175,165
<i>Total net position - beginning of year</i>	<u>8,578,497</u>
<i>Total net position - end of year</i>	<u><u>\$ 8,753,662</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, 2014

<i>Cash flows from operating activities:</i>	
Cash received from tenant rents	\$ 721,478
Cash payments to employees for services	(409,037)
Cash payments to suppliers for goods and services	(1,196,361)
Cash received from subsidy grants	<u>636,285</u>
<i>Net cash (used) by operating activities</i>	<u>(247,635)</u>
 <i>Cash flows from noncapital financing activities:</i>	
Miscellaneous income	42,508
Fraud loss	<u>(63,726)</u>
<i>Net cash provided by noncapital financing activities</i>	<u>(21,218)</u>
 <i>Cash flows from capital and related financing activities:</i>	
Capital grants	728,762
Acquisition of capital assets	<u>(655,778)</u>
<i>Net cash provided by capital and related financing activities</i>	<u>72,984</u>
 <i>Cash flows from investing activities:</i>	
Interest on cash deposits	<u>38</u>
<i>Net cash provided by investing activities</i>	<u>38</u>
 <i>Net (decrease) in cash and cash equivalents</i>	 (195,831)
 <i>Cash and cash equivalents - beginning of year</i>	 <u>504,264</u>
 <i>Cash and cash equivalents - end of year</i>	 <u><u>\$ 308,433</u></u>

The accompanying notes are an integral part of these financial statements

<i>Reconciliation of operating (loss) to net cash provided by operating activities:</i>	
Operating (loss)	\$ (502,417)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	317,424
Changes in assets and liabilities	
Accounts receivable	(74,966)
Inventory	1,417
Prepaid expenses	(15,550)
Accounts payable	44,276
Accrued payroll expenses	(91)
Accrued utilities	(19,428)
Prepaid rent	(2,655)
Accrued compensated absences	4,120
Tenant deposits	235
	<hr/>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (247,635)</u></u>

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2014

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.

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, 2014

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, 2014

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, 2014

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.

Restricted Cash and Cash Equivalents

Certain resources set aside in escrow for security deposits of \$45,708, 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 and improvements	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, 2014

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, 2014

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, 2014 and the HUD budget period is not complete as of that date.

New Accounting Standards Adopted

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB 65 is not expected to have a significant impact on the Housing Authority's financial statements.

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, 2014.

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 deposited in noninterest bearing accounts and transaction accounts will no longer receive unlimited coverage under by the Federal Deposit Insurance Corporation (FDIC). 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, 2014

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, 2014, \$16,253 of the Authority’s bank balance of \$318,778 was subject to custodial credit risk. \$16,253 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, 2014.

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	Pinnacle Bank	Wells Fargo Bank	Total
Amount of deposits	\$ 52,437	\$ 266,253	\$ 88	\$ 318,778
FDIC coverage	(52,437)	(250,000)	(88)	(302,525)
Total uninsured public funds	<u>\$ -</u>	<u>\$ 16,253</u>	<u>\$ -</u>	<u>\$ 16,253</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>\$ 16,253</u>	<u>\$ -</u>	<u>\$ 16,253</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ 8,127	\$ -	\$ 8,127
Pledged collateral	-	242,457	-	242,457
Over (under) collateralization	<u>\$ -</u>	<u>\$ 234,330</u>	<u>\$ -</u>	<u>\$ 234,330</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
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2014

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	\$ 190,417
Restricted cash and cash equivalents	<u>118,016</u>
 Total cash, cash equivalents, and investments	 308,433
 Add: unreconciled difference in cash	 187
Add: outstanding checks	12,496
Less: deposits in transit	(2,113)
Less: petty cash	<u>(225)</u>
 Bank balance of deposits	 <u><u>\$ 318,778</u></u>

NOTE 3. RECEIVABLES

Receivables as of June 30, 2014, are as follows:

Federal grants receivable	\$ 138,093
Repayment agreements	5,320
Tenant receivables	54,997
Allowance for doubtful accounts - tenants	<u>(21,416)</u>
 Total	 <u><u>\$ 176,994</u></u>

NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for loans.

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
Low Rent Public Housing Program - Project 1	Low Rent Public Housing Program - Other Project	\$ 113,325
Low Rent Public Housing Program - Project 2	Low Rent Public Housing Program - Other Project	31,728
Low Rent Public Housing Program - Project 3	Low Rent Public Housing Program - Other Project	128,170
Low Rent Public Housing Program - Other Project	Low Rent Public Housing Program - Project 1	138,093
Housing Choice Vouchers Program	Housing Choice Vouchers Program- SRO program	7,187
Low Rent Public Housing Program - Other Project	Housing Choice Vouchers Program	<u>36,223</u>
	Total	<u><u>\$ 454,726</u></u>

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

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Notes to the Financial Statements
June 30, 2014

NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES (continued)

During the course of operations, transfers occur between individual funds for equity transfers related to the CFP program and the low rent program in project 2.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Low Rent Public Housing Program - Project 2	Public Housing Capital Projects Fund - Project 2	\$ 47,223
		<u>\$ 47,223</u>

NOTE 5. CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2014. Land and Construction in Progress are not subject to depreciation.

	<u>Balance June 30, 2013</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 1,686,162	\$ -	\$ -	\$ -	\$ 1,686,162
Construction in progress	489,032	(32,339)	-	-	456,693
Total capital assets not being depreciated	<u>2,175,194</u>	<u>(32,339)</u>	<u>-</u>	<u>-</u>	<u>2,142,855</u>
Capital assets being depreciated:					
Buildings and improvements	12,288,637	647,945	-	-	12,936,582
Equipment - dwellings	297,172	-	14,957	-	312,129
Equipment - administration	404,344	(30,000)	25,215	-	399,559
Total capital assets being depreciated	<u>12,990,153</u>	<u>617,945</u>	<u>40,172</u>	<u>-</u>	<u>13,648,270</u>
Less accumulated depreciation:					
Buildings and improvements	6,495,923	-	285,075	-	6,780,998
Equipment - dwellings	297,172	-	10,123	-	307,295
Equipment - administration	365,840	-	22,226	-	388,066
Total accumulated depreciation	<u>7,158,935</u>	<u>-</u>	<u>317,424</u>	<u>-</u>	<u>7,476,359</u>
Total capital assets, net of depreciation	<u>\$ 8,006,412</u>	<u>\$ 585,606</u>	<u>\$ (277,252)</u>	<u>\$ -</u>	<u>\$ 8,314,766</u>

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, 2014 totaled \$317,424.

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, 2014.

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Accrued compensated absences	\$ 6,298	\$ 13,648	\$ 9,528	\$ 10,418	\$ 600
Totals	<u>\$ 6,298</u>	<u>\$ 13,648</u>	<u>\$ 9,528</u>	<u>\$ 10,418</u>	<u>\$ 600</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 14.65% 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, 2014, 2013 and 2012 were \$36,612, \$35,334, and \$43,679, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
Gallup Housing Authority
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June 30, 2014

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, 2014, 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, 2014, 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, 2014, 2013, and 2012 were \$6,045 \$7,778, and \$4,881, respectively which equal the required contributions for each year.

STATE OF NEW MEXICO
Gallup Housing Authority
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Notes to the Financial Statements
June 30, 2014

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, 2014, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 28, 2014, 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.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2015 and is expected to significantly impact the Housing Authority's financial statements.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, 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.

In November 2013, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement 68. The standard will be implemented during fiscal year June 30, 2015.

