

NEW MEXICO MORTGAGE FINANCE AUTHORITY

Notes to Financial Statements

September 30, 2004 and 2003

Weatherization Assistance Program. The Authority has the primary responsibility for financial and programmatic aspects of the program. The JPA was effective May 4, 2004 and will terminate on June 30, 2008. The estimated amount of the project is \$600,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

- (e) The Authority entered into a JPA with Department of Finance and Administration (DFA) in May 2004. The purpose of the agreement is for DFA to transfer funds to the Authority for administering the Weatherization Assistance Program. The Authority has the primary responsibility for financial and programmatic aspects of the program. The JPA was effective May 4, 2004 and will terminate on June 30, 2005. The estimated amount of the project is \$800,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.
- (f) The Authority entered into a JPA with Department of Finance and Administration (DFA) in October. The purpose of the agreement is for DFA to transfer funds to the Authority to perform a survey of low-income housing needs in Chaves County. The Authority has the primary responsibility for financial and programmatic aspects of the program. The JPA was effective October 10, 2003 and terminates at the end of fiscal year 2004 or the date all funds have been expended and reimbursed. The estimated amount of the project is \$75,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.
- (g) The Authority entered into a JPA with Department of Finance and Administration (DFA) in January 2004, which was amended in May 2004. The purpose of the agreement is for DFA to transfer funds to the Authority to develop and administer the Innovation in Housing Awards Program. The Authority has the primary responsibility for financial and programmatic aspects of the program. The JPA was effective January 16, 2004 and will remain in effect until the expenditure by MFA of all the program funds. The estimated amount of the project is \$1,500,000, all of which is applicable to the Authority. The Authority does not contribute funds to this project. The Authority is responsible for the audit of the funds received under this JPA.

(16) Related-Party Transaction

In July 2003, the Governor of New Mexico appointed the Executive Director of Homewise (formerly Neighborhood Housing Services) to the Authority's board of directors. During fiscal years 2004 and 2003, the Authority awarded federal grants of \$154,993 and \$267,184, respectively, to Homewise.

The Authority purchases various insurance policies from an insurance company that is controlled by the family of the Authority's chairman of the board.

(17) Subsequent Event

On October 28, 2004, the Authority issued \$30,000,000 of Single Family Mortgage Program 2004 Series E Bonds. The bonds are to be used to finance certain qualifying mortgage loans under the Single Family Mortgage Program. A portion of the bonds was sold at a premium of \$892,500 to fund assistance to borrowers in this bond issue.

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Notes to Financial Statements

September 30, 2004 and 2003

(18) Segment Financial Information

The Authority issues separate revenue bonds to finance the single family and multi-family mortgage financing programs. The investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each bond resolution is presented on the following pages.

NEW MEXICO MORTGAGE FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

September 30, 2004

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Reportable conditions identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X No
- Reportable conditions identified that are not considered to be material weaknesses? X yes _____ none reported

Type of auditors’ report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ no

Identification of major programs:

<u>Program name</u>	<u>CFDA number</u>
Mortgage Insurance – Homes (FHA)	14.117
542 (c) Risk Sharing Program	14.188
HOME Investment Partnership Program	14.239
Dollar threshold used to distinguish between type A and type B programs	\$ 952,000
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

NEW MEXICO MORTGAGE FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

September 30, 2004

Section II – Financial Statement Findings

No such findings were identified.

Section III—Federal Award Findings and Questioned Costs

Finding 2004-1 Submission of Required Reports

U.S. Department of Housing and Urban Development: Program 542 (c) Risk Sharing (CFDA 14.188), fiscal award year-N/A.

Condition

The Authority is required to submit annual physical inspection summary reports to HUD in a timely manner in accordance with the provisions of Program 542 (c) Risk Sharing. These reports summarize all findings and follow-up actions required of the borrower. The Authority does not have a formal review process in place to ensure these reports are reviewed by someone other than the preparer prior to submission. Additionally, it was noted that the Authority had not submitted an annual physical inspection summary report for two properties inspected during the year.

