

HRMS Business Process:

Overpayment Collection

(Last revised 9/2022)
<http://www1.umn.edu/ohr/hrms>

Questions? Call OHR Contact Center, 4-UOHR, 612-624-8647
Greater Minnesota, 1-800-756-2363

General Information

When a university employee is overpaid, the employing department has primary responsibility for the following steps in this process:

- identifying the overpayment
- communicating with the employee
- explaining the repayment options and process
- find out if there is any vacation payout that we can use to collect part of the overpayment
- arranging a repayment plan
- obtaining written consent from the employee for repayment via payroll deduction
- reporting the overpayment to Payroll Services
- Ensuring an overpayment paid on a sponsored project is immediately moved to non-sponsored program funding.

Payroll Services has responsibility for the following steps in this process:

- pay record corrections
- managing payroll deductions for repayment
- receiving repayments made via check
- providing documentation related to tax corrections

If the employee is still active, repayment should be made via payroll deduction, unless the amount of the repayment is too large to recover within the same tax year.

Employees who are no longer active must repay via a check or money order.

Overpayments of less than \$100 will not be collected.

Tax Considerations:

If an overpayment is repaid in the same tax year:

employees will repay the net amount of wages received. Payroll Services will process a pay reversal transaction. This will "reverse" the original payment to reduce your year-to-date taxable gross and tax amounts as though the payment had never been made.

If an overpayment is repaid in a following tax year, and the gross amount of the overpayment is less than \$3000:

the employee will repay the net amount. Due to tax law changes with the Tax Cuts and Jobs Act of 2018, an employee who was overpaid is no longer able to recoup the additional taxes that were withheld as a part of their overpayment.

The department will receive back the net amount and will be financially responsible for the difference between the gross and net pay.

Payroll Services will work directly with the employee on any possible FICA and Medicare tax refunds from the federal government that may be requested.

If an overpayment is repaid in a following tax year, and the gross amount of the overpayment is \$3000 or more:

The employee must repay the gross amount. When the repayment is complete, the University will provide an IRS letter that the employee can use when filing their taxes for the year in which the repayment occurred. This will allow them to recoup the extra taxes withheld when they were overpaid.

Payroll Services will work directly with the employee on any possible FICA and Medicare tax refunds from the federal government that may be requested.

See Repayments in IRS Publication 525 for more information

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Overpayment Notification

Active Employee:

When a department identifies that an overpayment has been made to an active employee. The following steps should be followed:

- Take corrective action to prevent an overpayment in the future.
- Contact the employee. Discuss the situation with them, explaining the repayment process. Determine a repayment plan. It is the department's responsibility to resolve any disagreement about the amount of the overpayment, or the plan for repayment.
- Complete the "Overpayment Notification" form.
 - <https://policy.umn.edu/Forms/um-1554>
- If the employee is repaying via payroll deduction, obtain the employee's consent to repayment using one of the "Consent to Collection of Overpayment" notifications included in this business process. The consent form is not needed if the employee is paying via check / money order.
- Attach copies of all overpayment-related correspondence with the employee, the Consent to Collect form (if needed), and the Overpayment Notification form. *
- Send the entire packet as ONE attachment to Payroll Services at payforms@umn.edu.
- Notify Payroll Services if the employee terminates prior to collection of all overpaid funds.

IMPORTANT NOTE: If the overpayment was made on a **Sponsored Project**, see pages 5-6 for additional instructions.

It is imperative that the Department submits the consent form to Payroll Services at the time of the overpayment notification. Payroll Services cannot process the overpayment without written authorization from the employee. Payroll Services staff will contact the department if there are any questions or if follow-up is required. *

Repayments for active employees are typically made by payroll salary reduction. Repayments should be collected over the same number of pay periods as the overpayment originally occurred.

If there are special circumstances that necessitate an exception to the repayment schedule, Payroll Services will advise the department.

If the employee refuses to sign the Consent to Collection of Overpayment form, and all efforts to collect the amount owed have been exhausted, notify Payroll Services and the case will be sent to collections.

Terminated Employee:

For gross overpayments in excess of \$100.00

- The Department's initial contact should be with the former employee (no longer working at the University) to explain the overpayment. Inform the former employee that they must repay the overpayment by personal check or money order. Inform them that Payroll Services will provide repayment instructions.
- Attach copies of the initial correspondence with the employee in the Overpayment Notification form. The overpayment form should be sent as ONE attachment. Use the tabs to include all the necessary documents to process the overpayment.
- Forward the entire packet to Payroll Services.
- Payroll Services will e-mail the former employee with instructions for the return of funds and inform the department if any additional follow-up is required.
- If Payroll Services exhausts all efforts to collect the amount owed, the case will be sent to collections.

IMPORTANT NOTE: If the overpayment was made on a **Sponsored Project**, see pages 5-6 for additional instructions.

Remember: Remittance of repaid overpayments must be sent to Payroll Services. If the former employee sends the repayment to the Department, forward the check to Payroll Services. **DO NOT** deposit the check. Contact Payroll Services if you have questions.

NOTE: The completed Overpayment Notification form and attachments should be emailed to payforms@umn.edu as ONE attachment.

Overpayments on Sponsored Projects

If the overpayment was made on a Sponsored Project, the overpayment amount MUST be immediately moved to a non-sponsored Program account string. The department must provide the direct retro number for verification of the payroll transfer from Sponsored Project to non-sponsored Program.

