

**Internal Audit Report  
2022- 012**

**Human Resources / Benefits  
UW Retirement Plan / UW Voluntary Investment Program**

**June 2023**

Submitted to: Mindy Kornberg, Vice President  
Human Resources

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June 13, 2023

Mindy Kornberg, Vice President UW Human Resources

**Re: UW Retirement Plan / UW Voluntary Investment Program**

Enclosed is the final audit report. We appreciate your response and have included it in the report. In all cases, we concur with the actions planned or already implemented.

Based on the implementation dates included in the response, we will perform follow-up review to determine whether management has acted upon our recommendations and whether the corrective actions have achieved the desired effect.

We appreciate the assistance we received from your staff during this review. If we can be of further service, please call Lorna Bixler or me at 543-4028.

Sincerely,

A handwritten signature in black ink that reads 'Richard Cordova'. The signature is written in a cursive style with a large, looping 'R' and a trailing flourish.

Richard Cordova  
Executive Director  
Internal Audit

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## Executive Summary

The Internal Audit Department (IA) performed an unscheduled audit of the University of Washington Retirement Plan (UWRP) and the University of Washington Voluntary Investment Program (VIP). The audit was in response to a request by senior management.

In the fall of 2021, the University of Washington (University or UW) began a process to engage KPMG to conduct tax consulting work on the UWRP and VIP Plans to identify if any of the actual contributions under these plans differed from the amounts expected to be contributed per the plan documents. In the course of engaging KPMG to conduct this work, UW Internal Audit was requested to complete a certain amount of work to prepare the documents for review by KPMG. Upon review of the initial information and the scope of the work to be completed by KPMG, Internal Audit recommended to senior management that it undertake an audit of the information and test the contributions for a certain set of employees to reduce the volume of work that KPMG would need to conduct. This audit work would also allow the UW to learn of any internal control weaknesses within its processes and the related Workday system.

The objectives of the review were to determine if internal controls are sufficient to ensure:

- The UWRP / VIP programs are maintained in compliance with the Internal Revenue Code contribution and salary limits.
- The UWRP / VIP Workday records adhere to the elections of the University employees.
- The UWRP / VIP Workday records properly calculate the contributions based on the program and employee election information.
- The UWRP/VIP changes in election contribution percentages/amounts are timely implemented.

During the course of our work, we identified internal control weaknesses to which we assigned a rating of high priority. Detailed descriptions of these findings, Internal Audit's recommendations, and management's responses are provided in this report.

Based on the work performed we identified the following high risk findings:

- The Internal Revenue Code annual contribution limits were exceeded for certain UWRP and VIP participants and the excess contributions were not timely detected and corrected.
- Contributions for certain VIP participants were calculated in Workday at a percentage or dollar amount that differed from the employee election in the Fidelity files. Additionally, we noted elections in Workday that were not in the Fidelity election files and vice versa.
- Certain UWRP and VIP contributions did not appear to be calculated in accordance with the plan provisions.

We concluded that internal controls are not sufficient to ensure all objectives have been met.

## Background and Scope

### Background

The University of Washington (University or UW) Board of Regents established the University of Washington Retirement Plan (UWRP) as of September 1, 1939. The plan is a governmental plan as defined in Internal Revenue Code Section 414(d) and is intended to satisfy the provisions of Internal Revenue Code Section 403(b).

The UWRP is one of two mandatory retirement plan options for University employees in an eligible position such as an academic, research, librarian, or professional position. The other option is a Washington State retirement plan. Upon beginning employment with the University, eligible employees select either the UWRP or Washington State retirement plan. Employees who select UWRP may postpone participation during their first two years of employment. This is known as the “optional period”, after which participation automatically begins. Under certain circumstances, employees may elect to convert from UWRP to a Washington State retirement plan and vice versa.

Subject to applicable Internal Revenue Code limits, a UWRP participant must contribute five percent of eligible compensation from the date of participation until the end of the pay period during which their 35th birthday occurs; seven and one-half percent of eligible compensation from age 35 to age 50 and ten percent of eligible compensation after age 50 (unless they elect to remain at seven and one-half percent). Prior to a plan amendment effective May 28, 2020, participants age 50 and over had to elect the increased contribution rate of ten percent. The University makes a matching contribution equal to each participant’s contribution, also subject to applicable Internal Revenue Code contribution limits.

The University of Washington Board of Regents established the University of Washington Voluntary Investment Program (VIP) as of January 1, 1972. The program is allowed under State of Washington RCW 28.B.10.480. The VIP was initially established as a tax-deferred annuity program and amended in 2013 to also allow Roth after-tax contributions. Contributions are made under Internal Revenue Code Section 403(b) and are invested, at the discretion of the participant, in one or more of the funding vehicles available under the program.

A VIP eligible employee means any employee of the University, except nonresident aliens who receive no United States sourced earned income. As the name implies, participation in the program is entirely voluntary and eligible employees may begin participation immediately upon employment.

VIP contributions are in addition to any contributions made to the UWRP or any Washington State retirement plan. Participants must make annual contributions of at least \$200 and may not elect to reduce includible compensation by more than 75%. The University does not match participant contributions.

Employees elect UWRP and VIP contribution amounts via the Fidelity portal. Fidelity transmits these elections to the University and they are input into Workday. Contributions are calculated in Workday each pay period.

The UWRP and VIP are both Internal Revenue Code Section 403(b) plans and are subject to federal tax limitations on contributions. The Internal Revenue Service (IRS) publishes these limits annually and the University updates them in Workday.

