

**OFFICE OF STATE FINANCE
DCAR NEWSLETTER**

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The last issue of the DCAR Newsletter, Volume 16, Number 2, was issued on October 21, 2005. The DCAR Newsletter is available on the OSF webpage at <http://www.osf.state.ok.us/comp-nl.html>. Questions or comments about information contained in this publication should be addressed to those noted in the article or the following Division of Central Accounting and Reporting (DCAR) staff members:

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1099-MISC Reporting for ASA Accounts and P-Cards

Agencies are required to submit data for compliance with 1099 reporting on Agency Special Accounts (ASA). The Office of State Finance is working with Bank One to accumulate all purchase card transactions (P-card). Any payment which would have been recognized in treasury funds as an expenditure subject to 1099 reporting should be included in the submitted file. This information should be submitted electronically using the EDT Layouts attached. The data must be submitted by January 11, 2006.

The 1099 listing which is provided to agencies will be run on January 3, 2006. This listing will include only that ASA data which has previously been transmitted. Corrections to this listing must be returned by January 11, 2006.

The 1099-MISC forms require a phone number for the payor. The program will search our agency database and insert the phone number for the finance officer of the agency.

1099 – MISC Reporting Changes for 2006

Beginning January 1, 2006, the Form 1099 MISC information will be generated using the PeopleSoft system for vendors and payments that are identified as “withholding” eligible. Therefore, it is imperative that every new vendor be identified properly when it is created and that a correction is made on any existing vendor that should be subject to 1099 reporting. OSF will conduct refresher training classes in January for agency personnel.

Mileage Reimbursement Rate for 2006 - Decrease

The Internal Revenue Service announced a decrease in the standard mileage reimbursement rate, effective for travel incurred January 1, 2006 through December 31, 2006, to \$0.445 per mile. Although the IRS had recently made a temporary increase to \$0.485 per mile effective September 1, 2005 through December 31, 2005, it had said that the new rate for January could be lower. For more information, see Internal Revenue Bulletin IR-2005-138, December 2, 2005.

Payroll - End of Calendar Year 2005

- December 17, 2005 - Last day refund of taxes due to overpayments can be returned to agencies. (see article below)
- December 27, 2005 - OPM Agency Payroll system will be down from 5:00 pm on December 27, 2005 through 12:00 noon January 3, 2006. Please note that OPM's IMS will be available for updates during this period (except for the entry of new hires from December 28, 2005 through January 3, 2006). Also note that longevity payrolls cannot be run before January 3, 2006 due to rate changes in unemployment and FICA for year 2006.
- December 28, 2005 - Last day OSF will process payrolls for calendar year 2005. The electronic payroll system will close at 2:00 pm for the transfer of payroll. All payrolls for both systems must be delivered to OSF by 2:00 pm on this date.
- Any Legacy system payrolls received but not processed will be voided out of the system and must be resubmitted on or after January 3, 2006 with new claim numbers and new rates.
- December 29, 2005 - Backup withholding payments from agencies must be received by OSF. (see article below)
- January 3, 2006 - On January 3, 2006, at 12:00 noon, OSF will begin processing payroll.
- January 6, 2006 - Payroll warrant cancellations for calendar 2005 must be received at OSF by 3:00 pm on January 6, 2006. Any 2005 payroll cancellations received after January 6, 2006 will require a corrected W-2. Please note that payroll cancellations for 2006 issued payrolls may not be processed until on or after January 9, 2006. (See article below)

Payroll - Calendar Year 2006

Listed below is information necessary for payroll processing in calendar year 2006.

- January 3, 2006 - OSF will begin processing payroll at 12:00 noon for 2006 warrant pay dates.
- January 9, 2006 - Payroll cancellations with 2006 pay dates can be processed.
- Withholding Fund - Payrolls processed after January 1, 2006 will post withholdings to the 994 class (fund number), which is the same as in 2005.

Payroll Warrant Cancellations

Even though OSF will not be able to process 2006 payroll cancellations in the Legacy system before January 9, 2006, agencies should submit the paperwork on direct deposits as soon as the request is known. This will allow the Treasurer's office to begin the process of collecting the money.

Rates & Maximums

(Year 2005 rates are provided for comparison purposes)

	<u>2006</u>	<u>2005</u>
FICA (Social Security) Withholding Rate	6.2%	6.2%
FICA (Social Security) Gross Maximum	\$94,200.00	\$90,000.00
FICA Annual Maximum Withholding	\$ 5,840.40	\$ 5,580.00
MQFE (Medicare) Withholding Rate	1.45%	1.45%
MQFE (Medicare) Gross Maximum	No \$ Max	No \$ Max
MQFE Annual Maximum Withholding	No \$ Max	No \$ Max
Unemployment Rate	1.0%	1.0%
Unemployment Gross Maximum	\$13,500.00	\$13,800.00
Unemployment Annual Maximum	\$ 135.00	\$ 138.00

Tax Reporting Information for 2005

At the end of each tax year OSF prints IRS tax forms for agencies and submits this information to the IRS. Regulations generally require the agencies to distribute the tax forms to recipients by January 31 of the subsequent year. So within a narrowly defined time period, OSF and agencies must coordinate the transmission of data and distribution of the printed forms.

