

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

HR/FINANCE SYSTEMS IMPLEMENTATION - UPDATE

Recommendation

1. The Head of HR and OD and the Chief Financial Officer recommend that:
 - a) The report be noted
 - b) The Audit and Governance Committee receive a further update at its next Committee on the improvement programme.

Executive Summary/Next Steps

2. This is a further update to the Audit and Governance Committee relating to the actions and progress around the implementation and management of the HR and Finance systems, and the Liberata contract.
3. This report gives more detail on the issues that were highlighted and the key performance statistics for the services.
4. The report identifies that there were a number of issues of concern on implementation that have been worked through. Those actions sought to correct a relatively small level of errors compared to the total processing population size. All errors affecting payments to staff and suppliers or in relation to income collection were corrected promptly, and remedial actions ensured the small number affected were compensated where appropriate.
5. The actions over the last 14 months have been around learning the lessons of implementation and on strengthening controls, as well as reporting.
6. The last few months and the coming 12 months are focused on improvement activity and contract compliance to secure greater efficiencies. For example, implementing a new budget reporting tool (collaborative planning) and a review of the key performance indicators.

Background

7. The contract with Liberata for the Human Resources (HR) and Finance Transactional services commenced on 1 February 2016. This involved the TUPE transfer of Worcestershire County Council employees and the use of the legacy system SAP. Liberata seamlessly transferred the service delivery from the Council and continued to deliver their services from County Hall, where they lease office space from the Council.
8. The contract with Liberata included the implementation of new finance (E5) and HR Systems (Itrent) in a joint transformation project which actively involved both

the Council and Liberata in the activities, with accountabilities and responsibilities for the implementation set out in the contract. The new systems went live on 11 April 2017. On go live a number of errors were identified in payments and income collection.

9. The issues arising are set out in Appendix 1, and included a small number (compared to the total population size of payroll and accounts payable payments) of payroll and supplier payment errors. Regardless of scale it is recognised that there was a reputational impact and there was confusion over the scale and who was or was not affected. This report seeks to clarify that position in data contained in Appendix 1.

10. In addition, an independent review (funded by WCC) was commissioned from the Society of IT Managers (SOCITM) which identified lessons learned and issues that needed to be addressed moving forward and these were reported to the last meeting.

11. A key learning from this implementation is that if any future similar issues arise at the time of system implementation clearer communication to councillors, staff, suppliers and clients is needed at the time the issues are raised. This has been fed into current system implementation programmes, including the replacement for the Frameworki social care system.as well as all other recommendations from SOCITM.

12. The issues were actively managed by the Transformation Board reporting into the Contract Management Board and responses were made to correct all errors promptly, and were appropriate credits / out of pocket expenses were made.

13. Following an update to the Audit and Governance Committee on 16 March 2018, a further report was requested to include:

- a) Summary details including categorisation of any under/overpayments since go live;
- b) The number and type of wider issues (including complaints) raised by Council and School employees to understand the proportionality of the issues experienced; and
- c) A copy of the report provided to the external auditor.

14. The following paragraphs contain a summary of the issues, and more detailed information relating to a) and b) is included at Appendix 1; and the report provided to external audit is attached at Appendix 2.

Summary Information

- Go live issues

15. A detailed analysis is contained at Appendices 1 and 2 of this report. On go live there were a number of small issues relating to payments and income. Whilst these were small proportionately it is recognised that the lack of clear data at the time due to resources diverted to correct issues, caused a perception of greater issues. It is also recognised that it has taken time to clarify those positions as a result

of that delay. This paper seeks to clarify that position as requested by the Audit and Governance Committee.