In the fall of 2021, the University began a process to engage KPMG to conduct tax consulting work on the UWRP and VIP plans to identify if any actual contributions made differed from the contributions expected to be made according to the plan provisions for a select group of employees identified by the UW as the “Applicable Employees”. While engaging KPMG, UW Internal Audit (IA) was requested to complete a certain amount of work in preparation for the review by KPMG. Upon IA review of the initial information and scope of the work to be completed by KPMG, IA discussed opportunities with senior management regarding the volume of work and senior management requested that IA undertake an audit and perform testing on UWRP and VIP contributions for a certain set of employees to reduce the total volume of work for KPMG and to allow the University to learn of any internal control weaknesses within its processes.

## Scope

The scope of our audit was to review the Workday data and the Fidelity election data to assist in the evaluation of the overall compliance of the UWRP and the VIP with the stated program materials. We reviewed operating processes and procedures in effect at the time of audit fieldwork. We identified the data used to calculate the contributions and tested specific transactions to verify the calculations were accurate and in accordance with UWRP/VIP plans. During the course of the work, we identified opportunities for future controls to be designed and operated to ensure a higher level of compliance with the plans. We obtained and tested the UWRP / VIP data for individuals who participated in both the UWRP plan and the VIP plan in each of the following periods with the focus on calendar years 2018 -2021:

- Fiscal year 2018 (July 1, 2017 – June 30, 2018)
- Short period Fiscal year 2018 (July 1, 2018 – December 31, 2018)
- Calendar year 2018 (January 1, 2018 - December 31, 2018)
- Calendar year 2019 (January 1, 2019 – December 31, 2019)
- Calendar year 2020 (January 1, 2020 – December 31, 2020)
- Calendar year 2021 (January 1, 2021 – December 31, 2021)

## Summary of Internal Audit Work Performed

In advance of, and as preparation for the KPMG review, IA performed the work summarized below.

### Project Preparation

To prepare for the audit, IA reviewed and became familiar with the following:

- UW Retirement Plan document.
- UW Voluntary Investment Program document.
- Internal Revenue Code retirement plan contribution limits for 2017 – 2021.
- Fidelity files containing UWRP / VIP employee elections.
- Location and interpretation in Workday of UWRP / VIP elections, compensation, and contribution information.

For each year reviewed, UW Human Resources (HR) provided data to IA that contained employee names and identification numbers, birthdates, eligible compensation, UWRP contributions, and VIP contributions. The data included employees that participated in both plans at the same time (in one or more of the years reviewed) and excluded employees that participated in only UWRP or only VIP during the years reviewed.

While working with the data, IA identified several issues that impacted our audit procedures and testing. For example:

- The amount of eligible compensation and the most recent hire date in the data did not always agree with the same in Workday.
- The data for certain employees contained UWRP / VIP contributions but no eligible compensation.
- The data excluded end-of-year payroll adjustments.
- The data excluded the June 30, 2017 “crossover” pay period.
- As Workday was implemented on July 1, 2017, we were unable to use it to verify compensation and contributions in pay periods from January 1, 2017 through June 30, 2017. The summaries of this data was included in Workday.
- The Fidelity files excluded employee elections made prior to 2017 that remained in effect and did not change from 2017 through 2021.

IA worked with HR to address and remedy the data issues when possible and revised the audit procedures when necessary.

As UWRP contribution percentages and Internal Revenue Code contribution limits are age related. As such it was necessary to sort the data into five age groups:

- Under Age 35 for the Entire year
- Turns Age 35 During the Year
- Age 35 to 49 for the Entire Year
- Turns Age 50 During the Year
- Age 50+ for the Entire Year

For each age group in each of the years reviewed, IA performed Internal Revenue Code contribution limits testing, a comparison of UWRP actual contribution percentages to expected percentages, and individual sample testing as described below.

### **Internal Revenue Code - Retirement Contribution Limits Testing**

Internal Revenue Code Section 402(g) sets an annual limit on the amount of elective deferrals that a participant may make to Section 403(b) retirement plans. The IRS publishes the “Elective Deferrals Limit” every year, including the additional “catch-up” amount allowed to participants over age 50. 100% of VIP contributions for all age groups counts towards the Elective Deferrals Limit as does the additional UWRP 2.5% employee elective contribution allowed for participants over age 50.

- The Elective Deferrals Limit testing was performed to identify employees that exceeded the annual limit. The testing for the groups below age 50 had no exceptions identified.
- The testing for the “Turns Age 50 During the Year” and “Age 50+ for the Entire Year” groups required additional work and identified a number of exceptions in the first years after Workday went live. The data provided for these employees did not separate out the 2.5% UWRP employee elective contributions from the 7.5% mandatory contributions. As a result, for this testing, it was necessary to design multiple mathematical computations and verify the results with individual sample reviews. We tested more than 50 employees in each year in addition to our overall elections sampling to confirm and validate the Elective Deferrals of these employees. Exceptions were found in two of the years reviewed. However, we also noted that no exceptions were identified post 2018.

Internal Revenue Code Section 415(c) sets an annual limit on the total amount of contributions that a participant may make to Section 403(b) retirement plans. The IRS publishes the “Annual Additions Limit” every year, including the additional “catch-up” amount allowed to participants over age 50. 100% of UWRP (employee and employer) and VIP contributions for all age groups counts towards the Annual Additions Limit.

- The Annual Additions Limit testing was performed to identify employees that exceeded the annual limit. Exceptions were found for two age groups in 2017 – “Age 50+ for the Entire Year” and for the age group “Age 35 to 49 for the Entire Year”. For the years 2018 – 2021 exceptions were found in each year for the age group identified as “Age 35 to 49 for the Entire Year”.

Internal Revenue Code Section 401(a)(17) sets a maximum amount of compensation that retirement contributions are calculated on annually, for participants hired on or after July 1, 1996. The IRS publishes the “Maximum Compensation Limit” every year.

- The Maximum Compensation Limit testing was performed to identify any employees where contributions were allowed to be made by the employee and potentially matched by UW on salaries that exceeded the annual limit. Exceptions were found in two or more age groups in 2018, 2019 and 2021.

