



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

**STATE OF NEW MEXICO**

**REGION I HOUSING AUTHORITY,  
NEW MEXICO, INC.**

**FINANCIAL STATEMENTS  
Fiscal Years Ended December 31, 2006 and 2007**

**(With Independent Auditor's Report Thereon)**

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
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DECEMBER 31, 2006 AND 2007

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STATE OF NEW MEXICO  
REGIONAL HOUSING AUTHORITY OF REGION I  
OFFICIAL ROSTER  
DECEMBER 31, 2006 AND 2007

<u>Board of Commissioners</u>	<u>Position</u>
Charles Esparza	Chairman
Jeff Logue	Vice Chairman
Elisa Bro	Secretary/Treasurer
Cordelia Trimble	Member
Nancy Eaves	Member
Paul McCollum	Member
Malcolm Bowekaty	Member
 <u>Administrative Staff</u>	
Carmen B. Morin	Executive Director



## **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

### INDEPENDENT AUDITOR'S REPORT

Executive Director and Board of Commissioners  
Region I Housing Authority, New Mexico, Inc.  
809 Copper Street NW  
Albuquerque, New Mexico 87102

We were engaged to audit the accompanying financial statements of the business-type activities of the Region I Housing Authority, New Mexico, Inc. (Region I) as of and for the fiscal year ended December 31, 2006 and 2007, which collectively comprise Region I's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Region I's management.

The scope of our audit of Region I was severely limited due to the lack of numerous accounting records for the fiscal years ended December 31, 2006 and 2007. No records were available for accounts payable or accrued payroll liabilities. Also, a large percentage of the cash disbursement and expenditure documentation was missing.

Because of the significance of the matters discussed in the preceding paragraph, we are unable to express, and do not express an opinion on the financial statements of the business-type activities of Region I.

The accompanying financial statements referred to above have been prepared assuming Region I will continue as a going concern. As further discussed in Notes IV, C and D to the financial statements, Region I incurred a net loss for the year ended December 31, 2006 of \$172,431 and has a deficit net asset balance of \$268,365 as of December 31, 2007. Region I's corporation license was revoked on July 14, 2008. These conditions raise substantial doubt about Region I's ability to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Region I has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008 on our consideration of the Region I's internal control over financial reporting and 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 audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR  
December 9, 2008

**State of New Mexico**  
**Region I Housing Authority, New Mexico, Inc.**  
**Statement of Net Assets**  
**Enterprise Fund**  
**December 31, 2006 and 2007**

Exhibit 1

	<u>2006</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ -	\$ -
Due from HEI	78,092	78,092
Total Current Assets	<u>78,092</u>	<u>78,092</u>
Noncurrent Assets:		
Capital Assets:		
Equipment	-	-
Less accumulated depreciation	-	-
Total Noncurrent Assets	<u>-</u>	<u>-</u>
Total Assets	<u>78,092</u>	<u>78,092</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accrued payroll liabilities	-	-
Due to Region III	346,457	346,457
Total Liabilities	<u>346,457</u>	<u>346,457</u>
<b>NET ASSETS:</b>		
Unrestricted (Deficit)	<u>(268,365)</u>	<u>(268,365)</u>
Total Net Assets	<u>\$ (268,365)</u>	<u>\$ (268,365)</u>

The notes to the financial statements are an integral part of these statements.

**State of New Mexico**  
**Region I Housing Authority, New Mexico, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Enterprise Fund**  
**For the Years Ended December 31, 2006 and 2007**

Exhibit 2

	<u>2006</u>	<u>2007</u>
Operating Revenues:		
Reimbursement	\$ 4,362	\$ -
Credit Report fees	2,310	
Transfer from HEI	1,524	
Affordable Housing-City of Gallup	10,000	-
Seminars-Farmington	4,000	-
Total Operating Revenues	<u>22,196</u>	<u>-</u>
Operating Expenses:		
General and Administrative	<u>189,128</u>	<u>-</u>
Total Operating Expenses	<u>189,128</u>	<u>-</u>
Operating Income/(Loss)	(166,932)	-
Capital Assets Transfer	<u>(5,499)</u>	<u>-</u>
Change in Net Assets	(172,431)	-
Total Net Assets-Beginning	<u>(95,934)</u>	<u>(268,365)</u>
Total Net Assets-Ending	<u>\$ (268,365)</u>	<u>\$ (268,365)</u>

The notes to the financial statements are an integral part of these statements.