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Statement of Net Position - Detail
 June 30, 2014

	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	\$ 5,553	\$ -	\$ -	\$ 93,357
Accounts receivable - grants	138,093	-	-	-
Accounts receivable - tenants, net of allowance of \$21,41	20,869	311	12,401	-
Accounts receivable - other	3,602	-	190	1,528
Due from other funds	113,325	31,728	128,170	174,316
Inventory, net of allowance of \$27,282	43,623	6,665	10,300	-
Prepaid expenses	16,618	2,971	3,663	-
<i>Total current assets</i>	<u>341,683</u>	<u>41,675</u>	<u>154,724</u>	<u>269,201</u>
<i>Non-current assets</i>				
Restricted cash and cash equivalents	36,774	2,684	6,250	-
Capital assets	10,107,179	1,244,040	2,655,995	1,769,109
Less: accumulated depreciation	(3,903,273)	(584,984)	(1,276,169)	(1,697,131)
<i>Total non-current assets</i>	<u>6,240,680</u>	<u>661,740</u>	<u>1,386,076</u>	<u>71,978</u>
<i>Total assets</i>	<u>\$ 6,582,363</u>	<u>\$ 703,415</u>	<u>\$ 1,540,800</u>	<u>\$ 341,179</u>
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Accounts payable	\$ 44,070	\$ 7,778	\$ 3,796	\$ 2,708
Accrued payroll	5,245	852	1,264	5,201
Prepaid rent	2,113	634	457	-
Compensated absences	304	46	72	162
Due to other funds	138,093	-	-	273,223
<i>Total current liabilities</i>	<u>189,825</u>	<u>9,310</u>	<u>5,589</u>	<u>281,294</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	36,774	2,684	6,250	-
<i>Total current liabilities (payable from restricted assets)</i>	<u>36,774</u>	<u>2,684</u>	<u>6,250</u>	<u>-</u>
<i>Non-current liabilities</i>				
Compensated absences	4,968	759	1,173	2,653
<i>Total non-current liabilities</i>	<u>4,968</u>	<u>759</u>	<u>1,173</u>	<u>2,653</u>
<i>Total liabilities</i>	<u>231,567</u>	<u>12,753</u>	<u>13,012</u>	<u>283,947</u>
<i>Net position:</i>				
Net investment in capital assets	6,203,906	659,056	1,379,826	71,978
Restricted for:				
Section 8 housing	-	-	-	-
Unrestricted	146,890	31,606	147,962	(14,746)
<i>Total net position</i>	<u>6,350,796</u>	<u>690,662</u>	<u>1,527,788</u>	<u>57,232</u>
<i>Total liabilities and net position</i>	<u>\$ 6,582,363</u>	<u>\$ 703,415</u>	<u>\$ 1,540,800</u>	<u>\$ 341,179</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ 91,507	\$ -	\$ 190,417
-	-	138,093
-	-	33,581
-	-	5,320
7,187	-	454,726
-	-	60,588
-	-	23,252
98,694	-	905,977
72,308	-	118,016
14,802	-	15,791,125
(14,802)	-	(7,476,359)
72,308	-	8,432,782
\$ 171,002	\$ -	\$ 9,338,759
\$ 7	\$ -	\$ 58,359
120	-	12,682
-	-	3,204
16	-	600
43,410	-	454,726
43,553	-	529,571
-	-	45,708
-	-	45,708
265	-	9,818
265	-	9,818
43,818	-	585,097
-	-	8,314,766
72,308	-	72,308
54,876	-	366,588
127,184	-	8,753,662
\$ 171,002	\$ -	\$ 9,338,759

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, 2014

	Low Rent Public Housing Program			
	Project 1 NM006000001	Project 2 NM006000002	Project 3 NM006000003	Other Project
<i>Operating revenues</i>				
Rental revenue	\$ 537,024	\$ 70,229	\$ 78,047	\$ -
Other tenant revenue	27,439	30	3,079	-
Subsidy grants	413,291	36,002	117,695	-
<i>Total operating revenues</i>	<u>977,754</u>	<u>106,261</u>	<u>198,821</u>	<u>-</u>
<i>Operating expenses</i>				
Personnel services	296,504	43,489	58,919	-
Contractual services	13,311	1,748	2,224	-
Supplies	16,745	3,051	3,826	-
Maintenance and materials	232,449	38,622	34,144	-
Utilities	303,722	32,671	7,783	-
Telephone	3,306	604	758	-
Insurance	57,547	10,555	13,281	-
Bad debt	32,464	1,144	2,779	-
Housing assistance payments	-	-	-	-
Tenant services	-	-	-	-
Allocated overhead	137,151	21,552	33,308	-
Depreciation	207,805	34,242	68,203	7,174
Miscellaneous	67,697	2,325	2,761	-
<i>Total operating expenses</i>	<u>1,368,701</u>	<u>190,003</u>	<u>227,986</u>	<u>7,174</u>
<i>Operating (loss) income</i>	<u>(390,947)</u>	<u>(83,742)</u>	<u>(29,165)</u>	<u>(7,174)</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	16	3	3	3
Miscellaneous income	14,924	746	6,562	10,464
Fraud loss	(63,726)	-	-	-
Loss on disposal of assets	(30,000)	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>(78,786)</u>	<u>749</u>	<u>6,565</u>	<u>10,467</u>
<i>Income (loss) before transfers and contributions</i>	<u>(469,733)</u>	<u>(82,993)</u>	<u>(22,600)</u>	<u>3,293</u>
Capital grants	591,244	47,223	90,295	-
Transfers in	-	47,223	-	-
Transfers out	-	(47,223)	-	-
<i>Change in net position</i>	<u>121,511</u>	<u>(35,770)</u>	<u>67,695</u>	<u>3,293</u>
<i>Total net position - beginning of year</i>	<u>6,229,285</u>	<u>726,432</u>	<u>1,460,093</u>	<u>53,939</u>
<i>Total net position - end of year</i>	<u>\$ 6,350,796</u>	<u>\$ 690,662</u>	<u>\$ 1,527,788</u>	<u>\$ 57,232</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ -	\$ -	\$ 685,300
-	-	30,548
152,314	-	719,302
152,314	-	1,435,150
14,154	-	413,066
-	-	17,283
-	-	23,622
-	-	305,215
-	-	344,176
-	-	4,668
-	-	81,383
-	-	36,387
125,336	-	125,336
-	64	64
3,919	-	195,930
-	-	317,424
230	-	73,013
143,639	64	1,937,567
8,675	(64)	(502,417)
13	-	38
9,812	-	42,508
-	-	(63,726)
-	-	(30,000)
9,825	-	(51,180)
18,500	(64)	(553,597)
-	-	728,762
-	-	47,223
-	-	(47,223)
18,500	(64)	175,165
108,684	64	8,578,497
\$ 127,184	\$ -	\$ 8,753,662

STATE OF NEW MEXICO
 Gallup Housing Authority
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 Statement of Cash Flows - Detail
 For the Year Ended June 30, 2014

