



**THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER**

**INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES**

**DIRECTIVE #19: RECOUPLING PAYROLL  
OVERPAYMENTS TO CITY EMPLOYEES**

**INTRODUCTION**

This directive establishes uniform procedures for recouping salary overpayments to City employees. It is issued pursuant to Section 93 (f) and 93 (h) of the New York City Charter, which authorizes the Comptroller to prescribe methods for authorizing and preparing payrolls.

An integral part of each agency's payroll responsibility is to detect, correct and recoup overpayments made to employees. The two major causes of overpayments are delays in termination notifications and leave-without-pay notifications. Procedures vary significantly depending on whether the employee receives a conventional paycheck or is enrolled in the City's Electronic Funds Transfer program.

This Directive is issued pursuant to the authority of the Office of the Comptroller as provided in Chapter 5, Section 93 of the [New York City Charter](#).

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## **1. GENERAL INFORMATION**

### **1.1 Effective Date**

This Directive is effective immediately and supersedes the previous version.

### **1.2 Assistance**

Questions or comments concerning this Directive should be addressed via

[Technical and Professional Standards Unit Email](#)

(directives@comptroller.nyc.gov); by telephone at: (212) 669-3675; or by mail to:  
The Office of the Comptroller, Attention: Technical & Professional Standards Unit,  
Bureau of Accountancy, David N. Dinkins Municipal Building, One Centre Street,  
Room 200 South, New York, NY 10007.

### **1.3 Comptroller's Internal Control and Accountability Directives**

An inventory of existing [Comptroller's Internal Control and Accountability Directives](#) is available on the [Comptroller's Website](#).

## **2. DEFINITIONS**

Definitions of key terms used in this Directive are provided here:

- An “Automated Clearing House” (ACH) exchanges electronic credits and debits. The “New York Automated Clearing House” (NYACH) handles the City's Direct Deposit transactions.
- A “Completed Transaction” occurs when funds are credited to an employee's account through direct payroll deposit or when a check is presented to an employee.
- The “Current Agency” is the agency for which the employee currently works. The Current Agency is usually the same as the Issuing Agency.
- “Direct Deposit” occurs when an employee's net pay is sent electronically to the employee's checking or savings account. A physical check is not generated.
- “Electronic Funds Transfer” (EFT) is a procedure that electronically debits or credits funds from one bank account to another.
- The EFT “Issuance File” is the computer file detailing the City's electronic payroll transactions. It is transmitted to the ODFI.
- “Exception Paid” employees receive regular recurring pay. Only exception events trigger a change in pay.
- The “Issuing Agency” is the agency that administers the employee's payroll records at the time a direct payroll deposit is made.
- The “Originator” is the party whose account is debited to make payroll payments. The Originator is the City of New York.
- An “Originating Depository Financial Institution” (ODFI) creates electronic

entries through the ACH. The bank that contracts with the City to process EFTs is the City's ODFI.

- The “Payroll Management System” (PMS) is the City's computerized payroll system, administered by the New York City Office of Payroll Administration (OPA).
- “Positive Paid” employees are hourly employees who receive compensation based on their Employee Time Report.
- The “Receivers” are the City's employees whose bank accounts are credited when payments are received electronically through the ACH from the City.
- The “Receiving Depository Financial Institution” (RDFI) is the bank the City's employee designates to receive pay electronically.
- “Recoupment Procedures” are methods to recover payroll overpayments to City employees.
- A “Return” occurs when an RDFI is unable to finalize a transfer. The ODFI will send a Return file to the New York City Financial Information Services Agency (FISA) listing the reason for the Return.
- A “Reversal” occurs after the EFT Issuance File has been sent to the ODFI. It will debit the employee's account. If this occurs after the employee's account is credited on payday Friday, it will result in a debit and a credit appearing on the employee's bank statement for that day. It may also occur on any day after the funds have been deposited in the employee's account provided there are sufficient funds in the account. A corresponding credit is made to the City's account.
- A “Stop” cancels a transaction before the EFT Issuance File is sent by FISA to the ODFI.

