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## An Overpayment and Improved Reconciliation Process

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# HR Overpayment Prevention and Improved Recovery Process



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## **Executive Summary**

Managerial errors in the form of late entry separations result in operating inefficiencies and excess costs to a company, as reconciliations will need to occur between paychecks issued and active employees versus separated employees. This is an issue that is currently plaguing Whirlpool Corporation (Whirlpool) in their U.S. operations. After the implementation of a plan to restructure their Human Resources (HR) Department and payroll unit to achieve HR Excellence, Whirlpool experienced problems with their payroll process resulting in inaccurate payments to separated employees. This senior project designed a two-phase process, first phase being prevention and second phase being a lean recovery process, that is simple, effective, and efficient with the goal to eliminate inaccurate payments to separated employees; reducing reconciliation and collection costs to the company.

To gain an understanding on Human Resource operations with Payroll, extensive research was done prior to attacking the issue. For phase one, surveys, analyzation of the process, Pareto charts, and 5 Why's analysis were utilized to help the group understand the root cause as well as in creating their recommendations. For Phase two, survey to HR Specialists, process mapping and design, on-site interviews as well in person observations were used in helping design the recommendations. To weigh the recommendations, the group conducted sensitivity and cost analysis based on the chosen criteria which were: ease of implementation, sustainability, user friendly, and reduces reconciliation fees. From weighing the solutions, the group chose to implement an online prompt reminder for Phase one saving Whirlpool up to \$177,000. For phase two, the group implemented an ideal up to date process that is visual and standardized, as well an improved communication plan between the People Leaders and HR Specialists at Whirlpool. The group strongly believes that implementation of these recommendations would benefit Whirlpool for years to come.

## **Introduction**

In today's competitive market place, businesses must strive for excellence throughout their entire corporate structure, including the Human Resources (HR) Department. As noted in a 2017 survey cited in a Whirlpool HR presentation, 85% of all global companies acknowledge the growing need "to transform HR to meet business priorities" (Corning, 2017). In 2015, the management team at Whirlpool Corporation, the world's leading global manufacturer of home appliances located in Benton Harbor, Michigan, began a four-year journey toward achieving their version of HR excellence. The four main elements of the Whirlpool plan were to standardize, redesign the HR organization, obtain new supporting technology, and to establish a modified global HR governance. The official rollout of this HR transformation began in 2016 with Whirlpool's North American operations. One of the goals was to ensure that there was a strategic alignment of the systems of the HR area with other areas of the business systems, and thus the decision to use SAP SuccessFactors (Corning, 2017).

## **Project Background**

During Whirlpool's HR reorganization, in addition to striving for operational excellence, one of their goals was to achieve an improved employee experience as they realized one of a company's most important assets is its employees. While the structure of Human Resource Departments varies from entity to entity, there are several common responsibilities found in most HR Departments, such as hiring, compliance with labor laws, employee performance oversight, compensation management, and the payroll function. While all responsibilities within an HR Department are essential for businesses to operate effectively, the payroll function is often viewed as one of the most vital as it ensures employees are rewarded for performance, that payroll taxes are paid, and that compensation is calculated accurately.

## **Overview**

Whirlpool is currently dealing with overpayment issues that are affecting three types of people: active, leave of absence, and separated employees. The information that we gather showed that \$178,000 of the overall overpayment costs, \$500,000, are due to late entry separations.

## **Project Objective and Criteria**

The team's objective for this project was to create methods to prevent overpayments caused by late entries and enhance the recovery process. The criteria utilized to develop an overpayment prevention and improved reconciliation process were:

- 1) User friendly process
- 2) Sustainable
- 3) Easy implementation
- 4) Lower overpayment costs

## **Approach**

The team chose to use a two-phase approach on the project as it helped them get a clearer idea on how to break down the issue at hand. The first phase was defined as the prevention phase which was focused on preventing the occurrence of late entry separations. The second phase was the recovery phase aimed to create an enhanced overpayment recovery process to make it easier when an overpayment does occur.

## **Methodology**

In order to complete this project, the tools that the teams used are: 5-Whys, process mapping, surveys, on-site interviews, and sensitivity and cost analysis. Below is a brief explanation of each tool.

### **Phase 1: Prevention**

Phase one focused on preventing the occurrence of late entry separations. The tools used for this phase included: pareto chart, 5-Whys analysis, and survey. These tools helped the team make three recommendations to Whirlpool that prevent overpayment due to late entries.

#### **Pareto Chart**

The team used the pareto chart to help show which categories are the highest cost of overpayments. It was discovered that late entries, system error, and relocation. From this information, the team decided to focus on prevention of late entries.

