Employee Overpayment Policy

1. Determination and Initial Employee Contact

An employee may be overpaid due to a variety of reasons and the overpayment may be discovered by the employee, department supervisor/manager, finance manager, Human Resources Partner or the Payroll Center. Whoever discovers the error should notify the Payroll center as soon as possible by submitting an Overpayment Payroll Notification that includes the following information:

1. Employee name and Employee ID
2. Pay period(s) in which the employee was overpaid
3. Gross amounts for what was paid and what should have been paid

The employee will be provided a copy of the Notification sent to Payroll as well as a copy of this Overpayment Policy.

The Payroll Center is responsible for the timely correction of the employee's compensation records and will calculate the net amount of the overpayment as well as repayment options. For purposes of this policy, overpayments include wage and salary payments; voluntary and involuntary deductions; accrued leave and benefits.

Uncashed Check: If the overpayment was paid in the form of an actual check and the check can be intercepted before delivery, the check should be forwarded to the Payroll Center for reversal processing. If the overpayment was paid in the form of an actual check that has not been cashed and is in the possession of the employee, a request will be sent to the bank to stop payment on the check and then it will be reversed in payroll. A Special Check Request should be sent to the Payroll Center for the correct payment amount.

Direct Deposit within 5 Days: If the Payroll Center is notified within 5 business days of the pay date, an attempt will be made to retrieve the direct deposit amount from the employee's bank account. If/when successful in retrieving the funds, the Payroll Center will reverse the transaction. A Special Check Request should be sent to Payroll Center for the correct payment amount.

Overpayment Received by Employee: The University of Maine System will actively seek reimbursement of all overpaid wages. The Payroll Center will calculate the net amount overpaid and provide the net amount to the employee and the Human Resources Business Partner via Overpayment Employee Notification and Repayment Options letter. If the employee ceases employment before repaying the full amount, any unpaid balance will be deducted from final paycheck.

Repayment Options:

1. *Gross Overpayment Reduces Future Gross Earnings: Temporary employees, including adjunct faculty agreements who have cancelled contracts, will have future gross earnings adjusted to ensure full payback before the end of the temporary appointment.*

   Net Overpayment Less than 10% of Net Pay: The total overpaid amount will be deducted from the employee's next paycheck if the overpayment does not exceed 10% of the employee's net pay.

2. Net Overpayment Greater than 10% of Net Pay:
   a. Involuntary 10% payroll deduction: Per Maine State Law, a minimum of 10% of the employee's net wages will automatically be deducted from the employee's next paycheck and all subsequent paychecks until such time as the employee agrees to a repayment schedule or the balance is paid in full.
   b. Personal Check payable to the University of Maine System
   c. Payroll Deduction - Full Amount: employee authorizes the University of Maine System to deduct the entire amount due from next paycheck.
d. **Payroll Deduction - Per Pay Period Amount:** Employee elects to have a specific amount deducted from each pay period until the entire amount due is repaid (must be a minimum of 10% of net pay)

**Important Note:** *It is to the employee's advantage to repay the overpayment within the same calendar year.* The net overpayment is less if repaid **in the same tax year.** If the overpayment occurs in one tax year and is not discovered or repaid until the next tax year, additional steps and paperwork are required. *Gross repayments are not required to be paid back by calendar year end.* Negative Gross Earnings repayments can cross calendar years without any further adjustments required.

When making an adjustment for an overpayment that occurred in a previous year, a corrected Form W-2 (W2-C) will be issued to adjust FICA and Medicare taxes only. Corrected W2-Cs are limited to three prior tax years. In compliance with IRS regulations, adjustments to Federal and Maine State taxable gross will not be processed for either current or previous tax years.

**II. Nonpayment & Follow-Up**

If the employee is no longer an active employee and University Payroll does not receive a response to the initial letter, a follow-up letter will be sent via certified mail, return receipt requested, to the employee's home address notifying the employee of the overpayment and giving the employee two weeks to respond to the options for repayment.

If an inactive employee does not respond to the second letter, copies of all correspondence will be forwarded to the University's Collection Agency for their action.

Uncollected amounts (arrears balances) for inactive employees remain in MaineStreet indefinitely. If the inactive employee is later rehired, 10% would be automatically recovered from his/her paycheck(s) until the unpaid balance is paid in full.

**III. Uncollected Overpayments**

For items that have been inactive for 90 days:

1. If every effort has been extended to communicate with the employee and or no response has been received from the employee, then two steps will be taken:
   a. A "HOLD" will be placed on the student account (if applicable) so this will prevent release of academic records until payment is made.
   b. Overpayment amounts of $100 or more will be reported to a collection agency.

**IV. Overpayment Account Review**

The Payroll Specialist reconciles the Overpayment Account on a monthly basis and a report is generated for researching outstanding repayment amounts at year end.

*General Ledger and Account Impacts*
1. When the overpayment is made in the original payroll, it is charged to the GL based on the accounting ID in distribution detail on the date paid.

2. When Payroll receives payment or a repayment plan, the correction process (reversed and adjusted checks) will be done. The overpayment is removed from the department GL account and an arrears amount is placed in the Payroll Overpayments account as of the date of the action.

3. When the full or partial payment is received it reduces the arrears amount in the Payroll Overpayments account.