### **3. RECOUPMENT RESPONSIBILITY AFTER EMPLOYEES TRANSFER**

Although the authority to hire employees rests with individual agencies, the City of New York is the ultimate, legal employer and the dispenser of wages and salaries. If an agency becomes aware of an overpayment after an employee has transferred between agencies, the Current Agency should initiate Recoupment Procedures at the request of the employee's previous agency – that is, the Issuing Agency.

### **4. PAYROLL PROCESS**

There are two primary methods by which employees can be paid: check and direct EFT deposit. Because of the speed at which direct EFT deposits occur, efficient, timely payroll procedures are especially important. The following section provides an overview of the types of payroll transactions.

#### **4.1 Overview**

An employee time record (ETR) must be submitted every week for all employees. Most employees receive regular recurring pay and only exception events trigger a change in that pay. If no action is taken, a regular paycheck or EFT will be generated for the exception-paid employee.

However, about 20 percent of City employees are Positive Paid; that is, they are paid only for their actual hours worked. For these employees, an ETR for the hours worked must be made weekly even if there are no exception events.

Local agency personnel are responsible for the review and submission of ETRs. They can do this either by entering data directly on-line or by preparing ETRs that are entered into PMS at FISA.

The payroll for both Exception Paid and Positive Paid employees is calculated on the Friday before pay week. Each agency must review its payroll register for accuracy on the Monday and Tuesday of pay week. If an error is found, the agency must take action to ensure that overpayments are not made. This usually involves canceling the check or Stopping the EFT. Additionally, a Request for Supplemental Payroll must be filed if the employee whose pay is stopped is due a paycheck for that period.

Under the physical check system, the checks are calculated, printed and delivered to OPA for signing. Checks are then distributed to agencies by the Thursday of pay week and distributed to employees on Friday. If an incorrect check is generated and delivered to the agency, the agency must remove this check from the payroll and not distribute it to the employee.

Under the EFT Direct Deposit system the payroll is calculated the Friday before pay week. Upon OPA's approval, FISA transmits the EFT transmission file to the ODFI at 8:00 p.m. on the Tuesday of pay week. The agency has until 5:00 p.m. on Tuesday to implement a Stop. After the 5:00 p.m. on Tuesday, the agency may process a Reversal. When a Stop is performed the funds will not be available to the employee on payday. However, a Reversal may not reach the RDFI until after the pay has been credited to the employee's account.

If no corrections are made to an employee's ETR, his or her pay is distributed by paycheck or through an EFT so as to be available Friday morning of pay week.

#### **4.2 Supplemental Payroll**

Each agency is responsible for ensuring that its employees are paid, whether by physical check or EFT Direct Deposit. If the employee's normal pay has been omitted from the regular payroll, the agency is responsible for ensuring that a paycheck is available for the employee on Friday of pay week. Until 5:00 p.m. on Wednesday of pay week agencies can submit a *Request for Supplemental Payroll*.

When an employee is paid through the supplemental payroll they receive a physical check on payday Friday regardless of whether they are normally paid with a physical check or an EFT Direct Deposit.

An agency must have effective coordination and communication between its payroll, personnel and timekeeping groups to ensure that the supplemental payroll is properly prepared. Please review OPA's Training Module 1, *Request for Supplemental Payroll One Time Payments* for further instructions.

## **5. OVERPAYMENT – TRANSACTION NOT COMPLETED**

Special procedures are required when an overpayment is discovered before a paycheck is distributed or before data is entered into the ACH system (8:00 p.m. Tuesday of pay week).

Note: It is the agency's responsibility to ensure that each employee receives some compensation on payday. For information on providing an employee with a supplemental paycheck, see *Section 4.2*.

### **5.1 Check Payments**

If an employee's paycheck is found to exceed the amount due before 5:00 p.m. on the Wednesday before payday and in exceptional other cases, the agency should follow these procedures:

1. Prepare a Check Refund Form to cancel the full amount of the check.
2. Stamp the check 'Void' and attach it to the white copy of the check refund form. Do not deposit the original check.
3. Hand deliver the paychecks to OPA's Refunds Unit within five calendar days from the date of the overpayment. Include both the photocopies and the originals of the check refund forms. The OPA clerk will verify the number of checks received, date stamp the photocopy and return it to the agency's messenger. This date-stamped photocopy is the agency's only valid receipt, and agency messengers are strongly advised not to leave OPA without it. OPA will not be responsible for lost, stolen, cashed or otherwise unaccounted for checks unless this date-stamped photocopy is presented.
4. Verify the PMS' Pay Cycle Payroll Refund Report and All Pending Pay Details Report to double check that PMS accepted the refund and that the refund process was completed.

