Oversight of the Human Resource System and Payroll and Benefits Processing

University of Wisconsin System

Legislative Audit Bureau ■

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February 4, 2014

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As requested by the Joint Legislative Audit Committee, we have completed an audit of the University of Wisconsin (UW) System's oversight of payroll and benefits processing and the Human Resource System (HRS), which is used to administer payroll and benefits for its employees. We reviewed UW System's preparedness to implement HRS, issues resulting from its April 2011 implementation, and the steps planned and taken to correct problems with HRS implementation and payroll and benefits processing.

We report concerns in several areas, including the adequacy of UW System's preparedness for implementation, problematic software modifications, incomplete implementation of HRS components at some UW institutions, inadequate staff training, and the use of manual processes for benefit reconciliation. These issues reduced efficiency and increased the cost of HRS beyond the $78.6 million spent by UW System for planning and implementation. In addition, certain HRS security issues we identified in past financial audits remained largely unresolved by UW System. We again report a material weakness related to HRS security in our fiscal year 2012-13 financial audit of UW System, which we have published separately as report 14-3.

We found that UW System has improved the accuracy of the data it reports to the Department of Employee Trust Funds (ETF) in recent months. However, we analyzed state group health insurance billing errors made by UW System from April 2011 through May 2013 and estimate the final loss will be between $10.6 million and $12.7 million. We recommend UW System report to the Joint Legislative Audit Committee on the actual loss incurred and the status of its efforts to correct other problems with HRS and payroll and benefits processing.

The Department of Administration and ETF also plan to implement new information technology systems related to payroll and benefits administration. The findings and recommendations of this report may help these agencies to avoid problems similar to those experienced by UW System during HRS implementation.

We appreciate the courtesy and cooperation extended to us by staff of UW System. A response from UW System follows the report.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/PS/ss

Report Highlights ■

Through June 2012, UW System spent $78.6 million to plan and implement HRS.

We identified several concerns that have reduced efficiency and increased the cost of HRS

We question whether UW System was adequately prepared to implement HRS in April 2011.

UW System officials did not significantly standardize and simplify business processes prior to HRS implementation.

Certain security issues we identified with HRS in past financial audits remained largely unresolved by UW System.

The Human Resource System (HRS) is used by the University of Wisconsin (UW) System to administer payroll and benefits for its employees. In fiscal year (FY) 2012-13, HRS was used to process approximately 1.2 million payroll checks and nearly $2.9 billion in payroll-related expenses, which represented nearly 63 percent of UW System's total expenses in that year. HRS was largely implemented in April 2011 as a replacement for the computer system that had been used to process payroll and benefits for UW System employees prior to that time.

In January 2013, we reported that UW System overpaid state group health insurance premiums by an estimated $15.4 million from May 2011 through September 2012 and overpaid Wisconsin Retirement System (WRS) benefits for 2011 by an estimated $17.5 million. At the request of the Joint Legislative Audit Committee, we reviewed UW System's oversight of HRS and payroll and benefits processing. In conducting our audit, we analyzed:

- HRS costs, including a comparison of the initial budget with actual expenditures;

- the oversight responsibilities of UW System Administration and other UW institutions related to HRS;

- the UW Service Center's role in administering HRS; and

- UW System's plans to address identified problems and improve oversight.

Budget and Expenditures

In September 2009, the Board of Regents approved a budget of $81.4 million for HRS planning and implementation, which were funded with $69.4 million, largely from tuition, and $12.0 million from a settlement agreement with Microsoft Corporation unrelated to HRS. Through June 2012, which UW System designated as the end of HRS implementation, UW System spent $78.6 million to plan and implement HRS. Consultant services were almost two-thirds of total project expenditures, as shown in Figure 1.

Figure 1

HRS Planning and Implementation Expenditures
(in millions)

Supplies and Services $5.1

Wages and Fringe Benefits $23.6

Consultant Services $49.9
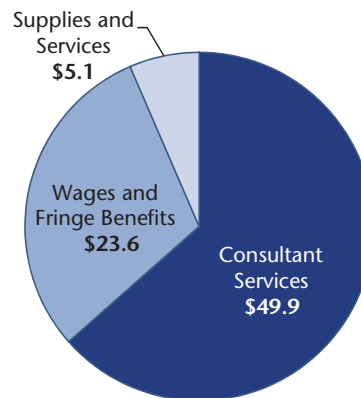
UW Service Center

The UW Service Center, which is now overseen by UW System Administration, provides support to all UW institutions related to payroll, benefits, and other automated human resources functions. UW Service Center expenditures increased from $8.2 million in FY 2010-11 to $14.8 million in FY 2012-13, or by 81.5 percent. This increase is largely the result of HRS implementation. We found that the UW Service Center exceeded its budget in these three fiscal years, including by $4.3 million, or 24.1 percent, in FY 2011-12.

HRS Implementation Issues

We reviewed HRS implementation and noted concerns in several areas that have reduced efficiency and increased the cost of HRS beyond the $78.6 million spent by UW System for planning and

implementation. For example, based on our review of UW System's final readiness assessment, we question whether UW System was adequately prepared to implement HRS in April 2011. Specifically, although UW System created workarounds for "highly critical" objectives that were not met before implementation, this increased the workload of UW Service Center staff and reduced the amount of time they had available for other issues. Documentation also indicated that training objectives might not be achieved prior to implementation. We found that 51.2 percent of UW Service Center staff responding to our survey reported being "dissatisfied" or "very dissatisfied" with the amount of HRS-related training they received prior to implementation. Further, an estimated $972,600 in overtime costs incurred by human resources departments at UW institutions from April 2011 through June 2013 were likely attributable to HRS implementation and were largely unbudgeted.

In part because UW System did not significantly standardize and simplify business processes prior to HRS implementation, it made a total of 192 modifications to the software it purchased to create HRS, largely to be consistent with its existing policies or procedures. Several of these modifications have created problems for payroll and benefits processing. For example, a modification needed to comply with federal law and to accurately calculate payroll taxes for certain student employees was not correctly implemented and resulted in an estimated $1.2 million not being withheld from June 2011 through September 2011.

We also found that some UW institutions had not implemented HRS components, which are known as eBenefits and Talent Acquisition Management, that were intended to streamline benefits selection and facilitate employee recruitment. Some UW institutions do not have plans to implement these components.

As we reported in January 2013, UW System did not have a process in place to ensure the timely and accurate reconciliation of employee benefits. We analyzed the state group health insurance billing errors UW System made from April 2011 through May 2013 and estimate the loss will total between $10.6 million and $12.7 million, depending on UW System's recovery efforts. UW System also made errors in manually calculating WRS benefits following implementation of HRS. UW System staff attribute most of the overpayment errors to manual calculations made from April 2011 to July 2011 that were needed because HRS's automated process for calculating WRS benefit payments was not functioning. In September 2012, the Department of Employee Trust Funds (ETF) credited UW System for $17.5 million in WRS overpayments for 2011.

UW System has taken steps to reduce overpayments for state group health insurance and WRS benefits. We found the amount of state group health insurance overpayments declined from $12.6 million (May 2011 to April 2012) to $1.2 million (May 2012 to April 2013), or by 90.5 percent. Similarly, overpayments for WRS benefits declined from $17.5 million in 2011 to $1.8 million in 2012. However, at the time of our fieldwork, certain HRS security issues we identified in past financial audits remained largely unresolved by UW System. In our FY 2012-13 financial audit of UW System (report 14-3), we again report a material weakness related to HRS security.

Future Considerations

While both internal and external reviews have resulted in recommendations to improve HRS operations, the majority of UW System's efforts to correct problems with HRS and payroll and benefits processing have focused on two broad initiatives. First, to correct immediate concerns related to HRS, the UW Service Center created a series of 20 "stabilization projects." Some of these efforts have resulted in unanticipated expenditures. For example, UW System spent nearly $3.0 million for stabilization projects in FY 2012-13 and plans to spend an additional $2.8 million in FY 2013-14, as shown Figure 2.

Figure 2

HRS Stabilization Project Expenditures
(in millions)

FY 2012-13	FY 2013-14
(Actual)	*(Planned)*
$3.0	$2.8
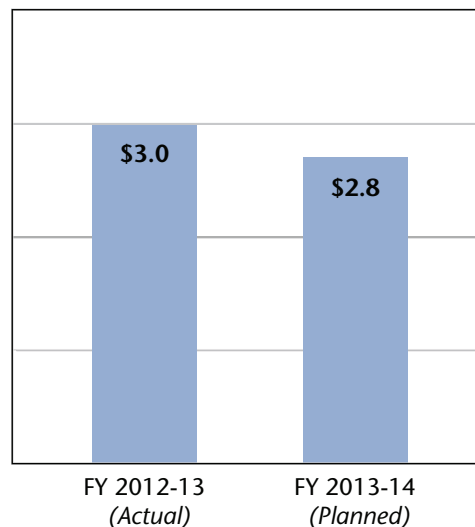
Second, the "HRS Roadmap" was developed by the UW Service Center in March 2013 and proposes improvements in four areas: policy, process, staffing/training, and HRS software. However, FY 2013-14 budgets for these projects had not been established at the time of our fieldwork.

As the Department of Administration implements the State Transforming Agency Resources (STAR) project, and ETF implements its new Benefits Administration System, each agency could benefit from consideration of the findings and recommendations from this report, as well as findings and recommendations from our prior audit of large information technology (IT) projects (report 07-5).

Recommendations

We recommend UW System complete its efforts to identify problems created by the software modifications that were made; perform adequate testing when any system changes are made; and determine whether removing certain modifications would resolve problems with HRS administration, prevent future problems, or limit future costs *(p. 25)*.

