

**OFFICE OF STATE FINANCE
DCAR NEWSLETTER**

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Lapsed Funds

Agencies are required to complete all transactions related to fiscal appropriations for FY10 funding lines by the expiration/lapse date of November 15, 2010. Although the funds are still valid and available through November 15th, due to the holidays, we are recommending that agencies complete all transactions related to the lapsing funds, including budget revisions, no later than November 10th.

The following steps should be started this month to ensure completion before the lapse date:

1. Run the LAPSED FUNDS REPORT – APPROPRIATED FUNDS. The navigation is:
General Ledger > General Reports > Lapse Fund Adv Notice – Approp
2. Reconcile Requisition and PO balances to zero or positive amounts
3. Process any necessary Change Orders
4. Process any necessary Expenditure Corrections
5. Process final payments for goods and services encumbered on FY10 funds
6. Finalize Voucher, Requisition and PO funding lines as appropriate
7. Process Budget Revisions and Carryover Budgets through OSF Budget Division

The LAPSED FUNDS REPORT APPROPRIATED FUNDS report shows all appropriated funding lines which will lapse within the next 60 days. It should be run sometime after September 15th initially and can be run several times to review progress. The report must be run prior to the lapsing date. If any lines have negative Encumbrances or Pre-Encumbrances on this report, these amounts need to be resolved. If you are unable to resolve the differences, submit a case to the OSF Helpdesk. Be sure to specify the particular funding lines with negative balances. Please run this report and begin working on it as soon as possible after September 15th as it could take some time to resolve any cases.

Elimination of Advanced Earned Income Credit

Beginning Jan. 1, 2011 - there will be no more advance payment of the earned income tax credit (EIC). Employees will no longer be able to have this credit on their payroll and employers can no longer accept the IRS Form W-5, Earned Income Credit Advance Payment Certificate, from the employee. Affected employees may want to change their W-4 paperwork. Please inform your employees of this change and encourage them to seek advice from their tax consultants.

State Agency PeopleSoft HCM System FICA Status Selection

When setting up newly hired employees in the HCM system on Job Data, please be very careful with the FICA Status selected. Most employees will be 'Subject' to FICA taxes. There are few exceptions to this rule. If an incorrect status is selected, the employee will not have the required taxes withheld on each paycheck. When the error is discovered, the employee may be required to pay a significant amount for the taxes that should have been withheld. The agency also will be responsible for the employer's share of FICA taxes and any resulting penalties and interest.

For rehired employees, the FICA Status and all other employee information must be thoroughly reviewed by the agency to ensure the setup is correct as well.

For questions regarding the FICA Status of employees, please contact Lisa Raihl at (405) 521-3258, lisa.raihl@osf.ok.gov or Jean Hayes at (405) 522-6300 or jean.hayes@osf.ok.gov.

HB2363 Voluntary Buyout Reimbursement Claims

When submitting OSF Form 2363C, VOBO Claim Document for reimbursement of eligible buyout expenditures agencies should explain any differences between the original application and the claim form amount. This will aid in the time required to complete the verification and process payment to the agency.

HIRE Act Processing for Institutions of Higher Education

For the higher education institutions whose payroll programming was not changed to accommodate the HIRE Act provisions and the new FICA code, all claims for reimbursement of the employer's share of FICA tax must be submitted to OSF no later than the institution's last working day of the calendar year. For reporting purposed, claims for reimbursement should be submitted to OSF on a monthly basis at a minimum. For additional information regarding the HIRE Act, please contact Lisa Raihl at (405) 521-3258, lisa.raihl@osf.ok.gov or Jean Hayes at (405) 522-6300 or jean.hayes@osf.ok.gov.

Employee Overpayments Collected After Year End

Employee overpayments that are collected in the next calendar year are to be repaid at the gross overpayment amount in accordance with Internal Revenue Service regulations. If an employee owes the agency for a current year overpayment, please be certain to let the employee know if the amount is not paid in full by December 31, 2010, the remaining amount they owe will increase to the gross amount.

