Overpayment Identification and Recovery

MASTER DATA CHANGE ONLY—ONE RECOVERY PAYMENT:

Only use if:
- Claim is not created in HRMS by making the Master Data change.
- Employee has already agreed to make a single payment via the payroll system.

Taxes, retirement, etc. are automatically adjusted by HRMS.

No manual JVs are required.

DISCOVER OVERPAYMENT, NO AGREEMENT MADE

Agency has discovered an employee overpayment, but has not made an agreement for collection with the employee. HRMS automatically adjusts agency expenditures and FTEs when Master Data is changed.

WT 3231—increase gross pay to prevent immediate collection of overpayment; complete accrual reversal for overpayment; establish receivable.

Auto JVs (See Fig. 1):
- **Account 035:** TC 767R – (7140)/(5124). Reverse payroll accrual for amount of overpayment. Clears to Cash.
- **Account 035:** TC 024 – 1324/5124. Establish receivable; make 5124 whole for overpayment—collection isn't being made yet.

No manual JVs are required.

The transactions will result in a cash shortage and a receivable (debit) in the agency's Account 035.

DISCOVER OVERPAYMENT, REPAY PLAN MADE.

Agency has discovered an employee overpayment, and the employee has agreed to a repayment plan. HRMS automatically adjusts agency expenditures when Master Data is changed.

WT 3231—increase gross pay to prevent immediate collection of overpayment; complete accrual reversal for overpayment; establish receivable.

Auto JVs:
- **Account 035:** TC 767R – (7140)/(5124). Reverse payroll accrual for amount of overpayment. Clears to Cash.
- **Account 035:** TC 024 – 1324/5124. Establish receivable; make 5124 whole for overpayment—collection isn't being made yet.

WT 3223/3224, collect receivable.
- Agency expenditure is reduced when overpayment is recognized, not when it is collected.
- Wage Type 3223 records (credits) the amount into GL 1324 reducing the receivable balance. (Note: this is done similarly to vendor payment accruals.)
- **Auto JV:** TC 186 – 7140/1324. Collect receivable. Cleared to Cash.
- Wage Type 3224 does not generate transactions in AFRS. It is used within HRMS only for balance tracking.

No manual JVs are required.

For example, employee was overpaid in October and November of the previous year, and we discover the overpayment in January of the current year. HRMS automatically adjusts agency expenditures and FTEs when Master Data is changed.

WT 3231—increase gross pay to prevent immediate collection of overpayment; complete accrual reversal for overpayment; establish receivable.

Auto JVs
- **Account 035:** TC 767R – (7140)/(5124). Reverse payroll accrual for amount of overpayment. Clears to Cash.
- **Account 035:** TC 024 – 1324/5124. Establish receivable; make 5124 whole for overpayment—collection isn't being made yet.

All recoveries will be made using Wage Types 3101/3111.
- Amount of WT 3101 should be the amount you will collect each period. This will generate an AFRS record reducing (crediting) Acct. 035, GL 1324.
- Amount of 3111 should be gross overpayment, less Social Security and Medicare = net pay. WT 3111 does not generate transactions in AFRS.
- Payments that can be recovered through adjustment wage types (Union Dues, LTD, etc.) should be recovered using those wage types. This ensures third-party vendors have accurate information.
- 3101/3111 – **Auto JV:** TC 186 – 7140/1324. This transaction credits 1324 (clears to Cash).
- WT 3101 credits GL 1324, no manual reclassification JV needed.

Accrue tax receivable:

- **Manual JV**
    - TC 025 – 1324V/7140, Fund 035, DR, GL 1324
    - TC 670 – 7140/6510, Operating coding, SubObj BA (SocSec), CR.
    - TC 670 – 7140/6510, Operating coding, SubObj BH (Medicare), CR.
    - This is an IFT JV – *do not send to OST!*
- This reduces the agency expenditure for Medicare and Social Security, and establishes an additional receivable for state share of payroll taxes. **This is only for employer share!**
- Remember, the employee share is built in to the gross receivable established with Wage Type 3231.

Adjust amounts collected in current year for prior year in YTD file on Tax Reporter (PU19).

- There should be **no manual adjustments for current year.**
- Only modify Box 3,4,5,6 (Social Security and Medicare amounts withheld and subject.) (Not Federal Income Tax withheld or subject).
- When adjusting taxes, be sure to use the correct Social Security rate for the year the overpayment occurred
    - For example: Employee was overpaid on the 1-25-2012 payroll. The Social Security tax rate was 4.2%.
    - Collection is not made until March 2013 - the employee Social Security tax rate is 6.2%.
    - Adjust and collect based on the 4.2% rate.
- If the W-2 file has already been submitted by DES, file a Form W-2c electronically with the SSA and provide copy to employee.

Recover tax receivable:

- Has 941 already been filed for period in question?
- No: File 941 with adjustments to
    - Social Security wages
    - Social Security tax
    - Medicare wages
    - Medicare tax
    - These changes will carry through throughout the return.
- Yes: File 941X with same adjustments.
- There should be a refund due in the amount of employee and employer SS/Medicare taxes.
- **Manual Cash Receipt:** When payment is received from IRS, record on A-8 as TC 090, Fund 035, GL 1324.

