

## Client Briefing August 2022

### Salary Overpayments – A cautionary tale

It was recently reported in the Health Service Journal that South London and Maudsley NHS Foundation Trust (SLAM) had incurred salary overpayment costs of £1.1m in 2021/22 with an additional £300k incurred in the period up to May 2022. A total of £200k in salary overpayments was incurred in May 2022 alone. This position was reported to the Board of Directors as one of their financial metrics contained in their Integrated Quality and Performance Report.

SLAM reported the reason for the errors as:

- Overpayments to leavers
- Payments to new starters who do not actually commence work for the Trust.

A root cause analysis identified:

- Minimal accountability for managers not processing leavers form promptly
- Limited HR capacity to monitor and manage leavers / new starters process.

In partnership with 360 Assurance and Mersey Internal Audit Agency, Audit Yorkshire last completed a benchmarking exercise for salary overpayments in October 2021.

The exercise focussed on data for the three years of 2018/19, 2019/20, and 2020/21 and included 26 participating Trusts.



#### Key messages from the Benchmarking Exercise

- In 2020/21, £6.28m was overpaid by the 26 NHS Trusts that participated in the benchmarking exercise
- A total of 4,872 individual overpayments were made and of these £3.29m had been recovered
- Over the past 3 years, there had been a general increase in the number and value of salary overpayments being made. Although a few Trusts had made year on year improvements, for most the situation had deteriorated, or followed no clear trend either way.
- Overpayments occurred for a variety of reasons, with the most common being late notifications of staff changes affecting pay (such as employee terminations). In most cases, very few were attributable to payroll errors.
- The average value of overpayments being made by each Trust was highly variable. There was a significant difference between the lowest and highest values of overpayments being made, regardless of Trust type (Acute/Non-Acute/Ambulance).
- The levels of overpayments per 1,000 WTE ranged from £5,046 to £129,830 in 2020/21 with the number of overpayments made per 1,000 WTE in 2020/21, ranging from 5 to 96.



- Very few Trusts had managed to sustain improvements in their overpayments position over three successive years, and for some there had been a significant deterioration in their overpayments position in 2020/21.
- Relatively minor values were being written off by Trusts compared to the total value of overpayments made. Just £2,491 was written off in 2020/21 across the 26 Trusts. Either Trusts have a very high level of confidence that all monies lost will be recovered, or Trusts are not being realistic about repayment risks.
- The most common repayment terms stated by Trusts were that overpayments should be recovered over the same period of time that the overpayment was made.
- Trusts who accept a combination of ESR Manager Self-Service or manual forms see fewer overpayments than where forms are used on their own.

Thankfully the figures reported by SLAM are not the norm and none of our clients who participated in the benchmarking exercise were close to approaching these levels. However, this combined with the fact that our benchmarking exercise indicated that Trusts had seen a deterioration in position or had struggled to maintain improvements we thought it would be timely to share some of the initiatives that Trusts reported they were taking in response to this issue as part of the benchmarking exercise.

Initiative type	Responses by Trusts
Reviews	<p>One Trust reported undertaking regular checks to eRoster of certain items such as</p> <ul style="list-style-type: none"> <li>• Leavers which have been processed</li> <li>• Unpaid absence which typically isn't checked until the following month</li> <li>• Sickness periods where an employee may need to go into half pay</li> </ul>
Reports	<p>A Trust advised that an overview of overpayments is sent to the Audit and Risk committee, with ELT notified beforehand</p> <p>A further Trust advised of a monthly report is in place for the systems teams and payroll provider</p>
Working groups	<p>One Trust advised that it had established an 'Overpayments Working Group' The group has representatives from across the Trust, including:</p> <ul style="list-style-type: none"> <li>• Operation Management</li> <li>• HR Business partners</li> <li>• Central resourcing</li> <li>• Finance</li> <li>• Divisional Finance management</li> <li>• Payroll</li> </ul> <p>The group's work includes</p> <ul style="list-style-type: none"> <li>• Renewing local processes for completion of change forms</li> <li>• Root cause analysis</li> <li>• Monitoring of nominal roll checking</li> <li>• Creating reports to identify payroll changes based on the staff rotas</li> </ul>