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on:

☑ its progress in reducing or removing problem-causing software modifications and its timeline for doing so *(p. 25)*;

☑ the extent to which eBenefits and Talent Acquisition Management have been implemented at UW institutions and a timeline for implementation at any remaining institutions *(p. 28)*;

☑ its plans to improve HRS-related training for its employees, including progress in implementing its credentialing program *(p. 30)*;

☑ its plans to routinely assess ongoing HRS-related training needs and the effectiveness of the training it provides *(p. 30)*;

☑ the status of its efforts to recoup state group health insurance overpayments made from 2011 through 2013 *(p. 34)*;

☑ the total amount of WRS benefit overpayments or underpayments made by UW System in 2013 as determined through the annual WRS reconciliation process *(p. 37)*;

☑ the number of corrections it reported to ETF through the late-reporting process and the time period during which they were reported *(p. 37)*;

☑ the causes of the errors in UW System's administration of WRS benefits and what it has done to address them *(p. 37)*;

☑ its progress in implementing recommendations from internal and external reviews *(p. 41)*; and

☑ its progress in correcting problems with HRS and payroll and benefits processing through its stabilization and HRS Roadmap projects *(p. 44)*.

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Introduction ■

HRS consists of software purchased from a vendor that was modified at the direction of UW System to better meet its needs. It is used by UW System to process and record personnel-related data for all staff and students employed by UW institutions, including 13 four-year campuses, 13 two-year colleges, UW-Extension, and UW System Administration. It is also used to track position information and maintain data on benefits, taxes, and personal employee information, such as addresses and telephone numbers.

In July 2006, UW System cancelled implementation of a personnel and payroll system after $28.4 million was spent.

Prior to the implementation of HRS, UW System used several computer programs for personnel and payroll functions. Initially developed in the 1970s, these programs were collectively referred to as the "legacy system." By 1999, UW System determined the legacy system was expensive to maintain and was failing to meet the needs of its institutions. In 2001, UW System contracted with Lawson Software, Inc., to provide software for a new system called the Appointment, Payroll, and Benefits System (APBS). UW System estimated the APBS project would cost $19.7 million and would be completed in January 2005. However, UW System cancelled the project in July 2006 after $28.4 million was spent and a series of implementation problems had increased the project's estimated cost to $60.0 million.

UW System had purchased software totaling $1.1 million from Oracle USA, Inc., and in January 2009 it contracted with a consultant for planning and implementation services. An HRS implementation plan was formally approved in September 2009 by the Board of Regents, and HRS was largely implemented in April 2011.

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In January 2013, we reported that UW System overpaid state group health insurance premiums by an estimated $15.4 million from May 2011 through September 2012 and overpaid WRS benefits by an estimated $17.5 million due to a lack of oversight and monitoring of fringe-benefit processes. At that time, we also reported a material weakness related to HRS security that increased the risk of inadvertent, erroneous, or unauthorized payments or changes to the system.

Based on these concerns, and at the request of the Joint Legislative Audit Committee, we reviewed UW System's oversight of HRS and payroll and benefits processing. In conducting our audit, we reviewed HRS costs, including a comparison of the budget with actual expenditures, as well as the oversight provided to the project during development and implementation. In addition, we reviewed UW System's plans to address identified problems and improve oversight.

Functions of HRS

HRS maintains personnel data on all UW System employees.

HRS maintains personnel data on all UW System employees. In December 2012, UW System employed 74,200 individuals, as shown in Table 1. Student employees were approximately one-half of the total number of employees.

Table 1

Number of UW System Employees, by Type
December 2012

Employee Type	Number of Employees	Percentage of Total
Academic Staff	14,400	19.4%
Classified Staff	13,300	17.9
Faculty	6,400	8.6
Student Employees		
Graduate Assistants[1]	6,800	9.2
Other Student Help	29,600	39.9
Other[2]	3,700	5.0
Total	**74,200**	**100.0%**

[1] Includes research assistants receiving compensation who UW System does not define as employees.

[2] Includes scholars, trainees, and fellows receiving compensation who UW System does not define as employees.

HRS was used to:

- process approximately 1.2 million payroll checks in FY 2012-13 and nearly $2.9 billion in payroll-related expenses, which represented nearly 63 percent of UW System's total expenses in that year;

- administer $713.5 million for UW System's share of employee fringe benefits in FY 2012-13 through programs such as the WRS, state group health insurance, state group life insurance, and income continuation insurance; and

- generate approximately 102,300 W-2 wage and tax statements for 2012.

HRS also performs other functions, such as:

- time and labor management, which includes employee time reporting and approval;

- absence management, which includes collection, processing, and management of employee leave and leave reporting; and

- integration with UW System's Shared Financial System in order to transfer payroll and benefits information into UW System's accounting system.

In addition, HRS was intended to incorporate eBenefits, which allows UW System employees to make their own benefit choices online, and Talent Acquisition Management, which includes administration of job openings, position postings, applicant screening, job offers, and the hiring process.

The UW Service Center manages day-to-day operations of HRS.

UW System Administration is responsible for the overall strategic direction and oversight of HRS. The UW Service Center manages the day-to-day operations of HRS and provides support to all UW institutions related to payroll and benefits processing. UW-Madison's Division of Information Technology (DoIT) provides IT support for HRS, such as programming and data security. Staff responsible for human resources and payroll functions at each UW institution enter employee-specific data into HRS that is needed to process employee payroll and benefits for their respective institutions.

HRS Implementation

To provide direction for HRS implementation, UW System established an organizational structure that was intended to provide oversight of its planning and budget. It was also intended to include input from UW institutions while being sufficiently streamlined to provide efficient and effective guidance to project managers.

Oversight Structure

Overall responsibility for implementation of HRS was assigned to UW System's Senior Vice President for Administration and Fiscal Affairs. This UW official reported to the President of UW System and also reported directly to the Board of Regents with respect to HRS implementation. This official served as the chair of the UW Service Center Executive Committee, which was responsible for overseeing UW Service Center operations. At the time the Board of Regents approved the HRS implementation plan in September 2009, the UW Service Center Executive Committee consisted of 12 members. Eleven were senior UW System administrators—6 representing UW System Administration, 4 representing UW-Madison, and 1 representing UW Colleges and UW-Extension—and the other member was the HRS Project Manager, who was a UW-Madison employee. The UW Service Center Executive Committee typically met monthly from its creation through June 2012. In July 2012, it was replaced by the Executive Committee for Enterprise-wide Administrative Systems, which is responsible for issues related to both the UW Service Center and UW System's accounting system.

The UW Service Center Executive Committee appointed the HRS Project Steering Committee. At the time the Board of Regents approved the HRS implementation plan in September 2009, the HRS Project Steering Committee consisted of 18 members, including the HRS Project Manager, a manager from the consulting firm hired to implement HRS, and 16 UW System administrators: 7 representing UW System Administration, 4 representing UW-Madison, and 1 each representing UW Colleges, UW-Eau Claire, UW-Green Bay, UW-Milwaukee, and UW-Stevens Point. The HRS Project Steering Committee typically met every two to three weeks from its creation through March 2012 to address procedural and high-level technical issues related to the implementation and maintenance of HRS. In April 2012, the HRS Project Steering Committee was replaced by the Service Center Steering Committee, which has similar responsibilities.

Budget and Expenditures

In September 2009, the Board of Regents approved a budget of $81.4 million for HRS planning and implementation .

In September 2009, the Board of Regents approved a budget of $81.4 million for HRS planning and implementation. The proposed budget included:

- $46.7 million for consulting services;

- $24.8 million for UW System's staffing costs, including wages and fringe benefits;

- $6.3 million as a designated contingency fund to cover unanticipated expenses and cost overruns in other areas; and

- $3.6 million for supplies and services, such as hardware, office supplies, furniture, rent, and utilities.

Before the planning and implementation budget for HRS was approved, UW System had already spent $12.0 million for project planning. The $12.0 million was included as part of the $81.4 million budget approved by the Board of Regents. The budget included costs associated with UW System staff responsible for centralized implementation of HRS, staff training, and building an interface to UW System's accounting system. However, with the exception of UW-Madison staff dedicated to project implementation, the budget did not include costs associated with human resources or IT staff at UW institutions.

Planning and implementation were funded with $69.4 million, largely from tuition, and $12.0 million from a settlement agreement with Microsoft Corporation unrelated to HRS. At its September 2009 meeting, the Board of Regents allocated project funding for FY 2009-10, and at subsequent meetings it allocated funding for each of the following two fiscal years.

Through June 2012, UW System spent $78.6 million to plan and implement HRS.

We reviewed expenditures in UW System's accounting system that were charged to the HRS planning and implementation budget through June 2012, which UW System designated as the end of HRS implementation. As shown in Table 2, UW System spent $78.6 million to plan and implement HRS.

Table 2

HRS Planning and Implementation Budget and Expenditures
(in millions)

Category	Budget	Expenditures[1]
Consultant Services	$46.7	$49.9
Wages and Fringe Benefits[2]	24.8	23.6
Supplies and Services	3.6	5.1
Contingency	6.3	—[3]
Total	**$81.4**	**$78.6**

[1] Includes expenditures through June 2012, which UW System designated as the end of project implementation.

[2] Primarily includes staff of DoIT.

[3] Expenditures from the contingency fund were allocated to the categories in which they were made.

Consultant services were almost two-thirds of total project expenditures. Of the $49.9 million spent on consultants, $49.1 million was paid to Huron Consulting Group for assisting with HRS planning and providing contract staff to assist with implementation. The remaining $0.8 million was paid to Ciber, Inc., primarily to help prepare UW System to implement HRS by developing a series of recommendations to facilitate project planning and the selection of a consultant to assist with HRS implementation.

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UW Service Center Operations ■

The UW Service Center is directly responsible for HRS and provides HRS-related support to UW institutions. Although UW Service Center expenditures have increased substantially since HRS implementation, the ability of the UW Service Center to fulfill its responsibilities has been hampered by the challenges it has faced in retaining staff.

