



**ADP, Inc.**

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February 7, 2022

James McConnell  
Director, Division of Banking & Securities  
Alaska Department of Commerce, Community, and Economic Development  
550 W. 7th Ave. Suite 1850  
Anchorage, AK 99501-3569

Re: Applicability of Money Transmitter Licensing to Payroll Services

Dear Mr. McConnell:

Last year, we invited a discussion of money transmitter licensing laws and their applicability to the payroll services industry. Thank you for your written response of September 9<sup>th</sup>. We understand and appreciate your suggestion that any dialog be directed to CSBS. We have followed the CSBS multi-state initiative to establish a model law and did not intend to circumvent the process. Thank you for your suggestion to seek out a relevant industry/licensing/examination group that CSBS would sponsor. We may seek an opportunity to collaborate with the Industry Advisory Council of the Money Transmitter Regulators Association.

We interpret from your response that the Department concurs that payroll service providers should be licensed. Such oversight appears to be warranted. As noted, in recent years there were cases in which payroll providers have misappropriated funds that clients have entrusted to them to process payroll and tax withholdings. (A synopsis of two recent incidents is attached.) Licensing could prevent financial harm to employers who rely on such firms, and to the state itself.

We understand that resources may not be available to actively enforce the law; for example, by seeking out payroll firms that are unlicensed. Because registration is administered through the NMLS, it is not apparent how many payroll service providers or Money Transmitters are currently registered in Alaska. Based on the number of active registrants in Maine, the only state to comprehensively regulate the payroll industry under criteria substantially similar to Alaska's law, Alaska may proportionately have as many as 200 potential payroll company licensees.

It may be helpful to clarify publicly, such as on the agency's website, that payroll service organizations that take possession of client funds are required to be licensed. Generally, if a payroll firm or client were to review the Department's website, some might conclude that payroll service providers are not subject to licensing. You may also want to ask the Department of Labor to include a helpful reminder in their employer newsletters, such as:

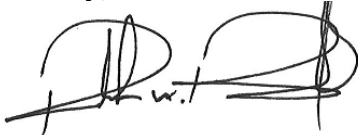
*"Be sure to ask your payroll provider if they're licensed as a money transmitter in the state. It's the law. It's for your protection."*

Beyond that, to better understand the number of potential payroll service registrants in the state, it may be informative to simply search online for payroll services in the area, and to check a representative sample to determine whether they are licensed. If not licensed, the Department could inquire how the firm handles client funds.

We remain interested in hearing your views and offering additional background information if it would be helpful. Thank you.

Sincerely,

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Barnett", with a stylized flourish at the end.

Rob Barnett  
VP-Assistant General Counsel, Compliance  
ADP, Inc.  
[robert.barnett@adp.com](mailto:robert.barnett@adp.com)

cc: Mr. Will Parker, General Counsel, Office of the Governor

## **Recent Payroll Industry Failures: IOI Payroll and MyPayrollHR - July-September 2019**

### **1. Interlogic Outsourcing or IOI Payroll**

In July of 2019, the CEO of Indiana-based payroll processor Interlogic Outsourcing Inc. (AKA IOI Payroll) issued a series of checks totaling approximately \$250 million that were stopped due to insufficient funds. Overdrafts had reportedly been accumulating for years but had been hidden by carefully timed account transfers. The ultimate shortfall was approximately \$120 million. Affected clients of IOI Payroll had to pay payroll taxes a second time, since the firm had in some cases failed to pay taxes collected from some clients. IOI Payroll reportedly had 5,500 clients.

IOI Payroll filed for bankruptcy in August 2019 due to charges of wire fraud and civil lawsuits. In April 2021, the Indiana legislature enacted Senate Bill 234, P.L. 97-2021, to require registration and limited oversight of payroll firms

### **2. MyPayrollHR**

On September 5, 2019, the payroll processing company MyPayrollHR of Clifton Park, NY, ceased operations abruptly, resulting in losses of roughly \$100 million and affecting some 4,000 businesses that were clients of the company.

- Complicating the impact of the failure, a third-party bank processor hired by MyPayrollHR to initiate direct deposits improperly reversed employees' direct deposits of wages in an effort to recover losses.
- The bank processor faced legal action and fines for this improper reversal, but workers nationwide reported having their paychecks withdrawn and bank accounts overdrawn as a result. The processor filed for Chapter 11 bankruptcy on January 21, 2020.

