

Volume No. 1—Policies & Procedures	TOPIC NO.	50510
Function No. 50000 — Payroll Accounting	TOPIC	UNPAID LEAVES OF ABSENCES AND OVERPAYMENTS
Function 50500—Paying the Employee	DATE	January 2014

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Overview

Introduction Salaried employees who have unpaid leaves of absence may receive zero payments or partial payments for hours worked. Partial payments, sometimes known as docked pay, result when an employee does not have sufficient leave to cover an absence from work. Once the absence meets a specified period, as determined by the Department of Human Resource Management (DHRM), the employee is considered in a Leave Without Pay Status (LWOP). The LWOP may be voluntary or involuntary, and can affect both pay and benefits the employee is entitled to receive.

Leave Without Pay Procedures

Notification Agencies must have policies and procedures in place for proper payroll notification of unpaid leaves of absences. Agency personnel, supervisors, and administrators must submit and process employee leave forms on a timely basis to ensure timely and accurate leave data is available in order to avoid unanticipated leave without pay (LWOP) situations.

For periods of LWOP that are less than a full pay period, the information should contain at a minimum the following:

- Employee Name and Number.
- Number of hours to be docked.
- The dates and the pay period the absence occurred.

Please refer to DHRM Policy 4.45 for instructions on periods of LWOP in excess of 14 or more consecutive calendar days.

(http://www.dhrm.virginia.gov/hrpolicy/web/pol4_45.html)

The type of LWOP will determine what benefits are due the employee, and the duration of those benefits.

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Leave Without Pay Procedures, Continued

Recurring Leave Without Pay

Agencies should monitor employees with recurring periods of LWOP and institute appropriate policies to discourage and prevent such situations. For example, employees who incur a LWOP status more than twice in any twelve-month period may be subjected to special measures such as direct communication of attendance among the employee's supervisor, agency Human Resources, and Payroll. In addition, agency policies should support timely processing of timesheets and leave slips, and encourage employees to monitor personal leave balances to avoid unanticipated LWOP conditions.

LWOP Impact on Pay

The semi-monthly salary of an employee on LWOP must be reduced by the dollar value of the time missed. The value of time missed is determined by multiplying the number of LWOP hours by the hourly rate as determined by DHRM guidelines. If the LWOP crosses pay periods, each pay period in which the LWOP occurred must be docked appropriately. The associated transaction must be entered as a time and attendance transaction. See CAPP Topic No. 50505, *Time and Attendance*, for information.

Employees on LWOP with benefits should be placed into a non-automatic (value of "0") time card status on the H0BID. Special consideration should be made in regards to group life insurance. If the deduction is deactivated, be sure to deactivate the corresponding Imputed Life special pay. See CAPP Topic No. 50515, *Special Payments*, and CAPP Topic No. 50425, *Group and Optional Life Insurance*, for more information.

For employees in a long-term LWOP without benefits situation, such as Educational LWOP, the following action is recommended:

Enter a "2" in the EMPLOYMENT STATUS field and the LWOP date in the START LEAVE DATE field. If this date is not entered, CIPPS will assume the last day of the pay period and may pay the employee if the TIME CARD STATUS is left automatic.

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Leave Without Pay Procedures, Continued

LWOP Impact on Benefits

Depending on the type of LWOP and the duration, the employee’s benefit entitlement may change. The P-3 or its substitute reflects the LWOP type. Deduction overrides may be required to ensure accurate payroll deduction calculation. Refer to the following for more information concerning benefits due an employee on LWOP:

- DHRM's *Administration of The Commonwealth of Virginia Health Benefits Program* (<http://www.dhrm.virginia.gov/hbenefits/hbhandbooks/HIM.pdf>)
- DHRM Quick Reference Guide - *Impact of Leave on Basic Benefits* (<http://www.dhrm.virginia.gov/hrpolicy/policyguides/LeaveandBenefits.pdf>)
- VRS’s *Payroll Manual*.

Void Payments

In some cases, information concerning a docking is received after the date employee payments have been produced. Agencies must establish policies and procedures supporting their determination of when they will void and reissue payments in these circumstances. Keep in mind, although safeguarding Commonwealth assets and avoiding collection problems are major concerns, voids are not always necessary or required. The timing of the close of the pay period relative to the distribution of checks on payday should allow sufficient time for the agency to determine whether the employee has worked sufficient hours in the subsequent pay period to recover the LWOP docking from subsequent earnings should the need arise. See CAPP Topic No. 50530, *Void Payments*, for more information and guidelines.

