

# Oversight of the Human Resource System and Payroll and Benefits Processing

*University of Wisconsin System*

February 2014

## Report Highlights ■

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***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.

## Key Facts and Findings

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

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

*From April 2011 through June 2013, we estimate \$972,600 in overtime costs were likely attributable to HRS implementation.*

*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.*

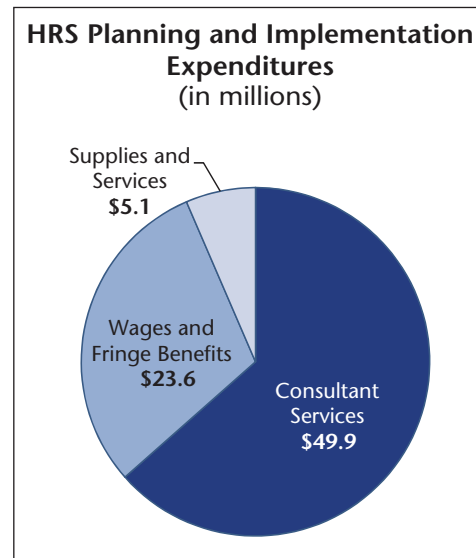
*Overpayments for WRS benefits declined from \$17.5 million in 2011 to \$1.8 million in 2012, or by 89.7 percent.*

*In FY 2012-13, \$3.0 million was spent on stabilization projects to correct concerns related to HRS.*

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

## 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.



## 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,

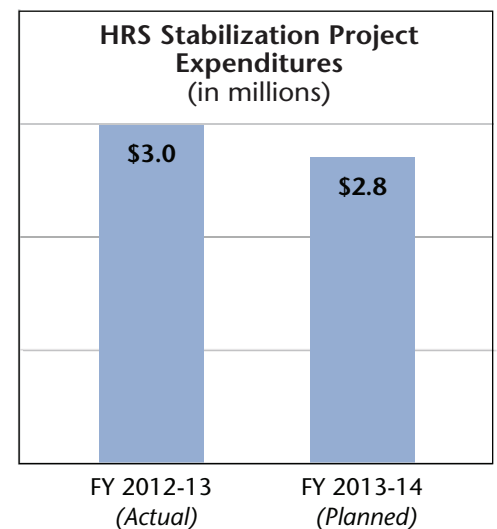
depending on UW System's recovery efforts. UW System also made errors in manually calculating WRS benefits following implementation of HRS. UW System staff attribute most of the overpayment errors to manual calculations made from April 2011 to July 2011 that were needed because HRS's automated process 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.



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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## Additional Information

For a copy of report 14-4, which includes a response from the University of Wisconsin System, call (608) 266-2818 or visit our website:



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