Avoid Overpaying Employees Who Quit



QUESTION:

How do you control the risk of overpaying an employee who resigns or goes on unpaid leave because the manager doesn't notify payroll that the employee has left the company?

— Kimberley Orszulak, HR administrator, Pattison Outdoor

ANSWER:

Ultimately, payroll managers are dependent on HR to notify them when employees leave. However, there are 2 things they can do to avoid overpayments like the one you describe.

EXPLANATION:

Step 1: Communicate Pay Period Results to Managers Responsible for Labour Costs

Managers with budget responsibility for organizational units should see the dollars, hours and employees charged to their units each pay period. Similarly, managers or supervisors responsible for approving employee time should also see the employees and time processed for their units for each pay period. Payroll can communicate this information via an extract of the payroll register for the unit or payroll reports identifying the active employees for whom the manager is responsible.

Failures to communicate might still occur. But providing managers the pay period information should head off problems or, at the very least, keep managers from blaming payroll for not allowing them to prevent overpayments.

Step 2: Review Data for Signs of Employees Not Actively Working for Organization

In most organizations, there are traces of active employment in a variety of non-payroll data, e.g., employees may have several types of access, security or expense accounts assigned to them, credit cards for expense account purchases, cell phones for business use, etc. One way of preventing overpayments to employees who are no longer active is for payroll to receive exception reports identifying status changes within these other non-payroll systems. Employees who simply disappear from such other system data should raise red flags in payroll if no corresponding status change has been reported.

Similarly, a red flag should automatically go up whenever an employee asked payroll for a Record of Employment but no status change had been reported.

How Payment Method Affects Overpayment Risk

The overpayment risk Kimberley raises is greater for salaried and exception pay employees as opposed to hourly employees paid positively. If an employee is no longer actively working, it's reasonable to assume there will be no timesheet, and hence no pay, even if the absence, leave or termination has not been reported to payroll.

While overpayment risks can never be eliminated completely, the measures described above can help payroll reduce its dependency on status change reporting from other parts of the organization. In the end, it's all a question of balancing overpayment costs actually incurred against the cost of the preventive measures described above.

For further information please feel free to contact me at armcewen@cogeco.ca, connect with me on LinkedIn or follow my blog at www.alanrmcewen.com.

GOT A QUESTION FOR OUR EXPERTS?

Click here to Ask our Experts!