UW Service Center Expenditures

The UW Service Center provides support to all UW institutions related to automated payroll, benefits, and human resources functions.

The UW Service Center provides support to all UW institutions related to payroll, benefits, and other automated human resources functions. Until recently, the UW Service Center reported to the UW-Madison Office of Human Resources, with oversight provided jointly by UW-Madison and UW System Administration. However, in response to concerns raised in a September 2013 post-implementation risk assessment, administrative responsibility was transferred entirely to UW System Administration in December 2013. The risk assessment found that the leadership structure of the UW Service Center and its related human resources processes would benefit from a clearer definition of the parties responsible for their oversight and direction, rather than a continuation of the joint oversight structure.

UW Service Center operations are funded by program revenue, primarily through assessments on each UW institution. In FY 2012-13, UW-Madison and UW-Milwaukee were assessed 52.9 percent of the UW Service Center's operational expenditures,

while the remaining UW institutions each funded approximately 5 percent or less of the total.

UW Service Center expenditures increased from $8.2 million in FY 2010-11 to $14.8 million in FY 2012-13.

As shown in Table 3, UW Service Center expenditures increased from $8.2 million in FY 2010-11 to $14.8 million in FY 2012-13, or by 81.5 percent. The increase is largely the result of HRS implementation in April 2011. Although UW Service Center staff had been responsible for administering the legacy system, they indicate that it is more expensive to operate HRS as a result of several factors, including:

- the need to perform functions previously performed by other UW entities, such as benefits billing that had previously been performed by human resources staff at UW institutions;

- the need to perform functions, such as check printing and tax deposits, that had previously been performed by DOA;

- additional internal controls and oversight of business processes; and

- higher per-person staffing costs based on the need to recruit individuals with the technical skills required to operate HRS.

Table 3

UW Service Center Expenditures, by Category

	FY 2010-11	FY 2011-12	FY 2012-13
Wages and Fringe Benefits[1]	$2,765,100	$11,502,100	$12,013,900
Infrastructure	2,588,800[2]	1,328,300	1,337,100
Consultant Services	2,376,600	8,889,100	1,019,200
Other[3]	445,200	358,400	467,600
Total	**$8,175,700**	**$22,077,900**	**$14,837,800**

[1] Includes employees of DoIT who support UW Service Center operations.

[2] Includes costs to support the legacy system.

[3] Includes staff-related costs such as supplies and travel.

The UW Service Center exceeded its budget in each of the past three fiscal years.

We found that the UW Service Center exceeded its budget in each of the past three fiscal years, as shown in Table 4. In FY 2011-12, the UW Service Center spent $4.3 million, or 24.1 percent, more than had been budgeted.

Table 4

UW Service Center Budget and Expenditures

	FY 2010-11	FY 2011-12	FY 2012-13
Budget	$7,654,000	$17,795,600	$14,328,400
Expenditures	8,175,700	22,077,900	14,837,800
Amount Over Budget	**$ 521,700**	**$ 4,282,300**	**$ 509,400**

UW System officials reported that the amount the UW Service Center spent in excess of its budget was the result of costs to address:

- inadequate training provided to UW Service Center staff and human resources staff at UW institutions;

- insufficient personnel with the skills needed to operate HRS;

- the establishment of insufficient and inadequate business processes, such as those related to the processing of Federal Insurance Contributions Act (FICA) payments for certain student employees; and

- an increase in the volume of issues reported to the UW Service Center by UW institutions.

The increased use of consultant services was the single biggest factor contributing to the excess expenditures. For example, the UW Service Center spent $3.5 million more than it budgeted on consultant services in FY 2011-12.
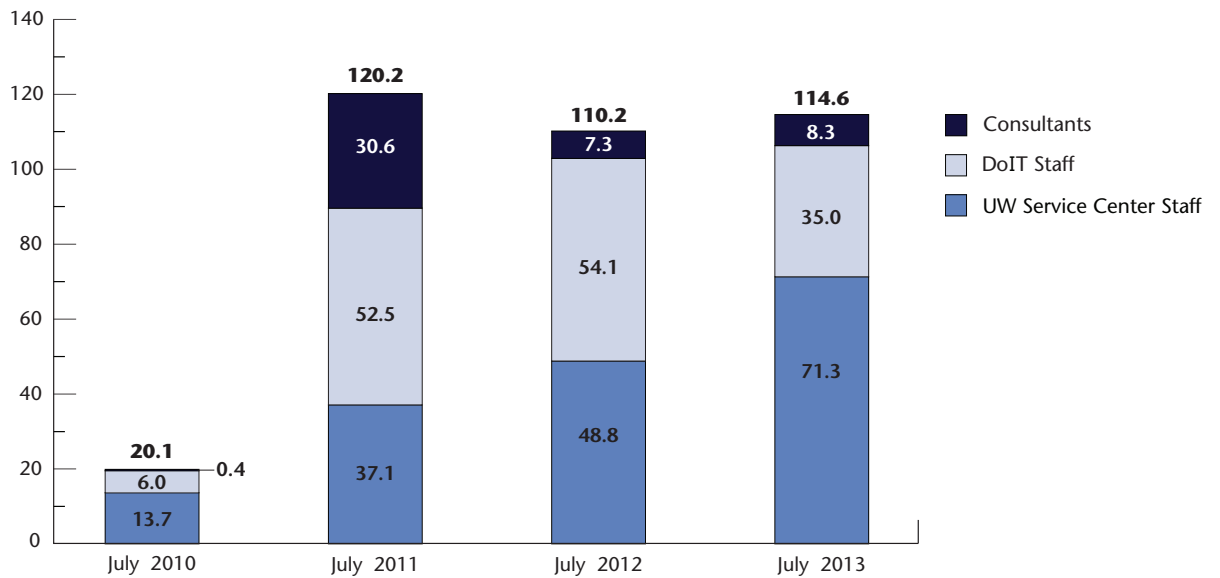
UW Service Center Staffing Resources and Performance

The UW Service Center has been staffed with a combination of UW employees and consultants.

The UW Service Center has been staffed with a combination of its own employees, staff from DoIT, and consultants who worked alongside UW System staff in providing daily assistance in administering HRS. As shown in Figure 3, the number of full-time equivalent (FTE) employees at the UW Service Center increased each year from July 2010 to July 2013. The number of FTE staff from DoIT working for the UW Service Center, as well as the number of FTE consultants providing staffing support, fluctuated during this period.

Figure 3

UW Service Center Estimated FTE Staffing Resources[1]

[1] Excludes students, limited-term employees, and staff shared with UW-Madison's Office of Human Resources.

During the transition period from the legacy system to HRS, the UW Service Center relied on consultants to address staffing needs. For example, consultants were used to fill technical development positions because the positions tended to be short-term. In July 2011, an estimated 30.6 FTE consultants provided operational services to the UW Service Center. However, as UW System employees were recruited and hired, the number of FTE consultants was reduced to an estimated 8.3 FTE in July 2013.

The UW Service Center has faced challenges retaining its staff.

The UW Service Center has also faced challenges retaining its staff. For example, 70.6 percent of staff it employed in July 2010 who worked at least 50 percent of a full-time schedule were still employed at the UW Service Center in July 2011, as shown in Table 5. Staff retention declined to 67.4 percent from July 2011 to July 2012, and it was 65.4 percent from July 2012 to July 2013. It should be noted that these estimates may overstate the retention rate at the UW Service Center because they do not take into account any individuals who may have been hired after July of any of these years and who left UW Service Center employment prior to the subsequent July.

Table 5

Estimated Retention of UW Service Center Staff

	Number of Employees[1, 2]	Number of Employees Who Had Been Employed During the Previous July	Percentage of Staff Retained
July 2010	17	–	–
July 2011	43	12	70.6%
July 2012	52	29	67.4
July 2013	72	34	65.4

[1] Includes only staff that worked at least 50 percent of a full-time schedule.

[2] Excludes individuals who were hired but left employment during the preceding 12-month period.

More than half of survey respondents reported being "satisfied" or "very satisfied" with the performance of the UW Service Center.

To obtain information regarding the performance of the UW Service Center, we surveyed 1,670 UW System employees that UW staff indicated were involved with HRS, including 110 UW Service Center staff and 1,560 staff of UW institutions. As shown in Table 6, more than half of all those responding to the question were "satisfied" or "very satisfied" with the performance of the UW Service Center related to its ability to resolve issues and the accuracy, completeness, and timeliness of its responses. However, approximately one-fourth of respondents from UW institutions indicated dissatisfaction with the UW Service Center's ability to resolve issues and the accuracy of its responses, and more than one-third indicated dissatisfaction with the completeness and timeliness of the UW Service Center's responses. Similarly, responses from staff of the UW Service Center showed that the completeness and timeliness of their responses were in the areas with which there was the greatest amount of dissatisfaction.

Table 6

Satisfaction with Performance of the UW Service Center[1]
April 2013

	Number of Responses	Percentage "Satisfied" or "Very Satisfied"	Percentage "Dissatisfied" or "Very Dissatisfied"
Staff of UW Service Center[2]			
Ability to Resolve Issues	63	79.4%	20.6%
Accuracy of Responses	63	85.7	14.3
Completeness of Responses	63	77.8	22.2
Timeliness of Responses	63	68.2	31.8
Staff of UW Institutions[3]			
Ability to Resolve Issues	394	73.1%	26.9%
Accuracy of Responses	391	72.6	27.4
Completeness of Responses	392	63.5	36.5
Timeliness of Responses	392	56.4	43.6

[1] Based on a survey we conducted of 1,670 UW System employees involved with HRS.

[2] Represents the satisfaction of UW Service Center staff related to their own performance in responding to questions and requests from staff of UW institutions.

[3] Represents the satisfaction of staff of UW institutions with the UW Service Center's performance in responding to their questions and requests.

