REFUNDS/PRIOR PERIOD ADJUSTMENTS

Effective: July 1, 2004
Last Updated: November 1, 2006

Executive Summary

There are six types of **overpayment recoveries** that can be made by Departments:

- Full Recovery (recovery of an entire paycheck)
- Partial recovery for active employees
- Partial recovery for inactive employees
- Industrial Accident Buy Backs
- Recovery of payments to contract employees
- Recovery of funds affecting a previous tax year

Overpayment recoveries and required adjustments should be done within 30 days of the overpayments. In some cases, these adjustments require a two-step adjustment process. The adjustment must be done in LCM as well as in HR/CMS, to ensure that labor history in LCM, payroll costing in HR/CMS, and payroll expenditures in MMARS are consistently updated.

Considerations

This policy applies to all Commonwealth Branches and Departments.

Policy

Full Recovery of Overpayments (Recovery of Entire Payments)
When an employee receives a full paycheck in error, the Department is responsible for recovering the overpayment, depositing the money into the Department's payroll account, and completing documentation so the accounting system can be updated. All deductions for an employee must be recovered from the appropriate vendors. This is accomplished by making adjustments in HR/CMS. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the full overpayment in the form of a money order, bank check or certified check. If the employee does not send the full payments, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount owed by the employee.
2. Contact the appropriate vendor(s) and payees, requesting the return of the full amount(s) for each deduction.
3. Once the full payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (PRRFC or PPRFP depending on the fiscal year of the original payment) in LCM for the full amount. This will adjust labor history in LCM and accounting information in

MMARS. Please refer to the LCM Procedures Manual for more information on entering the PRRFC/PRRFP.

4. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account to be swept by the State Treasurer.
5. Monitor the PRRFC/PRRFP in LCM to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Partial Recovery for Active Employees

When an overpayment is made to an employee who is currently active in the payroll system, the Department is responsible to for recovering the amount that was overpaid. This is accomplished by processing an adjustment in HR/CMS. One of the following steps must be taken:

1. If the overpayment was caused by Time and Labor entries, enter prior period adjustments in Weekly Elapsed Time to correct the error. If possible, make this correction in the next pay period. If you cannot recover the total amount in one pay period, use the subsequent pay period(s) until the total recovery amount is satisfied.
2. If the overpayment was caused by Additional Pay entries, reduce the employee's earnings by the overpayment amount in the next pay period, if possible. The same earnings code should be used whenever possible. If you cannot recover the total amount in one pay period, use the subsequent pay period(s) until the total recovery amount is satisfied.
3. Recoveries of overpayment to active employees cannot bridge calendar years. If it would be necessary to recover the overpayment and the next pay period falls within the next tax year, please see **Recovery of Funds for a Previous Tax Year** for details.

Partial Recovery for Inactive Employees

When an inactive employee receives money in error, the Department is responsible for recovering the amount that was overpaid, depositing the money into the Commonwealth's treasury, and recording the refund in the accounting system. When applicable, deductions made on an employee's behalf must also be recovered from the appropriate vendors. This is accomplished by making adjustments in both HR/CMS and LCM. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the overpayment in the form of a money order, bank check or certified check. If the employee does not send the payment, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount owed.
2. If applicable, contact the appropriate vendor(s), requesting the return of the full amount(s) for each deduction.
3. Once the payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (PRRFC or PRRFP depending on the fiscal year of the original payment) in LCM for the full amount. This will adjust labor history in LCM and accounting information in MMARS. Please refer to the LCM Procedures Manual for more information on entering the PRRFC/PRRFP.
4. Submit a completed Payroll Refund Receipt Voucher form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
5. Monitor the PRRFC/PRRFP in LCM to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Industrial Accident Buy Backs

When an employee buys back sick (or other) time used while on industrial accident leave, the Department calculates the amount the employee owes, deposits the money into the Commonwealth's treasury, and records the refund in the accounting system. This is accomplished by making adjustments in both HR/CMS and LCM. The Department must take the following steps:

1. Once the payments are received from the employee, enter an Expenditure Refund transaction (PRRFC/PRRFP depending on the fiscal year of the original payment) in LCM for the full amount. This will adjust labor history in LCM and accounting information in MMARS. Please refer to the LCM Procedures Manual for more information on entering the LCM.
2. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
3. Monitor the PRRFC or PRRFP in LCM to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Recovery of Payments to Contract Employees

When a contract employee receives money in error, the Department is responsible for recovering the overpaid amount, depositing the money into the Commonwealth's treasury, and recording the refund in the accounting system. When applicable, deductions made on the employee's behalf must also be recovered from the appropriate vendors. This is accomplished by making adjustments in both HR/CMS and MMARS. The Department follows the same steps as regular employees above.

Recovery for Funds Affecting a Previous Tax Year

When funds are recovered for a previous tax year (i.e., funds received in February for a payment made in November), the Department needs to complete an additional step: completing forms W2C and W3C, accounting for the changes in the employee's tax balances and submits it to the Comptroller's Payroll Unit. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the overpayment in the form of a money order, bank check or certified check. If the employee does not send the payment, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount that the employee owes.
2. If applicable, contact the appropriate vendor(s), requesting the return of the full amount(s) for each deduction.
3. Once the payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (PRRFC or PRRFP depending on the fiscal year of the original payment) in LCM for the full amount. This will adjust labor history in LCM and accounting information in MMARS. Please refer to the LCM Procedures Manual for more information on entering the PRRFC or PRRFP.
4. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
5. Submit a W2C and W3C to the Comptroller's Payroll Unit. A refund receipt voucher for a previous tax year without a W2C and W3C will not be approved by the Comptroller's Office.
6. If an employee repays wages received in error in a prior year, the form W2C will correct only Medicare wages and Medicare tax. Wages paid in error in a prior year remain taxable to the

employee for that year. This is because the employee received and had use of those funds during that year. This is consistent with the IRS Instructions for Forms W-2C and W-3C.

7. Monitor the PRRFC or PRRFP in LCM to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that the W2C is processed.

Underpayments to Employees

For active employees, make an adjustment in Weekly Elapsed Time and/or add an Additional Pay entry to make up for the underpayment. Make this correction in the next pay period, if possible. If you cannot pay the total amount in one pay period, use the subsequent pay period(s) until the total amount is paid. For inactive employees, please refer to the job aid entitled **Retro Pay for Terminated Employees**.

Internal Controls

Information Sources

- Related Procedure – None
- Legal Authority
    - o Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
    - o Massachusetts General Laws, Chapter 29
- Attachments - None
- Links - None
- Contacts – CTR Solution Desk

Revisions

- **November 1, 2006** – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.