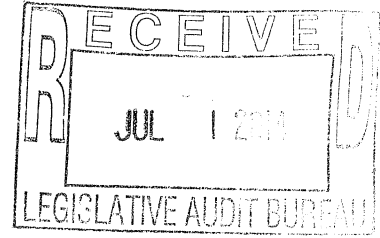




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July 1, 2014

Sent via email

Senator Robert Cowles
Representative Samantha Kerkman
Co-Chairs, Joint Audit Committee

Dear Senator Cowles and Representative Kerkman:

Thank you for this opportunity to update the Joint Audit Committee on progress made by the University of Wisconsin System to address issues noted in audit report 14-3, *University of Wisconsin System*, and audit report 14-4, *Oversight of the Human Resource System and Payroll and Benefits Processing*. This letter serves as the follow up report, required by July 1st, to report progress on eleven items identified by the Legislative Audit Bureau (LAB), as well as follow up to the March 12 hearing on report 14-4. UW System appreciates the thoroughness of the reports and has taken their findings and recommendations seriously.

Since receiving the reports in February, the UW Service Center has been driven by clear priorities, all which aim to improve access and security, financial reconciliation, and administration of staff benefits. These are not the only priorities of the Service Center, but they have been the primary drivers of our resources and work effort since that time.

In the pages that follow, I will address each LAB recommendation individually, in the order in which they appear first in audit report 14-3, and secondly in audit report 14-4.

Recommendation contained in Report 14-3

“We recommend the University of Wisconsin System Administration report to the Joint Legislative Audit Committee by July 1, 2014, the status of its efforts to resolve HRS security concerns.” (p. 17)

UW System has worked hard to address security issues related to HRS. Efforts first focused on external risks, as risks associated with data such as social security numbers and bank accounts represent the greatest concerns. Once those concerns were addressed, attention turned to internal risks. Internal risks, such as proper user access, separation of duties, mitigating controls, and program change control, have been the focus for several months. The Service Center and UW-Madison’s Division of Information Technology have implemented a project that takes four different types of actions to eliminate security conflicts.

1. The project reduced access of technical staff, or IT staff, to a specific job function. This reduces the risk that staff can commit fraud or mis-configure the system.

- A new change management application (Phire) was implemented, which requires all program changes to move through predetermined steps and approvals. Technical staff security access was revised accordingly.
 - Technical staff access was eliminated so that compensation-related program changes could not be moved to production by the same team that makes those changes.
 - A reconciliation process was created between Phire and HRS.
2. The project reduced access of functional or human resources staff so that they only have access to the transactions they need to perform their job duties. This reduces the likelihood of an employee committing fraud, inappropriately changing data or harvesting data.
 - Access was removed from users who had complete access to add or update information in HRS and did not have a valid business need for this access.
 - A process was implemented to review user access twice per year to ensure access with least privilege is assigned.
 3. The project creates separation of duties (SOD) standards so that an employee cannot perform the complete hiring and payroll workflow without triggering control processes. In other words, a single individual should not be able to create an employee in HRS, process payroll for that person, and set up direct deposit. Proper separation of duties reduces the likelihood of an employee committing financial fraud.
 - A SOD matrix and fraud overview materials were developed and administered within institution HR units.
 - Conflicting access was identified and removed to the extent possible without obstructing ongoing business operations.
 - Mitigating controls were put in place for areas where SOD conflicts could not be eliminated. This control reviews transactions that violate the SOD requirements.
 - A review of SOD conflicts was added to the user access certification performed twice a year.
 4. The project identified and deployed mitigating controls to monitor user actions, in instances where adequate separation of duties cannot be enforced.
 - Mitigating control reports, which include a review of all transactions that highlight potential risks due to lack of SOD, were developed and deployed to institutions.
 - The Service Center developed and implemented a formal review and approval process for mitigating control reports.

Now that these four steps have been completed, work has begun which will implement controls to prevent recurrence of these conflicts. These controls include:

- An HRS Access Policy, which includes procedures for SOD enforcement, will be developed and implemented for all users.
- Warning messages that display during the security access approval process, which notify the requester and the approving manager of violations of SOD policies, will be implemented.

- Automatic monitors and alerts that observe employee access to restricted data and high-value transactions will be developed and deployed.
- Mitigating control review and approval processes will be reviewed for possible automation.
- The Service Center will work with the institutions to minimize the number of mitigating controls through creation of new roles or changes in business process.

