

ISSUE PROFILE: OVERPAYMENTS OF SALARY TO CITY EMPLOYEES

IN BRIEF

In February 1996, the State of Hawaii announced that it had \$1.9 million in unrecovered salary overpayments for sick and vacation leave that certain workers took but had not earned. These overpayments reportedly occurred because State departments were not diligent in keeping track of their employees' available leave balances. Such diligence is essential because in State government, as with the City, payroll is processed before employees work the full pay period. The 1996 Legislature enacted Act 80 to gradually shift State employees to a new system whereby they must work for the full pay period before getting paid.

In light of the salary overpayments experienced by the State, this issue profile examines the magnitude of salary overpayments in the City's payroll system.

Results

Our study found that the City has been able to recover a high proportion of reported salary overpayments. The Department of Finance reported that in fiscal year 1994-95 City employees were overpaid \$86,279, of which \$75,143 or 87 percent had been recovered and returned to the City. However, the overpayments reported by the Department of Finance do not include all salary overpayments. Salary overpayments which are corrected by adjustments to the subsequent paychecks of employees who have been overpaid are not included in the \$86,279. Also, of the \$86,279 of reported overpayments, the amount due to unearned vacation and sick leave cannot be identified. Our study found that in the process of collecting overpayments made to employees, the Department is not complying with State law nor with its own policy regarding withholdings from employees' salary for indebtedness to the government.

Moreover, in the *City and County of Honolulu Operating Plan, Fiscal Year 1996*, the Department of Finance listed as one of its goals the conversion of the City's payroll to a system whereby employees work the full pay period before getting paid. We believe more information on the magnitude and causes of salary overpayment needs to be collected if the City is to make an informed decision on converting its payroll system, especially in view of the hardship employees may experience from such a conversion.