Criteria

The HUD Housing Handbook 4590.1 Housing Finance Agency Risk-Sharing Pilot Program, chapter 8B., requires the Authority to perform annual physical inspections of projects and submit the inspection reports to the local HUD Field Office.

Cause

The Authority currently has an informal review process in place by which another Asset Management personnel will review the annual physical inspection summary reports prior to submission to HUD. However, there is no evidence of this review on the reports.

Effect

Without a formal review or monitoring process such as a tickler file, required reports may not be submitted to the appropriate funding agencies or may not be submitted within a timely manner.

Questioned cost

None

Recommendation

We recommend that the Authority should implement a formal review process whereas someone other than the preparer reviews the reports and initials indicating the review was performed. Additionally, the Authority should implement a tickler file to ensure reports are submitted in a timely manner.

NEW MEXICO MORTGAGE FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

September 30, 2004

Authority Response

Management agrees. Effective August 2004 reports are being prepared and reviewed by different personnel, which is being documented on the report. A tickler system has been implemented to ensure reports are submitted timely to HUD. Evidence of submission is maintained in the file.

Section IV—Other Findings, as required by New Mexico State Statute, Section 12-6-5, NMSA 1978

Finding 2004-2 Physical Controls in Computer Facilities are Inadequate

Condition

The server room is unlocked during the day. Furthermore, the server rack containing the Authority's nine servers, storage area network (SAN), and redundant array of independent disks (RAID) has locking front and rear doors, but the doors are not locked.

Criteria

IT assets should be physically secured to prevent unauthorized access.

Cause

The Information Systems (IS) manager has not implemented available controls such as locking equipment racks and locking the server room door. According to the IS department Manager, the terminal that interfaces to the servers will shift to a screen saver after ten minutes of nonuse and IS personnel are supposed to enable the screen saver whenever they leave the room. However, if IS personnel leave the server room and do not lock the door to the room, someone could tamper with the computer before it times out and shifts to screen saver. The auditor observed that most of the time, the room is unattended. The IS manager indicated that a mitigating control is the locked front door and front desk which controls building access. However, this does not prevent employees and other individuals, for example those attending meetings in the building, from entering the server room. The auditor was allowed unquestioned access to the building when he first showed up at the building.

Effect

Unauthorized personnel could access the computer room and the server and storage equipment rack.

Recommendation

We recommend the IS department lock equipment cabinets whenever possible and the server room access door whenever the room is unattended.

Authority Response

Management agrees. Effective October 2004, the equipment cabinets and server room are kept locked when unattended.

NEW MEXICO MORTGAGE FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

September 30, 2004

Finding 2004-3 Environmental Controls in Computer Facilities are Inadequate

Condition

The air conditioning unit inside the server room produced an excessive amount of water drainage and the air conditioning draining procedure relied on manual intervention.

Criteria

Server room environmental controls should provide an adequate cooling system without extensive manual intervention.

Cause

The air conditioning drainage system consists of the air conditioning unit's drain outlet nipple, a "jerry-built" PVC pipe structure connected to this nipple, and an empty one-gallon plastic Bondex joint cement bucket at the end of the PVC pipe structure. The Bondex bucket must be periodically emptied. On August 4, 2004, when the IS Department manager and the auditor entered the server room, the auditor noticed the bucket was about to overflow. The IS manager emptied the bucket and indicated it was abnormal for the bucket to be that full. He said that he had checked the bucket prior day and the bucket was approximately one-fourth full. An hour after the IS manager emptied the bucket, the auditor noticed that the bucket had nearly one inch of water. A better air conditioning system or air conditioning drainage system should be obtained to prevent water damage to the server room floor.

Effect

Water could damage equipment racks or the server room itself.

Recommendation

We recommend the agency install a cooling system that does not require extensive manual intervention.

Authority Response

Management agrees. A condensate line with trap through the north wall was installed in the computer room August 23, 2004.