Recommendations contained in Report 14-4; “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 Service Center is launching a major project to plan an upgrade of HRS. HRS, which operates on Oracle/PeopleSoft Human Capital Management version 9.0, will be upgraded to version 9.2. Version 9.2 contains new functionality that could allow the removal of a number of modifications UW installed in 2011. The upgrade planning project will begin in the second half of 2014, with a 2016 implementation goal.
- The Service Center has a project underway to review the design of Benefits Administration. As noted by Interim Vice President Wildeck in his testimony on March 12, HRS represents the first attempt by a major state agency to actually automate the entire employee benefits eligibility process. Most UW benefits programs are governed by rules of the Department of Employee Trust Funds. The review is identifying problem areas in this very complicated process, and then analyzing how these problems can be addressed. The analysis phase of this project will be completed in July, 2014. Solutions implemented after that date will likely include a combination of process and policy changes, in addition to removing modifications that are causing problems.
- In preparation for processing the FY 2014-15 Pay Plan, the Service Center created an “HR Mass Update” program that will be in production later this summer. The program will automate the process of inserting new data into the HR tables. Our goal is that this single program could replace up to seven modifications in HRS.

“...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)

- The Service Center postponed any further deployment of eBenefits to allow staff to focus on higher priority efforts, including security, reconciliation, benefits administration, and training. The Benefits Administration redesign and resulting business process changes should eventually make eBenefits easier for institutions to use.
- The Service Center is working with UW-Oshkosh and UW-Whitewater to plan their Talent Acquisition Management (TAM) implementations, which are scheduled for October 2014. These are the final campuses to move to an automated applicant tracking system, with the majority of the campuses currently using the TAM solution.

- With changing business needs and advances in technology, UW is finding that TAM may no longer be the best fit for our applicant tracking requirements. The Service Center is reviewing alternatives and the future direction of applicant tracking for UW.

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

- The Service Center developed a training plan which includes a basic introduction to HRS followed by a structured, credentialed learning path.
 - The “Onboarding and Introduction to HRS” curriculum provides an entry level set of courses where users will get exposure to all modules within HRS highlighting the integrated nature of the system. The curriculum is currently being piloted within the Service Center.
 - Specific credentialed learning paths are determined by the work that an employee does within HRS. The Service Center has identified the core components for each learning path and has begun to build and pilot the curricula.
 - A full roll out of the credentialing program will occur during the 2014-15 fiscal year.
- The Service Center has created and deployed a Learning Management System to enroll employees in training programs as well as monitor and report on completion and success rates.
- The Service Center has launched a web-based “Transactional Workshop” series that brings together subject matter experts with end users to discuss best practices and emerging issues.
- A system-wide HR, Payroll, Benefits conference is scheduled for July 9-10, 2014. The event is designed to bring together HR, Payroll and Benefits professionals to discuss best practices relating to HRS and its related processes.

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

- A training needs assessment survey has been sent out to end users to gauge the type and level of training that is needed. The results of the survey will be analyzed and the training plans for credentialing and Transactional Workshops will be adjusted as needed.
- Service Center leadership met with HR Directors from the institutions and discussed training needs and effectiveness. Areas of concern have been addressed in plans for the credentialing program. Service Center leadership will continue to interact with HR Directors from all campuses to determine training needs and effectiveness.

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

UW System staff have expended significant time and effort to analyze the population of current and former employees for whom erroneous State Group Health (SGH) premium payments were made during the April, 2011 to April, 2013 time period.

It is important to note that since October, 2012 UW has had in place a reconciliation process for the payment of SGH premiums and reporting of enrollment information to ETF. The types of problems that produced the significant SGH overpayments have been addressed. A top priority of the Service Center going forward is to remain current in premium assessment, collection, payment, and reconciliation so that similar problems do not recur.

UW estimates that approximately \$12.1 million in SGH overpayments were made during the April, 2011 to April, 2013 time period. That amount has already been reflected as a fringe benefit expense in our annual financial statements. None of the erroneous payments to health insurance vendors during this time period are recoverable because the errors were detected after the two month contractual window for recovery.

