

<b>HUMAN RESOURCES MEMORANDUM 03-006</b>		DATE ISSUED: 01/27/2003
SUBJECT: <b>ACCOUNTS RECEIVABLE</b>		REFERENCE: None
TO: Office Branch Chiefs, Personnel Liaisons, Attendance Clerks		SUPERCEDES: None

**PLEASE ENSURE THAT THIS INFORMATION IS SHARED WITH YOUR EMPLOYEES**

**PURPOSE**

This memorandum provides information to assist employees in understanding the Accounts Receivable (A/R) process and what to expect in this situation. Effective with the issuance of this memorandum, the Personnel Transactions Unit will implement the process outlined below when an A/R has been or will be set-up as the result of an overpayment.

**GENERAL INFORMATION**

State employees may not legally receive more money than they earned for each pay period. However, inadvertent overpayments do occur. When an employee has been overpaid, an A/R is established and provides a method by which the overpayment can be recovered. The Department is responsible for the prompt collection of all A/Rs. Recovery shall be made in accordance with the procedures set forth in Government Code Sections 1153C, 12475, 19838, and State Administrative Manual (SAM) Sections 8580.2, 8581, 8593-8593.4, 8790.1, and 8790.55.

Overpayments occur for various reasons, such as: dock, late dock, leave over usage and departmental errors with salary, effective dates, etc. The State Controller's Office (SCO) establishes A/Rs for deduction arrearages such as retirement, Social Security, Medicare, savings bonds and other deductions. The following are commonly used A/R terms and describe the process when an A/R has occurred:

- **Dock-Time** (days & hours) on dock that is keyed into PAL (current month) prior to the cutoff date will interface with SCO and the reduction in pay will be reflected on the warrant received at the end of the pay period.
- **Late Dock**-Dock that is keyed into PAL after the SCO cutoff date that is not reflected on the warrant. The warrant will be returned to SCO and a salary advance will be given on payday, unless Collective Bargaining contracts/MOUs specify otherwise. Collective Bargaining contracts/MOUs may limit the number of late dock salary advances an employee may receive in a calendar year.
- **Leave Errors**-In the event of an over usage of available leave credits, the Personnel Specialist will make changes to PAL, deduct time from the SCO Leave Accounting System (LAS) and notify the employee, attendance clerk and supervisor. If an A/R is necessary, the Personnel Specialist will send additional information regarding the overpayment as outlined below (See Sample Attachment A).
- **Salary Overpayments**-A salary overpayment may occur for reasons such as: unreported shift changes, an employee appointed with an incorrect salary, range or MSA date. If an A/R is necessary, the Personnel Specialist will notify the employee, agree to a plan and collections will be made accordingly.

**IRS CODE**

Internal Revenue Service Ruling 70-177, 1970-1CB214 states that erroneous wage payments are subject to income tax at the time they are paid and, to the extent there has been no repayment of

any overpaid amount to the employee within the same year, Form W-2 must reflect the full amount received by the employee in that year.

In compliance with this ruling, SCO excludes federal and state taxes from being “credited” on the A/R. Instead, when the A/R is collected/repaid via payroll deduction, the taxable gross of the payment to which the deduction is applied will be reduced by the taxable gross amount of the A/R before federal and state taxes are computed. A/Rs that are satisfied via agency collection will not receive a tax reduction at the time of collection. The employee can recoup overpayments of federal and/or state tax amounts, if any, when filing an income tax return for that year. Therefore, it is to the employee’s immediate advantage to have an A/R collected via payroll deduction.

A corrected W-2 will be generated for Social Security and Medicare if the A/R issued in a prior tax year. The taxable gross will be reduced for the tax year in which the A/R is satisfied, and a corrected W-2 will not be necessary.

## ACCOUNTS RECEIVABLE PROCESS

When it has been determined that an employee has been overpaid, the Personnel Specialist will notify the employee of the overpayment and give the employee an opportunity to review and respond to repayment methods prior to establishing an A/R. If there are additional questions after reviewing the overpayment notification letter and attachments, the employee should contact the Personnel Specialist. If a mutually agreed upon method cannot be reached, the decision will be elevated to the Chief of OHR.

Reimbursement will be made to the State through a method mutually agreed upon by the employee and the Department. Two methods will be used:

1. Cash payment(s) via establishment of an agency collection A/R; or
2. Installment(s) via establishment of a payroll deduction A/R.

The Department is responsible for notifying the employee of existing salary overpayments or impending A/Rs. The Department must provide the employee an opportunity to respond **prior** to the initiation of collection procedures. The employee will be given 15 calendar days to review and respond to the Department either orally or in writing.