16. The key issues from April 2017:

- 107 payslips were processed in April 2017 (0.1% of the first months total payslips) resulting in an underpayment to staff (39 council and 68 maintained school employees). All underpayments were corrected within a maximum of 5 days of the underpayment being highlighted.
- Since April 2017 (not including April 2017 as detailed above) there have been on average 38 underpayments a month, largely arising due to employee or manager omissions in data submitted. Whilst there are no comparative statistics this is 0.3% of monthly payroll payslips processed and is not uncommon or out of the norm.
- £0.9 million of supplier payments were paid incorrectly arising from errors on the first payment run. 100% of this has been recovered. Around 130 payments for foster care were extracted from the original payment run and paid separately on a 'same day' transfer (to ensure they were still paid when intended); all further suppliers were paid the following working day. This error rate is high compared to the norm, but is relating to one pay run (the first), subsequent pay runs have not showed significant issues, and payments are being made on time. The Council's finance staff telephoned suppliers affected and apologised.

17. Since that first month the Council has worked with Liberata to correct issues, and contract monitoring has identified large levels of key performance indicator (KPI) measures being met. Further details are set out at Appendix 1.

Lessons learnt and recovery actions / contract management

18. A SOCITM report identified a wide range of lessons to be learnt from the E5 and ITrent go live. The lessons have been fed into the organisation and evaluation assessed in relation to the Council's current replacement of its Social Care data system (Frameworki).

19. The Council has also held regular contract management meetings with Liberata and managed the contract according to the KPIs. The Council has also sought to realign and increase the capacity of its staff to cover key reconciliation and control positions not in place before or just after go live. As a result reconciliations and control account clearance are now up to date. The data for the statement of accounts was produced on time, and further comment on that is likely on the first agenda items of the Committee considering this report.

- Improvement

20. The Council and Liberata made concerted efforts to respond to the issues that arose during the early weeks of the implementation. Whilst a recovery plan was in place, there is now the focus to move from recovery to improvement. This improvement has included improved communication with schools and wider users of the system.

21. An Improvement Board, including key stakeholders from both Liberata and the Council meets regularly to monitor the actions to ensure progress. The Board meetings include Head of Commercial, Chief Financial Officer or their representative, Finance Lead, Head of HR and OD, Programme Managers from both the Council and Liberata, Liberata Contract Director, Liberata Managing Director.

22. In addition there are monthly Contract monitoring meetings where key performance indicators are reviewed. The indicators for 2018/19 have been reviewed and these are robustly monitored by Council officers. Should there be any specific issues, then ad hoc meetings take place.

23. In relation to Schools recent action has been taken to provide capacity within Finance for one of the Finance Managers to concentrate full time on school and Liberata contract issues and management. This project will include recommending further improvements.

24. Discussions are also progressing with Liberata regarding changes to service agreements to strengthen further KPIs. This is not uncommon 12 months into a contract / new system. As part of that we also have other improvement plans such as Procurement controls and Collaborative Planning which are aimed at improving reporting and efficiencies in payments.

25. Collaborative Planning (CP) is a module of the finance system that provides a tool for budget managers to:

- Receive management Information
- Complete budget monitoring and forecasting (both capital and revenue)
- Prepare budgets

26. CP will facilitate ownership of budgets by budget owners and enables budget owners to monitor budgets and prepare forecasts for approval and consolidation. It is a key tool to automate and integrate the production of forecasts and budgets empowering budget managers in the process and enabling the finance team to proactively work with budget holders across the organisation to manage spend and add value, rather than spending time on data input and spreadsheet consolidation.

27. The module was not implemented in the initial implementation phase of Mercury and following a review in October 2017 a revised plan for development, testing and implementation was developed. This plan aimed to address the lessons learned from the Mercury implementation and the recommendations of the SOCITM report. In particular the testing plan included meaningful involvement of users across the organisation and a pilot phase for use by finance.

28. CP is a key development for 2018/19 and is currently being rolled out in a phased way across the Council and schools.

29. Significant improvement has also been seen in relation to the preparation of the Council's statement of accounts for 2017/18 (discussed elsewhere on the same agenda as this report). At the last meeting the Committee was advised that the closing of the accounts to an earlier timescale, with a new financial system, was particularly challenging. County Council finance staff and Liberata staff have worked

particularly closely, meeting daily as the year end approached to ensure that reports were produced on time. The draft accounts were produced to the deadline and the external audit of the final accounts is subject to a separate item on the agenda.

