**EMPLOYEE ACCOUNTS RECEIVABLE** **8776.7**
(Revised 03/12)

GC section 19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving Fund (ORF) salary and travel advances and payroll warrants issued by the State Controller's Office (SCO). Refer to SAM section 8116.1 for additional collection procedures regarding travel advances. For the purposes of this section, an amount owed to the state by an employee (an AR) is the equivalent of an overpayment. Accordingly, the collection procedures described below should, to the extent applicable, be employed to collect AR due from state employees.

The following procedures and policies will be followed when collecting employee overpayments:

1. Departments will notify employees (in writing) of overpayments and provide them an opportunity to respond. The overpayment notification should include at least the following items:

   a. Amount due;

   b. Pay period affected if overpayment relates to salary;

   c. Reason for overpayment;

   d. Response time afforded to employee prior to collection action;

   e. Optional: proposed repayment plan and method of collection.

   The employee will be given 15 calendar days to respond, either orally or in writing. If the employee is on vacation, sick leave, out-of-town assignment, etc., and cannot be reached, the time afforded the employee to respond should be adjusted accordingly. All responses will be documented and maintained in department files.

2. The employee will be given the opportunity to satisfy the amount due by payment in cash, check, or payroll deduction. Departments will attempt to negotiate a repayment plan acceptable to both parties.

3. Repayment may also be made by installment through payroll deduction to cover at least the same number of pay periods in which the overpayment occurred. When overpayments have continued for more than one year, departments may require full payment in one year.

4. Once a repayment plan has been agreed upon, it will be put in writing and signed by the employee. The signature block will include a statement similar to the following:

   "I agree to the repayment schedule described above and acknowledge the gross amount set forth as a legitimate debt owed by me to the state."

5. If the employee does not agree to repay an overpayment or does not respond to the written overpayment notification by the afforded time, departments will collect overpayments in the manner set forth in #3 above.

6. For separating employees, it may not be possible to provide written notification regarding overpayments. Regardless, GC section 19838 authorizes the state to withhold amounts owed for outstanding travel and salary advances from an employee's final separation pay. See SAM section 8580.4.

7. Payroll deduction to repay overpayments will not exceed 25% of the employee's net (gross minus mandatory deductions) monthly or semi-monthly salary, except from separating employees, as provided in #6 above. Mandatory deductions include taxes and garnishment/levy. For a complete listing of mandatory deductions, see the SCO Payroll Procedures Manual.

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8. These employee overpayment collection procedures do not affect procedures for the collection of ORF salary advances in lieu of an SCO warrant when the pay period for the advance and warrant are the same. An ORF advance in lieu of an SCO warrant is the check given to the employee as a substitute for the warrant when the warrant is incorrect or not available.

   If the amount of an employee's SCO pay warrant is greater than the actual amount of pay owed the employee in the corresponding pay period, departments may withhold the employee's pay warrant and issue an ORF check for the difference. For example: if an employee is due less pay due to dock, etc., in the current pay period, and a full month SCO warrant was issued (although not yet distributed to the employee), a department can intercept the pay warrant and issue an ORF check for the difference between the pay warrant and the amount owed.

   The employee should be notified of this offset, but a formal overpayment notification letter is not necessary.

   However, if an ORF advance is from a different pay period than the SCO warrant, the department must follow the procedures outlined above.

9. These collection procedures do not apply to separated employees (see SAM section 8776.6) or collection procedures for Industrial Disability Leave overpayments.

10. Recoupment action must be initiated (written notification of overpayment to the employee) within three years from the date of overpayment in order to collect without the employee's consent, as provided in these procedures.

Collective Bargaining Unit contracts (Memorandums of Understanding) for represented employees may contain overpayment collection provisions. The provisions of these contracts supersede any other collection procedures. Therefore, contracts should be reviewed carefully to identify overpayment collection provisions.