	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	\$ 574,836	\$ 70,580	\$ 78,421	\$ (2,359)
Cash payments to employees for services	(294,766)	(43,224)	(58,508)	1,612
Cash payments to suppliers for goods and services	(860,967)	(109,813)	(97,729)	1,701
Cash received from subsidy grants	330,274	36,002	117,695	-
<i>Net cash provided (used) by operating activities</i>	<u>(250,623)</u>	<u>(46,455)</u>	<u>39,879</u>	<u>954</u>
<i>Cash flows from noncapital financing activities:</i>				
Miscellaneous income	14,924	746	6,562	10,464
Fraud loss	(63,726)	-	-	-
Settlement of interfund balances	54,804	(52,095)	(128,170)	107,151
<i>Net cash provided (used) by noncapital financing activities</i>	<u>6,002</u>	<u>(51,349)</u>	<u>(121,608)</u>	<u>117,615</u>
<i>Cash flows from capital and related financing activities:</i>				
Capital grants	591,244	47,223	90,295	-
Acquisition of capital assets	(540,267)	49,999	(140,295)	(25,215)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>50,977</u>	<u>97,222</u>	<u>(50,000)</u>	<u>(25,215)</u>
<i>Cash flows from investing activities:</i>				
Interest on cash deposits	16	3	3	3
<i>Net cash provided by investing activities</i>	<u>16</u>	<u>3</u>	<u>3</u>	<u>3</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(193,628)	(579)	(131,726)	93,357
<i>Cash and cash equivalents - beginning of year</i>	235,955	3,263	137,976	-
<i>Cash and cash equivalents - end of year</i>	<u>\$ 42,327</u>	<u>\$ 2,684</u>	<u>\$ 6,250</u>	<u>\$ 93,357</u>

The accompanying notes are an integral part of these financial statements

Housing Choice Vouchers Program	Homeless Prevention & Rapid Rehousing	Total
\$ -	\$ -	\$ 721,478
(14,151)	-	(409,037)
(129,489)	(64)	(1,196,361)
152,314	-	636,285
<u>8,674</u>	<u>(64)</u>	<u>(247,635)</u>
9,812	-	42,508
-	-	(63,726)
18,304	6	-
<u>28,116</u>	<u>6</u>	<u>(21,218)</u>
-	-	728,762
-	-	(655,778)
<u>-</u>	<u>-</u>	<u>72,984</u>
<u>13</u>	<u>-</u>	<u>38</u>
<u>13</u>	<u>-</u>	<u>38</u>
36,803	(58)	(195,831)
127,012	58	504,264
<u>\$ 163,815</u>	<u>\$ -</u>	<u>\$ 308,433</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, 2014

	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	\$ (390,947)	\$ (83,742)	\$ (29,165)	\$ (7,174)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation	207,805	34,242	68,203	7,174
Changes in assets and liabilities				
Accounts receivable	(72,541)	1,110	(2,007)	(1,528)
Inventory	1,020	156	241	-
Prepaid expenses	(11,165)	(1,997)	(2,388)	-
Accounts payable	32,998	6,800	2,782	1,700
Accrued payroll expenses	-	-	-	(91)
Accrued utilities	(19,428)	-	-	-
Prepaid rent	(1,295)	(2,710)	2,180	(830)
Accrued compensated absences	1,738	265	411	1,703
Tenant deposits	1,192	(579)	(378)	-
<i>Net cash provided (used) by operating activities</i>	<u>\$ (250,623)</u>	<u>\$ (46,455)</u>	<u>\$ 39,879</u>	<u>\$ 954</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>
\$ 8,675	\$ (64)	\$ (502,417)
-	-	317,424
-	-	(74,966)
-	-	1,417
-	-	(15,550)
(4)	-	44,276
-	-	(91)
-	-	(19,428)
-	-	(2,655)
3	-	4,120
-	-	235
<u>\$ 8,674</u>	<u>\$ (64)</u>	<u>\$ (247,635)</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, 2014

Name of Depository/Location of Safekeeper	Description of Pledged Collateral	Maturity	CUSIP No.	Market or Par Value June 30, 2014
Pledged by Bank of Colorado - Pinnacle Bank:				
Federal National Mortgage Association	FNMA 03	6/25/2023	31393DP47	\$ 242,457
	Total Bank of Colorado - Pinnacle Bank Pledged Securities			<u>242,457</u>
	Total pledged securities			<u><u>\$ 242,457</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, 2014

Schedule II

Bank Name/Account Name	Account Type	Bank Balance	Deposits In Transit	Outstanding Checks	Book Balance
US Bank					
Business	Checking	\$ 52,437	\$ -	\$ -	\$ 52,437
Total US Bank		<u>52,437</u>	<u>-</u>	<u>-</u>	<u>52,437</u>
Bank of Colorado - Pinnacle Bank					
Section 8	Checking	164,462	-	647	163,815
Security Deposit	Checking	51,830	-	-	51,830
Operational	Checking	49,961	2,113	11,849	40,225
Total Bank of Colorado - Pinnacle Bank		<u>266,253</u>	<u>2,113</u>	<u>12,496</u>	<u>255,870</u>
Wells Fargo Bank					
Business - Capital Fund	Checking	88	-	-	88
Total Wells Fargo Bank		<u>88</u>	<u>-</u>	<u>-</u>	<u>88</u>
Unreconciled difference in cash		-	-	-	(187)
Petty cash		<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>
Total		<u>\$ 318,778</u>	<u>\$ 2,113</u>	<u>\$ 12,496</u>	<u>\$ 308,433</u>
Cash and cash equivalents per financial statements					
Cash and cash equivalents per Exhibit A-1				\$ 190,417	
Restricted cash and cash equivalents per Exhibit A-1				<u>118,016</u>	
Total cash and cash equivalents					<u>\$ 308,433</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, 2014

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	\$ -	\$ 31,728	\$ 128,170	\$ -
113	Cash - Other Restricted	-	-	-	-
114	Cash - Tenant Security Deposits	<u>36,774</u>	<u>2,684</u>	<u>6,250</u>	<u>-</u>
100	Total Cash	<u>36,774</u>	<u>34,412</u>	<u>134,420</u>	<u>-</u>
	Accounts Receivable - HUD Other				
122	Projects	138,093	-	-	-
125	Accounts Receivable - Miscellaneous	3,602	-	190	1,528
	Accounts Receivable - Tenants -				
126	Dwelling Rents	41,285	311	13,401	-
	Allowance for Doubtful Accounts -				
126.1	Dwelling Rents	<u>(20,416)</u>	<u>-</u>	<u>(1,000)</u>	<u>-</u>
120	Total Receivables, Net of Allowance for Doubtful Accounts	<u>162,564</u>	<u>311</u>	<u>12,591</u>	<u>1,528</u>
142	Prepaid Expenses and Other Assets	16,618	2,971	3,663	-
143	Inventories	63,266	9,666	14,938	-
143.1	Allowance for Obsolete Inventories	<u>(19,643)</u>	<u>(3,001)</u>	<u>(4,638)</u>	<u>-</u>
150	Total Current Assets	<u>259,579</u>	<u>44,359</u>	<u>160,974</u>	<u>1,528</u>
161	Land	1,486,872	75,593	116,825	6,872
162	Buildings	7,896,757	1,116,516	2,374,851	1,548,459
	Furniture, Equipment & Machinery -				
163	Dwellings	225,948	35,661	50,519	-
	Furniture, Equipment & Machinery -				
164	Administration	131,204	16,270	23,505	213,778
166	Accumulated Depreciation	(3,903,273)	(584,984)	(1,276,169)	(1,697,131)
167	Construction in progress	<u>366,398</u>	<u>-</u>	<u>90,295</u>	<u>-</u>
160	Total Capital Assets, Net of Accumulated Depreciation	<u>6,203,906</u>	<u>659,056</u>	<u>1,379,826</u>	<u>71,978</u>
180	Total Non-Current Assets	<u>6,203,906</u>	<u>659,056</u>	<u>1,379,826</u>	<u>71,978</u>
190	Total Assets	<u>\$ 6,463,485</u>	<u>\$ 703,415</u>	<u>\$ 1,540,800</u>	<u>\$ 73,506</u>

