

OREGON ACCOUNTING MANUAL

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES STATEWIDE POLICY	NUMBER 45.50.00	SUPERSEDES 45.50.00 Dated 6/11/2014
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Division Chief Financial Office	REFERENCE/AUTHORITY ORS 292.024 ORS 292.063 Oregon Laws 2025 Chapter 602	
Policy Owner Office of the State Controller Oregon Statewide Payroll Services (OSPS)		
SUBJECT Payroll – Collection of Overpayment of Wages	APPROVED SIGNATURE <i>Kate Nass, Chief Financial Officer</i> <i>Approval on file</i>	

PURPOSE

This policy provides guidance on accounting, collection and notification requirements related to wage overpayments.

APPLICABILITY

This policy applies to all state agencies that are subject to the Oregon Accounting Manual (OAM), as outlined in [OAM 01.05.00 Introduction: Scope and Applicability](#).

FORMS/EXHIBITS/INSTRUCTIONS

Letter of notice is included on page 5.

DEFINITIONS

Employer agency: The state agency who employs staff in the exempt, unclassified, classified and management service providing personal services to the employer.

Joint payroll account: The account in the State Treasury established by statute for the purpose of funding payroll expenses of agencies whose payrolls are processed by Oregon Statewide Payroll Services (OSPS). Agencies must reimburse this account for those expenses.

Wages: Compensation for performance of service by an employee, whether paid by the employer or another, or paid in cash or any medium other than cash.

Refer to [OAM 65.00.00 Glossary](#) for definitions.

EXCLUSIONS AND SPECIAL SITUATIONS

None

POLICY:

101. By submitting time in the **employer agency's** timekeeping system, an employee attests to the accuracy and truthfulness of the report.
102. For purposes of this policy, an "overpayment" occurs when as an employee receives more gross **wages** than they were entitled. The **employer agency** shall recoup wage overpayments from the employee when allowed under this policy.
103. Overpayment of employee **wages** may occur due to late reporting of leave without pay (LWOP), employee errors, delayed personnel system actions, deduction updates or due to administrative action or administrative error.
 - a. If the overpayment of **wages** is within the scope of the Workday settlement, the **employer agency** is prohibited from collecting any portion of the overpayment from the employee. Agencies shall contact OSPS for guidance if there are questions about whether the wage overpayment is within the scope of the Workday settlement. OSPS shall consult with the Chief Human Resources Office as necessary and develop resources to maintain consistency.
104. After payroll processes are completed, the **employer agency** or its agency payroll provider will run reports to identify any **wage** overpayments based on current time entry data. If an employee updates their time in a way that results in an overpayment, they must notify their supervisor immediately. Similarly, if a supervisor updates an employee's time or is informed by the employee of such a change, the supervisor must immediately notify their agency's payroll office and employee to ensure the requirements of paragraphs 105 and 106 are met.
 - a. If an employee discovers that they have received an overpayment, they shall inform their **employer agency** or its agency payroll provider as soon as possible.
105. Beginning January 1, 2026, **Employer agencies** may not collect an overpayment of **wages** from an employee if the overpayment occurred more than 364 days prior to the notification prescribed in paragraph 106. Collection of overpayments may begin even if the overpayment occurred more than 364 days prior, provided the required notification was made within 364 days of the overpayment.
106. When an employee receives an erroneous overpayment of **wages**, the **employer agency** must ensure the following notice is provided in writing to the employee at least 10 calendar days before making a deduction to recoup the overpayment:
 - a. A statement itemizing the overpayment date and amount, along with the purpose of each deduction;
 - b. A statement that in no event may the total amount of the deduction exceed 5% of the employee's gross **wages** each pay period, unless the employee otherwise requests and specifies that a greater percentage or amount be deducted; and
 - c. A statement informing the employee that, if they are terminated or otherwise separate from the **employer agency**, the employer agency can recoup the balance owed from the employee's final paycheck.