Appendix A is a summary of the results from the IRC Retirement Contribution Limits Testing.

### **Comparison of UWRP Actual Contribution Percentages to Expected Percentages**

IA calculated and compared actual employee UWRP contribution percentages to expected percentages in each age group. Employees were separated into four categories:

- Actual Contribution Percentage = Expected Percentage  
We noted that approximately 95% of the employees in the years reviewed had expected contribution percentages.
- Actual Contribution Percentage < Expected Percentage
- Actual Contribution Percentage > Expected Percentage
- No eligible compensation data

The results were used in the development of the sampling methodology and individual sample selection process described below. As well as used in defining the higher risk employees for review by KPMG. See Summary of Expected UWRP Contribution Percentages (by year and age group 2018- 2021) in Appendix B.

### **Sampling Methodology and Individual Sample Testing**

Using the IA Standardized Sampling Plan, IA developed a methodology for selecting individual samples for testing. The following factors were considered in developing the methodology:

- The risk rankings based on age group characteristics and comparison of actual UWRP contribution percentages to expected percentages.
- The risk of exceeding federal tax limits increases with age as contribution amounts are allowed to increase.
- The data indicated that the UWRP contributions for the majority of the population were at the expected percentage.

Using the methodology developed 264 samples were judgmentally selected for individual testing from all age groups across the four years reviewed (2018-2021). The goal of this testing was to verify that:

- UWRP employee and employer contributions were accurately calculated using the appropriate percentages applied to all eligible compensation pay components.
- VIP contributions were accurately calculated using the employee elections applied to all eligible compensation pay components and limited to 75% of includible compensation.
- Workday contained accurate UWRP mandatory and UWRP / VIP elective contribution percentages (in agreement with employee elections in the Fidelity files).
- Changes in contribution percentages were timely implemented.
- For any employee with only a UWRP contribution, the employee had not made a VIP election.
- For any employee with only a VIP contribution, the employee was a Washington State retirement plan participant, ineligible for UWRP or not participating in UWRP during the optional period.

Additionally, we completed detail testing of all identified limit violations and selected other individuals when reviewing information to be provided to KPMG (see Applicable Employees below).

As the testing commenced, IA identified additional information needed to complete the requested work. We worked with UW HR and UW Payroll to obtain the following:

- Lists of the pay components included / excluded in the UWRP and VIP contribution calculations. Such lists were not readily available, so IA worked with Payroll to understand how to identify and use pay component data in Workday. IA then extracted the Workday data, used tools to compile and organize the pay components that were included / excluded in the calculations and exported the results into spreadsheets that were used in testing.
- An understanding of how Workday is configured to apply IRS limits across both UWRP / VIP contribution calculations.
- An explanation of the process to ensure that the Internal Revenue Code contribution limits are accurately and timely updated annually in Workday.
- Clarification of how the UWRP First Amendment, effective May 28, 2020 (i.e., mandatory increase at age 50 to a 10% contribution unless the participant makes an affirmative election to remain or reduce the contribution to 7.5%) applied to participants that were age 50 or over prior to the effective date that had not already elected a 10% contribution.

For many of the samples, performing the test steps above required analyzing Workday data on a pay-period by pay-period basis.

The results of the sampling testing demonstrated basic compliance with the plans and the employee elections; however, we did identify issues which are summarized in the findings. A summary of the samples and the exceptions identified by plan tested is included as part of Appendix C.

## **Workpaper Design & Organization**

- To document IA’s work in a complete, concise format, IA created workbooks with the goal that all work for each year was organized in one location and easy to understand and navigate.
- IA created summaries containing test results for the years reviewed, which allowed comparisons and trend identification.

## **Identification of “Applicable Employees” for KPMG Review**

All materials provided to KPMG were deidentified as to name and UW Employee ID number. IA assigned all UW employees with a “Unique ID” number and maintained a UW Employee ID to Unique ID crosswalk in our workpapers.

IA identified the “Applicable Employees” to provide to KPMG for their review. We identified these employees based on criteria we gleaned from the audit work completed to date for the population of UW employees who participated both in the UWRP and the VIP programs over the period of review July 1, 2017 to December 31, 2021. The Criteria used to identify higher risk were as follows:

- Employees where annual contributions to UWRP did not equal the matching contribution made by UW.
- Employees whose annual contributions were either above or below the expected rate of contribution for their respective age group.
- Employees whose annual contributions to the VIP program were above 70%.
- Employees whose salary was above the annual Internal Revenue Code salary limit for contributions.
- Employees with no UWRP contributions; however, they made VIP contributions.
- Employees whose contributions rates were either the maximum or minimum for a year in which they turned 35 or 50.
- All individuals who contributed at the maximum allowed contribution.

These employees were provided to KPMG as the “Applicable Employees” to complete election testing of this entire population and identify any individuals where the expected contributions per the employees’ elections did not equal the actual contributions made by the employee. See summary of Applicable Employees in Appendix D including the total Unique IDs by year provided to KPMG.

## Objectives and Conclusions

The following table lists the audit objectives and related conclusions:

| Objective   | Conclusion  |
|---|---|
| The UWRP / VIP programs are maintained in compliance with the Internal Revenue Code contribution and salary limits.         | Internal controls are not sufficient. Improvement is needed in the form of monitoring tools to enhance compliance.  |
| The UWRP / VIP Workday records adhere to the elections of the University employees.   | Internal controls are not sufficient. Improvement is needed in the form of monitoring tools to enhance compliance with employee requests.   |
| The UWRP / VIP Workday records properly calculate the contributions based on the program and employee election information. | Internal controls are not sufficient. Improvement is needed to evaluate the Workday controls over the processing of multi-variable employees – generally in the population over age 50. |
| The UWRP / VIP changes in election contribution percentages/amounts are timely implemented.                                 | Internal controls are not sufficient. Improvement is needed in the form of reporting and recording of these elections changes when effected via manual processes – outside of Fidelity. |

## Summary of Findings

The following table categorizes the number of findings presented to management. The findings are detailed in the following section of this report. Each finding represents a condition, error or internal control weakness identified during the audit that may have a negative impact on the University's or unit's assets, financial information, ability to comply with laws and regulations or University policies and procedures.