In November, 2005, colleges and universities were provided a specialized packet of information regarding IRS Reporting for Higher Education institutions. The following information applies to all state agencies as well as colleges and universities. The issues that were addressed in the specialized packet of information remain applicable and are not included in the list below.

Important Dates for IRS Reporting Deadlines

<u>Completion Date</u>	<u>IRS Form</u>	<u>Submit Information</u>
January 6, 2006	W-2	Last day to submit payroll cancellations
	1099 R	Last day to submit payroll adjustments to OSF
January 11, 2006	1099 M	Last day to update vendor information/transactions
January 11, 2006	1099 M	Last day to submit EDT petty cash, ASA
January 18, 2006	All forms	Noon. Agencies may pick up forms. OSF will ship forms at the request and expense of the agency.
January 24, 2006	All forms	If forms are not picked up by 8:00am, OSF will distribute the forms in the customary method.

Reminders

W-2 and 1099 Reporting for 2005

OSF will have W-2s and 1099s ready for release on January 18, 2005. Agencies may pick up the forms from OSF at the State Capitol Building. If an express mail service or courier is to be used, please notify OSF with the necessary information. If the forms are not picked up, OSF will mail them through our normal process. Forms should be picked up in Room 122.

Parking and Security Issues

Short term parking will be available at the east entrance of the Capitol in the spaces posted for 15 minute parking on the sides of the circular drive. The attendants there may be able to find an alternate space if these spaces are full, but you will need to ask them. There is no parking permitted directly in front of the steps that lead into the Capitol. Parking will also be allowed at the delivery entrance on the west side of the Capitol for those who have carts or dollies. Other parking options are to park in the parking area on the south side of the Capitol or you may park in the lot on the east side of Lincoln Boulevard and use the tunnel. Metal detectors have been installed in the Capitol. Be prepared to show picture ID and all personal property is subject to search.

Correcting W-2s

Corrected W-2 forms must be delivered to OSF by February 17, 2006. Please send the original W-2, a copy of the corrected form, and a letter explaining why you are making the correction. If the correction is due to a statutory canceled warrant which is not to be replaced, you must also send a letter asking that the warrant not be replaced. Note: Because a warrant has been canceled by statute is not a reason for such a W-2 correction. If it was a valid payroll payment, the employee is still entitled to a replacement warrant, therefore, the W-2 reporting is proper.

Personnel

Listed below is contact information for OSF personnel working on the IRS reporting project for tax year 2005. The fax number is 405-521-3902.

- Lisa Raihl, Accounting and Reporting Analyst
Phone: 405-521-3258
E-mail: Lisa.Raihl@osf.ok.gov

- Dan Thomason, Accounting and Reporting Analyst
Phone: 405-522-6300
E-mail: Dan.Thomason@osf.ok.gov

- Beth Brox, Accounting Technician
Phone: 405-522-1099
E-mail: Beth.Brox@osf.ok.gov

- Jennie Pratt, Accounting and Reporting Supervisor
Phone: 405-521-6160
E-mail: Jennie.Pratt@osf.ok.gov

Envelopes

The format for the W-2 forms will be the same as that used for 2004. Envelopes that fit the 2004 W-2 forms should fit the 2005 W-2 forms. Please note: If your agency converted to the CORE System in 2005, the format is different than the W-2 form from the legacy system.

Backup Withholding

Agencies that have collected backup withholding on miscellaneous claims need to submit payment to be received by OSF prior to December 29, 2005. Make checks payable to the State Contribution Fund (Vendor 0000000467, ADDR # 002, LOC # 0002)

Refunds of Taxes for Overpayments to Employees (Form 94)

The last day agencies can submit requests for refunds of 2005 payrolls related to employee overpayments is December 16, 2005. Refunds cannot be returned to the agencies after this date. Corrections due to overpayments will still be posted to the employee's W-2 information for requests submitted through January 6, 2006.

Employee's Withholding Allowance Certificate (W-4)

An employee who certified to his or her employer on Form W-4 (Employee's Withholding Allowance Certificate) that the employee had no income tax liability for 2004 and anticipated no income tax liability for 2005 was entitled to an exemption from withholding for 2005. This exemption is effective until February 16, 2006, and must be renewed at that time if conditions remain the same. If you receive an exempt W-4 after February 16, 2006, do not submit tax refund requests to OSF, they will not be processed. The W-4 will take effect on the next payroll; it is not retroactive to the beginning of the year.