107. An employee that receives a notice mandated by paragraph 106 is not required to respond to the notice. If the **employer agency** or its contracted payroll provider does not receive a response from the employee within 10 days, it shall proceed with recoupment of the overpayment as it outlined in the notice provided to the employee.
108. Unless caused by administrative action or administrative error, overpayments are recovered in one lump sum, except as provided in paragraphs 109 or 110, following.
109. Except as provided in a valid collective bargaining agreement, the employee has the right to make alternate arrangements to return an overpayment in monthly amounts provided that the following conditions apply:
 - a. The amount of the overpayment exceeds 5% of the employee's monthly gross **wages**.
 - b. The employee has submitted accurate time and attendance information for the pay period in which the overpayment occurred; and either:
 - The employee demonstrates that an economic hardship would result for the employee if a lump sum repayment were to occur; or
 - Overpayment occurred through no fault of the employee over two or more pay periods.
110. This policy does not prevent employees from agreeing to immediate repayment paid directly to their **employing agency**, provided the other requirements of this policy are met.
111. If an overpayment is not fully repaid within the tax year that the overpayment occurred, or if the overpayment is "forgiven" and not to be repaid, the **employer agency** will gross up the amount that has not been repaid to ensure that the employee is correctly taxed on the **wages** received during the tax year. Grossing up the unpaid amount will account for the additional wages and employee portion of taxes on the unrecovered portion of the overpayment. OSPS shall provide resources to employer agencies on how to accomplish this. Once the amount is fully repaid by the employee, a corrected W-2 shall be issued to them for any year which a gross up was applied.
 - a. When this occurs on overpayments that are not forgiven, the overpayment is still considered to be uncollected, and the **employer agency** must continue to pursue repayment.
112. The **employer agency** shall record the receivable for the overpayment in their accounting records. Additionally, the employer agency must ensure full repayment to the **joint payroll account** per ORS Chapter 292. Refer to [OAM 45.15.00.PO](#) and [OAM 45.15.00.PR Payroll: Payroll Accounts Reimbursement](#), for the state policy and procedure on repayment to the joint payroll account for payroll and payroll-related disbursements.

PROCEDURES:

113. When an overpayment is discovered, and before funds can be recouped, the **employer agency** shall first determine the following:

- a. Is the cause of the overpayment outside the scope of the Workday settlement? (Refer to paragraph 103a)
- b. Starting after January 1, 2026, has there been less than 364 days between when the overpayment occurred and when the employee would be notified in writing of the overpayment, as required by paragraphs 105 and 106?

If the answer is “no” to either of the questions above, then the funds cannot be recouped from the employee, and the debt is to be forgiven. An **employer agency** can only recoup funds if the answers to both of the questions above is “yes”.

114. The **employer agency** will document the amount of the overpayment and send the employee a letter of notice using the example on page 5 of this policy, or a similar notice developed by the employer agency. The contents of the notice must be in compliance with paragraph 106.

DATE:

TO:

FROM:

SUBJECT: Notice of Action to Recover Overpayment of Wages

Dear [Employee],

On [date] the department overpaid you \$[amount] for the payroll period ending [date] due to [reason]. Below is an itemization of the overpayment amount(s) and purpose of each deduction:

- [Itemized overpayment deduction, including date and amount of overpayment]

The department must collect the overpayment from you. In no event may the total amount of a deduction exceed 5% of your gross wages each pay period, unless you request otherwise and specify a greater percentage be deducted. The simplest way to return the money is to sign the form below which authorizes us to deduct the overpayment from your next paycheck. Once completed, send the signed form to [Payroll Partner], which must be received by [date 10 days after employee is notified]. [Payroll Partner] also can explain other possible options for returning the money.

If you believe this action is in error, please send a written explanation to [Appropriate Person].

If the written acknowledgement of receipt of this notice is not received within 10 calendar days of receipt, we will begin withholding no more than 5% of your monthly gross pay, beginning with your next scheduled pay period on [Next Pay Date].

Please note that if the overpayment is not repaid in full, and within the same tax year that the overpayment occurred, any portion that has not been recovered will be added to your taxable wages for that tax year. If you are terminated, or otherwise separate from employment, the department can recoup the balance owed from your final paycheck.

We apologize for the inconvenience of this situation, but we are here to help you through it. Please contact our office for additional information.

Regards,

[Appropriate Person]

Authorization For Payroll Deduction:

This is my authorization to have the [Agency Name] deduct overpayment in the amount of \$_____ from my next paycheck.

Employee signature¹ _____

Date _____

Note: If you have made arrangements with the payroll manager to repay in installments, please indicate below the amounts and dates the repayment will occur by payroll deductions per your approval.

¹ A digital signature is acceptable.