#### **5-Whys**

The 5-Whys analysis tool was used to ask questions about why the late entry overpayments were happening in the first place. This helped the team narrow down the potential root causes of the problem at hand. After doing the 5-Whys, the found gaps in the communication between the HR Specialists and People Leaders, which fueled the late entries of employee separation causing an overpayment.

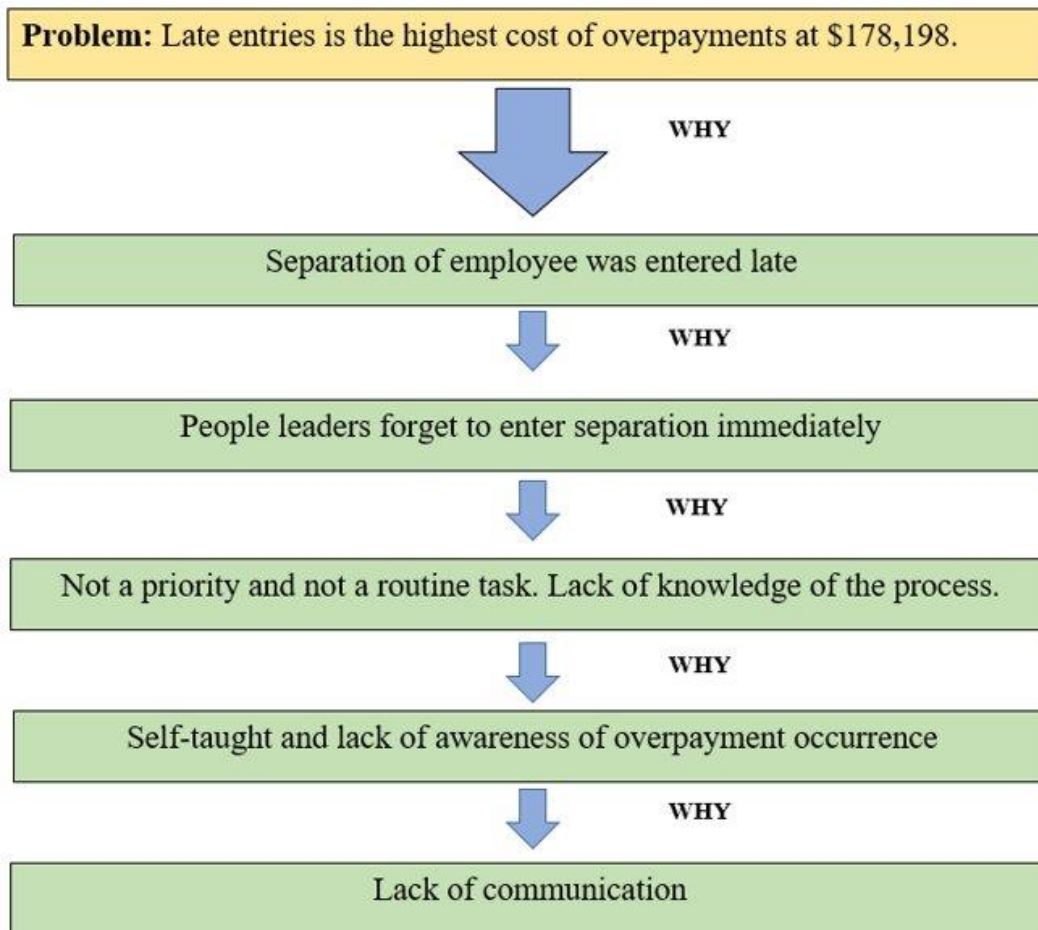


Figure 1.1 5-Whys analysis of late entries

## Survey

To get a better insight on the execution of the current separation process the team decided to distribute a survey. This survey was aimed at the People Leaders (managers) in the organization. People Leaders were the focus group of this team because they are the ones tasked with entering the separation of an employee. The survey was aimed at finding out how they were trained, how long it took them to execute the process, if they had a hard time, and what they would improve. This survey had 65 respondents and the information from them was used to find solutions for to prevent late entries. First major finding was that the 37% of the respondents said that they could not execute the separation process under ten minutes. Second, 41% of the respondents said they found the separation process complex. Third, 42% believe that executing a separation on time had no impact on Whirlpool, which is a big issue.

## Recommendations Phase 1

For phase one, the recommendations were designed around prevention of late entry occurrences. These recommendations included the addition of an online prompt reminder with a direct link

attached for easy access, an automated e-mail reminder, laying out the process to make it visual, and lastly to focus on the areas with the most occurrences of late entries.

