


ADOA – General Accounting Office

**AGENCY PAYROLL GUIDE:
RECOVERY OF OVERPAID
WAGES**





RECOVERY OF OVERPAID WAGES

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Overview

The objective of this quick reference guide is to provide general information on the process of recovering overpaid wages in HRIS as it relates to the Agency Payroll Specialist. The guide is not intended to be all-inclusive and may not offer step-by-step instructions.

Agency Payroll Functions

1. Notify employee of overpayment and make a demand for repayment in full (consider working with Agency Human Resources depending on size and circumstances)
2. If immediate repayment is not possible, discuss alternative methods of recovery
 - Alternative methods require approvals
3. Submit appropriate form(s) to GAO Central Payroll or AFIS and/or
4. If recovery method is XR35.2, enter time records

Deadlines

Collect and correct overpayments within 30 days or the end of the calendar year, whichever is sooner.

GAO-70B Direct Deposit Reversal - submit no later than the Tuesday following payday (Day 7).

Helpful Resources and Documents

Policies

Federal [IRS Publication 15](#) – Employer’s Tax Guide – Wage Repayments

Arizona Revised Statute §

[A.R.S. §23-352](#) – Withholding of wages

[A.R.S. §38-612\(B\) \(6\)](#) – Administration of payroll salary deductions

SAAM

[SAAM 2022](#) – Delinquent Debt Processing

Forms

[GAO-6](#) Warrant Replacement Request Certification Form

[GAO-70](#) Request to Cancel Payroll Warrants

[GAO-70A](#) Overpayment Worksheet

[GAO-70B](#) Request for Direct Deposit Reversal

Contacts

Warrant Replacements AFIS.OPERATIONS@AZDOA.GOV

Attorney General Bad Debts <https://www.azag.gov/bce/client-agency>

Methods of Recovery

Chart to Determine Method of Recovery

Current Calendar Year		
Full Amount	Direct Deposit	Warrant
	<u>GAO-70B Direct Deposit Reversal</u> <ul style="list-style-type: none"> • Must be submitted within 3 days of payday • Can take up to 14 days to get monies back • Until confirmation is received that the funds are returned, replacement payments (i.e., Handwrite) will not be approved. <p style="text-align: center;">or</p> <u>GAO-70A Overpayment Worksheet</u> <ul style="list-style-type: none"> • “Full Cancellation” • Employee submits net pay in Certified Funds 	<u>GAO-70 Cancel Warrant</u> <ul style="list-style-type: none"> • Must have original blue warrant
Partial Amount	<u>XR35.2</u> <ul style="list-style-type: none"> • Use original time record dates and enter negative hours or amounts <p style="text-align: center;">or</p> <u>GAO-70A Overpayment Worksheet</u> <ul style="list-style-type: none"> • “Partial Cancellation” • Employee submits Net Pay (Difference to Recover) in Certified Funds or elects to have amount withheld from current paycheck 	
Prior Calendar Year		
Full or Partial Amount	<u>GAO-70A Overpayment Worksheet</u> <ul style="list-style-type: none"> • Worksheet must be completed for each payment in error • Employee must sign GAO-70A certification and submit net pay in Certified Funds or elects to have amount withheld from current paycheck • Prior Adjustments are processed in the HRIS once each quarter • Employee will receive a Corrected W-2 (W-2c) 	

GAO-70B Direct Deposit Reversal

Use to recover when entire direct deposit payment was made in error, employee has terminated, or employee is deceased. Requests can be submitted beginning Wednesday after compute (Day 3) through Tuesday following the pay date (Day 7) for that pay period. If the GAO-70B is not submitted by the Tuesday following that pay date, a GAO-70A – Overpayment Worksheet must be completed instead.

1. Submit approved GAO-70B to Central.Payroll@azdoa.gov
 - The request must be for the full amount of the net payment, partial amounts cannot be recovered.
2. GAO Central Payroll will submit the request to the state servicing bank

- It can take up to 14 days for the monies to be returned to the Treasurer’s Office after the request is submitted to the state servicing bank.
3. Confirmation that the funds have been returned is received by GAO from the Treasurer’s Office
 4. GAO Central Payroll will reverse the payment in the HRIS
 5. Payment for the same pay period can be generated by the agency using ZR80.1, if necessary

GAO-70 Request to Cancel Payroll Warrants

The original warrant is required to process a full cancellation of a payment

1. Submit the approved and signed GAO-70 and the original warrant to GAO Central Payroll
2. GAO Central Payroll will reverse the payment in the HRIS
3. If a payment is due to the employee, create a manual payment on the ZR80.1 for the correct amount

The GAO-70 cannot be used to cancel an expired warrant. If a warrant has expired, the employee will need to contact the Department of Revenue, Unclaimed Property Division, at <https://azdor.gov/unclaimed-property>. Warrants expire 180 days from the date of issue.