30. There is still a lot of work to do to improve services, both on the client and contractor / system side. A Finance Improvement Programme is being pulled together to roll out further improvements in controls, training and processes. It is recommended that the Committee is regularly kept abreast of these developments and improvements both in response to the issues raised in this paper and the Internal Audit Annual Report also discussed on the same Committee Agenda.

Summary

31. There were many lessons to be learned from the implementation of the new HR/Finance system. The actual go live issues were disappointing but quickly managed, albeit with significant divergence of resources on all sides.

32. Lessons are to be learnt regarding ensuring if such events were to occur again further capacity is needed to explain and provide information to councillors and others to provide assurance and openness of the issues and how they are being resolved. Learning points from the independent review were reported to the last Committee meeting and there are key improvement activities taking place to develop approaches to future commissioning.

33. The improvement board and the contract management board actively manage the contract and activities. In addition, regular operational meetings take place between Council and Liberata staff. This includes specific meetings around closure of accounts issues.

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Supporting Information

Appendix 1 – Details of issues arising at Go Live

Appendix 2 - Report Provided to External Audit

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report.

Agenda papers and Minutes of the Audit and Governance Committee on 16 March 2018

Details of issues arising at Go Live

- HR/Payroll

Since April 2017 there has been a total of 121,285 payslips (i.e. salary payments to Council and Maintained School employees) issued which is an average of 10,107 per month.

This data includes all County Council staff and maintained schools but does not include academies.

The table below indicates that 99.5% of salary payments have been made correctly.

Salary Payments April 2017 – March 2018	Number	Percentage
Staff paid correctly	120,655	99.5%
Underpayments	530	0.4%
Overpayments	100	0.1%
TOTAL	121,285	

Of the 530 Underpayments 100% were corrected within a maximum of 5 days. Any out of pocket expenses arising were paid were appropriate and funded by Liberata.

o **Underpayments:**

Of the 530 (or 0.4% of the total payslips issued) that gave rise to underpayments between April 2017 and March 2018. The total of the 530 underpayments was £285,696. Of the 530 underpayments, 107 (0.1% of the month's processed payslips) were in April 2017 at go live. There were a further 40 related to academies, in total thus 147 as reported to the last Committee. As such the average underpayments since has been around 35 per month – that is 0.3% of the monthly payslips processed.

In the first months under payments these related to changes in pay / expenses. All individuals who were employed prior to Go Live received basic salary. The underpayments related to changes in grade, expenses, etc...

There are a number of reasons why a salary payment can be processed incorrectly, including missing deadlines for submission of claims to the payroll by managers/bursars; or not having sufficient information to enable a salary payment to be made, such as the payee's bank details. An analysis of the reasons for the underpayments is shown in the following table; this identifies that actually of the 530 underpayments 50.4% relate to manager and user error. This highlights the need for improvements in training:

Underpayments April 2017 – March 2018	Number	Percentage
System/Liberata issue	263	49.6%
Manager issue (e.g. entering claims incorrectly/late notification/missing payroll deadline)	210	39.6%
User issue (e.g. not sending in bank details / missed payroll deadline for submission of claims)	57	10.8%
TOTAL	530	

○ **Overpayments:**

In total, out of the 121,285 payslips there have been 100 overpayments between April 2017 and March 2018, which amounts to 0.1% of the total payslips issued. This amounts to an average of eight overpayments per month. When there is an overpayment of salary, there are a number of options which are discussed and agreed with the member of staff to ensure any overpayment is reclaimed.

As with underpayments, there are potentially a number of reasons why a salary payment is incorrect. An analysis of the reasons for the overpayments is shown in the table below again this points to the need for training.