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Preparedness for HRS Implementation

Extent of Software Modifications

Phases of HRS Implementation

Training Provided to UW Staff

Benefit Reconciliation Processes

Security Issues

HRS Implementation Issues ∎

We reviewed HRS implementation and noted concerns in several areas, including the adequacy of UW System's preparedness for implementation, problematic software modifications, incomplete implementation of HRS components at some UW institutions, inadequate staff training, and the use of manual processes for benefit reconciliation. These issues have reduced efficiency and led to increased costs. In addition, certain HRS security issues remained largely unresolved.

Preparedness for HRS Implementation

As noted, HRS was largely implemented in April 2011. Four times before HRS implementation, UW System surveyed its staff to assess progress in meeting 481 objectives that UW System determined were important to the successful functioning of HRS. UW System identified 270 of the 481 objectives as "highly critical" and determined that these objectives must be met before HRS implementation.

As shown in Table 7, the final readiness assessment, which was conducted two weeks before HRS implementation, indicated that 58.2 percent of the 481 objectives were met, including 66.3 percent of those objectives identified as highly critical. No data are available to assess the extent to which the 79 highly critical objectives designated as "on track to be met" were actually achieved by the time HRS was implemented. Although at least 12 highly critical objectives were not achieved, UW System officials indicated that they proceeded with implementation because they had created workarounds for the 12 unmet objectives.

Table 7

Results of Final Readiness Assessment[1]
April 2011

Status in Meeting Objectives	All Objectives	Percentage	Objectives Identified as Highly Critical	Percentage
Met	280	58.2%	179	66.3%
On Track to be Met	154	32.0	79	29.3
Not Met—To Be Addressed Through a Workaround	45	9.4	11	4.1
Failed	2	0.4	1[2]	0.4
Total	**481**	**100.0%**	**270**	**100.0%**

[1] Based on a survey conducted by UW System of its staff.

[2] UW System indicated a workaround was developed for this objective during the two weeks between the final readiness assessment and the implementation of HRS.

We question whether UW System was adequately prepared to implement HRS in April 2011.

Based on our review of the final readiness assessment, we question whether UW System was adequately prepared to implement HRS in April 2011. First, although numerous workarounds were created to address areas in which project objectives would not be achieved at implementation, several of these workarounds involved the creation of manual processes that increased the workload of UW Service Center staff and reduced the amount of time they had available for other issues. In addition, 4 of the 11 highly critical objectives to be met through workarounds were directly related to UW Service Center preparedness. For example, because the UW Service Center's staff were inadequately prepared to support HRS users at implementation, additional consultants and staff had to be assigned to the UW Service Center.

Second, several of the 79 highly critical objectives that the final readiness assessment identified as being on track to be met do not appear to be supported by the detailed information included within the assessment documents. For example, the final readiness assessment included information that suggests some of the objectives related to staff training might not be achieved because of a lack of time prior to implementation.

Third, HRS implementation resulted in significant overtime costs that were largely unbudgeted. We analyzed overtime costs for the human resources department at each UW institution from April 2011 through June 2013. This includes the UW Service Center,

which at the time was located within UW-Madison's Office of Human Resources. We found overtime expenditures increased following HRS implementation. Because these are not project costs, they were not included in the HRS planning and implementation budget.

To estimate the amount of overtime costs that were related to HRS, we first determined the average annual amount of overtime expenditures incurred by human resources departments at UW System institutions from FY 2007-08 through FY 2009-10, which are the three fiscal years completed prior to HRS implementation. We then deducted an appropriately prorated amount of the average from the overtime costs they incurred from April 2011 through June 2013.

From April 2011 through June 2013, an estimated $972,600 in overtime costs were likely attributable to HRS implementation.

We estimate that human resources departments incurred a total of $972,600 in overtime costs that are likely attributable to HRS implementation. The UW Service Center incurred approximately one-half of these overtime costs. We attempted to calculate the amount of additional overtime costs incurred by IT staff at each UW institution that were likely attributable to HRS implementation, but were unable to do so based on the data available.

We also found that UW institutions did not budget for the majority of these costs. For example, UW-Milwaukee included no overtime costs as part of its human resources budgets from FY 2010-11 through FY 2012-13, but it incurred a total of $102,400 in overtime costs during this period. In addition, the UW Service Center budgeted $20,000 for overtime in both FY 2010-11 and FY 2011-12, but it incurred $114,000 in overtime costs in FY 2010-11 and $392,100 in FY 2011-12. For FY 2012-13, the UW Service Center budgeted $200,000 in overtime costs, but it incurred only $33,000 in that year, partly because of a management decision to limit overtime.

In addition, we note that a June 2011 quality assurance review issued by a consultant found that:

▪ several HRS processes had not been fully tested and still needed to be addressed, including effective reconciliation of employee benefits and reconciliation between HRS and UW System's accounting system; and

▪ staff of UW institutions lacked basic information needed to process payroll and benefits. For example, because of training deficiencies, some UW staff were unable to produce a payroll register, which is a report indicating who was paid during a given pay period.

Because of especially high demands related to payroll and benefits processing at certain times of the year, UW System officials indicated that their choice of implementation dates was limited. In February 2011, UW System staff indicated that if the implementation were delayed past April, HRS could not have been implemented until either September 2011 or January 2012 based on workload issues related to the academic calendar. Therefore, UW System believed that its decision to move forward with implementation was justified and asserted that if it had delayed implementation the possibility of a legacy system failure could have prevented it from issuing paychecks and administering benefits for its employees.

Extent of Software Modifications

In report 07-5, we found that state agencies often encountered problems when they chose to customize software for large IT projects beyond what was needed to meet program requirements instead of changing business processes to fit the software's existing functions. In that report, we specifically noted that UW System had not finalized its plans to standardize UW institutions' business processes, which would have been an important step in limiting software customization and avoiding the significant difficulties experienced with the APBS project.

UW System officials did not significantly standardize and simplify business processes prior to HRS implementation.

As part of its planning for the implementation of HRS, UW System intended to limit the number and extent of software modifications made by changing its business processes where possible rather than customizing the software to accommodate them. However, UW System officials have acknowledged that they did not significantly standardize and simplify business processes prior to implementing HRS.

By April 2011, UW System had made a total of 192 modifications to the software it purchased to create HRS. Based on an analysis by the UW Service Center:

- 111 modifications were made solely to be consistent with existing UW System policies or procedures, such as allowing HRS to communicate with a system used by UW-Madison to process position descriptions and facilitate employee recruitment efforts;

- 15 modifications were made solely to address requirements in state or federal laws and regulations, such as the eligibility requirements for participation in the WRS;

- 2 modifications were made solely to address the requirements of collective bargaining agreements, such as calculating overtime wages;

- 61 modifications were made to address a combination of these factors; and

- 3 modifications were not categorized.

Several software modifications created problems for payroll and benefits processing.

UW officials indicate that some of the modifications were not intended to be permanent but rather temporary fixes that allowed HRS implementation to proceed. Several of the software modifications, including some required to comply with federal law, have created problems for payroll and benefits processing. For example, a modification needed to accurately calculate FICA taxes for full- and part-time students was not correctly implemented, resulting in an estimated $1.2 million in FICA taxes not being withheld from the paychecks of certain student employees from June to September 2011. In addition, a modification related to the funds UW System encumbers required significant reprogramming to resolve errors made in programming the initial modification.

Modifications to existing software should be adequately tested to ensure they function as intended and do not lead to additional issues that must later be resolved. UW System staff have begun a process of evaluating which modifications may be eliminated without compromising the ability of HRS to meet the business needs of UW System. Removing some of the software modifications may reduce the number of ongoing errors created through inaccurate programming and conflicts in communicating with other IT systems. Removing some of the software modifications could also limit future costs by avoiding the need to update and test the software modifications currently in place as upgrades to HRS software are made.

☑ **Recommendation**

We recommend UW System:

- *complete its efforts to identify problems created by the software modifications that were made;*

- *perform adequate testing when any system changes are made to ensure they address identified issues and do not create additional problems;*

- *determine whether removing certain modifications would resolve problems with HRS administration, prevent future problems, or limit future costs; and*

- *report to the Joint Legislative Audit Committee by July 1, 2014, on its progress in reducing or removing problem-causing software modifications and its timeline for doing so.*

Phases of HRS Implementation

The HRS implementation plan included three phases. The first phase was the largest and its implementation included all of the functions needed to process payroll and administer benefits for the entire UW System. The second phase, eBenefits, allows UW System employees to make their own benefit choices online without the need for staff in human resources offices to input or directly process the information.

The third phase, Talent Acquisition Management, allows human resources staff to track information on prospective employees from their initial applications through the interview process and, if hired, electronically transfer the information collected into HRS. This reduces the amount of time needed to process the information, as well as possible errors associated with manual reentry. In April 2009, the HRS Project Steering Committee decided that UW-Madison would be excluded from implementing Talent Acquisition Management and that it would continue to use a modified version of its current recruitment system. The exception was approved based on concerns raised by UW-Madison that adopting Talent Acquisition Management would require significant modifications to its hiring practices. As a result, an electronic interface was created between UW-Madison's recruitment system and HRS so that data could be transmitted between the two systems.

The HRS implementation plan approved by the Board of Regents in September 2009 specified that the first phase would be completed in the second quarter of 2011 and that the other two phases would be completed within the subsequent twelve-month period. In January 2011, the UW Service Center Executive Committee approved a more specific plan for HRS implementation. The plan, which was revised in June 2011, established completion dates for each phase:

▪ April 18, 2011, for the first phase, which included all of the functions needed to process employee payroll and administer benefits;

▪ November 2011 for eBenefits; and

▪ March 2012 for Talent Acquisition Management.