State of New Mexico  
Region I Housing Authority, New Mexico, Inc.  
Statement of Cash Flows  
Enterprise Fund  
For the Years Ended December 31, 2006 and 2007

Exhibit 3

	<u>2006</u>	<u>2007</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from sales or services	\$ 22,196	\$ -
Payments to suppliers and to and on behalf of employees	(176,040)	-
Net Cash (Used) By Operating Activities	<u>(153,844)</u>	<u>-</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Proceeds from other agencies	<u>172,503</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Grant for capital assets		
Investment in Real Estate	<u>(21,102)</u>	<u>-</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(21,102)</u>	<u>-</u>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<u>(2,443)</u>	<u>-</u>
<b>Balances-Beginning of the Year</b>	<u>2,443</u>	<u>-</u>
<b>Balances-End of the Year</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating (Loss)	\$ (166,932)	\$ -
Adjustments to Reconcile Operating (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation expense	1,061	-
Change in assets and liabilities:		
Real Estate Improvements	(21,102)	-
Accrued Payroll Liabilities	(220)	-
Due to Region III	12,247	-
Transfer of properties	(56,990)	-
Due from HEI	<u>78,092</u>	<u>-</u>
<b>Net Cash (Used) by Operating Activities</b>	<u>\$ (153,844)</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.



STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

**I. Summary of Significant Accounting Policies**

**A. General**

The Region I Housing Authority, New Mexico, Inc. (Region I) was created pursuant to New Mexico Regional Housing Law, Section 11-3A-1 NMSA 1978, and exists to provide decent, safe and sanitary housing for lower income residents of Cibola, McKinley and San Juan Counties. The Region I also assists other organizations and units of local government to operate, manage and administer housing programs and projects to achieve this objective. The Region I commenced operations on June 11, 2003. They were incorporated as a New Mexico non-profit on July 14, 2005. However, Region I's corporation license was revoked on July 14, 2008.

**B. Reporting Entity**

Region I's basic financial statements include the accounts of all Region I operations. The criteria for including organizations as component units within Region I's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting*, includes whether:

- The organization is legally separate (can sue and be sued in their own name);
- Region I holds the corporate powers of the organization;
- Region I appoints a voting majority of the organization's board;
- Region I is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on Region I; and
- There is fiscal dependency by the organization on Region I.

Based on the aforementioned criteria, Region I has no component units.

**C. Financial Statements**

Proprietary Fund Types - The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial statements have neither fiduciary funds nor component units that are fiduciary in nature.

Region I applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
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Region I net assets consists of invested in capital assets, net of related debt and unrestricted assets (deficit). Invested in capital assets net of related debt, which is the cost of capital assets, net of accumulated depreciation, unrestricted net assets, and restricted net assets - wherein the constraints are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The proprietary fund utilizes an "economic resources" measurement focus. The proprietary fund is an enterprise fund. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating revenues are recognized as revenues in the year for which they are earned. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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 Region I are housing seminars and credit report fees. Operating expenses 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.

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

**E. Assets and Liabilities**

**1. Cash**

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

**2. Accounts Payable**

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

Due to the lack of adequate documentation, accounts payable could not be determined for fiscal years 2006 and 2007. There was no record of invoices, vouchers, or any other purchase documentation for these years.

**3. Capital Assets**

Capital assets with a value or cost greater than \$1,000 are accounted for as capital assets. For assets acquired after June 17, 2005, the capitalization limit was raised to \$5,000. Capital assets are defined by the Region I as assets with a useful life of at least one year. These assets are recorded at cost. Depreciation is provided over the assets estimated useful life using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Furniture & equipment	5 years
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**4. Compensated Absences**

Vested or accumulated leave with pay is reported as an expenditure and a fund liability of the enterprise funds. A salaried employee is able to accrue up to ten days a year of accumulated leave. Accumulated leave may be accrued up to a maximum of 30 days. As of December 31, 2006 and 2007, no balance of accrued annual leave with pay existed, therefore, no liability has been recorded.

