

Thursday, September 14, 2017

Mr. Robert Rucker  
Research and Advocacy Coordinator for Legal and Governmental Affairs  
Higher Learning Commission  
230 South LaSalle Street, Suite 7-500  
Chicago, IL 60604-1411

Dear Mr. Rucker:

This is in response to your letter dated August 15, 2017, regarding the New Mexico Office of the State Auditor's (OSA) review of the athletics department and component units at The University of New Mexico (UNM).

### **Summary of Basis for Audit**

In May 2017, a local reporter released a media story about a 2015 overseas trip for potential university donors that included UNM Athletics Department employees. On May 31, 2017, it was discovered that a select group of local businessmen's travel expenses for this same overseas trip were also paid for by the university. Shortly after this mistake was discovered, the university confirmed that two coaches' salaries had been overpaid. Both have since paid all the money back to the university. In addition, in early July 2017, another media story circulated regarding uncollected fees for the use of basketball suites.

### **Actions Taken by the New Mexico State Auditor & New Mexico Attorney General**

Pursuant to the New Mexico State Audit Act, Section 12-6-3 (C), NMSA 1978 as amended, the financial affairs of every agency in New Mexico shall be thoroughly examined and audited each year by OSA. The State Auditor may also cause the financial affairs and transactions of an agency to be audited in whole or in part. Additionally, in accordance with 2.2.2.15 NMAC ("Audit Rule"), the State Auditor may initiate a special audit regarding financial affairs and transactions of an agency or local body, based on information it receives.

On May 31, 2017, the State Auditor informed Interim President Chaouki Abdallah that OSA received information raising concerns related to athletics department fundraising activities and expenses of UNM and its component units. Pursuant to Section 12-6-3 (C), NMSA 1978 as amended, the State Auditor designated UNM and its component units for a special audit or examination, in order to evaluate these concerns. See Attachment 1 – OSA Notification Letter Designating The University of New Mexico for Special Audit dated May 31, 2017.

On June 28, 2017, UNM and OSA entered into a Memorandum of Understanding (MOU) to examine documentation, including relevant policies and procedures related to specific selectively-sampled transactions between July 1, 2014 and June 30, 2017. See Attachment 2 - MOU between UNM and OSA dated June 28, 2017. In the MOU, the State Auditor noted that OSA will also perform additional procedures, as deemed necessary, related to the sampled transactions. The MOU states that the State Auditor “shall deliver an organized and bound consulting engagement report to UNM no later than August 31, 2017...” The State Auditor’s team, comprised of three staff members, started their special audit fieldwork on June 12, 2017. They added an additional three staff members on July 18, 2017, to help complete the fieldwork. The OSA staff appears to have completed their audit fieldwork as of September 1, 2017, and is now in the report-writing phase of this engagement. Publicly, on August 4, 2017, as covered in numerous local media outlets, the State Auditor stated that the special audit report will be forthcoming in early fall.

On May 25, 2017, the New Mexico Attorney General sent a letter to Interim President Abdallah stating that pursuant to the Government Conduct Act (GCA), he was initiating a formal inquiry into the actions of (now former) UNM Vice President of Athletics Paul Krebs, when he used public funds for fundraising. See Attachment 3 - New Mexico Attorney General Letter dated May 25, 2017. The GCA requires all public officials to conduct themselves in an ethical manner in advancement of the public trust. The Attorney General stated in his letter that upon the findings from the audit conducted by OSA, he will act quickly and in a manner that reflects his continued commitment to the interests, not only of UNM and its students, but of New Mexico taxpayers. On July 11, 2017, the Attorney General requested records from Interim President Abdallah regarding the uncollected payments for basketball suites. Attachment 4 – New Mexico Attorney General Letter dated July 11, 2017. As of September 13, 2017, UNM has not received any substantive information or the draft special audit report from the State Auditor, to determine what actions the Attorney General will take.

### **Actions Taken in Response to Audit & Concerns Regarding Financial Management**

UNM’s response to both the State Auditor’s and Attorney General’s audits has been immediate and cooperative – providing the staff, resources, documents and space needed to conduct a thorough investigation. On June 1, 2017, Krebs stepped down from director of athletics and on June 5, 2017, Janice Ruggiero, former deputy athletics director in charge of internal operations and administration, was appointed acting director of athletics. Immediately following the appointment of Ruggiero, the

university began a search for the new athletics director. On August 31, 2017, former Louisiana State University Deputy Athletics Director Eddie Nunez was named as the new director of athletics at UNM.

Upon receipt, UNM management will review OSA's draft special audit report, provide feedback, and swiftly address any audit issues identified by the OSA, by providing written responses detailing the corrective actions to be taken by the university.

### Summary of Audit's Impact on the University

Since the university has not received the draft special audit report from the State Auditor, it is difficult to quantify any impact on the university. However, based on verbal feedback we have received from OSA during the fieldwork phase, the special audit may not materially impact the university's annual financial statements audit currently being conducted by Moss Adams and KPMG (independent auditors approved by the State Auditor). UNM's annual financial statements audit for fiscal year ending June 30, 2016, conducted by KPMG and reviewed and approved by the State Auditor, did not identify any major internal control weakness nor any financial mismanagement by the athletics department. See Attachment 5 - FY2016 audit report issued by KPMG on November 22, 2016.