UW has analyzed the employee population related to these overpayments, which includes both former and current employees. A small amount of the total premium overpayment could potentially be recovered from employees in the form of the employee share of the premium. Some collection from affected employees has taken place, but the process of reviewing the transaction history of each employee requires significant staff resources. Due to the limited likelihood of collection from terminated employees, the risks of attempting collection, and the associated staff cost, UW System has decided not to pursue additional recovery of overpayments made during this time period. Instead, staff resources will be dedicated to remaining current in our premium assessments, payments and reconciliations going forward.

“...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)

In calendar year 2013, UW System under-remitted to ETF \$281,806. This amount was remitted in March, 2014. UW System remitted to ETF during calendar year 2013 with 99.89% accuracy.

“...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 ETF late-reporting process is a normal business process through which UW reported 3,666 transactions during calendar year 2013.

“...the causes of the errors in UW System’s administration of WRS benefits and what it has done to address them” (p. 37)

After go-live in 2011, large volumes of employee data were rapidly changing due to processing errors and manual corrections. These problems were due to lack of training and insufficient business processes for the new HRS environment, both at UW institutions and in the Service Center. In addition, the Monthly Remittance process to ETF required manual calculations and the Periodic Reporting process failed due to programming errors. The Service Center was not sufficiently resourced to handle the avalanche of manual effort or all of the needed programming changes.

The Service Center took the following actions to address the issues:

- **Staffing:**
 1. The Service Center doubled the number of staff tasked with administering WRS, and built accounting expertise on the team.
 2. The workflow within the WRS administrative team is being documented and roles and responsibilities are being defined with a focus on cross training and improved processes.
 3. ETF provided on-site training for the WRS administration team.
- **Enhanced Financial Controls:** At go-live, the monthly remittance process was not working correctly, requiring manual calculations. The process was corrected and is functioning in an automated fashion with the results being validated prior to remitting payments to ETF. The annual reconciliation process is led by individuals with accounting and financial control expertise.
- **The Workflow Exception Dashboard (WED):** In December, 2013, the Service Center deployed a user dashboard that pushes data errors to those users who can correct the issues prior to the error having a financial impact. Since the initial deployment of the WED, the total number of identified errors has dropped by 83%.
- **The WRS Redesign Project:** This project revisits the design of the core WRS reports with a focus on addressing both technical and business process issues while ensuring that financial controls remain in place.

“...its progress in implementing recommendations from internal and external reviews” (p. 41)

Reviews of the HRS Service Center were performed by the Legislative Audit Bureau (LAB) Pricewaterhouse Coopers (PWC) and UW’s Office of Internal Audit. The LAB recommendations are addressed throughout this letter. The recommendations of the Office of Internal Audit closely reflect those of LAB and are addressed with responses to LAB recommendations. The review by PWC and resulting recommendations are addressed below.

PWC performed a post-implementation risk assessment in 2014. Several recommendations were made which are summarized below. UW System Internal Audit also provided several recommendations that were in line with those from PWC and LAB. UW System efforts described throughout this response also address the Internal Audit recommendations.

Summary PwC Recommendations	UW Service Center Corresponding Activities
<p>The governance structure over HR processes and the HRS system should be enhanced to provide the leadership, authority and accountability necessary to implement and sustain the needed changes to HR processes</p>	<p>Effective December 1, 2013, the UW Service Center was transitioned from UW-Madison to UW System Administration, with the Service Center Director reporting to the UW System Vice President for Finance. Under the new leadership, the governance committee structure is also being reviewed to provide the needed alignment of strategy and operations.</p>
<p>Management should incorporate internal control reviews as they continue to roll out changes to HRS and the related business processes</p>	<p>The Service Center has enhanced the change control process for technical development and implementation into production environments.</p> <p>Internal control training has been administered to UW staff involved in HR, payroll and benefit transactional processing.</p> <p>Heavy emphasis has been applied to a separation of duties (SOD) framework. That framework and appropriate mitigating controls have been implemented.</p>
<p>Management should ensure their continued efforts to provide training to HRS end users are sufficient and timely</p>	<p>An Affinity Group Support structure was put in place in September, 2012 to enhance HRS end user coaching and problem-solving.</p> <p>Training has been re-focused to an end-to-end process in support of three primary workflows; hire/rehire, job data changes, and termination/transfer.</p>
<p>Management should take further actions to ensure sensitive user access to HRS is restricted</p>	<p>Access for technical and functional staff has been adjusted to meet least-privilege concepts for job performance.</p> <p>A review of functional end user access together with a new SOD framework has resulted in updated access for our end users, providing improved controls for SOD and sensitive data.</p>

The complexity of the benefit plan structures should be evaluated to assess the feasibility of simplifying the environment which HRS supports

UW System investigated the potential to eliminate benefits deductions in advance of coverage. Constraints related to ETF policies and procedures currently make this change unattractive. The Department of Administration (DOA) is currently discussing this change with ETF as the STAR project moves forward. UW System will stay in contact with ETF and DOA on this issue.