**5. Cash Flows**

For the purpose of the statement of cash flows, Region I considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

**6. Revenues**

Operating revenues are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Operating revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including interest and contributions, are presented as non-operating revenues.

**F. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Budgets are to be prepared by Region I management and approved by the Board of Commissioners. Budgets should have been required by DFA-Local Government Division. No budgets were prepared for the years ended December 31, 2006 and 2007.

**III. Detailed Notes on all Funds**

**A. Cash**

As of December 31, 2006 and 2007, cash consists of demand deposits of which the balance is \$0.

*Custodial credit risk* is the risk in the event of a bank failure of the counterparty, Region I will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Region I cash balances are not exposed to custodial credit risk. All deposits are covered by the Federal Deposit Insurance Corporation.

**B. Accounts Receivable**

Accounts receivable consisted of amounts due for service fees and other amounts paid on behalf of other housing authorities.

**C. Capital Assets**

Capital asset activity for the year ended December 31, 2006 and 2007 were as follows:

Description	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Business Type-Activities:				
Equipment	\$ 7,070	\$ -	\$ (7,070)	\$ -
Totals at historical cost	<u>7,070</u>	<u>-</u>	<u>(7,070)</u>	<u>-</u>
Less: Accumulated depreciation				
Equipment	(510)	(1,061)	1,571	-
Total accumulated depreciation	<u>(510)</u>	<u>(1,061)</u>	<u>1,571</u>	<u>-</u>
Net capital assets	<u>\$ 6,560</u>	<u>\$ (1,061)</u>	<u>\$ (5,499)</u>	<u>\$ -</u>

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REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

Description	Balance 12/31/06	Additions	Deletions	Balance 12/31/07
Business Type-Activities:				
Equipment	\$ -	\$ -	\$ -	\$ -
Totals at historical cost	-	-	-	-
Less: Accumulated depreciation				
Equipment	-	-	-	-
Total accumulated depreciation	-	-	-	-
Net capital assets	\$ -	\$ -	\$ -	\$ -

Capital assets were transferred to a non-profit organization, Neighborhood Housing Services Incorporated, when Region I was dissolved.

**D. Land Held for Sale**

In 2005, Region I received a land donation from the City of Gallup for the purpose of building homes for qualifying buyers. Region I was able to finance the construction of homes on the property through the receipt of bond money from Housing Enterprises, Inc. (HEI), a non-profit corporation created by Region III Housing Authority, New Mexico, Inc. (Region III). The bonds, a Series 2003 Bond in the amount of \$2,500,000 and a Series 2004 Bond in the amount of \$2,500,000, were issued by Region III in 2003 and 2004 to finance the acquisition and rehabilitation of properties for sale to low-income persons. The New Mexico State Investment Council (SIC) purchased the bonds in July 2003 and April 2004. Region I used the bond money to build three homes on the donated property: 1012 East Hills, 1010 East Hills and 1008 East Hills in Gallup, New Mexico.

In June 2006, Region III defaulted on the Series 2003 Bond by failing to repay the principal amount by the maturity date. Because the money Region I used to construct the homes was bond money, the SIC demanded the properties in partial satisfaction of the debt owed to them. Region I's Board transferred to the SIC the three properties mentioned above through a quitclaim deed on October 31, 2007. As for Region I, the three properties totaling \$78,092 will be accounted for as a due from HEI for this amount.

**E. Due to and Due from Other Agencies**

During fiscal year 2006, Region III either advanced funds to Region I or paid expenditures on their behalf. In fiscal year 2006, Region I was loaned \$184,767 and at fiscal year end 2006, Region I owes \$346,457. In fiscal year 2007, there were no advances of funds or expenditures paid on their behalf of Region I. As of fiscal year end 2007, Region I owes Region III \$346,457. After reviewing Region I's board minutes, it appears that the advances and

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REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

expenditures paid by Region III were not approved by their board. In addition, the board meeting minutes for Region I stated there were no signed documents by Region I on the loan or how it was to be paid back as this was all done verbally.

