

Overpayment of Salaries Final Internal Audit Report

August 2022

Hywel Dda University Health Board



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Contents

Executive Summary	3
1. Introduction.....	4
2. Detailed Audit Findings.....	5
Appendix A: Management Action Plan.....	8
Appendix B: Assurance opinion and action plan risk rating	12

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Acknowledgement

NHS Wales Audit and Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

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Executive Summary

Purpose

To review the adequacy of internal controls and process to identify and ascertain the reason for overpayments and the actions taken to reduce the risk of overpayments.

Overview

There was a significant increase in overpayments in 2021/22, primarily due to the late submission of payroll documentation / processing of payroll changes via ESR Manager Self Service (MSS). Some of these related to the termination of Covid-19 fixed term contracts.


The overpayments policy has been updated to deal with the cause of overpayments rather than the process for recovery, and we observed examples of recent engagement with directorates to reinforce the need for timely changes to payroll data. KPIs for 2022/23 are starting to demonstrate improvement with only five overpayments identified in June 2022.

We have identified three high priority matters arising relating to:

- overpayments are not analysed to identify themes and trends, or investigate to establish and address root causes;
- a decline in the use of ESR MSS which enables timely and efficient processing of changes to payroll data; and
- the lack of monitoring or reporting of overpayments at an appropriate Workforce & OD forum.

Accordingly, we have concluded **Limited** assurance for this review.

Report Opinion

		Trend
Limited	More significant matters require management attention.	N/A
	Moderate impact on residual risk exposure until resolved	

Assurance summary¹

Objectives	Assurance
1 Overpayments are appropriately identified, and underlying causes reviewed	Limited
2 Action is taken to manage overpayments and address any matters of non-compliance or procedural weaknesses	Limited

¹The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion.

Key Matters Arising

	Objective	Control Design or Operation	Recommendation Priority	
1	Underpayments and Overpayments Policy	1 & 2	Design	Medium
2	Investigation of Overpayments	1 & 2	Operation	High
3	Use of ESR Manager Self Service	1 & 2	Operation	High
4	Monitoring & Reporting	1 & 2	Design	High

1. Introduction

- 1.1 A salary overpayment normally arises as the result of an 'error of calculation' either to an existing employee or as the result of incorrect, insufficient or late notification of a change to the individual's circumstances or contract of employment.
- 1.2 NHS Wales Shared Services Partnership (NWSSP) Payroll Services continue to pay the salary to the employee at the level recorded within Electronic Staff Record (ESR), as they have not been informed by the Line Manager of a change in contracted weekly hours or sessions as the employee reduced their hours or sessions, or left employment at the Health Board and the employee is considered to be an ex-employee, leading to a salary overpayment.
- 1.3 The Health Board's policies, together with the Standing Financial Instructions, aims to address resolving overpayments fairly and equitably, without financial loss to the Health Board.
- 1.4 The potential risks considered in the review were as follows:
 - inappropriate or inaccurate payments made; and
 - root causes not addressed.
- 1.5 The scope of this audit was limited to a review of the internal controls and processes to establish the root cause(s) of overpayments and the action taken to prevent recurrence. The process for recovering overpayments is excluded from the scope of this review.

2. Detailed Audit Findings

2.1 Action to recover an overpayment is initiated by NWSSP Payroll who determine the sum to be recovered and notify the employee. For current employees, overpayments are recovered by NWSSP Payroll from future salary payments, whilst an invoice is raised by the Health Board's finance team to recover overpayments from ex-employees. The process for recovering overpayments is excluded from the scope of this review.

Overpayment Policy

2.2 The *Recovery of Overpayments and Management of Underpayments Policy* was reviewed and approved in April 2021 by the People, Organisational Development & Culture Committee (PODCC), previously known as PPPAC.

2.3 Further changes were made to the policy in May 2022 to deal with the cause of overpayments rather than just the recovery process. NWSSP Payroll now write to the line manager (as well as the employee) to inform them that an overpayment has occurred, and line managers are required to meet with the employee where a "mid-range" or "significant" overpayment¹ has occurred, to discuss and agree the repayment terms. The intention is to make line managers more responsible and accountable for overpayments.

2.4 The revised *Underpayments and Overpayments of Salary Policy* was approved by the PODCC in June 2022 and is available on the Health Board intranet. However, it has not been formally communicated to line managers to ensure they are aware of the new requirements. **[Matter Arising 1]**

Overpayment Prevalence

2.5 NWSSP Payroll produce monthly key performance indicators (KPIs) relating to overpayments within each NHS Wales organisation. KPIs for Hywel Dda for the last two financial years identify a significant increase (240%) in the total number of overpayments.

