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COMPTROLLER'S MEMORANDUM 1988-14

TO: Heads of Departments and Agencies

FROM: Russel S. Nagata, Comptroller

SUBJECT: Procedure Change for Payroll Overpayment Collections

This memorandum is to advise all State departments and agencies of a change that is necessary in the procedure for collecting payroll overpayments erroneously made to employees. For background, your staff involved in this matter may wish to refer to our MEMORANDUM NO. 83-4, dated April 1, 1983, which addressed the same procedure.

The change that is currently necessary is confined to the recovery of federal income tax (FIT) and state income tax (SIT) when an overpayment has been made that requires a cash recovery. Under the existing procedure, FIT and SIT are not being recovered from employees who must repay an overpayment; instead, adjustment is made on the employee's Form W-2 for FIT and SIT so that they reflect the amounts which would have been deducted if no overpayment had been made. It has been brought to our attention that the procedure is not correct in that regard, because the FIT and SIT reflected on the employee's Form W-2 should remain as initially deducted from employees and deposited with the taxing jurisdictions (the Internal Revenue Service and the State's Department of Taxation, respectively).

Effective June 1, 1988, all payroll overpayment recovery transactions entered in our central accounting system must reflect no change in FIT and SIT. Under this change in procedure, employing departments and agencies must collect a dollar amount from overpaid employees that includes FIT and SIT, since the withheld taxes already deposited with the taxing jurisdictions will remain as initially deposited.

For example, if an employee who should have received a payment with gross pay of $500 actually received a payment with gross pay of $700, the amount to be recovered from the employee must not be reduced for any adjustment in FIT and SIT. The FIT and SIT will remain as initially deducted. Our MEMORANDUM NO. 83-4 is hereby amended to that extent.

There is no change in procedure with regard to the cancellation of payroll warrants that were not issued to and cashed by the employee, nor does this change apply to direct deposits refunded by the financial institution. This change does apply to all cash-recovery situations in which payroll overpayments must be collected from employees, including cash-recovery from an employee who obtained the overpayment through direct deposit with a financial institution.

This change also applies to adjustments required due to a change in classification of pay. For example, for an employee whose regular pay is subsequently classified partially as workers' compensation, the related FIT and SIT will remain as initially deducted.

For your department or agency, please assure that the information in this memorandum is promptly communicated to the staff involved in payroll matters. Any staff questions may be called to the Central Payroll staff assigned to audit your payroll.

RUSSEL S. NAGATA
Comptroller