In August 2021, the CEO of MyPayrollHR was sentenced to at 12 years imprisonment and restitution for what was estimated to be a \$100 million bank fraud scheme.

### **General Note**

If a payroll firm fails, employers remain liable for payment of wages, taxes and other amounts collected but not remitted by their payroll processor. Such incidents normally do not inconvenience workers/consumers. The MyPayrollHR reversal of direct deposits was a unique occurrence.

Failures in the industry are rare but impactful. Employers affected by such incidents may have to pay payroll taxes twice if their payroll processor fails to pay taxes collected from such businesses. Payroll firms are subject to regulation by the IRS; e.g., via Revenue Procedure 2012-32 and related regulations.



May 5, 2025

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House Finance Committee  
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**Re: HB 99 and Applicability of Money Transmitter Licensing to Payroll Services**

Dear Chair Foster,

I am writing on behalf of ADP regarding HB 99. ADP is the nation's largest provider of human capital management solutions supporting, among other things, HR, payroll, and benefits administration. ADP is uniquely positioned to understand the importance of regulating payroll service providers providing money transmitter services. ADP has engaged with the State of Alaska several times in recent years to highlight the importance of responsible regulations for payroll service providers as money transmitters. A copy of our 2022 letter to the Alaska Department of Commerce, Community, and Economic Development discussing the risks of not licensing payroll service providers is attached.

Similar to ADP's prior advocacy in support of adoption of money transmitter regulations for payroll service providers, we are advocating once again that payroll service providers be subject to oversight and responsible regulations as money transmitters. Exempting payroll service providers creates unnecessary risks for consumers, as evidenced by prior significant instances of fraud in the industry.

As written, HB 99<sup>1</sup> will exempt payroll processing services from regulation as money transmitters, which, as explained further below, will create unnecessary risks for employers and their employees in Alaska. In addition, through passage of HB 99 as currently drafted, payroll service providers would become the only subset of money transmitters exempted from money transmitter regulations – there simply is no rationale for this unwarranted exemption. Adoption of this legislation would place the interests of a small set of service providers (who are in need of responsible and reasonable oversight) ahead of the interests of the Alaska business community and their employees who are served by the payroll industry.

**How HB 99 could increase fraud risk**

By excluding payroll processing services from regulation as money transmitters, HB 99 creates

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<sup>1</sup> HB 99 is based on the Money Transmitter Model Law (MTML) issued by the Conference of State Bank Supervisors (CSBS). The Money Transmitter Model Law "aims to replace 50 sets of state-specific money transmitter laws and rules with one single set of nationwide standards and requirements created by state and industry experts." CSBS, "CSBS Releases Model for the Future of Payments Regulation," Sept. 9, 2021. Available at <https://www.csbs.org/newsroom/csbs-releases-model-future-payments-regulation>.

unnecessary and meaningful fraud and consumer protection risk. Payroll companies handle large volumes of funds—wages, taxes, and benefits—on behalf of businesses. Without appropriate and responsible oversight, the risks for mismanagement or misuse of these funds increase which can result in significant financial losses for small businesses and employees alike. To our knowledge, a subset of payroll service providers represents the only group covered by HB 99 seeking an exemption from this sensible regulatory oversight and framework despite the fact that the MTML applies broadly to all transmitters – this seems notable to us. There is no comparable carveout in the statute for any other type of money transmitter, nor is there a clear rationale for treating payroll providers differently. If anything, the trust that small businesses place in their payroll providers should demand greater regulatory scrutiny, not less.

There have been notable cases where payroll providers misused client funds, causing their clients (the businesses responsible for paying the monies) to disburse payroll and benefits funds twice and employees to have their direct deposit paychecks reversed and bank accounts overdrawn. This can devastate small businesses that lack extra cash to cover unexpected costs as well as employees who do not timely receive much needed pay and benefits. Active regulatory oversight helps prevent fraud and protects employers and employees. Recent examples of significant fraud cases throughout the US resulted in hundreds of millions of dollars of losses to small businesses that trusted and relied on payroll service providers to handle their funds and remit payments for payroll, tax and other obligations. See **Annex I** attached to this testimony for examples of payroll service provider fraud cases.