Table 1

Year	Overpayments	
	Number	Value
2021/22	283	£264,469
2020/21	83	£38,812

2.6 The majority (70%) of overpayments in 2021/22 are due to the late submission of payroll documentation / processing of payroll changes via MSS (table 2) by Health Board line managers (table 3). Around 22% of these related to the termination of Covid-19 fixed term contracts.

¹ Policy defines 'mid-range' as 10-25% of net pay, and 'significant' as more than 25% of net pay and for a period of more than three months

Table 2

Reason for Overpayment	Number of Overpayments	
	Health Board	NWSSP
Incorrect Information	63	3
Late Submission	197	3
Processing Error	9	8
Total	269	14

Table 3

Responsibility	Number of Overpayments
Health Board	
Employee	12
E-System	22
Manager	216
Medical Staffing	1
Workforce	18
NWSSP	
Payroll	14
Total	283

Investigation of Overpayments

- 2.7 NWSSP Payroll provide a monthly *Under and Overpayment of Salaries* report to the Health Board's Workforce & OD and Finance teams. The Head of Workforce advised that line managers responsible for multiple overpayments are reminded of the importance of timely submission of payroll changes. We identified and spoke with 12 of these but all stated that Workforce had not contacted them to discuss overpayments. **[Matter Arising 2]**
- 2.8 The Head of Workforce provided an example of recent engagement with a directorate to reinforce the need for timely changes to payroll data and highlighting changes to the overpayments policy. KPIs for 2022/23 are starting to demonstrate improvement with only five overpayments identified in June 2022.
- 2.9 Overpayments are not analysed to identify themes and trends, and there is no evidence of investigation to establish root causes, such as the underlying reason for the 197 late submissions highlighted in table 2 above. **[Matter Arising 2]**
- 2.10 A sample of 69 overpayments was reviewed and discussed with relevant line managers to establish the root cause. Examples cited include:
- employees leaving the organisation at short notice;
 - late submission of the termination form / late processing via MSS by the manager;
 - miscommunication between outgoing and incoming managers;
 - paper forms posted to NWSSP Payroll for processing instead of using MSS or electronic forms available; and
 - e-rostering rate change error (the Senior Workforce Manager – Bank & E-Rostering assured that this issue has been addressed).

Use of ESR Manager Self Service

- 2.11 The ESR manager self-service (MSS) module implemented in 2019 enables managers to terminate employees directly in ESR instead of completing and submitting manual documentation to NWSSP Payroll that could delay processing.
- 2.12 During the Covid-19 pandemic NWSSP Payroll were willing to accept manual termination and change forms instead of requesting the manager use MSS, recognising the significant pressures faced by Health Board staff. Both NWSSP Payroll and the Health Board ESR Team highlighted a continued increase in the use of manual forms instead of MSS for terminations and changes, and only two managers within our sample had utilised MSS to terminate employees. **[Matter Arising 3]**

Monitoring & Reporting of Overpayments

- 2.13 An Overpayments Task & Finish Group was established in 2021 with a purpose of reducing the number of overpayments, ensure appropriate recovery mechanisms are implemented and also raise awareness of the impact of overpayments on the Health Board and individual employees. A number of actions were identified at the November 2021 meeting, including:
- Review previous actions taken by Workforce & OD to reduce overpayments
 - Liaise with service leads in relation to current overpayments
 - Liaise with line managers with recurrent overpayments due to late processing / submission of payroll documentation
 - Raise overpayments at a relevant group / committee
 - Produce overpayment reports for line managers
 - Review and update of the overpayments policy
 - Issue communication regarding early submission of payroll changes
- 2.14 The Head of Workforce advised that this group subsequently morphed into a policy review group focusing solely on the review and update of the overpayments policy (see para 2.3). The status of remaining actions above is unclear. **[Matter Arising 4]**
- 2.15 A financial summary of overpayments is included in the Financial Assurance Report presented to the Audit and Risk Assurance Committee, a sub-committee of the Health Board. However, there is no monitoring or reporting of overpayments (including themes or themes/trends, root causes or actions to reduce) at an appropriate Workforce & OD forum. **[Matter Arising 4]**