Further modifications were made in October 2011, when the UW Service Center Executive Committee approved a revised plan to implement eBenefits in November 2011 at only the three UW institutions that had agreed to pilot eBenefits: UW-Green Bay, UW-La Crosse, and UW-Oshkosh. At that time, planned implementation at the other UW institutions was postponed until 2012 due to concerns expressed by the institutions about software stability and the preparedness of the institutions to provide support for eBenefits.

Implementation of Talent Acquisition Management was also delayed. By March 2012, ten UW institutions had implemented Talent Acquisition Management. However, UW-La Crosse, UW-Milwaukee, and UW-River Falls sought approval to continue to use their current automated systems for managing employee recruitment, which they indicated better met their needs. Representatives of these institutions expressed concern about the disruption that could be caused by implementing Talent Acquisition Management while also needing to address existing problems with HRS. As a result, the HRS Project Steering Committee agreed in November 2011 to allow the three institutions to indefinitely defer implementation.

As of December 2013, eight institutions had not fully implemented eBenefits, four institutions may never implement Talent Acquisition Management, and two institutions that plan to implement Talent Acquisition Management had not done so, as shown in Table 8.

Table 8

Implementation of eBenefits and Talent Acquisition Management
(as of December 2013)

UW Institutions	eBenefits	Talent Acquisition Management
Colleges		✓
Eau Claire	✓	✓
Extension	✓	✓
Green Bay	✓	✓
La Crosse	✓	_2
Madison	_1	_3
Milwaukee		_2
Oshkosh	✓	
Parkside		✓
Platteville		✓
River Falls	✓	_2
Stevens Point		✓
Stout		✓
Superior	✓	✓
System Administration	✓	✓
Whitewater		

[1] UW-Madison has implemented eBenefits exclusively for DoIT staff.

[2] These institutions received permission in November 2011 to indefinitely defer implementation of Talent Acquisition Management.

[3] UW-Madison received permission in April 2009 to be excluded from implementing Talent Acquisition Management.

Delays in implementing eBenefits and Talent Acquisition Management may result in reduced efficiency, such as administrative time associated with manual processing of employee benefit applications and errors created by manual data reentry.

☑ Recommendation

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on the extent to which eBenefits and Talent Acquisition Management have been implemented at UW institutions and a timeline for implementation at any remaining institutions.

Training Provided to UW Staff

As UW System prepared for the implementation of HRS, it reviewed approaches taken by other university systems and organizations that had implemented the Oracle software to be used in creating HRS. It found other universities strongly recommended that central support staff be trained as early as possible. This approach equips central support staff with the knowledge and skills needed to test the system prior to implementation, accurately answer questions they receive, and train other staff on system operations. It also allows them to work more efficiently during the critical months immediately after system implementation. In the case of UW System, such staff would include staff of the UW Service Center.

UW System assessed the readiness of the UW Service Center and its institutions to begin using HRS prior to its implementation.

As noted, prior to implementation in April 2011, UW System assessed the readiness of the UW Service Center and its institutions to begin using HRS. It found that UW Service Center staff were not prepared to begin supporting HRS users at each of the UW institutions. As a result, a number of alternative processes were developed in order to address identified deficiencies. For example, key employees of the UW Service Center were each assigned to work with an experienced individual to assist them in learning the business processes required in operating HRS. The readiness assessment also noted that work on documenting the UW Service Center's business processes had not been completed and would continue after HRS had been implemented.

All UW institutions reported that their employees who had been assigned responsibilities for addressing questions about HRS had either been trained or were scheduled to complete training before HRS implementation. Similarly, all UW institutions reported that end users had either been trained or were scheduled to complete

training prior to HRS implementation. However, the readiness assessment noted that while training materials had been developed and provided to employees of UW institutions, the employees' understanding of some of the information was in question based on the nature of the follow-up questions that had been posed by those who had received the training.

In fall 2012, the UW Service Center began developing a pilot program to credential employees of UW institutions after they had completed a training course and passed a test on a specific topic area. Employees would not be given security access to perform the tasks covered in the training unless they passed the test. Such a credentialing program may eventually help to address training deficiencies, increase the number of employees with the knowledge and skills needed to effectively operate HRS, and reduce errors that later need to be corrected. However, through October 2013, the UW Service Center had made limited progress in developing the credentialing program.

Routinely assessing staff satisfaction regarding HRS-related training can be an important management tool.

Routinely assessing staff satisfaction and attitudes regarding issues such as the adequacy of HRS-related training can be an important tool for UW System managers to help identify unmet needs. In an effort to obtain additional information on the HRS-related training that was provided, we surveyed 1,670 UW System employees that UW System indicated were involved with HRS, including 110 UW Service Center staff and 1,560 staff of UW institutions.

As shown in Table 9, 51.2 percent of UW Service Center staff who responded to our survey reported being "dissatisfied" or "very dissatisfied" with the amount of HRS-related training they received prior to implementation, but 58.5 percent reported being "satisfied" or "very satisfied" with the quality of this training. In addition, 40.7 percent of respondents from UW institutions reported being "dissatisfied" or "very dissatisfied" with the amount of training they received prior to HRS implementation, but 56.5 percent reported being "satisfied" or "very satisfied" with the quality of this training. The respondents cited competing responsibilities, lack of sufficiently detailed training, lack of staff participation in training, and insufficient resources as some of the causes of their dissatisfaction with the quality of this training.

Table 9

Satisfaction with HRS-Related Training[1]
April 2013

	Number of Respondents	Percentage "Satisfied" or "Very Satisfied"	Percentage "Dissatisfied" or "Very Dissatisfied"
Staff of UW Service Center			
Amount of Training Before Implementation	41	48.8%	51.2%
Quality of Training Before Implementation	41	58.5	41.5
Amount of Training After Implementation	60	60.0	40.0
Quality of Training After Implementation	60	73.4	26.6
Staff of UW Institutions			
Amount of Training Before Implementation	616	59.3	40.7
Quality of Training Before Implementation	616	56.5	43.5
Amount of Training After Implementation	859	62.7	37.3
Quality of Training After Implementation	850	64.9	35.1

[1] Based on a survey we conducted of 1,670 UW System employees involved in HRS.

For UW Service Center staff and staff of UW institutions, the level of satisfaction with both the amount and quality of training improved with training that was provided after HRS implementation. However, because one-third of all respondents to seven of our eight questions indicated dissatisfaction with both the amount and the quality of HRS-related training, we believe additional attention to staff training is warranted.

☑ **Recommendation**

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on:

▪ *its plans to improve HRS-related training for its employees, including progress in implementing its credentialing program; and*

▪ *its plans to routinely assess ongoing HRS-related training needs and the effectiveness of the training it provides.*

Benefit Reconciliation Processes

As noted, UW System's share of employee fringe-benefit costs was $713.5 million in FY 2012-13. Timely reconciliation of accounts helps to ensure the accuracy of financial systems, accountability for the expenditure of public funds, and the payment of both the employer and employee share of benefit costs.

State Group Health Insurance Benefits

State group health insurance is UW System's largest expense for employee benefits.

As a state agency, UW System participates in the State Group Health Insurance Program. ETF administers the program, but UW System is responsible for ensuring that the employee and employer share of payments for the program are appropriately collected and paid. State group health insurance is UW System's largest expense for employee benefits.

UW System uses HRS to track employee benefits and coverage choices and to collect the employee share and the employing institution's share of payments for these benefits. ETF maintains a database of state group health insurance participants that it uses to invoice UW System and to pay insurers. UW System is responsible for ensuring ETF is provided with updated information when changes are made to an employee's coverage or enrollment. In addition, UW System attempts to verify the data in ETF's database by matching it with data stored in HRS through a process known as reconciliation.

After HRS was implemented, the UW Service Center attempted to use HRS to provide data needed to perform the reconciliation in the same format that the legacy system provided these data. However, UW Service Center staff indicated that reports designed prior to the implementation of HRS, as well as ad-hoc reports created after that date, contained incomplete or inaccurate information for performing the reconciliation. In addition, a June 2011 quality assurance review issued by a consultant noted that the "lack of effective and accurate reconciliation puts [UW System] at risk from both a financial and audit perspective."

UW Service Center was unable to perform state group health insurance reconciliation using the same processes it had used previously.

Although the UW Service Center attempted to perform state group health insurance reconciliation using the same processes it had used with the legacy system, it was not able to do so in a timely manner with available data and staff resources. The lack of timely reconciliation prevented UW System from properly notifying ETF of coverage changes and identifying state group health insurance overpayments. When UW System fails to notify ETF of an addition or change in state group health insurance coverage elected by an employee, no change to state group health insurance coverage is made. For example, a newly hired employee who elects state group health insurance coverage and has the coverage reflected in both

HRS and in paycheck deductions would not have state group health insurance coverage until UW System notifies ETF of the benefit choice. Similarly, an employee who resigns may have the resignation reflected in HRS, but UW System would continue to be billed for state group health insurance unless ETF is notified of the change in employment status. In such circumstances, UW System would incur all costs of the insurance coverage because it is not receiving the former employee's share of the premium through payroll deduction.

Contracts with health insurers allow for recovery of up to six months of premiums under certain circumstances.

Contracts between the State of Wisconsin and health insurers participating in the State Group Health Insurance Program allow for recovery of up to two months of premiums for erroneous payments for employees who left UW System employment and up to six months of premiums for retroactive adjustments resulting from other errors, such as changes in coverage type. These provisions allow UW System to fully recover overpayments made for former employees if they are reported to ETF within two months of the separation date.

In January 2013, we reported that UW System had not established adequate procedures for reconciling data on state group health insurance after implementation of HRS. As a result, UW System overpaid state group health insurance premiums, which at that time were estimated to be $15.4 million from May 2011 through September 2012. Of this amount, $8.0 million was associated with insurance premiums for 924 former employees whose discontinuation of state group health insurance coverage was not reported to ETF when they left UW System employment. Subsequently, the estimated amount of overpayments was reduced to $12.0 million, largely because of state group health insurance premiums that were recouped because they occurred within either the two-month or six-month window allowed for recovery.

