

Failure to Communicate with Payroll May Lead to Overpayments



With budgets tight, companies can't afford to pay employees who no longer work for them. But this is exactly what happens, especially within organizations where managers don't communicate with payroll. Common scenario: An employee resigns, goes on unpaid leave, or otherwise stops actively working but nobody tells payroll, resulting in a string of overpayments that don't stop unless and until payroll finally learns of the change to the employee's active status. There are two things payroll to HR directors can and should do to prevent this.

Report Regular Pay Period Information to Management

The first step is to ensure that payroll actively communicates pay period results to the managers responsible for labour costs. Each pay period, managers with budget responsibility for organizational units should get a report listing the dollars, hours, and employees charged to their unit. Payroll should also notify managers and supervisors responsible for approving employee time of the employees and time processed for their units during the period, in the form of either an extract of the payroll register for the unit or a specific report.

If they don't totally solve the problem, such communications at least give responsible managers the opportunity to prevent such overpayments. So, if the overpayments do continue, the company will be in a better position to discipline the managers responsible for negligent or deliberate mismanagement.

Monitor Non-Payroll Data for Red Flags

In most companies, employees leave a trail of data indicating that they're actively working. These "footprints" are typically contained in non-payroll data, such as records of log-ins or access to computer networks, email systems, or Intranet portals or spending records documenting the employee's expense account purchases. Regularly monitoring these non-payroll data sources for inactivity can help prevent overpayments. In addition, you can ensure that these non-payroll systems generate a report notifying payroll any time a particular employee's status within the system changes. Employees who simply disappear from such other system data should raise red flags in payroll if no corresponding status change has been reported.

Takeaway

Overpayments to non-active employees are most likely to occur when employees are paid on a salary or exception pay basis. Employees paid by salary means employees get a fixed amount regardless of actual time spent working; under exception pay, hourly employees are paid the same number of hours in a week with exceptions like overtime or absences requiring timesheets to change. What both of these methods have in common is that employees get paid regardless of whether there's evidence of active employment.

By contrast, such overpayment is less of a risk for hourly employees paid positively where pay is based on a timesheet. When those employees don't work actively, they generally don't generate a timesheet and hence don't get paid. Accordingly, payroll doesn't need to be notified that those employees are no longer active to avoid paying them.