BNA’s Guide to Recovering Overpayments
Recovering Overpayments

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Introduction

This guide is written in easy-to-understand terms and is geared to meet the needs of different employer sizes, cultures, and approaches. It will help you build an effective set of policies, regardless of whether you’re just developing policies or procedures for recovering overpayments or if you are simply looking to strengthen your existing process.

Chapter I reveals strategies for employers to use to avoid making overpayments in the first place—by developing proactive preventive measures. An effective employer policy, for example, is essential for handling the situations that could lead to overpayment. Good controls need to be instituted, and audits of the payroll process should be conducted regularly.

Audits can range from a line-by-line check of all payroll records, which can be enormously time-consuming, to a more general effort to spot irregularities, which can be quite brief. An employer’s decision how to proceed will depend upon both what it needs from the audit and the frequency of overpayment errors.

What if an inadvertent overpayment still occurs despite an employer’s best efforts? An overpayment raises two pressing questions: Can the overpayment be recovered? And if so, how?

Chapter II discusses the rules that apply to an employer’s efforts to recoup inadvertent overpayments made to an employee, a former employee, or a taxing body. Overpayments can occur for any number of reasons, from computational errors to employee reporting errors.

This chapter will walk you through all the various possibilities in order to gain an understanding of what needs to be done to recover an overpayment. Federal and state laws will be addressed, with explanations.

Chapter III presents examples of best practices used and recommended by payroll professionals. In this chapter, payroll professionals and experts share the knowledge they have gained—often through trial and error. The best practices presented are proven methods for systematically and effectively managing payroll processes so that overpayments seldom occur—and so that they are handled swiftly, correctly, and consistently if they do occur.

Chapter IV offers sample policies and sample language and templates to use in developing working policies and procedures. Checklists and sample forms are also included. In addition, the Appendix provides you with the specific citations to relevant state and federal laws regarding employee deductions.
Chapter I: Avoiding Overpayments

Introduction

Recovering overpayments can be a cumbersome and even embarrassing process, so it’s always preferable to avoid making them in the first place! Mistakes, however, occasionally will be made, by the payroll department, by managers, by employees, and by others. This chapter presents proactive preventive measures employers can take to significantly reduce the likelihood of overpayments. Preventive measures typically fall into the following categories:

- Employer policies
- Communication
- Education and training
- Audits/reviews
- Computerized payroll systems
- Outsourcing

Employer Policies

Before moving to the steps necessary to ensure that overpayments do not occur, an obvious piece of the puzzle should not be overlooked: drafting an employer policy for handling all the various workplace situations that could give rise to an overpayment.

If an employer is to require that its employees comply with employer policy for handling these situations, the employer obviously needs to have a policy in place. Every employer should disseminate a written policy stating how employees and managers should respond to overpayment situations and what is expected from its employees and managers. An ideal policy, followed to the letter, would eliminate wage overpayments entirely. However, even if human error hinders companies from eliminating all overpayments, employers can at least establish clear rules and expectations.

In addressing wage overpayments, the policy should focus on what might be described as the chain—the chain that runs from the employment action that triggers the payroll transaction to the generation of the wage check by the payroll department. Each link in the chain needs to be considered and addressed.
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