If a warrant needs to be replaced because it is lost, stolen or damaged, complete the GAO-6 Warrant Replacement Request. This process is handled by AFIS.OPERATIONS@AZDOA.GOV

XR35.2 Time Record Adjustment

For active employees that have been overpaid in the current calendar year, enter adjusting time records on the XR35.2.

FC	Hours	Pay Code	Date	Rate
A ▼	-1	101 Q☒	11/19/2021 📅	20.00Q☒
A ▼		997 Q☒	11/19/2021 📅	-10.00Q☒

1. Use original time record dates
2. Enter **hours** as **negative** amounts
3. Enter rate based pay codes as **negative** amounts
4. Refer to the pay code listing for *adjusting* pay codes for system-generated codes such as overtime premium and retention bonus pay codes

XR35.2 cannot be used if any of the following apply:

1. Recovery is for wages paid in a prior calendar year (see below)
2. Recovery is more than current pay period wages resulting in \$0 or negative wages
3. Employee has terminated

GAO-70A Overpayment Worksheet

Use GAO-70A when the recovery of wages cannot be entered on XR35.2. See next section for detailed instructions on completing the GAO-70A.

GAO-70A Overpayment Worksheet

Complete the overpayment worksheet for each payment that was incorrect. The employee must sign the certification on the form to receive FICA tax credits for a prior calendar year.

Employee can submit certified funds, payable to the **State of Arizona** or can elect to have the amount deducted from the current earnings. Agency will sign the GAO-70A and email the form to Central.Payroll@azdoa.gov. Once received, the GAO will enter the adjustment into the HRIS.

- Current calendar year adjustments are entered within five business days.
 - a) Deadline for December adjustments is posted in the Agency Payroll Guide Calendar Year End calendar.
- Prior calendar year adjustments are entered the last month of each quarter, dates are published on the payroll calendar

How to Complete the Form GAO-70A

Detailed instructions are included on the first tab of the Form GAO-70A workbook. The recovery worksheets perform tax calculations based on the data entered. Submit one GAO-70A for each payment that has a recovery. Employee owes the amount listed in the NET PAY row, DIFFERENCE TO RECOVER column.

NOTE: The overpayment worksheet is only for recovery of overpaid wages. The form cannot include any additional deductions, but may include recovery of certain deductions such as retirement, Social Security, Medicare, short-term disability and federal/state tax withholding if in the current year.

NOTE: Always ensure the current version of GAO-70A is used.

Full Cancellation of Current Year Overpayment:

1. Select current tax year tab **20XX-FORM GAO-70a**
2. Complete Employee Name, EIN, Payment Number and Payment Date fields
3. Select overpayment type as **Full Cancellation** (leave pay & deduction fields blank)
 - Full Cancellation option for current calendar year recoveries only
4. Complete Explanation and Certification Fields
 - Employee and Approved must sign
5. Employee remits certified funds to the agency for the total Net Pay due
 - Agency deposits the funds in AFIS using object 6199
 - Indicate **AFIS Function** used in deposit in the Explanation field, GAO will perform an IETBSPR in AFIS to transfer the monies
6. Agency emails GAO-70A to GAO Central Payroll for processing



7. GAO Central Payroll updates the employee file in HRIS
 - Reflected as **Adjustments** under Drill Around in the HRIS
8. GAO Central Payroll enters an IETBSPR in AFIS to transfer the monies from agency to GAO

Partial Overpayment:

1. Select the tab based on tax year **original** payment was made
2. Complete Employee Name, EIN, Payment Number and Pmt Date fields
3. Tax elections in effect at the time the payment was made must be used for the taxes to calculate correctly.
 - Federal tax elections: PR13
 - State tax elections: PR14
4. Amount Paid Column: Enter all pay and deductions (employee & employer) items exactly as they occurred on the original payment, use PR51.1 to obtain values
 - Pay and Deduction items listed on specific lines require those pay items to be entered for formulas to calculate correctly
5. Amount To Be Paid Column: Enter all pay and deductions (employee & employer) items how the payment should have occurred
 - Pay and Deduction items listed on specific lines require those pay items to be entered for formulas to calculate correctly
 - a) Flat amount deductions must equal the **Amount Paid** column values
 - Federal and state taxes for prior calendar year adjustments cannot be adjusted
 - Garnishments deducted cannot be adjusted
 - b) Percent (%) deductions require recalculation
 - Workers compensation rate must be calculated
6. Hours to Recover: List the amount of hours for each pay code separately
7. Difference to Recover: Calculated based on the data entered in the **Amount Paid** and **Amount to be Paid** columns
8. Complete Explanation and Certification Fields
 - Detailed Explanation: Include why an overpayment is processed and include the AFIS FUNCTION used to deposit the employee repayment
 - Signatures:
 - a) Employee must sign to receive **prior** year FICA tax credits, required by IRS
 - Update Social Security and Medicare tax rows to 0.00 in difference to recover column if not signed by the employee. N/A for current year overpays
 - b) Preparer, Reviewer and Approver (GAO-3P) must sign

9. Agency submits GAO-70A to GAO Central Payroll for processing
10. GAO Central Payroll updates the employee file in the HRIS
 - Reflected as **Adjustments** under Drill Around in the HRIS
 - Prior calendar year adjustments are processed the last month of each quarter

Common Errors – Items to Check

Taxes Incorrect	Federal - check filing status, number of exemptions and additional amount. State - check percentage and additional amount
Taxes Incorrect	Make sure all pre-tax deductions are listed and in the proper rows
Retirement Incorrect	Make sure the correct percentage is used. Please read comment in rows 50 & 86 regarding wages subject to retirement calculation
Gross Pay Incorrect	All pay must be listed, even if you are not recovering
No Signature	Signatures are required for Preparer, Reviewer, and Approver Employee signature is required to receive prior calendar year FICA credits. If employee does not sign, Social Security and Medicare tax rows must be updated to 0.00 in difference to recover column
Short Term Disability credit not taken	Short Term Disability is calculated as a percentage of pay subject to a payment limit. Check PR14 for rate
Workers Comp credit not taken	Percentage used can be found on PR18. Premium overtime is not used in the calculation.
Amount collected incorrect	Make sure the employee submits payment equal to the Net Pay Difference to recover, cell F71

Reporting of Wage Repayments to IRS

Wage Repayment: Recovery of overpaid wages in the current calendar year for overpayment(s) that occurred in the prior calendar year.

Wage Repayments must be completed by submitting the GAO-70A – Overpayment Worksheet.

IRS Publication 15 – Employer’s Tax Guide - Wage Repayments

If an employee repays you 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.

Employee reporting of repayment

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.

NOTE: The employee should be referred to a tax professional for further information regarding this process.

The IRS requires that wage repayments be reported on a W-2c that is filed with Social Security Administration to correct Social Security and Medicare wages and taxes. The GAO completes this process once per quarter and provides the employee a W-2c and a letter regarding the wage repayment to their address on record in the HRIS.