## Online Prompt

For the first recommendation, it was recommended that an online prompt or a pop-up reminder be added to the People Leaders' portal page. This pop-up reminder would pop-up once or twice a month to remind the people leaders to execute any pending employee separations to avoid overpayment costs. The way this pop-up works is the People Leader clicks on it when it appears and that will take them to a page where they see a how to guide, the SuccessFactors direct link, and none options. This recommendation

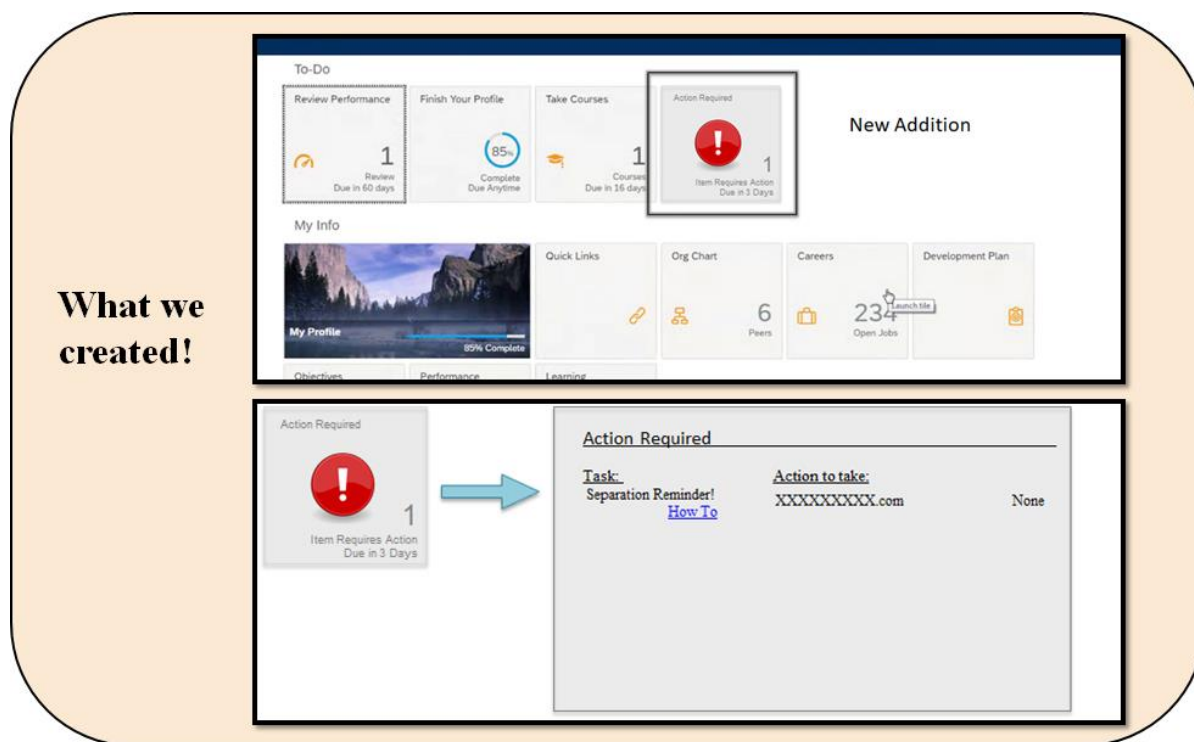


Figure 1.2 Online prompt page layout

## Email Briefs

The second recommendation was an automated email reminder that would be sent with the People Leaders' monthly briefs. Monthly briefs are communication emails sent to people leaders throughout the company in which the tasks and responsibilities are discussed. It was recommended that Whirlpool add the task of processing separations of employees on time by People Leaders to the monthly briefs.