All optional general payroll deductions were reviewed and business needs were validated to determine if unnecessary deductions are being maintained. Twenty-five deductions will be inactivated effective July 1, 2014.

UW System submitted a business case to ETF for the extension of the premium recovery period for terminations. The request was approved and the period was increased from two to three months.

The Service Center has a project underway to review the entire process of Benefits Administration. The review is identifying major problem points and then analyzing how these can be resolved. Addressing problem points could include new configuration, removing complex modifications, or making policy changes. The analysis is expected to be completed in July, 2014.

Further enhancements to internal controls in the HR processes should be made

The Service Center has significantly improved the change control process for technical development and placing changes into production environments.

Internal control training was provided to UW staff involved in HR, payroll and benefit transactions.

Heavy emphasis was placed on a separation of duties (SOD) framework. That framework and appropriate mitigating controls have been implemented.

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

As part of stabilization and HRS Roadmap efforts, the Service Center has a number of high priority projects underway. Each is briefly described below.

Benefit Administration Redesign

- Benefits Administration Redesign analysis phase will be complete in July, 2014. The analysis phase includes surveying stakeholders to identify problems, investigating current system issues, and developing potential solutions.
- Next steps include the identification of one or more projects, enhancements, or business process changes that will improve overall benefits administration.
- Timeline and cost estimates for implementation will not be available until the analysis phase is complete.

Workflow Exception Dashboard (WED)

- The WED was initially developed and deployed in December, 2013. Implementation at all institutions was completed in May, 2014.
- WED provides institutional HR staff with a list of specific transactions and employees that require attention to avoid related benefits administration issues.
- Since the deployment began, the Service Center has experienced an 83% reduction in errors captured by WED.

Benefits Diagnostic Tool and Benefit Deduction Discrepancy Report

- The tool is currently being tested, with expected deployment in July, 2014.
- The report is a ‘person-view’ reconciliation that is based on payroll and benefits transaction activity for a given period, allowing for improved management of benefits data for each employee.
- The tool will reduce duplication of effort for reconciliation and other key tasks.

WRS Redesign

- The WRS Redesign project reviews the design of the core WRS reports with a focus on addressing both technical and business process issues while ensuring that financial controls remain in place.
- This project is currently in the development phase and is expected to be completed by the end of 2014.

ETF Extension of Look-back Period

- UW System submitted a business case to ETF for the extension of the look-back period for terminations. The request was approved in May, 2014 and the period increased from two to three months, effective January 2015.

Expenditures Associated with Stabilization

- Fiscal year 2014 expenditures for stabilization projects totaled \$2.3M.

- The Service Center has approved funding of \$2.5M for stabilization projects in fiscal year 2015.

Costs Associated with Benefit Reconciliation

- Currently the Service Center has eight full time staff with an approximate annual cost of \$800,000, dedicated to reconciliation efforts. Staffing levels may change over the next several years as improvements are made to both HRS and business processes, and as current issues are resolved.

As mentioned earlier, priorities were refocused in early 2014 to emphasize security, reconciliation, and benefit administration needs. Efforts to automate and improve security controls, separation of duties, and mitigating control procedures will continue to be a top priority in fiscal year 2015. Other HRS Roadmap initiatives are currently being evaluated to determine priority.

I hope this report gives you a good sense of how UW is approaching the issues identified in the two audit reports. I want to compliment the Legislative Audit Bureau on their work, as it is very helpful in our efforts to improve HRS, our Service Center operations, and our HR-related business practices. Thank you again for this opportunity to report the progress we have made on these issues identified in report 14-3 and report 14-4. If you have any questions regarding these issues, please do not hesitate to contact me or Interim Vice President Steve Wildeck.

Sincerely,



Ray Cross
President

cc: Board of Regents
Chancellors
State Auditor Joe Chrisman
Senior Vice President David Miller
Interim Vice President Steve Wildeck
Senior Associate Vice President Alan Crist
Associate Vice President Julie Gordon
Interim Service Center Director Diann Sypula