Outside Providers	Another Trust advised that it holds regular meetings with counter fraud and is working together with its payroll provider, following standard financial instructions
Adapting the process	Five different Trusts advised of work they had undertaken to review and adapt their processes:
	Creation of bespoke e-forms that remind and encourage the completion of other e-forms/termination forms
	People Services are trialling managers emailing them once they know a member of staff is leaving, so people services can then chase the form if not submitted close to when the member of staff is due to leave.
	From 21/22 termination forms can be submitted without the final annual leave included which can be emailed later to allow for an earlier submission.
	Positive return system is in place for Managers to check details of (non eRoster) employees on ESR including contracted hours. This return is then used by Managers to claim additional hours, enhancements etc.
Manager focus	Making sure Line Managers are aware of timely notification of any changes that effect pay
	Two Trusts advised that they were putting emphasis on emailing managers who submit termination forms late, to understand the reasons behind the late submissions
	One Trust advised of the introduction of a formal non-compliance process (included in the overpayments policy). They advised that this has helped to target repeat offenders (e.g. managers who submit forms late)
	One Trust was issuing monthly reminders to managers via the intranet and staff bulletin with reminders to submit forms (although using different narrative within the heading to repeatedly draw their attention)

## Minimising Salary Overpayments

A strong control framework - from setting the policy framework to monitoring - will help to minimise the risk of losses through salary overpayments.



### Key points to consider

- Does your organisation have a Salary Overpayments Policy that sets out the framework in which salary overpayments are managed and recovered and clearly defines the respective responsibilities of those involved in the process, including managers and employees?
- Do your change forms include a statement which advises the employee that if because of a change in circumstances they are over/under paid, these will be recovered/rectified in line with the policy in place?
- Have you made employees aware that if they fail to report an overpayment and knowingly retain the money that this may be construed as a criminal offence under the Theft Act 1968 and appropriate action taken?



- Where an overpayment is identified for an employee that left the organisation is there provision in the employment contract to collect any amounts outstanding via deductions from final salary payments and /or invoicing the former employee?
- Have you provided managers with a clear procedural framework and timetable with cut off dates for submitting changes and leavers documents to payroll for processing?
- Are regular reminders issued to managers?
- How are new starters activated on the payroll system and how is it confirmed that an individual has commenced in role before it goes live on the payroll system?
- Are budget holders provided with staffing lists as part of their monthly budget report pack to check? How confident are you that budget holders routinely check these lists? How is this monitored/confirmed? Do finance managers discuss these with their respective budget holders as part of budget monitoring meetings?
- What monitoring checks are undertaken in payroll and/or HR to confirm that new starters that have been paid that month are valid and that all change and leavers forms have been processed accurately and timely?
- Do you receive routine reports identifying the number and value of overpayments made and the reasons for these?
- Do you also receive a report showing the amount that has been submitted for recovery and how much has been recovered?
- Have metrics been established to help monitor the trend in performance in terms of salary overpayments and the recovery of debt relating to these?
- Is there a group or committee in the organisation that has been identified as responsible for seeking assurance on this performance on behalf of the Board?
- How regularly do you review your processes to ensure they remain effective? Where performance appears to be deteriorating or is not improving has any root cause analysis been undertaken to identify the cause to inform corrective action?
- Is there a process for holding managers to account where there is evidence of a recurring failure to submit the required documentation on a timely basis?

Audit Yorkshire is happy to support our clients in reviewing your processes. Please contact your Internal Audit Manager if we can support you in any way. If you have any concerns regarding possible fraud/theft please speak to your Local Counter Fraud Specialist.

**August 2022**