For each finding, we prepared a recommendation to address the situation and requested management's plans for remediation. We request that the timing of management's remediation be commensurate with the impact of the finding.

Internal Audit will follow-up with management to determine whether remediation has been implemented in the timeline established for each finding.

| Number of Findings | Priority/ Impact Level | Requested Implementation Timeline (months) |
|--------------------|------------------------|--|
| 0                  | <b>Critical</b>        | Three                                      |
| 3                  | <b>High</b>            | Six  |
| 0                  | <b>Medium</b>          | Twelve                                     |
| 0                  | <b>Low</b>             | Twelve                                     |
| <b>3</b>           | <b>TOTAL</b>           |  |

We conducted our examination in accordance with the International Standards for the Professional Practice of Internal Auditing and, accordingly, included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

## Findings, Recommendations and Management Response

### Finding (High Risk)

#### 1. Internal Revenue Code Annual Contribution Limits

The Internal Revenue Code annual contribution limits were exceeded for certain UWRP and VIP participants and the excess contributions were not timely detected and corrected.

Internal Revenue Code Section 402(g) sets an annual limit on the amount of elective deferrals that a participant may make to Section 403(b) retirement plans. The IRS publishes the “Elective Deferrals Limit” every year, including the additional “catch-up” amount allowed to participants over age 50. 100% of VIP contributions for all age groups counts towards the Elective Deferrals Limit as does the additional UWRP 2.5% contribution allowed for participants over age 50.

IA performed the Elective Deferrals Limit testing to identify employees that exceeded the annual limit. No exceptions were found in the groups below age 50, however exceptions were found in the “Turns Age 50 During the Year” and “Age 50+ for the Entire Year” groups in two of the years reviewed.

Internal Revenue Code Section 415(c) sets an annual limit on the total amount of contributions that a participant may make to Section 403(b) retirement plans. The IRS publishes the “Annual Additions Limit” every year, including the additional “catch-up” amount allowed to participants over age 50. 100% of UWRP and VIP contributions for all age groups counts towards the Annual Additions Limit.

IA performed the Annual Additions Limit testing to identify employees that exceeded the annual limit. Exceptions were found in all of the years reviewed for the “Age 35 to 49 for the Entire Year” group and in one of the years reviewed for the “Age 50+ for the Entire Year” group.

UWRP Section 4.11 Maximum Contribution. Plan Contributions for a Participant for any calendar year, together with contributions for the Participant under any other plan subject to Section 402(g) or 403(b) of the Code, shall not exceed the limitations in Code Sections 402(g) and 415 of the Code, to the extent applicable, except as permitted by Code Section 414(v). The limitations of Code Sections 402(g), 414(v) and 415 are herein incorporated by reference. If for any calendar year the limitations are exceeded because the Participant is also participating in another plan required to be aggregated with this Plan for the purposes of Code Sections 402(g), 414(v) and 415, and such plan is maintained by UW or a Related Employer, or UW receives from the Participant sufficient information concerning his or her participation in such other plan, then the extent to which annual contributions under this Plan will be reduced, as compared with the extent to which annual benefits or contributions under any other plans will be reduced, will be determined by UW. If the reduction is under this Plan, UW will advise the affected Participant of any limitations on his or her Plan Contributions required by this section. UW may, in its sole discretion, cause any contribution in excess of the foregoing limitations, adjusted for income, gains, losses or expenses attributable to such excess contribution, to be returned to UW or distributed to the Participant to the extent permitted by law.

**Finding (High Risk)****1. Internal Revenue Code Annual Contribution Limits (continued)**

VIP Section 4.5 Return of Excess VIP Contributions states that if a participant has VIP Contributions that exceed the limits in effect under section 402(g) or 415 of the Code for the calendar year, he or she may designate the contributions made during a taxable year to this program as excess VIP Contributions by notifying the Program Administrator of the amount of the excess on or before March 15 of the year following the year in which the excess Contributions occurred. Such excess VIP Contributions, adjusted through December 31 of the year in which the excess VIP Contributions occurred for income, gains, losses or expenses attributable to such excess VIP Contributions, will be distributed no later than April 15 of the year following the year in which the excess contributions occurred. UW may, in its sole discretion, cause any VIP Contribution in excess of the foregoing limitations, adjusted for income, gains, losses or expenses attributable to such excess VIP Contribution, to be distributed to the participant to the extent permitted by applicable law.

Internal Revenue Code Section 401(a)(17) sets a maximum amount of compensation that retirement contributions are calculated on annually, for persons hired on or after July 1, 1996. The IRS publishes the “Maximum Compensation Limit” every year. UWRP contributions calculated on compensation in excess of the maximum compensation amount may result in excess contributions.

IA performed the Maximum Compensation Limit testing to identify any employees that exceeded the annual limit. Exceptions were found in two or more age groups in two of the years reviewed.

UWRP Section 4.4. Limit on Salary Taken into Account states that for employees who become participants on or after July 1, 1996, the compensation taken into account for contributions in any year may not exceed \$230,000, as adjusted by the Commissioner of Internal Revenue from time to time for increases in the cost of living.

Failure to timely detect and correct any excess UWRP and VIP contributions can result in exceeding the Internal Revenue Code annual contribution limits.

