

How to curb wage overpayments

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Wage overpayments can have a significant impact on the corporate bottom line, employee and business taxation, and also employee relations. It is a complex issue which requires that payroll management and HR work together to ensure that systems and controls are put in place to prevent this type of error from happening.



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There are numerous reasons why overpayments occur. These include errors in administration and capturing, late terminations, non-adherence to policies and procedures, ineffective time recording administration and duplicate records. Each of these issues can be addressed through systems process, individual accountability, operating in a highly-controlled environment and regular payroll audits.

Addressing the challenges

Robust internal controls within the payroll department must be implemented and documented to mitigate employee record duplications and payroll errors from occurring. These should include regular payroll audits, run monthly, which pick up any new or residual issues throughout the year. Not only will this dramatically reduce or remove duplication issues, but it will also put payroll ahead of the tax year end process.

Time recording is potentially one of the most challenging of the issues impacting on wage overpayments, especially if the organisation has numerous employees paid by the hour. Without accurate time recording, overpayment and subsequent recovery of funds become a problem. Often, the individuals responsible for reviewing the time records are not doing it timeously, which results in incorrect data capture and payments. This can also be addressed through more stringent system controls and exacting processes and procedures, and by reviewing time records regularly.

This ties into overtime overpayments – if people are working overtime without authorisation, or if their hours are not monitored correctly, it can cost the business a pretty penny. Often, when these errors are found, it is too late to recover the funds.

To address both of these concerns the organisation should implement clearly defined rules and a system that prevents manual intervention. It is also important to ensure that there is a segregation between the person administering the time and attendance records, and the person who is authorising them. In other words, these tasks should not be undertaken by the same person.

Of course, as with any rule-based system, there must be exceptions. The business needs effective tools which allow for exceptions to be addressed in the system to prevent incorrect payments and tax issues at year end, while operations which conform to the rules can be automated.

Reports all the way as Preventative Control

It is by running monthly tax validation reports that the business can find and address issues in the system, as well as preventing year end issues around tax and income corrections. Best practice calls for reports to be run monthly to avoid tax year end corrections. It is also important to have a set of payroll reports which examine elements such as variances on net pay. This will ensure that when there is excessive net pay, it is instantly picked up, investigated and corrected.

Termination policies are also vital in mitigating overpayments. If a late termination comes through, an employee can receive a full salary for a month they didn't work and there are complexities in recovering that amount. Not only is the money almost impossible to recover, but medical aid and other similar schemes will be affected as they need a month's notice to withdraw.

This particular challenge indicates a disconnect between HR and payroll, or between line management and payroll. It is critical that line managers understand the impact on the business of late notification of terminations. Departments need to work closely together to ensure payroll is notified as soon as an employee is terminated. It will prevent them from being overpaid in periods they have not worked and ensure the final payment is accurate.

Communication is key

Communication is essential in reducing many of the challenges around wage overpayments. A lean internal communication process between departments, HR and payroll can minimise these significantly.

In addition, payroll must ensure that there are processes, procedures and controls in place, do regular checks and correct errors on time. Avoidance is always better than correction as the latter can become a logistical nightmare. While it is common for staff to bring underpayments to management / payroll attention, it is rare for them to notify these departments when they are overpaid!

With these boxes ticked and reports run, both payroll and business will be ready when the times comes to roll over into the next pay period, and tax period. Nothing is missing, everything is correct, and payroll is in the perfect place for the tax year end process.

ABOUT THE AUTHOR

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