Payroll service provider fraud and misconduct has a devastating impact on small businesses, since employers remain responsible for paying those taxes to the relevant federal, state or local tax authorities. The MTML includes many substantive protections that can help prevent this type of financial harm to employers, including the many small businesses who rely on such firms, and to the state itself. Credit checks and criminal background checks required as part of the MTML licensing process can identify individuals who present a heightened risk of fraud, and the MTML requirements to maintain specified net worth and liquidity ensure that licensees can cover their financial obligations. The MTML also provides regulators with authority to conduct examinations of licensees, which can prevent or minimize financial losses.

### **Why regulation is necessary**

The need for clear, consistent regulatory standards to prevent fraud is well-documented (as detailed above). That is why ADP previously advocated for the Alaska Department of Commerce, Community and Economic Development to support the full Money Transmitter Model Law.

HB 99 includes payroll processing services within the definition of “money transmission,” a provision that will protect Alaska businesses and enable proper and effective oversight and accountability for payroll providers. Money transmitters are companies that receive, hold, and/or send money for customers. Payroll firms that handle client funds clearly fall within this definition. While payroll providers are authorized by the Internal Revenue Service (IRS) to submit payroll taxes, this authorization does not include oversight, regulation, or enforcement of those payments. State oversight, as provided under the MTMA, helps prevent financial harm to small businesses who rely on payroll providers (as IRS Reporting Agents) to, among other things, make required tax deposits and tax information filings to federal and state and local governments.

To the extent there is a need to adjust licensing requirements to address the needs of small payroll providers, we believe those issues can be better addressed using the existing regulatory authority in HB 99, rather than providing a blanket exemption to all payroll providers, regardless of size or circumstances.

**Conclusion**

ADP encourages coverage for payroll processing services be kept intact. We are not aware of the basis for the proposed statutory exemption, and ADP does not support such exemption. ADP's money movement activities are overseen by the federal Office of the Comptroller of the Currency,<sup>2</sup> and based on our experience with such regulatory oversight and understanding of the industry, we are supportive of the MTML coverage of payroll processing services and oppose any attempts to exempt them from oversight as a money transmitter.

For these reasons, we respectfully urge the committee to oppose AB 430. Thank you for your commitment to protecting Alaska's businesses and for your attention to this important matter.

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<sup>2</sup> <https://www OCC.gov/topics/charters-and-licensing/interpretations-and-actions/2020/int1167.pdf>.

## **Annex I: Payroll Service Provider Fraud Cases**

### **Florida**

- “Payroll Services Company Owner Sentenced to Prison” – April 2025: <https://www.justice.gov/opa/pr/payroll-services-company-owner-sentenced-prison>

### **Maryland**

- “Payroll Service Company Owners Sentenced to Prison for Stealing Money Set Aside by Clients to Pay Federal and State Taxes” – May 2016: <https://www.justice.gov/usao-md/pr/payroll-service-company-owners-sentenced-prison-stealing-money-set-aside-clients-pay>

### **Minnesota**

- “Tower Woman Sentenced to Prison for Embezzling Over \$300K From Clients” – February 2025: <https://www.justice.gov/usao-mn/pr/tower-woman-sentenced-prison-embezzling-over-300k-clients>

### **New York**

- “ValueWise CEO Michael Mann Sentenced to 144 Months in Prison for \$100 Million Fraud” – August 2021: <https://www.justice.gov/usao-ndny/pr/valuedwise-ceo-michael-mann-sentenced-144-months-prison-100-million-fraud>

### **Ohio/Indiana**

- “Michigan Man Sentenced to Prison for Check-Kiting Scheme that Caused Loss of Nearly \$150 Million” – November 2023: <https://www.justice.gov/usao-ndoh/pr/michigan-man-sentenced-prison-check-kiting-scheme-caused-loss-nearly-150-million>

### **Virginia**

- “Owner of Blue Ridge Bookkeeping Sentenced for Wire and Tax Fraud” – July 2024: <https://www.justice.gov/usao-wdva/pr/owner-blue-ridge-bookkeeping-sentenced-wire-and-tax-fraud>
- “Federal jury convicts New York man for defrauding restaurant employees and COVID-19 relief program” – March 2024: <https://www.justice.gov/usao-edva/pr/federal-jury-convicts-new-york-man-defrauding-restaurant-employees-and-covid-19-relief>