



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

Via Email and U.S. Mail

September 15, 2016

John T. Kennedy
KPMG, LLP
6565 Americas Parkway NE, Ste.700
Albuquerque, NM 87110

Re: University of New Mexico ("Agency") – Referral for FY 2016 Audit

Dear Mr. Kennedy:

In the context of the background information attached to this letter, the Office of the State Auditor ("Office") is providing this communication to inform you that we have received information that suggests that elevated risk exists in the following areas:

- University Administrative Policies-Section 3000: Personnel

The Office has received information raising concerns about the Agency's compliance with its personnel policy related to former Basketball Operations Director Cody Hopkins and former Athletic Director Tim Cass. It has been alleged that both Cody Hopkins and Tim Cass have remained on the Agency payroll despite statements by the Agency that they are no longer employees. Cody Hopkins was the subject of an internal audit for suspected misuse of a department purchasing card and was reportedly placed on administrative leave. Please verify the Agency acted in compliance with applicable policies and procedures with relation to Cody Hopkins administrative leave and subsequent contract expiration. In addition please verify that the current employment or contract status of Tim Cass is in compliance with applicable policies and procedures.

As part of your planning and risk assessment procedures please contact Kevin Sourisseau, CPA at 505-476-3820 Kevin.Sourisseau@osa.state.nm.us or Hamish Thomson, CPA/CFF, CFE at 505-476-3818 Hamish.Thomson@osa.state.nm.us to schedule a brief telephonic or in-person meeting with the Special Investigations Division. The meeting, in combination with this letter, is necessary to ensure that the Office's knowledge of other information indicating potential risk is communicated timely to your firm so you can appropriately consider the information during your risk assessment in accordance with AU-C Section 240. The meeting will also facilitate discussion about the concerns noted above and ensure that open lines of communication exist between the Office and your Firm.

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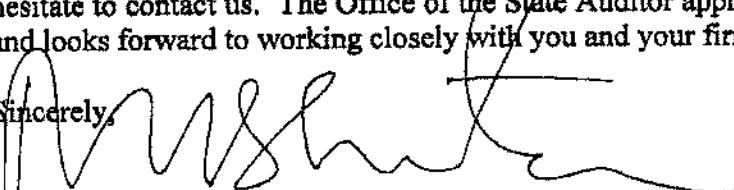
Please take the circumstances described above in to account in your risk assessment and perform such procedures as, in your professional judgement, are necessary to determine what further action, if any, in the form of additional disclosure, findings and/or recommendations are appropriate in connection with the FY 2016 annual audit of the Agency.

After the conclusion of fieldwork but prior to submitting the draft annual audit report to the Office for review, please provide written confirmation to the Office that your Firm took appropriate action in response to this referral. If there are additional disclosures, findings, and/or recommendations associated with this referral included in the FY 2016 annual audit report, please reference them in your written confirmation. If no additional disclosures, findings, and/or recommendations resulted from this referral please include language indicating that no reportable conditions were noted.

Be sure to include adequate documentation in your audit workpapers to support your written confirmation to the Office that your Firm took appropriate action in response to this referral. As outlined in 2.2.2.13 NMAC the Office may review IPA workpapers associated with the annual audit of the Agency. If this engagement is selected for a workpaper review the Office will examine your Firm's documentation associated with this referral. Insufficient or inadequate documentation may result in deficiencies noted in the workpaper review letter and may negatively impact your Firm during the subsequent firm profile review process. In accordance with 2.2.2.8.H NMAC, IPAs may be placed on restriction based on the Office's review of the firm profile and various deficiency considerations. The deficiency considerations include failure to comply with Office referrals such as this one in a timely manner.

If you have questions, or need additional information regarding this communication, please do not hesitate to contact us. The Office of the State Auditor appreciates your assistance with this issue and looks forward to working closely with you and your firm.

Sincerely,



Sanjay Bhakta, CPA, CGFM, CGMA, CFE
Deputy State Auditor

BACKGROUND INFORMATION ON REFERRALS

The Audit Act (NMSA 1978, Sections 12-6-1 et seq.) states that audits of New Mexico governmental agencies “shall be conducted in accordance with generally accepted auditing standards and *rules issued by the state auditor* [emphasis added]” (12-6-3 NMSA 1978). Accordingly, on an annual basis the Office of the New Mexico State Auditor (“Office”) promulgates the Audit Rule. The objective of the 2016 Audit Rule is to “establish policies, procedures, rules and requirements for contracting and conducting financial audits, special audits, attestation engagements, performance audits, and forensic audits of governmental agencies of the state of New Mexico” (2.2.2.6 NMAC).

The Audit Act requires that “the state auditor shall cause a complete written report to be made of each annual or special audit and examination made. Each report shall set out in detail, in a separate section, *any* [emphasis added] violation of law or good accounting practices found by the audit or examination.” In accordance with statute, the 2016 Audit Rule incorporates the following language “when auditors detect immaterial violations of provisions of contracts or grant agreements or abuse that are required to be reported by Section 12-6-5 NMSA 1978, that do not rise to the level of significant deficiencies or material weaknesses, those findings should be classified as warranting the attention of those charged with governance, since Section 12-6-5 NMSA 1978 requires *any* violation of law found by the audit to be set out in detail in the report. The auditor must communicate such violations in the “compliance and other matters” paragraph in the 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” (2.2.2.10.I.9 NMAC).

In the event that any finding does not meet the requirements described in the most recent edition of the AICPA’s Audit and Accounting Guide for Governmental Auditing Standards and Single Audits (AAG-GAS) necessary to be included in the report on internal controls or the schedule of findings and questioned costs, the finding “must be presented in a separate schedule of findings labeled “Section 12-6-5 NMSA 1978 findings” in the back of the audit report following the schedule of findings that do meet the applicable AAG-GAS reporting requirements” (2.2.2.10.I.1(c) NMAC).

In conducting risk assessment associated with the annual audit of an agency subject to the 2016 Audit Rule, Independent Public Accountants (IPA) are instructed to refer to 2.2.2.10.G NMAC which requires that “an IPA shall identify significant state statutes, rules and regulations applicable to the governmental agency under audit and perform tests of compliance.” **Materiality in relation to the audit of the financial statements does not apply to compliance with state statutes, rules and regulations.**