Additional recoveries may be received and adjustments made to correct billing errors as UW System continues to review state group health insurance payments since implementation of HRS. For example, UW System may attempt to collect from its current and former employees the employees' share of state group health insurance premiums UW System overpaid, and it may have to refund to current and former employees amounts that it erroneously deducted from their paychecks for state group health insurance for which they paid but did not receive.

We analyzed the state group health insurance billing errors UW System made from April 2011 through May 2013 and estimate the loss will total between $10.6 million and $12.7 million.

We analyzed the state group health insurance billing errors UW System made from April 2011 through May 2013 and estimate the loss will total between $10.6 million and $12.7 million, depending on UW System's recovery efforts. In determining the appropriate approach to take in seeking to recoup overpayments, UW System will need to consider a variety of factors, including the basis on which an overpayment may be recouped, the amount of the

overpayment, and the cost of recouping the overpayment. For example, recoupments involving former employees are likely to be significantly more challenging than recoupments involving current employees.

UW System has taken steps to reduce future overpayments and increase accuracy in the administration of state group health insurance benefits. For example, UW System has completed an analysis of state group health insurance billing errors, increased the number of staff devoted to reconciling state group health insurance benefit data, and eliminated a backlog of previously unreconciled state group health insurance data from prior months.

The analysis UW System completed of state group health insurance billing errors identified at least 18 causes for the errors. Causes that are most likely to have contributed to creating the overpayments included:

▪ instances in which an individual left UW System employment but this information was not reported to ETF;

▪ instances in which state group health insurance premiums were calculated incorrectly for certain employees, such as those on leaves of absence; and

▪ instances in which the employee had coverage in ETF's database but had no record of a state group health insurance selection in HRS.

State group health insurance overpayments declined from $12.6 million from May 2011 through April 2012 to $1.2 million from May 2012 through April 2013.

We reviewed additional data to determine whether UW System's efforts to address state group health insurance billing errors were having an effect. In assessing its performance, we compared the extent of overpayments during two time periods: from May 2011 through April 2012, which is the first 12-month period after HRS implementation, and from May 2012 through April 2013, which was the most recent 12-month period for which data were available during the course of our fieldwork. We found that the amount of state group health insurance overpayments declined from $12.6 million during the first period (May 2011 through April 2012) to $1.2 million during the second period (May 2012 through April 2013), or by 90.5 percent. In addition, from October 2012, the point at which UW System fully implemented its reconciliation process, through April 2013, the most recent month for which data were available during our fieldwork, we estimate UW System paid $2.2 million less for state group health insurance benefits than the amount owed, because this estimate reflects credits from ETF to reimburse UW System for prior overpayments it had made.

☑ **Recommendation**

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on the status of its efforts to recoup state group health insurance overpayments made from 2011 through 2013.

Wisconsin Retirement System Benefits

The WRS provides retirement benefits to eligible employees. All state agencies and many local units of government participate in the WRS. Some UW System employees are not eligible to participate in the WRS, such as graduate assistants and other "student help" and limited-term employees who do not work enough hours for a long enough period to be eligible for participation in the WRS. In 2012, approximately 45 percent of all UW System employees participated in the WRS.

The WRS represented UW System's second-largest employee benefit expense in FY 2012-13.

The WRS represented UW System's second-largest employee benefit expense in FY 2012-13. UW System is the largest state agency participating in the WRS, with more than three times as many eligible employees as the Department of Corrections, which is the second-largest state agency participating in the WRS, as shown in Table 10.

Table 10

**State Agencies with the Largest Number
of Employees Participating in the WRS**
September 2013

Agency	Number of Employees Participating in the WRS
UW System	31,934
Department of Corrections	9,679
Department of Health Services	5,658
Department of Transportation	3,136
Department of Natural Resources	3,031

Unlike state group health insurance, ETF does not maintain a database from which it bills UW System for WRS benefits. Instead, UW System maintains all WRS-related data for its employees and provides ETF with three types of reports:

- monthly retirement remittance reports, which include the total earnings for all of UW System's WRS-eligible employees, as well as the amount owed and paid by UW System to ETF for both the employee and employer share of the WRS benefit each month;

- periodic employee transaction reports, which contain information on employment changes, initial benefit program enrollments, separation from UW System employment, leaves of absence, and changes in benefit eligibility; and

- the annual report, which contains the calendar year earnings and hours for each UW System WRS-eligible employee that is actively employed at year end.

ETF annually reconciles the earnings reported in UW System's annual report and periodic employee transaction reports with the earnings reported in the 12 monthly retirement remittance reports and with the payments submitted by UW System throughout the year. If the reconciliation process reveals that the monthly payments were deficient or excessive, ETF will collect additional payments or issue credits in order to correct the errors. During the 2012 annual reconciliation process, 34.5 percent of all WRS participating employers, including local governments, were found to have either overpaid or underpaid the WRS benefits they owed.

UW System made errors in manually calculating WRS benefit payments resulting in an estimated $17.5 million in overpayments for 2011, which were subsequently corrected.

In January 2013, we reported that UW System had made errors in manually calculating WRS benefit payments following implementation of HRS. We reported that ETF identified, through its annual reconciliation process, that UW System had overpaid ETF for WRS benefits by an estimated $17.5 million for 2011. UW System staff attribute most of the overpayment errors to manual calculations made from April 2011 to July 2011 that were needed because HRS's automated process for calculating WRS benefit payments was not functioning. In September 2012, ETF credited UW System for the $17.5 million in 2011 overpayments.

Beginning in August 2011, UW System discontinued its process of manually calculating WRS benefit amounts and instead developed a partially automated process for calculating these amounts. In addition, beginning in March 2013, UW System has attempted to verify the accuracy of its partially automated WRS calculations by checking these amounts against other data available in HRS.

Overpayments for WRS benefits declined from $17.5 million in 2011 to $1.8 million in 2012, or by 89.7 percent.

We assessed the effect of UW System's efforts to address WRS benefit errors. We found that overpayments for WRS benefits declined from $17.5 million in 2011 to $1.8 million in 2012, or by 89.7 percent. Although UW Service Center staff have established a goal of having no more than $250,000 in WRS benefit errors in

2013, the actual amount will not be known until UW System and ETF have completed the 2013 annual reconciliation process in spring 2014.

Because UW System had implemented a partially automated process for calculating WRS benefit payments during 2012 rather than relying entirely on manual calculations, the $1.8 million in WRS benefit overpayments was not caused by the manual processing errors that caused the majority of WRS benefit overpayments in 2011. Instead, the $1.8 million in errors resulted from a variety of other issues, such as untimely reporting of changes in employment.

Some WRS-related errors are addressed when they are discovered months or years after they are made.

Some errors are not identified during the annual reconciliation process and are only addressed when they are discovered months or years later. When errors are discovered that affect prior years' payments to ETF, corrections are made through a late-reporting procedure, and the employer may be assessed interest, which was 2.2 percent for contributions that should have been reported in 2012. In early 2013, after UW System notified ETF of the need to make corrections to WRS payments for 2011 and 2012, ETF granted UW System a waiver of interest for the corrections submitted by June 3, 2013. UW System submitted 491 corrections during the waiver period and identified more than 1,800 additional errors. As of August 2013, ETF had assessed UW System $927 in interest as a result of corrections to WRS payments from prior years.

As a percentage of its total number of WRS-participating employees, UW System has submitted more corrections during 2013 for WRS payments made in prior years than have the four other largest state agencies, as shown in Table 11.

Table 11

Corrections to Employee Hours and Earnings
Reported to ETF as a Percentage of WRS-Participating Employees[1]
January through August 2013

Agency	Percentage
UW System	3.1%
Department of Natural Resources	2.1
Department of Health Services	0.7
Department of Corrections	0.5
Department of Transportation	0.3

[1] Includes corrections made through the late-reporting process by the five largest state agencies.

☑ **Recommendation**

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on:

- *the total amount of WRS benefit overpayments or underpayments made by UW System in 2013, as determined through the annual WRS reconciliation process;*

- *the number of corrections it reported to ETF through the late-reporting process, as well as the time period during which these corrections were reported; and*

- *the causes of the errors in UW System's administration of WRS benefits and what it has done to address them.*

Security Issues

As part of our annual financial audit of UW System, we routinely review HRS security, including the extent to which individuals have access to HRS and the adequacy of controls in place to prevent unauthorized changes. Since HRS was largely implemented in April 2011, we have identified concerns with HRS security and made recommendations to UW System to make improvements.

In January 2013, we reported 22 individuals had the ability to enter an employee into HRS; enter, update, adjust, and approve time worked or leave taken; update direct deposit information; generate paychecks; and process payroll or otherwise critically impact the payroll process. We also reported concerns with access that allows some individuals to circumvent the established program change process, which could permit inadvertent, erroneous, or unauthorized changes to HRS processes. For example, we identified 51 individuals who had been granted system access that allows them to circumvent established approval processes and make configuration changes directly to HRS.

Certain security issues we identified with HRS in past financial audits remained largely unresolved by UW System.

In our FY 2012-13 financial audit of UW System (report 14-3), we found that certain security issues we identified in past financial audits remained largely unresolved by UW System and we again report a material weakness related to HRS security. For example, at the time of our fieldwork, UW System had not completed its efforts to review and limit unnecessary access to HRS processes or implement compensating controls.

In report 14-3, we recommended that UW System review the specific concerns identified, limit or adjust access as necessary, implement compensating controls, and report to the Joint Legislative Audit Committee on July 1, 2014, on the status of its efforts to resolve the HRS security issues.

