

MEMORANDUM

TO: UWC Senior Leadership Team, UWC Board of Trustees Finance & Audit Committee

FROM: 
 Kristine Jaramillo, Controller

DATE: October 11, 2019

RE: Management Letter Response

Referenced below is a summary of Material Weaknesses and Significant Deficiencies for the prior five (5) fiscal years.

FYE 05.31.14
 Material Weaknesses – 14
 Significant Deficiencies – 2

FYE 05.31.15
 Material Weaknesses - 11
 Significant Deficiencies – 2

FYE 05.31.16
 Material Weaknesses – 6
 Significant Deficiencies – 4

FYE 05.31.17
 Material Weaknesses - 0
 Significant Deficiencies – 3

FYE 05.31.18
 Material Weaknesses – 0
 Significant Deficiencies – 2

FYE 05.31.19
Material Weaknesses - 0
Significant Deficiencies – 1
Other Internal Control Items - 4

A **significant 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 College's financial statements will not be prevented, detected and corrected on a timely basis

Interfund Balances and Interfund Transfers

Various reclassifications were required to correct activity between funds. Due to the numerous funds maintained by the College, significant journal entries are required to record transactions resulting in a complex accounting structure and increased potential for errors. Further, the College changed accounting systems during fiscal year 2019, requiring the upload of beginning account balances.

REMEDY: UWC will continue to review and simplify the annual close process to ensure the proper recording of transactions. All interfund journal entries and trial balances will be reviewed for accuracy prior to posting to the General Ledger. All activity will continue to be posted through the three major classes, unrestricted, temp-restricted and perm-restricted.

Other Internal Control Items

Underwater Endowment Policy

We recommend that the College formalize a policy with regards to underwater endowment spending.

REMEDY: UWC-USA will move forward with the recommendation and formalization of an Underwater Endowment Policy which will require approval by the Board of Trustees Investment Committee.

Bank Reconciliation Review and Approval

To ensure that controls are operating as intended, the review and approval process must be documented. During our walkthrough of the bank reconciliation process, we noted, for one bank reconciliation, that the review and approval was not documented. We recommend that reviews and approvals be documented via a signature or initials (of reviewer), along with the date of review and approval.

REMEDY: UWC-USA will move forward with the recommendation and ensure that signature or initials and date of review are included for each monthly reconciliation.

Segregation of Duties – Payroll/Human Resources/Accounting

During our test work over payroll and personnel, we noted that duties between finance and accounting, payroll, and human resources could be further segregated to both improve internal controls and increase efficiency. The most significant are noted below:

- New employee set up in payroll software is currently performed by Human Resources. We recommend Human Resources provide new employee information to Payroll for set up in payroll software. Set up to be reviewed by Controller.*
- Employee benefit enrollment in company portals is currently performed by Human Resources. We recommend that enrollment information be provided to Controller for secondary review.*
- Scanning and filing of new employee packets is currently performed by Human Resources. This can be performed by Payroll, with a secondary review by Controller.*
- Termination procedures over calculating final paychecks and leave payouts are prepared by Payroll. These should have documented secondary review by Controller.*
- Employee benefit disenrollment is currently performed by Human Resources. The process may be initiated by Payroll and performed by Controller.*
- The leave tracking process could be formalized utilizing an electronic departmental calendar process. The process is currently housed in Human Resources. Secondary review may be performed by Controller.*
- Employee payroll updates to accounting software (W-4, address, direct deposit) are currently handled by Human Resources. These may be provided to Payroll for updates to accounting software, and secondary review performed by Controller.*
- All supporting documents, including payroll checklist documenting significant changes to rates, and/or new hires or terminations, should accompany payroll package that is currently provided to the VP of Finance for final review and approval each pay period.*

REMEDY: UWC-USA will move forward with the recommendations for each area and will ensure that duties are appropriately segregated. The job descriptions for the affected personnel will need to be modified to reflect new and eliminated duties and compensation may need to be adjusted as well. The recommendations for termination check calculation and a paid leave tracking system are under implementation and will be finalized during the 2nd fiscal quarter 2019-2020.

Electronic Signatures

The process of electronic signature use in the personnel and payroll process should be evaluated and documented.

REMEDY: UWC-USA will discontinue all uses of electronic signatures, specifically for those officers who have authority to sign off on checks, contracts and investment activity. An internal audit of e-signatures on file will need to be performed and those files and images should be destroyed permanently.

Retiree Benefit Eligibility

We recommend formal policy related to retiree benefits eligibility be documented.

REMEDY: UWC-USA will move forward with the recommendation and document the existing practice for retiree benefits eligibility determination as a formal policy.