Retroactive Payroll Adjustments

I. Purpose
To provide guidance to staff for processing retroactive adjustments within the SAP HR/Payroll module outside the earliest retroactive date (ERD) (as defined below). For assistance in processing transactions within the earliest retroactive period, please refer to IRIS Human Resources/Payroll (HR) Payroll Reference Manual.

The HR/Payroll module provides the ability to adjust payments for previous payroll periods back to a point in time known as retroactive adjustments, which has a significant benefit as it allows changes in pay, benefits and taxes to be calculated automatically. However, adjustments caused by changes to cost distributions, late entry of leave balances and error corrections often negatively affect accounting functions, especially reporting on quarterly financial statements, grant reimbursements and other periodic financial reporting. The impact on accurate, timely financial reporting compels the University of Kentucky to limit the length of time retroactive adjustments will be allowed to process.

II. Definitions
- Business officer/department administrator: an employee authorized to approve expenses and reconcile financial information for a unit
- Earliest Retroactive Date (ERD): the date set on infotype 0003 in the SAP HR/Payroll module beyond which a payroll adjustment record cannot be entered. This includes entries on IT0027 Cost Distribution, IT0014 Recurring payments/Deducts and IT0015 Additional Payments
- Ecrt: software utilized by the University of Kentucky to review and complete project payroll confirmations on sponsored projects
- Payroll Authorization Record (PAR): a record requesting action by Human Resources and/or Payroll Services department employees
- Payroll administrator: an employee in a unit responsible for entering and verifying information in the SAP HR/Payroll module
- Project payroll confirmation: a report contained in the ecrt software that is accessed by principal investigators to confirm pay is reasonable in relation to work performed on sponsored projects that include federal funds
- Retroactive Payroll Adjustment Request: a form completed by a unit payroll administrator when there is a change affecting employee pay

III. Responsibilities
A. Payroll administrators:
1. Monitor and adhere to Payroll Authorization Record (PAR) and payroll deadlines as recorded on the payroll schedules, including when documents are submitted to Compensation, to ensure accurate, timely payroll processing and financial reporting;
2. Communicate potential delays or staffing issues immediately to supervisors;
3. Ensure information entered in the SAP/HR payroll module matches documentation to support change;
4. Complete and route a Retroactive Payroll Adjustment Request form if requesting to make pay adjustments for periods prior to the earliest retroactive date; and
5. Validate that changes were made in the appropriate pay period.

B. Business officer/department administrator:
   1. Ensure departmental processes are in place that facilitate prompt initiation of payroll transactions and limit necessity of retroactive payroll adjustments;
   2. Reconcile payroll transactions monthly in compliance with E-17-6 Reconciliation and Review of Financial Transactions to ensure appropriate pay, benefits and cost objects were debited/credited;
   3. Ensure the cost object being debited contains appropriate budget, is open and available for posting, and the transaction is within the budget period;
   4. If cost object being credited is closed, the appropriate individuals are contacted and financial reporting revised if required or allowable;
   5. Review and approve requests to retroactively adjust payroll entries including Retroactive Payroll Adjustment Request form; and
   6. Implement processes needed to improve procedures and limit retroactive adjustments in the future.

C. Payroll Services:
   1. Log all payroll exception forms;
   2. Review exceptions for business need and suggest alternative handling if appropriate;
   3. Review exceptions with Accounting Financial and Reporting Services and Research Financial Services when appropriate;
   4. Coordinate with Human Resources changes beyond the earliest retroactive date when necessary; and
   5. Notify departments of final disposition of payroll exception requests.

D. Accounting and Financial Reporting Services/Research Financial Services:
   1. Review journal vouchers containing pay or benefit GL accounts entered into the SAP Financial system according to directions in BPM E-4 Journal Voucher;
   2. Verify that requirements of the BPM E-4 Journal Voucher are complete; and
   3. Forward journal vouchers with WBS/Grants to Research Financial Services; or
   4. Post approved journal vouchers; or
   5. Return denied journal vouchers to the initiating department.

E. Research Financial Services
   1. Review journal vouchers containing WBS/grants entered into the SAP Financial system according to directions in BPM E-4 Journal Voucher;
   2. Verify that requirements of the BPM E-4 Journal Voucher and Appendix 2 Cost Transfers for Sponsored Projects are complete; and
   3. Forward journal vouchers with Cost Centers to Accounting and Financial Reporting Services; or
   4. Post approved journal vouchers; or
   5. Return denied journal vouchers to the initiating department.

IV. Policy
   A. Payroll transactions must be processed promptly in order to limit retroactivity.
B. Retroactive adjustments are limited to the earliest retroactive dates set in the payroll schedules.

C. Changes to cost distribution should be submitted to Accounting and Financial Reporting Services or Research Financial Services for review as a JV document according to BPM E-4 Journal Voucher section IV.B.4.

D. Exceptions: Departments may complete a Payroll Retroactive Adjustment Request form to request consideration of a change in pay prior to the earliest retroactive date as set in the payroll schedules.

V. Procedures

A. For assistance in processing transactions within the earliest retroactive period, please refer to IRIS Human Resources/Payroll (HR) Payroll Reference Manual.

B. To request a payroll retroactive adjustment for periods prior to the current ERD that affect compensation:

1. Complete the Retroactive Payroll Adjustment Request form; For all requests include:
   1) The person id;
   2) Personnel number;
   3) First, middle initial and last name of the employee;
   4) The ERD as listed on the payroll schedule or on IT0003 in the HR module;
   5) The payroll area;
   6) The reason for the retroactive adjustment by checking the boxes provided;
   7) Clearly explain in responses to questions 1 and 2 what occurred and how the exception is necessary. Answer questions fully and completely (For example: Question 2 - to correct an error is not a complete response).
   8) In Question 3 - detail the process improvement plan and steps taken to prevent a recurrence in the future;

2. Gather documentation to support request for the retroactive payroll adjustment exception;

3. Forward the form and documentation to the next level business officer for approval;
   Note: If the request includes WBS/grants and the time period exceeds 90 days from the posting date, additional signatures as detailed in Appendix 2 Cost Transfers for Sponsored Projects will be needed; and

4. Once approved, attach the form and supporting documentation via email to the Payroll Services department at PAYEXCEPT@uky.edu.

C. To request a payroll retroactive adjustment for periods prior to the current ERD to correct cost allocations or distributions between cost centers and grants, please refer to BPM E-4 Journal Voucher section IV.B.4.

1. Z4 is a specific document type used only to handle payroll corrections for cost redistribution;
2. The use of document type Z4 must be used for adjustments to pay and benefit GL accounts beginning 07/01/17; and
3. This unique document type facilitates the reconciliation between payroll labor distribution reports and financial expense reports.

4. A Z4 JV document affecting sponsored projects may require that the department effort coordinator and certifier (designated within the ecrt software) complete a new pre-review and/or project payroll confirmation.

D. The Payroll Services department will return the Retroactive Payroll Adjustment Request form to the department indicating the disposition:
   1. Approved for retro – ERD will be open for the specific employee for current pay period.
   2. Denied for retro – ERD will not be open and no further action will be taken by Payroll Services.
   3. Z4 document - may be submitted to Accounting and Financial Reporting Services (AFRS) or Research Financial Services (RFS) for review as a JV document according to BPM E-4 Journal Voucher section IV.B.4.
   4. Other – used as needed