For example, John Deere was overpaid in September by \$1,000.00 regular wages. This was discovered in October and the agency calculated what the correct payroll should have been. The net check difference is \$743.50, this is the amount the employee owes the agency if paying back by personal check or miscellaneous deduction in the current year. If the employee does not pay this net amount back by December 31, 2010, the employee owes the agency the full \$1,000.00 gross overpayment.

The applicable W-2, Corrected W-2, or W-2C will only reflect a change in the Social Security and Medicare wages and taxes. Since the employee received and had use of the funds during the year of overpayment, the amount is still taxable for federal and state purposes. The W-2 form will not reduce Federal or State taxable wages or income taxes. The employee may be entitled to either a deduction or credit on his current year Form 1040. Please advise him to speak to his tax accountant. With the calendar year end only a few months away, this is most important and must be conveyed to the employees who owe any wages back to the agency.

Taxability of Gift Cards, Certificates, and Coupons

Giving gifts to employees is restricted and should only be given as part of a formal employee recognition program. See Oklahoma Statutes, Title 74, Sections 4121 and 4122. However, any gift

cards, certificates, and coupons given to employees are to be included in the employee's taxable income. They are considered by the Internal Revenue Service to be cash or a cash equivalent and do not meet the requirements to be excludable as a de minimis fringe benefit. Even when an employer provides gift cards, certificates, or coupons to purchase a turkey, ham, or other nominal value property, these are considered wages and are subject to income and employment taxes. This is true even when the card restricts the items purchased, the time to use the coupon, and any unused portion is forfeited. Cash equivalents do not meet the de minimis fringe benefit requirements.

PeopleSoft Agencies: Process the gift card amount using the TRC Code of "GIFT", which will show as earnings code "GFT". The amount will be included as taxable income and will be taxed on the paycheck.

PACS (legacy system) Agencies: Process the gift card amount as an additional amount subject to FICA using Trailer Code "105". The amount will be included as taxable income and will be taxed on the paycheck as other additional FICA amounts are taxed.

Deadlines for Payrolls

OSF policy requires that all payroll transactions and paperwork be filed with OSF FIVE (5) DAYS prior to the actual pay date to ensure adequate time for audit and processing. With those dates in mind agency staff should plan their work accordingly for the deadlines.

Payrolls received after this deadline are disruptive to the normal process schedules and puts a great burden on all parties involved. Additionally, agencies are taking a risk when processing payrolls so late. If the payroll has edit checking errors, budget issues, or other problems this compounds the work that must be done to ensure employees get paid on time.

REMINDER: ARRA Funded Payrolls for Higher Education

As a reminder, institutions are instructed to send in payrolls by the OSF deadline for payrolls which is FIVE (5) DAYS prior to the actual pay date. This is extremely critical for any payrolls funded with ARRA money. When using ARRA funds for a payroll, additional processing is necessary.

Institutions must send a numbered request for funds (draw) to OSRHE, the same day payroll is transmitted to OSF or earlier. DCAR cannot release the payrolls until approved requests are received from OSRHE. To ensure payrolls are processed for payment and included on the drawdown list, these deadlines must be met.

W-2 Reporting of Cost of Employer-Provided Health Coverage

Sec. 9002 of The Patient Protection and Affordable Care Act (HR3590) requires employers to report the total cost of employer-provided health coverage on employee Form W-2, effective for tax years beginning after 2010. The cost of the health insurance will be reportable on the W-2 in Box 12 for 2011, filed in 2012. This new requirement does NOT add the amount into the taxable wages.

Late Payment To Vendors - New Interest Rate FY 2011

The Fiscal Year 2011 interest rate applicable to late payments to vendors has been set at 0.28 percent per annum, computed on a 360 day calendar, or \$0.00078 per \$100 per day, which will be in effect July 1, 2010, through June 30, 2011. This interest rate is provided by the State Treasurer based on the average interest rate for 30 day time deposits of State funds during the last calendar quarter of the last preceding fiscal year. (Titles 62, § 34.72 and 74, § 840.14., and OSF Prompt Payment Rules/Regulations).

Revised Federal CONUS Per Diem (Lodging) Rates

The GSA Standard Continental United States or CONUS per diem rate has increased to \$123 (\$77 lodging, \$46 meals and incidental expenses). This is an increase in the lodging from \$70 to \$77. NOTE: The \$46 M&IE is what the State calls its per diem and this did not change.