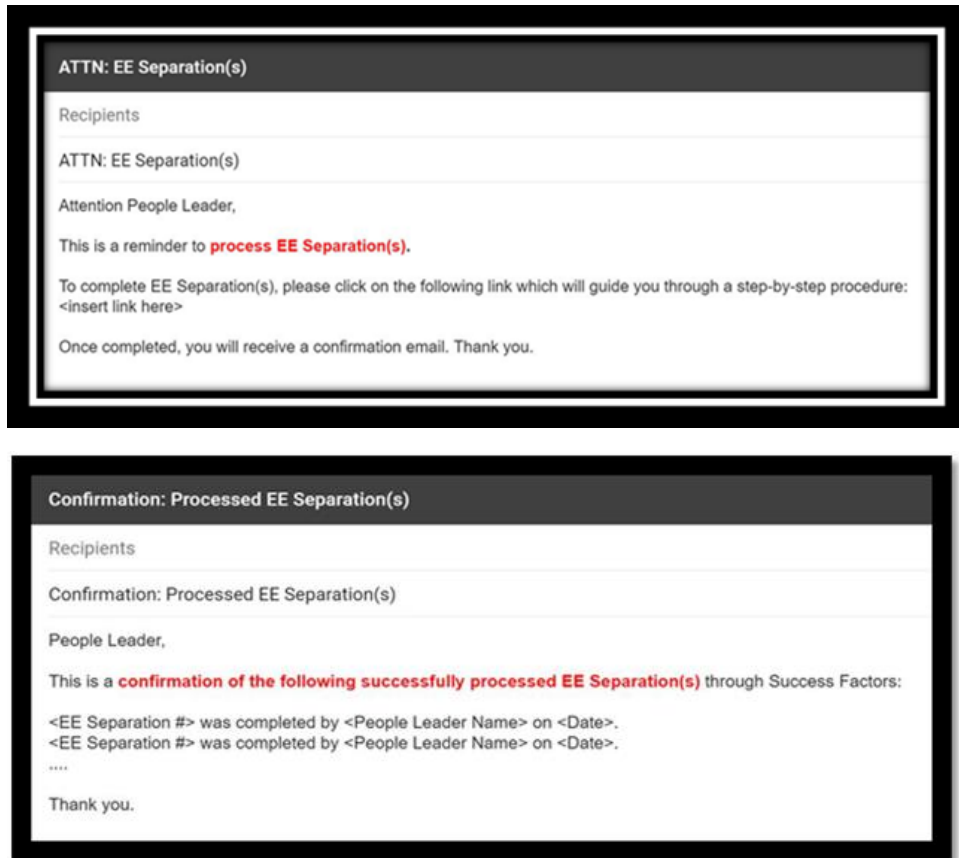


Figure 1.3 Top: Email reminder, Bottom: Separation Confirmation

### Focus on areas with most late entries

The last recommendation was to focus on the geographical areas with the most occurrences of late entries, which are in Michigan. Although, Michigan has the highest occurrences of overpayments, Florida has the highest cost of overpayment which was due to a late entry of a retention bonus. With Michigan, Florida, and Ohio having a total cost of overpayments of over \$145,000 which is about 83% of the overall late entry overpayments, focusing on these areas and implementing over recommendations would help prevent the late entries of separation.

### Cost and Benefits-Phase 1

After all the recommendations were made to the company, the team focused on the cost of implementation and benefits of implementations. The team used the information they received from the company to estimate a maximum cost of \$750 to implement the recommendations. Once implemented, the company will save up to \$177,000 at 100% effectiveness of the solutions. With 50% effectiveness of the solutions they will save \$88,000. Therefore, it is safe to say that that any sort of effectiveness of the solution will bring positive benefits.

## Phase 2: Recovery Process

The recovery process aimed to create an enhanced recovery process if overpayments are still to occur. The tools used for this phase included: process mapping, survey to HR Specialists, and interviewing HR employees. These tools help guide the group to come up with recommendations to create an ideal recovery process.

### Process Mapping

Whirlpool refers to printed documents to help guide users on how to complete an overpayment case. The team received two of these documents, making the current recovery process unstandardized (Figure 2.1). To have a visual of these instructions, the team laid out two versions of process 1, as labeled on Figure 2.1; one of the current overpayment processes (Figure 2.2), and another of a simplified version of the current overpayment process (Figure 2.3). Although the team received two separate versions of this process, only one was laid out since the two are very similar. Process mapping helps define what is being done, and to what standard the process should be completed.

After analyzing their current process, the team looked at the specific roles of employees, managers, HR Specialists, and HR recovery on how they contribute to the process. Doing so helped us assign specific tasks to specific role and see how they all intertwine. Mapping specific roles to specific tasks let us proceed to developing an improved overpayment recovery process.