**Finding (High Risk)**

**1. Internal Revenue Code Annual Contribution Limits (continued)**

**Recommendation**

UWHR / Benefits and ISC management should:

- A) Consult with UWIT to incorporate additional automated controls into Workday that are designed to timely detect and correct UWRP and VIP contributions exceeding Internal Revenue Code annual limits. Taking care to design controls which will most likely identify the types of limit violations identified.
- B) If automated control capabilities in Workday are limited, or as a supplement to automated controls, develop and implement monitoring controls to timely detect UWRP and VIP contributions exceeding Internal Revenue Code annual limits. Focus these additional monitoring controls on the areas most likely to create challenges for the automated controls to identify.
- C) Revisit and revise if necessary, the procedures to ensure that the annual changes to the Internal Revenue Code contribution limits are timely and accurately updated in Workday.
- D) Take steps to work with benefits consultants to correct any errors identified.

**Management Response**

*We agree and plan to....*

For any participant identified in the plan review, for whom IRS limits were exceeded since the implementation of Workday, management is utilizing the IRS voluntary corrections procedures to address the excess contributions.

*For Recommendation A:*

UWHR is engaged in ongoing consultations with the ISC and with the UW's Workday account representative. These consultations revolve around plan design complexities as they relate to monitoring all types of employee contributions-- mandatory contributions, elective UWRP contributions and elective VIP contributions. The discussions have revealed that Workday's existing functionality for automatically monitoring contributions and ensuring they do not exceed IRS limits is challenged by the many complex scenarios of UW payroll practices.

UWHR and the ISC will continue to advocate with the Workday account representative to explore new features that could aid in addressing these challenges and which could be included in Workday's biannual software releases. If any relevant features become available, UWHR will collaborate with the ISC to implement them.

Finding (High Risk)

1. Internal Revenue Code Annual Contribution Limits (continued)

**Pre July 1, 1996 participants:** New programming was implemented in Workday on 12/31/22 to allow this population to be properly managed within Workday. This new programming allows the distinct application of rules to this population different from those post-96 participants. UWHR is utilizing the IRS voluntary correction procedures to address this group.

*For Recommendation B:*

Since, at this time, Workday’s automated functionality is unable to prevent all possible scenarios of exceeding an IRS limit, UWHR is working on scoping a project to create a specified set of audit reports to be used by Benefits at the end of a plan year to identify any amounts exceeding IRS limits in order to timely correct by April 15 using the IRS EPCRS to self-correct. UWHR will also collaborate with our master recordkeepers on additional external control services. This exploration may provide new tools to monitor, identify and correct amounts exceeding IRS limits following the end of a plan year.

*For Recommendation C:*

Workday has capability to have the “standard” IRS limits automatically updated at the tenant level. Going forward, UWHR will partner with the ISC payroll team to document that functionality and to update business and technical procedures on entering additional IRS limits into Workday.

**Implementation date:** *July 1, 2024*

**Finding (High Risk)****2. VIP Contribution Employee Elections**

Contributions for certain VIP participants were calculated in Workday at a percentage or dollar amount that differed from the employee elections in the Fidelity files. Additionally, we noted elections in Workday that were not in the Fidelity election files and vice versa.

In our individual sample testing, we recalculated VIP contributions using the employee elections in the Fidelity files and compared the results to the VIP contributions in Workday.

For several of our samples, our VIP contribution amounts differed from the amounts in Workday. Upon investigating, we determined that the Workday amounts were calculated with a percentage or dollar amount that differed from what was in the Fidelity files. Sometimes, the percentage or dollar amounts used in the Workday calculations were recorded in the “Benefits Election History” section of Workday and sometimes they were not.

We were unable to determine why the percentage or dollar amounts recorded and used in Workday contribution calculations differed from those in the Fidelity election files.

Outdated or incorrect election percentages or dollar amounts in Workday may result in VIP contributions that do not follow the employee elections.

**Recommendation**

UWHR / Benefits and ISC management should:

- A) Develop and implement controls to ensure that VIP contributions are accurately calculated with the percentages or dollar amounts elected by employees. This should include a requirement that employees make all elections through the Fidelity portal.
- B) Create a reconciliation control that shall be performed following each transmission of new or updated elections from Fidelity to ensure that all current elections are in Workday.
- C) Create a workflow control or other manual control to identify and record any and all changes made to VIP contributions based on employee inquiry / employee complaint whereby the VIP contributions recorded per workday agree with an updated record within the Workday Benefits Election History.

**Finding (High Risk)****2. VIP Contribution Employee Elections (continued)****Management Response**

*We agree and plan to:*

*For Recommendation A:*

UWHR has already implemented a procedure for calendar year 2022 that all VIP contribution changes must be done in the Fidelity portal and be included on the Fidelity integration files sent to the UW each pay cycle. All participant election changes will be effective for subsequent pay periods (and not for any pay periods in process.) The ISC has been instructed not to override this timing procedure without consulting UWHR.

*For Recommendation B:*

UWHR will work with the UW-IT integration team to maintain a copy of all Fidelity integration files sent to the UW. These files will be loaded into the HR data store and will support future historical audits and provide base data for a pay cycle change audit report to be developed by HRIS and managed by the Benefits on a pay cycle basis.

*For Recommendation C:*

With the changes implemented from recommendation A, these instances would only be in truly exceptional circumstances. UWHR will work with counsel to develop and implement exception criteria, compliant with current IRS rules for permissible exceptions, to the Fidelity timing rule and will develop a process to support the implementation of permissible exceptions. Additionally, we will work with counsel to document any additional processes needed to ensure these exceptions are implemented in compliance with IRS reporting requirements. We will also work with Fidelity and TIAA to document processes to ensure our Workday payroll and benefit election records stay in sync with their recordkeeper data. Finally, we will partner with UW-IT to ensure any changes made under these exceptions have the data represented correctly in enterprise financial and HR data stores.