## ROLES AND RESPONSIBILITIES

Personnel Specialist:

- Notify the employee in writing of existing salary overpayment or impending A/R via memo (see Sample Attachment A) which will include the following information:
  1. The amount of the overpayment;
  2. The pay period(s) involved;
  3. The reason for the overpayment;
  4. The response time given to the employee to respond (15 calendar days);
  5. The proposed repayment options (payroll deduction vs. agency collection).

Employee:

- Respond orally within 15 calendar days from the date of notification to the Personnel Specialist to discuss repayment methods. **Or;**
- Return the signed overpayment notification within 15 calendar days from the date of notification to the Personnel Specialist by selecting the method of repayment.
- If enrolled in Direct Deposit, failure to respond may result in the cancellation of Direct Deposit.

Personnel Specialist:

- Establish A/R according to agreed upon repayment method through SCO via STD. 674 A/R.
- Once the A/R is established, send follow-up memo to employee with exact dollar amount due.
- If the employee does not respond to the A/R notification, establish A/R via payroll deduction(s).

**NOTE:**

SAM Section 8776.7 states that the number of months allowed to collect an overpayment should be the same number of pay periods in which the overpayment occurred (e.g., overpayment occurred over 3 pay periods; therefore, the A/R should be collected over no more than a 3-month period). The recoupment amount **must not exceed 25%** of the employee's monthly or semi-monthly net salary (gross minus mandatory deductions), **unless mutually agreed upon**. In the event the overpayment continued beyond 12 months, full repayment may be required by the Department within a 12-month period (e.g., overpayment occurred over 14 pay periods; therefore, the department may require repayment within 12 months). In cases of extreme financial hardship, the department, on a case-by-case basis, will work with the employee to determine if there are alternative repayment options available.

**STATUTE OF LIMITATIONS**

The Department cannot take action to recoup an overpayment, pursuant to AB1283, unless the action is initiated within 3 years from the date of overpayment.

**COLLECTIVE BARGAINING CONTRACTS**

Collective Bargaining contracts/MOU's supersede any other collection provisions.

KIM L. WAITS, Assistant Personnel Manager  
Personnel Transactions Unit

KLW:kjm

Attachment

cc: Personnel Transactions Unit  
Personnel Analysts

SAMPLE

DATE: January 27, 2003  
TO: Justin Tyme  
FROM: Department of General Services  
Office of Human Resources  
SUBJECT: OVERPAYMENT NOTIFICATION

It has come to our attention through an audit of our payroll records that you have been overpaid for the 09/02 pay period(s) in the approximate gross amount of \$352.74. The overpayment resulted from the following:

In the month of September 2002 you used 40 hrs of vacation but only had 24 hrs available. This caused an over usage of 16 hrs, and resulted in an approximate gross over payment of \$352.74.

Before taking any collection action, you are being given an opportunity to review the information, respond and choose one of two collection methods found on the reverse side of this notification. If you have any questions or require additional information in your review of this overpayment, please contact me at (916) 555-1234.

Please return completed notification indicating your choice of repayment method to my attention no later than 15 days from the date of this notification. If we do not receive a response from you, an Accounts Receivable (A/R) will be set up pursuant to Government Code Section 19838(2) which states recoupment shall be made through payroll deduction covering the same number of pay periods in which the overpayment occurred, not to exceed one year.

Thank you,

Scarlett Butler  
Personnel Specialist

**EMPLOYEE COMPLETION:**

I acknowledge the A/R and request the following collection method:

**PAYROLL DEDUCTION**

A/R amount is automatically deducted by the State Controller's Office before federal and state taxes are computed. I understand this overpayment will be recouped in the same number of pay periods (1) in which the overpayment occurred starting with the next applicable pay warrant.

If you are unable to meet the above payment plan, please contact your Personnel Specialist.

**AGENCY COLLECTION**

A/R amount is deducted by our agency and therefore cannot reduce federal or state taxes at time of collection. This method of collection will increase original overpayment amount due to excess taxes being included. Any overpayments of federal and/or state taxes must be recouped by filing an income tax return. I understand this overpayment will be recouped in the same number of pay periods (1) in which the overpayment occurred starting with the next applicable pay warrant.

I wish to submit a personal check.

I agree to submit a personal check by the 5<sup>th</sup> working day after payday. If a personal check is not received in the Personnel Office by the 5<sup>th</sup> working day, I understand that Personnel staff will take the necessary action to deduct the amount owed from the next applicable warrant.

I wish to have Personnel deduct the A/R from next applicable pay warrant. (This is not an option if enrolled in direct deposit)

If you are unable to meet the above payment plan, please contact your Personnel Specialist.

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**EMPLOYEE SIGNATURE**

**DATE**

**PERSONNEL USE ONLY:**

- A/R set up Agency Collection and deduction to be made by agency or personal check will be submitted as requested by employee.
- A/R set up Payroll Deduction as requested by employee.
- A/R set up Payroll Deduction due to no response from employee.

**PERSONNEL SPECIALIST SIGNATURE**

**DATE**