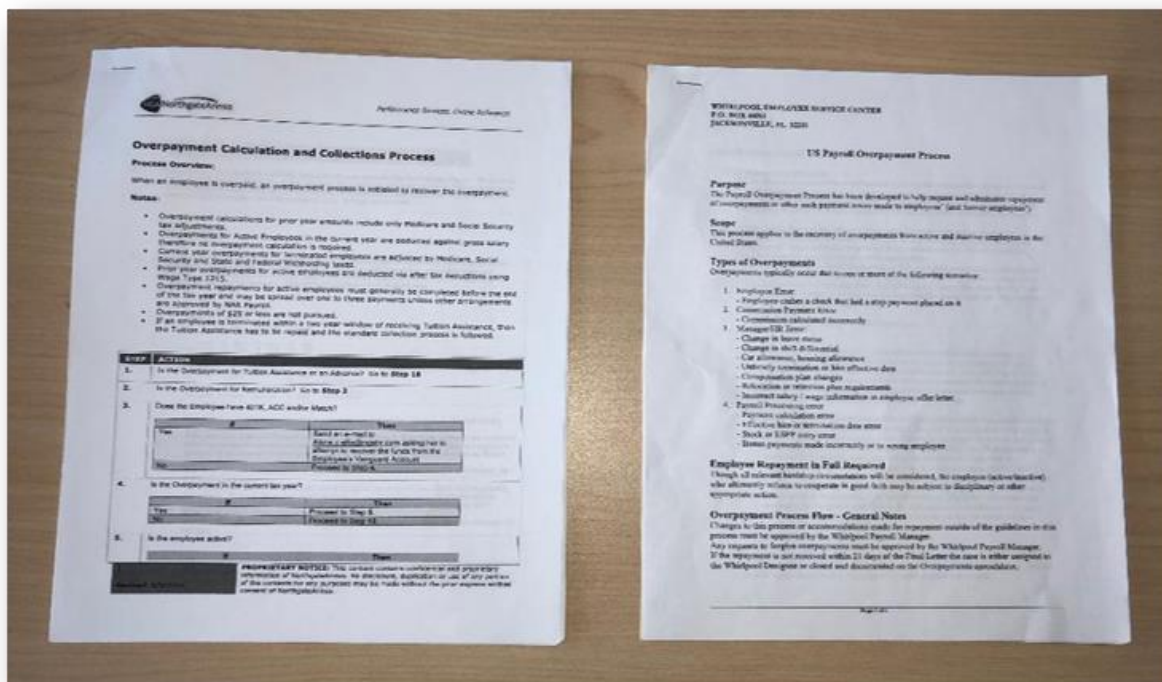


Figure 2.1 The two current recovery processes. Process packet 1 on left and process packet 2 on the right.

