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October 11, 2019

Board of Trustees of the Armand Hammer United World College
of the American West
Montezuma, NM 87731

In planning and performing our audit of the financial statements of the Armand Hammer United World College of the American West (College) as of and for the year ended May 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined below:

- *Reasonably possible.* The chance of the future events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

Significant Deficiencies

Beginning Balances, Interfund Balances and 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.

- An adjustment was required to correct beginning cash and interfund transfers in the amount of \$2,000,000 to Fund 10 (Unrestricted Operating Fund) and Fund 30 (Plant Fund).
- Adjustments were required to correct beginning balances for accounts payable, net assets and cash in the amount of \$597,188 to Fund 10 (Unrestricted Operating Fund).
- Adjustments were required to correct beginning balances for beginning cash and net assets in the amount of \$48,004 to Fund 10 (Unrestricted Operating Fund) and Fund 20 (Temporarily Restricted Fund).

We recommend that any journal entries involving interfund activity be reviewed to mitigate posting one-sided entries. Further, we recommend that final annual trial balances are reviewed against audited financial statements to ensure correct balances.

Other Internal Control Items

Underwater Endowment Policy

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

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.

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.

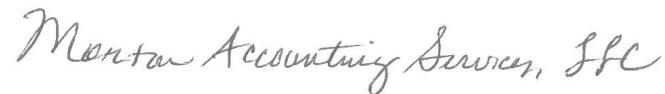
- Scanning and filing of new employee packets is currently performed by Human Resources. This can be performed by Payroll, with a secondary review by Controller.
- Termination procedures over calculating final paychecks and leave payouts are prepared by Payroll. These should have documented secondary 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.

Further, to ensure that controls are operating as intended, the review and approval process must be documented. We noted for one disbursement tested, a complex calculation of a blended rate was documented and paid, but review and approval of calculation was not documented.

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

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

Respectfully,



MORTON ACCOUNTING SERVICES, LLC
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