Due to Region III

	<u>12/31/06</u>	<u>12/31/2007</u>
Beginning Balance	\$ 161,690	\$ 346,457
Audit Fees	8,540	-
Cash Advance	174,501	-
Deposit	(936)	-
Retirement	1,603	-
Telephone Service	132	-
Training	927	-
Ending Balance	<u>\$ 346,457</u>	<u>\$ 346,457</u>

Due from HEI consists of the three properties totaling \$78,092 which Region I transferred to SIC through HEI.

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

**F. Schedule of Operating Expenses**

	<u>2006</u>	<u>2007</u>
Advertising	\$ 2,749	\$ -
Professional fees-Legal	976	-
Promotion	1,478	-
Advertising-other	56	-
Bank Service Charge	2,036	-
Maintenance	103	-
Depreciation expense	1,061	-
Computers & tech supply	639	-
Furniture & fixtures	156	-
Consulting	389	-
Accounting	251	-
Credit report expense	973	-
Dues & subscriptions	431	-
Equipment/storage rental-copier	781	-
Equipment/storage rental-storage unit	798	-
Equipment/storage rental-water rental	156	-
Equipment/storage rental-other	189	-
Group health insurance	4,251	-
License & permits	180	-
Equipment & Repairs	290	-
Liability Insurance	242	-
Properties-Grants	833	-
Miscellaneous	307	-
Payroll - employee retirement	11,238	-
Payroll expense	82,476	-
Payroll tax expense	6,935	-
Postage & delivery	750	-
Professional fees	10,916	-
Rent Income	2,250	-
Maintenance supplies	171	-
Miscellaneous-supplies	482	-
Office supplies	7,441	-
Telephone	3,886	-
Travel & Per Diem	28,437	-
Utilities	2,574	-
Unrecorded items due to Region III	12,247	-
Total Operating Expenses	<u>189,128</u>	<u>-</u>
Capital Assets Transfers	<u>5,499</u>	<u>-</u>
Total	<u>\$ 194,627</u>	<u>\$ -</u>

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2007

**IV. Other Information**

**A. Employee Retirement Benefits**

Region I offers a tax-sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b) for all full-time employees. Employees may elect to defer a portion of their wages and Region I has the option to make a discretionary matching contribution. Plan expenses incurred by Region I for the fiscal year ended December 31, 2006 were \$11,238. It appears Region I ceased operations in September, 2006; therefore, there were no expenses incurred by Region I for the year ended December 31, 2007.

Region I employees did not participate in the Public Employees Retirement Association's (PERA) retirement plan.

**B. Financial Data Schedule**

During 2006 and 2007, Region I did not receive any monies from the U.S. Department of Housing and Urban Development (HUD); therefore, it is not required to prepare or submit a financial data schedule (FDS) to the HUD Real Estate Assessment Center.

**C. Deficit Net Assets**

Region I has a net asset deficit of \$268,365 for the years ended December 31, 2006 and 2007, respectively. Region I was dissolved in September 2006.

**D. Going Concern**

Region I did not generate revenue to continue their daily operations. Region III either advanced funds to Region I or paid expenditures on their behalf. Region I currently has a substantial outstanding debt owed to Region III for monies transferred to them to operate. Region I owes \$346,457 to Region III as of December 31, 2006 and 2007.

**E. GASB Statement Implementations**

In April 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 43, Financial Reporting for Post Employment Benefits Plans Other than Pension Plans-which amends GASB Statements No. 14, 25, 26, 27, 31, and 34, which is effective for financial statements for periods beginning after December 15, 2005. The Statement establishes uniform financial reporting standards for other post-employment benefits plans and supersedes the interim guidance included in Statement No. 26. Region I believes it will have no effect on the financial statements.



STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
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In June 2004, the GASB issued GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions, an amendment to GASB Statements No. 10, 12, 27 and 26, which is effective for financial statements for periods beginning after December 15, 2006, with earlier application encouraged. The Statement establishes standards for the measurement, recognition and display of other post employment benefits expenses/expenditures and related liabilities, note disclosure and, if applicable, required supplementary information in the financial reporting of state and local governmental employers. Region I believes it will have no effect on the financial statements of the upcoming year.

In September 2006, GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, which is effective for all periods beginning after December 31, 2006. The statement establishes standard for reporting and disclosure of transactions involving the sale of receivable or future revenue stream. Depending on the continuing involvement of the government, the sale could be recorded as a sale or a collateralized borrowing. Region I believes it will have no effect on the financial statements of the upcoming year.

In November 2006, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which is effective for periods beginning after December 15, 2007. This Statement addressed accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Region I is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no effect on the financial statements of the upcoming year.

In May 2007, GASB issued Statement No. 50, Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27, which is effective for periods beginning after June 15, 2007. The Statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Post employment Benefits Plans Other Than Pensions Plans, and No. 45, Accounting Financial Reporting by Employers for Post employment Benefits Other Than Pensions. Region I is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements of the upcoming year.



## **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

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*

Executive Director and Board of Commissioners  
Region I Housing Authority, New Mexico, Inc.  
809 Copper Ave., NW  
Albuquerque, New Mexico 87102

We were engaged to audit the financial statements of the business-type activities of the Region I Housing Authority, New Mexico, Inc. (Region I) as of and for the fiscal year ended December 31, 2006 and 2007 and have issued our report thereon dated December 9, 2008. We did not express an opinion on the basic financial statements for the fiscal years ended December 31, 2006 and 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Region I's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Region I's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Region I's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Region I's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Region I's financial statements that is more than inconsequential will not be prevented or detected by Region I's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, as 06-03, 06-04, 06-06 and 06-07.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Region I's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-03, 06-06 and 06-07 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Region I's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our 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 responses as items 06-01, 06-02 and 06-05.

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

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration and the state legislature and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor ✓  
OFFICE OF THE STATE AUDITOR  
December 9, 2008

STATE OF NEW MEXICO  
REGION I HOUSING AUTHORITY, NEW MEXICO, INC.  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2007

STATUS OF PRIOR YEAR AUDIT FINDINGS

NONE – Fiscal Year 2005.

CURRENT YEAR AUDIT FINDINGS

**06-01. Timesheets Were Not Properly Authorized**

Condition

Out of eight payroll documents tested, two instances of an employee approving their own timesheets were noted for a total of \$2,622.

Criteria

It is a good accounting practice that the Board review timesheets before approval. Region I's policy requires that all timesheets be approved by a supervisor or a board member.

Effect

Region I may have overpaid the employee.

Cause

It appears the employee and management did not follow its own policy.

Recommendation

Region I should ensure that all employees follow Region I's policy regarding authorization of employee timesheets. All employees should have their timesheets signed by both themselves and either a supervisor or a board member.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

**06-02. Disposition of Capital Assets**

Condition

During our audit test work of capital assets, we found that Region I transferred its office equipment to another entity in September 2006. The total amount of capital assets transferred was \$7,070. Region I did not notify the Office of the State Auditor prior to its disposition of property.

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Criteria

Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor.

Effect

Transfers and donations may be illegal or not in compliance with law.

Cause

The previous administrative assistant for Region I was not aware of the requirement to report any disposal of capital assets to the Office of the State Auditor.

Recommendation

We recommend that Region I notify the Office of the State Auditor of any dispositions of capital assets prior to disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

**06-03. Missing Documentation for all Cash Receipts**

Condition

During our review of cash receipts test work, we determined all of the 103 receipts tested were missing supporting documentation such as deposit slips and/or remittance advices for the deposits.

Criteria

Good accounting practices and the Procurement Code, Chapter 13, Article 1 NMSA 1978, require that complete records are maintained for all accounting activity.

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Cause

Region I Housing Authority has been closed since August 2006. The documents were either destroyed, misplaced or not maintained.

Effect

The ability of Region I or subsequent management of its remaining assets is diminished due to their inability to utilize the appropriate receipt information. Cash may have been stolen or misused.