However, many of the Non-Standard Areas (NSA) that have per diem rates higher than the standard CONUS, actually had lodging drop and some of the locations were removed from the NSA rates and will be receiving the new standard rate of \$77 maximum for lodging and \$46 for M&IE. For **Oklahoma**, the Oklahoma City GSA lodging rate dropped from \$84 to \$82, and Tulsa dropped from \$81 to \$80.

This rate change is effective for travel occurring October 1, 2010 and after, which is the start of the federal fiscal year (FY) 2011. These changes can be viewed or downloaded at the GSA website: www.gsa.gov/perdiem/.

OEC Account Codes – New and Revised

There is a new object of expenditure account code for recording various other types of stipends and a new one for other IRS reportable payments fitting under the Indemnities, Restitution, and Settlements classification that are reported in Box 3-Other Income on the 1099.

Code Title and Definition

New:

552100 STIPENDS – OTHER NON EMPLOYEE

Payments for non employee stipends pursuant to laws, grants, or other authorized directives. Such as stipend payments to non-state employees serving as council members or panelist for advisory boards and/or council meetings (e.g., Too Much To Lose advisory council, Resource Parent/Teen Panel advisory board, etc.). May also include stipend payments specifically authorized in federal grants (stipends for participants in programs to attend scheduled events, etc.)

553220 OTHER IRS REPORTABLE INDEMNITIES, RESTITUTION, AND SETTLEMENTS

Payments include prizes and awards paid to individuals other than employees (Note: employee awards and prizes must go through payroll); legal settlements for punitive damages, damages for nonphysical injuries or sickness, and any other taxable damages (this would be for non employee and non contractor settlements but not settlement payments to attorneys); payments made to individuals for participating in a medical research study or studies; payments made to individuals for a deceased employee's final wages (normally these are processed through payroll and should only be used on a case by case basis); and payments such as those made to individuals under the Firefighter Death Benefit (excluding spouse, former spouse, or child - use code 553150). Payments under this code would be reported in Box 3-Other Income on the 1099.

553160 LEGAL SETTLEMENTS REPORTABLE TO THE IRS

NOTE: This may be used for the resolution of out-of-date (prior FY) invoice payment disputes pursuant to a properly executed settlement agreement and release by the state agency and the vendor. It should not normally be used for settlements to employees since such payments are normally subject to payroll processing. Exceptions are on a case by case basis.

Payments identified in court-ordered or other legal authority settlements which would otherwise have been coded with one of the object of expenditure codes identified for tracking as 1099 reportable. (Said codes identified by the OSF Accounting Dept.) *These would be payments reported in Box 7-Non employee Compensation on the 1099.* Legal settlements are considered non-encumbered payments.

CompSource Invoices

For the Worker's Comp Insurance invoices, please attach the first page showing the invoice date and amount due, and the Payroll Premium Detail page showing the payroll period. This page is used to determine if the correct fiscal year funding is used.

OSF Invoice "NKXXXXXXXX"

The correct object of expenditure account code for "NKXXXXXXXX" invoices billed through OSF is 515380. This is the result of researching how other IT services now replace the original billing represented by "J-Net" internet access. Effective immediately, the invoice line formerly invoiced as "J-Net Line Charges" on the "NKXXXXXXXX" invoices will now be invoiced as "IT Services" to better identify the current charges actually billed.

Internal Control Questionnaire

Under the provisions of Oklahoma House Bill 2015 enacted in June 2009, the Office of State Finance (OSF) has been charged to assist state agencies “in establishing standards, policies, and procedures that ensure a strong and effective system of internal controls and regular monitoring of them.” In response to H.B. 2015, OSF will initiate a plan for providing a top-level independent monitoring function for state agencies.

One step in this plan is the completion of state agency internal control questionnaires concerning operations and the internal control structures currently in place. The questionnaire is somewhat different than the questionnaires used by the State Auditor and Inspector but still revolves around the five interrelated components of internal control, which are: the control environment; risk assessment; control activities; information and communication; and monitoring at the agency level, as set forth in the diagram below.