Overpayments April 2017 – March 2018	Number	Percentage
System/Liberata issue	64	64%
Manager issue (e.g. end date not provided when staff member leaves)	24	24%
User issue(e.g. incorrect claims)	12	12%
TOTAL	100	

- **Schools Issues**

There were a number of issues reported by schools during implementation. Liberata attended a number of schools forum meetings in 2017 where an update of the progress was made. A system was put in place to escalate all concerns through the Council where this had not been satisfactorily resolved by Liberata. The escalation process has also been used by academies. In the past twelve months there have been 143 escalations, of which 52 relate to academies with the remaining 90 maintained schools and one from a supplier. The issues related to general issues with implementation of the systems to budget monitoring questions and specific payroll queries.

- **Finance System**

As part of the contract with Liberata, the key finance performance indicators include the following:

- **Supplier Payments** - Ensure supplier payments are paid accurately and on time
- **Income Received** - Ensure that income received is posted onto the Council accounts quickly
- **Customer Invoices** - Ensure customer invoices are paid within 90 days

Performance on these key areas is reported to the Contract monitoring board on a monthly basis and where appropriate contract provisions are invoked.

- **Accounts Payable**

The first supplier payment run in the new financial system resulted in an incorrect batch of payments. A check of the first supplier payment run identified the potential for a significant number of suppliers to be paid incorrectly, and considerable manual intervention had to take place. The County Council recalled some payments; however £0.9 million was paid to 39 incorrect suppliers. More details are set out at Appendix 2 in the detailed report to our external auditors in February 2018 as part of the preparation for the 2017/18 Accounts audit.

As a result of missed payments 130 (£0.5 million) of urgent payments were made to ensure certain suppliers were paid quickly. This did include child minders and foster parents, and everyone affected was called and made aware.

There were some payments that failed to be recalled through the BACS / banking system. Depending on the particular supplier, the County Council arranged for repayment by either reducing amounts off the next feeder payment run, or raising an invoice. In all instances contact was made by telephone immediately, with some calls being made before the payment had cleared the banking system. Of the incorrect payments 100% has been recovered and the Council has incurred no financial loss.

There was a root cause report produced by Liberata as to what went wrong on the first payment run and mitigation measures were put in place to ensure that this did not happen in future.

Since the first month of operation, supplier payments paid accurately and on time have been consistently high, with an average of 98.9% of suppliers paid accurately and on time. There could be a number of reasons why a supplier payment has not been on time, including late authorisation of payment, and purchase order being received late.

Supplier April 2017 – March 2018	Number	Percentage
Paid correctly and on time	289,971	98.4%
Not paid correctly and/or on time	4,699	1.6%
TOTAL	294,670	

○ **Accounts Receivable**

Income received and posted to the Council's accounts is important to ensure that the accounting records are accurate and that the Council receives income in a timely manner. It also ensures the Council does not incorrectly chase individuals or suppliers. The target for 2017/18 was that 80% of the Council's income is posted to the Council accounts within 2 days. Performance information is shown below, indicating that performance has been 88.5%, above the target of 80%.

Income Payments June 2017 – March 2018	Number	Percentage
Posted within 2 days to Council accounts	24,615	88.5%
Posted within 10 days to Council accounts	2,612	9.4%
Posted in more than 10 days	589	2.1%
TOTAL	27,816	

Performance on ensuring that customer invoices have been paid within 90 days of receipt of invoice has been within the target of 94%. It is important to ensure that the debt management processes are effective and that income due to the Council is collected as promptly as possible. The average for the year is 98%.

Customer Invoices paid April 2017 – March 2018	£m	Percentage
Paid within 90 days	902,264	98%
Not paid within 90 days	18,392	2%
TOTAL	920,656	

Report Provided to External Audit

External Audit Briefing Note

Liberata – first supplier payment in E5 – 11 April 2017

Issue

The first payment run in E5 was made c. 7pm on 11 April 2017 and totalled £12.4m, of this only £5m (c.390 suppliers) was scheduled to be paid based in the supplier payment terms held in E5.