**Implementation date:** *July 1, 2024*

**Finding (High Risk)****3. UWRP and VIP Contribution Calculations**

Certain UWRP and VIP contributions did not appear to be calculated in accordance with the plan provisions.

In our individual sample testing, we evaluated the accuracy of UWRP and VIP contribution calculations pursuant to the plan provisions. For several of our samples, we observed unexpected contribution calculations as described below.

- UWRP contributions were not calculated for all pay periods or stopped. We noted that Internal Revenue Code limits had not been reached and sufficient net pay remained to allow for a higher contribution amounts.
- VIP contributions stopped without an employee election identified within the Fidelity Files or Workday Benefit Election History. We noted that Internal Revenue Code limits had not been reached and sufficient net pay remained to allow for a higher contribution amount.
- VIP contributions were initially calculated in Workday in accordance with the employee elections; however, were partially or fully reversed at a later date without documentation in Workday Benefits Election History, to record the request or reason for change.
- Changes in contribution percentages were delayed. We observed instances when UWRP 2.5% elections and VIP election changes took several pay periods to be implemented.
- Compensation pay components were not correctly included / excluded in UWRP and VIP contribution calculations as they were defined in Workday. We noted contributions calculated on excluded pay components and contributions not calculated on included pay components. Additionally, we noted certain pay components with very similar descriptions that were treated differently (i.e., one component was included and the other was excluded).
- Contributions were not calculated /deducted in the set order that Workday is configured to follow on a payroll-by-payroll basis. UW Benefits stated that the order is: UWRP 5% or 7.5%, then 2.5% contributions, Federal/state/local taxes, medical premiums, garnishments, parking, union due, FSA/HSA/DCAP deductions, LTD premiums, then VIP contributions.

**Finding (High Risk)**

**3. UWRP and VIP Contribution Calculations (continued)**

**Recommendation**

UWHR / Benefits and ISC management should:

- A) Determine the root causes for any inaccurate UWRP and VIP contribution calculations.
- B) Develop and implement controls to ensure that all contributions are accurately calculated in accordance with the plan provisions.

Revisit and revise if necessary, the compensation pay components to be included / excluded in UWRP and VIP contribution calculations.

**Management Response**

*We agree and plan to....*

We agree and plan to accept the recommendation and will investigate the root causes for the inaccuracies; UWHR is committed to correcting any identified errors that are required to be corrected in order to comply with section 403(b) of the Internal Revenue Code pursuant to the IRS EPCRS correction program.

Management is also committed to developing processes to identify and prevent inaccuracies in the future.

**Implementation date:** *July 1, 2024*

## Appendix A

## Summary of IRC Retirement Contribution Limits Testing

## UWRP Test Results Summary

No testing exceptions found

Testing Exceptions Found

Not Applicable

|                                   | Calendar        |                   | Fiscal Year - Plan Provisions |                   | Calendar        |                   |
|-----------------------------------|-----------------|-------------------|-------------------------------|-------------------|-----------------|-------------------|
|                                   | 2018            |                   | Last 6 months of 2018         |                   | 2017            |                   |
|                                   | Population Size | Errors Identified | Population Size               | Errors Identified | Population Size | Errors Identified |
| Elective Deferral Limit           | 1480            | 0                 | 1585                          | 0                 | 1644            | 0                 |
| Under age 35 for the entire year  | 208             | 0                 | 222                           | 0                 | 233             | 0                 |
| Turns age 35 during the year      | 2669            | 0                 | 2646                          | 0                 | 2595            | 0                 |
| Ages 35 to 49 for the entire year | 177             | 0                 | 175                           | 0                 | 182             | 0                 |
| Turns age 50 during the year      | 2727            | 0                 | 2707                          | 0                 | 2657            | 0                 |
| Age 50+ for the entire year       | 7261            |                   | 7335                          |                   | 7311            |                   |
| Total                             |                 |                   |                               |                   | 7234            |                   |
|                                   |                 |                   |                               |                   |                 |                   |
| Annual Additions Limit            | 1480            | 0                 | 1585                          | 0                 | 1644            | 0                 |
| Under age 35 for the entire year  | 208             | 0                 | 222                           | 0                 | 233             | 0                 |
| Turns age 35 during the year      | 2669            | 6                 | 2646                          | 8                 | 2595            | 19                |
| Ages 35 to 49 for the entire year | 177             | 0                 | 175                           | 0                 | 182             | 0                 |
| Turns age 50 during the year      | 2727            | 0                 | 2707                          | 0                 | 2657            | 0                 |
| Age 50+ for the entire year       | 7261            |                   | 7335                          |                   | 7311            |                   |
| Total                             |                 |                   |                               |                   | 7234            |                   |
|                                   |                 |                   |                               |                   |                 |                   |
| Maximum Compensation Limit        | 1480            | 0                 | 1585                          | 0                 | 1644            | 2                 |
| Under age 35 for the entire year  | 208             | 3                 | 222                           | 0                 | 233             | 2                 |
| Turns age 35 during the year      | 2669            | 0                 | 2646                          | 0                 | 2595            | 28                |
| Ages 35 to 49 for the entire year | 177             | 3                 | 175                           | 0                 | 182             | 5                 |
| Turns age 50 during the year      | 2727            | 0                 | 2707                          | 0                 | 2657            | 16                |
| Age 50+ for the entire year       | 7261            |                   | 7335                          |                   | 7311            |                   |
| Total                             |                 |                   |                               |                   | 7234            |                   |
|                                   |                 |                   |                               |                   |                 |                   |

