The Life Cycle of Employee Overpayments Claims Processing

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The Life Cycle of Employee Overpayments/Claims Processing: From HR Master Data to Finance Posting

By Satish Badgi, Unisys Corporation

Editor's Note: Our new HR Editor Satish Badgi has seen the power of SAP® integration firsthand. He knows that the SAP modules come into their own when they are linked closely to each other. The integrations points between FI and HR, for example, allow for complex business processes to be managed entirely within R/3. One such example is handling overpayments, a.k.a. "claims processing." In the past, many SAP users simply "wrote off" such claims because it seemed too complicated to handle within the system. But in fact, SAP can be configured to handle overpayment scenarios. Of course, you have to do some upfront work by clarifying the exact process your firm will use for different scenarios. In this two-phase article, Satish walks readers through the key business issues SAP users face around claims processing, and then he outlines a recommended configuration for a real-life claims scenario. Using step-by-step illustrations, Satish shows how to make HR and FI work together to resolve a common business situation.

Background

In a real-life environment, there are always situations whereby the employees owe money to the employer. In some cases, these claims are automatically processed by payroll schema in the next pay-period while in others, the users need to clear these claims and handle a multi-step complex process as explained here. This could be due to many reasons:

- Overpayment by employer to employee.

- Wrong dates for terminations/leaving.

- Late notice of Leave Without Pay.

- Retroactive calculations – system deciding to take back money.

- Retroactive changes to pre-tax deductions.

The challenge in the process is increased if:

- The employee is in the process of leaving the organization.

- The employee would like to have a repayment plan if the amount in question is large.

- The employee has a variety of pre-tax and post-tax deductions.

This problem crosses the boundaries of HR and Finance. The processes in HR create situations for Finance—creating receivables, reducing the expenses, and managing vendor payments for taxes and benefits. In addition, the HR team may have their own challenges to their sanity while keeping track of Year-To-Date (YTD) tax figures so that the W-2 and Form-941 represent correct figures.

Based on the experience of this author, SAP users can benefit from some extra help in areas of Finance and Tax integration. Many SAP users tend to take an easy way out of these issues by simply writing claims off on the accounting side. But through the course of this article, we'll see that rather than writing off claims and losing money, it is not difficult to handle overpayments and recover money if SAP is configured correctly. This article covers the issues associated with claims processing and the required configuration in HR/FI. I'll point out a number of useful and practical tips along the way.

A Note on Terminology – Many HR departments refer to "Claims" as Flexible Spending Account Claims, while SAP refers to "Claims Processing" as in Overpayments. This article will use the terminology "claims" for "overpayments" in line with SAP terminology. Readers will also note that this article pertains to SAP users running version 4.6C and higher. While many of these tips apply to earlier versions of SAP as well, this article is based on the 4.6C environment,

What Causes Claims

It is essential for readers to know and understand the Retroactive Accounting process in SAP, since retroactivity is almost a pre-requisite to the claims processing problem.

Claims are always generated due to retroactive calculations in payroll. The most common situa-

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tions that cause this retroactivity are explained below:

- Retroactive tax rate change – A state or township could change its tax rates, not giving you enough time to apply the Tax Update Bulletins (TUBS). For example, you should have applied the TUB for payroll period 10; instead you applied it in period 11 or 12.

- Retroactive time changes with/without time evaluation An employee got paid for overtime or vacation in period 10, and then you decide to revert that in period 11 or 12.

- Retroactive middle-of-pay-period employee terminations/resignations – Payroll was processed for checks/direct deposits, and HR receives late intimation for termination action. Now you need to recover the money from the employee. Note: the same situation will be applicable if the employee is proceeding on long-leave-without-out-pay and HR receives late notice after the employee cashes checks.

- Retroactive pre-tax benefit changes – An erroneous pre-tax benefit is changed to post-tax.

- Wrongful changes to wage-type configuration without using proper de-limiting function for the Infotype – Post-tax deduction are changed to pre-tax deduction by changing the processing class.

- Forced retroactive payroll run Using the forced retro date in the payroll driver.

SAP has provided report RPCLMSU0, its claims report, to give you the complete picture of claims.

One or more of these reasons will give rise to retroactive calculations and hence will generate claims in your current pay period. The following arithmetic will tell you how the claims are generated with reference to wage types. In payroll schema terms:

- If wage type /560 is less than zero at any time, wage type /561 gets generated. Since /560 is the amount to be paid to an employee, and if it happens to be negative, the system interprets that as "employee owes money to the system" and a claim is automatically generated by SAP.

- Subtract the total overpayments from the net pay amounts (wage type /559, /560) in the current pay period. If the resulting amount is negative, then that will be equal to the claim amount that is generated (wage type /561).

What Is the Quick Way to Find Claims?

The most thorough way to find claims is to use the claims schema and report RPCLMSU0. But before we learn about those advanced methods, keep in mind that you can always use the traditional wage type reporter to iden-

tify claims by using wage type /561. Wage type /561 in payroll results is a claims wage type. SAP provides you with the report RPCLMSU0 to give you the exact picture on pre-tax and post-tax deductions along with claim amounts. After learning the functionality of this report, you will understand why traditional wage type reporting is not enough for claims processing.

Issues Associated with Claims Processing

SAP has provided report RPCLMSU0, its claims report, to give you the complete picture of claims. This report uses schema UCLM and works only in "test" mode, (i.e., this schema will not write any payroll results). Once you have identified the claims, you need to understand the issues associated with claims and getting rid of claims. The RPCLMSU0 report will tell you the different components of the claim: earnings, pre-tax deductions, and post-tax deductions. Before you can proceed with claims processing, your organization will need to have developed processes and strategies for managing claims. It has been my experience that, most of the time, this is overlooked during business blueprinting and implementation. Let us look at some major questions involved in claims processing:

What is the best way to recover money from an employee? – Most public sector organizations have a policy that even if the claim is small (in cents), they cannot write this claim off, and the amount has to be recovered from the employee (or ex-employee). In the case of the commercial sector organizations, if the cost of recovery of the claim is more than the claim, the