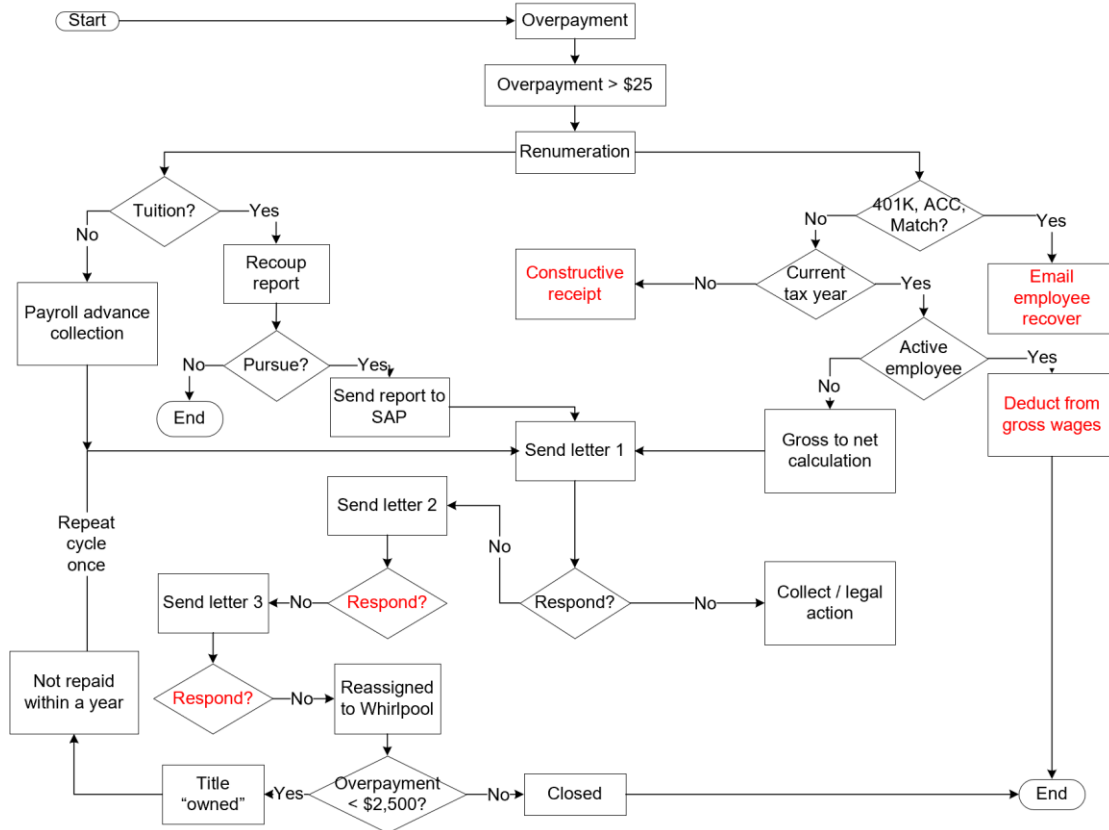


Figure 2.2 Packet 1 process mapped out

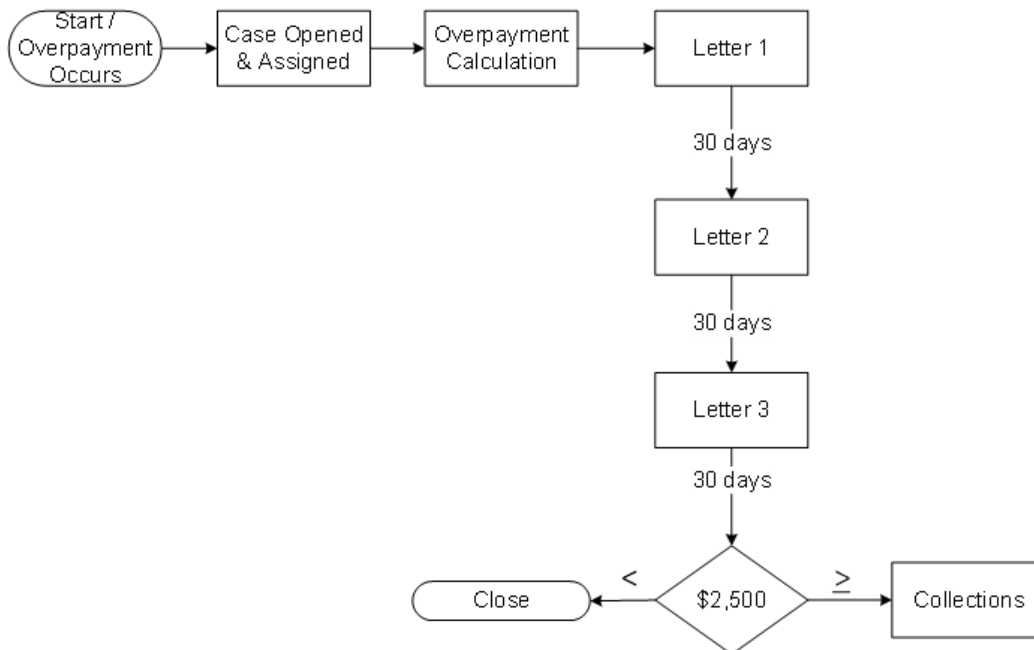


Figure 2.3 Packet 1 process visually simplified

## Survey- Phase 2

The survey for this phase was aimed at the HR Specialists that execute the recovery process. The purpose of the survey was to get an understanding on how experienced HR Specialists perceive the current recovery process. In this survey, the questions were based around how important, urgent and complex the recovery process is. Figure 2.4 is displaying the importance vs urgency as stated by the respondents. As shown, 83% of the respondents believe it is of importance to Whirlpool that the recovery process is completed in a highly manner, but 60% of the respondents believe it is of low urgency, defined as a bottom priority. This is an issue as Whirlpool must recover the funds that calendar year.