Recover retirement:
- Recover employee amount through HRMS.
  - Use WT 2987 for post-tax adjustments and 2989 for pre-tax adjustments. A refund of employee share will be a negative (-) deduction in HRMS.
  - Makes the employee whole for excess retirement contributions paid
  - Accrues the amount to recover from DRS in 5199 as a Debit. (Normal balance of a receivable is a credit).
  - If the debit transaction will not be recovered from DRS immediately, please reclassify to GL 1324—Call OFM for guidance.
  - If you are attempting to refund any Plan 3 Defined Contribution amounts to an employee **Contact the Department of Retirement Systems (DRS) before refunding.** DRS can best determine if this is an appropriate transaction.
- Calculate employer amount.
- Make corrections in WBET if applicable.
- **Manual JV :**
  - Line 1: TC 264 – 7140/6510, operating coding, Sub Obj BB (Retirement), CR, employer amount.
  - Line 2: TC 966 – 7140/5199V, Fund 035, CR, GL 5199, employee amount.
  - Line 3: No transaction code, Agency 1240, appropriate fund for system and plan (consult System Manual), total of employee and employer amounts.
  - Send original to OST and copy to DRS with remittance advice form.

Federal Income Tax Withholding:
- FIT/Subject to FIT (W-2 Box 1/2) for the previous year will not be reduced.
- FIT/Subject to FIT (W-2 Box 1/2) for the previous year will also not be reduced in the current year.
- Amount of the previous year overpayment collected in the current year will be a deduction from income on employee's tax return in the current year. Please advise employees to consult a tax advisor.

For more information on wage repayments for previous years, see "Wage Repayments" in IRS Publication 15.

CONVERT OVERPAYMENT BEGUN IN PRIOR YEAR—COMPLETE COLLECTION IN CURRENT YEAR:

For example—overpayment was identified in the previous year, repayment plan was agreed upon in the previous year, but the repayment plan crosses into the current year.

Same as above, except:
- 3231 has already been entered, and there is a balance remaining in GL1324. See above for accounting entries.
- 3223/3224 must be ended—Follow DES procedure.
- 3101/3111 must be established. Amount of 3111 should be gross overpayment, less Social Security and Medicare = net pay.

All manual JV's in the last example will be made as well:
- Accrue tax receivable to GL 1324.
- Recover retirement.
- Report manual YTD adjustments to DES.
- Recover tax receivable.

Tax Notes:
- Federal income tax rules in the current year are the same as in the previous example. The amount collected in the current year will **not** appear as a reduction to prior year or current year tax returns.
- When adjusting taxes, be sure to use the correct Social Security rate for the year the overpayment occurred
  - For example: Employee was overpaid on the 1-25-2012 payroll. The Social Security tax rate was 4.2%.
  - Collection is not made until March 2013 - the employee Social Security tax rate is 6.2%
  - Adjust and collect based on the 4.2% rate.

For more information on wage repayments for previous years, see "Wage Repayments" in IRS Publication 15.

DISCOVER OVERPAYMENT IN CURRENT YEAR AND PRIOR YEAR:

Example: Employee was overpaid for November, December of the previous year **and** January, February of the current year.

Determine gross amount that is overpaid in each year. (Use your pay simulation.)

Treat each amount as a separate overpayment.
- Current year portion (January, February) will be accounted as a current-year-only recovery.
- Prior year portion will be accounted as a prior year recovery. Manual JV's will be required for the prior year portion.

Collect the subsequent year overpayment (i.e. the current year) first. This will help prevent 941 corrections in multiple years.

For more information on wage repayments for previous years, see "Wage Repayments" in IRS Publication 15.

TERMINATED EMPLOYEE PAYS VIA PERSONAL CHECK (CURRENT YEAR ONLY)

Example: An employee who left state service in February of the current year pays the net overpayment to the agency in April of the current year via personal check. **Note: Use this procedure for <u>current</u> calendar year only, IF the terminated employee repays via personal check!**

WT 3231—increase gross pay to prevent immediate collection of overpayment; complete accrual reversal for overpayment; establish receivable.

Cash Journal: Deposit the check received from the terminated employee.

- TC 090 – 7110/1324V, Fund 035, CR, GL 1324

Auto JVs (See Fig. 1):
- **Account 035:** TC 767R – (7140)/(5124). Reverse payroll accrual for amount of overpayment. Clears to Cash.
- **Account 035:** TC 024 – 1324/5124. Establish receivable; make 5124 whole for overpayment—collection isn't being made yet.

The transactions will result in a cash shortage and a receivable (debit) in the agency's Account 035.

WT 1120/3101, collect taxes and net pay.

- Post the gross pay as a <u>negative</u> number, using **WT 1120.**
- Run another pay sim to compute the net pay.
    - Post the net pay as a <u>positive</u> number, using **WT 3101.**
    - This wage type will set up the deduction to be deposited to Fund 035, GL 1324 when payroll interfaces to AFRS.
    - The only deductions should be for federal taxes and retirement.
- Net pay + taxes = gross pay

QUESTIONS?

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For HRMS assistance, Contact the DES Solutions Center at (360) 407-9100, or SolutionsCenter@des.wa.gov.