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Future Considerations ■

UW System has conducted reviews, implemented changes to address some concerns with HRS and payroll and benefits processing, and developed plans for further changes. Some of these efforts have resulted in unanticipated expenditures, which will increase as additional improvements are undertaken. Because DOA and ETF plan to implement new IT systems related to payroll and benefits administration, consideration of the findings and recommendations of this report may help these agencies to avoid problems similar to those experienced by UW System during HRS implementation.

Internal Reviews and Post-Implementation Risk Assessment

UW System Administration has used its Office of Internal Audit to review HRS-related issues.

UW System Administration's Office of Internal Audit conducts reviews of the activities and operations of UW institutions based on an annual plan approved by the Business, Finance, and Audit Committee of the Board of Regents. The plan approved by the Committee at its February 2013 meeting included several internal reviews of HRS-related issues, including payroll processing at 11 UW institutions.

In 2013, the Office of Internal Audit issued 21 reports that addressed a variety of HRS-related issues, including the extent to which:

- earnings codes were accurately assigned to the payments made through HRS;

- retroactive adjustments to employee payroll information were adequately documented; and

- employee bank account information was properly updated.

In April 2013, UW System also contracted for a post-implementation risk assessment of HRS, for which it paid $54,200. The resulting report, issued in September 2013, contained 17 recommendations to address concerns it identified in three areas: human resources business processes, the HRS implementation process, and the extent to which individuals are provided access to HRS.

The September 2013 risk assessment made seven recommendations to address concerns regarding UW System's human resources processes. Concerns were raised about the governance structure used by UW System to oversee the operation of the UW Service Center. As noted, sole responsibility for the oversight of the UW Service Center was transferred to UW System Administration in December 2013 in response to this recommendation. The September 2013 risk assessment also raised concerns with other human resources issues, including:

- the number and complexity of benefit plans administered through HRS, which increases the opportunity for error because of the detailed knowledge required to properly administer each of the programs; and

- the complex processes used to enter newly hired employees in HRS, which are not consistently understood and followed.

Another six recommendations were made to address concerns with the process used by UW System to implement HRS, including:

- the lack of an independent review prior to HRS implementation;

- inadequate testing of HRS; and

- inadequate training of UW System employees.

For example, the September 2013 risk assessment cited an industry practice in large system implementation projects that involves the internal auditor or another objective party performing a series of reviews before and immediately after implementation of the new system. Such reviews would help to ensure adequate internal controls exist for new business processes that were developed as part of the system's implementation. Finally, four recommendations were made to address concerns about access to HRS and IT security.

☑ **Recommendation**

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on its progress in implementing recommendations from the internal reviews conducted in 2013, the status of its plans for additional internal reviews, and its progress in implementing the recommendations resulting from the post-implementation risk assessment.

Efforts to Address Problems with HRS and Payroll and Benefits Processing

To correct problems with HRS and payroll and benefits processing, UW System planned a series of 20 projects.

The majority of UW System's efforts to correct problems with HRS and payroll and benefits processing have focused on two broad initiatives. First, the UW Service Center used its own analyses and the recommendations of Huron Consulting Group to plan a series of 20 HRS "stabilization projects" to correct immediate concerns related to HRS. The first of these projects was approved by the UW Service Center Executive Committee in April 2012 and included:

- analyzing the causes of requests by UW System staff for HRS technical support and making changes to address those causes;

- providing human resources staff at each UW institution with the ability to adjust pay and benefits for their employees, rather than requiring UW Service Center staff to make these changes;

- enhancing security of the time and labor reporting system; and

- expanding the implementation of eBenefits to other UW institutions.

One stabilization project that began in July 2012 is intended to improve the internal benefit reconciliation processes for WRS and state group health and state group life insurance benefits. This internal reconciliation process is intended to help verify the accuracy of benefit data and identify potential errors in billing records.

In FY 2012-13, the UW Service Center spent $3.0 million on HRS stabilization projects.

We found that the UW Service Center spent $3.0 million on HRS stabilization projects in FY 2012-13, as shown in Table 12. Of this amount, $2.4 million was paid to consultants. Seven stabilization projects were completed at a cost of $792,000. An additional $1.7 million was spent on 13 stabilization projects that were in progress but had not yet been completed. This includes the benefits reconciliation project, on which $349,100 was spent in FY 2012-13.

Table 12

HRS Stabilization Project Expenditures
FY 2012-13

	Number of Projects	Expenditures
Completed	7	$ 792,000
In Progress	13	1,686,000
Other Expenditures[1]	–	505,100
Total	**20**	**$2,983,100**

[1] Includes expenditures that were not allocated to individual projects, such as project oversight.

The UW Service Center plans to spend an additional $2.8 million on stabilization projects in FY 2013-14. In addition, it appears that there will be ongoing costs associated with the UW Service Center's reconciliation efforts. Beginning in April 2012, the UW Service Center assigned approximately 1.5 FTE employees to reconciling benefit data. By September 2012, the number of staff assigned to reconciling benefit data had grown to 6.0 FTE employees, and it reached a maximum of 8.0 FTE employees in March 2013. By August 2013, the number of staff reconciling benefit data declined to 3.25 FTE employees. The number of staff needed to reconcile employee benefit data in the future will depend on the effectiveness of the UW Service Center's planned stabilization projects.

The HRS Roadmap proposes improvements in four areas: policy, process, staffing/training, and software.

The second broad initiative to correct problems with HRS and payroll and benefits processing was developed by the UW Service Center in March 2013 and is known as the "HRS Roadmap." It describes the UW Service Center's strategy for making HRS more effective and accurate. The HRS Roadmap proposes improvements in four areas: policy, process, staffing/training, and HRS software. The planned improvements vary in terms of specificity, priority, and ease of implementation, and they incorporate some of the stabilization projects previously noted.

The planned policy improvements call for a review and revision of certain policies and practices affecting HRS. Some of these changes, such as modifications to employee benefit plans, may involve changes to statutes or administrative rules. Proposed policy changes include:

▪ developing policies to ensure the timely entry into HRS of information concerning employees who are leaving UW System employment;

- requesting ETF to negotiate on behalf of the State with health insurers to increase from two months to four months the time period during which refunds may be sought for state group health insurance premiums associated with employees leaving UW System employment;

- reducing the number of different payroll calendars in HRS;

- reducing the number of life insurance plans offered to UW System employees and combining separate income continuation insurance programs for classified and unclassified employees into a single program;

- deducting the employee's share of benefit premiums in the current month rather than taking benefit deductions one month in advance, which is the current practice; and

- developing consistent policies across all UW institutions for benefits billing for employees who are on leave.

Planned improvements involve redesigning or automating business processes that are currently done manually.

The planned process improvements involve redesigning or automating business processes to address those that are currently done manually or that UW System has determined to be prone to errors. UW System believes the processes that provide the greatest opportunity for creating errors in HRS include those related to entering data on new employees, job changes, and employees leaving UW System employment, as well as determining employee eligibility for various benefits.

The planned staffing and training improvements are intended to enhance the effectiveness of the UW Service Center. Planned efforts include the provision of ongoing training for staff of the UW Service Center and UW institutions.

Finally, the planned changes to software involve reassessing modifications made to HRS; implementing supplemental software to enhance human resources management functions, such as document imaging; and increasing system automation to eliminate the need for some manual processes. Proposed software-related plans include:

- improving HRS reporting functions to better monitor HRS activities and more quickly identify problems;

- identifying and removing HRS modifications that are no longer required;

- assessing and refining security administration, including the timeliness of disabling or changing security authorizations when an employee changes or leaves a position; and

- implementing software to better manage human resources and benefits documents.

UW System had not established budgets for HRS Roadmap projects for FY 2013-14.

Although UW System staff have already started planning for implementation of several HRS Roadmap projects, FY 2013-14 budgets for these projects had not been established as of October 2013.

☑ Recommendation

We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on its efforts to correct problems with HRS and payroll and benefits processing through its stabilization and HRS Roadmap projects, including:

- *its progress in implementing planned improvement projects, including the extent to which statutory or administrative rule changes would be needed and will be sought;*

- *the effect of completed improvements in addressing known concerns with HRS and payroll and benefits processing;*

- *expenditures associated with each of the improvements after June 30, 2013;*

- *projected costs associated with benefit reconciliation efforts for FY 2014-15 and FY 2015-16, including the estimated number of full-time equivalent staff that it plans to assign to these functions; and*

- *its plans for any additional improvements, including the estimated cost of these improvements.*

Similar Projects Being Undertaken by State Agencies

DOA plans to implement a new IT system using software similar to HRS.

DOA plans to implement a new IT system, known as the State Transforming Agency Resources (STAR) project, using software that is similar to HRS. In June 2013, DOA released a request for offers for implementation of an Oracle system and other related software applications that would be needed to integrate the State's budget preparation, accounting, cash management, procurement, human resources, and payroll systems. The request for offers period closed August 6, 2013. DOA selected Accenture, LLP and entered into a contract for services in December 2013. As shown in Table 13, and based on a 2013 study, the cost of the planned STAR project was estimated to be $138.7 million over a four-year period.

Table 13

Estimated Cost of Implementing the STAR Project[1]
February 2013

	Estimated Cost (in millions)	Percentage of Total
Consultant Services	$ 67.6	48.7%
Supplies and Services	28.9	20.8
State Staff	22.3	16.1
Contingency	19.9	14.3
Total	**$138.7**	**100.0%**

[1] Based on a 2013 study by Information Services Group, Inc.

The scope of DOA's project is larger than HRS because it is also intended to include other functions.

The scope of the STAR project is larger than that of HRS because, in addition to human resources and payroll functions, the STAR project is also intended to include other functions, such as budget and procurement. This will increase the project's complexity and the need for close monitoring during all phases of implementation. DOA currently estimates the financial and procurement components will be implemented at the end of FY 2014-15, followed by implementation of the human resources and payroll components in FY 2016-17.

ETF also plans to implement a new system for processing employee benefits.

