

AAM 330. OVERPAYMENTS, ADVANCES, BONUSES, AND ALLOWANCES

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AAM 330.010 General Collection Policy (06-18)

Overpayments must be recovered in a reasonable and timely manner. The materiality of the overpayment, the period of time over which it occurred, and the reason for the overpayment are used to determine a collection plan. Overpayments of under \$50 may be forgiven and not pursued when specifically authorized by the Division of Finance.

Overpayments may be recovered by a payroll system adjustments or by personal check. For active employees, wage adjustments will be the method of collection whenever possible. Agencies are advised to review overpayment provisions in collective bargaining contracts before contacting overpaid employees or developing collection plans.

If an overpayment occurred in one pay run and is discovered prior to the subsequent pay run, or when the overpayment is less than 10 percent of gross wages, the full amount should be collected the following pay period. When an overpayment is a material amount (10 percent of gross or greater), and is not discovered immediately, the recovery period may extend over several pay periods, however, the recovery period should not extend over a calendar year. If an employee is separating from state service, the recovery period shall not extend beyond the employee's date of separation.

In situations where it is reasonable to assume an employee should have recognized an overpayment, the full amount of the overpayment is immediately due and payable to the State. Overpayments that should be recognized by employees and brought to the employer's attention include, but are not limited to the following:

1. An employee receives two paychecks for the same time period;
2. An employee receives a larger net paycheck than normal;

3. An employee receives payment for more overtime hours than were worked;
4. A salaried employee receives a paycheck without a deduction for leave-without-pay (LWOP) when there was insufficient balance in leave accounts to cover leave;
5. An employee receives a larger gross salary than the salary at the current range and step for the employee's position.
6. Advances, bonuses, and allowances that were a condition of employment terms and must be repaid to the state.

If an overpayment has not been fully recovered from an employee upon separation, the employee's final pay, including payments for unused leave, will be reduced by the amount owed to the State.

Legal fees and other charges incurred by an agency as a result of collection efforts are the responsibility of the employee and will be added to the amount owed for the overpayment.

AAM 330.020 Collection Plan and Notification (06-18)
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When an overpayment is discovered, the agency will notify the agency payroll contact and will begin the notification and collection process immediately to ensure timely recovery of state monies.

1. The agency is required to determine and document the reason for and amount of the overpayment.
2. The agency, with DOPLR and DOF approval is required to develop a collection plan that gives due consideration to materiality of the amount to be recovered, the employee's anticipated period of employment, Internal Revenue Service (IRS) rules, and other pertinent conditions. The collection plan must be in accordance with AAM 330.010.
3. The agency is required to notify the employee or former employee of the overpayment and plan for recovery.
4. If appropriate, DOF will process a financial system transaction to recognize the overpayment receivable and process a payroll system transaction to record the overpayment in the employee's record.

AAM 330.030 Recording Recoveries in the Financial System (06-18)

Payroll costs are to be charged to the fiscal year in which wages are earned as provided in [AAM 25.160](#) Fiscal Year Obligations. Overpayments recovered in the same fiscal year as they occurred are refunds of payroll expenditures classified as abatements and are accounted for as credits to expenditures. Recoveries related to prior fiscal year authorizations are accounted for as unbudgeted revenues and recorded in the “Prior Year Reimbursement Recovery” account when received after August 31 of the fiscal year as provided in [AAM 40.010](#) Revenue Term Definitions.

Recoveries of overpayments that apply to prior fiscal year payroll expenditures must be accounted for as unrestricted receipts in a prior year recovery account and may not reduce the agency’s current year payroll expenditures. However, if recovery is to an appropriation receiving federal or other receipts earned under a recovery program it must be accounted for as an increase to restricted revenue prior year reimbursement recovery.

AAM 330.040 Tax Reporting Requirements (06-18)

The Internal Revenue Service (IRS) has specific rules regarding reporting overpayment recoveries that are based on timing of recoveries. An employee’s current year wage repayments for an overpayment that occurred in the same calendar year may be offset against current year wages, thereby reducing taxable earnings reported on the employee’s W-2 tax statement. These overpayments must be collected through gross wage deductions or by personal check for net amounts.

Employers are prohibited from offsetting recoveries of prior calendar year overpayments against a subsequent year’s earnings. Wages paid in error to an employee in a prior calendar year remain taxable to the employee for that year because the employee received and had use of the funds during that year. These overpayments must be collected through deductions to net wages or by personal check.

It is the employee’s responsibility to seek the advice of a tax consultant about IRS procedures for deducting repaid wages in subsequent years.

AAM 330.050 Write-Off an Uncollectible Recoveries (06-18)

A recovery receivable for an active employee may not be written off as uncollectible. Any exception to this rule must be approved by the Division of Finance, or mandated in a collective bargaining agreement or grievance settlement.

An agency's decision to write off a former employee's receivable must be based on the following criteria:

1. The amount is determined uncollectible because the former employee cannot be located or does not have the ability to pay.
2. The amount is determined uncollectible through failed court action to garnish a Permanent Fund Dividend check, retirement check, or other monies the State owes the former employee.
3. The amount is not material and does not warrant necessary collection expenses. This means legal and administrative expenses would be in excess of the amount owed.
4. A write-off will not prejudice the position of the State. This means the write-off must not act as a detriment to the state's rights or claims against the former employee. If the former employee returns to state service, the State may pursue collection of the amount owed through an offset to current wages.

An agency may take steps to write off the recovery receivable of a former employee if the debt is older than six months. The amount of the receivable determines the action an agency may take to write off the receivable:

1. If the amount owed is less than \$500 and efforts to collect have been unsuccessful, an agency may write off the receivable.
2. Agencies may file a request with the Division of Finance for discharge from accountability for collection of receivables of \$500 to \$5,000 owed by former employees.
3. When the receivable is for more than \$5,000, the agency may apply to the Division of Finance to write off the account if the attorney general concurs with this action.

A request to the Division of Finance to write off a receivable must include the name and address of the former employee, the account age and amount, collection efforts to date, and any other information pertinent to a full understanding of the request. After review, the division will either approve the request or advise the agency of a course of action to follow. Before approving any write-off, the division determines if it is possible to collect the amount due by offset against money owed by the State to the former employee.

Authorization to write off a debt does not constitute forgiveness of indebtedness. The former employee remains obligated to the State. A write-off authorizes an agency to:

1. Discontinue incurring expenses involved in actively pursuing collection of the receivable.
2. Cease reporting the amount as a receivable to the Department of Administration.

An agency must advise the Division of Finance by memorandum that a receivable has been written off and whether the agency had authority or received approval to write off the receivable. A copy of the memorandum must be forwarded to the division to be placed in the former employee's central payroll file.