See independent auditors' report

Housing Choice Vouchers Program 14.871	Section 8 Moderate Rehabilitation Single Room Occupancy 14.249	Homeless Prevention & Rapid Rehousing 14.257	Total
\$ 51,675	\$ 7,187	\$ -	\$ 218,760
68,730	-	-	68,730
-	-	-	45,708
120,405	7,187	-	333,198
-	-	-	138,093
-	-	-	5,320
-	-	-	54,997
-	-	-	(21,416)
-	-	-	176,994
-	-	-	23,252
-	-	-	87,870
-	-	-	(27,282)
120,405	7,187	-	594,032
-	-	-	1,686,162
-	-	-	12,936,583
-	-	-	312,128
14,802	-	-	399,559
(14,802)	-	-	(7,476,359)
-	-	-	456,693
-	-	-	8,314,766
-	-	-	8,314,766
\$ 120,405	\$ 7,187	\$ -	\$ 8,908,798

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Financial Data Schedule
June 30, 2014

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
311	Bank Overdraft	\$ 19,215	\$ -	\$ -	\$ 5,550
312	Accounts Payable <= 90 Days	44,070	7,778	3,796	2,708
321	Accrued Wage/Payroll Taxes Payable	5,245	852	1,264	5,201
	Accrued Compensated Absences -				
322	Current Portion	304	46	72	162
331	Accounts payable - HUD PHA programs	-	-	-	-
341	Tenant Security Deposits	36,774	2,684	6,250	-
342	Unearned Revenues	2,113	634	457	-
346	Accrued Liabilities - Other	-	-	-	-
310	Total Current Liabilities	<u>107,721</u>	<u>11,994</u>	<u>11,839</u>	<u>13,621</u>
	Accrued Compensated Absences - Non-				
354	Current	<u>4,968</u>	<u>759</u>	<u>1,173</u>	<u>2,653</u>
350	Total Non-Current Liabilities	<u>4,968</u>	<u>759</u>	<u>1,173</u>	<u>2,653</u>
300	Total Liabilities	<u>112,689</u>	<u>12,753</u>	<u>13,012</u>	<u>16,274</u>
508.1	Net investment in capital assets	6,203,906	659,056	1,379,826	71,978
511	Restricted Net Position	-	-	-	-
512.1	Unrestricted Net Position	<u>146,890</u>	<u>31,606</u>	<u>147,962</u>	<u>(14,746)</u>
513	Total Equity/Net Position	<u>6,350,796</u>	<u>690,662</u>	<u>1,527,788</u>	<u>57,232</u>
600	Total Liabilities and Equity/Net Position	<u>\$ 6,463,485</u>	<u>\$ 703,415</u>	<u>\$ 1,540,800</u>	<u>\$ 73,506</u>

See independent auditors' report

Housing Choice Vouchers Program 14.871	Section 8 Moderate Rehabilitation Single Room Occupancy 14.249	Homeless Prevention & Rapid Rehousing 14.257	Total
\$ -	\$ -	\$ -	\$ 24,765
-	-	-	58,352
120	-	-	12,682
16	-	-	600
7	-	-	7
-	-	-	45,708
-	-	-	3,204
-	-	-	-
143	-	-	145,318
265	-	-	9,818
265	-	-	9,818
408	-	-	155,136
-	-	-	8,314,766
68,730	-	-	68,730
51,267	7,187	-	370,166
119,997	7,187	-	8,753,662
\$ 120,405	\$ 7,187	\$ -	\$ 8,908,798

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Financial Data Schedule
June 30, 2014

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	\$ 542,095	\$ 70,229	\$ 78,047	\$ -
70400	Tenant Revenue - Other	13,128	-	-	-
70500	Total Tenant Revenue	555,223	70,229	78,047	-
70600	HUD PHA Operating Grants	413,291	36,002	117,695	-
70610	Capital Grants	-	-	-	-
70800	Other Governmental Grants	-	-	-	-
71100	Investment Income - Unrestricted	16	3	3	3
71400	Fraud Recovery	-	-	2,030	6,000
71500	Other Revenue	24,164	776	7,611	4,464
70000	Total Revenue	992,694	107,010	205,386	10,467
91100	Administrative Salaries	98,868	12,407	14,546	-
91200	Auditing Fees	-	-	-	-
	Employee Benefit Contributions -				
91500	Administrative	54,239	8,289	11,326	-
91600	Office Expenses	26,872	4,905	6,175	-
91700	Legal Expense	3,776	-	-	-
91800	Travel	1,342	246	316	-
91810	Allocated Overhead	137,151	21,552	33,308	-
91900	Other Operating - Administrative	56,803	1,777	1,988	-
91000	Total Operating - Administrative	379,051	49,176	67,659	-
93100	Water	69,659	5,776	718	-
93200	Electricity	91,138	12,214	1,701	-
93300	Gas	85,921	10,905	3,885	-
93600	Sewer	39,045	2,794	452	-
93800	Other Utilities Expense	17,959	982	1,027	-
93000	Total Utilities	303,722	32,671	7,783	-

See independent auditors' report

Public Housing Capital Projects Fund			Housing	Section 8	Homeless	Total
Project 1	Project 2	Project 3	Choice Vouchers	Rehabilitation	Prevention &	
NM006000001	NM006000002	NM006000003	Program	Single Room	Rapid Rehousing	
14.872	14.872	14.872	14.871	Occupancy	14.257	
				14.249		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 690,371
-	-	-	-	-	-	13,128
-	-	-	-	-	-	703,499
3,400	47,223	-	123,709	28,605	-	769,925
587,844	-	90,295	-	-	-	678,139
-	-	-	-	-	-	-
-	-	-	13	-	-	38
-	-	-	-	-	-	8,030
-	-	-	9,812	-	-	46,827
591,244	47,223	90,295	133,534	28,605	-	2,206,458
-	-	-	7,972	3,369	-	137,162
-	-	-	-	-	-	-
-	-	-	2,813	-	-	76,667
-	-	-	-	-	-	37,952
-	-	-	-	-	-	3,776
-	-	-	-	-	-	1,904
-	-	-	3,919	-	-	195,930
3,400	-	-	-	-	64	64,032
3,400	-	-	14,704	3,369	64	517,423
-	-	-	-	-	-	76,153
-	-	-	-	-	-	105,053
-	-	-	-	-	-	100,711
-	-	-	-	-	-	42,291
-	-	-	-	-	-	19,968
-	-	-	-	-	-	344,176

STATE OF NEW MEXICO
 Gallup Housing Authority
 A Component Unit of the City of Gallup
 Financial Data Schedule
 June 30, 2014