If you have received correspondence from the IRS specifying the maximum number of withholding allowances permitted (commonly referred to as a "lock-in-letter") and the employee submits a new W-4 claiming more allowances than the maximum allowed, you must disregard this new W-4 until the IRS notifies you to withhold tax based on the new W-4. However, the employee may furnish a new W-4 that claims less than the maximum allowed and the employer must withhold tax based on that Form W-4.

In addition, the loss of an exemption that affects withholding at the beginning of the next taxable year, such as a divorce or the loss of a dependent should be reflected by an amended certificate on or before December 1. If the change occurs in December, the new certificate must be furnished within 10 days of the day on which the change occurs.

Earned Income Credit Advance Payment Certificate (W-5)

The Form W-5 expires December 31, 2005. If an employee is eligible, a new W-5 must be submitted for 2006. If you receive a Form W-5 later during the year, do not submit tax refund requests of OSF, they will not be processed. The W-5 will take effect on the next payroll; it is not retroactive to the beginning of the year.

Withholding on Wages of Nonresident Alien Employees

IRS notice 2005-76, Part III details the new rules for withholding income tax on nonresident alien (NRA) employees. It also provides new rules for use by nonresident alien employees in completing Form W-4, Employee's Withholding Allowance Certificate. These new rules are effective for wages paid on or after January 1, 2006.

When completing the Form W-4, the NRA employee is no longer required to request an additional withholding amount. They may, like all other employees, request additional withholding. The NRA employee still claims single status and generally no more than one withholding allowance. The employee also is required to write "nonresident alien" or "NRA" above the dotted line on line 6 of the Form W-4. All current NRA employees with a Form W-4 on file requesting additional withholding should be advised to file a new Form W-4 and new NRA employees should be instructed to complete the Form W-4 in accordance with the instructions provided in the notice.

Under the new rules, employers will add an amount to the wages of the NRA employee solely for the purposes of calculating the income tax withholding for each pay period. The additional amount to add depends on the payroll period. The added amount is not income or wages to the employee and does not affect income, FICA or state unemployment tax liabilities for the employee or employer. The amounts are added purely for purposes of calculating the amount of income tax withholding on the wages of NRA employees.

This notice has no effect on NRA individuals who have no wages subject to federal income tax withholding. For example, this would not affect those NRA employees eligible for a tax treaty exemption and having a valid Form 8233 in effect.

Since Higher Education agencies calculate the amount of federal income tax withholding, they should verify with Payroll IT staff that they are complying with the requirements set out in the notice.

Change in Requirement for Copies and Faxes of Invoices

DCAR Newsletter, Volume 8, Number 4 (January 2, 1998) removed the requirement to annotate 'original is lost' on copies and faxes. However, the OSF Procedures Manual dated July 2001 includes the requirement that if the original invoice is not available, to provide a statement on the invoice indicating why the original is not available. After careful review, it has been determined that the intent was to remove the notation requirement, but that it was inadvertently left in the updated OSF Procedures Manual. Therefore, the Office of State Finance will now accept copies or faxes of invoices without the notation 'original is lost' on such copies or faxes, with the exception of travel claims which must still have an original invoice or the notation. Originals are still required for travel since it is the normal practice to receive actual invoices. A requirement for paying from original invoices has been to restrict duplicate payments. However, since we have been allowing payments from copies with the notation, we have depended on the agencies to control such duplicate payments. The change in our policy continues agencies' role in controlling duplicate payments.

Accuracy of Invoice Information on Claim Voucher

The OSF audit process now includes checking the accuracy of the invoice number and date entered on the OSF Form 15A, Claim Jacket Voucher Form. PeopleSoft includes a duplicate invoice number check that will prevent a duplicate payment in the event that an invoice is entered into the system twice. Audit results indicate evidence of arbitrary overrides of this control feature by entering a string of characters after the invoice number. In order for the duplicate invoice number check to work, the invoice information entered must be accurate. In the event that an invoice number is not provided the agency needs to develop a standard format to enter in the invoice number field. In the absence of an agency policy, use the account number followed by the date of the invoice, e.g. 12345Oct05. If no number is provided use the date of the invoice, e.g. 15Oct05. In the case of split payments, place a letter after the number. This will not only provide maximum effectiveness of the duplicate invoice number check, it will also assist in finding the associated voucher after the claim has been created.

Invoices – Receipt of Goods and Services Approval

According to Title 74 O.S. § 86.1, the agency head or his authorized agent will approve the invoice by executing a certificate of delivery or acceptance of goods or services. OSF Procedures Manual addresses this by requiring that the invoice be signed by an employee of the agency to indicate the goods or services have been received.