### Recovery Process Importance

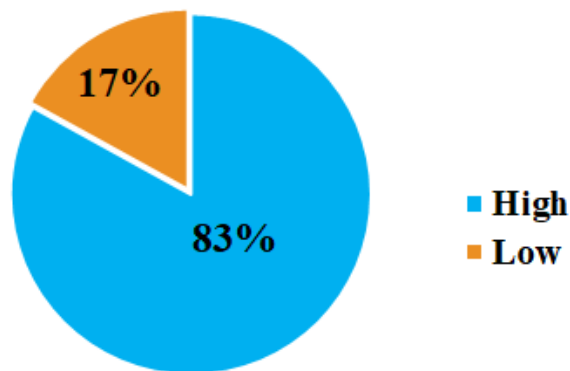


Figure 2.4 Importance to recover funds

### Recovery Urgency

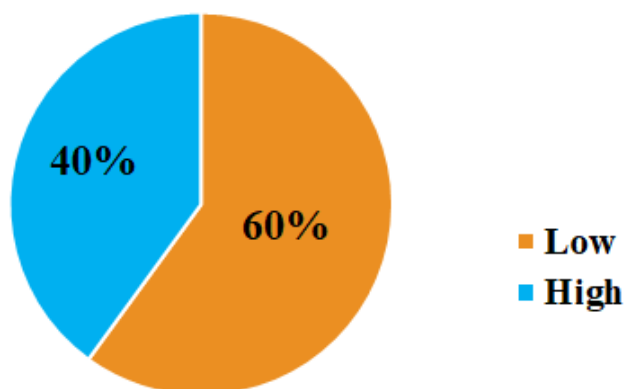


Figure 2.5 Urgency to recover funds

## **Interviews- Phase 2**

To get a hands-on idea of what Whirlpool employees do to process an overpayment case, the team visited Whirlpool Corporation and sat down with numerous Human Resource employees. During this time, questions were asked about the current recovery process to help the group understand the strong points as well as the weak points from employees that have experience working with it. Along with asking questions, the HR Specialists went through the recovery process step by step. From these interviews, the group concluded that there are many inconsistencies between what the process packets state and how the process is completed by the employees. One main inconsistency was the use of google spreadsheets. When going through the process, the HR employees were mainly using google spreadsheets to complete the process, but nowhere in either process packer does it include the use of spreadsheets once.

## **Recommendations – Phase 2**

The solutions were designed based on the idea of creating an ideal process. These recommendations include making a standardized visual process that is easy to read and easy to follow, have a specific block of time set for the HR Specialist to work on overpayment calculations, create a communication plan between the HR Specialist and the People Leader, and contact the overpaid employee more than one way.

### **Ideal Recovery Process**

Whirlpool's ideal overpayment recovery process was laid out to make it more visual and easier to follow, with specific responsibilities assigned to the specific roles of HR Specialist, Payroll Specialist, Former Employee, and Recovery Process. Their current document states that overpayment cases should not be pursued over \$25. The team recommends pursuing cases no less than \$150 due to both internet costs, and that cases under \$150 are closed. These internal costs include 2-3 hours of labor work for the HR Specialist at \$25 dollars an hour, a VanGuard fee of \$25, and other costs related to sending the letters. Once an overpayment case is pursued it will go through the letter process, where the team recommends a 21-day grace period, compared to their current documents' 30-day grace period cycle, to keep a low process cycle time between letters and employee responses. Due to fees costing Whirlpool 20% of the overpayment amount from sending cases to a collection's agency, if there is no employee response after the third letter, the team recommends that cases equal to or greater than \$1,000 should be sent to collections, while cases under \$1,000 should be closed.