## Appendix B

## Summary of Expected UWRP Contribution Percentages

| 2018                             |  |                     |                                |                                |                                |                                  |
|----------------------------------|--|---------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
| Age Group                        | UWRP Contribution Expected Percentages | Number of Employees | UWRP Contribution = Expected % | UWRP Contribution < Expected % | UWRP Contribution > Expected % | No Eligible Compensation in Data |
| Under Age 35 for the Entire Year | 10%                                    | 1,655               | 1,428                          | 24                             | 36                             | 167                              |
| Turns Age 35 During the Year     | 10% to 15%                             | 216                 | 205                            | 1                              | 1                              | 9                                |
| Age 35 - 49 for the Entire Year  | 15%                                    | 2,582               | 2,356                          | 64                             | 62                             | 100                              |
| Turns Age 50 During the Year     | 15% to 20%                             | 194                 | 181                            | 4                              | 1                              | 8                                |
| Age 50+ for the Entire Year      | 15% to 20%                             | 2,587               | 2,474                          | 56                             | 25                             | 32                               |
| Total                            |  | 7,234               | 6,644                          | 149                            | 125                            | 316                              |
| Percentage totals                |  |                     | 91.8%                          | 2.1%                           | 1.7%                           | 4.4%                             |

| 2019                             |  |                     |                                |                                |                                |                                  |
|----------------------------------|--|---------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
| Age Group                        | UWRP Contribution Expected Percentages | Number of Employees | UWRP Contribution = Expected % | UWRP Contribution < Expected % | UWRP Contribution > Expected % | No Eligible Compensation in Data |
| Under Age 35 for the Entire Year | 10%                                    | 1,644               | 1,492                          | 14                             | 34                             | 104                              |
| Turns Age 35 During the Year     | 10% to 15%                             | 233                 | 223                            | 1                              | 3                              | 6                                |
| Age 35 - 49 for the Entire Year  | 15%                                    | 2,595               | 2,446                          | 72                             | 9                              | 68                               |
| Turns Age 50 During the Year     | 15% to 20%                             | 182                 | 170                            | 6                              | 1                              | 5                                |
| Age 50+ for the Entire Year      | 15% to 20%                             | 2,657               | 2,538                          | 70                             | 12                             | 37                               |
| Total                            |  | 7,311               | 6,869                          | 163                            | 59                             | 220                              |
| Percentage totals                |  |                     | 94.0%                          | 2.2%                           | 0.8%                           | 3.0%                             |

| 2020                             |  |                     |                                |                                |                                |                                  |
|----------------------------------|--|---------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
| Age Group                        | UWRP Contribution Expected Percentages | Number of Employees | UWRP Contribution = Expected % | UWRP Contribution < Expected % | UWRP Contribution > Expected % | No Eligible Compensation in Data |
| Under Age 35 for the Entire Year | 10%                                    | 1,585               | 1,492                          | 19                             | 17                             | 57                               |
| Turns Age 35 During the Year     | 10% to 15%                             | 222                 | 214                            | -                              | 1                              | 7                                |
| Age 35 - 49 for the Entire Year  | 15%                                    | 2,646               | 2,494                          | 93                             | 16                             | 43                               |
| Turns Age 50 During the Year     | 15% to 20%                             | 175                 | 167                            | 7                              | -                              | 1                                |
| Age 50+ for the Entire Year      | 15% to 20%                             | 2,707               | 2,582                          | 81                             | 20                             | 24                               |
| Total                            |  | 7,335               | 6,949                          | 200                            | 54                             | 132                              |
| Percentage totals                |  |                     | 94.7%                          | 2.7%                           | 0.8%                           | 1.8%                             |

## Appendix B

## Summary of Expected UWRP Contribution Percentages (continued)

| 2021                             |   |                        |                                      |                                      |                                      |  |
|----------------------------------|---|------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Age Group                        | UWRP Contribution<br>Expected Percentages | Number of<br>Employees | UWRP<br>Contribution<br>= Expected % | UWRP<br>Contribution<br>< Expected % | UWRP<br>Contribution<br>> Expected % | No Eligible<br>Compensation in<br>Data |
| Under Age 35 for the Entire Year | 10%                                       | 1,480                  | 1,431                                | 16                                   | 20                                   | 13                                     |
| Turns Age 35 During the Year     | 10% to 15%                                | 208                    | 204                                  | 2                                    | 2                                    | -                                      |
| Age 35 - 49 for the Entire Year  | 15%                                       | 2,669                  | 2,541                                | 102                                  | 17                                   | 9                                      |
| Turns Age 50 During the Year     | 15% to 20%                                | 177                    | 172                                  | 4                                    | -                                    | 1                                      |
| Age 50+ for the Entire Year      | 15% to 20%                                | 2,727                  | 2,636                                | 78                                   | 5                                    | 8                                      |
| Total                            |   | 7,261                  | 6,984                                | 202                                  | 44                                   | 31                                     |
| Percentage totals                |   |                        | 96.2%                                | 2.8%                                 | 0.6%                                 | 0.4%                                   |

| Totals 2018 - 2021               |   |                        |                                      |                                      |                                      |  |
|----------------------------------|---|------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Age Group                        | UWRP Contribution<br>Expected Percentages | Number of<br>Employees | UWRP<br>Contribution<br>= Expected % | UWRP<br>Contribution<br>< Expected % | UWRP<br>Contribution<br>> Expected % | No Eligible<br>Compensation in<br>Data |
| Under Age 35 for the Entire Year | 10%                                       | 6,364                  | 5,843                                | 73                                   | 107                                  | 341                                    |
| Turns Age 35 During the Year     | 10% to 15%                                | 879                    | 846                                  | 4                                    | 7                                    | 22                                     |
| Age 35 - 49 for the Entire Year  | 15%                                       | 10,492                 | 9,837                                | 331                                  | 104                                  | 220                                    |
| Turns Age 50 During the Year     | 15% to 20%                                | 728                    | 690                                  | 21                                   | 2                                    | 15                                     |
| Age 50+ for the Entire Year      | 15% to 20%                                | 10,678                 | 10,230                               | 285                                  | 62                                   | 101                                    |
| Total                            |   | 29,141                 | 27,446                               | 714                                  | 282                                  | 699                                    |
| Percentage totals                |   |                        | 94.2%                                | 2.4%                                 | 1.0%                                 | 2.4%                                   |