Example of Current Year GAO-70A

Employee was overpaid 28.77 hours in the pay period. Employee owes \$363.14

ARIZONA DEPARTMENT OF ADMINISTRATION - GENERAL ACCOUNTING OFFICE OVERPAYMENT WORKSHEET						
AGENCY I.D.		AGENCY NAME		DATE		
AD		DEPARTMENT OF ADMINISTRATION		06/08/13		
EMPLOYEE NAME		E.I.N.	Enter the employee's Federal tax data from PR13. Enter the employee's State tax data from PR14. State Additional Amount will be on PR13.			
CHARLES NORRIS		123456				
PAYMENT NUMBER		PMT DATE	FEDERAL TAX DATA		STATE TAX DATA	
24137210		5/16/2013	MARITAL STATUS	M	ENTER %	3.60%
OVERPAYMENT TYPE:			# OF EXEMPTIONS	ADDTL AMT		
FULL CANCELAN OR PARTIAL OVERPAY? <input type="text" value="Partial Overpd"/>			1	0.00		
For full cancels, leave pay and deduction info blank, go to line 89 (explanation section).						
DESCRIPTION		PAY CODE / DED CODE	AMOUNT PAID	AMOUNT TO BE PAID	HOURS TO RECOVER	DIFFERENCE TO RECOVER
REGULAR PAY		100	527.89	0.00	28.77	527.89
ANNUAL LEAVE TAKEN		300	605.51	605.51		0.00
SICK LEAVE TAKEN		310	125.69	125.69		0.00
HOLIDAY LEAVE TAKEN		322	2.75	2.75		0.00
SELECT - PAY CODE		SELECT				0.00
SELECT - NON-TAXABLE UNIFORM ALLOW		SELECT				0.00
SELECT - NON-TAXABLE REIMBURSEMENTS		SELECT				0.00
SELECT - NON-TAXABLE TRAVEL		SELECT				0.00
SELECT - TAXABLE REIMBURSEMENTS		SELECT				0.00
SELECT - TAXABLE TRAVEL		SELECT				0.00
SELECT - TAXABLE MILITARY DIFFERENTIAL PAY		SELECT				0.00
TAXABLE AUTO USAGE		500				0.00
TAXABLE IMPUTED INCOME		520				0.00
TAXABLE UNIFORM ALLOWANCE		601				0.00
NON TAXABLE - INDUSTRIAL RETIREMENT CALC		501				0.00
TOTAL GROSS PAY			1,261.84	733.95	28.77	527.89
EMPLOYEE DEDUCTIONS						
FEDERAL TAX		T101	42.95	0.00		42.95
SOCIAL SECURITY TAX (.0620)		T103	67.66	34.94		32.72
MEDICARE TAX (.0145)		T105	15.82	8.17		7.65
MQGE TAX - JUDGES ONLY (.0145)		T107	0.00	0.00		0.00
STATE TAX		T201	32.36	15.50		16.86
ASRS LTD - FY12 - FY14 (.0024)		7509	3.03	1.76		1.27
ASRS PLAN - FY14 (.113)		7903	142.59	82.94		59.65
UNITED HEALTHCARE EPO		M023	102.00	102.00		0.00
DELTA DENTAL		D001	56.82	56.82		0.00
SUPP LIFE - PTX - EE		L001	3.88	3.88		0.00
AVESIS VISION		V001	7.78	7.78		0.00
SELECT - OTHER INSUR PRETAX		SELECT				0.00
SELECT - OTHER INSUR PRETAX		SELECT				0.00
SUPP LIFE - TXBL - EE		L101	1.66	1.66		0.00
HARTFORD SHORT TERM DISABILITY		S101	8.71	5.06		3.65
SELECT - OTHER INSUR TAXABLE		SELECT				0.00
DEFERRED COMPENSATION		7803	50.00	50.00		0.00
SELECT - OTHER PRETAX DED		SELECT				0.00
SELECT - OTHER PRETAX DED - BUYBACKS		SELECT				0.00
SELECT - OTHER AFTER TAX DED		SELECT				0.00
SELECT - OTHER AFTER TAX DED		SELECT				0.00
CHILD SUPPORT \$		GCSD	150.00	150.00		0.00
OTHER						0.00
OTHER						0.00
TOTAL DEDUCTIONS			685.26	520.51		164.75
NET PAY			576.58	213.44		363.14



REQUIRED - DETAILED EXPLANATION:			
Employee overpaid 28.77 hours due to industrial leave. Use AFIS FUCTION AD01245 for transfer			
REQUIRED - CURRENT YEAR FICA TAX REFUND CERTIFICATION:			
I understand this repayment of wages includes a \$40.38 credit for overcollected Social Security and Medicare taxes. I have not claimed a refund of or a credit for the overcollected taxes from the IRS, or if I did, that claim has been rejected; and I will not claim a refund or a credit of this amount.			
Employee Signature:		Date	
EMPLOYEE PAYMENT OPTIONS:			
1. By signing below, I hereby authorize the State of Arizona to deduct from my paycheck \$487.51 for the purpose of repayment of earnings that were overpaid. I understand that this repayment will be collected within two pay cycles. If the amount owed cannot be collected within two pay cycles I agree to make a personal payment to State of Arizona. In the event I leave employment with the State before all amounts have been recovered in full, I authorize the State to deduct the remainder owed from the final paycheck.			
Employee Signature: _____		Date: _____	
2. I have attached a personal payment made out to "State of Arizona"		Initial	

Unable to Collect Monies Due

In the event the employee fails to repay the State the Arizona, the SAAM Topic 20 Section 22 Delinquent Debt Processing, outlines the actions agencies should take with the respect to delinquent accounts.

<https://www.azag.gov/bce/client-agency>

Attorney General will report uncollectible debts owed to the state to the JLBC. The JLBC reviews and approves any write-offs. Approved bad debt is published by the Office of the Attorney General. Once the report containing the employee name is published, any negative leave balances can be removed via LP70.1, use the description "JLBC Bad Debt 7/xx/20xx"

Need Assistance?

View the Central Payroll Directory [click here](#)