Low Rent Public Housing Program

Line Item Number	Description	Low Rent Public Housing Program			
		Project 1 NM006000001 14.850	Project 2 NM006000002 14.850	Project 3 NM006000003 14.850	Other Project 14.850
94100	Ordinary Maintenance & Operation - Labor	143,397	22,793	33,047	-
94200	Ordinary Maintenance & Operation - Materials & Other	176,354	27,717	28,268	-
94300	Ordinary Maintenance & Operation Contracts	55,095	10,905	5,876	-
94500	Employee Benefit Contributions - Ordinary Maintenance	-	-	-	-
94000	Total Maintenance	<u>374,846</u>	<u>61,415</u>	<u>67,191</u>	-
96110	Property Insurance	21,413	3,926	4,996	-
96120	Liability Insurance	24,116	4,424	5,582	-
96130	Workmen's Compensation	7,252	1,330	1,692	-
96140	All Other Insurance	4,766	875	1,011	-
96100	Total Insurance Premiums	<u>57,547</u>	<u>10,555</u>	<u>13,281</u>	-
96210	Compensated Absences	5,450	800	1,090	-
96300	Payment In Lieu of Taxes	-	-	-	-
96400	Bad Debt - Tenant Rents	32,464	1,144	2,779	-
96000	Total Other General	<u>37,914</u>	<u>1,944</u>	<u>3,869</u>	-
96900	Total Operating Expenses	<u>\$ 1,153,080</u>	<u>\$ 155,761</u>	<u>\$ 159,783</u>	<u>\$ -</u>
97000	Excess Operating Revenue Over Operating Expenses	<u>(160,386)</u>	<u>(48,751)</u>	<u>45,603</u>	<u>10,467</u>
97200	Casualty Losses - Non-capitalized	30,000	-	-	-
97300	Housing Assistance Payments	-	-	-	-
97350	HAP Portability-In	-	-	-	-
97400	Depreciation Expense	207,805	34,242	68,203	7,174
97500	Fraud Losses	68,142	-	-	-
90000	Total Expenses	<u>\$ 1,459,027</u>	<u>\$ 190,003</u>	<u>\$ 227,986</u>	<u>\$ 7,174</u>
10010	Operating Transfers In	-	47,223	-	-
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>-</u>	<u>47,223</u>	<u>-</u>	<u>-</u>
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	<u>(466,333)</u>	<u>(35,770)</u>	<u>(22,600)</u>	<u>3,293</u>

See independent auditors' report

Public Housing Capital Projects Fund			Housing	Section 8	Homeless	Total
Project 1	Project 2	Project 3	Choice Vouchers	Rehabilitation	Prevention &	
NM006000001	NM006000002	NM006000003	Program	Single Room	Rapid Rehousing	
14.872	14.872	14.872	14.871	Occupancy	14.257	
				14.249		
-	-	-	-	-	-	199,237
-	-	-	-	-	-	232,339
-	-	-	-	-	-	71,876
-	-	-	-	-	-	-
-	-	-	-	-	-	503,452
-	-	-	-	-	-	30,335
-	-	-	-	-	-	34,122
-	-	-	-	-	-	10,274
-	-	-	-	-	-	6,652
-	-	-	-	-	-	81,383
-	-	-	230	-	-	7,570
-	-	-	-	-	-	-
-	-	-	-	-	-	36,387
-	-	-	230	-	-	43,957
\$ 3,400	\$ -	\$ -	\$ 14,934	\$ 3,369	\$ 64	\$ 1,490,391
587,844	47,223	90,295	118,600	25,236	(64)	716,067
-	-	-	-	-	-	30,000
-	-	-	98,137	18,049	-	116,186
-	-	-	9,150	-	-	9,150
-	-	-	-	-	-	317,424
-	-	-	-	-	-	68,142
\$ 3,400	\$ -	\$ -	\$ 122,221	\$ 21,418	\$ 64	\$ 2,031,293
-	-	-	-	-	-	47,223
-	(47,223)	-	-	-	-	(47,223)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	(47,223)	-	-	-	-	-
587,844	-	90,295	11,313	7,187	(64)	175,165

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Financial Data Schedule
June 30, 2014

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	6,229,285	726,432	1,460,093	53,939
	Ending Equity (deficit)	<u>\$ 5,762,952</u>	<u>\$ 690,662</u>	<u>\$ 1,437,493</u>	<u>\$ 57,232</u>
11190	Unit Months Available	<u>2,304</u>	<u>348</u>	<u>552</u>	<u>-</u>
11210	Number of Unit Months Leased	<u>2,113</u>	<u>320</u>	<u>506</u>	<u>-</u>
11620	Building Purchases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	Housing Choice Vouchers Program 14.249	Homeless Prevention & Rapid Rehousing 14.257	Total
-	-	-	108,684	-	64	8,578,497
\$ 587,844	\$ -	\$ 90,295	\$ 119,997	\$ 7,187	\$ -	\$ 8,753,662
-	-	-	-	-	-	3,204
-	-	-	-	-	-	2,939
\$ 587,844	\$ -	\$ 90,295	\$ -	\$ -	\$ -	\$ 678,139

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Gallup Housing Authority (the "Authority"), a component unit of the City of Gallup, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 28, 2014.

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 opinions 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 significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FSHA 2012-001, FSHA 2012-002, FSHA 2012-004, FSHA 2012-012, and FSHA 2013-001 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 deficiencies described in the accompanying schedule of findings and questioned costs as items FSHA 2008-007, FSHA 2012-003, FSHA 2012-007, FSHA 2012-011, and FSHA 2014-004 to be significant deficiencies.

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 2012-001, FSHA 2012-004, FSHA 2012-005, FSHA 2012-008, FSHA 2012-009, FSHA 2012-010, FSHA 2014-001, FSHA 2014-002, and FSHA 2014-003.

The Authority's Response 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 results 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, NM
November 28, 2014

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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 the Board of Directors
Gallup Housing Authority
Gallup, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Gallup Housing Authority's (the "Authority"), a component unit of the City of Gallup, 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, 2014. The Authority's major federal programs are identified in the summary of auditors' 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 each 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 and on CFDA 14.872 Public Housing Capital Fund

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 2012-003 for Equipment and Real Property Management; FAHA 2012-004 for Reporting; and FAHA 2012-005 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 and on CFDA 14.872 Public Housing Capital Fund

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, 2014.

Other Matters

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

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FAHA 2012-002, FAHA 2012-003, FAHA 2012-004, FAHA 2012-005, and FAHA 2013-001 to be material weaknesses.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 28, 2014

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, 2014

Schedule IV

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number		Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Direct Programs:</i>			
Public and Indian Housing	14.850	*	\$ 1,786,048
Total Public and Indian Housing			<u>1,786,048</u>
Section 8 Housing Choice Vouchers	14.871		129,408
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249		<u>21,418</u>
Public Housing Capital Fund	14.872		653,869
Total Public Housing Capital Fund		*	<u>653,869</u>
<i>Total U.S. Department of Housing and Urban Development - Direct Programs</i>			<u>\$ 2,590,743</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 2,590,743</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,590,743</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	\$ 2,590,743
Total expenditures funded by other sources	<u>64,419</u>
Total expenditures	<u><u>\$ 2,655,162</u></u>

See independent auditors' report
 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
 Schedule of Findings and Questioned Costs
 June 30, 2014

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? | No |
| 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: | |

CFDA Number	Federal Program
14.850	Public and Indian Housing
14.872	Public Housing Capital Fund

- | | |
|---|-----------|
| 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, 2014

Schedule V
Page 2 of 23

SECTION II – PRIOR YEAR AUDIT FINDINGS

FSHA 2008-007 (FSHA 08-07) Internal Control over Financial Reporting – Material Weakness – Repeated and Modified

FSHA 2012-001 (FSHA 12-01) Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/ Noncompliance – Repeated and Modified

FSHA 2012-002 (FSHA 12-02) Internal Controls/Segregation of Duties – Material Weakness – Repeated

FSHA 2012-003 (FSHA 12-03) Internal Control Deviations – Disbursements – Material Weakness – Repeated and Modified

FSHA 2012-004 (FSHA 12-04) Capital Assets Listing – Material Weakness/Material Noncompliance – Repeated and Modified

FSHA 2012-005 (FSHA 12-05) RHC Reports and the General Ledger – Other Matter – Repeated and Modified