## Summary of Sampling Attribute Testing and Results

## 2018

| Age Group                         | Population Size | Sample Size | Exceptions |                   |                  |                 |
|-----------------------------------|-----------------|-------------|------------|-------------------|------------------|-----------------|
|                                   |                 |             | None       | UWRP Contribution | VIP Contribution | Both UWRP & VIP |
| Under age 35 for the entire year  | 1,655           | 14          | 13         | 1                 | -                | -               |
| Turns age 35 during the year      | 216             | 6           | 5          | 1                 | -                | -               |
| Ages 35 to 49 for the entire year | 2,582           | 12          | 9          | 2                 | 1                | -               |
| Turns age 50 during the year      | 194             | 5           | 4          | 1                 | -                | -               |
| Age 50+ for the entire year       | 2,587           | 8           | 1          | 3                 | 3                | 1               |
| Total                             | 7,234           | 45          | 32         | 8                 | 4                | 1               |

## 2019

| Age Group                         | Population Size | Sample Size | Exceptions |                   |                  |                 |
|-----------------------------------|-----------------|-------------|------------|-------------------|------------------|-----------------|
|                                   |                 |             | None       | UWRP Contribution | VIP Contribution | Both UWRP & VIP |
| Under age 35 for the entire year  | 1,644           | 23          | 19         | 3                 | 1                | -               |
| Turns age 35 during the year      | 233             | 4           | 3          | -                 | 1                | -               |
| Ages 35 to 49 for the entire year | 2,595           | 15          | 7          | 2                 | 5                | 1               |
| Turns age 50 during the year      | 182             | 7           | 6          | -                 | 1                | -               |
| Age 50+ for the entire year       | 2,657           | 46          | 18         | 11                | 13               | 4               |
| Total                             | 7,311           | 95          | 53         | 16                | 21               | 5               |

## 2020

| Age Group                         | Population Size | Sample Size | Exceptions |                   |                  |                 |
|-----------------------------------|-----------------|-------------|------------|-------------------|------------------|-----------------|
|                                   |                 |             | None       | UWRP Contribution | VIP Contribution | Both UWRP & VIP |
| Under age 35 for the entire year  | 1,585           | 13          | 13         | -                 | -                | -               |
| Turns age 35 during the year      | 222             | 4           | 3          | -                 | 1                | -               |
| Ages 35 to 49 for the entire year | 2,646           | 7           | 5          | 2                 | -                | -               |
| Turns age 50 during the year      | 175             | 10          | 5          | 3                 | 2                | -               |
| Age 50+ for the entire year       | 2,707           | 9           | 5          | -                 | 4                | -               |
| Total                             | 7,335           | 43          | 31         | 5                 | 7                | -               |

### Summary of Sampling Attribute Testing and Results (continued)

| 2021                              |                 |             | Exceptions |                   |                  |                 |
|-----------------------------------|-----------------|-------------|------------|-------------------|------------------|-----------------|
| Age Group                         | Population Size | Sample Size | None       | UWRP Contribution | VIP Contribution | Both UWRP & VIP |
| Under age 35 for the entire year  | 1,480           | 12          | 8          | 1                 | 2                | 1               |
| Turns age 35 during the year      | 208             | 5           | 5          | -                 | -                | -               |
| Ages 35 to 49 for the entire year | 2,669           | 21          | 19         | 2                 | -                | -               |
| Turns age 50 during the year      | 177             | 5           | 3          | 1                 | -                | 1               |
| Age 50+ for the entire year       | 2,727           | 38          | 30         | 1                 | 6                | 1               |
| Total                             | 7,261           | 81          | 65         | 5                 | 8                | 3               |

| Totals 2018 - 2021                |                 |             | Exceptions |                   |                  |                 |
|-----------------------------------|-----------------|-------------|------------|-------------------|------------------|-----------------|
| Age Group                         | Population Size | Sample Size | None       | UWRP Contribution | VIP Contribution | Both UWRP & VIP |
| Under age 35 for the entire year  | 6,364           | 62          | 53         | 5                 | 3                | 1               |
| Turns age 35 during the year      | 879             | 19          | 16         | 1                 | 2                | -               |
| Ages 35 to 49 for the entire year | 10,492          | 55          | 40         | 8                 | 6                | 1               |
| Turns age 50 during the year      | 728             | 27          | 18         | 5                 | 3                | 1               |
| Age 50+ for the entire year       | 10,678          | 101         | 54         | 15                | 26               | 6               |
| Total                             | 29,141          | 264         | 181        | 34                | 40               | 9               |

## Appendix D

## Summary of Applicable Employees

| Number of Years as an<br>"Applicable Employee"   | FY    |      |      |      |      | Total      |
|--|-------|------|------|------|------|------------|
|  | 2017  | 2018 | 2019 | 2020 | 2021 | Unique IDs |
| Five Years   | 200   | 200  | 200  | 200  | 200  | 200        |
| Four Years   | 156   | 160  | 176  | 176  | 52   | 180        |
| Three Years  | 115   | 111  | 158  | 110  | 64   | 186        |
| Two Years  | 256   | 202  | 115  | 142  | 77   | 396        |
| One Year   | 1,352 | 205  | 154  | 153  | 133  | 1,997      |
| Totals   | 2,079 | 878  | 803  | 781  | 526  | 2,959      |
| Applicable employees were identified as individuals who participated in both UWRP and VIP in any year from 2017 and 2021 AND who met one of the higher risk criteria identified in our audit work. |       |      |      |      |      |            |