The BACS payment cycle for this payment was:

Day 1 - Tuesday 11 April – Input

Day 2 - Wednesday 12 April – BACS processing day

Day 3 – Thursday 13 April – Bank Transfer

Note: Friday 14 April 2017 and Monday 17 April 2017 were Good Friday and Easter Monday bank holidays.

At around 10am on 12 April WCC staff were checking the accounting postings to revenue cost centres generated by the £5m payment file and found that whilst some payments were correct, some were not.

Following a quick examination of the data, it was concluded that there was the potential for a significant number of £5m payment to be incorrect and/or paid to the wrong supplier. It could not be established in the time available the exact potential impact of the issue, just that it could have affected all payments.

A decision was therefore made for the entire £5m payment run to be recalled through the bacs recall process on 12 April 2017.

It was found that a small part of Liberata's system functionality to reject suppliers without an exact match to the original payment request was not turned on, resulting in some payments being made to the wrong supplier.

Specifically, where a supplier record was missing, the payment was made to the next supplier listed on the file instead of rejecting the payment.

Liberata then corrected this functionality and the payment run was then resubmitted. The actual bank transfer day for the resubmitted file was Tuesday 18 April 2017 (5 calendar days or 1 working day later than the original payment date). The County Council took additional action to pay the most urgent suppliers on a 1 day Faster Payment process – facilitated by Liberata.

There was insufficient time for all the BACS recalls requested on 12 April 2017 to be successful. Consequently there were £0.9m BACS recall failures for which the County Council needed to take action to get the money back.

Later analysis of the £5m payment identified that £1.9m (c.95 payments) would have been made in error – and included £875k where the amount was an overpayments (83 supplies) and £425k where the amount was an underpayment (12 suppliers), reinforcing that the decision to recall the entire £5m given the information available was justified.

Root Cause

Confirmation of the root cause of the issue is contained with the email correspondence from Liberata as attached below.

Original draft Root Cause document from Liberata:



E5 Feeder payments 110417 - Original Draft Document from Liberata.msg

Returned draft Root Cause document back to Liberata with WCC amendments and comment:



E5 Feeder payments 110417-dcb 2017_05_17 - WCC update to root cause report.msg

Confirmation of amendments from Liberata:



RE E5 Feeder payments 110417-dcb 2017_05_17 - Liberata accepting all points query feedback loop.msg

Attachment: Email and document: Root Cause Communication from Liberata

There was one except to the diagram that Liberata were unable or not prepared to do – which was to establish an automatic information feedback loop to feeder owners to enable them to check for any issues. This functionality was developed and implemented by WCC staff. Other than this issue the attachment confirms Liberata's formal acceptance of the root cause of the issue.

Mitigation

From the second payment run onwards, to prove that the payment made through Liberata's payments system was correct, reconciliation was undertaken by Liberata and sent to WCC for manual spot checking to SAP vendor records before payments were made.

Attachment – Examples of this work – DATA REDACTED DUE TO SENSITIVITY.

Note that a verbal explanation of these technical working papers will be provided if requested to explain the manual testing undertaken.

This continued for around a month – **during which and to date there have been no further errors identified as a result of this issue.**

The manual check process was stopped when an automated check programme was implemented. This automated process emailed the feeder system owners with any mismatches for investigation – an example would be where a new supplier is used in a feeder system but not yet set up in E5

Attachment – Example of Automated process. Further examples can be provided upon request – DATA REDACTED DUE TO SENSITIVITY

Attachment – List of feeder owners who receive automated feedback – DATA REDACTED DUE TO SENSITIVITY

Impact

The County Council had to make a number of urgent payments to ensure certain suppliers were paid quickly. (e.g. child minders and foster parents).

£0.9m payments failed to be recalled through the BACS / banking system. Depending on the particular supplier, the County Council arranged for repayment by either reducing amounts off the next feeder payment run, or raising an invoice. In all instances contact was made by telephone immediately, with some calls being made before the payment had cleared the banking system.

The amount still outstanding at 14/2/18 is £6k (6 suppliers) and work is in hand to ensure full repayment.

February 2018
Mark Sanders