During claims audits it has been noted that some agencies are attaching signed receiving reports or funding sheets to the invoice in lieu of signing the invoice itself. After consideration of the intent of the statute, the OSF will accept such things as signed receiving reports or signed funding sheets attached to the invoice, as long as they tie directly to the invoice being paid and state that the goods or services have been received. Also, on-line receiving reports will satisfy this requirement. For more information about this contact Steve Wilson.

Reduction of Annual Leave Hours for Overpayments

When an employee chooses to pay back an overpayment using annual leave, the amount of annual leave reduced should equal the gross amount of overpayment. In the past there have been instances where agencies have reduced the annual leave by the net amount of the overpayment.

For agencies on the Legacy Payroll system, the following instructions apply: If the reduction for overpayment reduces terminal leave hours to be paid, an OSF Form 94 must be submitted to correct the retirement amounts reported on the check which included the overpayment. Terminal leave is not included in retirement wage calculations; therefore, a payroll earnings adjustment is required.

EDT File Layout - 1099 Vendor Information

Dataset Name: OSFCLM.TCLM.A###.MISC1099.VEND.LIST

Record Length: 107

File Description: Contains 1099 vendors for the requesting agency.

--COLUMNS--

<u>FRM</u>	<u>TO</u>	<u>LENGTH</u>	<u>DATA TYPE</u>	<u>DESCRIPTION</u>
1	1	1	CODE_SSN_EIN	Flag to determine if Tax ID Number is an EIN or SSN or Unknown. Values are: E = EIN S = SSN "" = Unknown
2	2	1	FLAG_FOREIGN	Flag to determine if vendor's address is outside the US. Values are: Y = Foreign Address N = US Address
3	11	9	NUMB_TAX_ID	Required. Tax ID Number. Right justified filled with leading "0"s
12	41	30	NAME_TAX_ID	Required. Payee name. Enter name of payee whose Tax ID number appears in position 3-11. Surname first if possible.
42	71	30	ADDR_STREET	Required. Payee street address. Do not enter city, zip or state information in this field. (If position 2 = Y, then position 42-107 can contain the foreign address including city and country information.
72	96	25	ADDR_CITY	Required unless FOREIGN address. Payee city. Do not enter zip or state information in this field. If position 2 contains a Y, this field may contain your FOREIGN address.
97	98	2	ADDR_ST	Required unless FOREIGN address. Payee State. You MUST use valid US Postal Service abbreviations. If position 2 contains a Y, this field may contain your FOREIGN address.
99	103	5	ADDR_ZIP	Required unless FOREIGN address. Payee 5 digit zip code. Enter valid ZIP CODE assigned by US Postal Service. If position 2 contains a Y, this field may contain your FOREIGN address.
104	107	4	ADDR_ZIP_PLUS_4	Payee 4 extra digits of zip code blank fill if unknown. If tape position 2 contains a Y, this field may contain your FOREIGN address.

EDT File Layout - 1099 Transaction Data

Dataset Name: OSFCLM.TCLM.A###.MISC1099.TRAN.LIST

Record Length: 91

File Description: 1099 Transactions processed for requesting agency.

--COLUMNS--

<u>FRM</u>	<u>TO</u>	<u>LENGTH</u>	<u>DATA-TYPE</u>	<u>DESCRIPTION</u>
1	3	3	CODE_FUND	3 digit fund number. Should be valid fund code for agency number in position 4-6. ZERO fill if unused.
4	6	3	NUMB_AGENCY	Required. 3 digit agency number. MUST be a valid state agency number.
7	12	6	CODE_ACCT	6 digit account number. An account number for valid fund agency in position 1-6. ZERO fill if unused.
13	22	10	NUMB_WRNT	Required. A 10 digit number identifying warrant.
23	31	9	NUMB_TAX_ID	Required. Tax ID Number. Right justified filled with leading "O"s.
32	35	4	CODE_OBJECT	Required. Object code number. 4 digit code used to identify class of expenditures when coding claims for payment.
36	37	2	CODE_AGENCY_OBJ_USE	2 digit number for use by the agency. Zero fill is not used.
38	45	8	DATE_ISSUE	8 digit date field in the form YYYYMMDD. For example, January 5, 1989 would be 19890105. ZERO fill if unused.
46	55	10	AMNT_EXPN	Required. Signed number. Left justified and ZERO filled. DO NOT put decimal in field.
56	61	6	NUMB_CLAIM	6 digit number. ZERO fill if unused.
62	91	30	TEXT_NAME_VENDOR	Payee name. Enter name of payee whose Tax ID number appears in position 23-31. Surname first if possible. Blank fill if unused.