In addition, UNM engaged KPMG to perform "agreed-upon procedures" to assist the university in evaluating: (1) whether the statement of revenue and expenses of the UNM Athletics Department is in compliance with the National Collegiate Athletics Association (NCAA) Constitution 3.2.4.15 for years 2014, 2015 and 2016; and, (2) the effectiveness of the department's internal controls over financial reporting for 2014, 2015 and 2016. These agreed-upon procedures did not identify weakness in the effectiveness of the internal controls over financial reporting. See Attachment 6 - FY2014, Attachment 7 - FY2015, and Attachment 8 - FY2016 Agreed-Upon Procedures Reports issued by KPMG.

It is anticipated that the special audit by the State Auditor will most likely identify breakdowns in the university's internal control structure and non-compliance with UNM policies and procedures, in processing financial transactions by the athletics department. The UNM Internal Audit Department has conducted the following internal audits of the athletics department in the past:

- Men's Basketball Audit of Undeposited Cash. This internal audit identified seven main issues (findings) and provided recommendations for athletics department management to implement. The athletics department concurred with the audit findings and recommendations and took appropriate corrective

actions. See Attachment 9 - UNM Internal Audit Report Number 2011-02.

- Audit of Men's Basketball Purchasing Card Use. This internal audit identified 12 issues (findings) and provided recommendations for the athletics department to implement. The athletics department concurred with the audit findings and recommendations and has taken appropriate corrective actions. This report has been referred to the Second Judiciary District Attorney for criminal actions, if any. See Attachment 10 - UNM Internal Audit Report Number 2016-07.

The above internal audits have identified non-compliance by the university's athletics department, within the internal control structure and UNM policies and procedures. The athletics department and other university units, has taken corrective actions and implemented the internal audit recommendations, to strengthen internal controls and provide better accountability in disbursing public funds. Upon receipt of the special audit report from the State Auditor, the university will take appropriate corrective actions to implement suggested recommendations in the report.

UNM will continue to look at processes to improve internal controls and expects to comply fully with the recommendations that are a result of the audit.

### **Corrective Actions Taken in Response to Audit and Concerns Regarding Financial Management**

On July 10, 2017, Interim President Abdallah appointed Chris Vallejos, associate vice president for institutional support services, to temporarily oversee finances in the athletics department. This was in an effort "to assure that it is operating efficiently and responsibly" and to institute stronger internal controls and more thorough oversight. Vallejos and Janice Ruggiero are working closely with the State Auditor to provide whatever is needed. They are also reviewing internal practices and taking measures to correct and improve them.

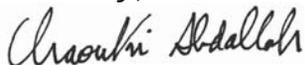
The following corrective actions have already been put in place:

- Implementation of a new monthly process where the athletics director reviews Rita Chavez's (executive assistant to the athletics director) P-Card statements.
- Review of all department P-Card limits, to ensure appropriate controls are on each employee's P-Card.
- Creating an Athletics Department Business Office Policy Manual – estimated completion 11/30/17.

- In the process of changing all developmental (enhancement accounts) to be transferred/managed by the Lobo Club.
- All NCAA tickets, except for the athletics director's tickets, will be paid by the Lobo Club, the fundraising arm of the athletics department.
- Complimentary tickets list will now be tied into policies or contracts.
- Revised standardized Suite Agreement, to strengthen the contract between the suite holder and the university.
- Issued debit cards to players, to minimize cash withdrawals at ATMs.
- In the process of rebuilding the athletics department business office (staffing).
- Implemented internal controls, in regards to ticket distribution to athletics events.
- Implemented tracking reports, to manage suite receivables.
- Revising Memorandum of Agreement between Lobo Club and the athletics department, to define and clarify roles and responsibilities.
- Implemented internal controls for Human Resources (HR) personnel contracts and reconciliation between HR and The University of New Mexico financial system.
- Implemented Chrome River business management software, to notify administrators regarding P-Card transactions and reconciliations.

The university plans to comply fully and immediately with any corrective actions recommended in the State Auditor's special audit report. As soon as we receive the special audit findings and the university implements corrective actions above and beyond what we have already implemented, we will send an amended letter to HLC.

Sincerely,



Chaouki Abdallah  
Interim President

Referenced Attachments:

1. OSA Notification Letter Designating The University of New Mexico for Special Audit notification letter dated May 31, 2017
2. MOU between OSA and UNM dated June 28, 2017
3. New Mexico Attorney General Letter dated May 25, 2017
4. New Mexico Attorney General Letter dated July 11, 2017
5. FY2016 audit report issued by KPMG on November 22, 2016
6. FY2014 Agreed-Upon Procedures Reports issued by KPMG
7. FY2015 Agreed-Upon Procedures Reports issued by KPMG
8. FY2016 Agreed-Upon Procedures Reports issued by KPMG
9. UNM Internal Audit Report Number 2011-02
10. UNM Internal Audit Report Number 2016-07

Additional Attachments:

11. UNM Budget Documents Information
12. New Mexico Higher Education Department Financial Reporting Exhibits
13. UNM Audit Report FY2015
14. UNM Continuing Disclosure Undertaking 2016
15. UNM Main Campus Report of Actuals FY2016
16. UNM Moody Credit Quality Specific Issue 2017
17. UNM Moody Overall Credit Worthiness 2017
18. UNM Operating Capital Budget Plans 2018
19. UNM Standard Poor Credit Rating Specific Issue 2017
20. UNM Standard Poor Overall Credit Worthiness 2017
21. OSA & UNM MOU – First Amendment