Appendix A: Management Action Plan

Matter Arising 1: Underpayments and Overpayments Policy (Design)		Impact	
Although the revised <i>Underpayments and Overpayments of Salary Policy</i> has been published on the intranet, the revised policy and the new additional requirements/processes have not been formally communicated to line managers.		Potential risk of: <ul style="list-style-type: none"> • inappropriate or inaccurate payments made; and • root causes not addressed. 	
Recommendation		Priority	
1.1	The revised Underpayments and Overpayments of Salary Policy should be formally communicated to all line managers to ensure they are fully aware of the new process and their requirements / responsibilities.	Medium	
Agreed Management Action		Target Date	Responsible Officer
1.1	The link to the new policy will be communicated via the global email (requested 29 July 2022), following which Workforce will liaise with directorates to communicate the key changes.	31/08/2022	Head of Workforce / Corporate Governance Team

Matter Arising 2: Investigation of Overpayments (Operation)		Impact	
<p>NWSSP Payroll provide a monthly <i>Under and Overpayment of Salaries</i> report to the Health Board's Workforce & OD and Finance teams. The Head of Workforce advised that line managers responsible for multiple overpayments are reminded of the importance of timely submission of payroll changes. We identified and spoke with 12 of these but all stated that Workforce had not contacted them to discuss overpayments.</p> <p>There is no evidence that overpayments are analysed to identify themes and trends or investigated to establish root causes, such as the underlying reason for the 197 late submissions.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • inappropriate or inaccurate payments made; and • root causes not addressed. 	
Recommendation		Priority	
2.1	Workforce & OD to scrutinise the monthly under and overpayment of salaries reports to identify themes and trends and engage with managers to identify the root causes of overpayments, providing the necessary support and guidance to prevent recurrence.	High	
Agreed Management Action		Target Date	Responsible Officer
2.1	<p>This has been done previously but on an ad hoc basis and not recorded.</p> <p>This will now be undertaken monthly with details recorded on the overpayments report received from NWSSP Payroll. This will also facilitate reporting to the W&OD Business Group per matter arising 4.</p>	Commence by 31/08/2022 then monthly	Head of Workforce / Assistant Heads of Workforce

Matter Arising 3: Use of ESR Manager Self-Service (Operation)		Impact	
<p>During the Covid-19 pandemic NWSSP Payroll were willing to accept manual termination and change forms instead of requesting the manager use MSS, recognising the significant pressures faced by the Health Board and staff. Both NWSSP Payroll and the Health Board ESR Team noted a continued increase in the use of manual forms instead of MSS for terminations and changes, and only two managers within our sample had utilised MSS to terminate employees.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • inappropriate or inaccurate payments made; and • root causes not addressed. 	
Recommendation		Priority	
<p>3.1 Workforce & OD to reinforce with line managers the requirement to use MSS for changes to payroll data, including terminations and assignment changes, where possible.</p> <p>Workforce & OD to monitor MSS use to identify areas with low MSS / high manual form use and provide refresher training to ensure that line managers are confident in using MSS to process changes to payroll data.</p>		<p>High</p>	
Agreed Management Action		Target Date	Responsible Officer
<p>3.1 Global comms to be prepared highlighting the need to use MSS for changes including terminations and changes.</p> <p>ESR Team/Payroll to produce a monthly report for Head of Workforce on number of manual versus online forms submitted by department/line manager and overall percentage of forms submitted via MSS</p>		<p>05/08/2022</p> <p>Commence 05/09/2022 then monthly</p>	<p>Head of Workforce</p> <p>Head of Digital Workforce Solutions</p>

Matter Arising 4: Monitoring & Reporting of Overpayments (Design)		Impact
<p>An Overpayments Task & Finish Group was established in 2021 with a purpose of reducing the number of overpayments, ensure appropriate recovery mechanisms are implemented and also raise awareness of the impact of overpayments on the Health Board and individual employees. A number of actions were identified at the November 2021 meeting. The Head of Workforce advised that this group subsequently morphed into a policy review group focusing solely on the review and update of the overpayments policy. The status of remaining actions above is unclear.</p> <p>A financial summary of overpayments is included in the Financial Assurance Report presented to the Audit and Risk Assurance Committee, a sub-committee of the Health Board. However, there is no monitoring or reporting of overpayments (including themes or themes/trends, root causes or actions to reduce) at an appropriate Workforce & OD forum.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • inappropriate or inaccurate payments made; and • root causes not addressed.
Recommendation		Priority
4.1	Overpayments, including the root causes, actions taken and lessons learned to be reported to and monitored by an appropriate Workforce & OD forum.	High
Agreed Management Action		Responsible Officer
4.1	SBAR report to be submitted to W&OD Business Group on a quarterly basis commencing with next meeting on 8/9/22	Head of Workforce
		Target Date
		08/09/2022

Appendix B: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	No assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

* Unless a more appropriate timescale is identified/agreed at the assignment.



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