Active Employee

If an overpayment occurs on a Sponsored Project these additional steps should be taken:

- Create a direct retro to move the overpayment amount to a non-sponsored chart string. To ensure the sponsor is invoiced correctly, the Overpayment Notification form should clearly indicate:
 - Direct retro number
 - Full non-sponsored chart string
 - Associated combo code

Collecting the Overpayment

- Payroll salary reduction: If the overpayment is collected by payroll salary reduction, then payroll will credit back the amount collected to the non-sponsored chart string provided in the Overpayment Notification form.
- Vacation pay out: If the employee terminates prior to full recovery, then payroll will try to collect the balance from vacation pay out. The amount collected will be credited back to the non-sponsored chart string in the Overpayment Notification form. A consent form is required to deduct the employee's paycheck.
- Collecting a check from the employee: If the full overpayment cannot be recovered prior to termination, then payroll will collect a check from the employee.
 1. If the employee pays back the balance amount in the same calendar year, then the net amount of the check is collected. In this case, payroll will process a reversal entry and credit back the amount to the original sponsored chart string that was used to overpay the employee. (This will correct the FICA, Medicare Tax, Federal Tax and State Tax for W2 purpose.) Payroll will then notify the department to process a direct retro to charge back the amount credited to the sponsored project in order to zero out the credit. Remember to use the dates of the original overpayment to process this HSA. The payroll reversal date cannot be used as it is not available for selection of the direct retro.
 2. If the check is paid by the employee in the next calendar year, then Payroll will collect the gross amount of the check. This check will be credited to the non-sponsored chart string provided in the Overpayment Notification form.

Overpayments on Sponsored Accounts continued:

Terminated Employee

Create a Historical Salary Adjustment (HSA) to move the overpayment amount to a non-sponsored chart string. To ensure the sponsor is invoiced correctly, the Overpayment Notification form should clearly indicate:

- Direct retro number
- Full non-sponsored chart string
- Associated combo code

Path in PS to get chart string/Combo code: HRMS: Payroll for North America: Processing USA: Produce Payroll: Review Actual Distribution

If the former employee pays back the balance amount in the same calendar year, then the net amount of the check is collected. In this case, payroll will process a reversal entry and credit back the amount to the original sponsored chart string that was used to overpay the employee. (This will correct the FICA, Medicare Tax, Federal Tax and State Tax for W2 purpose.) Payroll will then notify the department to process a direct retro to charge back the amount credited to the sponsored project to zero out the credit. Remember to use the dates of the original overpayment to process this direct retro. The payroll reversal date cannot be used as it is not available for selection of the direct retro.

If the check is paid by the former employee in the next calendar year, then Payroll will collect the gross amount of the check. This check will be credited to the non-sponsored chart string provided in the Overpayment Notification form.

Sample Department Notification Letter to Employee

(Print on Department Letterhead)

Date

Employee Name
Address
City, State, Zip

Dear *[insert employee's name]*,

I am writing to inform you that you were overpaid for the pay period(s) ending *[insert each pay period end date in which overpayment occurred]*. The overpayment was a result of *[insert reason overpayment occurred]*. The total gross amount of the overpayment is *[insert total overpayment amount]*.

An overpayment notification and copy of this correspondence is being forwarded to Payroll Services who will contact you with instructions for repayment.

I apologize for any inconvenience this error has caused. If you have any questions, please feel free to contact me at *[department contact information]*.

Sincerely,

cc: Payroll Services

CONSENT TO COLLECTION OF OVERPAYMENT
Pursuant to Minnesota Statutes section 181.79

Overpayment Pay Reduction for Employees Overpaid in a Single Pay Period

I acknowledge that I have been overpaid in connection with my employment, as described in the overpayment notification correspondence provided to me by the University. I authorize the University of Minnesota to reduce my gross pay as a result of such overpayment. I acknowledge that I was overpaid the sum of \$_____, and that this overpayment occurred as a result of an inadvertent error or mistake and does not represent wages earned in connection with my employment.

I agree to repay the University of Minnesota the amount listed above through a reduction of my gross pay. I voluntarily authorize the University to make the reduction to my gross pay in a single reduction from my next pay period. I also agree that if I leave University employment prior to the repayment of the overpayment, I authorize the University to take the amount due from my final pay.

I understand that the reduction from gross pay is effective immediately upon the University's receipt of this authorization and will occur in the next available pay period.

Additional comments:

Employee Signature

Date

Name (Please Print)

Employee ID

Phone Number

Email Address

Note: Employee should return this form to their department.

CONSENT TO COLLECTION OF OVERPAYMENT
Pursuant to Minnesota Statutes section 181.79

Overpayment Pay Reduction for Employees Overpaid in Multiple Pay Periods

I acknowledge that I have been overpaid in connection with my employment, as described in the overpayment notification correspondence provided to me by the University. I authorize the University of Minnesota to reduce my gross pay as a result of such overpayment. I acknowledge that I was overpaid the sum of \$_____, and that this overpayment occurred as a result of an inadvertent error or mistake and does not represent wages earned in connection with my employment.

I agree to repay the University of Minnesota the amount listed above through a reduction of my gross pay. I also agree that if I leave University employment prior to the repayment of the overpayment, I authorize the University to take the remaining amount due from my final pay.

As I was overpaid for multiple pay periods, I understand that the University is willing to collect the repayment over the same number of pay periods. By my signature below, I am requesting that the University reduce my gross pay in equal increments over the same number of pay periods for which I was overpaid, until the full overpayment has been collected. The reduction from gross pay is effective immediately upon the University's receipt of this authorization and will begin in the next available pay period.

Additional comments:

Employee Signature

Date

Name (Please Print)

Employee ID

Phone Number

Email Address

Note: Employee should return this form to their department.