FSHA 12-06 Incomplete Trial Balance – Material Weakness – Resolved

FSHA 2012-007 (FSHA 12-07) Internal Control Deficiencies – Payroll – Material Weakness – Repeated and Modified

FSHA 2012-008 (FSHA 12-08) Noncompliance with Procurement Code – Noncompliance – Repeated and Modified

FSHA 2012-009 (FSHA 12-09) Cash Deposits not Made Timely – Other Matter – Repeated and Modified

FSHA 2012-010 (FSHA 12-10) Stale Dated Transactions Not Cancelled – Noncompliance – Repeated and Modified

FSHA 2012-011 (FSHA 12-11) Inventories – Material Weakness – Repeated and Modified

FSHA 2012-012 (FSHA 12-12) Inadequate Review of Manual Journal Entries – Material Weakness – Repeated

FSHA 2012-014 (FSHA 12-14) Violations of Open Meetings Act – Noncompliance – Resolved

FSHA 2012-015 (FSHA 12-15) Procurement Code (Related Parties) – Significant Deficiency – Resolved

FSHA 2013-001 (FSHA 13-01) Tenant Rent Receivables and Prepaid Rents – Material Weakness – Repeated and Modified

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

FAHA 2012-002 (FAHA 12-02) Deficiencies in Internal Control Structure Design, Operation and Oversight – Mechanisms to Identify Risks of Inaccurate Financial Reporting – Material Weakness – Repeated

FAHA 2012-003 (FAHA 12-03) Deficiencies in Internal Control Structure Design, Operation and Oversight – Tracking Property and Equipment Purchased with Federal Award Funds – Material Weakness/ Noncompliance – Repeated

FAHA 2012-004 (FAHA 12-04) Reporting – Noncompliance – Repeated and Modified

FAHA 2012-005 (FAHA 12-05) Circular A-87 Cost Principles and Allowable Activities – Material Weakness/Noncompliance – Repeated and Modified

FAHA 2013-001 (FAHA 13-01) Lack of Proper Documentation in Tenant Files – Material Weakness/ Noncompliance – Repeated and Modified

SECTION III – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FSHA 2008-007 (FSHA 08-07) Internal Control Over Financial Reporting – Significant Deficiency – Repeated and Modified

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' Auditing Standards Section 325, 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 Authority has replaced the Accounting staff person with a higher qualified staff person and also retained the services of an outside Fee Accountant to assist GHA in this matter.

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

FSHA 2012-001 (FSHA 12-01) Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/Noncompliance – Repeated and Modified

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 employees of the Authority; however at June 30, 2014 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 approx. \$34,016 in fraudulent rent adjustments and approx. \$29,917 in voided rent payments, for an approximate total of \$63,726 in fraudulent activity.
- 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 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 5 out of 5 cash receipts transactions totaling \$1,345; the supporting documentation was not accompanied by a validated deposit receipt.
- 1 of the 5 cash receipts selected for testing totaling \$436; all supporting documentation was missing.
- The board of the Authority is not properly authorizing minutes of meetings.

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

FSHA 2012-001 (FSHA 12-01) Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/Noncompliance (continued)

- The Authority did not properly file an accurate unaudited Financial Data Schedule. The submission did not tie to the unaudited trial balance, and included errors related to cash, expenses, capital assets, and fund balance.
- The Authority did not properly certify capital assets at year end.
- The Authority did not properly reconcile CFP funds at year end.
- The Authority did not properly track deletions in current year, and was unable to provide proper documentation related to a salvaged vehicle in the amount of \$30,000 at year end.

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 (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 Auditing Standards (AU) Section 325 Exhibit B lists the following circumstance as a possible control deficiency, significant deficiency, or material weakness: “inadequate documentation of the components of internal control.” Auditing Standards Section 325 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 2014 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 AU Section 325 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: Lack of qualified and ethical staff in executive management, accounting and program management resulted in horrendous neglect in this area. The current board has hired and experienced Executive Director with a stronger financial and ethical background. Four of five key management staff have been replace with higher qualified staff who have a strong understanding for the need to follow existing policies and procedures. GHA hired a Fee Account to assist with year-end closing and will be retained to provide TA in developing the required Financial policies and procedures to insure internal control over financial reporting.

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

FSHA 2012-002 (FSHA 12-02) Internal Controls/Segregation of Duties – Material Weakness - Repeated

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: Lack of qualified and ethical staff in executive management, accounting and program management resulted in horrendous neglect in this area. The current board has hired and experienced Executive Director with a stronger financial and ethical background. Four of five key management staff have been replaced with higher qualified staff who have a strong understanding for the need to follow existing policies and procedures. GHA hired a Fee Accountant to assist with year-end closing and will be retained to provide TA in developing the required Financial policies and procedures to insure internal control over financial reporting. In addition steps have already been taken to institute segregation of duties and higher review and approval of financial transactions.

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

FSHA 2012-003 (FSHA 12-03) Internal Control Deviations – Disbursements – Significant Deficiency – Repeated and Modified

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

- In 3 disbursements totaling \$2,563 out of 8 disbursements tested totaling \$7,466, 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 prior Accounting staff issued purchase orders without Executive Director review and approval for all staff and departmental purchases. That staff person has left GHA and been replace with a new Accounting Staff person who has drafted procedures proper processing of purchase order by the requesting department or program and will not issue a purchase unless the Executive Director has review and signed the purchase order.

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

FSHA 2012-004 (FSHA 12-04) Capital Assets Listing – Material Weakness/ Noncompliance – Repeated and Modified

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

- The Authority did not perform an annual inventory of capital assets in a timely manner.
- The Authority does not have a proper tracking system implemented when removing items from and adding items to the capital asset inventory.
- The Authority did not have proper internal controls in place to monitor capital asset additions during the year.

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. Per section 2.20.1.18 of NMAC, appropriate entries must be made in the financial accounts to reflect the disposition of property. 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.

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: Lack of qualified and trained staff resulted in no oversight of this area. GHA housing authority has completed its capital assets inventory and corrected records to better reflect an accurate balance with the help of a Fee Accountant. Going forward GHA will continue to clean up records and procedures will be put in place to make sure proper recording of capital assets of \$5,000 or more are placed in inventory and properly depreciated. A higher qualified staff person has been hired who will be trained on how to make required entries and maintain inventory thereafter.

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

FSHA 2012-005 (FSHA 12-05) RHC Reports and the General Ledger – Other Matter – Repeated and Modified

Condition: The amount reported in the general ledger for employer's contribution to Retiree Health Care of \$6,045 does not tie to the reported expense of \$8,259 resulting in a difference of \$2,214.

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: This matter apparently needs to be researched as a possible software issue. In addition monthly reconciliation will be institute to keep GL in balance with expense ledger.

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

FSHA 2012-007 (FSHA 12-07) Internal Control Deficiencies – Payroll – Significant Deficiency – Repeated and Modified

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

- Time sheet for 1 out 10 reviewed was missing
- Check copy for 1 out of 10 requiring two signatures was missing

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 2014 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 Accounting prepared and issued payroll and made additional payroll related payments without any review by executive management. That staff person has left GHA and been replaced with higher qualified individual who has followed proper procedures with regard to signatures on timesheets, review and approval of payroll. A policy and procedure still needs to be developed to cover periodic review of records to maintain integrity of the payroll process.