Recommendation

Proper documentation of received monies should be maintained by all governmental entities.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

**06-04. Late Audit Report**

Condition

Region I did not file its December 31, 2006 and 2007 audit reports with the Office of the State Auditor by the required due dates. The report was submitted on December 9, 2008.

Criteria

Section 2.2.2.9.A(g) NMAC requires the filing of audit reports within 5 months after the fiscal year end.

Cause

Region I did not contract with an auditor until after the deadline.

Effect

Financial information is not available for decision making purposes.

Recommendation

Region I should complete preparations for the audit and have the audit fieldwork conducted at an earlier date than in the current year to ensure the auditors have sufficient time to submit the audit report by the specified date.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

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DECEMBER 31, 2006 AND 2007

**06-05. Amount Due to Region III from Region I was not Formally Authorized**

Condition

Region I expenses were paid by Region III on behalf of Region I or Region III made cash advances to Region I. We also did not find documentation demonstrating that the Board delegated the authority to Region I management to obtain loans from Region III. In addition, it appears that there were no signed documents for the loan between Region I and Region III for the repayment of these loans. However, we did not find documentation demonstrating that the loans or advances owed to Region III Housing Authority were formally authorized by Region I's Board of Director's (Board).

Criteria

The obtaining of loans from other regional housing authorities is an exercise of power by Region I that requires formal authorization by the Board pursuant to the Regional Housing Law, Chapter 11, Article 3A.

Effect

Region I did not comply with the provisions of the Regional Housing Law. Region I currently has a substantial outstanding debt owed to Region III. These loan transactions caused Region I to be in debt more than they can repay. Due to this fact, Region I ceased operations.

Cause

Management of Region I either disregarded the prerequisite of Board authorization for obtaining money or the management of Region I was not aware of the requirement.

Recommendation

Region I should not obtain any loans or advances unless they have the ability to repay the loans and have been authorized and approved by the Board.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

**06-06. No Cash Reconciliations and Missing Bank Statements**

Condition

During our test work of cash, we found Region I was not properly performing bank reconciliations for each of its depository accounts. For numerous months, Region I was missing original bank statements to support the bank balances and book balances for each account. There was no verifiable way to see if bank reconciliations were performed.

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DECEMBER 31, 2006 AND 2007

Criteria

Good accounting practices and internal controls require Region I to properly maintain accurate books and records of cash balances on a day-to-day basis.

Cause

The accounting staff failed to properly maintain the books and records for the cash reconciliation process. Also, Region I did not file and maintain the proper supporting documentation for cash reconciliations. Without the proper supporting documents, we could not trace the bank balances and review the deposits in transit or the outstanding checks.

Effect

This caused a delay in the audit of cash because we were required to request the bank statements from each applicable financial institution to prepare a proof of cash for each account.

Recommendation

We recommend Region I prepare cash reconciliations for each depository account on a monthly basis to reflect the cash transactions to its financial statements. Region I should maintain and file proper supporting documentation such as bank statements and bank reconciliations for its cash balances at the opening and closing of each period.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

**06-07. Net Assets Deficit**

Condition

Region I has a net asset deficit of \$268,365 for the years ended December 31, 2006 and 2006, respectively.

Criteria

Section 2.2.2.10.G NMAC requires state agencies which includes maintaining positive net assets.

Effect

Region I may be unable to function as an operating entity.

Cause

It appears that management was obtaining loans for their daily operation from Region III instead of generating actual operating revenues.



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Recommendation

Region I should properly manage its expenses and generate adequate revenues to reduce the chance of a deficit in net assets or cease to operate.

Agency Response

Even though current management was not involved in the operation, subsequent management concurs with the Office of the State Auditor's finding.

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EXIT CONFERENCE  
DECEMBER 31, 2006 AND 2007

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of Region I.

Exit Conference

There was no management to represent Region I. However, on December 9, 2008 an exit conference for Region I was held at the Mid-Region Council of Governments Office with Dewey Cave, Director of Planning and General Services of the Mid-Region Council of Governments. Representing the Office of the State Auditor was Chan Kim, CPA, Audit Manager. The results of the audit and the contents of this report were discussed.