Since the evaluation of the internal control structure is not a one-time, but rather a continuous event, for purposes of the OSF internal control plan, each agency will be asked to complete and submit the questionnaire on an annual basis. Due to the large number of state agencies, approximately ¼ of all agencies receiving the questionnaire for completion by the close of each calendar quarter end. Higher education agencies will not be included at this time. The first quarter that questionnaires will be mailed to agencies is for the September 30, 2010 quarter end, and subsequently based on the following schedule:

<u>Agency Nos.</u>	<u>Questionnaires to be Received by Fiscal Quarter Ending</u>	<u>Anticipated Mail Date of Questionnaire</u>
447 – 630	September 30	September 10, 2010
631 – 981	December 31	December 10, 2010
001 – 270	March 31	March 10, 2011
271 – 446	June 30	June 10, 2011

Collection, review, and possible follow-up activities resulting from the questionnaires will be coordinated through the office of J. I. Johnson, OSF Audit and Internal Controls Manager. If you have questions about the internal control questionnaire, please contact J. I. Johnson at ji.johnson@osf.ok.gov.

Changes to Vouchers from Remote Agencies (EDT Files)

Interagency Payments

Agencies transmitting claims to PeopleSoft can now place an “I” in column 208 of the Payee Record Layout to transact interagency payments. Claims with the value “I” will transmit and populate the voucher with “WIR” method only if it is used with state agency vendor IDs; otherwise, the claims will err with the P12 code, Invalid Warrant Type. OST and OSF encourage all agencies to use the “WIR” method to make interagency payments as it reduces the cost of paper and handling for the paying and receiving agencies.

Location Codes

Agencies transmitting claims to PeopleSoft are now required to specify the location codes for the vendor ID on the Header Record and Payee Record Layout. Claims with blank or zero filled locations will err with the P12A code, Payee Vendor/Loc Equals Blank or Zeros. This change was made to ensure the warrant was issued to the intended payee.

EFT Payment Method and New Public Query

Vouchers are being submitted to OSF to pay electronically for vendor IDs that are not set up with the banking information. If the “EFT” method does not populate the payment method on the voucher when selecting a vendor location, changing the method to “EFT” will cause the voucher to not pay at all. The query, **OSF_EFT_VENDOR_LOCATIONS**, has recently been made public to provide a list of vendor IDs and locations, excluding employees, that are set up to pay via “EFT.” If a vendor desires to be paid via “EFT” but is not on the list, contact Julie Dvorak at julie.dvorak@osf.ok.gov for the requirements.

Voluntary Savings Bond Deductions

Due to the changes in Payroll Savings Bond Administration rules, the State will not offer voluntary savings bond deductions after December 2010. All paper savings bonds must be purchased by December 31, 2010, and any remaining balances held for employees should be returned to the employee at that time. New employees should not be enrolled in this program.

Agencies with participating employees should have received a notice from the Federal Reserve about the changes earlier in the year. This information included a packet to be provided to employees that are participating. If your agency did not receive and distribute this information to employees, the instructions are available on the Federal Reserve’s web site at www.frb services.org/ext_content/payrollorg/standard.html

Please include information about discontinuing payroll savings bonds deductions with your option period information provided for calendar year 2011. Additionally, agencies can provide information to employees about setting up an account for direct purchase of savings bonds.

Upcoming Local Training/CPE

Due to the tight budgets this year, many agencies are looking for local training to reduce travel costs. Listed below are opportunities within the State:

September 17, 2010 - 10th Annual Oklahoma Payroll Conference

Presented by the Oklahoma City and Northeastern OK Chapters of the American Payroll Association
PHF Research Park Conference Center, Oklahoma City

For more information, please visit www.neokapa.org

Nov. 9, 2010 - Preparing for Year-End and 2011

Presented by the American Payroll Association
Tulsa, OK (11/9)

Preparing for Year-End and 2011 brings you up to date on the latest changes in legislation and regulations that affect the close of 2010 and the beginning of 2011. Year-end processing tips, fringe benefit taxation and reporting, implementing new tax laws and regulations. Good for payroll, human resources, systems, accounting and finance professionals responsible for payroll operations and involved in year-end processing.

For more information, please visit www.americanpayroll.org