## **5.2 EFT Direct Deposits**

If the overpayment is detected before 5:00 p.m. on the Tuesday of pay week, that is, up to three hours before the EFT Transmission File is forwarded to the ODFI at 8:00 p.m., agency personnel should enter a Stop directly into PMS through use of the EFT Disposition Business Event Screen. Please review the Payroll Management System B Procedures, Section B11, *Electronic Funds Transfer - Net Pay* for further instructions on processing a Stop.

## **6. RECOUPMENT NOTIFICATION**

When Completed Transactions result in an overpayment to an employee, either by paycheck or EFT, the Issuing Agency must notify that employee of its intention to recoup the overpayment.

Issuing agencies must follow these general guidelines for notifying overpaid employees:

1. Inform the overpaid employee in writing of the overpayment and the action the agency plans to take to recoup the overpayment.
2. Document fully the alleged overpayment. This documentation must incorporate all pertinent payroll, personnel and computer information for the pay period in question. It includes:
  - Canceled checks for those employees receiving paychecks;
  - Payroll registers;
  - ETRs;
  - Any other records or memoranda relevant to the overpayment; and
  - Any other documentation required by any labor agreement covering the employee.
3. Permit employee review of the documentation. The Issuing Agency must gather all the documentation together and make it available to the employee during normal business hours. The employee may request photocopies of any or all of the documentation.
4. Check the employee's labor agreement to determine if there is a designated response time or limit on the amount which may be recouped each period. If the employee is not covered by a labor agreement or if the labor agreement is mute on the subject, the agency should grant the employee a minimum of seven days to respond.
5. Notify the Law Department if the employee disputes the overpayment. The documentation should be presented to the Law Department for its determination of whether or not the recoupment is justified. If the Law Department decides the recoupment is justified, the agency shall proceed with the recoupment action. If

the Law Department determines the recoupment is not justified, the employee shall be notified of this decision and the Recoupment Procedures shall be stopped.

6. Proceed with the recoupment if the employee does not dispute the overpayment.

## **7. RECOUPMENT PROCEDURES**

Recoupment procedures depend on whether the overpayment was by paycheck or EFT Direct Deposit. All procedures listed below are the obligation of the Issuing Agency unless otherwise noted.

### ***7.1 Recoupment Methods Applicable to Paychecks***

- 7.1.1 Payroll Adjustments to Current City Employees for Overpayments of \$1,000 or Less

#### **Employee Remains in Issuing and Recouping Agency**

When completed overpayments amount to \$1,000 or less, the Issuing Agency should follow these procedures:

- Use the one-time payment form to make deductions from subsequent paychecks. Use pay code 0500 and write a minus sign (-) followed by the dollar amount to be deducted in the space called "pay amount field."
- Repeat this procedure for each pay period requiring a deduction. The repayment schedule must conform either to the contractual requirements in Article IX, Section 8, of the current *[Citywide Agreement](#)* or the stipulations of the contract covering the employee.

#### **Employee Transfers between Agencies**

The preferred practice is to review and make the appropriate adjustments to the payroll records of employees who transfer out of an agency, before the employee's transfer. If an overpayment is discovered, the agency can adjust the employee's final agency paycheck through PMS.

However, if in spite of the agency's best efforts, an overpayment is discovered after an employee has transferred between agencies, the payroll department of the Issuing Agency must notify the payroll department of the employee's Current Agency that an overpayment has been made. The Current Agency then must:

- Make the appropriate deductions following the procedures in 7.1.1.1 above.
- Complete FISA's transfer of Payroll Charges Form to debit its own account by the amount of the overpayment and to credit the issuing

agency's account with the same amount. The form must then be forwarded to: Office of the New York City Comptroller, Bureau of Accountancy/Journal Entry Unit, David N. Dinkins Municipal Building, One Centre Street, Room 200 South, New York, NY 10007.