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Overpayments

Overpayments Overpayments may result from unreported periods of LWOP and late, slow, or incorrect paperwork (e.g., timesheets, leave slips). Agencies must take appropriate steps to collect overpayments. Agency policies and procedures governing the collection of overpayments should be established and communicated in writing for employees. The procedures for recovery of overpayments differ depending upon whether the employee is active or terminated.

Active Employees

Employees should be notified of the overpayment and given repayment options within the guidelines established by the agency. Repayment options may include full payment by personal check or a mutually agreeable payroll docking schedule. The docking schedule may call for partial payments over multiple pay periods, but in no cases should the repayment occur over a longer period of time than the overpayment occurred. For example:

- Employee overpaid for one period, the employee's pay should be reduced by the amount of the overpayment in one pay period.
- Employee overpaid for four pay periods, the employee's pay should be reduced over four pay periods to recover the overpayment.

If the agency is reimbursed by personal check, the employee's masterfile information must be updated to reflect the repayment. See CAPP Topic No. 50705, *Employee and Tax Masterfile Updates*, for more information. Special procedures are required if the overpayment and collection occur in different calendar years (this is discussed in more detail later in this topic).

Recoveries processed through CIPPS automatically adjust the employee's masterfile information, so no further action is required.

Terminated Employees

Overpayments to terminated employees must be collected through agency established collection procedures. See CAPP Topic No. 20505, *Accounts Receivable*, for more information. Once the overpayment has been collected, the employee's masterfile information must be updated to reflect the repayment. See CAPP Topic No. 50705, *Employee and Tax Masterfile Updates*, for more information.

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Overpayments, Continued

Disposition of Repayments per IRS Publication 15, Circular E

If an employee repays the agency for wages received in error, do not offset the repayments against current-year wages unless the repayments are for amounts received in error in the current year.

Repayment of current year wages. If repayments are received for wages paid during the current year, enter a non-paid manual payset to reduce the appropriate fields. If the amount of the overpayment was for the entire pay period, then the amount of the repayment should equal the net pay received by the employee for that pay period. Otherwise, it may be necessary to recover certain employee-paid deduction amounts.

Repayment of prior year wages. If repayments are received for wages paid during a prior year, notify DOA and request a W-2c for the employee. DOA will generate a 941c to recover the Social Security and Medicare taxes. Federal and state taxable wages and withholding may not be adjusted because the wages were paid during a prior year.* DOA will file Forms W-2c and W-3c with the SSA to correct social security and Medicare wages and taxes. Once the agency receives the W-2c, the original should be given to the employee and a copy retained by the agency.

***Note: The wages paid in error in the 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. The employee is not entitled to file an amended return (Form 1040X) to recover the income tax on these wages. Instead, the employee is entitled to a deduction (or credit in some cases) for the repaid wages on his or her income tax return for the year of repayment. Employees should be advised to contact their tax professionals for advice.**

Internal Control

Internal Control

Agencies are responsible for accurate and complete timekeeping ensuring that all periods of LWOP are reported and salary payments are docked accordingly. Agencies must implement policies and procedures concerning LWOP and overpayments. All reductions in an employee's salary should be properly authorized and entered into CIPPS correctly and timely.

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Records Retention

Time Period All CIPPS payroll records should be retained for a period of 5 years or until audited, whichever is longer. Agency policy and procedures determine the retention of the related agency source documents/records.

Contacts

DOA Contact Director, State Payroll Operations
Voice: (804) 225-2245
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Payroll Business Analyst/Trainer
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E-mail: Payroll@doa.virginia.gov

Subject Cross References

References CAPP Topic No. 20505, *Accounts Receivable*
CAPP Topic No. 50425, *Group and Optional Life Insurance*
CAPP Topic No. 50505, *Time and Attendance*
CAPP Topic No. 50515, *Special Payments*
CAPP Topic No. 50530, *Void Payments*
CAPP Topic No. 50705, *Employee and Tax Masterfile Updates*
DHRM Policy No. 4.45, *Leave Without Pay Conditional and Unconditional*
DHRM Quick Reference Guide — *Impact of Leave on Basic Benefits*
DHRM — *Administration of The COV Health Benefits Program*
VRS — *Payroll Manual*
IRS Publication 15, *Circular E*
