

Payroll Overpayment Processing

FIN-PAY-IV-280



About This Policy

Effective Date:

03-01-2010

Last Updated:

03-01-2010

Responsible University Office:

Financial Management Services

Responsible University Administrator:

Vice President and Chief Financial Officer

Policy Contact:

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Related Information

* [I-500, Write-Off Accounts](#)

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Scope

This policy applies to any employee who is overpaid wages. Policy also applies to departmental and campus Payroll Processors and Fiscal Officers.

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Policy Statement

Departments must attempt to collect all overpayments made to employees. Full repayment should be collected from the employee within the next pay period of the same tax year upon notification of the overpayment.

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Reason For Policy

To establish guidelines for processing overpayments of payments using the payroll system.

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Procedure

When a department becomes aware of a payroll overpayment, they should contact the campus payroll department immediately. If it is prior to the check date, it may be possible to cancel the direct deposit or paycheck and avoid the overpayment process entirely.

It is the responsibility of the department to contact the employee and make arrangements for repayment of the overpayment. Departments must arrange to collect all overpayments made to employees. Collection requests should be in writing and delivered via IU email or US Mail. The campus payroll office provides a letter to the department that describes the process for submitting payment. Forwarding this letter to the employee is sufficient notice.

Collection is sometimes difficult after an employee has left the University. However, the department is still required to make an effort to collect in writing regardless of the amount of the overpayment. If the former employee is unresponsive, the department may contact their campus payroll office to request an exception to further collection activity. The campus payroll office will work with FMS to determine whether to continue to attempt to collect.

Repayment options follow:

1. When possible, repayments should be processed and deducted in the next regular on cycle payroll. This can only be done in the current tax year.
2. Within the current tax year, the employee may repay the overpayment in a manner prescribed by Payroll. The department must contact their campus payroll office when an overpayment has occurred. The campus payroll office will work with the FMS payroll office to determine the amount to be repaid to ensure that payroll deductions and taxes are calculated correctly. The FMS payroll office will send a notice containing repayment information to the employee's department or campus payroll office for their reference.
3. The repayment should occur on the next paycheck; however exceptions may occur with prior approval from Payroll and the department fiscal officer. If the department determines that the employee needs more time to repay the overpayment, the department can set up a repayment plan within the current tax year. Current regulations do not allow for current year wage reductions to satisfy prior year overpayments. All payment plans must be approved by the Director of Payroll for that campus.
4. In subsequent tax years the employee should repay the excess wages in a manner prescribed by Payroll. If the W-2 process has already begun for the previous year, all taxes, US savings bonds, garnishments and tax deferred annuities will be included in the amount to be repaid; however, if the employee provides a "Request for Prior Year FICA Refund" the employee will not have to repay Social Security or Medicare taxes for that previous year. The employee may be able to claim a deduction or credit on their tax return related to this repayment.

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Additional Contacts

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History

This policy was established on March 1, 2010.