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

FSHA 2012-008 (FSHA 12-08) Noncompliance with Procurement Code – Noncompliance – Repeated and Modified

Condition: During our test work regarding compliance with the NM Procurement Code, we noted that the Authority failed to advertise the bid 10 days prior to opening

Criteria: Per the New Mexico Procurement Code, Section 13-1-104, NMSA 1978, an invitation for bids or notice thereof shall be published not less than ten calendar days prior to the date set forth for the opening of the bids.

Effect: The Authority did not comply with the Procurement Code requirement to solicit for bids in published newspaper of general circulation prior to opening the bids.

Cause: The Authority was aware of the requirement and has this in the policy and procedures of the Authority, however the Authority's personnel did not follow these procedures.

Auditors' Recommendations: We recommend that the Authority make all employees involved in procurement to be aware of requirements set forth in the procurement code as well as the Authority's policy and procedure manual.

Agency's Response: The previous Accounting prepared and issued payroll and made additional payroll related payments without any review by executive management. That staff person has left GHA and been replaced with higher qualified individual who has followed proper procedures with regard to signatures on timesheets, review and approval of payroll. A policy and procedure still needs to be developed to cover periodic review of records to maintain integrity of the payroll process. Further, GHA will send appropriate staff to procurement code training to insure staff know the code. And, GHA will update its procurement manual to use as a guide for procurement activities.

FSHA 2012-009 (FSHA 12-09) Cash Deposits not Made Timely – Other Matter – Repeated and Modified

Condition: During testwork performed over cash receipts 5 out of 5 receipts tested totaling \$1,345 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: (No response given by agency)

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

FSHA 2012-010 (FSHA 12-10) Stale Dated Transactions Not Cancelled – Noncompliance – Repeated and Modified

Condition: The Authority is in violation of state statutes regarding stale-dated checks. The Authority maintained one check totaling \$75 and two deposits totaling \$381 on its bank reconciliations that were dated over one year old at June 30, 2014.

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: A review of items will be conducted and recommendations of the Auditors will be followed. The process of review will be built into the bank statement recon process.

FSHA 2012-011 (FSHA 12-11) Inventories – Significant Deficiency - Repeated and Modified

Condition: During our walkthrough and testwork of inventory, we noted the following deficiencies:

- The Authority annual supply inventory was not performed in a timely manner.
- Lack of proper tracking system implemented for items removed from supply inventory.

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 supply inventory they have on hand in case of an emergency.

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: We recommend the Authority properly train employees on the importance of timely accurate supply inventory counts as well as identify and implement a proper tracking system for supply inventory usage.

Agency's Response: First, new Executive Management and the Accounting staff clearly understand that lack of up-to-date materials inventory was the major cause the previous embezzlement by the former Executive Director who was indicated and eventually plead guilty. The materials inventory was completed this year while Auditors were on site. A system for tracking of additions and deletions have been put in place. GHA has to work with the software vendor to do a mass update and then those records will be maintained thereafter by a newly hired Maintenance/Capital Projects Director.

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

FSHA 2012-012 (FSHA 12-12) Inadequate Review of Manual Journal Entries – Material Weakness - Repeated

Condition: During the 2014 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: A second review of all JE has been instituted.

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

FSHA 2013-001 (FSHA 13-01) Tenant Rent Receivables and Prepaid Rents – Material Weakness – Repeated and Modified

Condition: During testwork, we noted instances of fraud and illegal acts allegedly perpetrated by a previous employee of the Authority. Testwork revealed approximately \$34,016 in fraudulent rent adjustments and approximately \$29,917 in voided rent payments for a total of approximately \$63,726 in fraudulent and illegal acts.

Criteria: *The Codification of Statements on Auditing Standards* (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. The Authority has also 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 internal controls to segregate duties between the person collecting rent payments and the person in charge of the rent ledger/roll as to prevent the same person from collecting and adjusting rent balances. We also recommend that a member of management review these periodically.

Agency's Response: First and foremost the front desk clerk who took payments was stealing rents and altering records to cover. In addition, the person was rigging rents for friends and family. This person was caught and terminated and the matter has been referred to proper authorities for possible prosecution. Now procedures have been set in place where adjustments in rent can be made without a second level and approval. A procedure has been set in place to segregate duties on process of rent receipt deposits and deposits are made at minimum twice weekly. A new front desk person with higher ethical standards has been hired to guard against fraud and embezzlement in this area. In addition a process of review monthly rental registers, payments received and deposits made is being instituted and the Executive Director right now performs that review.

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

FSHA 2014-001 Travel and Per Diem – Noncompliance

Condition: During testwork over travel and per diem, we noted that 1 out of 6 transactions tested, the Authority over paid for actual mileage reimbursement by using a reimbursement rate of \$.56 per mile rather than \$.55 per mile.

Criteria: NMAC 2.2.10 G (2) requires the Authority to comply with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-8, for all per diem and reimbursement rates.

Effect: The risk that the Authority may be overpaying monies for reimbursements using public funds.

Cause: The noncompliance was due to an oversight by management during the travel internal control process.

Auditors' Recommendation: We recommend the Authority review the Per Diem and Mileage Act to ensure policies and procedures are in line with the requirements when paying per diem and travel reimbursements.

Agency's Response: This matter has been corrected. The Accounting staff will also insure all staff understand the Travel and Per Diem reimbursement requirements.

FSHA 2014-002 – PERA Reports and the General Ledger – Other Matter

Condition: The amount in the general ledger for employer's contribution to PERA of \$1,638 does not tie to the reported expense of \$1,825 resulting in a difference of \$187.

Criteria: Per NMSA 1978, 10-11-3, unless specifically excluded, each employee and elected official of every affiliated public employer shall be a member of the association (PERA). As well as NMSA 1978, 10-11-2 U, contributions should be calculated based on employees' base salary or pay, excluding overtime, and should be remitted to PERA on a timely basis. PERA contributions should be reconciled to the PERA contribution summary.

Effect: The amount of PERA 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 PERA reports to the General Ledger.

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

Agency's Response: A process of reconciling amounts has been implemented and further the periodic review of the payroll process will be a secondary check on this matter.

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

FSHA 2014-003 – Personal Use of Housing Authority Vehicle – Other Matter

Condition: The Authority does not add a fringe benefit amount to an employee's W-2 form for use of a Housing Authority owned vehicle which results in underreporting of employee income and employee tax liability

Criteria: Per Internal Revenue Regulation 1.61-21, Taxation of Fringe Benefits, the Internal Revenue Code requires that any personal use of a District vehicle be reported on the employee's W-2 form unless it is a qualified vehicle or employee. To be a qualified vehicle, it must be a vehicle modified for specific use or the employee must have arrest powers and the right to be armed.

Effect: The Authority is not complying with the IRS regulations regarding personal use of a company vehicle. This could result in possible fines or other penalties from the IRS.

Cause: The Authority allows four maintenance employees to drive a Housing Authority-owned vehicle home overnight and does not include a fringe benefit for such use on his/her W-2.

Auditors' Recommendations: We recommend the Authority develop policies and procedures regarding the personal use of vehicles. The policy needs to address the method to value personal use, which employee is eligible to drive a vehicle home, other than commuting, no other personal use should be permitted and the means to add the personal use to the employee's income.

Agency's Response: This Accounting staff person will research and impose as required by law.

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

FSHA 2014-004 – Bank Reconciliation – Significant Deficiency

Condition: During our testwork, we noted the following:

- For the year ended June 30, 2014, the Authority's Security Deposit Account general ledger and cash reconciliation reports did not tie. The general ledger reported \$51,260 and the cash reconciliation reports reported \$51,830 for a difference of \$570.
- For the year ended June 30, 2014, the Authority's New CFA Account general ledger and cash report did not tie. The general ledger reported \$100 and the cash reconciliation report reported \$87 for a difference of \$13.
- Bank Reconciliations were not being reviewed throughout the year.