In addition to DOA's STAR project, ETF plans to implement a new computer system to administer several public employee benefit programs. In July 2012, ETF contracted with a consultant to identify

and document functional, technical, and procedural requirements for the new system, which is known as the Benefits Administration System (BAS). In June 2013, ETF issued a request for proposals for BAS implementation, and in December 2013 it notified the selected vendor of its intent to enter into a contract. BAS is expected to be implemented in several phases beginning in 2014 at an estimated cost of $39.2 million.

Consideration of our recommendations could help DOA and ETF to avoid problems in implementing new information technology systems.

To help avoid problems similar to those experienced by UW System during HRS implementation, DOA and ETF should consider the findings and recommendations from this report, as well as our findings and recommendations from our audit of large IT projects (report 07-5), including:

- limiting the number and extent of software modifications whenever possible;

- minimizing the number of workarounds needed due to limitations in automated processes at the time of system implementation;

- ensuring that individuals who will be using the system are adequately trained on system use before its implementation;

- providing for adequate testing to ensure that problems are identified and corrected prior to system implementation;

- ensuring that access to sensitive data, the ability to make system changes, and the ability to disburse funds are limited to those individuals requiring this access to perform their job duties; and

- ensuring that technical support staff are adequately trained to provide assistance to system users who experience difficulties.

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January 29, 2014

Mr. Joe Chrisman
State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's evaluation of the
University of Wisconsin (UW) System's oversight of payroll and benefits processing and the
Human Resource System (HRS).

This complex project remains a top priority for UW leadership, as our dedicated staff work daily
to enhance HRS under a newly streamlined management and governance structure. We continue
to provide regular progress reports to the Board of Regents, legislators, and others,
demonstrating our commitment to transparency and accountability.

UW ordered its own external risk assessment, presented to the Regents in September 2013, and
we have already made important changes based on findings from that external review.

This evaluation covered many complex and highly technical matters, and we acknowledge the
effort required of Legislative Audit Bureau staff to research and convey these issues. We
appreciate that LAB cited many improvements in this report. In addition to those important steps,
UW has implemented other changes since LAB completed its field work. With additional
information from LAB's review, UW will take all necessary steps to further improve HRS
performance and security.

UW offers the following comments to clarify several of the points raised in the report. Please
note that the comments are listed in the order that they appear in the report; therefore, the
ordering does not connote their relative importance.

"The UW Service Center has also faced challenges retaining its staff."

> UW acknowledges that the Service Center had experienced difficulty with staff retention
> and turnover, which have been affected by two outside influences. First, several staff
> have been recruited by the Department of Administration (DOA) to work on the State
> Transforming Agency Resources (STAR) project. Second, as more entities adopt the

PeopleSoft platform, staff who are already trained in this environment (such as Service Center and other UW staff) become more attractive to outside employers. These two factors have increased demand for skilled individuals, which has compounded the staffing challenges facing the Service Center.

"…a modification needed to accurately calculate FICA taxes for full- and part-time students was not correctly implemented, resulting in an estimated $1.2 million in FICA taxes not being withheld from the paychecks of certain student employees from June to September 2011."

UW would like to clarify that the FICA modification was not a modification of choice for the HRS. Rather, it was a required modification because there was no delivered functionality for FICA. In addition, the $1.2 million in FICA taxes that were not withheld was identified quickly by UW, and all tax reporting and payment obligations were made during 2011. Therefore, no penalties associated with this withholding issue were incurred.

"We recommend UW System report to the Joint Legislative Audit Committee by July 1, 2014, on the extent to which eBenefits and Talent Acquisition Management have been implemented at UW institutions and a timeline for implementation at any remaining institutions."

UW acknowledges that neither eBenefits nor Talent Acquisition Management (TAM) has been implemented at every UW institution. However, the audit is premised on the original deployment plans, now several years old, which included a full rollout of eBenefits and TAM to all institutions. Since the plans were developed, however, some aspects of these plans have changed. Changes resulted both from experience as we progressed through implementation design and testing stages, as well as advances in technology.

The original eBenefits implementation (October 2011) was refined to a pilot of three campuses, primarily due to concerns voiced by UW-Madison and Service Center personnel about how many additional new items could be deployed so soon after the HRS implementation in April 2011. The Service Center and institutions were working on stabilizing other areas of HRS, so UW moved forward with caution rather than introducing another major change system-wide. UW moved forward with more institutions (beyond the three pilot institutions) in 2012. As the usage of eBenefits was monitored, UW experienced the following challenges that caused us to defer further deployments until these could be addressed:

- The timeliness of entering employee job changes into HRS.
- The use of electronic feeds rather than providing vendors with paper forms. Not all of our benefits vendors were prepared to accept electronic feeds.
- The need for enhanced notification of benefits changes to employees.

The Service Center continues to address the above items through a variety of initiatives and is creating an eBenefits rollout schedule for the remaining institutions by the end of the first quarter of 2014.

For TAM, the original plans to implement it at all institutions were changed fairly early in the project (April 2009) because TAM would not meet the needs of UW-Madison. According to a 2009 HRS decision document, incorporating the functionality that the UW-Madison system provides would have resulted in a "… considerable increase in the timeline and the amount of development hours originally estimated for the HRS project." Therefore, integrating HRS with the existing UW-Madison system was a less complex and more cost-efficient approach. Since UW was not moving forward with a common solution for all institutions, it then made sense to allow the three campuses that already had automated solutions in place to retain those solutions.

The Service Center is conducting discussions with the campuses who have not implemented an automated recruiting solution to determine when we can move forward with a talent acquisition management solution deployment. It should be noted that we are evaluating the future uses of TAM or other potential solutions such as PeopleAdmin or Taleo for all UW institutions. Oracle (the owner of TAM) has purchased Taleo, another applicant tracking system, and is offering this system as an alternative to TAM, in large part because Taleo offers more functionality. UW-Madison is also considering potential migration to either TAM or Taleo (both of which can integrate with People Soft) as an applicant tracking system, in conjunction with its current recruitment and hiring system.

Based on the preceding comments, UW believes that a more appropriate recommendation would be for UW System to report on the extent to which eBenefits and TAM have been implemented and whether additional implementation remains the best strategic approach for all campuses.

"As a percentage of its total number of WRS-participating employees, UW System has submitted more corrections during 2013 for WRS payments made in prior years than have the other four largest state agencies…"

Based on this metric, it is accurate that UW has submitted more corrections than other state agencies for WRS payments. UW also has human resources complexity that it must administer, such as the quantity of employees and titles, multiple funding streams, fractional appointments, different benefit options and varying start/stop dates, that many other agencies do not experience.

"Since HRS was largely implemented in April 2011, we have identified concerns with HRS security and made recommendations to UW System to make improvements."

UW has been using a risk-based approach to our priorities throughout the HRS implementation and post-implementation support timeframe, and understands there are both internal and external risks associated with the information/data the Service Center

processes. Due to the visibility of the UW System, much of the early emphasis focused on external risks, as external risks with data such as social security numbers and bank accounts is the greatest concern. UW agrees that there is work yet to do in FY14 to fully address the internal risks raised by LAB. UW's plans and progress on this work are summarized below.

UW agrees that Separation of Duties (SOD) is an integral component of maintaining adequate financial controls. UW also acknowledges that additional work is needed in the area of SOD. Since LAB initially identified a concern, UW has taken a systematic approach to develop compensating controls to ensure that this need is addressed in a manner that does not adversely impact the institutional need to support ongoing business operations.

Current projects in progress: SOD matrix created, conflicting access identified, and fraud overview materials developed. We are pursuing the following implementation steps and horizons:

- Refine the compensating controls for each conflict with Service Center (Current-February 2014)
- Communicate fraud overview, SOD matrix, compensating controls to campus HR leadership (March 2014)
- Implement SOD preventative and compensating control (April 2014)
- Review SOD conflict through user access certification process (Yearly: March & September)

Further, UW agrees that security is a critically important piece of our HRS implementation. Our challenge is to manage security in an environment with 2,000 users distributed over 15 institutions with a significant degree of turnover. UW has taken many steps to continually improve our security from both external and internal risks.

Completed Projects: UW has completed the following to address items previously raised by LAB:

- Deprovisioning: 177 users have had complete access removed since summer 2013.
- Reduced HRS Access: Review user access twice per year to determine appropriate access is assigned and aligned with least privilege. In September 2013, there were 269 people who had access reduced. This reduction included removing 1,350 roles/privileges.
- Second Factor Authentication: Implemented multi-factor authentication so that all of our 2,000 core users use a password and a dynamic authentication code each time they log-in. This step aligns us with access methods typically used in financial and auditing institutions.

- Program Change Implementation: Eliminated access so that compensation-related program changes could not be moved to production by the team that also makes those changes.

Future: UW is now ready to redesign access to address the ability to make configuration changes in production, in addition to the aforementioned SOD.

"…the September 2013 risk assessment cited an industry practice in large system implementation projects that involves the internal auditor or another objective party performing a series of reviews before an immediately after implementation of the new system."

UW agrees with the risk assessment and has undertaken steps to improve our overall internal controls. A Chief Audit Executive position has been created, and the recruitment is underway. Similarly, the audit function has been redesigned, with the Chief Audit Executive reporting directly the Board of Regents and also to the President of the UW System in order to ensure the appropriate level of authority for this function. In addition, internal audit staff at the UW institutions will report to the Chief Audit Executive.

"In addition, it appears that there will be ongoing costs associated with the Service Center's reconciliation efforts."

UW concurs that reconciliation will be an ongoing process; however, such costs are not unexpected. Some ongoing reconciliation costs should be anticipated with any payroll and benefits system.

Thank you again for the opportunity to comment on the Legislative Audit Bureau's report, as well as for the professionalism of your staff throughout the audit process.

Sincerely,

Richard J. Telfer
Interim President