## Ideal Overpayment Recovery Process

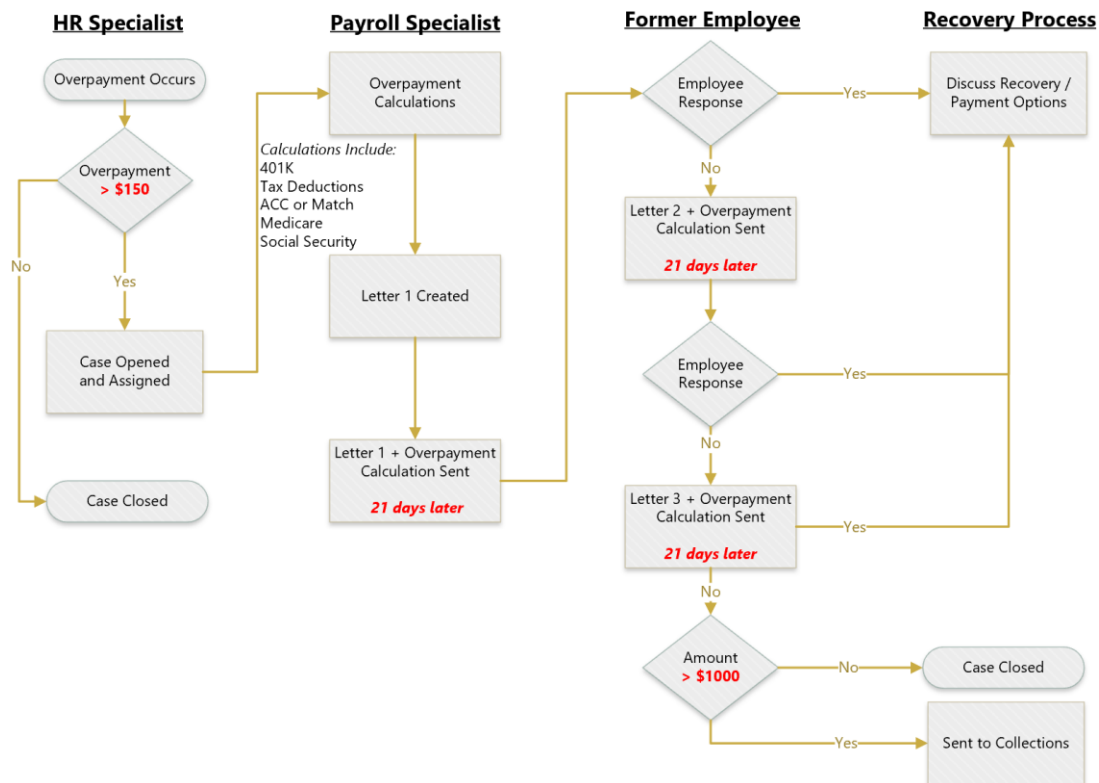


Figure 2.6 Ideal process to recovery overpaid funds

### Time Block

If there is a set time for HR Specialists to work on overpayment case calculations, the more the cases can be focused on and completed. The team recommends for the specific block of time to be set, for the overpayment cases to be calculated. This helps narrow down the focus on completing overpayment case calculations in a timely manner so that they do not get put on the back burner and are prioritized.

### Communication Plan

The team recommends a consistent communication flow between the HR Specialist and People Leader. When a People Leader is late with a separation entry, the HR Specialist will notice the overpayment then proceeds to notify the People Leader regarding the late entry. If there is consistent communication between the two, this reinforces to the People Leader the importance of separating on time. This will decrease the occurrence of late separations in the future.

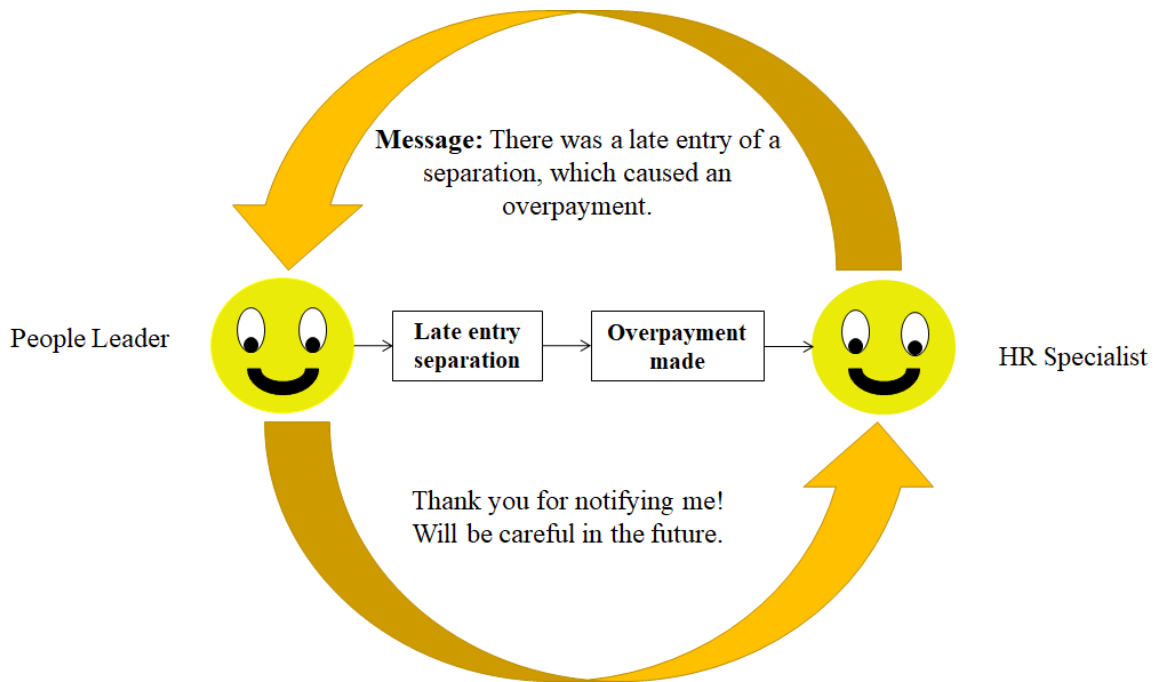


Figure 2.7 Ideal communication cycle

### Contacting Overpaid Employees

Currently, Whirlpool is only contacting overpaid employees through the 3-letter process (as shown in Figure 2.3). The team recommends not only sending the letters, but also contacting the overpaid employees directly through a phone call. This helps confirm whether the overpaid employee received the letter or not, and if they have a payback plan set.

### Summary of Overall Project

In conclusion, by narrowing our focus of overpayments to late entries, interviewing Whirlpool employees one-on-one, and examining the processes for each phase, numerous issues were noticed. The team associated the main issues to being miscommunication between employees, inconsistencies in the data, eye-opening survey results, and no standardized process. By fully implementing the team's recommendations for both phases, any percent of effectiveness will lower overall costs to Whirlpool.

## **Acknowledgments**

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