The Journal Entry Unit will process the entry into the City's Financial Management System (FMS).

#### 7.1.2 Personal Reimbursement - Terminated Employees and/or for Overpayments of \$1,000 or more

The preferred practice is to review and make the appropriate adjustments to the payroll records of terminated employees before the employee's separation in order to prevent possible overpayment. If an overpayment is discovered before separation, PMS allows the agency to adjust the employee's final agency paycheck.

While not preferred, in extraordinary situations the Issuing Agency can accept a personal check or money order from the overpaid employee for the amount due. Such reimbursements should only be considered (1) when the overpayment to regular or transferred employees exceeds \$1,000, or (2) when the employee is terminated.

#### **Personal Checks Submitted**

The Issuing Agency must compute the net amount of the overpayment to the employee and the amount of any overpayment of taxes and other payroll deductions so that they can be corrected in PMS. Upon receipt of the personal check or money order, made payable to the Commissioner of Finance, the Issuing Agency must:

- Complete payroll deduction form A-227, entering all appropriate overwithheld amounts such as FICA, federal, state and City taxes.
- Indicate the calendar year to which the year-to-date adjustments apply in form A-227's upper right hand corner.
- Forward the check along with form A-227 to the Refunds Unit of the OPA.
- Complete a journal entry once the deposit is credited to move the funds from the 095 account to the appropriate code and line of the Issuing Agency. The journal entry must be forwarded to: Office of the New York City Comptroller, Bureau of Accountancy/Revenue Monitoring Unit, David N. Dinkins Municipal Building, One Centre Street, Room 200 South, New York, NY 10007.

## **Refund Refused, or Notice Undeliverable**

When a terminated employee cannot be contacted or refuses to refund a documented overpayment, even after formal notice, the Issuing Agency must:

- Refer the case to the Law Department's Affirmative Litigation Division. The Law Department will then decide, on a case-by-case basis, whether legal recourse is warranted.
- Follow up outstanding cases until the Law Department is satisfied with the resolution and so notifies the Issuing Agency.

### **7.2 Recoupment Methods Applicable to Completed Direct Deposits - Reversals**

After 5:00 p.m. on Tuesday of pay week, agencies may process Reversals, which electronically debit the employee's bank account after the employee's pay has been deposited into the account and thus has been available to the employee. It is therefore important that Reversals be processed immediately after overpayments are found to ensure that the City can recoup the overpayment before the employee has withdrawn the money from the account.

The agency can send authorized Reversals to OPA by FAX, email or messenger using OPA's *Net Pay Reversal Request/Authorization Form*. Please review the Payroll Management System B Procedures, Section B11, *Electronic Funds Transfer - Net Pay* for further instructions on processing a Stop.

If the Reversal is not successful, OPA will determine whether to attempt the Reversal again or whether to notify the agency to use another non-EFT recoupment method as described in Section 7.1.

The Issuing Agency must notify the employee of its intention to process a Reversal and should consider the following two points:

- The Issuing Agency is responsible for ensuring that the employee is paid. If a paycheck is due, the Issuing Agency will have to prepare a supplemental paycheck. See procedures listed in 4.2 above.
- A Reversal will lead to the suspension of direct EFT deposits for at least one additional pay period with the employee receiving a paycheck instead. The employee will continue to be paid by paycheck until the Issuing Agency requests in writing the employee's reinstatement into the EFT program.

## **8. NOTIFICATION OF PMS/OPA**

The sources of all overpayment errors must be identified and the errors must be rectified by entering the correct information into PMS. Corrections must be authorized and signed by a payroll supervisor before they are entered into PMS. For further information on correction procedures consult OPA's Training Module 1, *New Appointment*.

## **9. TERMINATION/LEAVE-WITHOUT-PAY NOTIFICATION**

**Special Notice:** When an employee goes on leave without pay or gives or receives notice of termination, the unit for which the employee works must inform its agency's payroll division immediately and in writing of the effective date of the employee's leave or termination.

The payroll division should fill out an Employee Update Form and immediately notify PMS of the employee's pending change of status. Refer to OPA's Training Module 1, *New Appointment*, for further instructions on processing leave status changes.

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