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.

Effect: The Authority is not maintaining adequate controls over cash to safeguard cash and provide prompt and accurate reporting.

Cause: The Authority was unable to reconcile cash accurately.

Auditor's Recommendation: We recommend the Authority establish internal controls over cash which requires bank reconciliations to be reviewed by a person other than the person that prepares the reconciliation. As well as, establish procedures to ensure cash reconciliations tie to the general ledger throughout the year.

Agency's Response: The previous Accounting staff performed this process without any oversight. The new procedure is the Executive Director performs the bank recs and the Accounting staff person reviews and then files.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FAHA 2012-002 (FAHA12-02) Deficiencies in Internal Control Structure Design, Operation and Oversight – Mechanisms to Identify Risks of Inaccurate Financial Reporting – Material Weakness - Repeated

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing and Public Housing Capital Fund
CFDA Number: 14.850 and 14.872

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. Copies of certain reports filed were not made available to the auditors for review.

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 and that copies of reports filed be maintained for review.

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 2014 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: Lack of qualified and ethical staff in executive management, accounting and program management resulted in horrendous neglect in this area. The current board has hired and experienced Executive Director with a stronger financial and ethical background. Four of five key management staff have been replaced with higher qualified staff who have a strong understanding for the need to follow existing policies and procedures. GHA hired a Fee Account to assist with year-end closing and will be retained to provide TA in developing the required Financial policies and procedures to insure internal control over financial reporting. In addition GHA will further seek a Risk Assessment from a certified accountant annual until such time GHA is out of the hot water.

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

FAHA 2012-003 (FAHA 12-03) Deficiencies in Internal Control Structure Design, Operation and Oversight – Tracking Property and Equipment Purchased with Federal Award Funds – Material Weakness/ Noncompliance - Repeated

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing and Public Housing Capital Fund
CFDA Number: 14.850 and 14.872

Condition: During FY 2014, 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 2014 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: Lack of qualified and trained staff resulted in no oversight of this area. GHA housing authority has completed its capital assets inventory and corrected records to better reflect an accurate balance with the help of a Fee Accountant. Going forward GHA will continue to clean up records and procedures will be put in place to make sure proper recording of capital assets of \$5,000 or more are placed in inventory and properly depreciated. A higher qualified staff person has been hired who will be trained on how to make required entries and maintain inventory thereafter.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Schedule of Findings and Questioned Costs
June 30, 2014

Schedule V
Page 20 of 23

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

FAHA 2012-004 (FAHA 12-04) Reporting – Material Weakness – Repeated and Modified

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing and Public Housing Capital Fund
CFDA Number: 14.850 and 14.872

Condition: The auditors were unable to verify whether the Form HUD 6002 was filed timely for the year ended June 30, 2014, or review the Forms HUD-52723 or HUD-52725 for accuracy, timeliness, and compliance with program requirements.

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) within 10 days of the end of the project (or the program year), and must timely submit Forms HUD 52723 and HUD 52725. To ensure that management and the governing body have sufficient information to adequately operate and monitor the operations of the Authority's federal programs, copies of all reports filed must be retained and available for review.

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 ensure compliance with program requirements.

Cause: For the fiscal year 2014 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 reporting requirements and retention of proper documentation for all required reports.. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Agency's Response: The new Executive Director, Accounting Staff and Public Housing manager all have a clear understanding of federal reporting requirements. The HUD Alb. Office has offered and conducted training to aid in making sure scheduled reports and deadlines are met in a timely manner.

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

FAHA 2012-005 (FAHA 12-05) Circular A-87 Cost Principles and Allowable Activities – Material Weakness/Noncompliance - Repeated

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development
Title: Public and Indian Housing and Public Housing Capital Fund
CFDA Number: 14.850 and 14.872

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 new Executive Director and new key staff have a better understanding of the application of A-87. To make sure all key staff will attend any training offered regarding such federal grant requirements to get up to date on the requirements.

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

FAHA 2013-001 (FAHA 13-01) Lack of Proper Documentation in Tenant Files – Material Weakness/ Noncompliance – Repeated and Modified

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 60 tenant files we noted the following:

- In two instances, the application for voluntary update is not signed, although the recertification paperwork is signed.
- In one instance, policies that zero-income tenants must recertify every 90 days were not followed. The zero-income tenant was recertified annually.
- In one instance, one of the adults living in the household did not sign the recertification application.
- In one instance the recertification application was not signed by the tenant.
- In five instances, the income used in the HUD-50058 does not match supporting documentation.
- In three instances, there is no supporting documentation for income used in the HUD-50058, and no follow-up on indication of additional income disclosed by the tenant.
- In one instance, tenant disclosed that they own a savings account. The value of this asset was not documented.
- In six instances, deductions from income were taken on the HUD-50058 without supporting documentation.
- In fourteen instances, payments recorded do not match rent amounts. Rent due from tenants does not reconcile to the general ledger; payments recorded in the tenant files do not match those recorded in the general ledger. Payments voided in the general ledger do not match missed payments in the tenant files.
- In one instance, a tenant was served with an eviction notice for nonpayment of rent. The tenant did not pay the full amount due and was not evicted. There was no documentation of alternative payment arrangements made.
- In one instance, the tenant file includes a complaint from a neighbor that unauthorized individuals are staying at the property and that illegal drug use is occurring in the tenant's residence. There is no documentation of investigation or follow-up on the allegations.
- In one instance, the Form 50058 was not completed prior to move-in, and a W-2 was included in income despite tenant's statement that no one in the household was working. This resulted in overcharged rent.
- In one instance, a storage unit was included on the tenant-occupied unit listing.
- In one instance, a family bypassed the waiting list to receive housing less than one month after application.

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. The Housing Authority must establish and comply with policies in regards to its treatment of the Public Housing Waiting List. In addition, good accounting, program income, and cash management requires that rental income be properly collected, secured, recorded, and that tenant rent receivables be reconcilable to the general ledger control account.

Questioned Costs: \$6,531.02

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. The Housing Authority is at risk for fraud or misappropriation of its assets due to a lack of controls over the receipt and recording of rental income.

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

FAHA 2013-001 (FAHA 13-01) Lack of Proper Documentation in Tenant Files – Material Weakness/ Noncompliance – Repeated and Modified (continued)

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, that Forms HUD-50058 were accurate, that rent calculations were accurate, that waiting list policies were adhered to, that rent was being properly collected and recorded, or that tenant files were complete.

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

Agency's Response: Clearly previous Executive Management and Program Management staff did not following existing policies and procedures. The corporate culture was one of incompetence and neglect. Clearly ethical behavior was not a high priority. The new Executive Management, Accounting and Program management staff are actively cleaning up the problems in this area. All staff are being held accountable for compliance issues and non-compliance will not be tolerated as in the past. In addition, a policy and procedure will be put in place for "peer file" review and/or requesting that the HUD Alb. Office sent a staff person annual to conduct a review of a significant sample of tenant files as well as Section 8 files.

STATE OF NEW MEXICO
Gallup Housing Authority
A Component Unit of the City of Gallup
Other Disclosures
June 30, 2014

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 December 1, 2014. The following individuals were in attendance.

Gallup Housing Authority
Alfred Abeita, Sr, Chairperson
Maryann Ustick, City of Gallup Manager
Richard Kontz, Executive Director

Accounting and Consulting Group, LLP- via telephone
Robert Gonzales, Supervisor